MPICO

2021 ANNUAL REPORT

Property Development • Project Management • Property Valuation • Property Management • Facilities Managemen


SHOPRITE
FOOD LOVER'S MARKET
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A ONE-STOP LANDED PROPERTY SOLUTION PROVIDER

VISION

To be a leading provider of property solutions in Malawi creating shareholder and customer value whilst being an employer of 1st choice


MPICO HOUSE

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Chairperson's Statement

Economic Environment

The macro-economic environment for 2021 remained challenging following the COVID-19-triggered restricted trade and gathering for a second year in a row. Economic growth for Malawi for the year 2021 was estimated at 2.2% up from 0.9% in 2020, which was slightly below the initial forecast of 2.5% and significantly lower than the historical average of 4.0%. Despite the slow economic recovery in 2021, the Malawi Stock Exchange (MSE) returned 40.05%, a strong price return compared to the 7.08% for prior year while money market yields were elevated largely due to pressure in the fiscal space. Headline inflation rose to an average of 9.3% in 2021 from 8.6% in 2020, anchored within the single digit territory by the subdued food inflation following two consecutive years of good harvest with the year-on-year increase emanating from elevated non-food inflation in response to hikes in energy prices and utility tariffs.

Property Market in Malawi

The property market was subdued as a result of the Covid 19 pandemic. The hospitality sector in particular was greatly impacted. Global travel bans and local guidelines reduced tourist arrivals as well as demand for hospitality services. Measures taken during the pandemic such as working from home had some effect on office occupancy which dropped to 80% from 90% in the previous year. The retail and industrial sectors were also impacted with occupancy estimated at 90% and 70% respectively versus occupancy of 95% in prior year. Property values on the market showed stunted growth estimated at 8% against expected 10%.

Group Performance

The MPICO plc Board is pleased to announce the results of the Group for the year ended 31 December 2021. Rental income increased by 5% to K6.6 billion in 2021 from K6.3 billion in 2020. The increase is mainly due to rent reviews and improved occupancy levels. Total operating expenditure for the year increased to K5.5 billion from K3.8 billion in 2020 due to relatively more expenses incurred in the current year.

Profit after tax increased to K6.4 billion in 2021 from K4.3 billion in 2020, representing a year-on-year increase of 49%.

Government debt dropped to K4.8 billion as at 31 December 2021 (2020: K8.7 billion). The drop was due to receipt of Promissory Notes from Government amounting to K7 billion in June 2021. After the reporting date, further engagements with Government did yield positive results, thereby reducing the debt to K3.1 billion as of the end of April 2022.

The Group has embarked on a program of refreshing its portfolio and in 2021 carried out major upgrades to five properties in Lilongwe. The exercise will continue in the ensuing year.

Human Resources

The Group continued with the staff wellness program whose main objective is to assist employees in their total well-being thereby increasing their productivity. With regards to the Covid 19 pandemic, the Group continued to observe official guidelines. The Group maintained a stable and dedicated workforce in 2021. The Group also continues to offer support to skills development needs of employees.

Economic Outlook

Economic growth prospects remain weak with significant downside risks from uncertain weather patterns and productivity inhibitors such as insufficient power supply. The economy is projected to grow by 3.0% in 2022, which is a downward revision from the initial forecast of 4.0%, mainly due to downside risks from erratic weather and insufficient and unstable power supply challenges exacerbated by the impact of cyclone Ana. Further downside risks include possible future waves of the COVID-19 pandemic, and restrained business activity due to limited forex exchange supply. Inflation outlook remains elevated based on potential increases in utility tariffs, and energy prices, as well as imported and food inflation.

The Board will continue to monitor the developments surrounding the economic environment risks and take the necessary precautionary and mitigating measures. To that end, the Board commenced an Operating Model review which is aimed at optimising capital and operations in order to create stakeholder value which started with transferring of MPICO plc staff to Old Mutual (Malawi) Limited effective 01 September 2021.

Edith Jiya
Chairperson

MPICO

Board of Directors

EDITH JIYA

Mrs. Edith Jiya is a holder of MSc. in Strategic Management from University of Derby and Bachelor of Business Administration degree from the University of Malawi. Edith Jiya is Group CEO of Old Mutual Malawi Limited. Previously, she was the Managing Director of the Old Mutual Life Assurance Company (Malawi) Limited (OMLAC), a position she held for 5 years. She has also held senior managerial positions at OMLAC and BP Malawi Limited. Mrs. Jiya is an associate member of the Chartered Insurance Institute (The CII) UK and associate of the Chartered Institute of Marketing. She currently serves on Old Mutual Malawi Group Board and as a Director on the Board of UAPOM Life Uganda.

DAMIEN KAFOTEKA

Mr. Damien Kafoteka is the General Manager of MPICO plc and its subsidiaries. He joined the company in August 2016. He was previously the Finance Director at Old Mutual (Malawi) Limited from 2006 to 2016. His experience in Executive Management spans more than 30 years having worked as Chief Financial Officer for many companies such as Petroleum Importers Limited, Malawi Pharmacies Limited and Peoples Trading Centre/ McConnell. He currently also serves on the Board of Stock Brokers Malawi Limited. Other previously served Boards include those of National Bank of Malawi, Telekom Networks Malawi and Press Corporation Limited. Mr. Kafoteka is a Certified Chartered Accountant (FCCA, UK), CPA (Mw) and holds a Bachelors of Commerce in Accounting (Bcom) from the University of Malawi Polytechnic, and a Diploma in Business Studies.

MPICO

Board of Directors

CHRIS KAPANGA

Mr. Chris Kapanga is a former CEO of Old Mutual West Africa and before that CEO of Old Mutual Ghana and Old Mutual Malawi. He holds an MBA degree from the University of Cape Town. He is one of the earliest Malawians to qualify as a Chartered Insurer and has over 38 years of international experience in the insurance industry. He is a retired professional.

VERONICA MASIKINI

Mrs. Veronica Masikini is a holder of Chartered Institute of Management (CIMA) certification. She is the General Manager of Blantyre Printing and Publishing Company - Times Group with over 30 years of practical experience.

ELUPHY SALAMBA

Ms. Eluphy Salamba is a holder of MSc. in Leadership and Change Management from Leeds Metropolitan University and Bachelor of Commerce (Business Administration) from the University of Malawi Polytechnic. Ms. Salamba currently works with National Bank of Malawi and is the Head of Credit Management. She has held different positions within Credit at National Bank of Malawi and has also worked with Standard Bank. Her banking experience spans over 20 years.

MPICO

Board of Directors

CHIFUNDO KALAILE

Ms. Chifundo Kalaile is a holder of an LLM in Commercial Law from Cardiff University and an LLB (Hons) from University of Malawi, Chancellor College. Ms. Kalaile also completed her Management Advancement Programme with the University of Wits in 2013. Ms. Kalaile qualified as a Certified Anti-Money Laundering Specialist in 2019. Ms. Kalaile currently works for Old Mutual as the Corporate Governance Executive and Company Secretary, a position she has held since 2008. She previously worked for Ministry of Justice for 7 years as a State Advocate. Her legal career spans over 19 years.

JIM NSOMBA

Mr. Nsomba is currently the Chief Finance Officer for Old Mutual (Malawi) Limited and its subsidiaries. He is also a Director on the Board of Old Mutual (Malawi) Limited, Old Mutual Unit Trust Company (Malawi) Limited and Old Mutual Investment Group Limited. He is a Chartered Accountant by profession, a Fellow of the Chartered Institute of Certified Accountants (FCCA) and a Chartered Public Accountant (CPA) (Malawi).

Board of Directors

MARK MIKWAMBA

Mr. Mark Mikwamba is an investment professional with over 20 years' experience in investment management and capital markets in Malawi, 15 years of which have been in senior leadership positions. Mr. Mikwamba is a CFA Charter holder, Fellow Certified Chartered Accountant (FCCA, UK) and a holder of Bachelor of Accountancy Degree (BAcc) from the University of Malawi. Mr. Mikwamba has over the years attended various training programs with top business schools. Mr. Mikwamba has held different positions in Old Mutual (Malawi) Limited and is currently the Managing Director of Old Mutual Investment Group in Malawi. Mr Mikwamba also sits on other company boards on behalf of Old Mutual (Malawi) Limited.

FELIX MANGANI

Mr. Felix Mangani is a former Commissioner for Lands and before that Surveyor General in Government. He holds a Bachelor of Science (Hons) degree in Surveying and Mapping Sciences obtained from the University of East London (UK) formerly North East London Polytechnic majoring in Land Surveying and Land Registration in 1985. He retired from Government in 2018 after 37 years of public service.He is currently a practising licensed Land Surveyor and a member of the Land Surveyors Registration Board and the Surveyors Institute of Malawi.(SIM).

MANAGEMENT TEAM

DAMIEN KAFOTEKA
FCCA (UK)

GENERAL MANAGER – PROPERTY

ELLIOT JAMBO
MSc in Real Estate, MBA

HEAD OF PROPERTY SERVICES

RICHARD BUTAO
FCCA, MBA

FINANCE MANAGER

LUSAYO MWABUTWA
CIWFM , MSc FM

FACILITIES MANAGER

GOMEZGA MKANDAWIRE
MRICS

THE GATEWAY MANAGER


FedEx
Express

Corporate Social Responsibility (CSR) Activities

Donation towards Temwani Chilenga's cause

MPICO plc history of strong corporate citizenship is evidenced by its initiatives including funding hospitals, supporting organizations that work with vulnerable groups and contributing to sports development through netball.

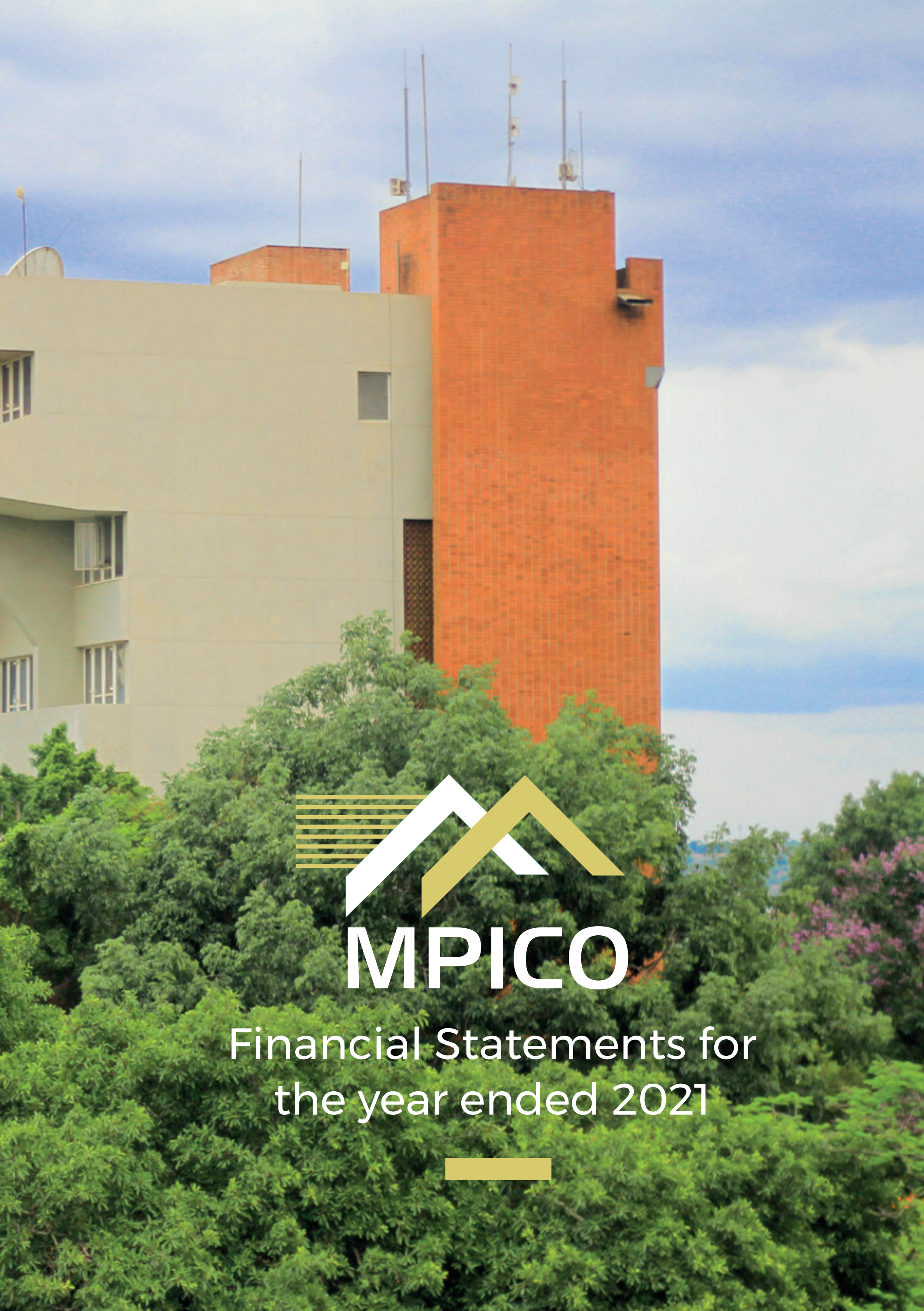
Painting of the out - patient department at Kamuzu Central Hospital (KCH)

Area 25 Health Centre donation

MPICO plc Health & Fitness Challenge

Action on the netball court – The Gateway Netball Challenge


Gemini House in Lilongwe



MPICO

Financial Statements for the year ended 2021

REPORT OF THE DIRECTORS
For the year ended 31 December 2021

The Directors have pleasure in presenting the separate and consolidated financial statements of MPICO plc “The Company” and its subsidiary companies “together the Group”) for the year ended 31 December 2021.

INCORPORATION AND REGISTERED OFFICE
MPICO plc is a Company incorporated in Malawi under the Companies Act, 2013 of Malawi. It is listed on the Malawi Stock Exchange. The address of its registered office is:

Old Mutual House
Robert Mugabe Crescent
P.O. Box 30459
LILONGWE 3

AREAS OF OPERATION
The Group has 27 (2020: 28) investment properties in the country mainly in Lilongwe and Blantyre, which it rents out to the government and the private sector.

SHARE CAPITAL
The authorized share capital of the Company is K150 million (2020: K150 million) divided into 3 000 000 000 Ordinary Shares of 5 tambala each (2020: 3 000 000 000 ordinary shares of 5 tambala each). The issued capital is K114.902 million (2020: K114.902 million) divided into 2 298 047 460 ordinary shares of 5 tambala each (2020: 2 298 047 460 ordinary shares of 5 tambala each), fully paid.

The shareholders and their respective shareholding as at year-end were:

	2021 %	2020 %
Old Mutual Life Assurance Company (Malawi) Limited	43.0	43.0
Old Mutual (Malawi) Limited	29.0	29.0
General Public	23.0	23.0
Lincoln Investments Limited	5.0	5.0
	100.00	100.00

PROFITS AND DIVIDENDS
The Directors report a net profit for the year of K6.4 billion (2020: K4.3 billion) for the Group (Company K2.2 billion (2020: K3.6 billion). A final dividend of K643.5 million in respect of 2020 profits was declared and paid on 6 August 2021. An interim dividend of K276 million was declared and paid on 22 October 2021.

FINANCIAL PERFORMANCE
The results and state of affairs of the Company and the Group are as disclosed in the statements of financial position, statement of comprehensive income, changes in equity and cash flows and other explanatory information and do not, in our opinion, require any further comment.

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

CORPORATE GOVERNANCE

The Company embraces the best practices in corporate governance as enshrined under the Companies Act, 2013, the Malawi Code II and Malawi Stock Exchange Listing requirements plus other laws applicable to the real estate industry.

The Board and its subcommittees have written charters and terms of references respectively which include all material points as required under the corporate governance guidelines. The subcommittees are chaired by non-executive directors.

DIRECTORS

The following directors, appointed in terms of the Articles of Association of the Company, served office during the year:

Mrs. E. Jiya	- Chairperson all year	Non-executive director
Mr. C. Kapanga	- Member all year	Independent non-executive director
Mr. F. Mangani	- Member from 26 May 2021	Independent non-executive director
Mr. M. Mikwamba	- Member all year	Non-executive director
Ms. E. Salamba	- Member all year	Independent non-executive director
Mrs. V. Masikini	- Member all year	Independent Non-executive director
Ms. C. Kalaile	- Member to 22 September 2021	Non-executive director
Mr. D. Kafoteka	- Member all year	Director
Mr. J. Nsomba	- Member from 12 November 2021	Non-executive director

The following directors served office for the subsidiaries during the year.

MPICO MALLS LIMITED

Mr. K. Phiri	- Chairperson all year	Non-executive director
Mr. C. Kapanga	- Member all year	Independent non-executive director
Mr. F. Mangani	- Member from 26 May 2021	Independent non-executive director
Mr. M. Mikwamba	- Member all year	Executive director
Mrs. V. Masikini	- Member all year	Independent non-executive director
Mr. D. Kafoteka	- Member all year	Director
Mr. B. Ndisale	- Member all year	Independent non-executive director
Mr. S. Malenga	- Member up to 7 September 2021	Independent non-executive director
Ms. J. Namitembo	- Member from 12 November 2021	Independent non-executive director

CAPITAL INVESTMENTS LIMITED

Mr. D. Kafoteka	- Chairman all year	Director
Mr. B. Jere	- Member all year	Independent non-executive director
Mr. W. Mabulekesi	- Member all year	Independent non-executive director
Mr. K Phiri	- Member all year	Non-executive director

REPORT OF THE DIRECTORS *(Continued)*
For the year ended 31 December 2021

FRONTLINE INVESTMENTS LIMITED

Mr. D. Kafoteka	- Chairperson all year	Director
Mr. P. Fitzsimons	- Member all year	Independent non-executive director
Mr. K. Phiri	- Member all year	Non-executive director

The directors for the 100% owned companies New Capital Properties Limited and Capital Developments Limited were the same as for the Company.

COMPANY SECRETARY

The Company Secretary for the Company was Mr. Cosmas Katulukira up to 31 October 2021 and Ms. Chifundo Kalaile was appointed as the Company Secretary from 1 November 2021.

DIRECTORS' INTERESTS

The directors noted below hold the following ordinary shares in the Company at the year-end.

Mr. C. Kapanga	:	452 773 shares
Mrs. E. Jiya	:	31 649 shares

NUMBER OF BOARD MEETINGS HELD

The Board maintains a scheduled calendar of meetings and a standard agenda. The meetings are held quarterly and the Board at times also schedule adhoc meetings. Further, where necessary some specific items are added to the agenda in order to allow the Board to focus on key matters at each prevailing time. After each quarterly meeting, the Board schedules informal sessions and interactions, which allows directors, management and other stakeholders to discuss matters affecting the business.

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

During the year ended, 31 December 2021, four meetings were held and attendance by each director is given below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Edith Jiya	4	4
Felix Mangani*	2	2
Veronica Masikini	4	4
Chris Kapanga	4	4
Chifundo Kalaile**	3	3
Mark Mikwamba	4	4
Eluphy Salamba	4	3
Damien Kafoteka	4	4
Jim Nsomba***	1	1

* The director was appointed in May 2021.
** The director resigned in September 2021
*** The director was appointed in November 2021.

BOARD COMMITTEES

There are two board committees which were established to ensure that the Board discharges its duties effectively in accordance with principles of good corporate governance. All board committees have terms of reference and report to the main Board.

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

AUDIT, RISK & COMPLIANCE COMMITTEE (ARCC)

The Audit, Risk & Compliance Committee (ARCC) is responsible for reviewing the reports of both internal and external auditors, as well as overseeing the adequacy and effectiveness of internal controls. ARCC comprises three Non-Executive directors, and the General Manager and the management team attends the ARCC meetings. Further, the Company's external auditors attend the meetings when appropriate and necessary.

Responsibilities of ARCC

In addition to the Committee's responsibilities set out hereunder, the Committee will perform any other functions as determined by the Board:

1 .1 General

The Committee reports to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

1.2 Accounting and Financial Reporting

1.2.1 To review and monitor the integrity of the Group's interim and annual financial statements and any other formal announcements relating to the Company's financial performance;

1.2.2 Consider and satisfy itself on an annual basis of the appropriateness of the expertise and experience of the Finance Team and confirm this annually to shareholders;

1.2.3 To report its views to the Board where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the Group;

1.2.4 To receive reports on the status of completion of the Group's annual financial statements and their submission to the tax authorities;

1.2.5 To discuss and resolve any significant problems or reservations arising from the interim and final audits and any matters the independent external auditor wishes to discuss; and

1.2.6 To review measures to enhance the credibility and objectivity of the financial statements.

1.3 Information Technology Responsibility

Oversee and be responsible for the Company's information technology (IT) as it relates to financial reporting and the going concern of the Company, including considering the use of technology and related techniques to improve audit coverage and audit efficiency.

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

1.4 External Audit

1.4.1 Promote and maintain an effective relationship with the independent external auditor;

1.4.2 To ensure that adequate policies and processes are in place to ensure the independence of the independent external auditor, which policies and processes shall be reviewed annually;

1.4.3 To review and monitor the independent external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant legislation and professional and regulatory requirements;

1.4.4 To develop and implement policy on the engagement of the independent external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the Independent External Auditors, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken;

1.4.5 To discuss with the independent external auditors before the audit commences and, as necessary, following the audit, the nature and scope of the audit (including the accounting principles, policies and practices adopted in the preparation of the Group's accounts, planned levels of materiality, and resourcing);

1.4.6 In the event that the independent external auditors resign, the Committee should investigate the issues giving rise to such resignation and consider whether any action is required;

1.4.7 The Committee shall review the appointment of the prospective audit firm and designated individual auditor as and when the appointment arises; and

1.4.8 The Committee shall review and consider the outcome of any legal or disciplinary proceedings instituted by a professional body against the independent external auditor.

1.5 Internal Audit

1.5.1 Establish an internal audit function for the Group and (i) ensure that the internal audit function is adequately and appropriately resourced, is equipped to perform in accordance with appropriate professional standards for internal auditors, and has the appropriate authority and status within the Group; and (ii) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Group's risk management system;

1.5.2 To review and approve the Internal Audit Terms of Reference annually, making recommendations for changes if required;

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

1.5.3 To review and approve the annual internal audit plan ensuring that material risk areas are included, that the coverage of business processes is acceptable, and that statutory and financial reporting requirements are met, and review the effect of quarterly plan adjustments;

1.5.4 To review and discuss the scope of work of the internal audit function, the issues identified as a result of its work and management's responsiveness to issues raised and agreed action plans;

1.5.5 To ensure co-ordination and co-operation between internal audit and the risk management and compliance functions;

1.5.6 To ensure that an independent quality review of the internal audit function is conducted, either in line with the Institute of Internal Auditors' (IIA) standards or such other standards as determined by the Committee, when the Committee determines it appropriate, as a measure to ensure the function remains effective and in conformance with the applicable standards;

1.6 Internal Controls

1.6.1 Consider control issues identified from the various reports reviewed by the Committee in the context of the overall effectiveness of internal controls; and

1.6.2 To receive reports relating to management's assessment of the effectiveness of the Company's systems of internal controls, and satisfy itself whether any matters should be raised in the relevant section(s) in the annual financial statements and report on the findings to the Board.

1.7 Risk Responsibilities

1.7.1 Exercise Group risk oversight aimed at ensuring that risks are monitored and managed by the Company and its subsidiaries;

1.7.2 Review, at a minimum at least annually, the Group's risk strategy document. Approve the Group's risk strategy and risk appetite;

1.7.3 The Committee will ensure that the Group has in place effective systems for risk management and internal control to address key risks and is required to obtain input and assurance from the Company's risk management and compliance functions regarding the operations, efficiency and effectiveness of the components of the systems for risk management and internal controls relevant to their respective areas of responsibility

1.7.4 The Committee will establish and maintain an enterprise risk management framework to, inter alia, enable the identification of intra-Group transactions, credit risk and concentration and contagion risks across the Group.

1.7.5 Agree to a Combined Assurance Framework, which considers proportionality in the design of the internal control functions and systems.

REPORT OF THE DIRECTORS *(Continued)*
For the year ended 31 December 2021

The committee met four times during the year 2021 and the members' attendance is summarised as below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Veronica Masikini	4	4
Chifundo Kalaile*	3	3
Mark Mikwamba	4	4
Jim Nsomba	1	1

*Director Kalaile did not attend the meeting as she resigned as a director on 22nd September 2021.

APPOINTMENTS AND REMUNERATION COMMITTEE (A & R COM)

The Committee is responsible for reviewing employees Terms and Conditions of Service, approving recommendations for changes to organisational structure and hiring of Executive Management.

The responsibilities of the Appointments and Remunerations Committee include:

2.1 Board Composition Matters

2.1.1 Identify individuals qualified to be elected as members of the Board and Board committees, to recommend such individuals to the Board for appointment in terms of the Company's Articles and Memorandum of Association and to establish procedures to ensure that the selection of individuals for such recommendation is transparent;

2.1.2 Evaluate the effectiveness of management as a whole and report thereon to the Board;

2.1.3 Be responsible for identifying and nominating candidates for the approval of the Board to fill vacancies on the Company's Board and its committees, taking cognisance of best practice and any legislated requirements;

2.1.4 Make recommendations, based on the Board and Committee evaluation results, to the Board for the continuation in service (or not) of any director as an executive or non-executive director;

2.1.5 Assist the Board and the chairperson of the Board in reviewing the independence of non-executive directors and make recommendations to the Board thereon on an annual basis.

2.1.6 Oversee the process for the evaluation of the performance of the Board and its individual directors;

2.1.7 Oversee the appointment, dismissal and performance management of roles reserved for appointment by the Board;

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

2.1.8 Assist the chairperson of the Board to initiate and manage overall performance evaluations of the General Manager and other Directors;

2.1.9 Be responsible for considering the composition and skills required for the optimal functioning of the Board and motivating proposed changes in this regard to the respective boards for consideration.

2.2 Remuneration and Benefit Matters

2.2.1 Reviewing and approving the Company remuneration and benefit philosophy and overseeing the administration of related remuneration and benefit programs, policies and practices;

2.2.2 Annually reviewing all elements of executive remuneration and benefits of the Company and submitting documentation for approval by the full Board in a manner that is designed to qualify for the presumption of reasonableness under laws and regulations applicable to the Company;

2.2.3 Evaluating the remuneration and benefit competitiveness and reviewing the appropriate competitive positioning of the levels and mix of the Company reward and benefit elements within industry remuneration standards;

2.2.4 Establishing annual and long-term performance goals and objectives for the General Manager (GM) and reviewing the goals approved by the General Manager for the members of the Executive Leadership Team;

2.2.5 Reviewing and approving the remuneration and benefits of the members of the Executive Leadership Team as recommended by the GM based on an evaluation of their performance;

2.2.6 Approving or recommending employment agreements, offers of employment and other elements of remuneration provided to the members of the Executive Leadership Team;

2.2.7 The Committee shall re-assess the fitness and propriety of responsible persons annually and recommend the results of the assessment for approval to the Board.

The committee met once during the year 2021 and the members attendance is summarised as below:

NAME OF DIRECTOR	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE YEAR	NUMBER OF MEETINGS ATTENDED
Eluphy Salamba	1	1
Mark Mikwamba	1	1
Chris Kapanga	1	1

REPORT OF THE DIRECTORS *(Continued)*

For the year ended 31 December 2021

DIRECTORS REMUNERATION

The directors' fees and remuneration for the Group and its subsidiaries was as follows:

Entities	Non-executive Directors fees and expenses	Executive Directors remuneration	Total
	K' million	K' million	K' million
For the year ended 31 December 2021			
MPICO plc	39.8	98.7	138.5
MPICO Malls Limited	28.8	-	28.8
Capital Investments Limited	15.5	-	15.5
Capital Developments Limited	14.4	-	14.4
New Capital Properties Limited	14.4	-	14.4
Frontline Investments Limited	11.8	-	11.8
	124.7	98.7	223.4
For the year ended 31 December 2020			
MPICO plc	28.9	91.9	120.8
MPICO Malls Limited	24.0	-	24.0
Capital Investments Limited	14.0	-	14.0
Capital Developments Limited	12.7	-	12.7
New Capital Properties Limited	12.7	-	12.7
Frontline Investments Limited	10.7	-	10.7
	103.00	91.9	194.9

ACTIVITIES

MPICO plc is in the business of development, rental and management of property. It has subsidiary companies as follows:

Subsidiaries of MPICO plc	Percentage of Control	Nature of operations
Capital Developments Limited	100%	Development and rental of property
New Capital Properties Limited	100%	Development and rental of property
Capital Investments Limited	50.75%	Development and rental of property
Frontline Investments Limited	69.5%	Development and rental of property
MPICO Malls Limited	53.10%	Rental of property

REPORT OF THE DIRECTORS *(Continued)*
For the year ended 31 December 2021

DONATIONS
As part of its corporate social responsibility, the Group and its subsidiaries made charitable donations of K500 thousand (2020: K18.2 million) as shown below:

	2021 K' million	2020 K' million
MPICO plc	0.5	18.2
	0.5	18.2

AUDITORS REMUNERATION
The agreed fees payable by the Group and its subsidiaries to their external auditors for financial audit and non-financial audit services are as follows:

Entity	Financial Audit K' million
For the year ended 31 December 2021	
MPICO plc	30.9
MPICO Malls Limited	11.2
Capital Investments Limited	7.9
Capital Developments Limited	6.5
New Capital Properties Limited	7.8
Frontline Investments Limited	7.2
	71.5
For the year ended 31 December 2020	
MPICO plc	28.1
MPICO Malls Limited	10.2
Capital Investments Limited	7.2
Capital Developments Limited	5.9
New Capital Properties Limited	7.1
Frontline Investments Limited	6.5
	65.0

The Auditors did not provide non-audit services during the year hence independence was not compromised. The Directors are therefore satisfied with the same.

AUDITORS
The Group auditors, Deloitte, have indicated their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting to re-appoint them as auditors in respect of the Company's 31 December 2022 financial statements.

BY ORDER OF THE BOARD

CHIFUNDO KALAILE
COMPANY SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2021

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of MPICO plc (the Company) and its subsidiaries (the Group), comprising the consolidated and separate statements of financial position at 31 December 2021, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 2013.

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

In preparing the consolidated and separate 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; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business in the foreseeable future.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.
The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Company and of its operating results and cash flows for the year ended 31 December 2021.

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Mr Damien Kafoteka (Director)

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Mrs Edith Jiya (Chairperson)

Deloitte.

P.O Box 30364
Capital City
Lilongwe
Malawi

Deloitte Chartered Accountants
Registered auditors
Deloitte House
City Centre
Lilongwe
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MPICO PLC

Opinion

We have audited the consolidated and separate financial statements of MPICO plc (the Company) and its subsidiaries ("the Group") set out on pages 17 to 69, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the MPICO plc and its subsidiaries as at 31 December 2021, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Malawi Companies Act, 2013.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MAKING AN IMPACT THAT MATTERS since 1845

INDEPENDENT AUDITOR'S REPORT *(Continued)*

For the year ended 31 December 2021

Key Audit Matter	How the matter was addressed in the audit
Valuation of Investment Property	
The Group and the company have investment properties which are carried at fair value in accordance with IAS 40: Investment Property (IAS 40) and IFRS13: Fair Value Measurement (IFRS 13). Significant judgement is required by the Directors in determining the fair value of the investment properties. We identified the valuation of investment properties as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with methods used to value the investment properties, the judgement and estimation uncertainty associated with determining the amounts. **The significance of the amount to the financial statements** The most significant assets for the Group and Company are investment properties and had consolidated fair value of K71.10 billion as at 31 December 2021 (2020: K65.67 billion) and K21.50 billion (2020: K19.8 billion) in the Company's separate financial statements. **The use of judgement and assumptions by the valuers and complexity of the methods used.** The investment properties were revalued as at 31 December 2021 by professional independent property valuation expert using the investment method and, wherever appropriate, the direct comparison method and depreciated replacement cost method The valuation of investment property is of a specialised nature and can rely on judgmental inputs and assumptions. Key areas of judgement relating to inputs into the valuation of investment properties include occupancy rates and rental growth rates Refer to note 3.5 and 4.2.1 of the financial statements for the accounting policy and critical accounting estimates and judgements and note 6 of the consolidated and separate financial statements for investment properties disclosures.	To address the key audit matter, we carried out the following audit procedures: • Assessed the design and implementation and tested operating effectiveness relating to investment properties; • We assessed the competence, capabilities and objectivity of the Group's experts, and verified their qualifications and experience. In addition, we discussed the scope of their work and reviewed their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. We confirmed that the approach they used is consistent with the prior year and industry norms; • We also involved our independent valuation experts in evaluating the directors and their valuer's judgements and, in particular the methods used; • Our independent valuation experts counterchecked the data used for calculation and the output from the calculation of the investment properties and the emerging gain as prepared and presented by the directors; • We performed an analysis of the significant assumptions made by the Group expert so as to evaluate the extent of impact on investment properties and assessed the appropriateness of Group's and the Company's disclosures; and • In addition, we tested a selection of data inputs underpinning the valuation, including total rental income, percentage rental increase in a year, rental market rates and occupancy levels to appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof; • We found that the methods used for valuation of investment properties were appropriate; and • The disclosures pertaining to the investment properties were found to be appropriate and comprehensive in the financial statements.

INDEPENDENT AUDITOR'S REPORT *(Continued)*
For the year ended 31 December 2021

Other Information
The directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, and the Statement of Director's Responsibilities, which we obtained prior to the date of this auditor's report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Directors' Responsibilities for the Consolidated and Separate Financial Statements
The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

INDEPENDENT AUDITOR'S REPORT *(Continued)*

For the year ended 31 December 2021

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

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

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

INDEPENDENT AUDITOR'S REPORT *(Continued)*

For the year ended 31 December 2021

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte

Chartered Accountants
Vilengo Beza
Partner
31 March 2022

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

For the year ended 31 December 2021

		Group		Company	
	Notes	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
ASSETS					
NON-CURRENT ASSETS					
Investment properties	6	71 095 847	65 670 247	21 500 207	19 763 207
Plant and equipment	7	429 870	524 974	264 532	318 385
Investment in subsidiaries	8	-	-	14 640 612	14 640 612
Capital work in progress		12 651	-	-	-
Deferred tax	9	2 060 934	1 695 626	-	-
Secured staff loans		106 525	71 274	106 525	71 273
Total non-current assets		73 705 827	67 962 121	36 511 876	34 793 477
CURRENT ASSETS					
Amounts due from subsidiaries	12	-	-	761 378	549 831
Taxation recoverable		764 074	-	344 552	147 110
Dividends receivable from subsidiaries		-	-	-	557 750
Trade and other receivables	10	7 557 233	11 581 604	2 390 647	3 062 181
Promissory notes receivables	11	3 068 982	-	760 250	-
Cash and cash equivalents	15	427 302	194 355	65 441	78 782
Assets held for sale		-	54 000	-	54 000
Total current assets		11 817 591	11 829 959	4 322 268	4 449 654
TOTAL ASSETS		**85 523 418**	**79 792 080**	**40 834 144**	**39 243 131**
EQUITY AND LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital		114 902	114 902	114 902	114 902
Share premium		8 626 938	8 626 938	8 626 938	8 626 938
Distributable reserves		5 574 906	5 289 825	8 858 060	8 843 809
Non-distributable reserves		33 006 932	29 505 572	16 172 702	14 912 245
Equity attributable to equity holders of the parent		47 323 678	43 537 237	33 772 602	32 497 894
Non-controlling interests		21 481 571	19 976 897	-	-
Total equity		68 805 249	63 514 134	33 772 602	32 497 894
NON-CURRENT LIABILITIES					
Deferred tax	9	10 200 483	9 339 497	5 238 579	4 860 735
Borrowings	13	3 601 410	4 038 506	-	-
Total non-current liabilities		13 801 893	13 378 003	5 238 579	4 860 735
CURRENT LIABILITIES					
Borrowings	13	437 095	284 438	-	-
Payables	14	1 386 611	930 992	730 393	508 879
Taxation payable		-	305 482	-	-
Bank overdraft	15	1 092 570	1 379 031	1 092 570	1 375 623
Total current liabilities		2 916 276	2 899 943	1 822 963	1 884 502
Total liabilities		16 718 169	16 277 946	7 061 542	6 745 237
TOTAL EQUITY AND LIABILITIES		**85 523 418**	**79 792 080**	**40 834 144**	**39 243 131**

The consolidated and separate financial statements were approved and authorised for issue by the Board of Directors on 15 March 2022 and were signed on its behalf by:

.... Mr Damien Kafoteka (Director)

.... Mrs Edith Jiya (Chairperson)

CONSOLIDATED AND SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	Group 2021 K'000	Group 2020 K'000	Company 2021 K'000	Company 2020 K'000
INCOME					
Rental income	5	6 613 794	6 328 949	2 392 500	2 289 335
Interest income on rental arrears		1 014 134	1 260 900	266 950	312 704
Total rental and interest income on rent arrears		7 627 928	7 589 849	2 659 450	2 602 039
Increase in fair value of investment properties	5	5 425 600	5 049 324	1 737 000	2 970 800
Dividends income from subsidiaries		-	-	-	723 250
Other income	16	141 611	276 453	1 732 084	823 276
Total income		13 195 139	12 915 626	6 128 534	7 119 365
OPERATING EXPENSES					
Property and administration expenses	17	(4 723 461)	(2 867 173)	(2 783 427)	(2 007 068)
Expected credit losses	10	(67 192)	(96 191)	(26 553)	(85 872)
Total operating expenses		(4 790 653)	(2 963 364)	(2 809 980)	(2 092 940)
FINANCE COST					
Interest income on bank deposits and staff loans		22 106	15 069	12 836	9 143
Finance costs on borrowings		(737 444)	(805 979)	(175 921)	(179 061)
Net finance cost		(715 338)	(790 910)	(163 085)	(169 918)
PROFIT BEFORE TAXATION	18	7 689 148	9 161 352	3 155 469	4 856 507
Taxation	19	(1 266 558)	(4 817 711)	(961 538)	(1 253 189)
PROFIT FOR THE YEAR		6 422 590	4 343 641	2 193 931	3 603 318
APPROPRIATION OF PROFIT FOR THE YEAR					
Distributable reserves	21	1 140 863	966 140	870 033	1 489 553
Non-distributable reserves	21	3 564 801	3 264 888	1 323 898	2 113 765
Amounts attributable to members of the parent		4 705 664	4 231 028	2 193 931	3 603 318
Amounts attributable to non-controlling interests		1 716 926	112 613	-	-
		6 422 590	4 343 641	2 193 931	3 603 318
Basic earnings per share (K)	21	2.05	1.84		
Analysed as:					
Distributable (K)		0.50	0.42		
Non-distributable (K)		1.55	1.42		

The Group and Company had no other comprehensive income in the current or prior year.

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

Group	Share capital K'000	Share premium K'000	Distributable reserves K'000	Non-distributable reserves K'000	Attributable to equity holders of interests K'000	Non controlling interests K'000	Total K'000
For the year ended 31 December 2021							
At the beginning of the year	114 902	8 626 938	5 289 825	29 505 572	43 537 237	19 976 897	63 514 134
Transfer to distributable reserve on disposal of properties	-	-	63 441	(63 441)	-	-	-
Distributable profit for the year	-	-	1 140 863	-	1 140 863	204 492	1 345 355
Non-distributable profit for the year	-	-	-	3 564 801	3 564 801	1 512 432	5 077 233
Dividends declared – Final 2020	-	-	(643 456)	-	(643 456)	(212 250)	(855 706)
Dividends declared – Interim 2021	-	-	(275 767)	-	(275 767)	-	(275 767)
At the end of the year	114 902	8 626 938	5 574 906	33 006 932	47 323 678	21 481 571	68 805 249
For the year ended 31 December 2020							
At the beginning of the year	114 902	8 626 938	4 668 394	26 240 684	39 650 918	19 928 782	59 579 700
Distributable profit for the year	-	-	966 140	-	966 140	(711 087)	255 053
Non-distributable profit for the year	-	-	-	3 264 888	3 264 888	823 702	4 088 590
Dividends declared – Final 2019	-	-	(344 709)	-	(344 709)	(15 250)	(359 959)
Dividends declared – Interim 2020	-	-	-	-	-	(49 250)	(49 250)
At the end of the year	114 902	8 626 938	5 289 825	29 505 572	43 537 237	19 976 897	63 514 134

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital K'000	Share premium K'000	Distributable reserves K'000	Non-distributable reserves K'000	Total K'000
Company					
For the year ended 31 December 2021					
At the beginning of the year	114 902	8 626 938	8 843 809	14 912 245	32 497 894
Transfer to distributable reserve on disposal of properties	-	-	63 441	(63 441)	-
Distributable profit for the year	-	-	870 033	-	870 033
Non-distributable profit for the year	-	-	-	1 323 898	1 323 898
Final dividend declared 2020	-	-	(643 456)	-	(643 456)
Interim dividend declared 2021	-	-	(275 767)	-	(275 767)
At the end of the year	114 902	8 626 938	8 858 060	16 172 702	33 772 602
For the year ended 31 December 2020					
At the beginning of the year	114 902	8 626 938	7 698 965	12 798 479	29 239 284
Distributable profit for the year	-	-	1 489 553	-	1 489 553
Non-distributable profit for the year	-	-	-	2 113 766	2 113 766
Dividend declared-Final 2019	-	-	(344 709)	-	(344 709)
At the end of the year	114 902	8 626 938	8 843 809	14 912 245	32 497 894

The distributable reserve is available for distribution to shareholders as dividends subject to a 10% withholding tax. The non-distributable reserve relates to unrealised capital profits (net of related deferred tax) on valuation of investment properties and is not available for distribution in terms of the Malawi Companies Act, 2013.

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
SHARE CAPITAL				
Authorised:				
3 000 000 000 Ordinary shares of 5t each (2020: 3 000 000 000 Ordinary Shares of 5t each)	150 000	150 000	150 000	150 000
Issued and fully paid:				
2 298 047 460 Ordinary shares of 5t each (2020: 2 298 047 460 Ordinary Shares of 5t each)	114 902	114 902	114 902	114 902

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2021

	Notes	Group 2021 K'000	Group 2020 K'000	Company 2021 K'000	Company 2020 K'000
Cash flows from operating activities					
Net cash generated/(used in) from operations	23	3 519 871	500 598	1 314 853	(275 985)
Returns on investments and servicing of finance					
Dividends received		-	-	557 750	415 500
Interest received		1 036 240	1 275 969	279 786	321 847
Interest paid		(737 444)	(805 979)	(175 921)	(179 061)
Dividends paid		(919 223)	(344 709)	(919 223)	(344 709)
Dividends paid to non-controlling shareholders		(212 250)	(64 500)	-	-
Net cash flow generated from/ (used in) returns on investments and servicing of finance		2 687 194	561 379	1 057 245	(62 408)
Taxation paid		(1 840 436)	(945 200)	(781 137)	(552 075)
Net cash generated by/(used in) operating activities		846 758	(383 821)	276 108	(614 483)
Cash flows to investing activities					
Additions to plant and equipment	7	(63 385)	(67 544)	(39 519)	(54 899)
Proceeds on disposal of plant and equipment		68 377	2 710	68 371	2 711
Additions in capital work in progress		(12 651)	-	-	-
Staff long-term loans granted		(35 252)	(57 110)	(35 248)	(57 110)
Net cash used in investing activities		(42 911)	(121 944)	(6 396)	(109 298)
Cash flows from financing activities					
Repayment of borrowings	13	(284 439)	(254 376)	-	-
Net cash used in financing activities		(284 439)	(254 376)	-	-
Net increase/(decrease) in cash and cash equivalents		519 408	(760 141)	269 172	(723 781)
Cash and cash equivalents at the beginning of the year		(1 184 676)	(424 535)	(1 296 841)	(573 060)
Cash and cash equivalents at the end of the year	15	(665 268)	(1 184 676)	(1 027 129)	(1 296 841)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

1. General information

MPICO plc, the holding Company of the Group, is domiciled in Malawi. The registered office is at Old Mutual House, Robert Mugabe Crescent, P.O. Box 30459, Lilongwe. These consolidated financial statements comprise MPICO plc and its subsidiaries (together referred to as Group). The Group is primarily in the business of development, rentals and management of properties.

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the entity has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2021.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Group and the Company.

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are issued and effective for annual periods beginning on or after 1 January 2021 and have not been applied in preparing these financial statements. Those which may be relevant to the entity are set out below. The entity does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 Insurance Contracts IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

	The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual reporting periods beginning on or after 1 January 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.2 Standards and Interpretations in issue, not yet effective

Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

	would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: • **IFRS 1** – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • **IFRS 9** – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. • **IFRS 16** – The amendment to Illustrative Example 13 acCompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. • **IAS 41** – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group and the Company.

3. Significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The financial statements are prepared in terms of the historical cost basis with the exception of investment properties, which are included at valuation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Historical cost is generally based on the fair value of the consideration given in exchange for assets as explained in the accounting policies below.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of MPICO plc and entities controlled by MPICO plc. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

3.4 Plant and equipment

Plant and equipment are shown at cost, less related accumulated depreciation and impairment losses.

Plant and equipment are depreciated on the straight line basis at rates that will reduce book amounts to estimated residual values over the anticipated useful lives of the assets as follows:-

Fixtures and equipment	5 years
Computers	3 years
Generators and Lifts	10 years
Motor vehicles	4 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at every year-end. An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

3.5 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

The increase in the fair value of investment properties, net of the related deferred tax, is appropriated to a non-distributable reserve in compliance with profit distribution restrictions included in the Companies Act, 2013. In the event of disposal of the property held at fair value, the related portion of the reserve is transferred to the distributable reserve. The statement of comprehensive income will then report a profit or loss on disposal based on the difference between proceeds and the carrying value. A property is deemed to have been sold when formal Government consent to the sale is received and that investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal.

3.6 Non-current assets held for sale

Non-current assets and disposal Groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal Group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell except where the measurement is specifically covered by another standard.

3.7 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

<u>Current tax</u>
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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 Group's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively. Where current and deferred tax arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.8 Foreign currencies

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's companies are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the entire Group operates. The consolidated financial statements are presented in Malawi Kwacha, which is the Group's functional and presentation currency.

(b) *Transactions and balances*

Transactions in currencies other than Malawi Kwacha are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

3.9 Pension fund

MPICO plc contributes to a defined contribution pension scheme administered by Old Mutual Pension Services Company, a subsidiary of Old Mutual (Malawi) Limited. All payments made to the scheme are charged as an expense as they fall due.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

3.10 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated rebates and other similar allowances.

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease. Such rental income recognition commences when an occupancy agreement with a tenant is formalised.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.12 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

(ii) Debt instruments classified as at FVTOCI
The corporate bonds held by the Group are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

heading of investments revaluation reserve. When these corporate bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL

upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset..

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less any impairment.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short- term deposits with an original maturity period of three months or less. For cash flow statement purposes, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

3.13 Financial liabilities and equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Compound instruments

The component parts of convertible loan notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at FVTPL are recognised in profit or loss.

<u>Financial liabilities measured subsequently at amortised cost</u>

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

<u>Financial guarantee contract liabilities</u>

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Loans and borrowings

After initial recognition, accounts payables are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

3.14 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16 Lease

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the principal accounting policies of the Group. Estimates and judgements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical judgments in applying the Company's significant accounting policies

In the application of the Group's accounting policies which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

No critical judgments were made by the management during the current period which would have a material impact on the financial statements.

4.2 Key sources of estimation uncertainty

The key assumptions that were made concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

4.2.1 Valuation of investment properties

Investment properties are carried at fair value in accordance with IAS 40 Investment Property. Fair values have been determined through valuations carried out by Knight Frank, qualified and registered valuers.

4.2.2 Calculation of impairment loss allowance

When measuring Expected Credit Losses (ECL), the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimation of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

5. Operating segments

5.1 Operating Segments

Operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

5.2 Products and services from which reportable segments derive their revenues

The Group has one principal line of business – rental and management of investment property. Information reported to and used by the Managing Director for decision making for the purposes of resource allocation and assessment of segment performance is more specifically focused on each of the Group's current 27 (2020: 28) investment properties.

5.3 Geographical information

The Group's investment property is situated principally in the two major cities in Malawi. The following analysis shows the rental income, investment property values and property fair value movements by geographical market.

GROUP

	Rental income		Property values		Fair value increase	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
Blantyre	464 920	459 580	5 316 575	4 902 129	415 000	1 099 700
Lilongwe	5 997 682	5 716 732	64 694 795	59 761 241	4 933 000	3 908 424
Other markets	151 192	152 637	1 084 477	1 006 877	77 600	41 200
Total	6 613 794	6 328 949	71 095 847	65 670 247	5 425 600	5 049 324

COMPANY

	Rental income		Property values		Fair value increase	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
Blantyre	464 920	459 580	5 316 575	4 902 129	415 000	1 099 700
Lilongwe	1 776 388	1 685 267	15 149 755	13 901 200	1 248 000	1 831 600
Other markets	151 192	144 488	1 033 877	959 878	74 000	39 500
Total	2 392 500	2 289 335	21 500 207	19 763 207	1 737 000	2 970 800

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

6. Investment properties

	Group		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
VALUATION				
Freehold	32 412 369	29 554 369	19 455 329	17 871 329
Leasehold	38 683 478	36 115 878	2 044 878	1 891 878
Total investment properties	71 095 847	65 670 247	21 500 207	19 763 207

Movements in the valuation of investment properties are set out below.

	Group		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
VALUATION				
Freehold				
At the beginning of the year	29 554 369	26 224 845	17 871 329	15 069 429
Asset reclassified for held for sale	-	(54 000)	-	(54 000)
Fair value adjustment	2 858 000	3 383 524	1 584 000	2 855 900
At the end of the year	32 412 369	29 554 369	19 455 329	17 871 329
Leasehold				
At the beginning of the year	36 115 878	34 450 078	1 891 878	1 776 978
Fair value adjustment	2 567 600	1 665 800	153 000	114 900
At the end of the year	38 683 478	36 115 878	2 044 878	1 891 878
Total valuation	71 095 847	65 670 247	21 500 207	19 763 207

The registers of land and buildings are open for inspection at the registered offices of the Group and the Company.

Investment properties were revalued at fair value as at 31 December 2021 on the basis set out in note 3.5 to the consolidated and separate financial statements. The valuations were carried out by an independent registered valuer, Knight Frank (Malawi) Limited by Nickson S.C. Mwanyali, BSc (Est. Man), adv. Dip (Bus Mngt), MSIM, Chartered Valuation Surveyor, in accordance with the Appraisal and Valuation Standards laid down by the Royal Institution of Chartered Surveyors and the International Valuation Standards, and the resultant fair value increase was taken to profit or loss in line with the IAS 40 Investments Property requirements.

There has been no change to the valuation technique during the year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

6. Investment properties (Continued)

Details of the Group's and Company's land and buildings and fair value hierarchy as at the end of the year are as follows:

Group

	Level 2 K'000	Fair value K'000
31 December 2021		
Investment properties	71 095 847	71 095 847
31 December 2020		
Investment properties	65 670 247	65 670 247

Company

	Level 2 K'000	Fair value K'000
31 December 2021		
Investment properties	21 500 207	21 500 207
31 December 2020		
Investment properties	19 763 207	19 763 207

There were no transfers amongst any of the levels during the year.

Included in the investment properties balance as at 31 December 2021 were properties encumbered as follows:

1. **Development House in Lilongwe valued at K1.17 billion and Tikwere House valued at K2.366 billion**
   These properties are the subject of a charge in favour of FDH Bank plc and National Bank of Malawi plc to secure overdraft facilities of K900 million and K500 million, respectively.

2. **The Gateway valued at K32.17 billion**
   The property is the subject of a charge in favour of Standard Bank (Malawi) Plc to secure a loan of K4.6 billion.

Details of the cost of the investment properties are as follows:-

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
At cost	19 572 285	19 574 498	305 956	308 169
Fair values	51 523 562	46 095 749	21 194 251	19 455 038
Total investment properties	71 095 847	65 670 247	21 500 207	19 763 207

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

7. Plant and equipment

GROUP

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
COST					
At 1 January 2021	224 572	258 384	118 147	482 318	1 083 421
Additions	6 906	33 170	-	23 309	63 385
Disposals	(700)	-	-	(14 640)	(15 340)
At 31 December 2021	230 778	291 554	118 147	490 987	1 131 466
At 1 January 2020	212 007	255 470	118 147	486 754	1 072 378
Additions	21 370	18 027	-	28 147	67 544
Disposals	(8 805)	(15 113)	-	(32 583)	(56 501)
At 31 December 2020	224 572	258 384	118 147	482 318	1 083 421
ACCUMULATED DEPRECIATION					
At 1 January 2021	129 150	89 663	70 322	269 312	558 447
Charge for the year	33 095	25 304	25 512	72 015	155 926
Disposal	(700)	-	-	(12 077)	(12 777)
At 31 December 2021	161 545	114 967	95 834	329 250	701 596
At 1 January 2020	103 800	79 516	44 810	223 449	451 575
Charge for the year	33 426	25 066	25 512	75 605	159 609
Disposal	(8 076)	(14 919)	-	(29 742)	(52 737)
At 31 December 2020	129 150	89 663	70 322	269 312	558 447
CARRYING AMOUNT					
Carrying amount at 31 December 2021	69 233	176 587	22 313	161 737	429 870
Carrying amount at 31 December 2020	95 422	168 721	47 825	213 006	524 974

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

7. Plant and equipment (Continued)

COMPANY

	Fixture & Fittings	Generators	Motor vehicles	Furniture & equipment	Total
COST					
At 1 January 2021	74 857	164 024	118 147	282 907	639 935
Additions	1 312	15 343	-	22 864	39 519
Disposal	-	-	-	(14 639)	(14 639)
At 31 December 2021	76 169	179 367	118 147	291 132	664 815
At 1 January 2020	67 892	161 110	118 147	286 359	633 508
Additions	12 335	18 027	-	24 537	54 899
Disposal	(5 370)	(15 113)	-	(27 989)	(48 472)
At 31 December 2020	74 857	164 024	118 147	282 907	639 935
ACCUMULATED DEPRECIATION					
At 1 January 2021	53 859	46 459	70 322	150 910	321 550
Depreciation	5 746	15 523	25 512	44 029	90 810
Disposal	-	-	-	(12 077)	(12 077)
At 31 December 2021	59 605	61 982	95 834	182 862	400 283
ACCUMULATED DEPRECIATION					
At 1 January 2020	51 300	45 628	44 810	130 147	271 885
Depreciation	7 210	15 749	25 512	47 383	95 854
Disposal	(4 651)	(14 918)	-	(26 620)	(46 189)
At 31 December 2020	53 859	46 459	70 322	150 910	321 550
CARRYING AMOUNT					
Carrying amount at 31 December 2021	16 564	117 385	22 313	108 270	264 532
Carrying amount at 31 December 2020	20 998	117 565	47 825	131 997	318 385

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

8. Subsidiary companies

	2021 %	2020 %	2021 K'000	2020 K'000
Wholly owned subsidiaries				
New Capital Properties Limited	100.00	100.00	571	571
Capital Developments Limited	100.00	100.00	68 969	68 969
Other subsidiaries				
Frontline Investments Limited	69.50	69.50	1 870	1 870
MPICO Malls Limited	53.10	53.10	14 567 801	14 567 801
Capital Investments Limited	50.75	50.75	1 401	1 401
Total investment in subsidiary companies			14 640 612	14 640 612

The investments in subsidiary companies comprise ordinary shares and are stated at cost. The subsidiaries have no other forms of shares in issue.

9. Deferred taxation

Group

Deferred tax asset

For the year ended 31 December 2021	Balance as at 1 January 2021 K'000	Recognised in Profit or loss K'000	Balance as at 31 December 2021 K'000
Deferred tax assets movement in the year			
Revaluation of investment property	1 065 865	534 037	1 599 902
Excess capital allowances	(2 583)	11 487	8 904
Tax losses	557 296	(205 985)	351 311
Other temporary differences	75 048	25 769	100 817
Total	1 695 626	365 308	2 060 934

For the year ended 31 December 2020	Balance as at 1 January 2020 K'000	Recognised in Profit or loss K'000	Balance as at 31 December 2020 K'000
Deferred tax assets movement in the year			
Revaluation of investment property	856 907	208 958	1 065 865
Excess capital allowances	(13 576)	10 993	(2 583)
Tax losses	3 231 078	(2 673 782)	557 296
Other temporary differences	87 111	(12 063)	75 048
Total	4 161 520	(2 465 894)	1 695 626

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

9. Deferred taxation

Group

Deferred tax liabilities

For the year ended 31 December 2021	**Balance as at 1 January 2021 K'000**	**Recognised in Profit or loss K'000**	**Balance as at 31 December 2021 K'000**
Deferred tax liabilities movement in the year			
Revaluation of investment property	(9 461 208)	(882 401)	(10 343 609)
Excess capital allowances	3 895	9 562	13 457
Other temporary differences	117 816	11 853	129 669
Total	(9 339 497)	(860 986)	(10 200 483)

For the year ended 31 December 2020	**Balance as at 1 January 2020 K'000**	**Recognised in Profit or loss K'000**	**Balance as at 31 December 2020 K'000**
Deferred tax liabilities movement in the year			
Revaluation of investment property	(8 291 515)	(1 169 693)	(9 461 208)
Excess capital allowances	(7 047)	10 942	3 895
Other temporary differences	50 244	67 572	117 816
Total	(8 248 318)	(1 091 179)	(9 339 497)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

9. Deferred taxation (Continued)

Company

For the year ended 31 December 2021	**Recognised Balance as at 1 January 2021 K'000**	**Recognised in Profit or loss K'000**	**Balance as at 31 December 2021 K'000**
Deferred tax liabilities movement in the year			
Revaluation of investment property	(4 946 523)	(413 102)	(5 359 625)
Excess capital allowances	1 955	9 827	11 782
Other temporary differences	83 833	25 431	109 264
Total	(4 860 735)	(377 844)	(5 238 579)

Company

For the year ended 31 December 2020	**Recognised Balance as at 1 January 2020 K'000**	**Recognised in Profit or loss K'000**	**Balance as at 31 December 2020 K'000**
Deferred tax liabilities movement in the year			
Revaluation of investment property	(4 089 488)	(857 035)	(4 946 523)
Excess capital allowances	(8 362)	10 317	1 955
Other temporary differences	30 856	52 977	83 833
Total	(4 066 994)	(793 741)	(4 860 735)

	Group		**Company**	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
10. Receivables				
Rental and service charges	5 476 094	7 851 845	1 887 288	2 374 042
Prepaid property expenses	105 872	183 611	46 120	47 381
Accrued interest	994 470	2 170 209	344 785	566 388
Staff receivables	208 605	186 679	208 605	186 679
IFRS 16 Receivable	1 437 653	1 234 884	-	-
Other receivables	150 468	703 112	115 477	72 766
Expected Credit Losses	(815 929)	(748 736)	(211 628)	(185 075)
Total receivables	7 557 233	11 581 604	2 390 647	3 062 181

Interest is charged on receivables in respect of outstanding rentals at 4% above base lending rate. As at year end the amount outstanding from Government was K4 777 million (2020: K8 668 million) for the Group {Company K1 433 million (2020: K2 186 million)}. The total interest charged on overdue Government rentals and other tenants amounted to K1 014 million (2020: K1 261 million) {Company K267 million (2020: K313 million)} for the year.

The IFRS 16 receivable of K1 438 million (2020: K1 235 million) relates to a receivable that arose as a result of the entity recognising income on a straight-line basis over the lease term in line with IFRS 16 Leases. This is applicable to leases that are not renewable on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

10. Receivables (Continued)

The Group has provided for all receivables in line with IFRS 9 on the basis out in note 3 and note 4.2.2.

Rentals and service charges receivables which were outstanding as at year end are analysed below:-

	Group		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
0-90 days	1 452 599	1 829 360	556 852	749 472
Over 90 days	5 054 291	8 792 578	1 705 362	2 187 778
	6 506 890	10 621 938	2 262 214	2 937 250
Movement in Expected Credit Losses (ECL)				
Balance at beginning of the year	748,736	654 411	185 075	99 203
Amounts written-off during the year	1	(1 866)	-	-
Increase in ECL recognised in the profit or loss	67 192	96 191	26 553	85 872
Balance at end of the year	815 929	748 736	211 628	185 075

In determining the recoverability of rentals receivable, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. Except for the Government which for the Group accounts for approximately 40 % (2020: 46%) {Company 36% (2020: 38%)} rental income, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the loss allowance for trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which debtors operate and on the assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognized a loss allowance of 100% against all receivables that were handed over to external debt collectors. The Group has recognized a loss allowance for all Government receivables at 1.5%. This was based on the directors' judgment in the determination of the probability of default and loss given default.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

10. Receivables (Continued)

The following table details the risk profile of trade receivables other than from Government and those handed over to external collectors based on the Group's provision matrix. As the Group's historical credit loss allowance does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

Group

Trade receivables for Government-days past due

	Current K'000	93 to 184 days MK'000	185 to 275 days K'000	276 to 365 days K'000	Over 365 days K'000
Estimated total gross carrying amount at default	1 089 297	1 007 118	382 272	333 528	2 129 083
Expected loss rate	1.5%	1.5%	1.5%	1.5%	1.5%
Lifetime ECL	16 339	15 107	5 734	5 003	31 936

Trade receivables for private tenants-days past due

	Current K'000	93 to 184 days K'000	185 to 275 days K'000	276 to 365 days K'000	Over 365 days K'000
Estimated total gross carrying amount at default	353 320	136 857	104 024	54 277	417 241
Expected loss rate	2%	1%	2%	5%	5%
Lifetime ECL	7 066	1 369	2 080	2 714	20 862

Trade receivables with external debt collectors

	Current K'000	93 to 184 days K'000	185 to 275 days K'000	276 to 365 days K'000	Over 365 days K'000
Estimated total gross carrying amount at default	9 981	10 062	9 011	-	470 820
Expected loss rate	100%	100%	100%	100%	100%
Lifetime ECL	9 981	10 062	9 011	-	470 820

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

10. Receivables (Continued)

Company

Trade receivables for Governments-days past due

	Current MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000
Estimated total gross carrying amount at default	360 436	323 475	83 976	76 578	722 506
Expected loss rate	1.5%	1.5%	1.5%	1.5%	1.5%
Lifetime ECL	5 407	4 852	1 260	1 149	10 838

Trade receivables for private tenants-days past due

	Current MK'000	93 to 184 days MK'000	185 to 275 days MK'000	276 to 365 days MK'000	Over 365 days MK'000
Estimated total gross carrying amount at default	195 701	77 731	57 870	32 456	177 580
Expected loss rate	2%	1%	2%	5%	5%
Lifetime ECL	3 914	777	1 157	1 623	8 879

Trade receivables with external debt collectors

	Current K'000	93 to 184 days K'000	185 to 275 days K'000	276 to 365 days K'000	Over 365 days K'000
Estimated total gross carrying amount at default	-	-	-	-	153 210
Expected loss rate	100%	100%	100%	100%	100%
Lifetime ECL	-	-	-	-	153 210

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

11. Promissory notes receivables

	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Malawi Government	3 068 982	-	760 250	-

In June 2021 the Group and the Company received promissory notes amounting to K7.7 billion and K1.8 billion respectively from the Malawi Government being part settlement of receivable arrears. A total of K4.6 billion and K991 million was discounted by the Group and the Company during the year at an average discount rate of 14% resulting in discounting costs of K536 million and K117 million respectively. The outstanding promissory note of K3.1 billion and K760 million for the Group and the Company will mature in October 2022.

12. Related party transactions

At the year-end, the Company had the following balances with subsidiary companies. The Group and the Company also had staff loans and advances as presented in the statement of financial position and in this note below;

	Amounts due from (to) subsidiaries	
	2021 K'000	2020 K'000
New Capital Properties Limited	201 517	15 780
Capital Developments Limited	276 898	104 465
Frontline Investments Limited	162 935	9 471
Capital Investments Limited	12 757	(14 758)
MPICO Malls Limited	107 271	434 873
Net amount due from subsidiaries	761 378	549 831
Amounts due to related parties	-	(14 758)
Amounts due from related parties	761 378	564 589
Net amount due from subsidiaries	761 378	549 831

MPICO Group had the following transactions with Old Mutual Pension Services Company and Old Mutual Life Assurance Company both of which are also subsidiaries of Old Mutual (Malawi) Limited, the parent company:

	2021 K'000	2020 K'000
Pension contribution costs for the year	139 907	97 752
Contributions towards Group life cover	19 479	15 528
Rental income and service charges for the year	121 875	111 901

Rental income and service charges for the year relates to the rentals charged by MPICO plc for the office space that Old Mutual occupies in Old Mutual House and CIL House in Lilongwe. The service charges relate to Old Mutual's share of utilities paid by MPICO plc that are then recovered from the tenants, charged based on office space occupied. These transactions are at arms-length.

During the year, the Company entered into the following transactions with its subsidiary companies.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

12. Related party transactions (Continued)

	Company	
	2021 K'000	2020 K'000
Management fees charged to subsidiaries	1 605 208	559 956

Compensation of key management personnel

During the year loans amounting to K82 million (2020: K126 million) were advanced to employees in key positions. At 31 December 2021 the total loans balance outstanding from employees in key positions was K185 million (2020: K93 million). These loans were granted on the same interest and repayment terms as loans to other staff members. Furthermore, emoluments paid to the employees in key positions during the year were as follows:

	2021 K'000	2020 K'000
Salary and pension	398 981	380 747

No loans and advances were advanced to the directors during the year.

13. Borrowings

	Group		Company	
Borrowings summary	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Balance at 1 January	4 322 944	4 577 320	-	-
Repayments during the year	(284 439)	(254 376)	-	-
Balance at 31 December	4 038 505	4 322 944	-	-
Amounts due after 1 year	3 601 410	4 038 506	-	-
Amounts due within 1 year	437 095	284 438	-	-
Total borrowings	4 038 505	4 322 944	-	-

MPICO Malls Limited (the subsidiary Company of MPICO plc) borrowed K4.6 billion from Standard Bank plc in the year 2018. The loan is subject to interest charges at 1.1% above the publicly quoted reference lending rate per annum and as at year end the actual interest rate was 13.2%. The loan is repayable over a period of 5 years to 30 September 2023. The loan is secured by investment property, The Gateway.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
14. Payables				
Accruals & property expenses	231 713	212 075	118 449	131 529
Prepaid rentals	449 496	374 959	231 588	156 296
Other payables	194 910	129 075	157 498	82 346
Provisions	510 492	214 883	222 858	138 708
Total payables	1 386 611	930 992	730 393	508 879

Accruals are in respect of various expenses incurred but whose invoices had not yet been received or received but not booked as at year-end.

Property expenses payables relate to unpaid but booked invoices for property maintenance and other directly attributable property management costs. No interest is chargeable on these payables and there is no specific allowed credit period from the date of the invoice but the Group's financial risk management policies include ensuring that invoices are paid within 30 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
15. Cash and cash equivalents as stated in the statement of financial position				
Funds at call and on deposit	209 270	-	-	-
Bank balances and cash	218 032	194 355	65 441	78 782
Total funds on deposit and banks	427 302	194 355	65 441	78 782
Bank overdraft	(1 092 570)	(1 379 031)	(1 092 570)	(1 375 623)
Total cash and cash equivalents	(665 268)	(1 184 676)	(1 027 129)	(1 296 841)

The Group has an overdraft facility of K900 million (2020: K900 million) with FDH Bank plc and K500 million (2020: K500 million) with National Bank of Malawi plc. The FDH Bank plc facility is secured on Development House and accrues interest at the rate of 5.6% above the floating base lending rate. The National Bank of Malawi Plc facility is secured on Tikwere House and accrues interest at the rate of 4.6% above the floating base lending rate. These bank overdraft facilities are repayable on demand.

The deposits accounts are maintained with National Bank of Malawi Plc and FDH Bank plc and attract interest at an average 4% (2020: 4%) per annum.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
16. Other Income				
Management fees	-	-	1 605 208	559 956
Other income	141 611	276 453	126 876	263 320
Total other income	141 611	276 453	1 732 084	823 276

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
17. Property and administration expenses				
Net property expenses	1 480 709	967 351	427 255	368 316
Discounting costs	536 303	-	116 540	-
Salaries benefits and administration costs	1 856 997	1 389 573	1 856 009	1 327 712
Other costs	849 452	510 249	383 623	311 040
Total	4 723 461	2 867 173	2 783 427	2 007 068

Other costs include audit fees paid to both internal and external auditors, depreciation charges, listing costs, transfer secretaries' expenses and legal and professional fees.

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
18. Profit before taxation				
Profit before taxation is arrived at after charging/(crediting):	-			
Auditors' remuneration	71 500	64 960	30 910	28 112
Donations	500	18 234	500	18 234
Depreciation of plant and equipment	155 926	159 609	90 810	95 854
(Profit)/loss on disposal of non-current assets	11 813	(1 056)	11 813	(428)
Directors' remuneration - fees for directors	124 596	103 085	39 758	28 964
- for managerial services	98 688	91 932	98 688	91 932
Pension costs	139 907	97 752	139 907	97 752
Staff costs - 31 staff (33 in 2020)	1 558 847	963 030	1 558 847	963 030
19. Taxation				
Income tax	705 924	1 219 088	518 737	417 898
Deferred tax	495 678	3 557 073	377 845	793 741
Capital gains tax	9 181	-	9 181	-
Dividend tax	55 775	41 550	55 775	41 550
Total taxation charge	1 266 558	4 817 711	961 538	1 253 189

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

19. Taxation (Continued)

Reconciliation of effect tax rates to standard rates	Rate	2021 K'000	Rate	2020 K'000
Profit before tax income		7 689 148		9 161 352
Income tax based on tax profits	30%	2 306 744	30%	2 748 406
Non-deductible expense	10%	737 698	5%	421 713
Income not subject to tax at 30%	-	-	(2%)	(216 975)
Other temporary differences	(23) %	(1 777 884)	20%	1 864 567
Effective tax rate	17 %	1 226 558	53%	4 817 711

Company

Reconciliation of effect tax rates to standard rates	Rate	2021 K'000	Rate	2020 K'000
Profit before tax income		3 155 469		4 856 507
Income tax based on tax profits	30%	946 641	30%	1 456 952
Non-deductible expense	12%	381 257	6%	298 086
Income not subject to tax at 30%	-	-	(4%)	(216 975)
Other temporary differences	(11.5)%	(366 360)	(6%)	(284 874)
Effective tax rate	30.5 %	961 538	26%	1 253 189

20. Increase in fair value of investment properties

During the year, a fair value adjustment to investment properties has been credited and the associated tax has been charged to the statement of comprehensive income. To ensure compliance with profit distribution rules under Company law in Malawi, the net of tax balance has been transferred to a non-distributable reserve. This is analysed as follows:

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Fair value adjustment credited to statement of comprehensive income	5 425 600	5 049 324	1 737 000	2 970 800
Related deferred tax	(348 365)	(960 734)	(413 102)	(857 035)
Non-controlling interests	(1 512 434)	(823 702)	-	-
Amount transferred to non-distributable Reserves	3 564 801	3 264 888	1 323 898	2 113 765

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

21. Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2021 K'000	2020 K'000
Distributable profit	1 140 863	966 140
Non-distributable profit	3 564 801	3 264 888
Profit for the year attributable to equity holders of the parent	4 705 664	4 231 028
Weighted average number of ordinary shares for the purposes of basic earnings per share	2 298 047	2 298 047
Basic earnings per share	2.05	1.84
Distributable (K)	0.50	0.42
Non-distributable (K)	1.55	1.42

22. Dividends declared

A final dividend of K643.5 million in respect of 2020 profits was declared and paid on 6 August 2021. An interim dividend of K276 million was declared and paid in September 2021.

23. Reconciliation of profit before taxation to net cash inflow from operating activities

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Profit before taxation	7 689 148	9 161 352	3 155 469	4 856 507
Increase in fair value of investment properties	(5 425 600)	(5 049 324)	(1 737 000)	(2 970 800)
Interest income	(1 036 240)	(1 275 969)	(279 786)	(321 847)
Dividends receivable	-	-	-	(723 250)
Interest paid	737 444	805 979	175 921	179 061
Depreciation	155 926	159 609	90 810	95 854
Changes in trade and other receivables	4 024 371	(3 394 781)	671 534	(1 082 929)
Changes in promissory notes receivables	(3 068 982)	-	(760 250)	-
Changes in trade and other payables	455 617	92 676	221 514	2 029
Profit/loss on disposal of non-current assets	(11 813)	1 056	(11 813)	(428)
Movement on intercompany balances	-	-	(211 547)	(310 182)
Net cash generated from (used in) operating activities	3 519 871	500 598	1 314 853	(275 985)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

24. Financial risk management

Categorization of financial instruments

The analysis below sets out the Group's classification of financial assets and liabilities and their fair values including accrued interest.

	Group		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Financial assets held at amortised cost				
Trade and other receivables	7 557 233	11 581 604	2 390 647	3 062 181
Amounts due from related parties	-	-	761 379	549 831
Dividends receivable	-	-	-	557 750
Promissory notes receivable	3 068 982	-	760 250	-
Funds at call and on deposit	209 270	-	-	-
Bank balance and cash	218 032	194 355	65 441	78 782
Total financial assets	11 053 517	11 775 959	3 977 717	4 248 544
Financial liabilities held at amortised cost				
Borrowings	4 038 505	4 322 944	-	-
Trade and other payables	1 386 611	930 992	730 393	508 881
Bank overdraft	1 092 570	1 379 031	1 092 570	1 375 623
Total financial liabilities	6 517 686	6 632 967	1 822 963	1 884 504

The Group has exposure to the following risks arising from its transactions in financial instruments:

- Capital risk
- Interest rate risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Group's management of capital. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Below is an analysis of how the Group manages the risk associated with the following relevant financial instruments.

(a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of mainly equity comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Board reviews the capital situation on an annual basis and based on each review, the Group will balance its overall capital structure through the payment of dividends and raising finance through borrowings or repaying any existing borrowings.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

24. Financial risk management (Continued)

Categorization of financial instruments (Continued)

(a) Capital risk management (Continued)

Gearing ratio
The gearing ratio at the year end was as follows:-

	Group		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Trade and other payables	1 386 611	930 992	730 393	508 881
Borrowings	4 038 505	4 322 944	-	-
Bank overdraft	1 092 570	1 379 031	1 092 570	1 375 623
Net debt	6 517 686	6 632 967	1 822 963	1 884 504
Equity	68 805 249	65 514 134	33 772 603	32 497 894
Net debt to equity ratio	9.47%	10.12%	5.40%	5.80%

(b) Interest rate risk management
The Group is exposed to interest rate risk as it has significant borrowings. All borrowings are at commercial rates based on the bank base lending rate. The Group also charges interest on overdue rentals from government at 4% above base lending rate . Changes to the base lending rate would have a significant impact on the results for the year.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and ensuring that tenants pay rentals in advance, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit worthiness of its tenants is continuously monitored. Excluding Government rentals, receivables are from a large number of tenants, spread across diverse sectors and geographical areas.

Apart from the exposure to Government, the Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk exposure is managed by proactively engaging Government on amounts due from it and agreeing on a settlement plan for the outstanding balance. The credit risk on liquid funds is limited because the counterparties are financial institutions in a highly regulated industry.

The carrying amount of receivables (note 10) and cash and cash equivalents (note 15) recorded in the financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

24. Financial risk management (Continued)

Categorisation of financial instruments (Continued)

(d) Liquidity risk management

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

The following tables detail the Group's and Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities and cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

24. Financial risk management (Continued)

(d) Liquidity risk management *(Continued)*

GROUP

	Carrying amounts	Gross Nominal inflow/outflow	1 -3 months	3 - 12 months	Over 12 months
2021					
	K'000	K'000	K'000	K'000	K'000
Assets					
Cash and bank balances	427 302	427 302	427 302	-	-
Promissory notes receivable	3 068 982	3 068 982	-	3 068 982	-
Trade and other receivables	7 557 233	7 557 233	6 119 580	1 437 653	-
Total	11 053 517	11 053 517	6 546 882	4 506 635	-
Liabilities					
Trade and other payables	1 386 611	1 386 610	1 386 610	-	-
Borrowings	4 038 505	4 038 505	98 143	338 952	3 601 410
Bank overdraft	1 092 570	1 092 570	1 092 570	-	-
Total	6 517 686	6 517 685	2 577 323	338 952	3 601 410

	Carrying amounts	Gross Nominal inflow/outflow	1 -3 months	3 - 12 months	Over 12 months
2020					
Assets	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Cash and bank balances	194 355	194 355	194 355	-	-
Trade and other receivables	11 581 604	11 581 604	10 346 720	1 234 884	-
Total	11 775 959	11 775 959	10 541 075	1 234 884	-
Liabilities					
Trade and other payables	930 992	930 992	-	-	-
Borrowings	4 322 944	4 322 944	62 098	222 340	4 0 38 506
Bank overdraft	1 379 031	1 379 031	-	-	-
Total	6 632 967	6 632 967	62 098	222 340	4 038 506

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

24. Financial risk management (Continued)

(d) Liquidity risk management *(Continued)*

COMPANY

	Carrying amounts	Gross Nominal inflow/outflow	1 -3 months	3 - 12 months	Over 12 months
2021					
Assets	K'000	K'000	K'000	K'000	K'000
Cash and bank balances	65 441	65 441	65 441	-	-
Intercompany receivables	761 378	761 378	761 378	-	-
Promissory notes receivable	760 250	760 250	-	760 250	-
Trade and other receivables	2 390 647	2 390 647	2 390 647	-	-
Total	3 977 716	3 977 717	3 217 467	760 250	-
Liabilities					
Trade and other payables	730 393	730 393	730 393	-	-
Bank overdraft	1 092 570	1 092 570	1 092 570	-	-
Total	1 822 963	1 822 963	1 822 963	-	-

	Carrying amounts	Gross Nominal inflow/outflow	1 -3 months	3 - 12 months	Over 12 months
2020					
Assets					
Cash and bank balances	78 782	78 782	78 782	-	-
Funds at call and on deposit	-	-	-	-	-
Intercompany receivables	549 831	549 831	549 831	-	-
Dividends receivable	557 750	557 750	557 750	-	-
Trade and other receivables	3 062 181	3 062 181	3 062 181	-	-
Total	4 248 544	4 248 544	4 248 544	-	-
Liabilities					
Trade and other payables	508 881	508 881	508 881	-	-
Bank overdraft	1 375 623	1 375 623	1 375 623	-	-
Total	1 884 504	1 884 504	1 884 504	-	-

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

25. Operating lease arrangements

The Group as lessor

Leasing arrangements

Operating leases relate to the investment property owned by the Group with lease terms of between 1 and 10 years, with an option to extend the lease term. All operating lease contracts contain market based rental review clauses in the event that the lessee exercises its option to renew. Additionally, the rentals are renegotiated on an annual basis based on prevailing market conditions. The lessees do not have options to purchase the property at the expiry of the lease period.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounts to K6 613 million (2020: K6 329 million).

26. Fair value measurements

IFRS 13 Fair Value Measurement establishes a single source of guidance for fair value measurement and disclosure and this applies to both financial and non-financial instruments items which either IFRS require or permit fair value measurements except for share based payments that are within the scope of IFRS 2 Share-Based Payment, leasing transactions that are within the scope of IFRS 16 Leases and other measurements that have similarities to fair value but are not fair value such as Net Realisable Value (NRV) for measuring of inventories and value in use for impairment assessment purposes.

This note provides information about how the entity determines fair values of various financial assets and financial liabilities.

26.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

26.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26.3 Fair value of financial assets and financial liabilities that are not measured at fair value on recurring basis (but fair value disclosures are required)

- The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

26. Fair value measurements (Continued)

GROUP

	Fair value hierarchy as at 31 December 2021		
	Level 1 K'000	Level 2 K'000	Total K'000
Financial assets			
Trade and other receivables	-	7 557 233	7 557 233
Promissory notes receivable	-	3 068 982	3 068 982
Cash and bank balances	427 302	-	427 302
Total financial assets	427 302	10 626 215	11 053 517
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	1 386 611	1 386 611
Borrowings	-	4 038 505	4 038 505
Bank overdraft	-	1 092 570	1 092 570
Total financial liabilities	-	6 517 686	6 517 686

	Fair value hierarchy as at 31 December 2020		
	Level 1 K'000	Level 2 K'000	Total K'000
Financial assets			
Trade and other receivables	-	11 581 604	11 581 604
Cash and bank balances	194 355	-	194 355
Total financial assets	194 355	11 581 604	11 775 959
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	930 992	930 992
Borrowings	-	4 322 944	4 322 944
Bank overdraft	-	1 379 031	1 379 031
Total financial liabilities	-	6 632 967	6 632 967

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

26. Fair value measurements (Continued)

COMPANY

	Fair value hierarchy as at 31 December 2021		
	Level 1	**Level 2**	**Total**
	K'000	**K'000**	**K'000**
Financial assets			
Trade and other receivables	-	2 390 647	2 390 647
Amounts due from subsidiaries	-	761 378	761 378
Promissory notes receivable	-	760 250	760 250
Cash and bank balances	65 441	-	65 441
Total financial assets	65 441	3 912 275	3 977 716
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	730 393	730 393
Bank overdraft	-	1 092 570	1 092 570
Total financial liabilities	-	1 822 963	1 822 963

	Fair value hierarchy as at 31 December 2020		
	Level 1	**Level 2**	**Total**
	K'000	**K'000**	**K'000**
Financial assets			
Trade and other receivables	-	3 062 181	3 062 181
Amounts due from subsidiaries	-	549 831	549 831
Dividends receivable	-	557 750	557 750
Cash and bank balances	78 782	-	78 782
Total financial assets	78 782	4 169 762	4 248 544
Financial liabilities			
Financial liabilities held at amortised cost:			
Trade and other payables	-	508 881	508 881
Bank overdraft	-	1 375 623	1 375 623
Total financial liabilities	-	1 884 504	1 884 504

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
For the year ended 31 December 2021

27. Contingent liabilities

The Group is currently contesting various civil cases filed by various plaintiffs. Based on Group's legal representatives, no provisions have been made in respect of these claims.

	Group		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
28. Capital commitments				
Authorised	1 870 152	1 601 600	127 652	388 600

Capital expenditure commitments are financed from internal resources, existing facilities as well as external sources.

29. Economic factors
Economic factors relevant to the Company's performance are set out below.

	2021	**2020**
Year-end exchange rate K/US$	817.30	771.73
Inflation rate	11.5%	7.6%

Subsequent to the year-end as at 31 March 2022 the rates had moved as follows;

Exchange rate (K/US$)	817.31
Inflation rate (February 2022)	13.00%

30. Holding Company

The intermediate holding companies are Old Mutual Life Assurance Company (Malawi) Limited and Old Mutual Malawi. The ultimate holding Company is Old Mutual Limited, which is incorporated in South Africa and has primary listing on the Johannesburg Stock Exchange

31. Events after the reporting period

There were no significant events after the reporting period.

32. Comparative figures
Certain prior year figures were regrouped and reclassified where necessary to conform to the current year presentation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2021

33. COVID-19 Consideration

It is almost two years since the outbreak of Corona Virus Disease (COVID-19) was declared a pandemic by the World Health Organisation (WHO) on 20 March 2020. Malawi registered its first coronavirus confirmed case on 2 April 2020. The Government of Malawi has been implementing various measures in line with Ministry of Health guidelines at various periods of the year. These include restrictions in both international and local travel, conduct of doing business, cancellation of public events, decongesting of workplaces and public transport.

In view of the pandemic, the following were the key factors for consideration in MPICO plc and its subsidiaries:

I. Impact of COVID-19 on rental income

The COVID-19 pandemic restrictions had a minor impact on the Group in the current year hence no rent concessions were given to the tenants. This contrasts with prior year whereby COVID-19 had a significant impact in one of the subsidiary companies (MPICO Malls Limited) as, among others, travel and hospitality industries were hit hard resulting in rent concessions being given.

II. Impact of COVID-19 on credit risk

MPICO Group had previously projected that Expected Credit Loss (ECL) would increase during the year due to the impact of COVID-19 pandemic on the economy. However, due to having primarily low risk assets, the Group was not significantly affected by the credit risk increase.

III. Impact of COVID-19 on property values

Changes in the macro-economic factors due to the advent of COVID-19 had been expected to affect the stability of the real estate market in form of reduced occupancy rates, which in turn would have had an impact on the property market values. The 2021 valuation, therefore, was performed with a material uncertainty regarding the future impact that COVID-19 may have on the real estate market. The 2021 property valuations therefore remained relatively subdued just like in the previous year.

Annual Report
2021

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