



SUNBIRD

Hotels and Resorts

SUNBIRD TOURISM PLC



Annual Report 2018

Group Profile

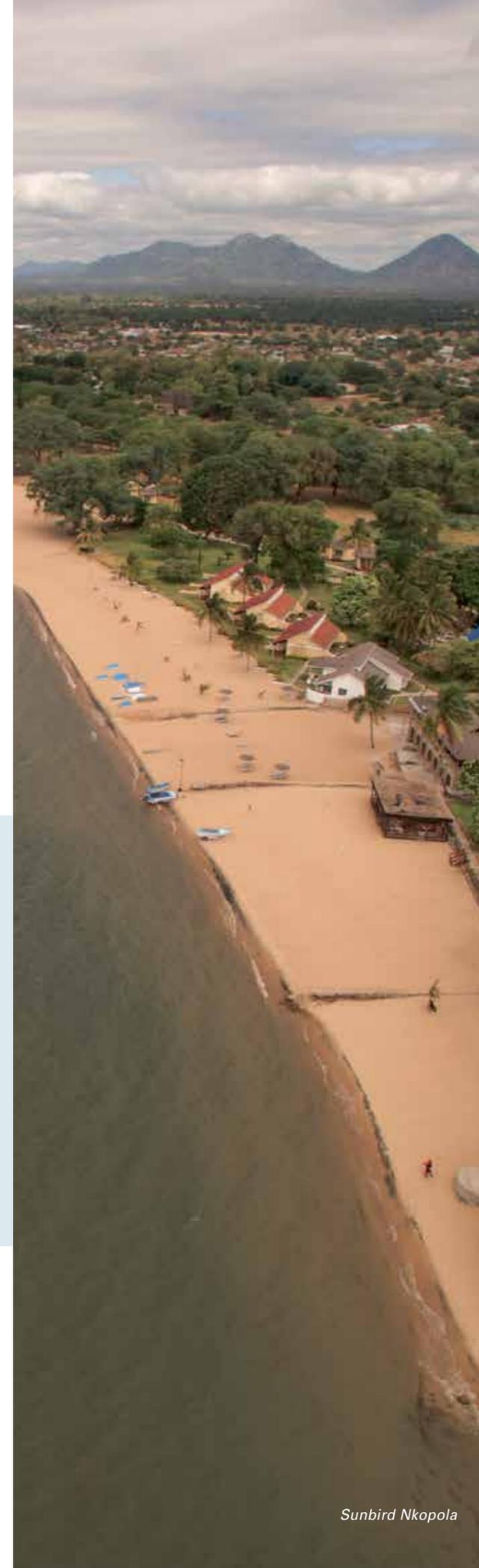
Sunbird Tourism plc (Sunbird) is a publicly quoted enterprise, listed on the Malawi Stock Exchange in August 2002. As of December 2018, the Government of Malawi is the largest shareholder at 71%. Members of the public own 14%. Mr Noel Hayes who used to own 15% disposed of the same to Press Corporation plc during the year 2018.

Sunbird was incorporated in 1988 as a private company following the amalgamation and consolidation of hotels previously owned by the Government of Malawi under different investment vehicles. Previously, and until 2000, the Company was known as the Tourism Development and Investment Company of Malawi when the name was strategically changed to Sunbird Tourism Limited. Following the requirements of the new Companies Act of 2013, the name was amended to Sunbird Tourism plc.

Sunbird is a leading operator in the hospitality industry in Malawi and has, as its main activity, the operation of nine hotel properties in Malawi. The properties include four city hotels: Sunbird Capital, Sunbird Mount Soche, Sunbird Lilongwe, and Sunbird Mzuzu; and two popular beach resorts along Lake Malawi: Sunbird Nkopola and Sunbird Livingstonia; two nature resorts: Sunbird Ku Chawe an iconic mountain resort and Sunbird Thawale, a bush resort in a popular “Big Five” wild life reserve. In 2018, Sunbird signed a Management Contract for Kara O’Mula Country Lodge located at the foot of the unique Mulanje Mountain.

Catering Solutions Limited, a 100% owned subsidiary, is involved in the provision of airline and institutional catering services.

Sunbird employs a motivated and highly skilled team of over 1,000.



Sunbird Nkopola

Our Vision

The preferred brand in the hospitality industry.

Mission Statement

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

Statement of Strategic Intent

Sunbird will satisfy stakeholders' interests by providing superior and innovative customer service, modern and up-market accommodation in a sustainable and socially responsible manner.

Chairman's Statement

THE GLOBAL ECONOMY

The global expansion has weakened. Global growth for 2018 is estimated at 3.7 percent, as in the October 2018 World Economic Outlook (WEO) forecast, despite weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020. Growth is being driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is also supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve.



THE MALAWI ECONOMY

Fiscal policy will focus on preserving debt sustainability while spurring inclusive economic growth. The Malawi Growth & Development Strategy (MGDS) III, whose overarching theme is "Building a Productive, Competitive and Resilient Nation", is the fourth and the final medium-term national development strategy which is formulated to contribute to the attainment of the country's long-term development goals enshrined in Vision 2020. The strategy will be implemented from 2017 to 2022, replacing MGDS II which was phased out in June 2016. This successor strategy has departed from the formulation of multiple thematic areas by going straight into the choice of five key priority areas that include the Tourism industry. Plans are underway for a successor long term strategy to Vision 2020.

Gross Domestic Product

Economic growth for 2018 is estimated at 2.1% by the Economist Intelligence Unit (EIU), compared to 4% for 2017.

Inflation

Malawi has sustained single digit inflation the past two years. Inflation rates for 2018 averaged 9.20%, a drop from 11.50% in 2017. The reduction has been driven by a slowdown in mainly non-food inflation which decreased to an average of 8.95% as compared to 12.87% observed

in 2017. On the other hand, food inflation decreased to an average of 9.76% in 2018 from 10.28% in 2017.

Exchange Rates

The Malawi Kwacha has remained relatively stable against other currencies over the past few years. In 2018, the Malawi Kwacha appreciated against the British Pound, the Euro and the South African Rand but depreciated marginally against the Dollar. The stability of the Kwacha is due to adequate foreign exchange reserves, which registered as high as five months import cover, and tight liquidity conditions present. In 2018 the Malawi Kwacha averaged MK727=\$1 compared to MK726=\$1 in 2017.

Interest Rates

The Monetary Policy Committee (MPC) met three times in 2018. The Liquidity Reserve Requirement (LRR) was maintained at 7.5% throughout the year, and the monetary policy rate was maintained at 16% per annum. The average lending rates for the commercial banks for 2018 were between the range of 24% and 28% per annum (2017: between 26% and 34% per annum).

Sunbird Share Price

Sunbird Tourism Plc share price increased from MK96.00 in 2017 to MK145.00 in 2018 representing an increase of 51%.

Tourism Industry

Worldwide, tourism has boasted virtually uninterrupted growth over time, despite occasional shocks, demonstrating the sector's strength and resilience. International tourist arrivals grew by a remarkable 7% in 2017, to reach a total of 1,322 million, according to the latest NWT World Tourism Barometer. This strong momentum was expected to continue in 2018, at a rate of 4.5% - 5%. This is well above the sustained and consistent trend of 4% or higher growth since 2010 and represents the strongest results in seven years.

On the other hand, there has not been a significant increase in the numbers of tourists coming to Malawi in recent years. Despite the fact that the Malawi's tourism industry has the potential to contribute more to foreign exchange earnings, it has not been exploited to its fullest. In the medium-term the aspiration by Government is to make Malawi a principal and leading eco-tourism destination in Africa. In this regard, Government is working closely with the private sector to diversify strategic tourism products, identify niche opportunities, and make Malawi's tourist destinations a good value proposition against competitors in the region. The domestic market continues to dominate the geographical source of business.

Market Share and Competition

Sunbird Tourism still enjoys market leadership in the hospitality industry. To consolidate this market position Management's focus remains improved service delivery, product improvements (refurbishment) and intensified sales and marketing activities to key accounts.

Financial Performance Revenues

In 2018, Group revenues totalled MK18.936 billion, which was slightly above 2017 revenues of MK18.932 billion. During the year, the hospitality industry witnessed reduced corporate travel as well as conference business in both domestic as well as foreign source markets.

The Corporate market segment, at 61% of total room nights, continues to be the anchor segment for the business, followed by the Commercial market segment at 19%. There is continued focus on these key segments while initiatives to grow the other segments, such as leisure, continue with a view to optimise the potential of

the different properties of the Group.

A number of segment-based strategies is in place aimed at diversifying the Group's sources of revenues. These efforts include the attraction of business from both domestic and international source markets but also the introduction of new leisure activities at our resorts. Recently, the Group has also intensified its efforts to diversify the business through management of other properties in the hospitality industry but also exploring other new opportunities such as eco- lodges under concession agreements.

Operating Costs

Administration and other expenses increased by 4%, from MK10.7 billion in 2017 to MK11.1 billion in 2018. The increase was well below inflation and is attributed to management's continued effort of aligning expenditure to business volumes, in addition to improvements and reviews of the procurement processes of the Group.

Sunbird Ku Chawe



Sunbird Ku Chawe

Finance Costs

Total finance costs amounted to MK398 million, compared to MK592 million in 2017. The decrease was as a result of repayment of borrowings and the reduction of interest rates during the year.

Profit After Tax

Despite the challenges faced by the entire hospitality industry during the year, the Group achieved decent results. Profit after tax increased from MK2.433 billion in 2017 to MK2.562 billion in 2018.

This performance is mainly attributed to prudent cost management, business process re-engineering and also the improving economic environment.

Dividend

The Board resolved to pay MK131 million (or 50 tambala per share) as a final dividend for 2018 to bring the total dividend paid for 2018 to MK262 million, or MK1 per share. In 2017, the company declared a total dividend of MK200 million or 76 tambala per share.

Strategy and Outlook

The Board expects stable exchange rates in 2019, with inflation expected to trend downwards. Interest rates are projected to progressively follow a similar trend in the medium term.

The authorities are expected to entrench macro-economic stability and focus on sustaining the positive economic

gains achieved over the past few years. This, combined with the continued tight monetary policy framework, will contain inflation and reduce fiscal dominance.

During 2019, the country will go for Tripartite General Elections. There is usually a level of uncertainty during the elections year due to possible policy changes and how the macro-economic factors and environment play out, which results in a wait-and-see attitude. This may potentially depress economic activity and hence travel may also reduce and adversely impact the tourism sector in the first half of 2019. Notwithstanding, the Board is confident that the performance trajectory of the Group will be maintained in the year 2019.

The Group will continue its efforts to improve service delivery, enhance guest experience, product improvements (refurbishments) and will also intensify sales and marketing activities.

During the year, the Group added Sunbird Kara O'Mula as a second property under a management contract. This addition is part of the Group's strategy to increase the number of properties under the management of the Sunbird brand. During 2019, the Group expects to complete most of the projects which commenced in 2018.

Sunbird will continue to offer unrivalled guest experience through delivery of high-quality products and services in order to retain and grow its client base both in the domestic as well as the international market sectors.

Sunbird Kara O'Mula is set on the well wooded lower slopes of the Mulanje massif within the protected Mulanje Mountain Forest Reserve.





Sunbird Livingstonia Beach on Lake Malawi is the closest top class beach front accommodation to Malawi's capital Lilongwe

Corporate Governance

At Sunbird we believe that the highest standards of Corporate Governance are critical to the success of our business. Good governance is the foundation for the delivery of our strategy to become the preferred brand in the hospitality industry. Sunbird fully complies with the Companies Act of 2013 as well as various regulations made thereunder. We provide adequate explanation to allow shareholders and investors to appreciate the level of compliance. Sunbird continues to assess its governance structures and practices with a view to ensuring that there is full compliance.

The Board is composed of nine non-executive directors. Seven are appointed by the majority shareholder, the

Government of Malawi. Directors, in recognition of their responsibilities to the Company, exercise their fiduciary duties independently and in the best interest of the Company without any interference.

During the year, Mr. Noel Hayes retired and was replaced by Dr George Partridge. Mr Reagans Nkhoma resigned from the Board on 31st December, 2018.

The Board retains effective control through the governance structure that also provides a framework for delegation. Board committees facilitate the discharge of Board responsibilities and provide adequate comprehensive focus on specific areas.

Board of Directors

In 2018 the following Committees were in place and their membership is reflected below:

FINANCE & AUDIT COMMITTEE

Mr Anderson Kulugomba - Chairman
Mr Reagans Nkhoma - Member
Mr Charlie Msusa - Member
Mr Gladson Kuyeri - Member
Mr Ben Botolo - Member

HUMAN CAPITAL & DEVELOPMENT COMMITTEE

Mr McTimesMalowa - Chairman
Dr George Partridge - Member
Dr Ken Ndala - Member

PROJECTS COMMITTEE

Mr Charlie Msusa - Chairman
Mr Anderson Kulugomba - Member
Mr Gladson Kuyeri - Member
Mr Yusuf Olela - Member
Mr Patrick Lisilira - Member

Sunbird Nkopola Lodge on the southern lakehore has expanded hugely since opening in 1968/9. Its conference and event facilities are a unique part of its multiple business/leisure attractions



Board of Directors



Mr. Phillip Madinga (Chairman) is currently the Chief Commercial Officer – Business at NBS Bank Plc. A banker by profession and an economist by training, he holds a Bachelor of Social Science degree from the University of Malawi and a Bachelor of Business Management and Administration (Hons) degree and an MBA, both from the University of Stellenbosch Graduate School of Business, South Africa. Mr. Madinga has extensive experience in banking, having worked for First Merchant Bank, FDH Bank, Standard Bank, Indebank, Nedbank and Ecobank. He is also a member of the National Planning Commission. Mr. Madinga has been Chairman of the Board since 2015.

Mr Anderson Kulugomba is a Fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant. He holds a Master of Business Administration degree from the University of Derby in the U.K. He has held various senior positions at Nedbank (where he served as Managing Director), National Bank, ADMARC and Cold Storage. Mr Kulugomba has also held various Board and leadership positions. He has been on the Board since 2013.



Mr McTimes Malowa is an ICT Specialist. He graduated from the University of Malawi with a Bachelor of Science Degree in Computer Science and Mathematics. He is currently the Managing Director of Binary Systems Limited. He has previously held senior positions at Blantyre Water Board and Afcor ICT Solutions. He has served on several Boards including Malawi Switch Centre Limited and Malawi Communications Regulatory Authority. He has been on the Board since 2017.

Mr Gladson Kuyeri is a Fellow and Chartered Marketer with a background in electronic Payment Systems, Telecoms and Retail Management. He holds a Master of Communications Management from the University of Strathclyde, UK and a Bachelor of Business Administration from the University of Malawi. He is the current Chief Commercial Officer at Malawi Telecommunications Limited. He has held various senior positions in Business Development with Malawi Switch Centre Limited and Telekom Networks Malawi Limited. He has been on the Board since 2017.



Mr. Charlie Msusa is currently the Director, Projects Development and Transactions at Public Private Partnerships Commission. He holds a B.Sc. (Engineering) degree from the University of Malawi, an MBA from the University of Wales – UK, a Diploma in Environmental Management from Galilee College – Israel and he is a Certified Public – Private Partnership Specialist and Regulation Specialist, both under Loughborough University. Mr Msusa has previously held various senior positions at Lilongwe Water Board. He has been on the Board since 2017.

Dr Ken Ndala is currently the Principal Secretary for Industry, Trade and Tourism. He also served as Principal Secretary for Education, Science and Technology and Director for Education Planning in the same ministry. Over the past 10 years, his area of specialisation has been Educational Policy, Planning and Leadership. Ken Ndala holds a Ph.D from the University of Witwatersrand, RSA, a Master in Educational Planning and Leadership from the University of Massachusetts, USA and an International Diploma in Educational Management and Planning from the International Institute of Education, Planning in France. Ken Ndala has also served as Lecturer in Educational Planning at the University of Malawi, Chancellor College. His first degree was a Bachelor of Education majoring in Mathematics, Statistics and Physics. Dr Ndala has been on the Board since 1 January 2018.



Sunbird Capital Hotel is very conveniently sited for visitors to the capital's adjacent business and Government centres



Mr Reagans Nkhoma is an entrepreneur and Chartered Accountant. Mr Nkhoma has experience in financial reviews, enterprise risk management, organisational development and personal financial intelligence counselling. He has been on the Board since 2013.

Mr Ben Botolo is the Secretary to the Treasury effective 16 February 2017. Previously, he served as the Principal Secretary in various Ministries, the last appointment as Commissioner for Disaster Management. Areas of expertise include Macro-economic, Fiscal and Monetary policy analyses, Poverty and Social impact and Government Budget analyses. He was trained in Mathematics and Statistics at the University of Malawi and completed postgraduate training in economics at the University of East Anglia in the United Kingdom. He is a member of the National Planning Commission. Mr Botolo has been on the Board since 2017.



Dr. George Partridge joined the Board in June 2018 following Press Corporation plc's acquisition of a 15% shareholding in Sunbird, previously owned by Mr Noel Hayes. He is the current Group Chief Executive Officer for Press Corporation plc. He has previously held the position of Chief Executive Officer for National Bank of Malawi plc prior to which he served in various capacities at the Reserve Bank of Malawi. Dr. Partridge was instrumental in the formation of the Institute of Bankers of Malawi, where he served as its first President. In his own right, Dr. Partridge has over the years served on a number of private and public sector boards and national economic advisory committees. Currently, he is Chairman of Malawi Airlines. In recognition of his achievements and service to society, he was awarded in 2015 an honorary Doctorate of Philosophy (Ph.D) degree in Leadership and Management by the University of Malawi.

Mr Allan Hans Muhome is a Legal Practitioner of over 10 years' corporate experience. He holds an LLB (Hons) and an MBA both from the University of Malawi. He has interest in commercial law and has authored three books on commercial aspects of the law in Malawi. He has served as secretary to the Board since 2017.



Sunbird Mzuzu is located right beside the golf course in Mzuzu, the fast-growing commercial heart of Malawi's beautiful Northern region



Management

| | |
|------------------|---|
| Yusuf Olela | Chief Executive Officer |
| Patrick Lisilira | Chief Finance Officer |
| Allan Muhome | Company Secretary |
| Oswald Bwemba | Chief Operations and Quality Assurance Officer |
| Samson Mwale | Chief Internal Audit and Risk Officer |
| Edward Chunga | Chief Human Capital and Development Officer |
| Barnet Gausi | Group Finance Manager |
| Temwa Kanjadza | Group Sales and Marketing Manager |

Sunbird Thawale is wonderfully positioned in Majete National Park which has achieved enviable 'Big Five' status following ambitious management by African Parks



Investor Relations

Sunbird has gone further than normal channels of communication with shareholders through the Annual General Meeting, press releases and regulatory filings. Our shareholders are able to communicate and meet with us on pertinent issues as they arise. A number of non-controlling shareholders have been our guests at some of the hotels. This has helped to improve communication and create better understanding of the business and its challenges, as well as the strategies implemented to counter those challenges.

Strategy and Outlook

Sunbird continues to be strategically positioned to lead change in the hospitality space in Malawi. The Board's attention remains improved service delivery and guest experience, product improvements in both refurbishment and construction of additional units. This is coupled by intensified sales and marketing activities to key accounts.

There are a number of key product improvement plans that are currently underway. The Group introduced fully refurbished rooms at Sunbird Livingstonia Beach. A similar exercise is underway for Sunbird Nkopola Lodge.

In addition, a new state-of-the-art conference hall is under construction at Sunbird Mount Soche and construction of a new 4 star, 42 bedroom beach resort has started at Sunbird Livingstonia Beach. Negotiations for the construction of eco-lodges under concession agreements are at advanced stages.

Sunbird will continue to offer unrivalled guest experience through delivery of high quality products and services in order to retain and grow the client base in the domestic as well as the international market sectors.

Looking ahead, we expect our economy to remain relatively stable and there is optimism that over the next three to five years tourism in Malawi may increase noticeably.

The Directors are confident of growth for the year 2019.



Chief Executive Officer's Report

On behalf of management and on my own behalf, I would like to take this opportunity to thank our customers for their continued support and loyalty. I would also like to thank the Board of Directors, through whose leadership we remain the leading hotel chain in the country, and to my management colleagues for the exemplary teamwork and support. We have all enabled Sunbird Tourism plc to achieve steady, year-on-year growth despite a very challenging business environment and reducing demand for hospitality services during the past year. Notwithstanding, the accommodation sector continues to grow making hospitality the most competitive industry in Malawi with an increase in tourism investment that has seen the establishment of new hotels and restaurants.



Despite the prevailing challenges, the Group realised some modest growth in both revenues and profit after tax. The Group also maintained the largest market share buoyed by a continued focus on our key pillars of offering unrivalled guest experience by continuously improving our products and services, enhanced customer relationship, aggressive marketing approach, people development, continuous business process re-engineering and product and services development with the intention of maintaining our position as the preferred brand in Malawi.

Group Performance

Revenue and Profitability

The Group remained resilient, registering revenues of MK18.936 billion, compared to MK18.932 billion for 2017. The lower growth in revenues for both the parent and subsidiary - Catering Solutions Ltd, was as a result of reduced level of activities during the year. Visitors arrivals in the country declined by 3.5% whilst revenues for the subsidiary; reduced following South African Airways discontinuation of catering uplift from Chileka Airport.

Occupancy dropped by 3%, from 59.7% in 2017 to 56.7% in 2018, due to increased competition, reduced level of activities in the market place and reduction in our inventory, due to the on-going refurbishment of Sunbird Livingstonia and Sunbird Nkopola.

During the year, we maintained our focus on the key strategic initiatives, thus providing excellent customer service, expansion of our core revenue base, yield management and improved market presence through aggressive sales and marketing activities and relationship management. The Corporate and Commercial segments remain the dominant segments while the domestic source market was the key driver and contributor to the Group's revenues.

Looking ahead we have invested in product improvement and system re-engineering and integration, from which we expect to support growth of our top line while improving continued focus on cost efficiencies as a sustainable and strategic approach to increasing our profitability and enhancing our stakeholder's value. We also intend to reposition our resorts through property upgrade and diversification of our products to attract both domestic and international travellers. This will be done partly through the introduction of new water sports and other activities at our lake resorts to tap into the growing leisure segment. On the international front, we have increased our destination marketing efforts by appointing a Global Sales Agent. They represent us in UK and Ireland. We also expect the appointment of a Tourism Attaché and Destination Representatives by the Ministry of Trade, Industry and Tourism, to complement our efforts in destination marketing.



Sunbird Mount Soche sits at the head of Blantyre CBD's Victoria Avenue, itself heart of Malawi's commercial development since David Livingstone times

At regional level, we have established partnerships with Sheba Miles and Lounge partners to grow our corporate business. The addition of Kara O'Mula to our portfolio, through a Management Services agreement, will enhance our hotel product mix and extend our footprint in all major destinations in Malawi.

To sustain the growth and maintain market leadership we continue to implement our Five-Year Strategic Plan focusing on expansion, business process re-engineering, human capital development, guest experience and product improvement plans as we tap into the growing demand for both domestic and international tourism. The Group is well positioned to take advantage of Malawi's aspiration to becoming the leading destination in Africa to be visited this year as per Forbes Publication (2018).

Performance of the Subsidiary-Catering Solutions Limited

Catering Solutions Limited, a 100% subsidiary of Sunbird Tourism plc, had a difficult year with revenue dropping by 7% to MK1.8 billion from MK1.9 million in 2017. The decrease was mainly as a result of reduced activities by some of its key customers and the pulling-out from an uplift services contract by South African Airways.

Subsidiary Profit after tax

The subsidiary's profit after tax decreased by 28%, from MK297 million in 2017 to MK213 million in 2018.

Projects and New Ventures

During the year, our expansion and refurbishment programme continued in earnest. Our objective is to improve the product and quality of our facilities to customer expectation. In order to consolidate Sunbird's market leadership position on the market, we are investing in redevelopment projects, both to reposition the existing infrastructure while also exploiting opportunities for partnerships and strategic alliances in our expansion drive both within the country as well as in the region. With the right funding structure, Sunbird's strategy is also to embark on expansion of our resort properties and conferencing facilities to address the growth in meetings, incentives, conferences and exhibitions as well as the leisure segment. Eco-tourism remains one of the under-exploited segments in the country and we plan to embark on the development of eco-facilities that will put Malawi on the tourism global map and increase the number of international visitors to Malawi.

Completed projects and new products

Sunbird Lilongwe refurbishment was completed in 2018. Refurbishment of 35 rooms and construction of additional nine rooms at Sunbird Livingstonia Beach was completed in 2019 making the resort the most upscale luxury resort along the shores of Lake Malawi.

We are currently renovating all guest rooms in Nkopola and expanding the conference facilities through construction of ultra-modern state-of-the-art conference centre at Sunbird Mount Soche. We expect completion of this project in 2019.

We have enhanced our guest experience by construction of a swimming pool in Sunbird Mzuzu, upgrade of conference rooms and boardrooms in Sunbird Capital, Sunbird Lilongwe, Sunbird Nkopola and Sunbird Mount Soche. Due to demand for larger conference facilities we have installed marques in Ku Chawe, Capital and Livingstonia to cater for this demand and to expand our revenue base. We are also very excited that the complete

refurbishment of Sunbird Nkopola progresses well and we have just broken ground for a new resort adjacent to Sunbird Livingstonia Beach expected to open in late 2020.

The following projects were also undertaken, with some ongoing:

- Upgrade of Sportsman's Bar at Sunbird Mount Soche
- Upgrade of Mimosa Restaurant at Sunbird Capital
- Introduction of an upscale bar, Lounge 265, at Sunbird Lilongwe
- Construction of a heated swimming pool and Gym is ongoing at Sunbird Ku Chawe
- Catering Solutions Limited, a subsidiary of Sunbird Tourism PLC, have opened Cabins restaurant in Blantyre and Cabins Express in Lilongwe
- Catering Solutions is due to open a duty-free shop and restaurant in the new departure lounge at Chileka International Airport.

Projects in the Pipeline

In the medium- to long-term, we are at concept stage for the expansion of Sunbird Nkopola to build an additional 100 rooms and construction of a mixed-use facility at Sunbird Capital on available land. These investments will have a major impact for the Group and for the industry in general.

Management Contracts

- Sunbird Thawale Lodge and Kara O'Mula

As part of our growth strategy, we have developed Hotel Management model for third party investors. In January 2017 Sunbird and African Parks (Majete) Limited entered into a management contract for Thawale Lodge.

In 2018, we signed both a technical service agreement and a management agreement with the owners of Kara O'Mula Lodge. The management contract began in March 2019.

We are currently finalising the concession agreement with African Parks (Majete) Limited that will witness a major investment of Sunbird Hotels & Resorts in a 15- luxury tented camp in the Safari market by the end of 2019.

SALES & MARKETING

Sunbird has remained resilient and maintains its solid position as a market leader in the hospitality Industry.

Sunbird's current property mix is split amongst four city hotels and five leisure resorts, ensuring a desired and solid business mix for growth, and further enhancing the customer experience within Sunbird properties.

Brand Visibility

Sunbird's marketing efforts are channelled toward ensuring revenue and market share growth for the Group. Efforts towards more strategic and impactful reach for marketing were utilised aiming for a more profitable business mix. Sunbird continued to position the brand with a presence on all major OTA and GDS platforms, and further embarked on investment in an improved and highly optimised website. Above-the-line and below-the-line channels were employed with the aim of an increased targeted reach and awareness toward a focus for unlocking new markets and market development as new products are developed and diversified.

Corporate Social Responsibility

Corporate Social Responsibility remains an important commitment for Sunbird. We believe in giving back to the communities in which we do business. Sunbird invested MK20 million in 2018 towards Corporate Social responsibility initiatives, such as a weekly food supply to the Queen Elizabeth Hospital Cancer ward, a clean water supply to the communities surrounding Sunbird Livingstonia and Sunbird Nkopola, weekly provision of food rations to Chisomo Children's club, and construction of a library at Masasa primary school which will be handed over in early 2019.

Market Share and Competition

Sunbird brand remained resilient in a highly competitive market, and strived to maintain its market leadership, by leveraging its diverse product with an enhanced customer experience in order to increase repeat business. An aggressive sales approach for key, dormant, new and existing accounts was pursued together with marketing activities for increased brand awareness and brand reach. In an effort to retain and grow our market dominance, sales and marketing activities were enhanced, revolving around the four growth pillars of market penetration, product development, market development and product diversification.

Customer Relationship Management

Sunbird remains a customer focused brand, our focus being to create unrivalled customer experiences, translating into value-for-money. Our Customer relationship management strategy focuses on constant engagement with customers and prospective customers through feedback, and creating brand loyalty through our rewarding programmes. Sunbird continues to leverage its loyalty programme; Sunbird Premier, in an effort to retain customers and induce repeat business.

Guest Feedback

A rise in customer satisfaction rate for the Group from 87.8% in 2017 to 88.4% in 2018 is an indication that initiatives to improve guest experience were well received by guests.

The initiatives included the following:

- Introduction of new products and enhancement of the existing products
- Improved and standardised guest amenities in all hotels
- Menu re-engineering and review of our food and beverage offerings
- New conference packages
- Continuous training and exposure of staff to achieve service excellence.

Enhancement of guest experience through service and product improvement remains our priority area in 2019 and beyond.

OPERATIONS

Sunbird continued offering customer responsive service despite challenges in the operating environment. Intermittent power supply was one key challenge during the trading period.

Improvement of Guest Experience

The Group focused on improvement of customer experience for guests. The initiatives included the following:

Sunbird Ku Chawe is magnificently positioned on the very lip of Zomba plateau with the man-made lake at the rear and overlooking the wide Phalombe Plain which stretches to distant Mulaje Mountain over 70km away



- introduction of new products and enhancement of the existing products;
- improved and standardised guest amenities in all hotels;
- menu re-engineering and review of our food and beverage offerings;
- new conference packages
- continuous training and exposure of staff to achieve service excellence.

Enhancement of guest experience through service and product improvement remains our priority area in 2019 and beyond.

Quality Assurance

Healthy and Safety remains a key priority in operations. Sunbird engaged a hazard analysis and critical control procedures (HACCP) certified trainer from SGS - South Africa to train senior food and beverage management. This was an important step in setting up a HACCP environment which is necessary for a healthy and safe environment in food production and service. All hotels were trained and implementation is ongoing.

Continued property inspection properties was one way of ensuring that units adhere to Sunbird brand standards.

TECHNOLOGY

The use of information technology (IT) in the hospitality industry keeps on growing and improving over the years. Sunbird realises that technology enhances the overall experience and quality of service we provide to our guests. It also allows us to execute transactions more quickly and seamlessly and to communicate faster and more efficiently with our guests. This also enables us to provide better market analytics, data and other information. IT has changed the procedures and structure for functions such as marketing, booking and reservations,

food and beverage management, and accounting systems in the industry. Sunbird would like to be at the forefront in implementing technologically aided solutions for the most important tasks to enhance the guest experience.

In 2018, we embarked on several systems integration and processes automation projects. During the year, we installed a new Central reservations system to improve management of online rates, occupancy information and accuracy in consolidation of group production data.

A Sales and Catering module was installed to improve handling of Food & Beverages (F&B) processes right from

reservations, tracking and billing. The data from the F&B is now fully integrated with the hotel system improving processing efficiency and accuracy by eliminating double entry of the same information in two systems.

We upgraded the WiFi setup in the City hotels and introduced guest credentials authentication to eliminate the manual voucher generation and improve on bandwidth management by the resident guests.

In 2019, several technological projects have been lined up within the Sunbird Group including: -

- Further automation and integration initiatives in the HR Systems. An HR Performance module will be installed to automate the performance management process.
- A modern Audiovisual setup will be installed in the newly built Sunbird Mount Soche conference hall to give an outstanding experience to delegates and presenters at the conferences and meetings.
- The Sunbird website will be redeveloped to improve online presence and appeal to capture more guests. The new setup will also introduce an online payment gateway to improve in collection of revenues and guest comfort of confirmed bookings.

The above initiatives are aimed at enhancing operations in the Group by achieving maximum possible integration and automation of system processes resulting in satisfying guest experience.

OUR PEOPLE

In the year under review, the company continued to invest in and enhance the value proposition of its human capital. The company's success relies heavily on its people to provide outstanding service to the satisfaction of our guests. In this connection, a number of training programmes were carried out in the year including, attendance of Professional Development programmes at Cornell School of Hotel Administration in USA, guest experience goals, functional standard operating procedures and health and safety. The company is also sponsoring two members of staff at Mzuzu University in pursuit of a Bachelor's Degree in Hospitality Management.

A six months' freelance on-the-job training was implemented in the year which targeted Malawian youths with only MSCE, whose objectives were threefold – to introduce them to a career in hospitality, to create a pool of trained personnel from which the company can draw potential employees when required and as a corporate social investment. 46 Trainees successfully graduated across the Group.

The company intends to introduce module-based programmes at the Learning and Development Centre in the coming year.

Institutionalisation of the balanced score card took a centre stage in the year to ensure that the performance management system is robust and well aligned. Going forward into 2019, the performance management system will be fully integrated and automated.

As the company realises and prioritises the welfare of its staff, a comprehensive Wellness Programme was launched in the year to encourage and assist staff to live healthy and productive lives in all spheres of their total well-being.

An employee satisfaction survey was commissioned in the year to gauge how staff are satisfied or dissatisfied with various issues and programmes associated with their employment in the company. The results of the survey inform the company which areas need to be sustained and which require improvement.

In addition to the Integrity Charter which was rolled out in 2017, the company has also subscribed to the Tip Off-Anonymous platform, ensuring that we are conducting our business in a most transparent and ethical manner.

Our relationship with the Union has always been cordial as we realise the critical role they play in ensuring a peaceful and productive workplace. As such, regular meetings to discuss business performance and welfare issues were held during the year.

In the year, our star performers from all the Units were also treated to a fully- paid trip to Harare Zimbabwe.



SUNBIRD TOURISM PLC

Consolidated & Separate Financial Statements

For the Year Ended 31 December 2018

Directors' Report

For the Year Ended 31 December 2018

The directors have pleasure in presenting their report together with the audited financial statements which comprise the consolidated and separate financial statements for the year ended 31 December 2018.

NATURE OF BUSINESS

Sunbird Tourism plc (the "Company") is a leading operator in the hospitality industry in Malawi and has as its main activity, the ownership, operation and management of seven hotel properties in Malawi. Catering Solutions Limited, a 100% owned subsidiary, is involved in the provision of catering services. From 2017, the Company started managing third party hotels with the inclusion of Sunbird Thawale as a Sunbird Operated hotel under Management Contract.

The Group comprises of the Company and its subsidiary and its primary business is in hospitality.

INCORPORATION AND REGISTERED OFFICE

Sunbird Tourism plc is a company incorporated in Malawi under the Companies Act, 2013 of Malawi, and is domiciled in Malawi. The company was listed on the Malawi Stock Exchange on 22 August 2002. The address of its registered office is:

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

CAPITAL

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

The shareholders and their respective percentage shareholdings as at 31 December are:

| | 2018 % | 2017 % |
|-----------------------|-----------|-----------|
| MDC Limited | 71.00 | 71.00 |
| Members of the public | 14.00 | 14.00 |
| Noel Hayes | - | 15.00 |
| Press Corporation Plc | 15.00 | - |
| | 100.00 | 100.00 |

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

The share price at the end of the reporting period was **MK145.00** (2017: MK96.00) per share.

FINANCIAL PERFORMANCE

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

DIVIDEND

During the year, a final dividend of **MK164 million** representing **62 tambala** per share was paid in respect of the year ended 31 December 2017 and an interim dividend of **MK131 million** representing **50 tambala** per share was paid relating to the results for the year ended 31 December 2018.

CORPORATE GOVERNANCE

Sunbird Tourism plc has an over arching governance structure incorporating principles of good governance, to facilitate effective and dynamic management and oversight of the Group and Company as advocated in the code of best practice and conduct contained in Malawi Code II, Code of Best Practice to Corporate Governance in Malawi.

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

RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board established the Finance and Audit Committee, which is responsible for developing and monitoring the Group's financial risk management policies as set out in Note 4 to the consolidated and separate financial statements. This committee reports regularly to the Board of Directors on its activities.

DIRECTORATE

The following directors and secretary served in the office during the year:

| | |
|------------------------|-----------------------------|
| Mr. Phillip Madinga | - Chairman |
| Mr. Reagans Nkhoma | - Director |
| Mr. Anderson Kulugomba | - Director |
| Mr. Charlie Msusa | - Director |
| Mr. McTimes Malowa | - Director |
| Mr. Gladson Kuyeri | - Director |
| Mr. Ben Botolo | - Director |
| Dr. Ken Ndala | - Director |
| Dr. George Partridge | - Director (from May 2018) |
| Mr. Noel Hayes | - Director (up to May 2018) |
| Mr. Allan Muhome | - Company Secretary |

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

All directors are subject to retirement by rotation and re-election by the shareholders at least once every three years. Directors Charlie Msusa, McTimes Malowa and Gladson Kuyeri are due for retirement by rotation at the 2019 Annual General Meeting.

BOARD AND COMMITTEES ATTENDANCE RECORD

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

BOARD

| MEMBER | March 2018 | June 2018 | September 2018 | December 2018 |
|--------------------------------|------------|-----------|----------------|---------------|
| Mr. Phillip Madinga (Chairman) | ✓ | ✓ | ✓ | ✓ |
| Mr. Noel Hayes | ✓ | N | N | N |
| Mr. Charlie Msusa | ✓ | ✓ | ✓ | ✓ |
| Mr. Ben Botolo | A | ✓ | A | ✓ |
| Mr. Gladson Kuyeri | A | ✓ | ✓ | ✓ |
| Mr. Reagans Nkhoma | A | ✓ | ✓ | A |
| Mr. Anderson Kulugomba | ✓ | ✓ | ✓ | A |
| Mr. McTimes Malowa | ✓ | ✓ | ✓ | ✓ |
| Dr. Ken Ndala | ✓ | ✓ | ✓ | ✓ |
| Dr. George Partridge | N | A | ✓ | A |

FINANCE AND AUDIT COMMITTEE

| MEMBER | March 2018 | May 2018 | August 2018 | December 2018 |
|-----------------------------------|------------|----------|-------------|---------------|
| Mr. Anderson Kulugomba (Chairman) | N | N | ✓ | A |
| Mr. Charlie Msusa | ✓ | ✓ | ✓ | ✓ |
| Mr. Ben Botolo | A | A | ✓ | ✓ |
| Mr. Gladson Kuyeri | ✓ | ✓ | ✓ | A |
| Mr. Reagans Nkhoma | A | ✓ | ✓ | ✓ |
| Mr. Noel Hayes | ✓ | N | N | N |

Key: ✓ = Attendance A = Apology N = Not a Member

Directors' Report (continued)

For the Year Ended 31 December 2018

HUMAN CAPITAL AND DEVELOPMENT COMMITTEE

| MEMBER | March 2018 | May 2018 | August 2018 | November 2018 |
|----------------------------------|------------|----------|-------------|---------------|
| Mr. McTimes Malowa (Chairperson) | ✓ | ✓ | ✓ | ✓ |
| Dr. Ken Ndala | ✓ | ✓ | A | ✓ |
| Mr. Anderson Kulugomba | ✓ | ✓ | N | N |
| Dr. George Partridge | N | N | ✓ | ✓ |

PROJECTS COMMITTEE

| MEMBER | March 2018 | May 2018 | August 2018 | December 2018 |
|---------------------------------|------------|----------|-------------|---------------|
| Mr. Charlie Msusa (Chairperson) | ✓ | ✓ | ✓ | ✓ |
| Mr. Gladson Kuyeri | ✓ | ✓ | ✓ | A |
| Mr. Noel Hayes | ✓ | N | N | N |
| Mr. Anderson Kulugomba | ✓ | ✓ | ✓ | A |
| Mr. Yusuf Olela | ✓ | ✓ | ✓ | ✓ |
| Mr. Patrick Lisilira | ✓ | ✓ | ✓ | ✓ |

Key: ✓ = Attendance A = Apology N = Not a Member

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

GOING CONCERN

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

INDEPENDENT AUDITORS

Messrs Grant Thornton, Chartered Accountants and Business Advisors (Malawi), have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31 December 2019.

FOR AND ON BEHALF OF THE BOARD



Authorised Director
29 March 2019



Authorised Director

Directors' Responsibility Statement

For the Year Ended 31 December 2018

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Sunbird Tourism plc, comprising the statements of financial position at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes set out on pages 38 to 71 in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

The Companies Act, 2013 of Malawi also requires the directors to ensure the Company and its subsidiary keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and its subsidiary and to ensure the financial statements comply with the Companies Act, 2013 of Malawi.

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, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of the consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The directors' have made an assessment of the ability of the Company and its subsidiary to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the International Financial Reporting Standards, and in the manner required by Companies Act, 2013 of Malawi.

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Sunbird Tourism plc, as identified in the first paragraph were approved by the Board of Directors on 29 March 2019 and were signed on its behalf by:



Authorised Director



Authorised Director



OPINION

We have audited the consolidated and separate financial statements of Sunbird Tourism plc (the Group and Company) set out on pages 33 to 71, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and 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 consolidated and separate financial position of Sunbird Tourism plc as at 31 December 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTER

Impairment of trade receivables – Group and Company

See notes 3.13, 4.1, 5.2.1, 9 and 24.2 to the consolidated and separate financial statements

- A significant proportion of the Group's and Company's business involves providing services relating to hotel accommodation, food and beverage, conferencing and banqueting to customers on a credit basis. The Group operates in a number of different locations within Malawi and provides services to a wide range of customers, including tourists, corporate entities, government institutions and local individuals. The impact of the market and economic conditions in Malawi, including high interest rates, high rates of unemployment and inflation as well as depreciation of the local currency against all the major currencies impacts the ability of customers to pay the Group and Company.

Accordingly we paid particular attention to the

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit work included the following procedures:

- We assessed management's impairment process by considering whether the impairment process is in compliance with IFRS 9 Financial Instruments
- We assessed the reasonability of management's impairment calculation by performing the following:
 - For a sample of receivables, we assessed the recoverability of the amounts receivable by agreeing it to subsequent cash receipts.
 - We examined a sample of receivables which had not been identified by management as potentially impaired and formed our own judgement as to whether the receivable should be impaired, based on our knowledge of the client and experience of the industry in which it operates, as well as external evidence in respect of the relevant counterparties.

**Grant Thornton
Malawi**

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impairment assessment of trade receivables at year end due to the following:

- The significance of the balance in the consolidated and separate statements of financial position at year end.
- The subjective nature of the estimation and judgement with regard to the recoverability of trade receivable balances when calculating the allowance for impairment to be reported in the consolidated and separate financial statements.

As a result, the impairment of trade receivables was a key audit matter for both the consolidated and separate financial statements.

OTHER INFORMATION

We have audited the consolidated and separate financial statements of Sunbird Tourism plc (the Group and The directors are responsible for the other information. The other information comprises the Directors' Report and Directors' Responsibility Statement, which we obtained prior to the date of this auditor's report, and the Annual Report, which we expect to be made available to us after that date. 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or 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 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

As at 31 December 2018
In thousands of Malawi Kwacha

| | Note | Consolidated | | Separate | |
|--------------------------------------|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| ASSETS | | | | | |
| NON CURRENT ASSETS | | | | | |
| Property and equipment | 6 | 27,979,506 | 24,907,649 | 27,277,986 | 24,292,533 |
| Investment in subsidiary | 7 | - | - | 102,023 | 102,023 |
| Total non-current assets | | 27,979,506 | 24,907,649 | 27,380,009 | 24,394,556 |
| CURRENT ASSETS | | | | | |
| Inventories | 8 | 2,466,849 | 1,625,874 | 2,394,006 | 1,555,376 |
| Trade and other receivables | 9 | 1,921,367 | 1,986,308 | 1,866,691 | 1,872,364 |
| Amounts due from related parties | 11 | 1,049,078 | 885,557 | 402,375 | 360,830 |
| Current tax assets | 22(b) | 305,483 | - | 315,343 | - |
| Cash and cash equivalents | 10 | 432,347 | 827,634 | 445,355 | 769,752 |
| Total current assets | | 6,175,124 | 5,325,373 | 5,423,770 | 4,558,322 |
| TOTAL ASSETS | | 34,154,630 | 30,233,022 | 32,803,779 | 28,952,878 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 12 | 13,079 | 13,079 | 13,079 | 13,079 |
| Share premium | 12 | 1,966 | 1,966 | 1,966 | 1,966 |
| Revaluation reserve | | 11,113,161 | 11,218,949 | 10,863,768 | 10,969,260 |
| Retained earnings | | 9,884,353 | 7,524,453 | 9,182,415 | 6,978,079 |
| Total equity | | 21,012,559 | 18,758,447 | 20,061,228 | 17,962,384 |
| NON CURRENT LIABILITIES | | | | | |
| Corporate bonds | 13(b) | 3,640,000 | 1,940,000 | 3,640,000 | 1,940,000 |
| Obligations under finance leases | 13(c) | 192,050 | 239,281 | 192,050 | 232,367 |
| Deferred income | 18 | 75,001 | 98,436 | 75,001 | 98,436 |
| Deferred tax liabilities | 22(c) | 6,162,672 | 5,731,694 | 6,045,838 | 5,615,808 |
| Total non-current liabilities | | 10,069,723 | 8,009,411 | 9,952,889 | 7,886,611 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 15 | 2,175,958 | 2,048,960 | 1,916,216 | 1,811,269 |
| Employee benefits | 14(b) | 229,499 | 757,226 | 213,275 | 709,858 |
| Amounts due to related parties | 11 | 427,449 | 313,225 | 427,449 | 313,225 |
| Current tax liabilities | 22(b) | - | 154,569 | - | 86,695 |
| Deferred income | 18 | 113,766 | 61,786 | 113,766 | 61,786 |
| Obligations under finance leases | 13(c) | 125,676 | 129,398 | 118,956 | 121,050 |
| Total current liabilities | | 3,072,348 | 3,465,164 | 2,789,662 | 3,103,883 |
| Total liabilities | | 13,142,071 | 11,474,575 | 12,742,551 | 10,990,494 |
| TOTAL EQUITY AND LIABILITIES | | 34,154,630 | 30,233,022 | 32,803,779 | 28,952,878 |

These consolidated and separate financial statements were approved for issue by the Board of Directors on 29 March 2019 and were signed on its behalf by:


Authorised Director


Authorised Director

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

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.

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 year 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.



Grant Thornton
Chartered Accountants and Business Advisors (Malawi)



Lamion Gama
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi.
29 March 2019

Resident Partners

L.M. Gama
H.B. Njirenda
B.J. Mwenelupembe
G. Tembo

Chartered Accountants and Business Advisors

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Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income

For the Year Ended 31 December 2018
In thousands of Malawi Kwacha

| | Note | Consolidated | | Separate | |
|---|-------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Revenue | 16 | 18,935,543 | 18,931,829 | 17,153,156 | 17,021,765 |
| Cost of sales | | (3,971,370) | (4,139,185) | (3,269,923) | (3,353,998) |
| Gross profit | | 14,964,173 | 14,792,644 | 13,883,233 | 13,667,767 |
| Other income | 17 | 254,733 | 62,997 | 302,182 | 99,024 |
| Administrative and other expenses | 19 | (11,107,345) | (10,708,252) | (10,346,655) | (10,003,050) |
| Results from operating activities | | 4,111,561 | 4,147,389 | 3,838,760 | 3,763,741 |
| Finance costs | 20 | (397,919) | (592,015) | (384,519) | (576,715) |
| Profit before income tax expense | | 3,713,642 | 3,555,374 | 3,454,241 | 3,187,026 |
| Income tax expense | 22(a) | (1,152,076) | (1,121,507) | (1,059,057) | (1,019,365) |
| Profit for the year | | 2,561,566 | 2,433,867 | 2,395,184 | 2,167,661 |
| Other comprehensive income, net of tax | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| Revaluation surplus on property and equipment net of deferred tax | | - | 3,252,172 | - | 3,168,464 |
| Total other comprehensive income, net of tax | | - | 3,252,172 | - | 3,168,464 |
| Total comprehensive income | | 2,561,566 | 5,686,039 | 2,395,184 | 5,336,125 |
| Profit attributable to: | | | | | |
| Owners of the Company | | 2,561,566 | 2,433,867 | 2,395,184 | 2,167,661 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the company | | 2,561,566 | 5,686,039 | 2,395,184 | 5,336,125 |
| Earnings per share (tambala) | | | | | |
| Basic and diluted | 23 | 979 | 930 | | |

Consolidated and Separate Statements of Changes in Equity

For the Year Ended 31 December 2018
In thousands of Malawi Kwacha

| Consolidated | Note | Share capital | Share premium | Revaluation reserve | Retained earnings | Total |
|--|-------|---------------|---------------|---------------------|-------------------|-------------------|
| 2018 | | | | | | |
| Total comprehensive income for the year | | | | | | |
| At 1 January 2018 | | 13,079 | 1,966 | 11,218,949 | 7,524,453 | 18,758,447 |
| Adjustment from adoption of IFRS 9 | | - | - | - | (11,866) | (11,866) |
| Adjusted balance at 1 January 2018 | | 13,079 | 1,966 | 11,218,949 | 7,512,587 | 18,746,581 |
| Profit for the year | | - | - | - | 2,561,566 | 2,561,566 |
| Total comprehensive income for the year | | - | - | - | 2,561,566 | 2,561,566 |
| Transfer to retained earnings | | - | - | (105,788) | 105,788 | - |
| Transactions with owners of the company recognised directly in equity | | | | | | |
| Dividends | 23(b) | - | - | - | (295,588) | (295,588) |
| At 31 December 2018 | | 13,079 | 1,966 | 11,113,161 | 9,884,353 | 21,012,559 |
| 2017 | | | | | | |
| At 1 January 2017 | | 13,079 | 1,966 | 8,143,399 | 5,042,139 | 13,200,583 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | - | - | - | 2,433,867 | 2,433,867 |
| Other comprehensive income | | | | | | |
| Revaluation surplus | | - | - | 4,645,960 | - | 4,645,960 |
| Deferred tax on revaluation surplus | | - | - | (1,393,788) | - | (1,393,788) |
| Total other comprehensive income | | - | - | 3,252,172 | - | 3,252,172 |
| Total comprehensive income for the year | | - | - | 3,252,172 | 2,433,867 | 5,686,039 |
| Transfer to retained earnings | | - | - | (176,622) | 176,622 | - |
| Transactions with owners of the company recognised directly in equity | | | | | | |
| Dividends | 23(b) | - | - | - | (128,175) | (128,175) |
| At 31 December 2017 | | 13,079 | 1,966 | 11,218,949 | 7,524,453 | 18,758,447 |

Consolidated and Separate Statements of Changes in Equity

For the Year Ended 31 December 2018
In thousands of Malawi Kwacha

| Separate | Note | Share capital | Share premium | Revaluation reserve | Retained earnings | Total |
|--|-------|---------------|---------------|---------------------|-------------------|-------------------|
| 2018 | | | | | | |
| At 1 January 2018 | | 13,079 | 1,966 | 10,969,260 | 6,978,079 | 17,962,384 |
| Adjustment from adoption of IFRS 9 | | - | - | - | (752) | (752) |
| Adjusted balance at 1 January 2018 | | 13,079 | 1,966 | 10,969,260 | 6,977,327 | 17,961,632 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | - | - | - | 2,395,184 | 2,395,184 |
| Total comprehensive income for the year | | - | - | - | 2,395,184 | 2,395,184 |
| Transfer to retained earnings | | - | - | (105,492) | 105,492 | - |
| Transactions with owners of the company recognised directly in equity | | | | | | |
| Dividends | 23(b) | - | - | - | (295,588) | (295,588) |
| At 31 December 2018 | | 13,079 | 1,966 | 10,863,768 | 9,182,415 | 20,061,228 |
| 2017 | | | | | | |
| At 1 January 2016 | | 13,079 | 1,966 | 7,976,896 | 4,762,493 | 12,754,434 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | - | - | - | 2,167,661 | 2,167,661 |
| Other comprehensive income | | | | | | |
| Revaluation surplus | | - | - | 4,526,378 | - | 4,526,378 |
| Deferred tax on revaluation surplus | | - | - | (1,357,914) | - | (1,357,914) |
| Total other comprehensive income | | - | - | 3,168,464 | - | 3,168,464 |
| Total comprehensive income for the year | | - | - | 3,168,464 | 2,167,661 | 5,336,125 |
| Transfer to retained earnings | | - | - | (176,100) | 176,100 | - |
| Transactions with owners of the company recognised directly in equity | | | | | | |
| Dividends | 23(b) | - | - | - | (128,175) | (128,175) |
| At 31 December 2017 | | 13,079 | 1,966 | 10,969,260 | 6,978,079 | 17,962,384 |

Consolidated and Separate Statements of Statements of Cash Flows

For the Year Ended 31 December 2018
In thousands of Malawi Kwacha

| | Note | Consolidated | | Separate | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities | | | | | |
| Cash receipts from customers | | 19,073,349 | 18,303,185 | 17,396,912 | 16,505,289 |
| Cash paid to suppliers and employees | | (15,496,545) | (14,660,492) | (14,082,432) | (13,085,345) |
| Cash generated from operations | | 3,576,804 | 3,642,693 | 3,314,480 | 3,419,944 |
| Interest paid | 20 | (668,063) | (587,040) | (654,663) | (571,740) |
| Taxation paid | 22(b) | (1,181,150) | (462,646) | (1,031,065) | (396,308) |
| Net cash from operating activities | | 1,727,591 | 2,593,007 | 1,628,752 | 2,451,896 |
| Cash flows from investing activities | | | | | |
| Acquisition of property and equipment | 6 | (3,531,355) | (1,771,044) | (3,408,514) | (1,723,864) |
| Dividends received | 17 | - | - | 46,200 | 30,600 |
| Proceeds from sale of property and equipment | | 50,964 | 19,740 | 43,108 | 18,240 |
| Net cash utilised in investing activities | | (3,480,391) | (1,751,304) | (3,319,206) | (1,675,024) |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | 13 | 2,137,610 | 1,762,832 | 2,137,610 | 1,762,832 |
| Repayment of borrowings | 13 | (488,563) | (2,000,775) | (480,021) | (1,994,348) |
| Dividends paid | 23(b) | (295,588) | (128,175) | (295,588) | (128,175) |
| Net cash generated from /(utilised in) financing activities | | 1,353,459 | (366,118) | 1,362,001 | (359,691) |
| Net (decrease)/increase in cash and cash equivalents | | (399,341) | 475,585 | (328,453) | 417,181 |
| Cash and cash equivalents at beginning of the year | | 827,634 | 350,233 | 769,752 | 350,755 |
| Effect of exchange rate fluctuations on cash held | | 4,054 | 1,816 | 4,056 | 1,816 |
| Cash and cash equivalents at end of the year | 10 | 432,347 | 827,634 | 445,355 | 769,752 |

Notes to the Consolidated and Separate Financial Statements

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

1. REPORTING ENTITY

Sunbird Tourism plc ('the company') is a company incorporated and domiciled in Malawi.

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

The Group comprises the company and its subsidiary, Catering Solutions Limited (together referred to as 'the Group' and individually as 'group entities'). The subsidiary company is incorporated and domiciled in Malawi.

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

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated and separate financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2013 of Malawi. Details of the Group's accounting policies, including changes during the year and critical accounting judgements, are included in notes 3 and 5.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain items of property and equipment which are measured under the revaluation model.

c) Functional and presentation currency

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

d) Going concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will be able to meet the repayment of its liabilities and the mandatory repayment terms of the facilities as disclosed in notes 13, 14 and 15.

e) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with significant risk of material adjustment in the next year are discussed in note 5.

(f) Changes in accounting policies

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

(g) New accounting standards and interpretations adopted as at 1 January 2018

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations.

After comparing the current revenue recognition criteria, including its accounting for guest loyalty program, with the revenue recognition criteria under IFRS 15, adoption of IFRS 15 has not resulted in any differences in the timing of revenue recognition.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the impairment of the Group's trade receivables by applying the expected credit loss model. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as was the case under IAS 39. The group has adopted the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The adoption of IFRS 9 led to a decrease in trade and other receivables of MK12 million at 1 January 2018.

Other pronouncements

Other accounting pronouncements which have become effective from 1 January 2018 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

• IFRIC 22 Foreign Currency Transactions and Advance Considerations

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 'The Effects of Changes in Foreign Exchange Rates' is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the Group initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

(h) Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards, amendments or Interpretations have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

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

2. BASIS OF PREPARATION (continued)

(h) Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group (continued)

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Group have decided not to early adopt.

The Group is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to equity at the date of initial application.

Choosing this transition approach results in further policy decisions the Group need to make as there are several other transitional reliefs that can be applied. These relate to those leases previously held as operating leases and can be applied on a lease-by-lease basis. The Group is currently assessing the impact of applying these other transitional reliefs.

IFRS 16 has not made any significant changes to the accounting for lessors, and therefore the Group does not expect any changes for leases where they are acting as a lessor.

- IFRIC 23 Uncertainty over Income Tax Treatments: IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

The Group does not expect the application of IFRIC 23 to have an impact on income tax treatment.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

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

3.2 Property and equipment

Recognition and measurement

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

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

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

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

Revaluation

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

Depreciation

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

| | | |
|------------------------|---|---------------|
| Freehold property | - | 33 – 50 years |
| Leasehold property | - | 33 – 50 years |
| Vehicles and equipment | - | 3 - 10 years |

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

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

Derecognition

The carrying amount of an item of property and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

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

3.3 Investment in subsidiary

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

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Inventories

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

3.5 Taxation

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

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

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

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

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

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

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

3.6 Foreign currency translations

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

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

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

3.7 Employee benefits

Defined contribution plans

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

Short-term benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.8 Revenue

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

Accommodation, catering and conferences

For accommodation, catering and conferences the performance obligations are delivered when services are rendered.

Guest loyalty program

Provision is made for the estimated liability arising from the issue of benefits under the Group's customer reward programmes, based on the value of rewards earned by the programme members, and the expected utilisation of these rewards. The value attributed to these awards is deferred as a liability included in deferred income in the statement of financial position, and released to profit or loss as the awards are redeemed. The expected utilisation is determined through consideration of historical usage and forfeiture rates.

3.9 Borrowing costs

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

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

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

3.10 Leased assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Leased assets (continued)

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

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

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

3.11 Provisions

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

3.12 Financial instruments

Non-derivative financial assets and financial liabilities

Recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Classification and initial measurement of financial assets

On initial recognition, financial assets are measured at fair value plus directly attributable transaction costs, unless the instrument is classified as at fair value through profit or loss.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is

omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Derecognition

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

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statements of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

The Group has the following financial assets which are all classified as loans and receivables:

Trade receivables

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

Amounts due from related parties

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

Cash and cash equivalents

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

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial instruments (continued)

The Group has the following financial liabilities:

Loans and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see note 3.9).

Corporate bonds

Corporate bonds are initially measured at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest method.

Trade payables and accruals

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

Amounts due to related parties

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

3.13 Impairment

Financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second and third category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract

assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

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

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

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

3.14 Earnings per share

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

3.15 Dividend per share

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

3.16 Operating segments

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

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

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Finance expenses

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

3.18 Share capital, share premium and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds and are included in the share premium account.

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

3.19 Government grants

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

Grants relating to the cost of an asset are subsequently recognised in profit or loss on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

3.20 Commitments

Commitments represent goods/services that have been contracted for, but for which no delivery has taken place at the reporting date. Commitments also include capital expenditure authorised but not contracted for. These amounts are not recognised in the statements of financial position as a liability or as expenditure in the statements of profit or loss and other comprehensive income, but are however disclosed as part of the disclosure notes.

3.21 Other income

Dividend income

Dividend income is recognised when the right to receive income is established.

Management fees

Management fee income is recognised on an accrual basis in accordance with the relevant agreements, as and when services are provided.

3.22 Foreign currency gains and losses

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

3.23 Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs and income taxes.

3.24 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

4. FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

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

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

4.1 Credit risk

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

Cash and cash equivalents

The Group places its cash with banks licensed by the central bank, the Reserve Bank of Malawi.

Amounts due from related parties

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

Trade and other receivables

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

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

Notes to the Consolidated and Separate Financial Statements (continued)

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4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk

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

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

- MK50 million (2017: MK50 million) overdraft facility with National Bank of Malawi plc whose interest rate is at the bank's base lending rate currently at 23% per annum (2017: 23%).
- MK150 million (2017: MK150 million) overdraft facility with Standard Bank plc whose interest rate is at the bank's base lending rate minus 200 basis points, currently at 23% per annum (2017: 23%).

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

4.3 Market risk

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

(i) Currency risk

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

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

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

(ii) Interest rate risk

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

4.4 Capital management

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

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

The Finance and Audit Committee reviews the capital structure on a regular basis. As part of this review, the Committee considers the cost of capital and its associated risks. Based on recommendations of the Committee,

the Group will balance its overall capital structure through the payment of dividends and revaluations of its assets.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor its subsidiary are subject to any externally imposed capital requirements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

5.1.1 Valuation of properties

The Group carries its properties at revaluation model. Mr E. Jambo M.Sc. (Real Estate), MBA; BA (Pub. Admin) a qualified valuer, of MPICO plc, valued the properties of the Group as at 31 December 2017 on an open market value basis using the income approach methodology. Key assumptions made for the purpose of the valuation were: that the lease will be renewed by the Malawi Government upon expiry; that the useful life will exceed 50 years from date of valuation; and allowances were made for age and obsolescence.

The valuation technique used in measuring the fair values of property and equipment, as well as the significant unobservable inputs used are presented below:

| Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|--|--|
| <p>The valuation expert adopted an open market value basis using the income approach methodology.</p> <p>The income approach methodology estimates the value of the property by taking the net operating income generated by the property and adjusting it with the capitalisation rate, also known as the property yield rate.</p> | <p>To arrive at his opinion the valuer used many factors including some unobservable inputs. The major assumption used in valuation of properties on the hotels included:</p> <ul style="list-style-type: none"> – profits generated by the property for the past three years (2015 – 2017); – the property yield rates arrived at by taking into account the quality and location of the property among other things. The valuer used yield rates ranging between 8%-11% – comparable average property prices adjusted for expected growth within the market and the location of the related hotel property. | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> – expected profits generated by the property were higher (lower); – the property yield rates were lower (higher). |

The fair value measurements have been categorised as Level 3 for value based on inputs to the valuation techniques used.

5.2 Key sources of estimation and uncertainty

5.2.1 Impairment of trade and other receivables

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

In making the estimate, management makes an assessment of whether there is objective evidence impairment loss, taking into consideration all the relevant information available to the entity at the end of the reporting period. This may include information regarding the financial position of the related customers, whether there are any balances disputed by the customers, repayment history and any indication that a debtor experiences financial difficulties or could enter bankruptcy as well as the historical loss experiences.

Notes to the Consolidated and Separate Financial Statements (continued)

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In thousands of Malawi Kwacha

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

5.2.2 Inventory provisions for obsolete stock

An estimate of obsolete and slow-moving stock is made taking into consideration existing conditions at the end of the period. In making the estimate, management makes an assessment to identify slow moving inventory items, obsolete products and those nearing expiry.

5.2.3 Legal claims

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

5.2.4 Guarantees

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

6. PROPERTY AND EQUIPMENT

See accounting policy 3.2

| Consolidated | Freehold property | Leasehold property | Vehicles & equipment | Work in progress | Total |
|---|-------------------|--------------------|----------------------|------------------|-------------------|
| 2018 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2017 | 14,679,747 | 7,812,276 | 4,030,080 | 179,256 | 26,701,359 |
| Additions during the year | 108,100 | 14,888 | 1,143,521 | 2,544,049 | 3,810,558 |
| Work in progress capitalised | 116,484 | 604,063 | 174,657 | (895,204) | - |
| WIP transferred to stocks (Note 8) | - | - | - | (11,378) | (11,378) |
| Reallocation between classes * | - | (76,872) | 76,872 | - | - |
| Disposals during the year | - | - | (202,947) | (22,508) | (225,455) |
| At 31 December 2018 | 14,904,331 | 8,354,355 | 5,222,183 ♦ | 1,794,215 | 30,275,084 |
| Accumulated depreciation and impairment losses | | | | | |
| At 1 January 2017 | - | - | 1,793,710 | - | 1,793,710 |
| Charge for the year | 69,877 | 40,011 | 552,532 | - | 662,420 |
| Eliminated on disposals | - | - | (160,552) | - | (160,552) |
| At 31 December 2018 | 69,877 | 40,011 | 2,185,690 | - | 2,295,578 |
| Carrying value | | | | | |
| At 31 December 2018 | 14,834,454 | 8,314,344 | 3,036,493 | 1,794,215 | 27,979,506 |

| Consolidated | Freehold property | Leasehold property | Vehicles & equipment | Work in progress | Total |
|---|-------------------|--------------------|----------------------|------------------|-------------------|
| 2017 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2017 | 10,972,940 | 5,891,845 | 3,041,945 | 876,670 | 20,783,400 |
| Additions during the year | 25,329 | 6,285 | 734,536 | 1,004,894 | 1,771,044 |
| Work in progress capitalised | 996,745 | 319,816 | 353,753 | (1,670,314) | - |
| WIP transferred to stocks | - | - | - | (29,036) | (29,036) |
| Reallocation between classes | (123,880)* | 123,880 * | - | - | - |
| Revaluation | 2,808,613 | 1,470,450 | - | - | 4,279,063 |
| Disposals during the year | - | - | (100,154) | (2,958) | (103,112) |
| At 31 December 2017 | 14,679,747 | 7,812,276 | 4,030,080 ♦ | 179,256 | 26,701,359 |
| Accumulated depreciation and impairment losses | | | | | |
| At 1 January 2017 | 122,295 | 47,190 | 1,427,309 | - | 1,596,794 |
| Charge for the year | 148,430 | 48,982 | 443,340 | - | 640,752 |
| Reallocation between classes | (609)* | 609* | - | - | - |
| Revaluation | (270,116) | (96,781) | - | - | (366,897) |
| Eliminated on disposals | - | - | (76,939) | - | (76,939) |
| At 31 December 2017 | - | - | 1,793,710 | - | 1,793,710 |
| Carrying value | | | | | |
| At 31 December 2017 | 14,679,747 | 7,812,276 | 2,236,370 | 179,256 | 24,907,649 |

♦ The amount includes motor vehicles purchased under finance lease amounting to **MK719m** (2017:MK634m).

* Reallocations to property and equipment relate to assets which were previously allocated under another class of assets and now being reclassified to a different class within property.

| Separate | Freehold property | Leasehold property | Vehicles & equipment | Work in progress | Total |
|---|-------------------|--------------------|----------------------|------------------|-------------------|
| 2018 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2018 | 14,368,799 | 7,626,478 | 3,850,036 ♦ | 171,236 | 26,016,549 |
| Additions during the year | 108,100 | 14,888 | 1,073,427 | 2,491,302 | 3,687,717 |
| Work in progress capitalised | 116,484 | 604,063 | 174,657 | (895,204) | - |
| WIP transferred to stock (Note 8) | - | - | - | (11,378) | (11,378) |
| Reallocation between classes | - | (76,872) | 76,872 | - | - |
| Disposals during the year | - | - | (192,276) | (22,508) | (214,784) |
| At 31 December 2018 | 14,593,383 | 8,168,557 | 4,982,716 ♦ | 1,733,448 | 29,478,104 |
| Accumulated depreciation and impairment losses | | | | | |
| At 1 January 2018 | - | - | 1,724,016 | - | 1,724,016 |
| Charge for the year | 69,877 | 37,516 | 519,293 | - | 626,686 |
| Eliminated on disposals | - | - | (150,584) | - | (150,584) |
| At 31 December 2018 | 69,877 | 37,516 | 2,092,725 | - | 2,200,118 |
| Carrying value | | | | | |
| At 31 December 2018 | 14,523,506 | 8,131,041 | 2,889,991 | 1,733,448 | 27,277,986 |

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018
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6. PROPERTY AND EQUIPMENT (continued)

| Separate | Freehold property | Leasehold property | Vehicles & equipment | Work in progress | Total |
|---|-------------------|--------------------|----------------------|------------------|-------------------|
| | | | | | |
| 2017 | | | | | |
| Cost or valuation | | | | | |
| At 1 January 2017 | 10,625,076 | 5,859,375 | 2,895,639 ♦ | 876,670 | 20,256,760 |
| Additions during the year | 25,329 | 4,747 | 696,914 | 996,874 | 1,723,864 |
| Work in progress capitalised | 996,745 | 319,816 | 353,753 | (1,670,314) | - |
| WIP transferred to stock (Note 8) | - | - | - | (29,036) | (29,036) |
| Revaluation | 2,728,415 | 1,435,774 | - | - | 4,164,189 |
| Reallocation between classes | (6,766) * | 6,766 * | - | - | - |
| Disposals during the year | - | - | (96,270) | (2,958) | (99,228) |
| At 31 December 2017 | 14,368,799 | 7,626,478 | 3,850,036 ♦ | 171,236 | 26,016,549 |
| Accumulated depreciation and impairment losses | | | | | |
| At 1 January 2017 | 122,295 | 45,745 | 1,377,186 | - | 1,545,226 |
| Charge for the year | 148,430 | 45,719 | 420,597 | - | 614,746 |
| Reallocation between classes | (609) * | 609 * | - | - | - |
| Revaluation | (270,116) | (92,073) | - | - | (362,189) |
| Eliminated on disposals | - | - | (73,767) | - | (73,767) |
| At 31 December 2017 | - | - | 1,724,016 | - | 1,724,016 |
| Carrying value | | | | | |
| At 31 December 2017 | 14,368,799 | 7,626,478 | 2,126,020 | 171,236 | 24,292,533 |

♦ The amount includes motor vehicles purchased under finance lease amounting to MK692m (2017:MK607m).

* Reallocations to property and equipment relate to assets which were previously allocated under another class of assets and now being reclassified to a different class within property.

Additions

Additions to property and equipment comprise the following:

| | Consolidated | | Separate | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Assets acquired at cost | 3,531,355 | 1,771,044 | 3,408,514 | 1,723,864 |
| Interest capitalised into assets | 279,203 | - | 279,203 | - |
| Total asset additions | 3,810,558 | 1,771,044 | 3,687,717 | 1,723,864 |

Properties (Land and buildings)

Carrying amount at end of the year comprise the following:

| | Consolidated | | Separate | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Purchase cost | 6,581,155 | 5,818,592 | 6,444,401 | 5,679,639 |
| Subsequent revaluations | 16,567,643 | 16,673,431 | 16,210,146 | 16,315,638 |
| At 31 December | 23,148,798 | 22,492,023 | 22,654,547 | 21,995,277 |

Land and buildings for the Group were valued as at 31 December 2017 by Mr. E Jambo, MSc: Real Estate; MBA; BA (Pub. Admin), a qualified and independent valuer on an open market value basis.

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

| | Consolidated | | Separate | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Cost | 9,736,251 | 8,971,786 | 9,564,171 | 8,797,508 |
| Accumulated depreciation | (3,155,096) | (3,153,194) | (3,119,770) | (3,117,869) |
| Carrying amount | 6,581,155 | 5,818,592 | 6,444,401 | 5,679,639 |

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

The fair value measurement of land and buildings of MK16.48 billion has been categorised as a level three fair value based on the inputs to the valuation techniques.

At 31 December 2018, properties, with a carrying amount of **MK15 billion** (2017:MK9 billion) were subject to a registered form of security for corporate bond and bank overdrafts (see note 10 and 13(b)).

Work in progress

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

7. INVESTMENT IN SUBSIDIARY

See accounting policy 3.3

| | Percentage holding | | Separate | |
|----------------------------|--------------------|------|----------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Shares at cost: | % | % | | |
| Catering Solutions Limited | 100 | 100 | 102,023 | 102,023 |

8. INVENTORIES

See accounting policy 3.4

| | Consolidated | | Separate | |
|---|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Merchandise | 1,613,783 | 889,189 | 1,581,678 | 878,832 |
| Transfer from work in progress (Note 6) | 11,378 | 29,036 | 11,378 | 29,036 |
| Consumables | 586,164 | 393,777 | 573,754 | 367,664 |
| Food, drink and tobacco | 255,524 | 313,872 | 227,196 | 279,844 |
| | 2,466,849 | 1,625,874 | 2,394,006 | 1,555,376 |

Inventories have been reduced by the following amounts as a result of the write-down to net realisable value. Such write-downs were recognised as an expense during the year.

| | | | | |
|------------------------------------|--------|--------|--------|--------|
| Write-down to net realisable value | 46,486 | 48,139 | 46,257 | 47,405 |
|------------------------------------|--------|--------|--------|--------|

9. TRADE AND OTHER RECEIVABLES

See accounting policy 3.12

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Trade receivables | 1,566,006 | 1,658,142 | 1,537,627 | 1,579,593 |
| Other receivables | 355,361 | 328,166 | 329,064 | 292,771 |
| | 1,921,367 | 1,986,308 | 1,866,691 | 1,872,364 |
| <i>Other receivables are made up of:</i> | | | | |
| Staff debtors | 183,233 | 146,373 | 178,857 | 138,327 |
| Claimable Value Added Tax (VAT) * | 39,537 | 57,276 | 39,537 | 57,276 |
| Prepayments * | 132,591 | 124,517 | 110,670 | 97,168 |
| | 355,361 | 328,166 | 329,064 | 292,771 |

*: Not a financial asset

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For the Year Ended 31 December 2018

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| | Consolidated | | Separate | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| 10. CASH AND CASH EQUIVALENTS | | | | |
| <i>See accounting policy 3.12</i> | | | | |
| Cash at bank | 414,314 | - | 445,355 | 769,752 |
| Bank overdrafts | (18,033) | - | - | - |
| | <u>432,347</u> | <u>827,634</u> | <u>445,355</u> | <u>769,752</u> |

Bank overdraft facilities totalling MK200 million (2017: MK200 million) are secured by a charge over the Group's assets in favour of Standard Bank Plc and National Bank of Malawi Plc whose net book value at 31 December 2018 was MK1.87 billion (2017: MK1.04 billion). Interest is charged at the bank's base lending rate minus 200 basis points currently at 21% per annum (2017: 23%). The facilities are repayable on demand and are renewed annually.

11. RELATED PARTY TRANSACTIONS

See accounting policy 3.12

Parent and ultimate controlling party

The Group's related parties comprise of the holding company and its subsidiary, directors, shareholders, management contract entity, and key management personnel. Material balances and transactions are as follows:

Transactions with related parties

Revenue and other income

Malawi Government and related entities:

| | 2018 | 2017 | 2018 | 2017 |
|--|------------------|------------------|------------------|------------------|
| <i>Accommodation, catering and conferences revenue</i> | 5,163,926 | 4,173,761 | 3,991,342 | 3,068,485 |
| Catering Solutions Limited: | | | | |
| <i>Management fees and dividends received</i> | - | - | 54,600 | 37,520 |
| African Parks (Majete) Ltd: | | | | |
| <i>Management fees for managing Thawale</i> | 11,812 | 15,358 | 11,812 | 15,358 |
| | <u>5,175,738</u> | <u>4,189,119</u> | <u>4,057,754</u> | <u>3,121,963</u> |

Administrative and other expenses

Tevet levy:

| | | | | |
|-------------------|--------|--------|--------|--------|
| Malawi Government | 41,055 | 38,176 | 38,211 | 35,265 |
|-------------------|--------|--------|--------|--------|

Electricity and water bills:

| | | | | |
|------------------------------------|------------------|----------------|------------------|----------------|
| Malawi Government related entities | 1,031,571 | 868,012 | 968,648 | 827,396 |
| | <u>1,072,626</u> | <u>906,188</u> | <u>1,006,859</u> | <u>862,661</u> |

Amounts due from related parties

| | | | | |
|---------------------------------------|------------------|----------------|----------------|----------------|
| Malawi Government and related parties | 1,025,052 | 867,318 | 264,012 | 278,643 |
| Catering Solutions Limited | - | - | 114,337 | 63,948 |
| African Parks (Majete) Ltd | 24,026 | 18,239 | 24,026 | 18,239 |
| | <u>1,049,078</u> | <u>885,557</u> | <u>402,375</u> | <u>360,830</u> |

Amounts due to related parties

| | | | | |
|--|---------|---------|---------|---------|
| Malawi Government and related entities | | | | |
| Advance deposits * | 427,449 | 313,225 | 427,449 | 313,225 |

* Not a financial liability as these are advanced customer deposits.

These balances arose from the normal course of trading between the Group and related parties at arm's length and are to be settled within a year of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year impairments in respect of amounts owed by related parties. The parent company guarantees a MK50 million (2017: MK50 million) overdraft facility for Catering Solutions Limited.

| | Consolidated | | Separate | |
|---|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Compensation of key management personnel | | | | |
| The key management personnel comprise the executive officers of the Group. | | | | |
| In addition to salaries, the Group also provides non-cash benefits by way of contribution to a defined contribution pension plan on their behalf. In accordance with the plan, executive officers contribute 5% (2017: 5%) of their basic pay while the company contributes 13.51% (2017: 12.77%) of the basic pay. | | | | |
| Salary and cash benefits for the year were as follows: | | | | |
| Short-term benefits (salary and bonus) | 416,042 | 362,752 | 388,354 | 326,107 |
| Post-employment benefits (Employer pension contribution) | 44,354 | 38,224 | 40,728 | 33,545 |
| | <u>460,396</u> | <u>400,976</u> | <u>429,082</u> | <u>359,652</u> |
| Directors' remuneration | 88,269 | 84,700 | 82,684 | 78,718 |

12. SHARE CAPITAL

See accounting policy 3.18

| | Consolidated and separate | |
|---|---------------------------|--------|
| | 2018 | 2017 |
| Authorised | | |
| 280,000,000 (2017: 280,000,000) Ordinary shares of 5 tambala each | 14,000 | 14,000 |
| Issued and fully paid | | |
| 261,582,580 (2017: 261,582,580) Ordinary shares of 5 tambala each | 13,079 | 13,079 |
| The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. | | |
| SHARE PREMIUM | | |
| The share premium arose following the issue of 4,270,105 shares at 51 tambala per share. | 1,966 | 1,966 |

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018
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13. LOANS AND BORROWINGS; CORPORATE BONDS AND OBLIGATIONS UNDER FINANCE LEASE

| | Loans and borrowings | Corporate bonds | Obligations leases under finance lease | Total |
|----------------------------|----------------------|-----------------|--|-------------|
| | Note 13(a) | Note 13(b) | Note 13(c) | |
| Consolidated 2018 | | | | |
| 1 January | - | - | 368,679 | 2,308,679 |
| Proceeds from borrowings | 437,610 | 2,137,610 | | |
| Repayments during the year | - | - | (488,563) | (488,563) |
| 31 December | - | - | 317,726 | 3,957,726 |
| Consolidated 2017 | | | | |
| 1 January | 45,639 | 2,180,551 | 320,432 | 2,546,622 |
| Proceeds from borrowings | - | 1,390,000 | 372,832 | 1,762,832 |
| Repayments during the year | (45,639) | (1,630,551) | (324,585) | (2,000,775) |
| 31 December | - | 1,940,000 | 368,679 | 2,308,679 |
| Separate 2018 | | | | |
| 1 January | - | 1,940,000 | 353,417 | 2,293,417 |
| Proceeds from borrowings | 1,700,000 | 437,610 | 2,137,610 | |
| Repayments during the year | - | - | (480,021) | (480,021) |
| 31 December | - | 3,640,000 | 311,006 | 3,951,006 |
| Separate 2017 | | | | |
| 1 January | 45,639 | 2,180,551 | 298,743 | 2,524,933 |
| Proceeds from borrowings | - | 1,390,000 | 372,832 | 1,762,832 |
| Repayments during the year | (45,639) | (1,630,551) | (318,158) | (1,994,348) |
| 31 December | - | 1,940,000 | 353,417 | 2,293,417 |

13(a) Loans and Borrowings

See accounting policy 3.12

| | Consolidated and separate | |
|----------------------------|---------------------------|----------|
| | 2018 | 2017 |
| At 1 January | | 45,639 |
| Issued during the year | | - |
| Repayments during the year | - | (45,639) |
| At 31 December | - | - |

A secured loan amounting to MK53 million obtained from Standard Bankplc to finance the acquisition of a vessel. The facility was repayable over 4 years. Interest on the facility was charged at 2% below the bank base lending rate which is currently 23% per annum. The facility was repaid in full in 2017.

The loan was secured over land and buildings of the Group.

13(b) Corporate Bonds

See accounting policy 3.12

| | Currency | Year of maturity | Consolidated and separate Carrying amount | |
|--------------------------------------|----------|------------------|---|------------------|
| | | | 2018 | 2017 |
| NICO Asset Managers Limited | MK | 2021 | 1,500,000 | 1,250,000 |
| Continental Asset Management Limited | MK | 2019 | - | 490,000 |
| Continental Asset Management Limited | MK | 2019 | - | 250,000 |
| NBM Capital Markets Limited | MK | 2022 | 690,000 | 690,000 |
| NBM Capital Markets Limited | MK | 2023 | 1,450,000 | - |
| TOTAL | | | 3,640,000 | 1,940,000 |
| At 1 January | | | 1,940,000 | 2,180,551 |
| Repayments during the year | | - | (1,630,551) | |
| Issued during the year | | | 1,700,000 | 1,390,000 |
| At 31 December | | | 3,640,000 | 1,940,000 |
| Disclosed under: | | | | |
| Non current liabilities | | | 3,640,000 | 1,940,000 |
| At 31 December | | | 3,640,000 | 1,940,000 |

The Company issued corporate bonds as a private placement. The notes were offered to investors on a floating rate basis, to be re-priced quarterly with interest rate at an arithmetic average of 182-day treasury bill yield plus a variable margin averaging 3.5%. There is a maximum rate of interest of 4% below the simple average of reference bank's commercial lending rates and a minimum rate of inflation or 11%.

During the year, further subscriptions were received from NBM Capital Markets Limited (MK1.700 billion). The proceeds were used for Sunbird Livingstonia room refurbishment, Sunbird Mount Soche new conference centre, and Sunbird Nkopola refurbishment. The bonds are secured over land and buildings of the Group.

| | Consolidated | | Separate | |
|------------------------|--------------|---------|----------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Nedbank Malawi Limited | 317,726 | 368,679 | 311,006 | 353,417 |

The Group has a finance lease facility of MK500 million from Nedbank to cater for procurement of motor vehicles repayable over three to four years. Interest on the facility is charged at 5% below the bank base lending rate which is currently 25% per annum (2017: 25% per annum). The leased motor vehicles secure the lease obligations. The net carrying amount of leased motor vehicles was as follows:

| | 2018 | | 2017 | |
|----------------------------|-------------------------------|---|-------------------------------|---|
| | Future minimum lease payments | Present value of minimum lease payments | Future minimum lease payments | Present value of minimum lease payments |
| Consolidated | | | | |
| Less than one year | 178,601 | 52,925 | 180,380 | 50,982 |
| Between one and four years | 253,506 | 61,456 | 333,558 | 94,277 |
| At 31 December | 432,107 | 114,381 | 513,938 | 145,259 |
| Separate | | | | |
| Less than one year | 157,022 | 38,066 | 168,743 | 47,693 |
| Between one and four years | 253,506 | 61,456 | 323,920 | 91,553 |
| At 31 December | 410,528 | 99,522 | 492,663 | 139,246 |

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

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| | Consolidated | | Separate | |
|--|--------------|------|----------|------|
| | 2018 | 2017 | 2018 | 2017 |

14. EMPLOYEE BENEFITS

See accounting policy 3.7

14(a) Pension Plan

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

The total cost charged to profit or loss of MK541 million (2017: MK463 million) represents contributions payable to this plan by the Group at rates specified in the rules of the plan. The respective contribution rates for employees and the employer were 5% (2017: 5%) and 13.51% (2017: 12.77%), respectively.

14(b) Short-term employee benefit liabilities

| | | | | |
|--------------------------------|---------|---------|---------|---------|
| Short-term employee benefits * | 229,499 | 757,226 | 213,275 | 709,858 |
|--------------------------------|---------|---------|---------|---------|

* Short-term employee benefits relate to gratuity payable at the end of employment contracts, total performance bonus payable for the reporting period and annual leave pay provision. Performance bonus is payable in line with the Sunbird Bonus Policy upon approval by the Board. Based on the policy, the Group has a constructive obligation to pay the amounts accrued.

15. TRADE AND OTHER PAYABLES

See accounting policy 3.12

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Trade payables | 1,037,133 | 776,081 | 850,939 | 607,378 |
| Output VAT | 186,258* | 211,829* | 171,327* | 194,215* |
| Guest advance deposits | 344,677* | 629,043* | 338,608* | 628,285* |
| Other payables and accruals | 607,890 | 432,007 | 555,342 | 381,391 |
| | <u>2,175,958</u> | <u>2,048,960</u> | <u>1,916,216</u> | <u>1,811,269</u> |
| Other payables and accruals include the following: | | | | |
| Audit fees | 37,741 | 34,622 | 31,484 | 30,376 |
| Unclaimed dividend | 81,730 | 2,082 | 81,730 | 2,082 |
| PAYE and Withholding taxes due | 114,362* | 99,495* | 108,114* | 90,852* |
| Water and electricity accrued | 131,001 | 101,727 | 128,260 | 98,663 |
| Tourism levy | 26,641* | 24,923* | 25,658* | 24,086* |
| Pension contributions payable | 70,605* | 52,688* | 66,737* | 51,268* |
| Payroll recoveries payable | 26,708 | 36,684 | 23,740 | 33,753 |
| Accruals | 119,102 | 79,786 | 89,619 | 50,311 |
| | <u>607,890</u> | <u>432,007</u> | <u>555,342</u> | <u>381,391</u> |

* These balances are not financial liabilities

16. REVENUE

See accounting policy 3.8

| | | | | |
|------------------|-------------------|-------------------|-------------------|-------------------|
| Rooms revenue | 8,483,141 | 8,557,311 | 8,483,141 | 8,557,311 |
| Catering revenue | 9,786,395 | 9,875,376 | 8,031,508 | 7,977,297 |
| Other revenue | 666,007 | 499,142 | 638,507 | 487,157 |
| Total | <u>18,935,543</u> | <u>18,931,829</u> | <u>17,153,156</u> | <u>17,021,765</u> |

Other revenue includes revenue from other services provided at the hotel to support rooms and catering segments. These services include business centre, water sports, guest transport, swimming pool, health club and other hotel related services.

| | Consolidated | | Separate | |
|--|--------------|------|----------|------|
| | 2018 | 2017 | 2018 | 2017 |

17. OTHER INCOME

See accounting policy 3.8, 3.19 and 3.21

| | | | | |
|---|----------------|---------------|----------------|---------------|
| Government grants | 22,558 | 13,525 | 22,558 | 13,525 |
| Net foreign exchange gains | 4,054 | 1,816 | 4,056 | 1,816 |
| Dividend received from Catering Solutions Limited | - | - | 46,200 | 30,600 |
| Management fees from Catering Solutions Limited | - | - | 8,400 | 6,920 |
| Management fees from African Parks (Majete) Limited | 11,812 | 15,358 | 11,812 | 15,358 |
| Doubtful debts recovered during the year | 63,419 | 20,480 | 63,419 | 18,988 |
| Reversal of prior year expenses over provisions | 103,316 | - | 103,316 | - |
| Insurance claim proceeds | 9,803 | - | 9,803 | - |
| Other sundry receipts | 39,771 | 11,818 | 32,618 | 11,817 |
| Total | <u>254,733</u> | <u>62,997</u> | <u>302,182</u> | <u>99,024</u> |

18. DEFERRED INCOME/REVENUE

See accounting policy 3.8 and 3.19

Government grants

Duty Waiver Grant

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

In the course of the Redevelopment and Refurbishment program in 2016 the Group qualified for duty and excise waiver amounting to MK123 million. The grant of MK123 million was recognised as deferred income in 2017. The Grant will be amortised over the estimated useful life of the assets to which it relates.

Electronic Fiscal Device Cost Recovery Grant

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

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

Guest loyalty program

The Group has a hotel loyalty programme, Sunbird Premier Club which enables members to earn points, funded through hotel assessments, during each qualifying stay at a Sunbird hotel and redeem points at a later date for free accommodation or other benefits. The future redemption liability is calculated by multiplying the number of points expected to be redeemed before they expire by the redemption cost per point.

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18. DEFERRED INCOME/REVENUE (continued)

| | Deferred income - consolidated and separate | | | | | |
|--|---|----------------------------|----------|------------------|----------------------------|----------|
| | Government Grant | 2018 Guest loyalty program | Total | Government Grant | 2017 Guest loyalty program | Total |
| At 1 January | 123,045 | 37,177 | 160,222 | 57,761 | - | 57,761 |
| Add: amounts received during the year | - | 83,279 | 83,279 | 78,809 | 37,177 | 115,986 |
| Less: Amounts recognised in the statement of profit or loss and comprehensive income | (22,558) | (32,176) | (54,734) | (13,525) | - | (13,525) |
| At 31 December | 100,487 | 88,280 | 188,767 | 123,045 | 37,177 | 160,222 |
| Deferred income recognised under: | | | | | | |
| Current liabilities | 28,326 | 85,440 | 113,766 | 28,326 | 33,460 | 61,786 |
| Non-current liabilities | 72,161 | 2,840 | 75,001 | 94,719 | 3,717 | 98,436 |
| | 100,487 | 88,280 | 188,767 | 123,045 | 37,177 | 160,222 |

19. ADMINISTRATIVE AND OTHER EXPENSES

| | Consolidated | | Separate | |
|--|--------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Administrative expenses | 478,638 | 504,372 | 414,448 | 461,834 |
| Loss on disposal of property and equipment | 13,939 | 6,433 | 21,092 | 7,221 |
| Impairment of trade receivables | 142,366 | 82,483 | 113,428 | 74,203 |
| Directors' remuneration | 88,269 | 84,700 | 82,684 | 78,718 |
| Laundry expenses | 64,160 | 71,051 | 60,184 | 67,320 |
| Insurance expenses | 227,222 | 181,765 | 216,423 | 173,884 |
| Listing and secretarial expenses | 45,724 | 39,801 | 45,724 | 39,801 |
| Motor vehicle expenses | 304,976 | 319,710 | 259,438 | 272,699 |
| Security | 200,228 | 188,009 | 192,731 | 182,789 |
| Computer, telephone and internet expenses | 505,923 | 427,987 | 471,541 | 401,345 |
| Depreciation | 662,420 | 640,752 | 626,686 | 614,746 |
| Energy, repairs and maintenance costs | 1,666,989 | 1,517,342 | 1,588,828 | 1,463,137 |
| Marketing expenses | 263,308 | 284,812 | 248,432 | 275,193 |
| Staff costs | 6,443,183 | 6,359,035 | 6,005,016 | 5,890,160 |
| Total | 11,107,345 | 10,708,252 | 10,346,655 | 10,003,050 |

20. FINANCE COSTS

See accounting policy 3.17

| | | | | |
|---|---------|---------|---------|---------|
| Interest on finance leases | 113,735 | 144,265 | 111,429 | 139,167 |
| Interest on bank overdraft | 28,267 | 34,159 | 17,173 | 23,957 |
| Interest on secured loan | - | 1,034 | - | 1,034 |
| Interest on corporate bonds | 255,917 | 412,557 | 255,917 | 412,557 |
| Finance costs | 397,919 | 592,015 | 384,519 | 576,715 |
| Reconciliation of interest paid | | | | |
| Interest charged to statement of profit or loss | 397,919 | 592,015 | 384,519 | 576,715 |
| Interest capitalised into assets | 279,203 | - | 279,203 | - |
| Accrued interest | (9,059) | (4,975) | (9,059) | (4,975) |
| Interest paid | 668,063 | 587,040 | 654,663 | 571,740 |

| | Consolidated | | Separate | |
|--|--------------|------|----------|------|
| | 2018 | 2017 | 2018 | 2017 |

21. PROFIT BEFORE INCOME TAX EXPENSE

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

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Auditors' remuneration: - current year | 29,657 | 40,978 | 22,085 | 34,838 |
| - mid-year review | 8,706 | 5,894 | 6,819 | 4,694 |
| Depreciation | 662,420 | 640,752 | 626,686 | 614,746 |
| Directors' remuneration | 88,269 | 84,700 | 82,684 | 78,718 |
| Dividends received | - | - | (46,200) | (30,600) |
| Deferred income | (22,558) | (13,525) | (22,558) | (13,525) |
| Loss on disposal of property and equipment | 13,939 | 6,433 | 21,092 | 7,221 |
| Impairment of trade receivables | 142,366 | 82,483 | 113,428 | 74,203 |
| Pension costs | 541,403 | 462,536 | 504,475 | 444,122 |
| Staff costs | 6,443,183 | 6,359,035 | 6,005,016 | 5,890,160 |

22. INCOME TAX EXPENSE

See accounting policy 3.5

22(a) Income tax

| | | | | |
|---------------------------|-----------|-----------|-----------|-----------|
| Income tax expense | | | | |
| Current tax | 721,098 | 784,447 | 629,028 | 671,740 |
| Deferred tax | 430,978 | 337,060 | 430,030 | 347,625 |
| Total income tax expense | 1,152,076 | 1,121,507 | 1,059,057 | 1,019,365 |

Reconciliation of effective tax rate

| | | | | |
|----------------------------------|-----------|-----------|-----------|-----------|
| Profit before income tax expense | 3,713,642 | 3,555,374 | 3,454,241 | 3,187,026 |
|----------------------------------|-----------|-----------|-----------|-----------|

| | % | 2018 | % | 2017 | % | 2018 | % | 2017 |
|-----------------------|----|-----------|----|-----------|----|-----------|----|-----------|
| Tax at standard rate | 30 | 1,114,093 | 30 | 1,066,612 | 30 | 1,036,272 | 30 | 956,108 |
| Temporary differences | 1 | 37,983 | 2 | 54,895 | 1 | 22,785 | 2 | 63,257 |
| Effective rate of tax | 31 | 1,152,076 | 32 | 1,121,507 | 31 | 1,059,057 | 32 | 1,019,365 |

22(b) Current tax (assets)/liabilities

| | Consolidated | | Separate | |
|---|--------------|-----------|-------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Current tax (assets)/liabilities at 1 January | 154,569 | (167,232) | 86,695 | (188,737) |
| Current year tax charge | 721,098 | 784,447 | 629,027 | 671,740 |
| Income tax paid | (1,181,150) | (462,646) | (1,031,065) | (396,308) |
| Current tax (assets)/liabilities at 31 December | (305,483) | 154,569 | (315,343) | 86,695 |

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| | Consolidated | | Separate | |
|---|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| 22(c) Deferred tax liabilities | | | | |
| <i>See accounting policy 3.5</i> | | | | |
| At 1 January | 5,731,694 | 4,000,846 | 5,615,808 | 3,910,269 |
| Recognised in profit or loss: | | | | |
| Deferred tax on accelerated capital allowances | 323,528 | 181,306 | 323,154 | 181,470 |
| Deferred tax on employment benefits and other provisions | 107,450 | 155,754 | 106,875 | 166,155 |
| Recognised in other comprehensive income: | | | | |
| Deferred tax on revaluation surplus | - | 1,393,788 | - | 1,357,914 |
| At 31 December | 6,162,672 | 5,731,694 | 6,045,837 | 5,615,808 |
| Analysed as: | | | | |
| Accelerated capital allowances | 2,058,475 | 1,734,947 | 2,033,493 | 1,710,339 |
| Revaluation of property | 4,226,239 | 4,226,239 | 4,118,426 | 4,118,426 |
| Deferred tax assets on employment benefits and other provisions | (122,042) | (229,492) | (106,082) | (212,957) |
| Net deferred tax liabilities | 6,162,672 | 5,731,694 | 6,045,837 | 5,615,808 |

23(a). EARNINGS PER SHARE (BASIC AND DILUTED)

See accounting policy 3.14

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of **MK2.562 billion** (2017: MK2.434 billion) and the weighted average number of ordinary shares outstanding during the year of **261,582,580** (2017: 261,582,580) as below:

| | | |
|--|-----------|-----------|
| Profit for the year (MK'000) | 2,561,566 | 2,433,867 |
| Weighted average number of shares ('000) | 261,582 | 261,582 |
| Earnings per share (tambala) | 979 | 930 |

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

23(b). DIVIDEND

A final dividend of **MK164 million** representing **62 tambala** per share was paid in respect of the year ended 31 December 2017 and an interim dividend of **MK131 million** representing **50 tambala** per share was paid relating to the results for the period ended 31 December 2018.

24. FINANCIAL INSTRUMENTS

See accounting policy 3.12

24.1 Accounting classification and fair values

The following table shows the carrying amounts of financial assets and financial liabilities. The carrying amounts are reasonable approximation of the fair values.

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

| | Note | 2018 | | 2017 | |
|---|-------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | | Loans and receivables | Other financial liabilities | Loans and receivables | Other financial liabilities |
| Consolidated 2018 | | | | | |
| Financial assets not measured at fair value | | | | | |
| Trade and other receivables | 9 | 1,749,239 | | 1,804,515 | 1,804,515 |
| Amounts due from related parties | 11 | 1,049,078 | | 885,557 | 885,557 |
| Cash and cash equivalents | 10 | 432,347 | | 827,634 | 827,634 |
| | | 3,230,664 | | 3,517,706 | 3,517,706 |
| Financial liabilities not measured at fair value | | | | | |
| Trade and other payables | 15(a) | | 1,433,415 | (1,030,982) | (1,030,982) |
| Corporate bonds – Fair value Level 2 | 13(b) | | 3,640,000 | (1,940,000) | (1,940,000) |
| Obligation under finance lease - Fair value Level 2 | 13(c) | | 317,726 | (368,679) | (368,679) |
| | | | 5,391,141 | (3,339,661) | (3,339,661) |
| 2017 | | | | | |
| Financial assets not measured at fair value | | | | | |
| Trade and other receivables | 9 | 1,804,515 | | 1,804,515 | 1,804,515 |
| Amounts due from related parties | 11 | 885,557 | | 885,557 | 885,557 |
| Cash and cash equivalents | 10 | 827,634 | | 827,634 | 827,634 |
| | | 3,517,706 | | 3,517,706 | 3,517,706 |
| Financial liabilities not measured at fair value | | | | | |
| Trade and other payables | 15(a) | | (1,030,982) | (1,030,982) | (1,030,982) |
| Corporate bonds – Fair value Level 2 | 13(b) | | (1,940,000) | (1,940,000) | (1,940,000) |
| Obligation under finance lease - Fair value Level 2 | 13(c) | | (368,679) | (368,679) | (368,679) |
| | | | (3,339,661) | (3,339,661) | (3,339,661) |

24. FINANCIAL INSTRUMENTS

See accounting policy 3.12

24.1 Accounting classification and fair values

The following table shows the carrying amounts of financial assets and financial liabilities. The carrying amounts are reasonable approximation of the fair values.

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

| | Note | 2018 | | 2017 | |
|---|-------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | | Loans and receivables | Other financial liabilities | Loans and receivables | Other financial liabilities |
| Consolidated 2018 | | | | | |
| Financial assets not measured at fair value | | | | | |
| Trade and other receivables | 9 | 1,749,239 | | 1,804,515 | 1,804,515 |
| Amounts due from related parties | 11 | 1,049,078 | | 885,557 | 885,557 |
| Cash and cash equivalents | 10 | 432,347 | | 827,634 | 827,634 |
| | | 3,230,664 | | 3,517,706 | 3,517,706 |
| Financial liabilities not measured at fair value | | | | | |
| Trade and other payables | 15(a) | | 1,433,415 | (1,030,982) | (1,030,982) |
| Corporate bonds – Fair value Level 2 | 13(b) | | 3,640,000 | (1,940,000) | (1,940,000) |
| Obligation under finance lease - Fair value Level 2 | 13(c) | | 317,726 | (368,679) | (368,679) |
| | | | 5,391,141 | (3,339,661) | (3,339,661) |

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018
In thousands of Malawi Kwacha

24.1 Accounting classification and fair values (Continued)

| | Note | Loans and receivables | Other financial liabilities | Total |
|---|-------|-----------------------|-----------------------------|--------------------|
| Consolidated 2017 | | | | |
| Financial assets not measured at fair value | | | | |
| Trade and other receivables | 9 | 1,804,515 | | 1,804,515 |
| Amounts due from related parties | 11 | 885,557 | | 885,557 |
| Cash and cash equivalents | 10 | 827,634 | | 827,634 |
| | | 3,517,706 | | 3,517,706 |
| Financial liabilities not measured at fair value | | | | |
| Trade and other payables | 15(a) | | (1,030,982) | (1,030,982) |
| Corporate bonds – Fair value Level 2 | 13(b) | | (1,940,000) | (1,940,000) |
| Obligation under finance lease - Fair value Level 2 | 13(c) | | (368,679) | (368,679) |
| | | | (3,339,661) | (3,339,661) |
| Separate 2018 | | | | |
| Financial assets not measured at fair value | | | | |
| Trade and other receivables | 9 | 1,716,484 | | 1,716,484 |
| Cash and cash equivalents | 10 | 445,355 | | 445,355 |
| Amounts due from related parties | 11 | 402,375 | | 402,375 |
| | | 2,564,214 | | 2,564,214 |
| Financial liabilities not measured at fair value | | | | |
| Trade and other payables | 15(a) | | 1,205,772 | 1,205,772 |
| Corporate bonds | 13(b) | | 3,640,000 | 3,640,000 |
| Obligation under finance lease | 13(c) | | 311,006 | 311,006 |
| | | | 5,156,778 | 5,156,778 |
| 2017 | | | | |
| Financial assets not measured at fair value | | | | |
| Trade and other receivables | 9 | 1,717,920 | | 1,717,920 |
| Cash and cash equivalents | 10 | 769,752 | | 769,752 |
| Amounts due from related parties | 11 | 360,830 | | 360,830 |
| | | 2,848,502 | | 2,848,502 |
| Financial liabilities not measured at fair value | | | | |
| Trade and other payables | 15(a) | | (822,563) | (822,563) |
| Corporate bonds | 13(b) | | (1,940,000) | (1,940,000) |
| Obligation under finance lease | 13(c) | | (353,417) | (353,417) |
| | | | (3,115,980) | (3,115,980) |

24.2 Credit risk

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

| | Note | Consolidated | | Separate | |
|----------------------------------|------|------------------|------------------|------------------|------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Trade and other receivables | 9 | 1,921,367 | 1,986,308 | 1,866,691 | 1,872,364 |
| Amounts due from related parties | 11 | 1,049,078 | 885,557 | 402,375 | 360,830 |
| Cash and cash equivalents | 10 | 432,347 | 827,634 | 445,355 | 769,752 |
| | | 3,402,792 | 3,699,499 | 2,714,421 | 3,002,946 |

24.3 Liquidity risk

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

| | Note | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years |
|---|-------|--------------------|------------------------|--------------------|------------------|------------------|--------------------|
| Consolidated 2018 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Corporate bonds | 13(b) | (3,640,000) | (6,330,855) | (327,600) | (327,600) | (655,200) | (5,020,455) |
| Obligations under finance lease | 13(c) | (317,726) | (432,107) | (72,018) | (72,018) | (144,036) | (144,035) |
| Trade and other payables | 15 | (1,433,415) | (1,433,415) | (1,433,415) | - | - | - |
| | | (5,391,141) | (8,196,377) | (1,833,033) | (399,618) | (799,236) | (5,164,490) |
| Consolidated 2017 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Corporate bonds | 13(b) | (1,940,000) | (3,696,000) | (174,600) | (174,600) | (349,200) | (2,997,600) |
| Obligations under finance lease | 13(c) | (368,679) | (513,938) | (90,190) | (90,190) | (180,380) | (153,178) |
| Trade and other payables | 15 | (1,030,982) | (1,030,982) | (1,030,982) | - | - | - |
| | | (3,339,661) | (5,240,920) | (1,295,774) | (264,790) | (529,580) | (3,150,778) |
| Separate 2018 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Corporate bonds | 13(b) | (3,640,000) | (6,330,855) | (327,600) | (327,600) | (655,200) | (5,020,455) |
| Obligations under finance lease | 13(c) | (311,006) | (410,528) | (68,421) | (68,421) | (136,842) | (136,844) |
| Trade and other payables | 15 | (1,205,772) | (1,205,772) | (1,205,772) | - | - | - |
| | | (5,156,778) | (7,947,155) | (1,601,793) | (396,021) | (792,042) | (5,157,299) |
| Separate 2017 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Corporate bonds | 13(b) | (1,940,000) | (3,696,000) | (174,600) | (174,600) | (349,200) | (2,997,600) |
| Obligations under finance lease | 13(c) | (353,417) | (492,663) | (84,372) | (84,372) | (168,742) | (155,177) |
| Trade and other payables | 15 | (822,563) | (822,563) | (822,563) | - | - | - |
| | | (3,115,980) | (5,011,226) | (1,081,535) | (258,972) | (517,942) | (3,152,777) |

24.4 MARKET RISK

24.4.1 Currency Risk

Exposure to currency risk

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

| | Consolidated and separate | | | | | | | |
|-----------------------------|-----------------------------|---------------|--------------|--------------|-----------------------------|----------------|--------------|--------------|
| | 31 December 2018 | | | | 31 December 2017 | | | |
| | Malawi Kwacha equivalent of | | | | Malawi Kwacha equivalent of | | | |
| | USD | ZAR | GBP | Euro | USD | ZAR | GBP | Euro |
| Cash and cash equivalents | 90,467 | 10,038 | 4,824 | 7,580 | 197,789 | 2,332 | 6,892 | 9,993 |
| Trade and other receivables | 127,657 | 102 | - | - | 52,921 | 4,349 | - | - |
| Employee benefits | (31,621) | - | - | - | (23,727) | - | - | - |
| Trade and other payables | - | - | - | - | - | (14,003) | - | - |
| | 186,503 | 10,140 | 4,824 | 7,580 | 226,983 | (7,322) | 6,892 | 9,993 |

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

24. FINANCIAL INSTRUMENTS (continued)

24.3 Liquidity risk (continued)

The following significant exchange rates applied during the year:
Reporting Date

| | Average Rate | | Spot Rate | |
|-------------|--------------|--------|-----------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Kwacha/USD | 726.85 | 725.54 | 729.85 | 725.65 |
| Kwacha/Rand | 55.22 | 56.21 | 48.51 | 58.74 |
| Kwacha/GBP | 937.68 | 932.48 | 901.01 | 974.35 |
| Kwacha/Euro | 836.33 | 814.56 | 807.51 | 865.10 |

Sensitivity analysis

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

A strengthening of the US Dollar, South African Rand, Euro and British Pound by 10 percent against the kwacha at 31st December would have increased exchange gain by MK21 million (2017: exchange gain of MK23.7 million) which would have been credited to profit or loss. The increase in equity would be MK14 million (2017: MK16 million). This analysis is based on foreign exchange rate variations that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables in particular interest rates, remain constant.

24.4.2 Interest rate risk

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

Variable rate instruments Carrying Amounts

| | Note | Consolidated | | Separate | |
|-----------------|-------|------------------|------------------|------------------|------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Finance lease | 13(c) | 317,726 | 368,679 | 311,006 | 353,417 |
| Corporate bonds | 13(b) | 3,640,000 | 1,940,000 | 3,640,000 | 1,940,000 |
| | | <u>3,957,726</u> | <u>2,308,679</u> | <u>3,951,006</u> | <u>2,293,417</u> |

The prevailing interest rates for these interest bearing facilities are within the region of base rate plus or minus 1-5%. The commercial banks' average lending rate currently is at 27% (2017: 27%).

Cash flow sensitivity analysis for variable rate instruments

An increase of 5% in interest rates at the reporting date would have increased interest being charged to the Group's profit or loss by MK35 million (2017: MK22 million). The decrease in equity would be MK24 million (2017: equity would have decreased by MK14 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

25. CAPITAL MANAGEMENT

See accounting policy 4.4

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

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

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

The gearing ratios at 31 December were as follows:

| | Note | Consolidated | | Separate | |
|---------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Total loans and borrowings | 13 | | 3,957,726 | 2,308,679 | 3,951,006 |
| 2,293,417 | | | | | |
| Less: cash and cash equivalents | 10 | (432,347) | (827,634) | (445,355) | (769,752) |
| Net debt | | 3,525,379 | 1,481,045 | 3,505,651 | 1,523,665 |
| Total equity | | 21,036,981 | 18,758,447 | 20,061,228 | 17,962,384 |
| Total capital | | <u>24,562,360</u> | <u>20,239,492</u> | <u>23,566,879</u> | <u>19,486,049</u> |
| Gearing ratio | | 14% | 7% | 15% | |

26. SEGMENTAL REPORTING

See accounting policy 3.16

Business segments

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

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

| | Room income | Catering income | Other services | Total |
|----------------------------------|-------------|-----------------|----------------|------------------|
| 2018 | | | | |
| Total revenue | 8,483,141 | 9,786,395 | 666,007 | 18,935,543 |
| Segment contribution | 6,749,861 | 4,445,092 | 451,810 | 11,646,763 |
| Other hotel expenses | | | | (7,362,846) |
| Corporate expenses | | | | (172,356) |
| Finance costs | | | | (397,919) |
| Profit before income tax expense | | | | <u>3,713,642</u> |
| 2017 | | | | |
| Total revenue | 8,557,311 | 9,875,376 | 499,142 | 18,931,829 |
| Segment contribution | 6,802,521 | 4,324,845 | 282,419 | 11,409,785 |
| Other hotel expenses | | | | (7,116,104) |
| Corporate expenses | | | | (146,292) |
| Finance costs | | | | (592,015) |
| Profit before income tax expense | | | | <u>3,555,374</u> |

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

Notes to the Consolidated and Separate Financial Statements (continued)

For the Year Ended 31 December 2018

In thousands of Malawi Kwacha

26. SEGMENTAL REPORTING (continued)

Profile of the Target Market Segment

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

| | Consolidated | | Separate | |
|----------------------|--------------|------|----------|------|
| | 2018 | 2017 | 2018 | 2017 |
| | % | % | % | % |
| Corporates | 60 | 57 | 60 | 56 |
| Commercial groups | 11 | 17 | 12 | 19 |
| Government | 12 | 10 | 9 | 7 |
| Leisure and airlines | 14 | 16 | 15 | 18 |
| Online | 3 | - | 4 | - |
| Total | 100 | 100 | 100 | 100 |

Geographical Source of Business

The geographical source of business is predominantly domestic:

| | Consolidated | | Separate | |
|----------|--------------|------|----------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Malawi | 84 | 79 | 82 | 78 |
| Africa | 8 | 11 | 9 | 12 |
| Europe | 4 | 4 | 4 | 4 |
| Americas | 3 | 4 | 3 | 4 |
| Other | 1 | 2 | 2 | 2 |
| Total | 100 | 100 | 100 | 100 |

27. COMMITMENTS

See accounting policy 3.21

| | Consolidated | | Separate | |
|-----------------------------------|--------------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Capital expenditure: | | | | |
| Authorised but not contracted for | 1,806,204 | 2,140,217 | 1,636,688 | 2,047,091 |

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

28. CONTINGENCIES

See accounting policy 5.2

| | | | | |
|--|--------|--------|--------|--------|
| Legal claims | 10,000 | 10,000 | 10,000 | 10,000 |
| Guarantees in respects of staff and bank loans | 50,000 | 50,000 | 50,000 | 50,000 |
| | 50,000 | 60,000 | 50,000 | 60,000 |

These represent the Group's maximum exposure at the reporting date if guarantees entered into by the company in support the subsidiary company's overdraft facility from National Bank of Malawi plc was called upon.

The Group is defending various claims against former employees in the Industrial Relations Court. Although liability has not been admitted, the disclosed amount represents the Group's maximum exposure in awards and legal costs if the defence against the actions is unsuccessful. Based on legal advice, management believes that the defence against the action will be successful.

29. EXCHANGE RATES AND INFLATION

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

| | 2018 | 2017 |
|--------------------|--------|--------|
| Kwacha/GBP | 901.01 | 974.35 |
| Kwacha/Rand | 48.51 | 58.74 |
| Kwacha/US Dollar | 729.85 | 725.65 |
| Kwacha/Euro | 807.51 | 865.10 |
| Inflation rate (%) | 9.2% | 11.6% |

At the end of the year, the Reserve Bank of Malawi base-lending rate was 16% (2017: 16%). Commercial banks' base lending rates are 6% to 20% above the prevailing Reserve Bank of Malawi rate.

As at date of signing these financial statements the above exchange rates and inflation had moved as follows:

| | |
|--------------------|--------|
| Kwacha/GBP | 966.64 |
| Kwacha/US Dollar | 731.69 |
| Kwacha/Rand | 50.79 |
| Kwacha/Euro | 878.11 |
| Inflation rate (%) | 7.9% |

30. EVENTS AFTER REPORTING PERIOD

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



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