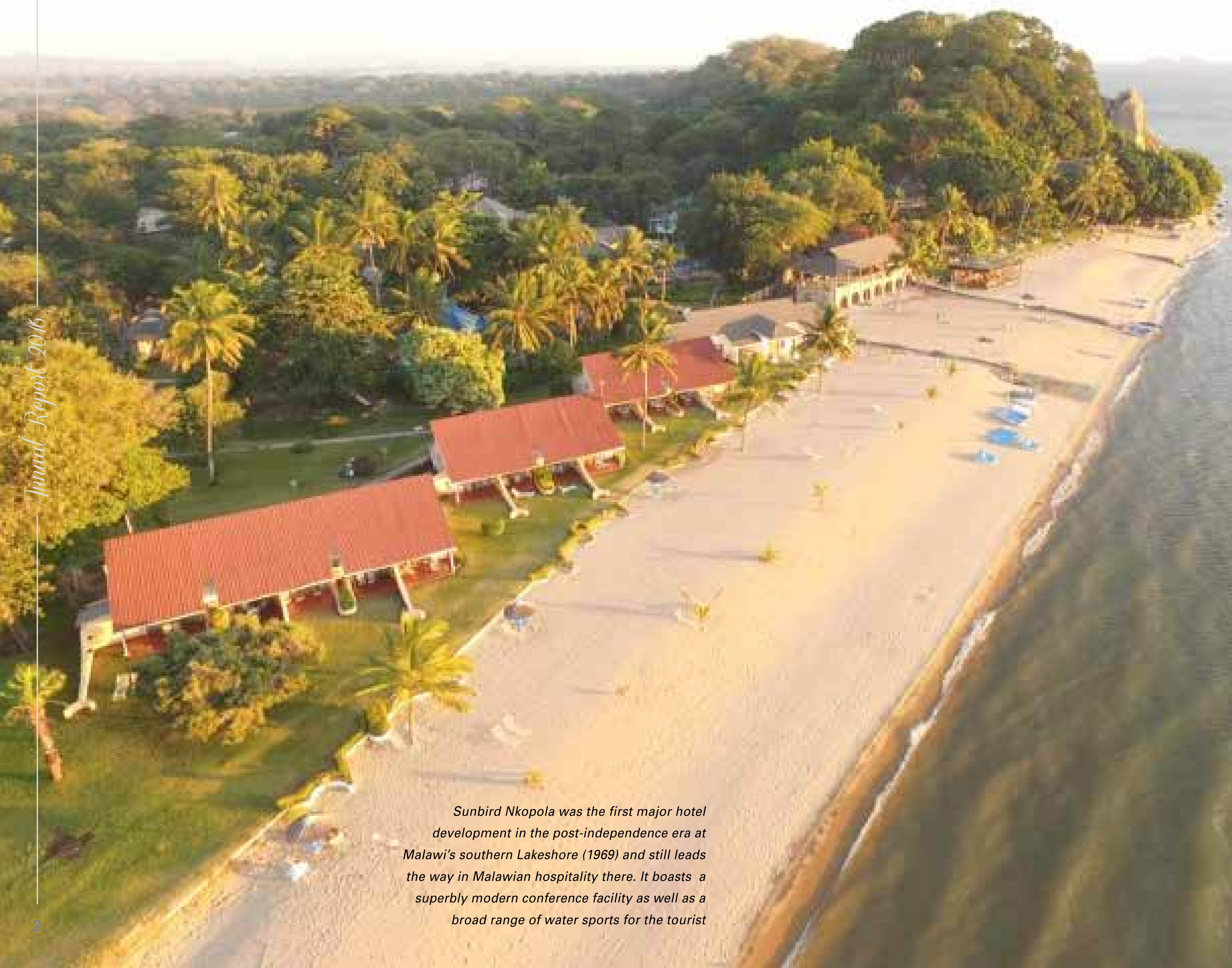
SUNBIRD
Hotels and Resorts

ANNUAL REPORT 2016



Sunbird Nkopola was the first major hotel development in the post-independence era at Malawi's southern Lakeshore (1969) and still leads the way in Malawian hospitality there. It boasts a superbly modern conference facility as well as a broad range of water sports for the tourist

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GROUP PROFILE

SUNBIRD TOURISM LIMITED [STL] is a publicly quoted enterprise, listed on the Malawi Stock Exchange in August 2002. Sunbird has over 600 shareholders. The issued share capital is MK13,079,000 and at 71% the Government of Malawi is the largest shareholder. Members of the public own 12.51% and Mr. Noel Hayes 16.49%.

STL 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 the Company was called Tourism Development and Investment Company of Malawi (TDIC) until 2000 when by a Board resolution the name was changed to Sunbird Tourism Limited.

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 shareholder value

STATEMENT OF STRATEGIC INTENT

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

Sunbird Tourism Limited

The Sunbird Mount Soche heads Victoria Avenue main thoroughfare in Blantyre's CBD. It is very convenient for the visiting businessman and distinguished from all other city centre hotels through the extent of its well manicured grounds

CHAIRMAN'S REPORT

ECONOMIC HIGHLIGHTS

ECONOMIC AND BUSINESS OVERVIEW

Economic growth for the country in 2016 is estimated at 2.9%. The low growth was partly due to the low agricultural output on account of some inconsistent rain patterns experienced during the 2015/16 agricultural season. The economy also experienced insufficient power supply which hampered productivity as businesses were unable to operate at their full capacity. Most businesses used alternative power sources like generators which proved to be costly.

INFLATION

Inflation averaged 21.8% in 2016, a marginal decrease from 21.9% in 2015. This was mainly due to a slowdown in non-food inflation. Food inflation rose to an average of 26.7% in 2016 from 24.0% the previous year as a result of high food prices due to the maize deficit and low agricultural production.

EXCHANGE RATES

In 2016, the Malawi Kwacha depreciated against the US Dollar, the Euro and the South African Rand but appreciated against the British Pound. The appreciation against the British Pound was due to the effects of Brexit which led to a slump in the value of the British Pound. The Kwacha experienced some stability during the last quarter of 2016.

INTEREST RATES

The Monetary Policy Committee (MPC) met four times during the year. The Liquidity Reserve Requirement (LRR) was maintained at 7.5% throughout the year, and the monetary policy rate was adjusted downward to 24% from 27% in November 2016 in response to a decline in inflation. Following the reduction in the policy rate, commercial bank base lending rates were reduced from 36.19% in 2015 to 33.30% in 2016.

The International Monetary Fund (IMF) Mission visited Malawi four times in 2016. The Mission stated that they made good progress with the authorities on establishing new macroeconomic targets for 2016. In December 2016, they conducted discussions on the ninth review of Malawi's economic performance under the Extended Credit Facility (ECF) and extended the programme to June 2017.

The improving trends in economic fundamentals, albeit sluggish, are welcome news to Sunbird which currently relies on debt capital to finance its much needed refurbishment programmes as well as capital expenditure. Should the Government hold fast to its commitment to tight fiscal discipline there is optimism that the economy will continue on the improvement path.

SUNBIRD PERFORMANCE

In spite of the challenging economic environment Sunbird was able to grow revenues by 30% to MK15.7 billion from MK12.1 billion in 2015.

Profit after Tax increased by 31% to MK1.336 billion from MK1.022 billion in 2015.

While part of the sales and profit growth can be explained by inflation, the results are also a testament of Management's keen focus on key strategic initiatives.

STOCK MARKET

The stock market was bearish in 2016 with the Malawi All Share Index (MASI) decreasing by 8.53% to settle at 13,320.51 points from 14,562.53 points in 2015. The largest three gainers included Sunbird with a 154.35% increase in share price during the year which moved from MK23.00 per share as at December 2015 to MK58.50 as at December 2016. This represented the highest annual share price increase since the Company was listed in 2002.

TOURIST ARRIVALS

There has not been a significant increase in the number of tourists coming to Malawi in recent years. The annual tourist arrivals in Malawi are still estimated to be below one million although it has been reported that tourist numbers visiting the continent have been increasing year on year.

According to *Africa Tourism Monitor* the tourism industry constitutes an important pillar in the realisation of Africa's economic potential in the same way that the tourism industry has the potential to contribute significantly to the economy of Malawi. The medium term aim is to establish Malawi as a principal and leading eco-tourism destination in Africa. Government is working closely with the private sector to strategically diversify tourism products, identify niche opportunities, and make Malawi's tourist destinations good value propositions compared to competitors in the region. The domestic market continues to dominate the geographical source of business.

TOURISM GDP CONTRIBUTION

In the 2016 budget the government's predictions were that tourism contribution to GDP will increase to MK230 billion representing 7% of total output. In 2015 the sector contributed MK105 billion (3.4%) to GDP.

However, the direct contribution of travel & tourism to GDP was MK138,039 million (USD195 million), 3.4% of total GDP in 2016 and is forecast to rise by 3.7% in 2017, and to increase by 4.9% per annum, from 2017-2027, to over MK230 billion (USD327 million), representing 3.4% of total GDP by 2027.

TOURISM EMPLOYMENT CONTRIBUTION

In 2016 travel and tourism directly supported 217,500 jobs (2.9% of total employment). This is expected to rise by 2.8% in 2017 and increase by 3.1% per annum to 305,000 jobs (2.8% of total employment) by 2027.

INVESTMENTS IN TOURISM

Travel and tourism investment in 2016 was MK20,423.5 million, 4.0% of total investment (USD28.8 million). It is expected to rise by 3.7% in 2017, and rise by 4.0% per annum over the next ten years to MK32 billion (USD44.2 million) by 2027, 3.6% of total.

CHALLENGES

Although tourism presents great potential for the country's economic growth, employment opportunities and contribution to poverty reduction, there are still many challenges to the full realisation of the potential benefits to the country and to Sunbird specifically. In 2016, Sunbird paid financing costs of MK669 million to providers of debt capital. It is obvious that this level of financing costs erodes distributable profits that would have otherwise been paid as dividends to equity shareholders or reinvested in the company if the company had an optimal capital structure.

The Board is therefore on a major drive to have in place an optimal capital structure so that the cost of finance for Sunbird is reduced. Some of the options and strategies being considered are a Rights Issue, and Joint ventures.

Unreliable power supply and continuous black-outs also make the country less attractive to investors, business visitors and tourists. The government through the Public-Private Partnerships is exploring ways to improve the availability, reliability and quality of the power supply which if achieved should promote economic activity. Some level of urgency in implementing programmes aimed at addressing this challenge would be welcomed by all industries.

Poor road access to some tourist establishments is the commonest infrastructural shortfall affecting the sector negatively. Complaints relating to slow, or absent internet connectivity is also a very common feature in hotels, resorts and lodges.

The sector stills falls short of skilled staff. Food production as well as general hospitality management and supervisory skills are the most pronounced shortages in the sector. This has a direct negative impact on service delivery and consequently destination competitiveness.

Price competitiveness is particularly important for destinations wanting to scale up their tourism sectors. Tours to Sub-Saharan Africa cost 25 – 35 percent more than tours to comparatively distant parts of the world while flights to Sub-Saharan Africa are almost 50 percent more expensive even when compared to long haul alternatives.

DESTINATION MARKETING

The Malawi Growth and Development Strategy II and the Malawi National Export Strategy 2015 - 2018 have both identified travel and tourism as a priority sector which can boost the country's economy and foreign currency earnings. Tourism has also been identified as a viable source of employment for the youth. While Government continues with attempts to market the country, Malawi is still largely unknown on the global tourism market. This means that our client base is largely domestic, which is generally lower yielding in terms of the average rates applicable. There is a case for the Government to allocate adequate resources to the Department of Tourism to enable the Department to implement more robust destination marketing strategies.

The Sunbird Capital Hotel occupies some of the most valuable real estate in Lilongwe and is very close to both Government offices and the CBD

CORPORATE GOVERNANCE

We believe that the highest standards of corporate governance are critical to the success of our business. Good governance is the bedrock for the delivery of our strategy to become the preferred brand in the hospitality industry. Sunbird fully complies with the Code of Best Practice for Corporate Governance in Malawi (MALAWI Code II) and provides explanation adequate 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.

BOARD OF DIRECTORS

MR PHILLIP MADINGA (CHAIRMAN)

Mr. Madinga is currently the Group General Manager, Corporate and Commercial Banking for First Merchant Bank. 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 FDH Bank, Standard Bank, Indebank, Nedbank and Ecobank. Mr. Madinga has been Chairman of the Board since 2015.

MR ANDY KULUGOMBA

Mr 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 JIMMY LIPUNGA

Mr Lipunga is a Chartered Accountant with 30 years of post-qualification experience. A certified Public Private Partnership specialist with vast experience in managing privatisations, public sector reforms and implementing public private partnership (PPP) arrangements. He is currently Chief Executive Officer of the Public Private Partnership (PPP) Commission. He is the current Chairman of the Malawi Accountant's Board. He is a past President of the Society of Accountants in Malawi (SOCAM) now known as the Institute of Chartered Accountants in Malawi (ICAM). He has served on several high profile boards including Reserve Bank of Malawi and Old Mutual Malawi. Mr Lipunga has been on the Board since 2009.

MRS GRACE MKUPU

Grace Mkupu possesses a unique blend of knowledge, skills and experience in a broad range of disciplines that include General Management, Human Resource Management, Functional Reviews, Organisational Analysis and Design. She has worked in both the public and private sectors in different management capacities. She possesses a Diploma in Public Administration, and Bachelor of Arts Degree(Human Resources Management) obtained from the University of Malawi, and a Master of Business Administration obtained from Edith Cowan University in Australia.
Mrs. Mkupu has been on the Board since 2014.

REVEREND ELSIE TEMBO

Reverend Elsie Tembo is a seasoned Civil Servant with vast experience and exposure in the Civil Service. She is a holder of a Post-Graduate Diploma in Public Administration and Civil Service Management obtained at Galilee College, Israel; and Master of Science Degree in Strategic Management majoring in International Marketing obtained at the University of Derby, United Kingdom.
Reverend Tembo has been on the Board since 2013.

MR BENSON JERE

Mr. Jere is an alternate Director to Mr. Noel Hayes. He is currently the C.E.O of NBM Capital Markets Limited, an investment management subsidiary of the National Bank. He has 20 years of experience in investment management and financial services industry, having worked for Standard Bank of South Africa, Old Mutual Asset Managers (Pty) SA, Old Mutual Malawi Ltd, CDH Asset Management Ltd, Stockbrokers Malawi Ltd and National Bank of Malawi in relevant capacities. Mr Jere holds a B.Soc.Sc. degree and an M.A both in Economics for the University of Malawi and holds a B.Com (Hons) degree in Finance from the University of Cape Town. Mr. Jere, has been on the board since 2013.

MR BEN BOTOLO

Mr. Ben Botolo is the Secretary to the Treasury effective 16th 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. Mr Botolo has been on the Board since April 2017.

MR REAGANS NKHOMA

An entrepreneur and Chartered Accountant, Mr. Nkhoma has experience in financial reviews, enterprise risk management, organisational development and personal financial intelligence counselling.

MRS MAUREEN KACHINGWE

A lawyer with over 20 years' experience. Mrs Kachingwe holds an LL.B. degree from the University of Malawi and an MBA from the University of Hull. She has an extensive experience in corporate law, corporate governance, strategic management and labour law. She has served as a secretary to the board since 1993.

The Board is composed of nine non–executive members. Seven are appointed by the majority shareholder – the Government – two of whom are ex – officio but with voting rights. However the directors, in recognition of their responsibilities to the Company, exercise their fiduciary duties independently and in the interest of the Company without interference. Mr Charles Merrick who was a minority shareholder representative resigned in September 2016. The Board is seeking his replacement.

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 in-depth focus on specific areas.

Currently the following Committees are in place and their membership is reflected as below:

FINANCE & AUDIT COMMITTEE

Mr Jimmy Lipunga - Chairman
Mr Benson Jere - Member
Mr Reagans Nkhoma - Member
Secretary to Treasury or his Representative

APPOINTMENTS AND REMUNERATION COMMITTEE

Mr Andy Kulugomba - Chairman
Mrs Grace Mkupu - Member
Ms. Elsie Tembo - Member

PROJECTS COMMITTEE

Mr Benson Jere - Chairman
Mr. Jimmy Lipunga - Member
Mr. Andy Kulugomba - Member
Chief Executive Officer - Member
Director of Finance - Member

MANAGEMENT

Standing from left: **Oswald Bwemba** - Director of Operations and Quality Assurance, **Patrick Lisilira** - Director of Finance, **Samson Mwale** - Director of Internal Audit,
Seated from left: **Edward Chunga** - Group Human Resources Manager, **Yusuf Olela** - Chief Executive Officer, **Maureen Kachingwe** - Director of Legal and Corporate Affairs

Sunbird Tourism Limited

DIVIDEND DECLARATION

At the forthcoming Annual General Meeting the Board will recommend a total dividend of MK105 million (or 40 tambala per share) for 2016. In 2015, the company declared a total dividend of MK75 million but paid only MK44 million because some shareholders waived their interim dividend.

During the year the company declared and paid an interim dividend of MK50 million representing 19 tambala per share relating to the results for the period ended 31st June 2016.

The final dividend payable for the year 2016 will therefore be MK55 million or 21 tambala per share.

INVESTOR RELATIONS

Sunbird has gone further than the 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. Some 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.

OUTLOOK

The economy is likely to continue to be challenging in the short term. The Government passed a budget of MK1.149 trillion for the 2015/2016 fiscal year but at the mid-year review (February) it was announced that Government, faced with falling revenue, would trim this figure to MK1.12 trillion. With development partners continuing to withhold aid, the reduction in Government spending may stifle business activity. However our marketing strategies are sufficiently agile to react to negative business trends quickly in order to remain profitable.

Sunbird will continue to offer reliable and high standards of service in order to retain and grow the client base in the domestic as well as the international market sectors.

APPRECIATION

Roger Gardner who was Sunbird's CEO from 2011 left the Company in December 2016 after six extremely successful years. During his term Roger initiated many value adding projects in Sunbird such as the up-market Vincent's Restaurant and Bar at Sunbird Capital, Picasso's Restaurant and Pablo's Bar at Sunbird Mount Soche, completion of the refurbishment of bedrooms at Sunbird Capital and Sunbird Mount Soche and many others. Roger built a team of highly professional and dedicated staff and was responsible for creating a conducive work environment for all staff. Under his leadership Sunbird experienced tremendous financial growth in spite of operating under some of the toughest economic conditions experienced in recent years. On behalf of fellow Board members and staff I am greatly indebted to Roger for his dedicated service to Sunbird and I wish him success in his retirement.

I would also like to thank our loyal customers who continue to believe in our brand by supporting us. Sunbird's success story depends on our customers and we in turn promise to continue offering innovative, professional and customer-centric service to please and surprise our customers.

As we mark the end of yet another successful year, the Board would like to thank the Management team for their unwavering commitment and guidance in moving the Company forward.

I would also like to extend my deepest gratitude to all employees for their invaluable service to the Company. You serve our guests with commitment and cheerfulness that keeps them coming through our front doors. I look forward to another year, where we all recommit ourselves to ensuring greater growth for our Company and for our stakeholders. As your employer we will make sure that we continue to improve the welfare of staff so that you can continue to serve our guests with dedication.

Last but not least, we thank our partners, suppliers and other service providers for their continued support and loyalty to our Company.

Mzuzu Hotel led the way in the development of accommodation in the Northern Region and remains very popular with both tourist business people

CHIEF EXECUTIVE OFFICER'S REPORT

I replaced Roger Gardner in February 2017 and thus I make this report to our shareholders on behalf of Roger. With one of the most dedicated teams under his stewardship Roger was able to record high revenue growth and profitability and initiated projects that have enhanced the guest experience and brand equity.

I am confident that we shall continue on the growth path as we focus on expanding the revenue drivers and improvement of products and services while we undertake measures to manage costs.

COMPANY PERFORMANCE

REVENUE AND PROFITABILITY

Despite the challenging economic environment in 2016 the Group remained resilient and registered revenues totaling MK15.7 billion which was 30% above 2015's revenues of MK12.1 billion. The increase in revenues was as a result of good performance by both the parent and its subsidiary, Catering Solutions Limited.

The parent company increased its revenues by 27% from MK11.2 billion in 2015 to MK14.2 billion in 2016 whereas the subsidiary's revenues increased by 63%. Occupancy increased from 56.2% to 60.2% in 2016.

This performance was possible due to a disciplined focus on our key strategic initiatives, mainly providing excellent customer service and enhanced sales and marketing activities. The corporate and commercial segments were the key drivers of the Groups' revenues while the domestic source market was the key contributor.

Looking ahead Sunbird has lined up a number of initiatives aimed at diversifying the source of revenues. These efforts include the attraction of new business and identifying other foreign source markets to complement the existing ones which are the Americas, South Africa, the United Kingdom and Germany. Sunbird will also focus on growing the leisure and online segments.

OPERATING COSTS

Administration and other expenses increased from MK7.3 billion in 2015 to MK9.4 billion in 2016. This represented 60% of revenue same as in 2015. Increases in prices of goods and services continued throughout the year and the persistent blackouts resulted in the very high cost of utilities in all hotels.

FINANCING COSTS

Financing costs amounted to MK669 million compared to MK717 million in 2015. The decrease resulted from repayment of borrowings during the year and reduction of interest rates towards the end of the year. Management will continue with efforts to reduce the cost of borrowing.

GROUP PROFIT AFTER TAX

The profit after tax increased by 31% from MK1.022 billion in 2015 to MK1.336 billion in 2016. The growth in profit was mainly achieved through growth in revenues and effective cost controls. Management continues to leverage its size in order to maintain costs within reasonable levels.

Our resilience in the face of the severe challenges faced in the year confirms that the Group is strategically positioned to maintain its position as the market leader in the hospitality industry in the country.

PERFORMANCE OF THE SUBSIDIARY - CATERING SOLUTIONS LIMITED

Sales were MK1.470 billion, 63% above last year performance of MK917 million. The increase on last year was mainly as a result of new catering contracts that were secured during the year.

The subsidiary's profit after tax increased by 92% from MK62 million in 2015 to MK120 million in 2016.

PROJECTS AND NEW VENTURES

Sunbird enjoys market leadership in the hospitality industry in Malawi. To consolidate its market position Sunbird needs to continue investing in redevelopment projects in order to refresh its existing infrastructure while also exploiting opportunities for strategic alliances in its expansion drive both within the country as well as in the region. Sunbird's strategy is also to embark on the expansion of its resort properties and conferencing facilities to address the growth in the meetings, incentives, conferences, events and leisure segments. Eco-tourism remains one of the under exploited niches in the country and should efforts to recapitalise the Company materialise, we shall embark on development of these facilities. The availability of eco-lodges in our major attraction destinations will put the country on the tourism global map and increase the number of international visitors to the country.

As part of our strategies for growth we have developed a hotel management model for third party investors. In January 2017 Sunbird and African Parks (Majete) Limited entered into a management contract for the Thawale Lodge and Mwembezi Restaurant in Majete Wildlife Reserve in Chikhwawa. Thawale Lodge has seven tented chalets situated within Majete around a serene floodlit waterhole that attracts a variety of wildlife. From 1st February 2017 the lodge is known as Sunbird Thawale lodge and this brings to eight the total number of hotels operated under the Sunbird brand.

We shall continue to engage in such prospects in key destinations where we do not yet have brand presence.

Sunbird embarked on the refurbishment of its rooms at Sunbird Lilongwe Hotel during the year. The hotel bedrooms had not been refurbished for a while and the dated rooms had started causing the hotel to lose its fair share to the competition hence affecting its profitability. The need to refurbish the rooms was urgent in order to retain customers and to stem customer flight to other newer products in the same vicinity.

At Sunbird Mount Soche we commenced a project for the construction of a 500 seat conference hall. This was in direct response to negative customer feedback. The lack of purpose-designed breakaway rooms, space catering for conference guests away from normal diners and limited capacity for hosting bigger conferences was impacting on our guest comfort. Sunbird responded with this project. The conference hall will be ready in 2018.

Sunbird also plans to add more bedrooms at Sunbird Livingstonia Beach starting from 2018. We are also in the process of erecting a marquee at Sunbird Ku Chawe with a seating capacity of 1,000 people. This will address the issue of capacity constraints for bigger conferences and functions in Zomba.

At Sunbird Mzuzu we are refurbishing the Nyika Restaurant considering that Mzuzu is a fast growing city and the need and opportunity to provide enhanced dining facilities has not been lost on us. At Sunbird Nkopola we are renovating the beachside bar. The new bar will allow guests to enjoy the beauty of the lake while enjoying drinks in a tranquil environment. The medium to long term plan is to build additional 50 - 100 rooms at Nkopola.

The settings of Sunbird hotels are frequently cited as one of their unique attractions. Sunbird Ku Chawe is perched on the lip of the Zomba plateau with a view to Mulanje over the Phalombe plain and, more than 1000m directly below, the historic old capital of Zomba

MARKETING

Levie Nkunika
Group Sales and Marketing Manager
(since February 2017)

SUNBIRD'S LOCATIONAL STRENGTHS ARE COMPLEMENTED BY MARKETING EXPERTISE

The successful marketing of a modern hotel chain depends on how well it can link perceptions of the units within the chain so that the attraction of the whole chain is seen to be greater than the sum of its constituent units. Each unit tends to attract a niche market, based primarily on its position and facilities. Over the course of Sunbird's and its predecessor 's corporate histories, as a Government owned hotel group, Sunbird has not been able to choose the units allocated to it for management on Government's behalf. More challenges than opportunities were often apparent in such allocations which often demanded the simultaneous expansion of share capital for successful integration into a chain which would have unique overall appeal to leisure-minded business visitors. Nevertheless considerable success has been recorded as the photographs

accompanying this marketing profile indicate - of facilities introduced specifically to enhance each and every unit's appeals to the domestic and international business visitor seeking exercise, entertainment, fine dining or just relaxation at the end of the day or at weekends.

One of Sunbird's core strengths is the professional service delivery by our well-trained and highly motivated staff. Strategic locations provide another major advantage, our business-oriented hotels being conveniently positioned within Malawi's major urban centres. Our properties allow our guests to be at the heart of the business community and yet in environments of calm professionalism. This also offers an opportunity for our managers to be more mobile and have varied management experiences. Sunbird plans to maintain its market dominance in the hospitality industry by engaging in continuous improvement processes to boost the guest experience through among other things, subtle differentiation in our service delivery through innovative products and services, engaged and personalised service, and effective customer relationship management.

MARKET SHARE AND COMPETITION

Sunbird Hotels offer the best, most personalised service to our guests. Guest needs are dynamic and ever-changing, they demand excellent service. A survey indicated that if guests are pleased by the service received, they tend to return and spend more, while most guests will leave and not come back following a single poor experience.

In our business hotels we include business essentials in every room, such as a desk, internet connection, wireless access, and provide easy access to meeting rooms with all audio-visual and technology needs as well as catering for longer meetings.

Hotel standards are becoming more international with a work environment that promises not only to be more global in scope,

Sunbird aims to offer the broadest range of facilities in all its hotel with a new focus on conferences and conventions

but increasingly culturally diverse at home. Although most travel worldwide is still domestically oriented, international travel is increasing.

Both domestic and international travel are influenced by the rising importance of international trade and domestic hotel operators competing with foreign hotels that have penetrated their homeland must develop a better understanding of how these transnational companies operate or risk surrendering a share of their market.

To consolidate its market position management's attention remains improved service delivery, product improvements and intensified sales and marketing activities to major segments.

CUSTOMER RELATIONSHIP MANAGEMENT

In order to consolidate its market position, Sunbird is a listening and learning brand that constantly engages in continuous improvement in the way customers are handled and served. This is designed to improve guest satisfaction, earn lifetime loyalty which in turn will grow our revenue to optimise shareholder value.

A robust modern customer relationship management strategy is required to please the customer/guest by offering differentiated value for money products and services. Sunbird therefore acquires and retains customers with greater precision by focusing on customer retention management through intensified account and relationship handling, adoption of dynamic and competitive pricing,

reviving dormant accounts and getting market feedback and demands with the intention of meeting and exceeding guests' need and preferences.

As a progressive and customer focussed brand, Sunbird is continuously engaging customers through, among other strategies, the E-guest survey, a reputation management tool that customers use to share their feedback on their needs, demands, tastes, interests, feelings and experiences of our services and products. This helps us to continuously measure customer satisfaction and understand their needs and accordingly adjust and improve our product and service offering.

MARKETING PROMOTION

Sunbird implemented many special revenue generating activities. We offered wedding/honeymoon packages, Valentine's promotion; Easter packages; Mother's Day promotions; Picasso's Theme lunches and dinners; the Sunbird Ku Chawe Terrace Treat and Sunday Lunch and Barbecues; weekend special rates, Christmas packages; low season packages and themed special promotions which were all very successful. Sunbird's international market segment initiatives included participation at Meetings Africa in Johannesburg; ITB Berlin Travel Show in Berlin, Germany; WTM Africa in Cape Town, South Africa; Indaba in Durban plus the travel trade show organized by the tourism attaches in Sandton, South Africa and WTM London. The Malawi Travel Market Consortium continues to represent Sunbird in the United Kingdom.

Going forward, our destination marketing strategies are being reviewed to focus on high potential international source markets to grow our international client base. One of the approaches will be direct sales calls to the specific countries.

BRAND VISIBILITY

Sunbird brand continues to enjoy top-of-the-mind brand awareness in both local and international markets through our own redeveloped Sunbird website and social media sites which include Facebook, Twitter, WhatsApp, Instagram, alliance websites such as Reshub, Travel Malawi guide.com, Coffee Bean - ZIZO, Carole's List and on all leading Global Distribution Systems such as Expedia; Bookings.com, HRS, International Vacations, Hotelbeds, Tripadvisor, Hotels.com and Safari now. During the year the Sunbird brand enjoyed increased share of visibility through local advertising in the daily press and magazines, Malawian airline ticket folder, national television and strategically positioned outdoor advertising throughout the country including digital billboards. Sunbird also enjoys visibility in international travel magazines such as the GSA, Travel Africa, Pick'n'Pay travel magazine. Sunbird Mount Soche and Sunbird Capital profiles have gained considerable visibility in Portfolio and South African Airways websites.

LOYALTY PROGRAMME

Loyal customers are an asset to Sunbird because they offer valuable feedback, spend more, grow the revenue and in turn increase shareholders value. To that end, the Sunbird HotelStay Loyalty programme was launched in 2014 and has since made solid strides in growing membership. The Sunbird HotelStay card offers industry's leading benefits and flexibility to our loyal guests. The loyalty programme has benefits which are redeemable beyond Malawi and South Africa offering unique value and advantages to travellers. The attraction upon initial subscription is the instant entitlement to free accommodation vouchers. Additional benefits include: free accommodation vouchers on attaining specific room nights, room upgrades and discounts on dining. As part of repositioning ourselves and adopting best practice globally our loyalty programme will be owned and managed by Sunbird.

The Sunbird Premier Club will build on the successes of HotelStay and improve on the redemption platforms to address the needs of members.

OPERATIONS

CUSTOMER SATISFACTION

We use e-guest survey as a tool for feedback on our services. In the year we consistently performed better than our target. That notwithstanding we continue to improve our services in order to ensure repeat business. We realise that a delighted customer is guaranteed to return time after time and is also likely to tell others about their positive experience.

OPENING OF VINCENT'S RESTAURANT AND BAR AT SUNBIRD CAPITAL

In May the Vincent's Restaurant and Bar was opened at Sunbird Capital. It was refurbished to become the top fine dining restaurant in Lilongwe and probably the best in the country. Service excellence complements the upgraded physical product at Vincent's. This is an investment which has rejuvenated food and beverage business at the hotel.

IN-HOUSE TRAINING OF CHEFS

In a quest to improve food quality in Sunbird, selected serving cooks were trained as kitchen managers for a year. Another group of fifteen which started their training last year, graduated with skills in cookery. They were deployed to the various Sunbird properties.

Sunbird also engaged a former president of South African Chefs Association to lead the process of food quality improvement at our hotels. This was a six month project that was designed to impart specific skills to our chefs.

HEALTH, SAFETY AND HYGIENE

Compliance with standard operating procedures in all service areas assisted in the upkeep of standards. Property inspections every quarter of the year was one such activity that assisted in assurance of health, safety and hygiene for the benefit of both staff and customers.

OUR PEOPLE

Our staff complement averaged 1,100 during the year and Sunbird continues to be an employer of choice in the service industry. The core competence that distinguishes us from other market players in the industry are the capabilities of our employees. Sunbird's

Another view of Sunbird Nkopola looking south down the lake shore over the hotels glorious beach to the hotel camp site at the base of Nkopola Hill. Nkopola's purpose-built Conference Centre is seen on the far right of the picture employee value proposition, incentives, work environment and culture ensures that we have the best trained and motivated workforce.

Employee engagement is driven by the emotional commitment employees have with their company and its vision. This emotional commitment motivates employees to be more productive which leads to growth in profitability. We engage our staff through the Annual Employee Satisfaction Survey through which staff are free to express themselves on various issues of interest to them and to the company. Our aim is always to have high survey ratios and therefore we continue to review our HR practices in line with the feedback.

We also try to be fair as well as prudent in our remuneration approach. Our objective is to ensure that we attract and retain employees of the right calibre and skills and motivate them to achieve exceptional performance aligned to our strategic priorities. We strive to reward employees fairly and equitably through both financial rewards and non-financial benefits such as performance recognition through the Employee and the Supervisor of the Year awards, development and career opportunities.

TRAINING

The Hotel industry in Malawi is now characterised by cut-throat competition with more hotels being added. Being a service industry perking up service standards remains the most important means to attract and retain customer loyalty. Motivated, well trained and well-equipped employees are important for the delivery of quality services. Investment in skills development is at the core of our service delivery strategy. During the year we opened the Learning and Development Centre at Sunbird Lilongwe where staff from all hotels attend training in one place so that they can get more aligned to 'the Sunbird Way' - the way we do things in Sunbird. This forms the basis of our culture and ensures that we are in line with Sunbird's vision of being 'the preferred brand in the hospitality industry'.

Sunbird Ku Chawe is the sole hotel on Zomba plateau. It is well appointed with all modern facilities for the tourist and the conference delegate and is beautifully positioned, close to the dam, (seen top left here) which supplies water by gravity feed to Zomba Municipality far below

Five of our Hotel General Managers also travelled to Nairobi to assess other hotels. Such visits help us to learn new trends in the industry and to benchmark our standards against the best in the region. We strive continuously to offer top service standards.

PROMOTION

During the year Mr Oswald Bwemba was appointed as Director of Operations and Quality Assurance. Mr Bwemba took over from Mr Felix Nakoma who retired in January 2016. Mr Bwemba has been in the industry for over twenty years.

TECHNOLOGY

The use of information technology in the hospitality industry has grown by leaps and bounds over the years. Technology enhances the overall experience and quality of service we are able to 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. IT has changed the procedures and structure for issues such as marketing, booking and reservations, food and beverage management, and accounting systems in the industry. Cognisant of this Sunbird aims to be at the forefront in implementing technologically-aided solutions for the most important tasks to enhance the guest experience.

In 2016, we embarked on a systems integration and processes automation drive to identify areas in our systems that were not fully integrated and processes that were lacking automation.

Out of this initiative, the guest survey system is now able to give feedback from conference attendees in the functions and banqueting department. The systems integration drive has seen a successful installation of the rooms door locking system fully integrated with the front office guest check-in system. This setup will now be rolled in all the major Sunbird city hotels to improve the guest check-in experience and room security controls.

Several processes in various departments have been automated resulting in improvements in operations efficiency and accurate data capturing which is of paramount importance. Some of the processes that have been automated are the front desk receipting process and the full integration of HR/Payroll systems.

The Point of Sale system used in bars and restaurants has been upgraded in readiness for the new generation POS workstations and devices to be introduced soon. This will enable the company to take full advantage of the new technologies in the industry without experiencing the challenges inherent in technological gaps.

The initiative is ongoing so as to achieve the maximum possible systems integration and process automation in the company.

Sunbird Tourism Limited

SUNBIRD
Hotels and Resorts

ANNUAL REPORT 2016

Consolidated & Separate Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016.

NATURE OF BUSINESS

Sunbird Tourism Limited (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.

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

INCORPORATION AND REGISTERED OFFICE

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

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

	2016 %	2015 %
MDC Limited	71.00	71.00
Members of the public	12.51	12.52
Noel Hayes	16.49	16.48
	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 **MK58.50** (2015: MK23.00) per share.

FINANCIAL PERFORMANCE

The results and state of affairs of the Group and Company are set out in the accompanying 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 dividend of MK39 million representing 15 tambala per share was paid in respect of the year ended 31 December 2015 and an interim dividend of MK50 million representing 19 tambala per share was paid relating to the results for the period ended 31 December 2016.

CORPORATE GOVERNANCE

Sunbird Tourism Limited has an overarching governance structure incorporating principles of good governance, to facilitate effective and dynamic management and oversight of the Company and Group 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. P. Madinga	-	Chairman
Mr. R. Nkhoma	-	Director
Mr. J. Lipunga	-	Director
Mr. Noel Hayes	-	Director
Mr. A. Kulugomba	-	Director
Mrs. G. Mkupu	-	Director
Ms. E. Tembo	-	Director
Dr. R. Mangani	-	Director
Mr. C. Merrick	-	Director (up to September 2016)
Mrs. M. Kachingwe	-	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. The Board meets at least four times a year including sessions devoted to strategy and business planning. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings.

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

GOING CONCERN

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

INDEPENDENT AUDITORS

Messrs KPMG, Chartered Accountants, 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 2017.

FOR AND ON BEHALF OF THE BOARD

Authorised Director
24 March 2017

Authorised Director

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Sunbird Tourism Limited, comprising the statements of financial position at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes set out on pages 34 – 74 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 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 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 Limited, as identified in the first paragraph were approved by the Board of Directors on 24 March 2017 and were signed on its behalf by:

Authorised Director

Authorised Director

Independent Auditor's Report to the Shareholders of Sunbird Tourism Limited

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Opinion

We have audited the consolidated and separate financial statements of Sunbird Tourism Limited (the Group and Company) set out on pages 34 to 74 which comprise the statements of financial position as at 31 December 2016, 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 Limited at 31 December 2016, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards 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 Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the requirements of 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	*How our audit addressed the key audit matter*
Impairment of trade receivables – Group and Company See notes 3.13, 4.1, 5.1.2, 9 and 24(b) 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 entity is operating in a number of different locations within Malawi and provides its 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 repay the Group and Company. Accordingly we paid particular attention to the impairment assessment of trade receivables at year end due to the following: • the significance of the balance in the 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 part of our audit, we assessed whether the impairment process was in compliance with the requirements of IAS 39 Financial Instruments: Recognition and Measurements. We assessed the recoverability of a sample of balances due from customers at year end by comparing management's estimation of recoverability of amounts outstanding to the history of repayments from these customers in conjunction with inspecting payments from these customers received subsequent to year end. As a result, the impairment of trade receivables was a matter of the most significance to our audit of the consolidated and separate financial statements. We examined a sample of receivables which had not been identified by management as potentially impaired and formed our own judgement whether this judgement was appropriate, based on our knowledge of the client, our experience of the industry in which it operates, and using external evidence in respect of the relevant counter parties. We compared the ageing of receivable balances as at 31 December 2015 against the ageing as at 31 December 2016 on an overall basis and challenged management on the deterioration of the ageing or where long outstanding customer balances had significantly increased and compared the explanations received to the judgements applied in determining the allowance for impairment.
Valuation of property – Group and Company	
See Notes 3.2, 5.1.1 and 6 to the consolidated and separate financial statements The Group and Company operates out of various hotels throughout Malawi. These properties, including the land on which they are situated, are either owned or leased by the Group and Company and measured at revalued amounts. These properties are the most significant revenue generating asset of the Group and Company. The valuation of the Group's and Company's properties was a key audit matter due to: • The significance to the consolidated and separate financial statements, • The Group and Company used an external independent valuer to provide specialist advice on valuing the assets in the 2015 financial year, requiring the directors to apply judgement in analysing the assumptions used by the valuer in 2015 and concluding that there were no significant changes in those assumptions in 2016.	Our audit in this area included, amongst others, testing the fair value of the properties at year end by considering whether the assumptions used are appropriate and consistent with market conditions and the economic environment prevailing during the year by: • Understanding the directors' assumptions applied in asserting that the fair values of the properties at year end have not significantly changed from the prior year. • Assessing the appropriateness of the directors' assumptions using our understanding and knowledge of the property market and the economic environment within which the Group and Company operate. • Comparing a sample of market data used by the directors in making their assumptions to independently verifiable data.

Independent Auditor's Report
to the Shareholders of Sunbird Tourism Limited (continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

Other information

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. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' 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 that 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 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.

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

KPMG

KPMG

Lamion M. Gama
Chartered Accountant (Malawi)
Partner
Blantyre, Malawi

29 March 2017

Resident Partners: L.M. Gama, H.B. Nyirenda, B.J. Mwenelupembe, J.C. Gondwe
KPMG Malawi, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Sunbird Tourism Limited
Consolidated & Separate Financial Statements

Consolidated and Separate Statements of Financial Position

AS AT ENDED 31 DECEMBER 2016 *In thousands of Malawi Kwacha*

	Note	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
ASSETS					
NON CURRENT ASSETS					
Property and equipment	6(A)	19,186,606	18,019,385	18,711,534	17,613,487
Investment in subsidiary	7	-	-	102,023	102,023
Total non-current assets		19,186,606	18,019,385	18,813,557	17,715,510
CURRENT ASSETS					
Inventories	8	1,308,427	1,060,411	1,244,926	1,018,691
Trade and other receivables	9	1,701,111	1,412,721	1,555,678	1,294,119
Amounts due from related parties	11	453,444	293,696	84,578	68,398
Current income tax assets	22(B)	164,232	121,144	188,737	113,397
Cash and cash equivalents	10	475,603	196,452	471,718	194,800
Total current assets		4,102,817	3,084,424	3,545,637	2,689,405
TOTAL ASSETS		23,289,423	21,103,809	22,359,194	20,404,915
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		8,143,399	8,251,681	7,976,896	8,084,432
Retained earnings		5,042,139	3,686,338	4,762,493	3,502,141
Total equity		13,200,583	11,953,064	12,754,434	11,601,618
NON CURRENT LIABILITIES					
Loans and borrowings	13(A)	37,603	-	37,603	-
Corporate bonds	13(B)	1,930,551	1,771,378	1,930,551	1,771,378
Obligations under finance leases	13(C)	237,227	150,866	221,715	129,002
Employee benefit liabilities	14(B)	375,687	390,866	375,687	381,775
Deferred income	6(B)	44,236	13,525	44,236	13,525
Deferred tax liabilities	15	4,000,846	3,955,418	3,910,269	3,881,790
Total non-current liabilities		6,626,150	6,282,053	6,520,061	6,177,470
CURRENT LIABILITIES					
Bank overdraft	10	125,370	130,842	120,963	112,756
Trade and other payables	16(A)	2,142,792	1,985,671	1,807,744	1,805,543
Provisions	16(B)	121,075	51,121	118,470	49,196
Employee benefit liabilities	14(C)	623,282	545,074	593,528	506,834
Amounts due to related parties	11	95,405	40,967	95,405	40,967
Corporate bonds	13(B)	250,000	-	250,000	-
Deferred income	6(B)	13,525	28,324	13,525	28,324
Loans and borrowings	13(A)	8,036	-	8,036	-
Obligations under finance leases	13(C)	83,205	86,693	77,028	82,207
Total current liabilities		3,462,690	2,868,692	3,084,699	2,625,827
Total liabilities		10,088,840	9,150,745	9,604,760	8,803,297
TOTAL EQUITY AND LIABILITIES		23,289,423	21,103,809	22,359,194	20,404,915

These consolidated and separate financial statements were approved for issue by the Board of Directors on 24 March 2017 and were signed on its behalf by:

Authorised Director

Authorised Director

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

In thousands of Malawi Kwacha **FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Revenue	17	15,690,863	12,077,143	14,220,843	11,159,723
Cost of sales		(3,756,982)	(2,771,126)	(3,069,643)	(2,340,587)
Gross profit		11,933,881	9,306,017	11,151,200	8,819,136
Other income	18	72,324	78,088	105,447	79,547
Administrative and other expenses	19	(9,447,396)	(7,312,407)	(8,870,439)	(6,918,492)
Results from operating activities		2,558,809	2,071,698	2,386,208	1,980,191
Finance costs	20	(668,677)	(717,092)	(644,411)	(713,100)
Profit before income tax expense		1,890,132	1,354,606	1,741,797	1,267,091
Income tax expense	22(A)	(553,675)	(331,831)	(500,043)	(306,454)
Profit for the year		1,336,457	1,022,775	1,241,754	960,637
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		-	2,432,499	-	2,356,054
Total other comprehensive income, net of tax		-	2,432,499	-	2,356,054
Total comprehensive income		1,336,457	3,455,274	1,241,754	3,316,691
Profit attributable to:					
Owners of the Company		1,336,457	1,022,775	1,241,754	960,637
Total comprehensive income attributable to:					
Owners of the Company		1,336,457	3,455,274	1,241,754	3,316,691
Earnings per share (tambala)					
Basic and diluted	23	511	391		

FOR THE YEAR ENDED 31 DECEMBER 2016 In thousands of Malawi Kwacha
In thousands of Malawi Kwacha FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
2015					
At 1 January 2015	13,079	1,966	5,928,806	2,583,728	8,527,579
Total comprehensive income for the year					
Profit for the year	-	-	-	1,022,775	1,022,775
Other comprehensive income					
Revaluation surplus	-	-	3,474,999	-	3,474,999
Deferred tax on revaluation surplus	-	-	(1,042,500)	-	(1,042,500)
Total comprehensive income for the year	-	-	2,432,499	1,022,775	3,455,274
Transfer to retained earnings	-	-	(109,624)	109,624	-
Transactions with owners of the company recognised directly in equity					
Dividend paid or declared	-	-	-	(29,789)	(29,789)
At 31 December 2015	13,079	1,966	8,251,681	3,686,338	11,953,064
2016					
At 1 January 2016	13,079	1,966	8,251,681	3,686,338	11,953,064
Total comprehensive income for the year					
Profit for the year	-	-	-	1,336,457	1,336,457
Total comprehensive income for the year	-	-	-	1,336,457	1,336,457
Transfer to retained earnings	-	-	(108,282)	108,282	-
Transactions with owners of the company recognised directly in equity					
Dividend paid or declared	-	-	-	(88,938)	(88,938)
At 31 December 2016	13,079	1,966	8,143,399	5,042,139	13,200,583

SEPARATE	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
2015					
At 1 January 2015	13,079	1,966	5,835,915	2,463,756	8,314,716
Total comprehensive income for the year					
Profit for the year	-	-	-	960,637	960,637
Other comprehensive income					
Revaluation surplus	-	-	3,365,791	-	3,365,791
Deferred tax on revaluation surplus	-	-	(1,009,737)	-	(1,009,737)
Total comprehensive income for the year	-	-	2,356,054	960,637	3,316,691
Transfer to retained earnings	-	-	(107,537)	107,537	-
Transactions with owners of the company recognised directly in equity					
Dividend paid or declared	-	-	-	(29,789)	(29,789)
At 31 December 2015	13,079	1,966	8,084,432	3,502,141	11,601,618
2016					
At 1 January 2016	13,079	1,966	8,084,432	3,502,141	11,601,618
Total comprehensive income for the year					
Profit for the year	-	-	-	1,241,754	1,241,754
Total comprehensive income for the year	-	-	-	1,241,754	1,241,754
Transfer to retained earnings			(107,536)	107,536	-
Transactions with owners of the company recognised directly in equity					
Dividend paid or declared	-	-	-	(88,938)	(88,938)
At 31 December 2016	13,079	1,966	7,976,896	4,762,493	12,754,434

FOR THE YEAR ENDED 31 DECEMBER 2016 In thousands of Malawi Kwacha

	Notes	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Cash flows from operating activities					
Cash receipts from customers		14,768,599	11,411,738	13,566,303	10,656,635
Cash paid to suppliers and employees		(12,043,852)	(9,051,581)	(10,980,448)	(8,424,473)
Cash generated from operations		2,724,747	2,360,157	2,585,855	2,232,162
Interest paid	20	(669,406)	(755,006)	(645,140)	(750,106)
Taxation paid	22(B)	(551,335)	(485,682)	(546,904)	(448,381)
Net cash from operating activities		1,504,006	1,119,469	1,393,811	1,033,675
Cash flows from investing activities					
Purchase of property and equipment	6	(1,744,047)	(742,197)	(1,654,426)	(616,325)
Proceeds from sale of property and equipment		62,858	10,318	62,858	7,662
Net cash used in investing activities		(1,681,189)	(731,879)	(1,591,568)	(608,663)
Cash flows from financing activities					
Proceeds from borrowings	13	979,446	912,498	979,446	885,078
Repayment of borrowings	13	(441,762)	(1,362,012)	(437,100)	(1,360,942)
Dividends paid		(88,938)	(29,789)	(88,938)	(29,789)
Net cash from/(used in) financing activities		448,746	(479,303)	453,408	(505,653)
Net increase/(decrease) in cash and cash equivalents		271,563	(91,713)	255,651	(80,641)
Cash and cash equivalents at beginning of the year		65,610	112,829	82,044	119,099
Effect of exchange rate fluctuations on cash held		13,060	44,494	13,060	43,586
Cash and cash equivalents at end of the year	10	350,233	65,610	350,755	82,044

1. REPORTING ENTITY

Sunbird Tourism Limited ('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 comprise 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 Limited, P.O. Box 376, Blantyre, Malawi. Sunbird Tourism Limited is listed on the Malawi Stock Exchange.

2. BASIS OF PREPARATION

a) **Statement of compliance**

These consolidated 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 to 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 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, 15 and 16.

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.

2. BASIS OF PREPARATION (CONTINUED)

(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 standards and interpretations not yet adopted

A number of new standards amendments to standards and interpretations have been published that are not mandatory for the 31 December 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

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

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

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

  The actual impact of adopting IFRS 9 on the Group's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

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

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

  The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

- IFRS 15 Revenue from Contracts with Customers: IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

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

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

- Disclosure Initiative (Amendments to IAS 7): The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

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 unrealized 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.

3. *SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

3.2 PROPERTY AND EQUIPMENT (CONTINUED)

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. 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, plant 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

For accommodation revenue the transfer of risks and rewards occurs when a customer's reservation is confirmed. For catering revenue transfer occurs when a customer's order is confirmed. For all other sales of goods or services are recognised when goods are delivered or services are rendered.

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.

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 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

Recognition

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

Derecognition

Financial assets are derecognised if the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.12 FINANCIAL INSTRUMENTS (CONTINUED)

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 company's trading activity.

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

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

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

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

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 above).

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

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

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

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

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

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 IMPAIRMENT (CONTINUED)

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.

3.17 FINANCE EXPENSES

Finance cost

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

Foreign currency gains and losses

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

3.18 SHARE CAPITAL, SHARE PREMIUM AND RESERVES

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

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

3.19 DIVIDEND INCOME

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

3.20 DEFERRED INCOME - 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.

3.21 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 authorized but not contracted for. These amounts are not recognised in the statement 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.

4. FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk.

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1 CREDIT RISK

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

Cash and cash equivalents

The Group places its cash with banks licensed by the central bank, 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 credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes bank and supplier references. Credit limits are established for each customer and these are reviewed quarterly. Customers who fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash basis.

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

4.2 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:

- MK35 million (2015: MK25 million) overdraft facility with National Bank of Malawi whose interest rate is at the bank's base lending rate currently at 32% per annum (2015: 34%).
- MK150 million (2015: MK150 million) overdraft facility with Standard Bank Limited whose interest rate is at the bank's base lending rate minus 200 basis points, currently at 32% per annum (2015: 35%).

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

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4.3 MARKET RISK

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

(i) Currency risk

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

All purchases in foreign currency are economically hedged by Foreign Currency Denominated Accounts (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 company generates foreign currency through its normal operations but opts to set aside foreign currency funds in FCDA accounts to cover its foreign currency denominated liabilities as a hedge.

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

(ii) Interest rate risk

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

4.4 CAPITAL MANAGEMENT

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

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

The Audit Committee reviews the capital structure on a regular basis. As part of this review, the Committee considers the cost of capital and its associated risks. Based on recommendations of the committee, the 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 MSc (Real Estate), MBA; BA (Pub. Admin) a qualified valuer, of Malawi Property Investment Company Limited, valued the properties of the Group as at 31 December 2015 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**
  The valuation expert adopted an open market value basis using the income approach methodology.

- **Market value**
  The market value basis of valuation is interpreted as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

- **Significant unobservable inputs**
  In valuation of properties in the hospitality industry, use of trading revenue or estimated or reasonably anticipated revenue from the business and operating expenses is made to formulate an opinion on market value.

- **Inter-relationship between key unobservable inputs and fair value measurement**
  The improvement in the occupancy rate is reflected in the revenues which in turn has translated into a growth rate in value.

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

The Board is of the opinion that the carrying value is not significantly different from fair value as at 31 December 2016 because of the following considerations;

Last year of revaluation
The properties were revalued as at 31st December 2015. In between the last revaluation and the current reporting period there hasn't been any indication in country property values which would have led management and the board to think that the property values have significantly changed.

Volatility of property values
Historically the property market in Malawi is not prone to volatile price movements. As such the Board does not expect that after 12 months there would be some significant changes in property values.

Inflation levels
The Malawi economy in the last 12 months has not been a hyperinflationary environment. The inflation levels are actually going down. This gives the Board the expectation that property values may not have increased substantially in the last 12 months making the current property values a fair representation of carrying values.

The board is therefore of the view that the carrying amounts represent fair values of the properties.

5.1.2 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.

5.2 KEY SOURCES OF ESTIMATION AND UNCERTAINTY

5.2.1 Employee benefits

Pension accrual
The Pension Act, 2011 provides for transitional provisions for the conversion of severance liability into pension obligations. The Pension Act, 2011 provides for a grace period of eight years for entities to arrange the financing of this liability through the transfer of severance entitlement to a pension's fund. Provided such amounts is escalated by the retail price for the amount not remitted to the pension fund managers.

5.2.2 Short term employee benefits

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

5.2.3 Legal claims

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

5.2.4 Guarantees

Guarantees are in respect of the 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.

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6(A). PROPERTY AND EQUIPMENT

See accounting policy 3.2

CONSOLIDATED	Freehold property	Leasehold property	Vehicles & equipment	Work in Progress	Total
2016					
Cost or valuation					
At 1 January 2016	10,617,800	5,862,744	2,606,581 ◊	231,039	19,318,164
Additions during the year	162,079	7,184	603,843	970,941	1,744,047
Work in progress capitalised	193,388	21,917	104,464	(319,769)	-
WIP transferred to stocks	-	-	-	(1,376)	(1,376)
Reallocation between classes	(327)*	-	327*	-	-
Disposals during the year	-	-	(273,270)	(4,165)	(277,435)
At 31 December 2016	10,972,940	5,891,845	3,041,945 ◊	876,670	20,783,400
Accumulated depreciation and impairment losses					
At 1 January 2016	-	-	1,298,779	-	1,298,779
Charge for the year	122,295	47,190	328,379	-	497,864
Eliminated on disposals	-	-	(199,849)	-	(199,849)
At 31 December 2016	122,295	47,190	1,427,309	-	1,596,794
Carrying value					
At 31 December 2016	10,850,645	5,844,655	1,614,636	876,670	19,186,606
2015					
Cost or valuation					
At 1 January 2015	8,027,338	4,940,071	2,228,016 ◊	189,370	15,384,795
Additions during the year	13,587	10,606	378,389	339,615	742,197
Work in progress capitalised	150,643	78,567	68,736	(297,946)	-
Reallocation between classes	(5,714)*	-	5,714*	-	-
Revaluation surplus	2,431,946	833,500	-	-	3,265,446
Disposals during the year	-	-	(74,274)	-	(74,274)
At 31 December 2015	10,617,800	5,862,744	2,606,581	231,039	19,318,164
Accumulated depreciation and impairment losses					
At 1 January 2015	86,363	49,399	1,108,056	-	1,243,818
Charge for the year	44,570	29,221	252,249	-	326,040
Revaluation surplus	(130,933)	(78,620)	-	-	(209,553)
Eliminated on disposals	-	-	(61,526)	-	(61,526)
At 31 December 2015	-	-	1,298,779	-	1,298,779
Carrying value					
At 31 December 2015	10,617,800	5,862,744	1,307,802	231,039	18,019,385

◊ The amount includes motor vehicles purchased under finance lease amounting to **MK476m** (2015: MK408m).

* Reallocations to property and equipment relate to assets which were previously allocated under a wrong class of assets now corrected after determination of the appropriate classification.

SEPARATE	Freehold property	Leasehold property	Vehicles & equipment	Work in Progress	Total
2016					
Cost or valuation					
At 1 January 2016	10,387,050	5,830,274	2,506,102 ◊	150,952	18,874,378
Additions during the year	162,079	7,184	587,735	897,428	1,654,426
Work in progress capitalised	76,274	21,917	67,978	(166,169)	-
WIP transferred to stock	-	-	-	(1,376)	(1,376)
Transfers	-		(264)	-	(264)
Reallocation between classes	(327)*	-	327*	-	-
Disposals during the year	-	-	(266,239)	(4,165)	(270,404)
At 31 December 2016	10,625,076	5,859,375	2,895,639 ◊	876,670	20,256,760
Accumulated depreciation and impairment losses					
At 1 January 2016	-	-	1,260,891	-	1,260,891
Charge for the year	122,295	45,745	310,715	-	478,755
Transfers	-	-	(254)	-	(254)
Eliminated on disposals	-	-	(194,166)	-	(194,166)
At 31 December 2016	122,295	45,745	1,377,186	-	1,545,226
Carrying value					
At 31 December 2016	10,502,781	5,813,630	1,518,453	876,670	18,711,534
2015					
Cost or valuation					
At 1 January 2015	7,920,338	4,892,272	2,170,630 ◊	181,286	15,164,526
Additions during the year	13,587	10,606	326,201	265,931	616,325
Work in progress capitalised	150,643	78,567	67,055	(296,265)	-
Reallocation between classes	(5,714)*	-	5,714*	-	-
Revaluation surplus	2,308,196	848,829	-	-	3,157,025
Disposals during the year	-	-	(63,498)	-	(63,498)
At 31 December 2015	10,387,050	5,830,274	2,506,102	150,952	18,874,378
Accumulated depreciation and impairment losses					
At 1 January 2015	86,363	49,024	1,068,856	-	1,204,243
Charge for the year	44,570	28,809	244,500	-	317,879
Revaluation surplus	(130,933)	(77,833)	-	-	(208,766)
Eliminated on disposals	-	-	(52,465)	-	(52,465)
At 31 December 2015	-	-	1,260,891	-	1,260,891
Carrying value					
At 31 December 2015	10,387,050	5,830,274	1,245,211	150,952	17,613,487

◊ The amount includes motor vehicles purchased under finance lease amounting to **MK448m** (2015:MK381m).

* Reallocations to property and equipment relate to assets which were previously allocated under a wrong class of assets now corrected after determination of the appropriate classification.

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6(A). PROPERTY AND EQUIPMENT (CONTINUED)

See accounting policy 3.2

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Properties (Land and buildings)				
Carrying amount at end of the year comprise the following:				
Purchase cost	4,491,207	4,121,763	4,351,051	4,098,340
Subsequent revaluations	12,204,093	12,358,781	11,965,360	12,118,984
At 31 December	16,695,300	16,480,544	16,316,411	16,217,324

Land and buildings for the Group were valued as at 31 December 2015 by Mr. E Jambo, MSc: Real Estate; MBA; BA (Pub. Admin), a qualified and independent valuer on an open market value basis. The Board is of the opinion that the carrying value is not significantly different from fair value as at 31 December 2016.

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

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Cost	7,517,861	7,133,619	7,377,324	7,110,196
Accumulated depreciation	3,026,654	3,011,856	3,026,273	3,011,856
Carrying amount	4,491,207	4,121,763	4,351,051	4,098,340

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 2016, properties, with a carrying amount of **MK5 billion** (2015: MK4.9 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.

6(B). DEFERRED INCOME

See accounting policy 3.20

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 2009 the Group qualified for duty waiver of K101 million and excise duty of MK26 million, amounting to a total Government grant of MK127 million. The grant of MK127 million was recognised as deferred income in 2009. The Grant is being amortised over the estimated useful life of the assets to which it relates.

In 2016 the Group qualified for duty waiver amounting to MK44 million on redevelopment and refurbishment expenditure.

Electronic Fiscal Devise 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.

	CONSOLIDATED AND SEPARATE 2016	CONSOLIDATED AND SEPARATE 2015
Total government grant	41,849	67,573
Add: Government grant related to assets received during the year	44,236	2,600
Less: Amounts recognised in the statement of profit or loss and comprehensive income (note 21)	(28,324)	(28,324)
Total deferred income	57,761	41,849
Deferred income to be recognised:		
After one year	44,236	13,525
Within one year	13,525	28,324
	57,761	41,849

7. INVESTMENT IN SUBSIDIARIES

See accounting policy 3.3

	PERCENTAGE HOLDING 2016	PERCENTAGE HOLDING 2015	SEPARATE 2016	SEPARATE 2015
	%	%		
Shares at cost:				
Catering Solutions Limited	100	100	102,023	102,023

8. INVENTORY

See accounting policy 3.4

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Merchandise	590,032	382,409	572,725	361,787
Consumables	467,927	516,454	457,099	509,650
Food, drink and tobacco	250,468	161,548	215,102	147,254
	1,308,427	1,060,411	1,244,926	1,018,691

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

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Write-down to net realisable value	24,057	601	23,398	601

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015

9. TRADE AND OTHER RECEIVABLES

See accounting policy 3.12

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Trade receivables	1,406,922	1,166,744	1,291,906	1,090,685
Other receivables	294,189	245,977	263,772	203,434
	1,701,111	1,412,721	1,555,678	1,294,119
Other receivables are made up of:				
Staff debtors	226,742	141,634	219,944	118,756
Claimable Value Added Tax (VAT)	23,360	19,775	23,360	19,775
Prepayments	44,087	84,568	20,468	64,904
	294,189	245,977	263,772	203,434

10. CASH AND CASH EQUIVALENTS

See accounting policy 3.12

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Cash and cash equivalents in the statement of financial position:				
Cash and cash equivalents	475,603	196,452	471,718	194,800
Bank overdrafts	(125,370)	(130,842)	(120,963)	(112,756)
Cash and cash equivalents in the statements of cash flows	350,233	65,610	350,755	82,044

Bank overdraft facilities totalling MK185 million (2015: MK175 million) are secured by a charge over the Company's assets in favour of Standard Bank Limited and National Bank of Malawi Limited whose net book value at 31 December 2016 was MK1.03 billion (2015: MK1.03 billion). Interest is charged at the bank's base lending rate minus 200 basis points currently at 32% per annum (2015: 35%). 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 company's related parties comprise of the holding company and its subsidiary, directors, shareholders and key management personnel. Material balances and transactions are as follows:

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Transactions with related parties				
Catering Solutions Limited	-	-	31,775	6,343
Malawi Government	1,766,846	1,201,687	928,647	669,583
	1,766,846	1,201,687	960,422	675,926
Amounts due from related parties				
Catering Solutions Limited	-	-	77,659	36,656
Malawi Government	453,444	293,696	6,919	31,742
	453,444	293,696	84,578	68,398
Amounts due to related parties				
Malawi Government	95,405	40,967	95,405	40,967

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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 **MK35 million** (2015: MK25 million) overdraft facility for Catering Solutions Limited.

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%** (2015: 5%) of their basic pay while the company contributes **12.77%** (2015: 12.41%) of the basic pay.

Salary and cash benefits for the year were as follows:

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Short-term benefits (salary and bonus)	373,475	308,657	345,843	285,821
Post-employment benefits (Employer pension contribution)	26,764	22,303	23,700	19,750
	400,239	330,960	369,543	305,571
Directors' remuneration	51,617	41,129	46,650	36,701

12. SHARE CAPITAL

See accounting policy 3.18

	CONSOLIDATED AND SEPARATE 2016	CONSOLIDATED AND SEPARATE 2015
Authorised		
280,000,000 (2015: 280,000,000) Ordinary shares of 5 tambala each	14,000	14,000
Issued and fully paid		
261,582,580 (2015: 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

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13. LOANS AND BORROWINGS, CORPORATE BOND AND FINANCE LEASE OBLIGATIONS

See accounting policy 3.12

	Secured Loan Note 13(A)	Corporate Bond Note 13(B)	Finance Lease Obligations Note 13(C)	Total
CONSOLIDATED 2015				
1 January	-	2,240,000	218,451	2,458,451
Proceeds from borrowings	-	681,378	231,120	912,498
Repayments	-	(1,150,000)	(212,012)	(1,362,012)
31 December	-	1,771,378	237,559	2,008,937
CONSOLIDATED 2016				
1 January	-	1,771,378	237,559	2,008,937
Proceeds from borrowings	53,000	559,173	367,273	979,446
Repayments	(7,361)	(150,000)	(284,401)	(441,762)
31 December	45,639	2,180,551	320,432	2,546,621
SEPARATE 2015				
1 January	-	2,240,000	218,451	2,458,451
Proceeds from borrowings	-	681,378	203,700	885,078
Repayments	-	(1,150,000)	(210,942)	(1,360,942)
31 December	-	1,771,378	211,209	1,982,587
SEPARATED2016				
1 January	-	1,771,378	211,209	1,982,587
Proceeds from borrowings	53,000	559,173	367,273	979,446
Repayments	(7,361)	(150,000)	(279,739)	(437,100)
31 December	45,639	2,180,551	298,743	2,524,933

13(A). SECURED LOAN

See accounting policy 3.12

	CONSOLIDATED AND SEPARATE 2016	2015
Amounts due within one year	8,036	-
Amounts due after one year	37,603	-
	45,639	-

A secured loan amounting to MK53 million obtained from Standard Bank Limited to finance the acquisition of a vessel. The facility is repayable over 4 years. Interest on the facility is charged at 2% below the bank base lending rate which is currently 32% per annum. The directors consider that the carrying amount of long-term borrowings approximates to their fair value as at the reporting date.

The loan is 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 2016	2015
NICO Asset Managers Limited	MK	2020	550,000	-
Continental Asset Management Limited	MK	2019	490,000	490,000
Continental Asset Management Limited	MK	2017	250,000	250,000
CDH Investment Bank Limited	MK	2020	200,000	200,000
CDH Investment Bank Limited	MK	2019	-	150,000
CDH Investment Bank Limited	MK	2019	690,551	681,378
TOTAL			2,180,551	1,771,378
At 1 January			1,771,378	2,240,000
Repayments during the year			(150,000)	(1,150,000)
			1,621,378	1,090,000
Issued during the year			559,173	681,378
At 31 December			2,180,551	1,771,378
Disclosed under:				
Current liabilities			250,000	-
Non current liabilities			1,930,551	1,771,378
At 31 December			2,180,551	1,771,378

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

During the year, further subscriptions were received from NICO Asset Managers (MK550 million). The proceeds were used for Sunbird Lilongwe room refurbishment project. The bonds are secured over land and buildings of the Group.

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13. LOANS AND BORROWINGS, CORPORATE BOND AND FINANCE LEASE OBLIGATIONS (CONTINUED)

See accounting policy 3.12

13(C). OBLIGATIONS UNDER FINANCE LEASE

See accounting policy 3.10

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Standard Bank Limited	-	237,559	-	211,209
Nedbank Malawi Limited	320,432	-	298,743	-
Total	320,432	237,559	298,743	211,209

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. During the year, the Group transferred the Vehicle Asset Finance lease facility from Standard Bank to Nedbank. Interest on the facility is charged at 5% below the bank base lending rate which is currently 33.5% per annum. The leased motor vehicles secure the lease obligations. The net carrying amount of leased motor vehicles was as follows:

	2016			2015		
CONSOLIDATED	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	124,308	41,103	83,205	129,519	42,826	86,693
Between one and four years	354,417	117,190	237,227	225,394	74,528	150,866
At 31 December	478,725	158,293	320,432	354,913	117,354	237,559
SEPARATE						
Less than one year	115,080	38,052	77,028	122,817	40,610	82,207
Between one and four years	331,243	109,526	221,715	192,729	63,727	129,002
At 31 December	446,323	147,578	298,743	315,546	104,337	211,209

14. EMPLOYEE BENEFITS LIABILITIES

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 MK395 million (2015: MK315 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% (2015: 5%) and 12.77% (2015: 12.41%), respectively.

14(B). PENSION ACCRUAL

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

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Balance at 1 January	413,811	363,090	401,720	349,333
CPI Uplift for the year	90,093	73,396	85,960	70,847
Payments made during the year	(49,942)	(22,675)	(40,166)	(18,460)
Balance at 31 December	453,962	413,811	447,514	401,720
Disclosed under				
Non-current liabilities	375,687	390,866	375,687	381,775
Current liabilities (refer to note 14(c)	78,275	22,945	71,827	19,945
	453,962	413,811	447,514	401,720

The severance pay calculated and transferred to pension has to be adjusted for inflation using the CPI (Consumer Price Index) for each year within eight years after 1 June 2011 that it is not transferred to a pension fund.

14(C). SHORT-TERM EMPLOYEE BENEFIT LIABILITIES

	Note				
Short-term employee benefits *		545,007	522,129	521,701	486,889
Pension accrual	14(B)	78,275	22,945	71,827	19,945
		623,282	545,074	593,528	506,834

* 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. DEFERRED TAX LIABILITIES/(ASSETS)

See accounting policy 3.5

At 1 January	3,955,418	2,904,261	3,881,790	2,867,109
Recognised in profit or loss:				
Deferred tax on accelerated capital allowances	92,715	109,386	74,525	104,908
Deferred tax on employment benefits and provisions	(47,287)	(100,729)	(46,046)	(99,964)
Recognised in other comprehensive income:				
Revaluation surplus	-	1,042,500	-	1,009,737
At 31 December	4,000,846	3,955,418	3,910,269	3,881,790
Analysed as:				
Accelerated capital allowances	1,580,641	1,460,926	1,528,869	1,454,344
Revaluation of property	2,832,451	2,832,451	2,760,512	2,760,512
Deferred tax assets on employment benefits	(316,093)	(292,295)	(309,959)	(287,402)
Deferred tax on provisions	(69,153)	(45,664)	(69,153)	(45,664)
Net deferred tax liabilities	4,000,846	3,955,418	3,910,269	3,881,790

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	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015

16(A). TRADE AND OTHER PAYABLES

See accounting policy 3.12

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Trade payables	932,661	959,221	669,292	838,825
Output VAT	164,090	151,199	144,970	145,064
Guest advance deposits	528,600	353,697	528,600	353,697
Other payables and accruals	517,441	521,554	464,882	467,957
	2,142,792	1,985,671	1,807,744	1,805,543

Other payables and accruals include the following:

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Audit fees	26,020	17,162	19,905	11,343
Unclaimed dividend	40,637	40,492	40,637	40,492
PAYE and Withholding taxes due	93,292	72,923	87,040	69,683
Water and electricity accrued	96,068	56,736	82,669	48,995
Tourism levy	19,816	103,600	19,128	103,486
Pension contributions payable	42,495	36,250	42,495	31,235
Payroll recoveries payable	30,998	23,653	28,102	23,653
Unallocated deposits	56,748	24,409	56,748	24,409
Accruals	111,367	146,329	88,158	114,661
	517,441	521,554	464,882	467,957

16(B). PROVISIONS

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Provisions	121,075	51,121	118,470	49,196

17. REVENUES

See accounting policy 3.8

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Rooms revenues	7,253,862	5,850,850	7,253,862	5,850,850
Catering revenue	7,972,652	5,832,605	6,523,064	4,943,747
Other revenue	464,349	393,688	443,917	365,126
Total	15,690,863	12,077,143	14,220,843	11,159,723

18. OTHER INCOME

See accounting policy 3.2, 3.8, 3.19 and 3.20

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Loss on disposal of property and equipment	(14,729)	(2,430)	(13,381)	(3,371)
Government grants	28,324	28,324	28,324	28,324
15% Commission on Hotel Stay membership	26,219	12,341	26,219	12,341
Dividend received from Catering Solutions Limited	-	-	24,855	-
Management fees from Catering Solutions Limited	-	-	6,920	6,343
Doubtful debts recovered during the year	16,259	10,921	16,259	6,978
Recovery of VISA POS under-settlements by Banks	-	24,188	-	24,188
Other sundry receipts	16,251	4,744	16,251	4,744
Total	72,324	78,088	105,447	79,547

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19. ADMINISTRATIVE AND OTHER EXPENSES

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Administrative expenses	586,760	529,842	473,655	492,435
Directors' remuneration	51,617	41,129	46,650	36,701
Laundry expenses	70,483	41,479	67,149	38,337
Insurance expenses	171,232	105,567	163,423	100,964
Listing and secretarial expenses	37,439	19,500	37,439	19,500
Motor vehicle expenses	331,131	304,313	292,543	275,739
Security	167,349	121,106	163,201	121,669
Computer, telephone and internet expenses	291,419	271,048	338,913	258,606
Depreciation	497,864	326,040	478,755	317,879
Energy and maintenance costs	1,480,606	992,982	1,431,117	960,989
Marketing expenses	282,563	166,534	279,449	161,039
Staff costs	5,478,933	4,392,867	5,098,145	4,134,634
Total	9,447,396	7,312,407	8,870,439	6,918,492

20. NET FINANCE COSTS

See accounting policy 3.17

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Interest on finance leases	116,277	99,263	108,844	96,141
Interest on bank overdraft	68,924	66,311	52,091	64,533
Interest on secured loan	6,714	-	6,714	-
Interest on corporate bonds	489,822	596,012	489,822	596,012
Total finance costs	681,737	761,586	657,471	756,686
Net foreign exchange gains	(13,060)	(44,494)	(13,060)	(43,586)
Net finance costs	668,677	717,092	644,411	713,100
Reconciliation of interest paid				
Interest charged to statement of profit or loss	681,737	761,586	657,471	756,686
Accrued interest	(12,331)	(6,580)	(12,331)	(6,580)
Interest paid	669,406	755,006	645,140	750,106

21. PROFIT BEFORE INCOME TAX EXPENSE

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

	CONSOLIDATED 2016	CONSOLIDATED 2015	SEPARATE 2016	SEPARATE 2015
Auditors' remuneration:- current year	35,160	27,633	28,430	22,369
- mid - year review	4,113	5,610	3,610	4,385
Depreciation	497,864	326,040	478,755	317,879
Directors' remuneration	51,617	41,129	46,650	36,701
Dividends received	-	-	(24,855)	-
Deferred income	(28,324)	(28,324)	(28,324)	(28,324)
Loss on disposal of property and equipment	14,728	2,430	13,380	3,371
Impairment on trade receivables	37,477	2,181	35,985	2,181
Pension costs	395,073	315,398	377,150	303,900
Staff costs	5,478,933	4,392,867	5,098,145	4,134,634

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	CONSOLIDATED		SEPARATE	
	2016	2015	2016	2015

22. INCOME TAX EXPENSE

See accounting policy 3.5

22(A). INCOME TAX

Current Income tax – current year	508,247	323,174	471,564	301,510
Deferred tax	45,428	8,657	28,479	4,944
Total current income tax expense	553,675	331,831	500,043	306,454
Reconciliation of effective tax rate				
Profit before income tax expense	1,890,132	1,354,606	1,741,797	1,267,091

	%		%		%		%	
Tax at standard rate	30	567,040	30	406,382	30	522,539	30	380,127
Temporary differences	(1)	(13,365)	(6)	(74,551)	(1)	(22,496)	(6)	(73,673)
Effective rate of tax	29	553,675	24	331,831	29	500,043	24	306,454

22(B). CURRENT TAX LIABILITIES/(ASSETS)

Current tax (assets)/liabilities at 1 January	(121,144)	41,364	(113,397)	33,474
Current year tax charge	508,247	323,174	471,564	301,510
Income tax paid	(551,335)	(485,682)	(546,904)	(448,381)
Current tax (assets)/liabilities at 31 December	(164,232)	(121,144)	(188,737)	(113,397)

23. 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 **MK1.336 billion** (2015: MK1.022 billion) and the weighted average number of ordinary shares outstanding during the year of **261,582,580** (2015: 261,582,580) as below:

	CONSOLIDATED	
	2016	2015
Profit for the year (MK'000)	1,336,457	1,022,775
Weighted average number of shares ('000)	261,582	261,582
Earnings per share (tambala)	511	391

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

During the year, a dividend of MK39 million representing 15 tambala per share was paid in respect of the year ended 31 December 2015 and an interim dividend of MK50 million representing 19 tambala per share was paid relating to the results for the period ended 31 December 2016.

24. FINANCIAL INSTRUMENTS

See accounting policy 3.12

24.1 CREDIT RISK

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

		CONSOLIDATED		SEPARATE	
	NOTE	2016	2015	2016	2015
Trade and other receivables	9	1,701,111	1,412,721	1,555,678	1,294,119
Prepayments		(116,754)	(84,567)	(93,136)	(64,902)
		1,584,357	1,328,154	1,462,542	1,229,217
Amounts due from related parties	11	453,444	293,696	84,578	68,398
Cash and cash equivalents	10	475,603	196,452	471,718	194,800
		2,513,404	1,818,302	2,018,838	1,492,415

24.2 RECEIVABLES

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

Trade receivables	9	1,406,922	1,166,744	1,291,906	1,090,685
Amounts due from related parties	11	453,444	293,696	6,919	31,742
Total trade receivables		1,860,366	1,460,440	1,298,825	1,122,427
Other receivables					
Staff debtors	9	226,742	141,634	219,944	118,756
Amounts due from related parties	11	-	-	77,659	36,656
Total receivables		2,087,108	1,602,074	1,596,428	1,277,839

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
CONSOLIDATED	2016	2016	2015	2015
Not past due	723,396	-	547,649	-
Past due 31-60 days	433,360	-	309,057	-
Past due 61-90 days	194,304	-	175,892	-
Past due over 90 days	545,905	36,599	443,223	15,381
Total	1,896,965	36,599	1,475,821	15,381
SEPARATE				
Not past due	565,718	-	502,226	-
Past due 31-60 days	350,113	-	264,542	-
Past due 61-90 days	111,057	-	105,875	-
Past due over 90 days	307,044	35,107	265,165	15,381
Total	1,333,932	35,107	1,137,808	15,381

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24. FINANCIAL INSTRUMENTS (CONTINUED)
24.2 RECEIVABLES (CONTINUED)

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

	CONSOLIDATED		SEPARATE	
	2016	2015	2016	2015
Balance at 1 January	15,381	24,121	15,381	20,178
Recognised in statement of profit or loss	37,477	2,181	35,985	2,181
Doubtful debts recovered during the year	(16,259)	(10,921)	(16,259)	(6,978)
Balance at 31 December	36,599	15,381	35,107	15,381

The impairment loss as at 31 December 2016 relates to specific customers that are in financial difficulties and hence may not be able to pay. No provision for impairment has been raised on certain past due trade receivables as management believe that they are collectible.

24.3 LIQUIDITY RISK

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

CONSOLIDATED	Note	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-7 years
2016							
Non-derivative financial liabilities							
Corporate bonds	13(B)	2,180,551	(4,127,263)	(520,277)	(270,277)	(1,081,825)	(2,254,884)
Secured loan	13(A)	45,639	(68,185)	(8,675)	(8,675)	(32,678)	(18,157)
Finance lease liabilities	13(C)	320,432	(478,726)	(62,154)	(62,154)	(177,208)	(177,210)
Trade payables	16(A)	932,661	(932,661)	(932,661)	-	-	-
Employee benefits	14(B)	453,962	(529,099)	(39,138)	(39,137)	(450,824)	-
Bank overdraft	10	125,370	(125,370)	(125,370)	-	-	-
		4,058,615	(6,261,304)	(1,688,275)	(380,243)	(1,742,535)	(2,450,251)
2015							
Non-derivative financial liabilities							
Corporate bonds	13(B)	1,771,378	(2,692,811)	(273,811)	(273,811)	(2,145,189)	-
Finance lease liabilities	13(C)	237,559	(354,913)	(59,152)	(59,152)	(118,304)	(118,305)
Trade payables	16(A)	959,221	(959,221)	(959,221)	-	-	-
Employee benefits	14(B)	413,811	(491,984)	(11,473)	(11,472)	(469,039)	-
Bank overdraft	10	130,842	(130,842)	(130,842)	-	-	-
		3,512,811	(4,629,771)	(1,434,499)	(344,435)	(2,732,532)	(118,305)
SEPARATE							
2016							
Non-derivative financial liabilities							
Corporate bonds	13(B)	2,180,551	(4,127,263)	(520,277)	(270,277)	(1,081,825)	(2,254,884)
Secured loan	13(A)	45,639	(68,185)	(8,675)	(8,675)	(32,678)	(18,157)
Finance lease liabilities	13(C)	298,743	(446,323)	(57,540)	(57,540)	(165,621)	(165,622)
Trade payables	16(A)	669,292	(669,292)	(669,292)	-	-	-
Employee benefits	14(B)	447,514	(522,651)	(35,914)	(35,913)	(450,824)	-
Bank overdraft	10	120,963	(120,963)	(120,963)	-	-	-
		3,762,702	(5,954,677)	(1,412,661)	(372,405)	(1,730,948)	(2,438,663)

SEPARATE	Note	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-7 years
2015							
Non-derivative financial liabilities							
Corporate bonds	13(B)	1,771,378	(2,692,811)	(273,811)	(273,811)	(2,145,189)	-
Finance lease liabilities	13(C)	211,209	(315,546)	(52,591)	(52,591)	(105,182)	(105,182)
Trade payables	16(A)	838,825	(838,825)	(838,825)	-	-	-
Employee benefits	14(B)	401,720	(478,075)	(9,972)	(9,973)	(458,130)	-
Bank overdraft	10	112,756	(112,756)	(112,756)	-	-	-
		3,335,888	(4,438,013)	(1,287,955)	(336,375)	(2,708,501)	(105,182)

24.4 MARKET RISK

24.4.1 Currency risk

Exposure to currency risk

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

	CONSOLIDATED AND SEPARATE							
	31 December 2016				31 December 2015			
	Malawi Kwacha equivalent of				*Malawi Kwacha equivalent of*			
	USD	ZAR	GBP	Euro	USD	ZAR	GBP	Euro
Cash and cash equivalents	144,061	11,088	16,639	9,125	43,929	4,582	2,351	1,299
Trade and other payables	(107,521)	(20,961)	-	-	(63,152)	-	-	-
	36,540	(9,873)	16,639	9,125	(19,223)	4,582	2,351	1,299

The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2016	2015	2016	2015
Kwacha/USD	694.94	570.14	725.43	664.45
Kwacha/Rand	48.53	42.20	53.67	43.38
Kwacha/GBP	938.00	861.91	890.61	985.38
Kwacha/Euro	745.32	651.04	764.02	726.62

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 loss by **MK5 million** (2015: exchange gain of MK1 million) which would have been debited to profit or loss. The decrease in equity would be **MK4 million** (2015: MK0.7 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.

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24. FINANCIAL INSTRUMENTS (CONTINUED)
24.4 MARKET RISK (CONTINUED)

24.4.2 Interest Rate Risk

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

		CARRYING AMOUNTS			
		CONSOLIDATED		SEPARATE	
Variable rate Instruments	Note	2016	2015	2016	2015
Secured loan	13(A)	45,639	-	45,639	-
Finance lease	13(C)	320,432	237,559	298,743	211,209
Corporate bonds	13(B)	2,180,551	1,771,378	2,180,551	1,771,378
Bank overdraft	10	125,370	130,842	120,963	112,756
		2,671,992	2,139,779	2,645,896	2,095,343

The prevailing interest rates for these interest bearing facilities are within the region of base rate plus or minus 1-5%. The base rate for the Commercial banks is currently between 32% and 40%.

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 profit or loss by **MK37 million** (2015: MK32 million). The decrease in equity would be **MK26 million** (2015: equity would have decreased by MK22 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

24.5 FAIR VALUE AND RISK MANAGEMENT

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.

CONSOLIDATED 2016	Note	Loans and receivables	Other financial liabilities	Total
Financial assets not measured at fair value				
Trade and other receivables		1,584,357		1,584,357
Amounts due from related parties	11	453,444		453,444
Cash and cash equivalents	10	475,603		475,603
		2,513,404		2,513,404
Financial labilities not measured at fair value				
Bank overdrafts	10		(125,370)	(125,370)
Trade and other payables	16		(2,142,792)	(2,142,792)
Amounts due to related parties	11		(95,405)	(95,405)
Secured loan	13(A)		(45,639)	(45,639)
Corporate bonds	13(B)		(2,180,551)	(2,180,551)
Obligation under finance lease	13(C)		(320,432)	(320,432)
			(4,910,199)	(4,910,199)

CONSOLIDATED 2015	Note	Loans and receivables	Other financial liabilities	Total
Financial assets not measured at fair value				
Trade and other receivables		1,328,154		1,328,154
Amounts due from related parties	11	293,696		293,696
Cash and cash equivalents	10	196,452		196,452
		1,818,302		1,818,302
Financial liabilities not measured fair value				
Bank overdrafts	10		(130,842)	(130,842)
Trade and other payables	16		(1,985,671)	(1,985,671)
Amounts due to related parties	11		(40,967)	(40,967)
Corporate bonds	13(B)		(1,771,378)	(1,771,378)
Obligation under finance lease	13(C)		(237,559)	(237,559)
			(4,166,417)	(4,166,417)
SEPARATE 2016				
Financial assets not measured at fair value				
Trade and other receivables	9	1,462,542		1,462,542
Cash and cash equivalents	11	471,718		471,718
Amounts due from related parties	10	84,578		84,578
		2,018,838		2,018,838
Financial liabilities not measured at fair value				
Bank overdrafts	10		(120,963)	(120,963)
Amounts due to related parties	16		(95,405)	(95,405)
Trade and other payables	11		(1,807,744)	(1,807,744)
Secured loan	13(A)		(45,639)	(45,639)
Corporate bonds	13(B)		(2,180,551)	(2,180,551)
Obligation under finance lease	13(C)		(298,743)	(298,743)
			(4,549,045)	(4,549,045)
SEPARATE 2015				
Financial assets not measured at fair value				
Trade and other receivables	9	1,229,217		1,229,217
Cash and cash equivalents	11	194,800		194,800
Amounts due from related companies	10	68,398		68,398
		1,492,415		1,492,415
Financial liabilities not measured at fair value				
Bank overdrafts	10		(112,756)	(112,756)
Amounts due to related parties	16		(40,967)	(40,967)
Trade and other payables	11		(1,805,543)	(1,805,543)
Corporate bonds	13(B)		(1,771,378)	(1,771,378)
Obligation under finance lease	13(C)		(211,209)	(211,209)
			(3,941,853)	(3,941,853)

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25. CAPITAL MANAGEMENT

See accounting policy 4.4

The Company's objectives when managing capital are to safeguard the Company'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 Company 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 Company 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 statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios at 31 December 2016 and 2015 were as follows:

		CONSOLIDATED		SEPARATE	
	Note	2016	2015	2016	2015
Total loans and borrowings	13	2,546,621	2,008,937	2,524,933	1,982,587
Less: cash and cash equivalents	10	(350,233)	(65,610)	(350,755)	(82,044)
Net debt		2,196,388	1,943,327	2,174,178	1,900,543
Total equity		13,200,583	11,953,064	12,754,434	11,601,618
Total capital		15,396,971	13,896,391	14,928,612	13,502,161
Gearing ratio		14%	14%	15%	14%

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.

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

2016	Room income	Catering income	Other services	Total
Total revenue	7,253,862	7,972,652	464,349	15,690,863
Segment contribution	5,849,765	3,101,905	243,396	9,195,066
Other hotel expenses				(6,462,489)
Corporate expenses				(173,768)
Finance costs				(668,677)
Profit before income tax expense				1,890,132
2015				
Total revenue	5,850,850	5,832,605	393,688	12,077,143
Segment contribution	4,762,338	3,812,426	205,616	8,780,380
Other hotel expenses				(6,541,556)
Corporate expenses				(167,126)
Finance costs				(717,092)
Profit before income tax expense				1,354,606

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

Profile of the Target Market Segment

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

	CONSOLIDATED		SEPARATE	
	2016	2015	2016	2015
	%	%	%	%
Corporate organisations	39	42	39	41
Commercial, groups and conferences	22	22	24	24
Government departments	12	9	7	6
Leisure packages and airlines	9	13	10	14
Business transient non-negotiated	18	14	20	15
Total	100	100	100	100

Geographical Source of Business

The geographical source of business is predominantly domestic.

Malawi	76	76	75	75
Africa	14	14	14	14
Europe	4	4	5	5
Americas	4	4	4	4
Other	2	2	2	2
Total	100	100	100	100

FOR THE YEAR ENDED 31 DECEMBER 2016 In thousands of Malawi Kwacha

27. COMMITMENTS

See accounting policy 3.21

	CONSOLIDATED		SEPARATE	
	2016	2015	2016	2015
Capital expenditure:				
Authorised but not contracted for	1,479,107	878,027	1,277,070	700,197

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

28. CONTINGENT LIABILITIES

See accounting policy 5.2

Guarantees in respects of staff and bank loans	2,100	2,100	37,100	37,100

These represent the Group's maximum exposure at the reporting date if guarantees entered into by the company in support of staff borrowings and subsidiary overdraft facility from financial institutions were called upon.

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.

	2016	2015
Kwacha/GBP	890.61	985.38
Kwacha/Rand	53.67	43.38
Kwacha/US Dollar	725.43	664.45
Kwacha/Euro	764.02	726.62
Inflation rate (%)	20.0	24.9

At the end of the year, the Reserve Bank of Malawi base-lending rate was 24% (2015: 27%). Commercial banks' base lending rates are 8% to 20% above the prevailing Reserve Bank of Malawi rate.

As at 24 March 2017 the above exchange rates had moved as follows:

Kwacha/GBP	908.82
Kwacha/US Dollar	725.43
Kwacha/Rand	58.6
Kwacha/Euro	786.79
Inflation rate (%)	16.1

30. EVENTS AFTER REPORTING PERIOD

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

REGISTERED OFFICE

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