



# SUNBIRD

Hotels and Resorts

SUNBIRD TOURISM PLC

# Annual Report 2019





Sunbird Livingstonia Beach

# CONTENTS

	PAGE
Chairman’s Statement.....	4
The Board of Directors.....	10
Management.....	14
Chief Executive Officer’s Report.....	16
<b>CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS.....</b>	<b>23</b>
Directors’ Report.....	24
Directors’ Responsibility Statement.....	28
Independent Auditor’s Report.....	29
Consolidated and Separate Statements of Financial Position.....	33
Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income.....	34
Consolidated and Separate Statements of Changes in Equity.....	35
Consolidated and Separate Statements of Statements of Cash Flows.....	37
Notes to the Consolidated and Separate Financial Statements.....	38



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

## GROUP PROFILE

Sunbird Tourism plc (Sunbird) is a publicly quoted enterprise, listed on the Malawi Stock Exchange in August 2002. As of December 2019, the Government of Malawi through the dormant Malawi Development Corporation (MDC) is the largest shareholder at 71%. Members of the public own 14% and Press Corporation plc 15%.

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

Sunbird is a leading operator in the hospitality industry in Malawi and has, as its main activity, the operation of nine hotel properties in Malawi, seven of which it owns whereas two are on management contract. The owned properties include four city hotels: Sunbird Capital, Sunbird Mount Soche, Sunbird Lilongwe, and Sunbird Mzuzu; and two popular beach resorts along Lake Malawi: Sunbird Nkopola and Sunbird Livingstonia; and one iconic mountain resort, Sunbird Ku Chawe. On management contract, the company operates Sunbird Thawale, a bush resort in a popular “Big Five” wild life reserve; and Sunbird Kara O'Mula, Country Lodge located at the foot of the iconic Mulanje Mountain.

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

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

## 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 stakeholders' value.

## Statement of Strategic Intent

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

# CHAIRMAN'S STATEMENT

## THE GLOBAL ECONOMY

Global economy weakened in 2019 to 2.9% from 3.7% in 2018 according to World Economic Outlook (WEO). This emanated from weak momentum in manufacturing activity and rising trade and geopolitical tensions which increased uncertainty about the future of global trading systems and international cooperation thereby taking a toll on business confidence, investment decisions, and global trade.

Looking ahead, global economic prospects remain subdued and very uncertain due to Corona virus according to OECD March 2020 Economic Outlook. The Covid-19 has already brought considerable human suffering and economic disruption. Global supply chain, travel and commodity markets have plummeted making growth prospects highly uncertain.

The Economist Intelligence Unit expects that the global economy will contract by 2.5% in 2020 as a result of the coronavirus pandemic. This represents a much deeper global recession than that experienced during the global financial crisis.

## MALAWI ECONOMY

### Gross Domestic Product

Various institutions revised their projections for the Malawian economy and based on these revised projections the economy grew by an estimated average of 4.50% in 2019 compared to 4% in 2018.

### Inflation

Malawi's inflation rates for 2019 averaged 9.38% from 9.20% in 2018. This was due to increase in food inflation which moved from 9.76% in 2018 to 14.30% in 2019. On the other hand, non-food inflation decreased to an average of 5.35% in 2019 from 8.95% in 2018.

### Exchange Rates

In 2019, the Malawi Kwacha appreciated against the Euro but depreciated against the United States Dollar, British Pound and the South African Rand. The stability of the Kwacha is due to adequate forex reserves and tight liquidity conditions present. In 2019 the



Malawi Kwacha averaged MK743.31=\$1 compared to MK729.85=\$1 in 2018.

### Interest Rates

During the year, Reserve Bank of Malawi changed the method for calculating the commercial bank base lending rates in order to align with the RBM Lombard Rate and interbank rates, this is called the reference rate. The reference rate as at 31st December 2019 was at 12.5%. The average lending rates for the commercial banks for 2019 were between the range of 12.5% and 25% (2018: between 24% and 28%). The Liquidity Reserve Requirement (LRR) for local closed at 5% in December 2019 (2018: 7.5%), and the (LRR) for international closed at 3.75%.

### Sunbird Share Price

Sunbird Tourism Plc share price decreased from MK145.00 in 2018 to MK118.00 representing a decrease of 18.63%.

# CHAIRMAN'S STATEMENT

## Tourism Industry

There has not been a significant increase in the number of tourists coming to Malawi in recent years. The tourism industry has potential to contribute more to foreign exchange earnings. The medium term expected outcome 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 a good value proposition against competitors in the region. The domestic market continues to dominate the geographical source of business.

The major segments that drove business in 2019 are Corporate, Commercial Groups and Leisure.

## Market Share and Competition

Sunbird Tourism Plc still enjoys market leadership in the hospitality industry. To consolidate this market position, management's attention remains improved service delivery, product improvements (refurbishment) and intensified sales and marketing activities to key accounts. The marketing efforts will continue to revolve

around the four growth pillars of market penetration, product development, market development and product diversification.

## Financial Performance Revenues

In 2019, Group revenues totaled MK19.370 billion, which was slightly above 2018 revenues of MK18.936 billion. The Group registered 52% occupancy levels compared to 57% achieved for the same period last year. The hospitality industry witnessed reduced corporate travel in both domestic as well as foreign source markets. The post-election violence led to reduced level of activities and a number of booking cancellations which affected the performance of the Group.

The Corporate Market segment at 50% of total room nights continues to be the anchor segment for the business, followed by Commercial Market segment at 27%. There is continued focus on sustaining these key segments while initiatives to grow the other segments, such as leisure continue to be prioritized in order to optimize the potential of the different properties of the Group especially the resorts.



# CHAIRMAN’S STATEMENT

A number of segment-based strategies are in place aimed at diversifying sources of revenues. These efforts include the attraction of business from both domestic and international source markets but also repositioning our resorts by introduction of new leisure activities.

## Operating costs

Administration and other expenses increased by 4%, from MK11.1 billion in 2018 to MK11.5 billion in 2019. The increase was below inflation due to Management’s efforts in aligning expenditure to business volumes as well as improvements in procurement processes of the Group.

## Finance costs

Total finance costs amounted to MK229 million in 2019 compared to MK398 million in 2018. The decrease was as a result of reduction of interest rates in the year.

## Profit after tax

Despite the challenges faced by the entire hospitality industry during the year, the Group’s profit after tax marginally increased from MK2.562 billion in 2018 to MK2.595 billion in 2019.

This performance demonstrates the resiliency of the Group, and is mainly attributed to prudent cost management, business process re-engineering supported by a relatively improved and stable economic environment.

## Dividend

The Board resolved to pay MK131 million (or 50 tambala per share) as final dividend for 2019 to make the total dividend paid for 2019 as MK262 million, or MK1 per share. In 2018, the company declared a total dividend of MK262 million or MK1 per share.

# CHAIRMAN’S STATEMENT

## Refurbishment and Expansion Projects

During the year, the Group completed the refurbishment of all guest rooms at Sunbird Nkopola and Sunbird Livingstonia, which also increased their inventory to 50 rooms by addition of 15 new rooms. The construction of the 500-seater Soche International Conference Centre (SICC) was also completed and was well received by the conference segment of the market. The heated swimming pool at Sunbird Ku Chawe was opened which added value to the guest experience at the resort. The construction of the 4 star new 42 room Sunbird Waterfront Resort in Salima next to Sunbird Livingstonia Beach is currently underway and is expected to open its doors to our guests towards the end of 2020.

## Strategy and Outlook

The Board expects some volatility in key macro-economic variables due to the negative economic impact

of the Covid-19 pandemic. However, the authorities are expected to continue efforts to entrench macroeconomic stability and focus on sustaining the positive economic gains achieved over the past few years. This, combined with the continued tight monetary policy framework may contain inflation and reduce fiscal dominance.

The COVID 19 pandemic that has now spread all over the world has affected the travel patterns for both corporate and leisure and is resulting in significant reduction of travel in the country, depressing the tourism sector. This has also resulted in some countries slowing down their activities and complete shut down for some countries like South Africa. These are countries that Malawi has a lot of economic activities with and may affect the supply of critical items to the country and specifically to the company.

In 2020, the country will go for rerun of the Presidential

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



# CHAIRMAN’S STATEMENT

Elections resulting from the nullification of the 2019 presidential election results. There is usually a level of uncertainty during the elections year on possible policy changes and how the macroeconomic factors and environment would play out which results in a wait-and-see attitude. This may potentially depress economic activity and hence travel may also reduce and adversely impact the tourism sector in the first half of 2020.

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

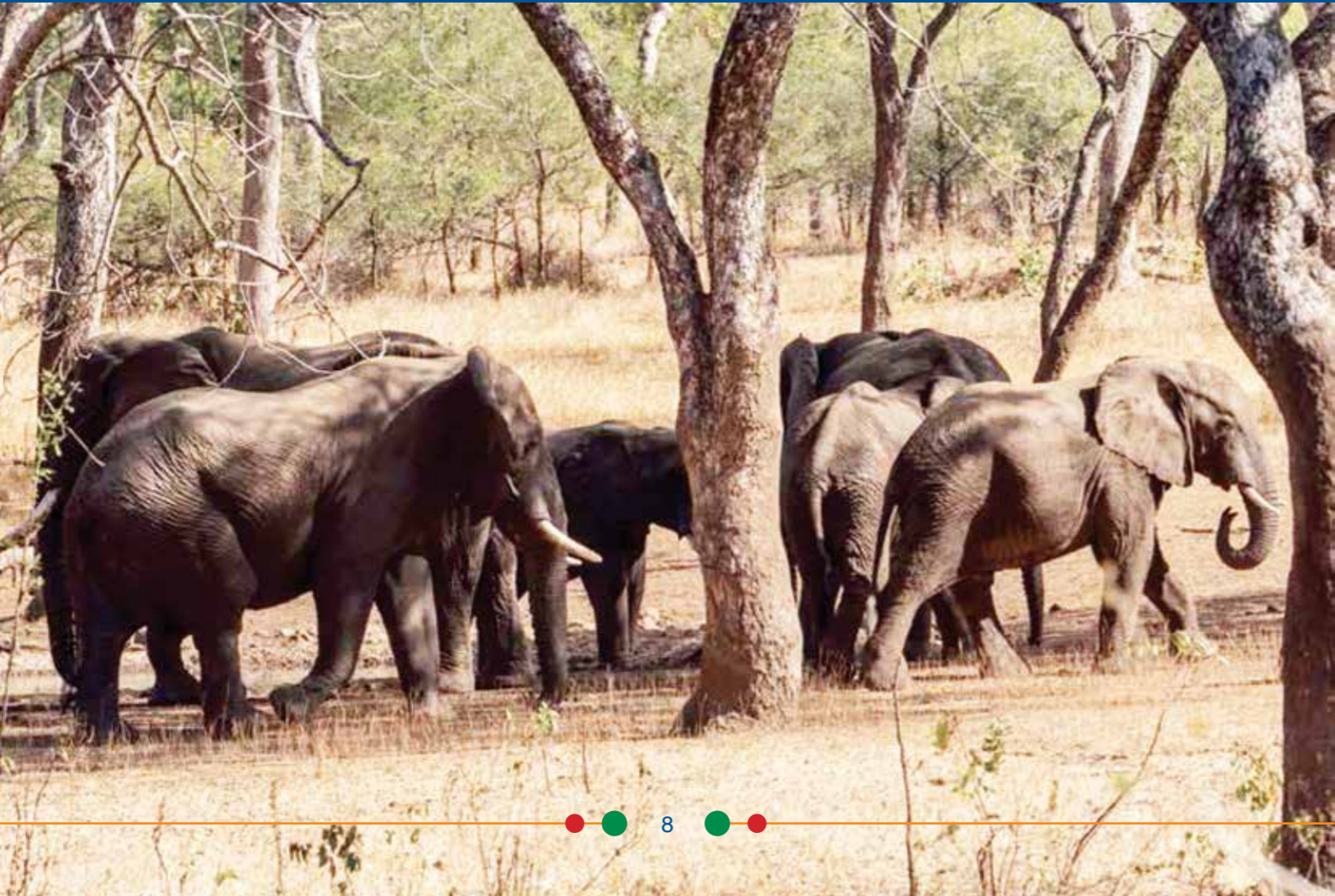
There are a number of key product improvement plans that are currently underway. These include: the completion of the 42 bedroom Sunbird Waterfront

Hotel at Senga Bay in Salima, introduction of new Vincent Platinum Restaurant and extension of carpark at Sunbird Mount Soche, construction of 30 additional new rooms at Sunbird Nkopola. Most of these projects commenced in 2019 and are expected to be completed in 2020 and 2021.

The wholly owned subsidiary, Catering Solutions Limited, has from 2020 been reorganized into a division of Sunbird. This is in line with the Company’s strategies to maximize the opportunities and benefit from the synergies within the company.

Sunbird will continue to offer unrivalled guest experience through delivery of high quality products and services in order to retain and grow its client base both local and internal markets.

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



# CHAIRMAN’S STATEMENT

## CORPORATE GOVERNANCE

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

The Board is composed of nine non-executive directors. Seven are appointed by the majority shareholder, the Government of Malawi. Directors, in recognition of their responsibilities to the Company, exercise their fiduciary duties independently and in the best interest of the Company without any interference.

All Directors are subject to retirement by rotation and re-election by the shareholders at least once every three years. Director Mc Times Malowa retired on 4th June 2019 and Director Violette Santhe was appointed on 5th March 2019 and confirmed at the 2019 Annual General Meeting.

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

## RISK MANAGEMENT

The Board is ultimately responsible for the governance of group’s risks which includes the formulation of the group’s risk appetite and setting and monitoring of risk tolerance. The Board discharges its duties by mandating specific risk management duties and responsibilities to the Finance and Audit Committee.

The group operates in a dynamic and challenging environment that includes risks and opportunities. Sunbird Tourism Plc has a formal risk management

process and governance structure with various management and Board sub-committees responsible for identifying, reviewing and monitoring the group’s risks.

The Group’s top risks include pandemics, competition, market risks, cyber security, and uncertainty surrounding operating assumptions. The Board has appropriate structures in place to ensure adequate responses to these major risks.



## Internal Audit

Internal Audit (IA) evaluates and contributes to the improvement of the effectiveness of risk management, control, and governance processes. The Head of Internal Audit and Risk Management reports to the Finance and Audit Committee of the Board. The annual internal audit plan includes a review of the consistency of the application of the risk methodology and the effectiveness of risk controls. IA’s overall mandate includes the evaluation of risk exposures and the:

- reliability and integrity of information
- effectiveness of operating processes
- safeguarding of assets
- compliance with laws, regulations and controls.

## THE BOARD OF DIRECTORS



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

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



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

## THE BOARD OF DIRECTORS



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

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



THE BOARD OF DIRECTORS



**Mrs Violette Claire Santhe** is the Chief Executive Officer of the Bankers Association of Malawi (BAM). She is both a qualified accountant (FCCA) and a qualified banker (CAIB). She has wealth of expertise and leadership from the banking and financial industry. Prior to joining BAM, she worked as Director of Finance for Malawi Housing Corporation.

Mrs Santhe is also an expert in project management and projects investment appraisal and holds the Galileo Master Certificate (GMC) in Renewable Energy Management and Finance awarded by the European Centre of Technology (ECT).

**Mr Cliff Kenneth Chiunda** is the current Secretary to Treasury in the Ministry of Finance Economic Planning and Development. Mr Chiunda has served the Government of Malawi as an economist since 1998. He holds a Bachelor's Degree in Economics from the University of Malawi and a Master's Degree in Economic Planning and Development Policy from the University of Wales Swansea in the United Kingdom.

He has worked for a long time in the areas of development planning; program and project management; public, private partnerships; budget planning and execution; expenditure monitoring and public financial management and operations, poverty analysis and promotion of industry, trade and tourism.



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

THE BOARD OF DIRECTORS



**Dr. George Partridge** joined the Board in June 2018 following Press Corporation plc's acquisition of 15% shareholding in Sunbird, that was previously owned by Mr Noel Hayes. He is the current Group Chief Executive Officer for Press Corporation plc.

He has previously held the position of Chief Executive Officer for National Bank of Malawi plc prior to which he served in various capacities at the Reserve Bank of Malawi. Dr. Partridge was instrumental in the formation of the Institute of Bankers of Malawi, where he served as its first President. In his own right, Dr. Partridge has over the years served on a number of private and public sector boards and national economic advisory committees. Currently, he is Chairman of Malawi Airlines. In recognition of his achievements and service to society, he was awarded an honorary Doctor of Philosophy (PhD) degree in Leadership and Management in 2015 by the University of Malawi.

**Mr Allan Hans Muhome** is a Legal Practitioner of over 14 years' experience. He holds an LLB (Hons) and an MBA both from the University of Malawi. He is a commercial law specialist and author of various books on commercial laws in Malawi. He has served as secretary to the Board since 2017.



As at 31st December 2019 the following Committees were in place and their membership is reflected below:

FINANCE & AUDIT COMMITTEE

- Mr Anderson Kulugomba - Chairman
- Mrs Violette Santhe - Member
- Mr Charlie Msusa - Member
- Mr Cliff Chiunda - Member

HUMAN CAPITAL & DEVELOPMENT COMMITTEE

- Dr George Partridge - Chairman
- Dr Ken Ndala - Member
- Mr. Gladson Kuyeri - Member

PROJECTS COMMITTEE

- Mr Charlie Msusa - Chairman
- Mr Anderson Kulugomba - Member
- Mr Gladson Kuyeri - Member

MANAGEMENT



**YUSUF OLELA**  
- Chief Executive Officer



**SAMSON MWALE**  
- Chief Finance Officer



**BARNET GAUSI**  
- Chief Internal Audit and Risk Officer



**PATRICK LISILIRA**  
- Deputy Chief Executive Officer



**EDWARD CHUNGA**  
- Chief Human Capital and Development Officer



**TEMWA KANJADZA**  
- Group Sales and Marketing Manager

DIVIDEND DECLARATION

At the forthcoming Annual General Meeting the Board will recommend payment of a final dividend of K131 million or 50 tambala per share as final dividend for 2019 to make the total dividend paid for 2019 as K262 million, or K1 per share. In 2018, the company declared a total dividend of MK262 million representing K1 per share.

INVESTOR RELATIONS

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



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



# CHIEF EXECUTIVE OFFICER'S REPORT

I would like to take this opportunity to thank our customers for their continued business support despite growing competition, their loyalty to our brand despite the competition is unrivaled. Much gratitude goes to the Board of Directors through whose leadership we remain the leading chain of hotels in the country, and to all my colleagues for resilience, the exemplary team work and support during a very challenging business environment. Together, we have all enabled Sunbird Tourism plc to achieve marginal growth despite the demand for hospitality services reducing during the year caused by the drop in arrivals and political impasse after May 2019 election. Notwithstanding, the accommodation sector continues to grow making hospitality the most competitive industry in Malawi with increase in tourism investment that has seen establishment of new hotels and restaurants in major cities and resorts namely Lilongwe, Blantyre, Salima and Mangochi.

With the prevailing challenges, the Group realized some modest growth in both revenues and profit after tax. The Group also maintained the largest market share buoyed by a continued focus on our key pillars of offering unrivalled guest experience by continuously improving our products and services, enhanced customer relationship, aggressive marketing approach, people development, continuous business process re-engineering and product and services development that has seen facility upgrade in our lake resorts with the intention of offering unrivaled guest experience.

Looking ahead despite optimism and positive projection of the Gross Domestic Product (GDP) and growth in the business 2020 is going to be one of the most difficult years in decades as globally we are facing recession due to the impact of Covid-19 which has caused most of the source markets to be under lock down and all flights being grounded. The impact of Covid-19 pandemic and the forthcoming presidential repeat election in the second half of the year is likely to delay any possible recovery in the short to medium term.

As a company, our focus is to continue ensuring sustainability and to support the Government initiative



to provide an enabling environment to position Malawi as a preferred destination of choice by continuing to improve our existing products and targeted expansion of our portfolio in major tourism destinations with growing demand both locally and internationally.

## Sales & Marketing

Sunbird has remained resilient and maintained its position as a market leader despite increased competition and a challenging operating environment hampered by an extended political impasse. Sales and marketing efforts have been enhanced, revolving around the four growth pillars of market penetration, product development, market development and product diversification. At its core focus of ensuring the brand promise, Sunbird remains committed to delivering an unrivalled guest experience to ensure that the Group remains the preferred brand in the hospitality industry.

# CHIEF EXECUTIVE OFFICER'S REPORT

## Promotions and Events

The Group ran various promotions in 2019, targeting the different market segments, with the aim of driving revenue for accommodation, as well as food and beverage. Some of the promotions included; group packages (wedding, conference, birthday, team building, Learners) combined destination, Mother's day, Easter, Valentines, festive season packages and many more.

The Group further hosted product launch events for targeted markets in order to increase brand and product awareness. Some of these events included Bookers familiarization trips for Sunbird Livingstonia and Sunbird Nkopola, Tour Operators Familiarization trips for all Leisure resorts within the Group.

As part of its efforts to drive the brand reach, awareness and the leisure market, Sunbird hosted some of the following events across the hotels and resorts; Run 4 reforestation, Lake Malawi Marathon, Teacher Mpamire comedy shows, IWAM Bazaar, Chitenje night events, Bookers and Decision Makers cocktails.

## Brand Visibility

In the course of the year Marketing efforts and spend was directed towards above the line and below the line activities in order to reach targeted markets, increase the brand reach and visibility. Marketing activities were employed in line with the objective of retaining and growing our market dominance Sunbird continued to intensify its efforts for increased visibility on its digital platforms with an investment in a new and highly optimized website for increased bookings and ease of customer navigation. Sunbird continued to position the brand with a presence on all major Online Travel Agents and Global Distribution Systems powered by a new and improved Central Reservation System for improved efficiencies.

Participation at International and Regional fairs remains key in enhancing visibility of the brand and securing impactful sales leads on the international market. Sunbird participated in major trade fairs across the world. Some of the Trade fairs participated in, included



Sunbird Nkopola

# CHIEF EXECUTIVE OFFICER’S REPORT

the following; Meetings Africa in Johannesburg, Indaba in Durban, WTM Africa in Cape town, Vakantiesbeurs in Netherlands, ITB Berlin and WTM London. For the first time Sunbird had regional sales calls for South Africa, Ethiopia, and Kenya. The Group also partnered and collaborated with the Ministry of Trade, Industry and Tourism, in hosting the Malawi International Trade Expo in order to further consolidate efforts for Destination Marketing.

## Corporate Social Responsibility

The Brand’s commitment to supporting the communities where we do business always remains paramount in the course of doing business. Our responsibility and service to our communities as a brand endeavors to address issues that fall under the following categories; health, education, environment and youth development. Sunbird invested MK7.5million towards the following initiatives; Number 1 club, Weekly food supply to the Queen Elizabeth hospital Cancer ward, clean water supply to the surrounding communities of Sunbird Livingstonia and Sunbird Nkopola, weekly provision of food rations to Chisomo Children’s club, and construction of a library at Masasa primary school.

## Market Share and Competition

Supply of inventory on the market continues to increase and presents the consumer with considerable choice, making the industry more competitive and rate sensitive. Sunbird brand will continue to remain resilient in a highly competitive market shadowed by Covid-19, which has been declared a pandemic and one of the greatest challenges ever for the travel and tourism industry. The Tourism Industry has been found to be more especially vulnerable to the pandemic and is already being affected by this outbreak. Sunbird will leverage its diverse and improved product with an enhanced customer experience in order to increase repeat business. An aggressive sales approach for key, dormant, new and existing business will also be pursued together with increased market presence focusing on a 360 degree communication plan to press on top of mind, and increased visibility. To retain and grow our

market dominance, sales and marketing activities will be enhanced.

## Customer Relationship Management

Sunbird remains a customer focused brand to create unrivalled customer experiences, translating into value for money. Our Customer relationship management strategy focuses on constant engagement with customers and prospective customers through our various feedback platforms, and creating brand loyalty through our rewarding programs. Sunbird continues to leverage its loyalty program; Sunbird Premier, in an effort to retain customers and induce repeat business. In an effort to further enhance our rewards program, Sunbird partnered with Sheba Miles under Ethiopian Airlines, where guests earn a mile for every dollar spent on accommodation at any Sunbird hotel and resort.

## OPERATIONS

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

## Guest Feedback

Both the response rate and the actual satisfaction rate for the year grew over 2018. A customer satisfaction rate of 88.6% for the year was 0.30 percentage points above that of 2018. Response rate growth of 7.8% over preceding year was registered. The two statistics show improved guest experience.

## Improvement of Guest Experience

Sunbird has been working on improving the four guest experience pillars which are physical facilities, products, processes, and people.

Physical facility improvements done in the year entailed all the projects that were done to improve functionality, ambience and create convenience for guests. These ranged from guest rooms to conference rooms. Each hotel benefitted from product improvement projects of different magnitude. New products such as pool restaurants were introduced.

# CHIEF EXECUTIVE OFFICER’S REPORT

Notable among physical facilities was the upgrade of internet facilities in the hotels for enhanced guest information sharing and access.

Process improvements included computerization of some manual processes such as central reservations.

People: These are the staff members who deliver the much needed service to guests. Special tailor made training was done including the commencement of a modular supervisory training program.

## Quality Assurance

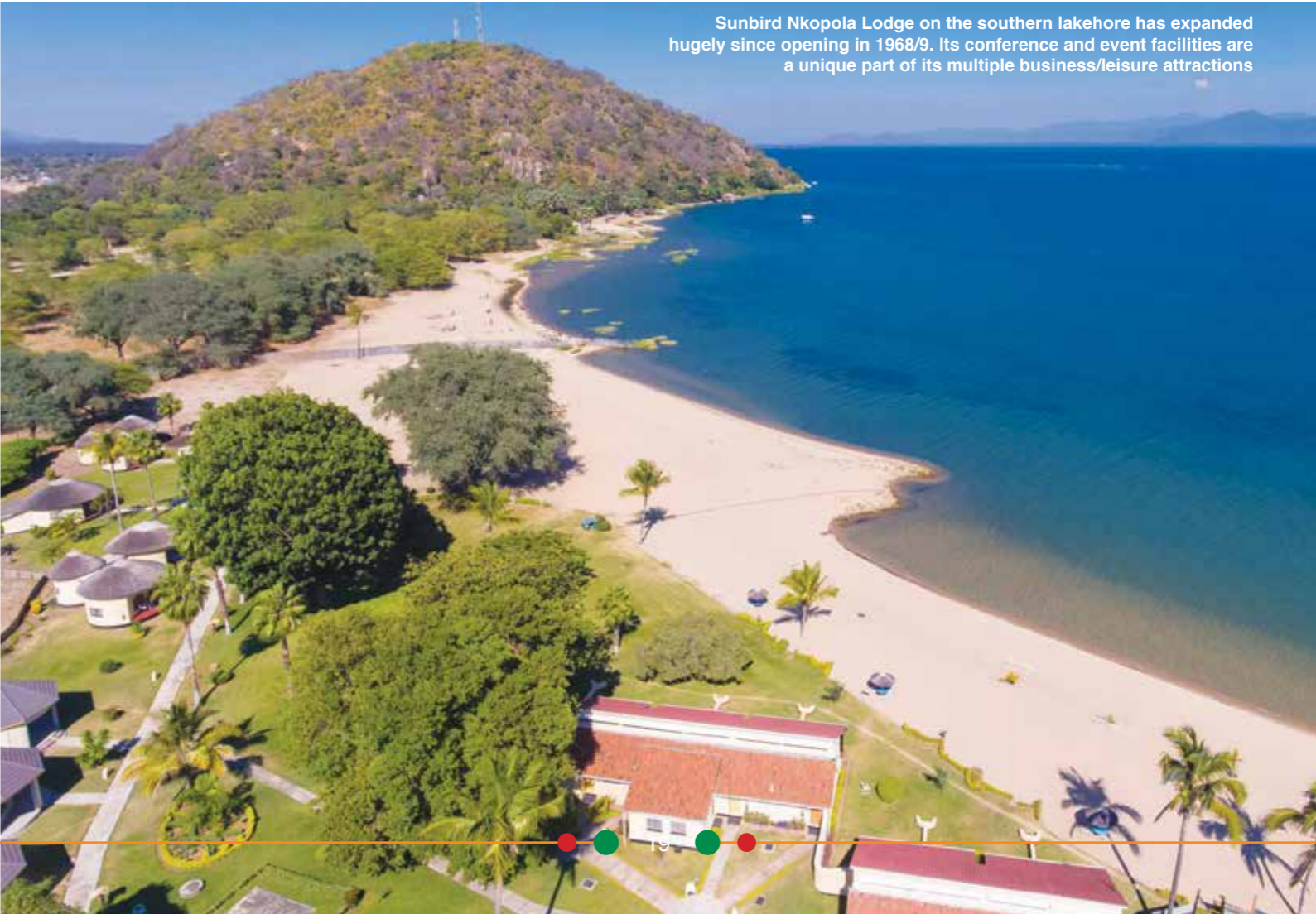
AMG Global was engaged to do a mystery guest assessment in all the Sunbird hotels and resorts. This was one way of auditing operations from a guest perspective and was supplementary to the usual internal

operations audits and checklists that are used in-house for this purpose.

All standard operating procedures were reviewed during the year in light of change in product quality and processes.

## TECHNOLOGY

The use of information technology in the hospitality industry keeps on growing and improving at a fast pace over the years. Sunbird realises that 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. Technology also enables us to provide better market analytics, data and other information. IT has



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

## CHIEF EXECUTIVE OFFICER’S REPORT

changed the procedures and structure for functions such as marketing, booking and reservations, food and beverage management, and accounting systems in the industry. Sunbird would like to be at the forefront in implementing technologically aided solutions for the most important tasks to enhance the guest experience.

In 2019, we embarked on several systems integration and processes automation projects.

The Sunbird website was redeveloped to improve online presence and appeal to capture more guests and it was linked to the new Central reservations system to improve management of online rates, occupancy information and

accuracy in consolidation of group production data. The modern wireless key lock system is being rolled into the hotels. The third installation in the year was at Sunbird Nkopola hotel. The setup offers seamless door management to the guests right from checking in to door access. It also offers an improved door access tracking using the timely logs. The door lock systems management for mobile devices is being planned and the current installations are ready for the mobile facility.

A modern Audio /Visual setup has been installed in the newly built Soche International Conference Centre to give an outstanding experience to delegates and

## CHIEF EXECUTIVE OFFICER’S REPORT

presenters of the conferences and meetings. In 2020 several technological projects have been lined up within the Sunbird including:

- Centralisation of Hotel accounting systems to improve operational efficiencies and timely group accounting data consolidation and reporting.
- Clocking and attendance solution is being rolled out into the hotels to improve management of work attendance records and efficient management of payroll task relating to the attendance

- A modern digital signage solution at the Soche conference centre providing way finding facility and meeting notifications for specific rooms.
- Improvement of the guest room entertainment by installing the IP TV solution with a provision for guest services interaction. The solution will provide good quality images and flexibility to the guests in managing some hotel services.
- The CCTV solutions is being rolled out in all hotels to improve security surveillance enhancing assurance to the guests of the vital security needed in the hotels.



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

# CHIEF EXECUTIVE OFFICER’S REPORT

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

## OUR PEOPLE

Our human capital remains central and strategic to our business success and sustenance of our strategic and competitive positioning, as such a number of programs and initiatives aimed at enhancing and nurturing this critical resource, were implemented.

In the year, substantial investments were made in talent, leadership and capability development in order to effectively deliver business results. These included module-based *Supervisory Development Program*, *Leadership Development Competency Framework*, *Result – based Leadership workshop*, among other programs. In addition, as part of leadership development efforts, we continued to participate in regional and international workshops.

As part of skills development initiatives, the Company sponsors some staff for upgrading courses at a local University, and in 2019, two staff members had just finished their studies.

The Group continued to reengineer its structures and processes to ensure quality service delivery to our valued guests and clients.

In an effort to make well informed and aligned talent decisions, the Company introduced the *9 box talent matrix* tool to identify top talent and those employees who have the potential to move up in their career.

*Wellness* programs were fully integrated and mainstreamed into the Group’s activities to ensure that employees’ total wellbeing is given due attention and encouraging staff to live a healthy and balanced lifestyle.

Looking ahead into 2020, the Group, among other initiatives, intends to strengthen its collaboration and partnerships with both hospitality institutions within Malawi and in the region as well as creating alliances with other international hotel operators for staff exchange programs; outsource its medical scheme to ensure that staff have a comprehensive and improved set of benefits and access better health services.

In the spirit of realizing that a cordial relationship with various stakeholders is key, we continued to engage and collaborate with some of our key stakeholders including Union, Employers Consultative Association of Malawi and Malawi Business Coalition Against HIV / AIDS.

Motivation and rewarding exceptional performance are critical enablers in unleashing full potential and commitment of staff. In this connection, our “star” performers of the preceding year were rewarded with a fully - paid tour of the country.



## SUNBIRD TOURISM PLC

# Consolidated and Separate Financial Statements

for the year ended 31 December 2019



DIRECTORS’ REPORT

For the year ended 31 December 2019

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<sup>st</sup> December 2019.

NATURE OF BUSINESS

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

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

INCORPORATION AND REGISTERED OFFICE

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

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

CAPITAL

The authorised share capital of the company is MK14 million divided into 280,000,000 ordinary shares of 5 tambala each.

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

The shareholders and their respective percentage shareholdings as at 31<sup>st</sup> December are:

	2019	2018
	%	%
MDC Limited	71.00	71.00
Members of the public	14.00	14.00
Press Corporation Plc	15.00	15.00
	100.00	100.00

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

The share price at the end of the reporting period was **MK118.00** (2018: MK145.00) per share.

FINANCIAL PERFORMANCE

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

DIVIDEND

During the year, a final dividend of **MK131 million** (2018: MK164 million) representing **50 tambala** per share was paid in respect of the year ended 31<sup>st</sup> December 2018 and an interim dividend of **MK131 million** (2018: MK131 million) representing **50 tambala** per share was paid relating to the results for the year ended 31<sup>st</sup> December 2019.

DIRECTORS’ REPORT (CONTINUED)

For the year ended 31 December 2019

CORPORATE GOVERNANCE

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

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

RISK MANAGEMENT

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

DIRECTORATE

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

Name	Position	Duration
Mr. Phillip Madinga	- Chairman	Full year
Mr. Anderson Kulugomba	- Director	Full year
Mr. Charlie Msusa	- Director	Full year
Mr. McTimes Malowa	- Director	Up to 4 <sup>th</sup> June 2019
Mr. Gladson Kuyeri	- Director	Full year
Dr. Ken Ndala	- Director	Full year
Dr. George Partridge	- Director	Full year
Mr. Cliff Chiunda	- Director	Full year
Mrs. Violette Santhe	- Director	From 5 <sup>th</sup> March 2019
Mr. Allan Muhome	- Company Secretary	Full year

All 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. Director McTimes Malowa retired on 4<sup>th</sup> June 2019 and Director Violette Santhe was appointed on 5<sup>th</sup> March 2019 and confirmed at the 2019 Annual General Meeting.

BOARD AND COMMITTEES ATTENDANCE RECORD

The Board meets at least four times a year including sessions devoted to strategy and business planning. It may also meet as and when required to deal with specific matters that may arise between scheduled meetings. The attendance record is covered on pages 26 - 27.

## DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2019

### BOARD

MEMBER	March 2019	June 2019	September 2019	December 2019
Mr. Phillip Madinga (Chairman)	√	√	√	√
Mr. Charlie Msusa	√	√	√	√
Mr. Gladson Kuyeri	√	√	√	√
Mr. Anderson Kulugomba	√	A	√	√
Mr. McTimes Malowa	√	N	N	N
Dr. Ken Ndala	√	A	√	A
Dr. George Partridge	√	√	√	√
Mrs. Violette Santhe	N	√	A	√
Mr. Cliff Chiunda	√	A	A	A

### FINANCE AND AUDIT COMMITTEE

MEMBER	March 2019	June 2019	August 2019	November 2019
Mr. Anderson Kulugomba (Chairman)	√	√	√	√
Mr. Charlie Msusa	√	√	√	√
Mr. Cliff Chiunda	A	A	A	A
Mr. Gladson Kuyeri	√	√	N	N
Mrs. Violet Santhe	N	N	A	√

### HUMAN CAPITAL AND DEVELOPMENT COMMITTEE

MEMBER	March 2019	June 2019	August 2019	November 2019
Mr. McTimes Malowa (Chairperson up to March 2019)	√	N	N	N
Dr. Ken Ndala	A	√	√	√
Mr. Gladson Kuyeli	N	N	√	√
Dr. George Partridge (Chairperson from March 2019)	√	√	√	√

**Key:**

√ = Attendance

A = Apology

N = Not a Member

## DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2019

### PROJECTS COMMITTEE

MEMBER	March 2019	June 2019	August 2019	December 2019
Mr. Charlie Msusa (Chairperson)	√	√	√	√
Mr. Gladson Kuyeri	√	√	√	√
Mr. Anderson Kulugomba	√	√	√	√
Mr. Yusuf Olela	√	N	N	N
Mr. Patrick Lisilira	√	N	N	N

**Key:**

√ = Attendance

A = Apology

N = Not a Member

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

### GOING CONCERN

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

### INDEPENDENT AUDITORS

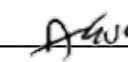
Messrs Grant Thornton, Chartered Accountants and Business Advisors (Malawi), have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 31<sup>st</sup> December 2020.

### FOR AND ON BEHALF OF THE BOARD



AUTHORISED DIRECTOR

Date: 24<sup>th</sup> March 2020



AUTHORISED DIRECTOR

## DIRECTORS' RESPONSIBILITY STATEMENT

For the year ended 31 December 2019

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of Sunbird Tourism plc, comprising the statements of financial position at 31<sup>st</sup> December 2019, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes set out on pages 8 to 48 in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the directors' report.

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

In preparing the consolidated and separate financial statements, the directors accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of the consolidated and separate financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

### Approval of consolidated and separate financial statements

The consolidated and separate financial statements of Sunbird Tourism plc, as identified in the first paragraph were approved by the Board of Directors on **24<sup>th</sup> March 2020** and were signed on its behalf by:



AUTHORISED DIRECTOR

Date: 24<sup>th</sup> March 2020



AUTHORISED DIRECTOR



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SUNBIRD TOURISM PLC

### Opinion

We have audited the consolidated and separate financial statements of Sunbird Tourism plc (the Group and Company) set out on pages 8 to 47, which comprise the consolidated and separate statements of financial position as at 31<sup>st</sup> December 2019, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Sunbird Tourism plc as at 31<sup>st</sup> December 2019, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi.

### Basis for opinion

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

### Emphasis of Matter

We draw attention to Note 30 of the financial statements, which describes the divisionalisation of the Company's wholly owned subsidiary effective 1<sup>st</sup> January 2020. Consequently, this is the final year the Group is preparing consolidated statements. Our opinion is not modified in respect of this matter.

### 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.

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

T +265 01 820 744

T +265 01 820 391

email: mw-information@mw.gt.com

INDEPENDENT AUDITOR’S REPORT

For the year ended 31 December 2019

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of trade receivables - Group and Company</b></p> <p>See notes 3.13, 4.1, 5.2.1, 9 and 24.2 to the consolidated and separate financial statements</p> <p>A significant proportion of the Group’s and Company’s business involves providing services relating to hotel accommodation, food and beverage, conferencing and banqueting to customers on a credit basis. The Group operates in a number of different locations within Malawi and provides services to a wide range of customers, including tourists, corporate entities, government institutions and local individuals. The impact of the market and economic conditions in Malawi, including high interest rates, high rates of unemployment and inflation impacts the ability of customers to pay the Group and Company.</p> <p>Accordingly we paid particular attention to the impairment assessment of trade receivables at year end due to the following:</p> <ul style="list-style-type: none"><li>• The significance of the balance in the consolidated and separate statements of financial position at year end.</li><li>• The subjective nature of the estimation and judgement with regard to the recoverability of trade receivable balances when calculating the allowance for doubtful debts to be reported in the consolidated and separate financial statements.</li></ul> <p>As a result, the impairment of trade receivables was a key audit matter for both the consolidated and separate financial statements.</p>	<p>Our audit work included the following procedures:</p> <ul style="list-style-type: none"><li>• We assessed management’s impairment process by considering whether the impairment process is in compliance with IFRS 9 <i>Financial Instruments</i></li><li>• Management adopted the simplified approach in calculation of the expected credit losses.</li><li>• We assessed the reasonability of management’s impairment calculation by assessing the following:<ul style="list-style-type: none"><li>- the reasonableness of the unbiased and probability weighted amount determined by evaluation of a range of possible outcomes;</li><li>- The reasonableness of time value of money used in the calculations;</li><li>- The information used at the reporting date about past events, current conditions and forecasts of future economic conditions.</li></ul></li></ul>

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. Other information does not include the consolidated and separate financial statements and our auditor’s report thereon.

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

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

INDEPENDENT AUDITOR’S REPORT

For the year ended 31 December 2019

Responsibilities of directors for the consolidated and separate financial statements

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

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

**Auditor’s responsibilities for the audit of the consolidated and separate financial statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit 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.

## INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

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

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

*Grant Thornton*

**Grant Thornton**  
Chartered Accountants and Business Advisors (Malawi)

*Lamion Gama*

**Lamion Gama**  
Chartered Accountant (Malawi)  
**Partner**

Blantyre, Malawi.

27 March 2020

## CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019  
In thousands of Malawi Kwacha

		<b>Consolidated</b>		<b>Separate</b>	
	<b>Note</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>					
<b>NON CURRENT ASSETS</b>					
Property and equipment	6	33,828,119	27,979,506	33,149,503	27,277,986
Investment in subsidiary	7	-	-	102,023	102,023
<b>Total non-current assets</b>		<b>33,828,119</b>	<b>27,979,506</b>	<b>33,251,526</b>	<b>27,380,009</b>
<b>CURRENT ASSETS</b>					
Inventories	8	2,166,828	2,466,849	2,091,502	2,394,006
Trade and other receivables	9	2,731,420	1,921,367	2,573,519	1,866,691
Amounts due from related parties	11	1,271,251	1,049,078	669,612	402,375
Income tax receivable	22(b)	1,188,566	305,483	1,121,368	315,343
Cash and cash equivalents	10	675,997	450,380	669,979	445,355
<b>Total current assets</b>		<b>8,034,062</b>	<b>6,193,157</b>	<b>7,125,980</b>	<b>5,423,770</b>
<b>TOTAL ASSETS</b>		<b>41,862,181</b>	<b>34,172,663</b>	<b>40,377,506</b>	<b>32,803,779</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	12	13,079	13,079	13,079	13,079
Share premium	12	1,966	1,966	1,966	1,966
Revaluation reserve		10,994,837	11,113,161	10,747,937	10,863,768
Retained earnings		12,335,644	9,884,353	11,567,070	9,182,415
<b>Total equity</b>		<b>23,345,526</b>	<b>21,012,559</b>	<b>22,330,052</b>	<b>20,061,228</b>
<b>NON CURRENT LIABILITIES</b>					
Corporate bonds	13(a)	7,800,000	3,640,000	7,800,000	3,640,000
Obligations under finance leases	13(b)	-	192,050	-	192,050
Deferred income	18	57,149	75,001	57,149	75,001
Deferred tax liabilities	22(c)	7,518,280	6,162,672	7,411,219	6,045,838
<b>Total non-current liabilities</b>		<b>15,375,429</b>	<b>10,069,723</b>	<b>15,268,368</b>	<b>9,952,889</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	15	2,239,373	2,175,958	1,981,818	1,916,216
Bank overdraft	10	37,248	18,033	-	-
Employee benefits	14(b)	169,268	229,499	158,211	213,275
Amounts due to related parties	11	570,711	427,449	570,711	427,449
Deferred income	18	117,901	113,766	61,621	113,766
Obligations under finance leases	13(b)	6,725	125,676	6,725	118,956
<b>Total current liabilities</b>		<b>3,141,226</b>	<b>3,090,381</b>	<b>2,779,086</b>	<b>2,789,662</b>
<b>Total liabilities</b>		<b>18,516,655</b>	<b>13,160,104</b>	<b>18,047,454</b>	<b>12,742,551</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>41,862,181</b>	<b>34,172,663</b>	<b>40,377,506</b>	<b>32,803,779</b>

These consolidated and separate financial statements were approved for issue by the Board of Directors on **24 March 2020** and were signed on its behalf by:

*[Signature]*

**AUTHORISED DIRECTOR**

*[Signature]*

**AUTHORISED DIRECTOR**

## CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As at 31 December 2019  
In thousands of Malawi Kwacha

		<u>Consolidated</u>		<u>Separate</u>	
	<u>Note</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	16	19,370,089	18,935,543	17,935,784	17,153,156
Cost of sales		(3,830,687)	(3,971,370)	(3,301,470)	(3,269,923)
<b>Gross profit</b>		<b>15,539,402</b>	<b>14,964,173</b>	<b>14,634,314</b>	<b>13,883,233</b>
Other income	17	204,079	250,679	214,159	298,126
Administrative and other expenses	19	(11,523,158)	(11,107,345)	(10,736,648)	(10,346,655)
<b>Operating profit</b>		<b>4,220,323</b>	<b>4,107,507</b>	<b>4,111,825</b>	<b>3,834,704</b>
Net finance costs	20	(228,273)	(393,865)	(216,037)	(380,463)
<b>Profit before income tax expense</b>		<b>3,992,050</b>	<b>3,713,642</b>	<b>3,895,788</b>	<b>3,454,241</b>
Income tax expense	22(a)	(1,397,500)	(1,152,076)	(1,365,382)	(1,059,057)
<b>Profit for the year</b>		<b>2,594,550</b>	<b>2,561,566</b>	<b>2,530,406</b>	<b>2,395,184</b>
<b>Total comprehensive income</b>		<b>2,594,550</b>	<b>2,561,566</b>	<b>2,530,406</b>	<b>2,395,184</b>
<b>Profit attributable to:</b>					
Owners of the Company		<u>2,594,550</u>	<u>2,561,566</u>	<u>2,530,406</u>	<u>2,395,184</u>
<b>Total comprehensive income attributable to:</b>					
Owners of the company		<u>2,594,550</u>	<u>2,561,566</u>	<u>2,530,406</u>	<u>2,395,184</u>
<b>Earnings per share (tambala)</b>					
Basic and diluted	23	<u>992</u>	<u>979</u>	<u>-</u>	<u>-</u>

## CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

As at 31 December 2019  
In thousands of Malawi Kwacha

<u>Consolidated</u>	<u>Note</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>2019</b>						
<b>At 1 January 2019</b>		<b>13,079</b>	<b>1,966</b>	<b>11,113,161</b>	<b>9,884,353</b>	<b>21,012,559</b>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	<b>2,594,550</b>	<b>2,594,550</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>2,594,550</b>	<b>2,594,550</b>
Transfer to retained earnings		-	-	(118,324)	<b>118,324</b>	-
<b>Transactions with owners of the company recognised directly in equity</b>						
Dividends	23(b)	-	-	-	(261,583)	(261,583)
<b>At 31 December 2019</b>		<b><u>13,079</u></b>	<b><u>1,966</u></b>	<b><u>10,994,837</u></b>	<b><u>12,335,644</u></b>	<b><u>23,345,526</u></b>
<b>2018</b>						
At 1 January 2018		13,079	1,966	11,218,949	7,524,453	18,758,447
Adjustment from adoption of IFRS 9		-	-	-	(11,866)	(11,866)
Adjusted balance at 1 January 2018		13,079	1,966	11,218,949	7,512,587	18,746,581
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	<b>2,561,566</b>	<b>2,561,566</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>2,561,566</b>	<b>2,561,566</b>
Transfer to retained earnings		-	-	(105,788)	<b>105,788</b>	-
<b>Transactions with owners of the company recognised directly in equity</b>						
Dividends	23(b)	-	-	-	(295,588)	(295,588)
<b>At 31 December 2018</b>		<b><u>13,079</u></b>	<b><u>1,966</u></b>	<b><u>11,113,161</u></b>	<b><u>9,884,353</u></b>	<b><u>21,012,559</u></b>

## CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

As at 31 December 2019  
In thousands of Malawi Kwacha

	<u>Note</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Separate 2019</b>						
At 1 January 2019		<u>13,079</u>	<u>1,966</u>	<u>10,863,768</u>	<u>9,182,415</u>	<u>20,061,228</u>
<b>Total comprehensive income for the year</b>						
Profit for the year		-	-	-	<u>2,530,406</u>	<u>2,530,406</u>
<b>Total comprehensive income for the year</b>	-	-	-	<u>2,530,406</u>	<u>2,530,406</u>	
Transfer to retained earnings		-	-	<u>(115,831)</u>	<u>115,831</u>	-
<b>Transactions with owners of the company recognised directly in equity</b>						
Dividends	23(b)	-	-	-	<u>(261,582)</u>	<u>(261,582)</u>
<b>At 31 December 2019</b>		<u>13,079</u>	<u>1,966</u>	<u>10,747,937</u>	<u>11,567,070</u>	<u>22,330,052</u>
<b>2018</b>						
At 1 January 2018		13,079	1,966	10,969,260	6,978,079	17,962,384
Adjustment from adoption of IFRS 9		-	-	-	<u>(752)</u>	<u>(752)</u>
Adjusted balance at 1 January 2018		<u>13,079</u>	<u>1,966</u>	<u>10,969,260</u>	<u>6,977,327</u>	<u>17,961,632</u>
Total comprehensive income for the year						
Profit for the year		-	-	-	<u>2,395,184</u>	<u>2,395,184</u>
Total comprehensive income for the year		-	-	-	<u>2,395,184</u>	<u>2,395,184</u>
Transfer to retained earnings		-	-	<u>(105,492)</u>	<u>105,492</u>	-
<b>Transactions with owners of the company recognised directly in equity</b>						
Dividends	23(b)	-	-	-	<u>(295,588)</u>	<u>(295,588)</u>
<b>At 31 December 2018</b>		<u>13,079</u>	<u>1,966</u>	<u>10,863,768</u>	<u>9,182,415</u>	<u>20,061,228</u>

## CONSOLIDATED AND SEPARATE STATEMENTS OF STATEMENTS OF CASH FLOWS

As at 31 December 2019  
In thousands of Malawi Kwacha

	<u>Note</u>	<u>Consolidated</u>		<u>Separate</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>					
Cash receipts from customers		18,392,299	19,073,349	17,100,404	17,396,912
Cash paid to suppliers and employees		<u>(14,105,399)</u>	<u>(15,496,545)</u>	<u>(12,953,465)</u>	<u>(14,082,432)</u>
<b>Cash generated from operations</b>		4,286,900	3,576,804	4,146,939	3,314,480
Interest paid	20	<u>(842,119)</u>	<u>(668,063)</u>	<u>(829,883)</u>	<u>(654,663)</u>
Taxation paid	22(b)	<u>(924,540)</u>	<u>(1,181,150)</u>	<u>(806,025)</u>	<u>(1,031,065)</u>
<b>Net cash from operating activities</b>		<u>2,520,241</u>	<u>1,727,591</u>	<u>2,511,031</u>	<u>1,628,752</u>
<b>Cash flows from investing activities</b>					
Acquisition of property and equipment	6	<u>(6,344,983)</u>	<u>(3,531,355)</u>	<u>(6,297,217)</u>	<u>(3,408,514)</u>
Dividends received	17	-	-	-	46,200
Proceeds from sale of property and equipment		<u>443,251</u>	<u>50,964</u>	<u>416,197</u>	<u>43,108</u>
<b>Net cash utilised in investing activities</b>		<u>(5,901,732)</u>	<u>(3,480,391)</u>	<u>(5,881,020)</u>	<u>(3,319,206)</u>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings	13	4,560,000	2,137,610	4,560,000	2,137,610
Repayment of borrowings	13	<u>(711,001)</u>	<u>(488,563)</u>	<u>(704,281)</u>	<u>(480,021)</u>
Dividends paid	23(b)	<u>(261,582)</u>	<u>(295,588)</u>	<u>(261,582)</u>	<u>(295,588)</u>
<b>Net cash generated from financing activities</b>		<u>3,587,417</u>	<u>1,353,459</u>	<u>3,594,137</u>	<u>1,362,001</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		205,926	(399,341)	224,148	(328,453)
Cash and cash equivalents at beginning of the year		432,347	827,634	445,355	769,752
Effect of exchange rate fluctuations on cash held		<u>476</u>	<u>4,054</u>	<u>476</u>	<u>4,056</u>
<b>Cash and cash equivalents at end of the year</b>	10	<u>638,749</u>	<u>432,347</u>	<u>669,979</u>	<u>445,355</u>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. REPORTING ENTITY

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

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

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

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

## 2. BASIS OF PREPARATION

### a) Statement of compliance

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

Details of the Group's accounting policies, including changes during the year and critical accounting judgements, are included in notes 3 and 5.

### b) Basis of measurement

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

### c) Functional and presentation currency

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

### d) Going concern basis of accounting

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

### e) Use of estimates and judgements

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

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 accounting standards and interpretations adopted as at 1<sup>st</sup> January 2019

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

#### IFRS 16 'Leases'

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

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group has adopted IFRS 16 on 1<sup>st</sup> January 2019 using the standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application.

IFRS 16 provides a recognition exemption to leases of low value assets. Consequently, IFRS 16 permits the lessee to elect, on a lease by lease basis, not to apply the recognition requirements of the standard for leases which the underlying asset is of low value. The standard further provides a recognition exemption to short term leases. The short term lease include leases that have a maximum possible term of 12 months or less.

The Group has leases for photocopiers, the assessment of the leased copiers is considered to be of low value and has adopted not recognised the right of use asset of the photocopier, the company will continue to recognise the lease payments in the profit and loss account as an expense.

#### Amendment to IAS 12 – Income Taxes

The IFRS Board clarifies on whether the income tax consequences of payments on financial instruments classified in equity should be recognised in the profit or loss, or equity. It clarified that an entity must recognise all income tax consequences of dividends in profit and loss, other comprehensive income or equity, depending on where the entity recognised the origination transaction or event that generated the distributable profits giving rise to the dividend.

The amendment has not affected the group's position in relation to the payment of dividends.

#### Amendment to IAS 23 – Borrowing Costs

The standard requires that an entity to exclude borrowings made specifically for the purposes of obtaining the qualifying asset, when determining the funds that an entity borrows generally and uses for the purpose of obtaining a qualifying asset.

An amendment to the standard was made to clarify that when a qualifying asset is ready for its intended use or sale, and some of the specific borrowings related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The amendment to the standard has not affected the group's position in relations to the borrowing costs.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 2. BASIS OF PREPARATION (CONTINUED)

#### Other pronouncements

Other accounting pronouncements which have become effective from 1 January 2019 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

#### • IFRIC 22 Foreign Currency Transactions and Advance Considerations

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

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

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

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

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

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

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

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

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

- **Amendment to IFRS 3, Business Combinations.** The standard outlines the accounting when an acquirer obtains control of a business in an acquisition or merger. These combinations are accounted for using the 'acquisition method', which requires assets acquired and liabilities assumed to be measured at their fair value at the acquisition date.

The Standard has amendments on the definition of a business. These amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an acquisition of an asset. The amendments include the following:

- Clarify the minimum requirements for business

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 2. BASIS OF PREPARATION (CONTINUED)

- Guidance to help entities assess whether an acquired process is substantive
- Narrow the definitions of a business and of outputs
- Introduce an optional fair value concentration test.
- Examples to illustrate the application of the guidance in the amended IFRS 3 on the definition of a business

The Amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1<sup>st</sup> January 2020 and apply prospectively. Earlier adoption is permitted.

#### (l) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year in accordance to IAS 1.41

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### 3.1 Basis of consolidation

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

They are deconsolidated from the date that control ceases.

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

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

#### 3.2 Property and equipment

##### Recognition and measurement

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

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

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Property and equipment (continued)

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

#### Revaluation

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

#### Depreciation

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

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

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

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

#### Derecognition

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

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 profit or loss and other 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.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Taxation (continued)

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

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

#### 3.6 Foreign currency translations

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

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

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

#### 3.7 Employee benefits

##### Defined contribution plans

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

##### Short-term benefits

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

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 Revenue

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

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

##### Accommodation, catering and conferences

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

##### Guest loyalty program

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

#### 3.9 Borrowing costs

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

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

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

#### 3.10 Leased assets

Assets held by the Group under leases are recognized in the company books under IFRS 16 – leases. The distinction between the operating and finance leases is eliminated for the lessees, and new lease asset, which represent the right to use the leased asset for the lease term; and the lease liability, which represents the obligation to pay rentals. These are recognized for all leases.

The leased asset is initially recognized as a right of use asset and lease liability based on the discounted payments as required under the lease in consideration of the lease term.

All liabilities are measured with reference to an estimated of the lease term, which includes optional lease periods if there is expectation that the lease term may be extended.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.10 Leased assets (Continued)

The recognition of the right of use asset in the company books is limited to assets whose lease period extends more than 12 months. All the leases that are less than 12 months are recognised through profit and loss as an expense rather than an asset and a liability. The recognition is also limited to low value assets.

The Groups leases are of low value and are currently being recognised through the profit and loss as an expense for all the lease payments.

#### 3.11 Provisions

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

#### 3.12 Financial instruments

##### Non-derivative financial assets and financial liabilities

##### Recognition

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

##### Classification and initial measurement of financial assets

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

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

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

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

The classification is determined by both:

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

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.12 Financial instruments (continued)

##### Subsequent measurement of financial assets

##### Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

##### Classification and measurement of financial liabilities

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

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

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

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

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

##### Derecognition

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

##### Offsetting

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.12 Financial instruments (continued)

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

##### Trade receivables

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

##### Amounts due from related parties

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

##### Cash and cash equivalents

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

The Group has the following financial liabilities:

##### Loans and borrowings

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

##### Corporate bonds

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

##### Trade payables and accruals

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

##### Amounts due to related parties

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.13 Impairment

##### Financial assets

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

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

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

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

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

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

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

##### Trade and other receivables and contract assets

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

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

##### Non-financial assets

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.13 Impairment (continued)

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

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

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

### 3.14 Earnings per share

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

### 3.15 Dividend per share

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

### 3.16 Operating segments

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

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.17 Finance expenses

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

### 3.18 Share capital, share premium and reserves

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

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

### 3.19 Government grants

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

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

### 3.20 Commitments

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

### 3.21 Other income

#### Dividend income

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

#### Management fees

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

### 3.22 Foreign currency gains and losses

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

### 3.23 Operating profit

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

### 3.24 Fair value measurement

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. FINANCIAL RISK MANAGEMENT

### Overview

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

- Credit risk
- Liquidity risk
- Market risk.

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

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

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

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

### 4.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or 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 creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes bank and supplier references. Credit limits are established for each customer and these are reviewed quarterly. Customers who fail to meet the Group's benchmark creditworthiness may transact with the Group only on a cash basis.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1 Credit risk (Continued)

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:

- **MK50 million** (2018: MK50 million) overdraft facility with National Bank of Malawi plc whose interest rate is at the bank's base lending rate currently at **21% per annum** (2018: 23%).
- **MK150 million** (2018: MK150 million) overdraft facility with Standard Bank plc whose interest rate is at the bank's base lending rate minus 200 basis points, currently at **17% per annum** (2018: 23%).

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

### 4.3 Market risk

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

### (i) Currency risk

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

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE  
FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Market risk (Continued)

(ii) Interest rate risk

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

4.4 Capital management

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

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY

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

5.1.1 Valuation of properties

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

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The valuation expert adopted an open market value basis using the income approach methodology.	To arrive at his opinion the valuer used many factors including some unobservable inputs. The major assumption used in valuation of properties on the hotels included: – profits generated by the property for the past three years (2015 – 2017);	The estimated fair value would increase (decrease) if: - expected profits generated by the property were higher (lower); - the property yield rates were lower (higher).

NOTES TO THE CONSOLIDATED AND SEPARATE  
FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

5.1.1 Valuation of properties (Continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
The income approach methodology estimates the value of the property by taking the net operating income generated by the property and adjusting it with the capitalization rate, also known as the property yield rate.	– the property yield rates arrived at by taking into account the quality and location of the property among other things. The valuer used yield rates ranging between 8%-11% – comparable average property prices adjusted for expected growth within the market and the location of the related hotel property.	

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

5.2Key sources of estimation and uncertainty

5.2.1 Impairment of trade and other receivables

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

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

5.2.2 Inventory provisions for obsolete stock

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

5.2.3 Legal claims

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

5.2.4 Guarantees

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 6. PROPERTY AND EQUIPMENT

See accounting policy 3.2

	Freehold property	Leasehold property	Vehicles & equipment	Capital Work in progress	Total
<b>Consolidated 2019</b>					
<b>Cost or valuation</b>					
At 1 January 2019	14,904,331	8,354,355	5,222,183	1,794,215	30,275,084
Additions during the year	52,991	8,705	751,651	6,202,226	7,015,573
Work in progress capitalised	2,451,728	1,807,350	645,638	(4,904,716)	-
WIP transferred to stocks (Note 8)	-	-	-	(46,082)	(46,082)
Disposals during the year	-	(28,305)	(733,325)	(1,866)	(763,496)
<b>At 31 December 2019</b>	<b>17,409,050</b>	<b>10,142,105</b>	<b>5,886,147</b>	<b>3,043,777</b>	<b>36,481,079</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2019	69,877	40,011	2,185,690	-	2,295,578
Charge for the year	80,542	40,535	610,529	-	731,606
Eliminated on disposals	-	(424)	(373,800)	-	(374,224)
<b>At 31 December 2019</b>	<b>150,419</b>	<b>80,122</b>	<b>2,422,419</b>	<b>-</b>	<b>2,652,960</b>
<b>Carrying value</b>					
<b>At 31 December 2019</b>	<b>17,258,631</b>	<b>10,061,983</b>	<b>3,463,728</b>	<b>3,043,777</b>	<b>33,828,119</b>
<b>2018</b>					
<b>Cost or valuation</b>					
At 1 January 2018	14,679,747	7,812,276	4,030,080	179,256	26,701,359
Additions during the year	108,100	14,888	1,143,521	2,544,049	3,810,558
Work in progress capitalised	116,484	604,063	174,657	(895,204)	-
WIP transferred to stocks (Note 8)	-	-	-	(11,378)	(11,378)
Reallocation between classes *	-	(76,872)	76,872	-	-
Disposals during the year	-	-	(202,947)	(22,508)	(225,455)
<b>At 31 December 2018</b>	<b>14,904,331</b>	<b>8,354,355</b>	<b>5,222,183</b>	<b>1,794,215</b>	<b>30,275,084</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2018	-	-	1,793,710	-	1,793,710
Charge for the year	69,877	40,011	552,532	-	662,420
Eliminated on disposals	-	-	(160,552)	-	(160,552)
<b>At 31 December 2018</b>	<b>69,877</b>	<b>40,011</b>	<b>2,185,690</b>	<b>-</b>	<b>2,295,578</b>
<b>Carrying value</b>					
<b>At 31 December 2018</b>	<b>14,834,454</b>	<b>8,314,344</b>	<b>3,036,493</b>	<b>1,794,215</b>	<b>27,979,506</b>

β The amount includes motor vehicles purchased under finance lease, none for 2019 (2018: MK719m).

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 6. PROPERTY AND EQUIPMENT (CONTINUED)

See accounting policy 3.2

	Freehold property	Leasehold property	Vehicles & equipment	Capital Work in progress	Total
<b>Separate 2019</b>					
<b>Cost or valuation</b>					
At 1 January 2019	14,593,383	8,168,557	4,982,716	1,733,448	29,478,104
Additions during the year	52,991	8,705	726,113	6,179,998	6,967,807
Work in progress capitalised	2,451,728	1,807,350	645,638	(4,904,716)	-
WIP transferred to stock (Note 8)	-	-	-	(46,082)	(46,082)
Disposals during the year	-	(28,305)	(681,303)	(1,866)	(711,474)
<b>At 31 December 2019</b>	<b>17,098,102</b>	<b>9,956,307</b>	<b>5,673,164</b>	<b>2,960,782</b>	<b>35,688,355</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2019	69,877	37,516	2,092,725	-	2,200,118
Charge for the year	80,542	38,040	570,308	-	688,890
Eliminated on disposals	-	(424)	(349,732)	-	(350,156)
<b>At 31 December 2019</b>	<b>150,419</b>	<b>75,132</b>	<b>2,313,301</b>	<b>-</b>	<b>2,538,852</b>
<b>Carrying value</b>					
<b>At 31 December 2019</b>	<b>16,947,683</b>	<b>9,881,175</b>	<b>3,359,863</b>	<b>2,960,782</b>	<b>33,149,503</b>
<b>2018</b>					
<b>Cost or valuation</b>					
At 1 January 2018	14,368,799	7,626,478	3,850,036	171,236	26,016,549
Additions during the year	108,100	14,888	1,073,427	2,491,302	3,687,717
Work in progress capitalised	116,484	604,063	174,657	(895,204)	-
WIP transferred to stock (Note 8)	-	-	-	(11,378)	(11,378)
Reallocation between classes	-	(76,872)	76,872	-	-
Disposals during the year	-	-	(192,276)	(22,508)	(214,784)
<b>At 31 December 2018</b>	<b>14,593,383</b>	<b>8,168,557</b>	<b>4,982,716</b>	<b>1,733,448</b>	<b>29,478,104</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2018	-	-	1,724,016	-	1,724,016
Charge for the year	69,877	37,516	519,293	-	626,686
Eliminated on disposals	-	-	(150,584)	-	(150,584)
<b>At 31 December 2018</b>	<b>69,877</b>	<b>37,516</b>	<b>2,092,725</b>	<b>-</b>	<b>2,200,118</b>
<b>Carrying value</b>					
<b>At 31 December 2018</b>	<b>14,523,506</b>	<b>8,131,041</b>	<b>2,889,991</b>	<b>1,733,448</b>	<b>27,277,986</b>

β The amount includes motor vehicles purchased under finance lease, none for 2019 (2018: MK692m).

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 6. PROPERTY AND EQUIPMENT (CONTINUED)

See accounting policy 3.2

#### Additions

Additions to property and equipment comprise the following:

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Assets acquired at cost	6,344,983	3,531,355	6,297,217	3,408,514
Interest capitalised into assets	670,590	279,203	670,590	279,203
Total asset additions	<u>7,015,573</u>	<u>3,810,558</u>	<u>6,967,807</u>	<u>3,687,717</u>

#### Properties (Land and buildings)

Carrying amount at end of the year comprise the following:

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Purchase cost	10,752,971	6,581,155	10,618,712	6,444,401
Subsequent revaluations	16,567,643	16,567,643	16,210,146	16,210,146
<b>At 31 December</b>	<u>27,320,614</u>	<u>23,148,798</u>	<u>26,828,858</u>	<u>22,654,547</u>

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

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

Cost	13,913,388	9,736,251	13,741,311	9,564,171
Accumulated depreciation	(3,160,417)	(3,155,096)	(3,122,599)	(3,119,770)
<b>Carrying amount</b>	<u>10,752,971</u>	<u>6,581,155</u>	<u>10,618,712</u>	<u>6,444,401</u>

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 MK27.32 billion has been categorised as a level three fair value based on the inputs to the valuation techniques - see note 5.1.1.

At 31<sup>st</sup> December 2019, properties, with a carrying amount of **MK15.5 billion** (2018: MK15 billion) were subject to a registered form of security for corporate bond and bank overdrafts. Motor vehicles with a carrying amount of **MK41 million** (2018: MK208 million) were pledged as security for lease liability (see note 10, 13(a) and 13(b)).

#### Work in progress

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 7. INVESTMENT IN SUBSIDIARY

See accounting policy 3.3

Shares at cost:

Catering Solutions Limited

	<u>Percentage Holding</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	%	%		
	100	100	102,023	102,023

### 8. INVENTORIES

See accounting policy 3.4

Merchandise  
Transfer from work in progress (Note 6)  
Consumables  
Food, drink and tobacco

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Merchandise	1,291,699	1,613,783	1,257,687	1,581,678
Transfer from work in progress (Note 6)	46,082	11,378	46,082	11,378
Consumables	611,022	586,164	592,740	573,754
Food, drink and tobacco	218,025	255,524	194,993	227,196
	<u>2,166,828</u>	<u>2,466,849</u>	<u>2,091,502</u>	<u>2,394,006</u>

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

Write-down to net realisable value

	<u>41,368</u>	<u>46,486</u>	<u>39,667</u>	<u>46,257</u>
--	---------------	---------------	---------------	---------------

### 9. TRADE AND OTHER RECEIVABLES

See accounting policy 3.12

Trade receivables  
Other receivables

	<u>2,205,560</u>	<u>1,566,006</u>	<u>2,072,921</u>	<u>1,537,627</u>
	<u>525,860</u>	<u>355,361</u>	<u>500,598</u>	<u>329,064</u>
	<u>2,731,420</u>	<u>1,921,367</u>	<u>2,573,519</u>	<u>1,866,691</u>

Other receivables are made up of:

Staff debtors  
Claimable Value Added Tax (VAT) \*  
Prepayments \*

	<u>314,848</u>	<u>183,233</u>	<u>308,930</u>	<u>178,857</u>
	<u>41,381</u>	<u>39,537</u>	<u>41,381</u>	<u>39,537</u>
	<u>169,631</u>	<u>132,591</u>	<u>150,287</u>	<u>110,670</u>
	<u>525,860</u>	<u>355,361</u>	<u>500,598</u>	<u>329,064</u>

\*: Not a financial asset

Information on financial risk management is included in notes 4 and 24

### 10. CASH AND CASH EQUIVALENTS

See accounting policy 3.12

Cash at bank  
Bank overdrafts

	<u>675,997</u>	<u>450,380</u>	<u>669,979</u>	<u>445,355</u>
	<u>(37,248)</u>	<u>(18,033)</u>	<u>-</u>	<u>-</u>
	<u>638,749</u>	<u>432,347</u>	<u>669,979</u>	<u>445,355</u>

Bank overdraft facilities totalling **MK200 million** (2018: MK200 million) are secured by a charge over the Group's assets in favour of Standard Bank Plc and National Bank of Malawi Plc whose net book value at 31<sup>st</sup> December 2019 was **MK2.66 billion** (2018: MK1.87 billion). Interest is charged at the bank's base lending rate minus 200 basis points currently at 17% per annum (2018: 21%). The facilities are repayable on demand and are renewed annually.

Information on financial risk management is included in notes 4 and 24

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 11. RELATED PARTY TRANSACTIONS

See accounting policy 3.12

#### Parent and ultimate controlling party

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

Transactions with related parties	Consolidated		Separate	
	2019	2018	2019	2018
<b>Revenue and other income</b>				
Malawi Government and related entities:				
Accommodation, catering and conferences revenue	4,377,009	5,163,926	3,581,066	3,991,342
Catering Solutions Limited:				
Management fees and dividends received	-	-	10,080	54,600
Kara O Mula				
Management fees for managing Kara O Mula	17,316	-	17,316	-
African Parks (Majete) Ltd:				
Management fees for managing Thawale	10,804	11,812	10,804	11,812
	<u>4,405,129</u>	<u>5,175,738</u>	<u>3,619,266</u>	<u>4,057,754</u>
<b>Administrative and other expenses</b>				
Tevet levy:				
Malawi Government	43,328	41,055	41,404	38,211
<b>Electricity and water bills:</b>				
Malawi Government related entities	1,316,298	1,031,571	1,252,347	968,648
	<u>1,359,626</u>	<u>1,072,626</u>	<u>1,293,751</u>	<u>1,006,859</u>
<b>Amounts due from related parties</b>				
Malawi Government and related parties	1,167,774	1,025,052	367,527	264,012
Catering Solutions Limited	-	-	198,615	114,337
Kara O Mula	78,940	-	78,940	-
African Parks (Majete) Ltd	24,537	24,026	24,530	24,026
	<u>1,271,251</u>	<u>1,049,078</u>	<u>669,612</u>	<u>402,375</u>
<b>Amounts due to related parties</b>				
Malawi Government and related entities				
Advance deposits *	570,711	427,449	570,711	427,449

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

These balances arose from the normal course of trading between the Group and related parties at arm's length and are to be settled within a year of the reporting date. None of the balances are secured. No expense has been recognised in the current year or prior year impairments in respect of amounts owed by related parties. The company guarantees a **MK50 million** (2018: MK50 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%** (2018: 5%) of their basic pay while the company contributes **13.50%** (2018: 13.51%) of the basic pay.

Salary and cash benefits for the year were as follows:

	Consolidated		Separate	
	2019	2018	2019	2018
Short-term benefits (salary and bonus)	454,277	416,042	402,584	388,354
Post-employment benefits (Employer pension contribution)	61,327	44,354	54,349	40,728
	<u>515,604</u>	<u>460,396</u>	<u>456,933</u>	<u>429,082</u>
Directors' remuneration	81,851	88,269	76,642	82,684

Information on financial risk management is included in notes 4 and 24

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 12. SHARE CAPITAL

See accounting policy 3.18

#### Authorised

**280,000,000** (2018: 280,000,000) Ordinary shares of 5 tambala each

#### Issued and fully paid

**261,582,580** (2018: 261,582,580) Ordinary shares of 5 tambala each

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.

Consolidated and separate	
2019	2018
14,000	14,000
13,079	13,079
1,966	1,966

### 13. LOANS AND BORROWINGS;

#### CORPORATE BONDS AND OBLIGATIONS UNDER FINANCE LEASES

See accounting policy 3.12

#### Consolidated 2019

##### 1 January

Proceeds from borrowings

Repayments during the year

**31 December**

#### Consolidated 2018

1 January

Proceeds from borrowings

Repayments during the year

**31 December**

#### Separate 2019

##### 1 January

Proceeds from borrowings

Repayments during the year

**31 December**

#### Separate 2018

1 January

Proceeds from borrowings

Repayments during the year

**31 December**

Corporate bonds	Obligations leases under finance lease	Total
Note 13(a)	Note 13(b)	
<b>1 January</b>	<b>317,726</b>	<b>3,957,726</b>
Proceeds from borrowings	-	<b>4,560,000</b>
Repayments during the year	(311,001)	(711,001)
<b>31 December</b>	<b>6,725</b>	<b>7,806,725</b>
<b>1 January</b>	<b>311,006</b>	<b>3,951,006</b>
Proceeds from borrowings	-	<b>4,560,000</b>
Repayments during the year	(304,281)	(704,281)
<b>31 December</b>	<b>6,725</b>	<b>7,806,725</b>
<b>1 January</b>	<b>353,417</b>	<b>2,293,417</b>
Proceeds from borrowings	437,610	2,137,610
Repayments during the year	(480,021)	(480,021)
<b>31 December</b>	<b>311,006</b>	<b>3,951,006</b>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 13(a) CORPORATE BONDS

See accounting policy 3.12

	Currency	Year of maturity	Consolidated and separate Carrying amount	
			2019	2018
NICO Asset Managers Limited	MK	2021	1,100,000	1,500,000
NBM Capital Markets Limited	MK	2022	690,000	690,000
NBM Capital Markets Limited	MK	2023	1,450,000	1,450,000
NBM Capital Markets Limited	MK	2024	2,860,000	-
Old Mutual Life Assurance Company	MK	2024	1,700,000	-
<b>Total</b>			<b>7,800,000</b>	<b>3,640,000</b>
At 1 January			3,640,000	1,940,000
Repayments during the year			(400,000)	-
Issued during the year			4,560,000	1,700,000
At 31 December			<b>7,800,000</b>	<b>3,640,000</b>
<b>Disclosed under:</b>				
Non-current liabilities			7,800,000	3,640,000
At 31 December			<b>7,800,000</b>	<b>3,640,000</b>

The Company issued corporate bonds as a private placement. The notes were offered to investors on a floating rate basis, to be re-priced quarterly with interest rate at an arithmetic average of 182-day treasury bill yield plus a variable margin averaging 3.1%. There is a maximum rate of interest of 3.8% below the simple average of reference bank's commercial lending rates and a minimum rate of inflation or 12%.

During the year, further subscriptions were received from Old Mutual Life Assurance Company Limited (MK1.700 billion) and NBM Capital Markets Limited (MK2.860 billion). The proceeds were used for Sunbird Livingstonia room refurbishment, Sunbird Mount Soche new conference centre, and Sunbird Nkopola refurbishment. The bonds are secured over land and buildings of the Group.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 13(b) OBLIGATIONS UNDER FINANCE LEASES

See accounting policy 3.10

	Consolidated		Separate	
	2019	2018	2019	2018
Nedbank Malawi Limited	6,725	317,726	6,725	311,006

The Group has a finance lease facility of MK500 million from Nedbank to cater for procurement of motor vehicles repayable over three to four years. Interest on the facility is charged at 5% below the bank base lending rate which is currently **25% per annum** (2018: 25% per annum). The leased motor vehicles secure the lease obligations. The net carrying amount of leased motor vehicles was as follows:

	2019		2018	
	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
<b>Consolidated</b>				
Less than one year	7,409	684	178,601	52,925
Between one and four years	-	-	253,506	61,456
<b>At 31 December</b>	<b>7,409</b>	<b>684</b>	<b>432,107</b>	<b>114,381</b>
<b>Separate</b>				
Less than one year	7,409	684	157,022	38,066
Between one and four years	-	-	253,506	61,456
<b>At 31 December</b>	<b>7,409</b>	<b>684</b>	<b>410,528</b>	<b>99,522</b>

Information on financial risk management is included in notes 4 and 24

### 14. EMPLOYEE BENEFITS

See accounting policy 3.7

#### 14(a) Pension Plan

The Group operates a defined contribution pension plan for some of its employees. The plan is operated by Old Mutual Individual Life Company.

The total cost charged to profit or loss of **MK581 million** (2018: MK541 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%** (2018: 5%) and **13.5%** (2018: 13.51%), respectively.

#### 14(b) Short-term employee benefit liabilities

	Consolidated		Separate	
	2019	2018	2019	2018
Short-term employee benefits *	169,268	229,499	158,211	213,275

\* 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.

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 15. TRADE AND OTHER PAYABLES

See accounting policy 3.12

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Trade payables	999,466	1,037,133	789,163	850,939
Output VAT	183,274*	186,258*	184,626*	171,327*
Guest advance deposits	234,250*	344,677*	234,136*	338,608*
Other payables and accruals	822,383	607,890	773,893	555,342
	<u>2,239,373</u>	<u>2,175,958</u>	<u>1,981,818</u>	<u>1,916,216</u>
<b>Other payables and accruals include the following:</b>				
Audit fees	34,296	37,741	24,479	31,484
Unclaimed dividend	43,338	81,730	43,338	81,730
PAYE and Withholding taxes due	138,776*	114,362*	133,759*	108,114*
Water, electricity and Telephone accrued	126,526	131,001	120,607	128,260
Tourism levy	15,941*	26,641*	15,576*	25,658*
Pension contributions payable	66,370*	70,605*	63,020*	66,737*
Payroll recoveries payable	48,266	26,708	39,309	23,740
Other Accruals	348,870**	119,102	333,805**	89,619
	<u>822,383</u>	<u>607,890</u>	<u>773,893</u>	<u>555,342</u>

\* These balances are not financial liabilities.

\*\* The accruals include MK140 million for projects payment certificates and MK60 million for accrued bond interest.

Information on financial risk management is included in notes 4 and 24

### 16. REVENUE

See accounting policy 3.8

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Rooms revenue	8,462,139	8,483,141	8,462,139	8,483,141
Catering revenue	10,203,583	9,786,395	8,801,485	8,031,508
Other revenue	704,367	666,007	672,160	638,507
<b>Total</b>	<u>19,370,089</u>	<u>18,935,543</u>	<u>17,935,784</u>	<u>17,153,156</u>

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 17. OTHER INCOME

See accounting policy 3.8, 3.19 and 3.21

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Government grants	75,950	22,558	75,950	22,558
Dividend received from Catering Solutions Limited	-	-	-	46,200
Management fees from Catering Solutions Limited	-	-	10,080	8,400
Management fees from African Parks (Majete) Limited	10,804	11,812	10,804	11,812
Management fees from Kara O Mula	17,316	-	17,316	-
Doubtful debts recovered during the year	1,709	63,419	1,709	63,419
Reversal of prior year expenses overprovisions	27,719	103,316	27,719	103,316
Insurance claim proceeds	4,970	9,803	4,970	9,803
Profit from disposal of assets	53,979	-	54,879	-
Other sundry receipts	11,632	39,771	10,732	32,618
<b>Total</b>	<u>204,079</u>	<u>250,679</u>	<u>214,159</u>	<u>298,126</u>

### 18. DEFERRED INCOME/REVENUE

See accounting policy 3.8 and 3.19

#### Government grants

##### Duty Waiver Grant

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

In the course of the Redevelopment and Refurbishment program in 2019 the Group qualified for duty and excise waiver amounting to MK119 million. The grant of MK119 million was recognised as deferred income in 2019. The Grant will be amortised over the estimated useful life of the assets to which it relates.

#### Guest loyalty program

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 18. DEFERRED INCOME/REVENUE (CONTINUED)

See accounting policy 3.8 and 3.19

#### Deferred income - consolidated

	2019 Government Grant	2019 Guest loyalty program	Total	2018 Government Grant	2018 Guest loyalty program	Total
<b>At 1 January</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>	<b>123,045</b>	<b>37,177</b>	<b>160,222</b>
Add: amounts received during the year	175,036	648,703	823,739	-	83,279	83,279
Less: Amounts recognised in the statement of profit or loss and comprehensive income	(139,319)	(698,137)	(837,456)	(22,558)	(32,176)	(54,734)
<b>At 31 December</b>	<b>136,204</b>	<b>38,846</b>	<b>175,050</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>
<b>Deferred income recognised under:</b>						
Current liabilities	79,055	38,846	117,901	28,326	85,440	113,766
Non-current liabilities	57,149	-	57,149	72,161	2,840	75,001
	<b>136,204</b>	<b>38,846</b>	<b>175,050</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>

#### Deferred income - separate

	2019 Government Grant	2019 Guest loyalty program	Total	2018 Government Grant	2018 Guest loyalty program	Total
<b>At 1 January</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>	<b>123,045</b>	<b>37,177</b>	<b>160,222</b>
Add: amounts received during the year	118,756	648,703	767,459	-	83,279	83,279
Less: amounts recognised in the statement of profit or loss and comprehensive income	(139,319)	(698,137)	(837,456)	(22,558)	(32,176)	(54,734)
<b>At 31 December</b>	<b>79,924</b>	<b>38,846</b>	<b>118,770</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>
<b>Deferred income recognised under:</b>						
Current liabilities	22,775	38,846	61,621	28,326	85,440	113,766
Non-current liabilities	57,149	-	57,149	72,161	2,840	75,001
	<b>79,924</b>	<b>38,846</b>	<b>118,770</b>	<b>100,487</b>	<b>88,280</b>	<b>188,767</b>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 19. ADMINISTRATIVE AND OTHER EXPENSES

	Consolidated		Separate	
	2019	2018	2019	2018
Administrative expenses	731,215	478,638	663,889	414,448
Loss on disposal of property and equipment	-	13,939	-	21,092
Impairment of trade receivables	16,039	142,366	-	113,428
Directors' remuneration	81,852	88,269	76,762	82,684
Laundry expenses	62,637	64,160	60,061	60,184
Insurance expenses	199,659	227,222	183,219	216,423
Listing and secretarial expenses	42,946	45,724	42,946	45,724
Motor vehicle expenses	269,994	304,976	232,538	259,438
Security	186,527	200,228	180,620	192,731
Computer, telephone and internet expenses	308,271	505,923	284,927	471,541
Depreciation	731,606	662,420	688,890	626,686
Energy, repairs and maintenance costs	1,847,949	1,666,989	1,774,547	1,588,828
Marketing expenses	241,921	263,308	227,337	248,432
Staff costs	6,802,542	6,443,183	6,320,912	6,005,016
<b>Total</b>	<b>11,523,158</b>	<b>11,107,345</b>	<b>10,736,648</b>	<b>10,346,655</b>

### 20. FINANCE COSTS

See accounting policy 3.17

Interest on finance leases	38,549	113,735	37,389	111,429
Interest on bank overdraft	21,511	28,267	10,435	17,173
Interest on corporate bonds	168,689	255,917	168,689	255,917
Net foreign exchange gain	(476)	(4,054)	(476)	(4,056)
<b>Finance costs</b>	<b>228,273</b>	<b>393,865</b>	<b>216,037</b>	<b>380,463</b>
<b>Reconciliation of interest paid</b>				
Interest charged to statement of profit or loss	228,749	397,919	216,513	384,519
Interest capitalised into assets	670,590	279,203	670,590	279,203
Accrued interest	(57,220)	(9,059)	(57,220)	(9,059)
<b>Interest paid</b>	<b>842,119</b>	<b>668,063</b>	<b>829,883</b>	<b>654,663</b>

### 21. PROFIT BEFORE INCOME TAX EXPENSE

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

	Consolidated		Separate	
	2019	2018	2019	2018
Auditors' remuneration:				
- current year	32,505	29,657	25,538	22,085
- mid - year review	13,142	8,706	6,617	6,819
Depreciation	731,606	662,420	688,890	626,686
Directors' remuneration	81,852	88,269	76,762	82,684
Dividends received	-	-	-	(46,200)
Deferred income	(139,319)	(22,558)	(139,319)	(22,558)
Profit on disposal of property and equipment	(53,978)	13,939	(54,879)	21,092
Impairment of trade receivables	16,039	142,366	-	113,428
Pension costs	580,805	541,403	541,056	504,475
Staff costs	6,802,542	6,443,183	6,320,912	6,005,016

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 22. INCOME TAX EXPENSE

See accounting policy 3.5

#### 22(a) Income tax

	Consolidated		Separate	
	2019	2018	2019	2018
<b>Income tax credit</b>				
Current tax	41,457	721,098	-	629,027
Deferred tax	1,356,043	430,978	1,365,382	430,030
Total income tax expense	1,397,500	1,152,076	1,365,382	1,059,057
<b>Reconciliation of effective tax rate</b>				
Profit before income tax expense	3,992,050	3,713,642	3,895,788	3,454,241
%	%	%	%	
Tax at standard rate	30	30	30	30
Temporary differences	5	1	5	1
Effective rate of tax	35	31	35	31

#### 22(b) Current tax (assets)/liabilities

Current tax (assets)/liabilities at 1 January	(305,483)	154,569	(315,343)	86,695
Current year tax charge	41,457	721,098	-	629,027
Income tax paid	(924,540)	(1,181,150)	(806,025)	(1,031,065)
Current tax (assets)/liabilities at 31 December	(1,188,566)	(305,483)	(1,121,368)	(315,343)

#### 22(c) Deferred tax liabilities

See accounting policy 3.5

At 1 January	6,162,672	5,731,694	6,045,838	5,615,808
Recognised in profit or loss:				
Deferred tax on accelerated capital allowances	1,341,180	323,528	1,347,721	323,155
Deferred tax on employment benefits and other provisions	14,825	107,450	17,660	106,875
<b>At 31 December</b>	<b>7,518,677</b>	<b>6,162,672</b>	<b>7,411,219</b>	<b>6,045,838</b>
<b>Analysed as:</b>				
Accelerated capital allowances	3,399,655	2,058,475	3,381,216	2,033,493
Revaluation of property	4,226,239	4,226,239	4,118,425	4,118,426
Deferred tax assets on employment benefits and other provisions	(107,217)	(122,042)	(88,420)	(106,081)
<b>Net deferred tax liabilities</b>	<b>7,518,677</b>	<b>6,162,672</b>	<b>7,411,219</b>	<b>6,045,838</b>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

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

See accounting policy 3.14

The calculation of basic and diluted earnings per share is based on profit attributable to shareholders of **MK2.595 billion** (2018: MK2.562 billion) and the weighted average number of ordinary shares outstanding during the year of 261,582,580 (2018: 261,582,580) as below:

	Consolidated	
	2019	2018
Profit for the year (MK'000)	2,594,500	2,561,566
Weighted average number of shares ('000)	261,582	261,582
Earnings per share (tambala)	992	979

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

### 23 (b). DIVIDEND

A final dividend of MK131 million representing 50 tambala per share was paid in respect of the year ended 31<sup>st</sup> December 2018 and an interim dividend of MK131 million representing 50 tambala per share was paid relating to the results for the period ended 31<sup>st</sup> December 2019.

### 24. FINANCIAL INSTRUMENTS

See accounting policy 3.12

#### 24.1 Accounting classification and fair values

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

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

	Consolidated 2019	Note	Amortised Cost
Financial assets not measured at fair value			
Trade and other receivables	9		2,472,519
Amounts due from related parties	11		1,319,140
Cash and cash equivalents	10		638,749
			<u>4,430,408</u>
Financial liabilities not measured at fair value			
Trade and other payables	15		1,600,762
Corporate bonds	13(a)		7,800,000
Obligation under finance lease	13(b)		6,725
			<u>9,407,487</u>
<b>2018</b>			
Financial assets not measured at fair value			
Trade and other receivables	9		1,749,239
Amounts due from related parties	11		1,049,078
Cash and cash equivalents	10		432,347
			<u>3,230,664</u>
<b>Financial liabilities not measured at fair value</b>			
Trade and other payables	15		1,433,415
Corporate bonds	13(a)		3,640,000
Obligation under finance lease	13(b)		317,726
			<u>5,391,141</u>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

See accounting policy 3.12

#### 24.1 Accounting classification and fair values (Continued)

##### Separate 2019

	<u>Note</u>	<u>Amortised</u> <u>Cost</u>
<b>Financial assets not measured at fair value</b>		
Trade and other receivables	9	2,381,851
Cash and cash equivalents	10	669,979
Amounts due from related parties	11	669,612
		<u>3,721,442</u>
<b>Financial liabilities not measured at fair value</b>		
Trade and other payables	15	1,350,701
Corporate bonds	13(a)	7,800,000
Obligation under finance lease	13(b)	6,725
		<u>9,157,426</u>

##### 2018

##### **Financial assets not measured at fair value**

Trade and other receivables	9	1,716,484
Cash and cash equivalents	10	445,355
Amounts due from related parties	11	402,375
		<u>2,564,214</u>

##### **Financial liabilities not measured at fair value**

Trade and other payables	15	1,205,772
Corporate bonds	13(b)	3,640,000
Obligation under finance lease	13(c)	311,006
		<u>5,156,778</u>

#### 24.2 Credit risk

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

	<u>Note</u>	<u>Consolidated</u>		<u>Separate</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Trade and other receivables	9	2,731,420	1,921,367	2,573,519	1,866,691
Amounts due from related parties	11	1,271,251	1,049,078	669,612	402,375
Cash and cash equivalents	10	638,749	432,347	669,979	445,355
		<u>4,641,420</u>	<u>3,402,792</u>	<u>3,913,110</u>	<u>2,714,421</u>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

#### 24.2 Credit risk (continued)

##### **Receivables**

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

	<u>Note</u>	<u>Consolidated</u>		<u>Separate</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Trade receivables	9	2,205,560	1,566,006	2,072,921	1,537,627
Amounts due from related parties	11	1,167,774	1,025,052	367,527	264,012
Total trade receivables		3,373,334	2,591,058	2,440,448	1,801,639
<i>Other receivables</i>					
Staff debtors	9	314,848	183,233	308,930	178,857
Amounts due from related parties	11	103,477	24,026	302,085	138,363
<b>Total receivables</b>		<u>3,791,659</u>	<u>2,798,317</u>	<u>3,051,463</u>	<u>2,118,859</u>

The credit risk is limited to customers within Malawi and South Africa.

The aging of trade and other receivables at the reporting date was:

	<u>Receivables</u>		<u>Impairment</u>		<u>Receivables</u>	<u>Impairment</u>
	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
<b>Consolidated</b>						
Not past due	1,397,567	25,757	823,152	13,093		
Past due 31-60 days	648,595	29,710	458,671	14,241		
Past due 61-90 days	419,949	26,355	375,723	17,631		
Past due over 90 days	1,325,548	110,057	1,140,771	132,584		
<b>Total</b>	<u>3,791,659</u>	<u>191,879</u>	<u>2,798,317</u>	<u>177,549</u>		
<b>Separate</b>						
Not past due	1,317,584	24,454	684,665	11,719		
Past due 31-60 days	567,941	27,608	352,924	12,136		
Past due 61-90 days	374,122	23,135	265,470	13,259		
Past due over 90 days	791,816	63,424	815,800	103,217		
<b>Total</b>	<u>3,051,463</u>	<u>138,621</u>	<u>2,118,859</u>	<u>140,331</u>		

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

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Balance at 1 January	177,549	98,602	140,331	90,322
Recognised in statement of profit or loss	16,039	142,366	-	113,428
Doubtful debts recovered during the year	(1,709)	(63,419)	(1,709)	(63,419)
<b>Balance at 31 December</b>	<u>191,879</u>	<u>177,549</u>	<u>138,622</u>	<u>140,331</u>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 24 FINANCIAL INSTRUMENTS (CONTINUED)

See accounting policy 3.12

#### 24.3 Liquidity risk

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

<u>Consolidated</u>	<u>Note</u>	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>6 mths or less</u>	<u>6-12 mths</u>	<u>1-2 years</u>	<u>2-5 years</u>
<b>2019</b>							
<b>Non-derivative financial liabilities</b>							
Corporate bonds	13(a)	(7,800,000)	(11,767,657)	(509,362)	(509,362)	(3,499,563)	(7,249,368)
Obligations under finance lease	13(b)	(6,725)	(7,409)	(3,168)	(3,168)	(1,073)	-
Trade and other payables	15	(1,528,772)	(1,528,772)	(1,528,772)	-	-	-
		<u>(9,335,497)</u>	<u>(13,303,838)</u>	<u>(2,041,302)</u>	<u>(512,530)</u>	<u>(3,500,636)</u>	<u>(7,249,368)</u>

<b>Consolidated 2018</b>							
<b>Non-derivative financial liabilities</b>							
Corporate bonds	13(a)	(3,640,000)	(6,330,855)	(327,600)	(327,600)	(655,200)	(5,020,455)
Obligations under finance lease	13(b)	(317,726)	(432,107)	(72,018)	(72,018)	(144,036)	(144,035)
Trade and other payables	15	(1,433,415)	(1,433,415)	(1,433,415)	-	-	-
		<u>(5,391,141)</u>	<u>(8,196,377)</u>	<u>(1,833,033)</u>	<u>(399,618)</u>	<u>(799,236)</u>	<u>(5,164,490)</u>

#### Separate

<b>2019</b>							
<b>Non-derivative financial liabilities</b>							
Corporate bonds	13(a)	(7,800,000)	(11,767,657)	(509,362)	(509,362)	(3,499,563)	(7,249,368)
Obligations under finance lease	13(b)	(6,725)	(7,409)	(3,168)	(3,168)	(1,073)	-
Trade and other payables	15	(1,280,061)	(1,280,061)	(1,280,061)	-	-	-
		<u>(9,086,786)</u>	<u>(13,055,127)</u>	<u>(1,792,591)</u>	<u>(512,530)</u>	<u>(3,500,636)</u>	<u>(7,249,368)</u>

#### Separate

<b>2018</b>							
<b>Non-derivative financial liabilities</b>							
Corporate bonds	13(b)	(3,640,000)	(6,330,855)	(327,600)	(327,600)	(655,200)	(5,020,455)
Obligations under finance lease	13(c)	(311,006)	(410,528)	(68,421)	(68,421)	(136,842)	(136,844)
Trade and other payables	15	(1,205,772)	(1,205,772)	(1,205,772)	-	-	-
		<u>(5,156,778)</u>	<u>(7,947,155)</u>	<u>(1,601,793)</u>	<u>(396,021)</u>	<u>(792,042)</u>	<u>(5,157,299)</u>

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 24 FINANCIAL INSTRUMENTS (CONTINUED)

#### 24.4 Market Risk

##### 24.4.1 Currency Risk

##### Exposure to currency risk

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

	<b>Consolidated and separate</b>							
	<b>31 December 2019</b>				<b>31 December 2018</b>			
	<i>Malawi Kwacha equivalent of</i>				<i>Malawi Kwacha equivalent of</i>			
	<u>USD</u>	<u>ZAR</u>	<u>GBP</u>	<u>Euro</u>	<u>USD</u>	<u>ZAR</u>	<u>GBP</u>	<u>Euro</u>
Cash and cash equivalents	88,984	2,638	8,448	5,276	90,467	10,038	4,824	7,580
Trade and other receivables	112,487	3,113			127,657	102	-	-
Employee benefits	(51,569)				(31,621)	-	-	-
Trade and other payables	-	-	-	-	-	-	-	-
	<u>(149,902)</u>	<u>5,751</u>	<u>8,448</u>	<u>5,276</u>	<u>186,503</u>	<u>10,140</u>	<u>4,824</u>	<u>7,580</u>

The following significant exchange rates applied during the year:

	<b>Average Rate</b>		<b>Reporting Date</b>	
	<b>Spot Rate</b>			
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Kwacha/USD	743.31	726.85	736.66	729.85
Kwacha/Rand	51.61	55.22	52.46	48.51
Kwacha/GBP	943.85	937.68	967.36	901.01
Kwacha/Euro	829.04	836.33	826.91	807.51

##### 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 31 December would have increased exchange gain by **MK17 million** (2018: exchange gain of MK21 million) which would have been credited to profit or loss. The increase in equity would be **MK12 million** (2018: MK14 million). This analysis is based on foreign exchange rate variations that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables in particular interest rates, remain constant.

##### 24.4.2 Interest rate risk

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

##### Variable rate instruments

	<u>Note</u>	<b>Carrying Amounts</b>			
		<b>Consolidated</b>		<b>Separate</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Finance lease	13(b)	6,725	317,726	6,725	311,006
Corporate bonds	13(a)	7,800,000	3,640,000	7,800,000	3,640,000
		<u>7,806,725</u>	<u>3,957,726</u>	<u>7,806,725</u>	<u>3,951,006</u>

The prevailing interest rates for these interest bearing facilities are within the region of Reserve Bank Reference rate plus or minus 1-10%. The Reserve Bank reference rate currently is at **12.5%**. The commercial banks' average lending rate currently is at **25%** (2018: 27%).

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 24 FINANCIAL INSTRUMENTS (CONTINUED)

#### 24.4 Market Risk

##### 24.4.2 Interest rate risk

##### *Cash flow sensitivity analysis for variable rate instruments*

An increase of 5% in interest rates at the reporting date would have increased interest being charged to the Group's profit or loss by MK51 million (2018: MK35 million). The decrease in equity would be MK36 million (2018: equity would have decreased by MK24 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

### 25. CAPITAL MANAGEMENT

See accounting policy 4.4

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

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

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

The gearing ratios at 31 December were as follows:

	<b>Note</b>	<b>Consolidated</b>		<b>Separate</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Total loans and borrowings	13	7,806,725	3,957,726	7,806,725	3,951,006
Less: cash and cash equivalents	10	(638,749)	(432,347)	(669,979)	(445,355)
Net debt		7,167,976	3,525,379	7,136,746	3,505,651
Total equity		23,345,526	21,012,559	22,330,052	20,061,228
Total capital		30,513,502	24,537,938	29,466,718	23,566,879
Gearing ratio		23%	14%	24%	15%

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 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:

<b>Reportable segment</b>	<b>Operations</b>
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.

	<b>Room income</b>	<b>Catering income</b>	<b>Other services</b>	<b>Total</b>
<b>2019</b>				
Total revenue	<u>8,462,139</u>	<u>10,203,583</u>	<u>704,367</u>	<u>19,370,089</u>
Segment contribution	<u>6,631,573</u>	<u>4,930,493</u>	<u>527,845</u>	<u>12,089,911</u>
Other hotel expenses				(7,653,613)
Corporate expenses				(215,499)
Finance costs				(228,749)
Profit before income tax expense				<u>3,992,050</u>
<b>2018</b>				
Total revenue	8,483,141	9,786,395	666,007	18,935,543
Segment contribution	6,749,861	4,445,092	451,810	11,646,763
Other hotel expenses				(7,362,846)
Corporate expenses				(172,356)
Finance costs				(397,919)
Profit before income tax expense				<u>3,713,642</u>

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 26. SEGMENTAL REPORTING (CONTINUED)

See accounting policy 3.16

#### Profile of the Target Market Segment

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

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	%	%	%	%
Corporates	50	60	55	60
Commercial groups	27	11	24	12
Government	12	12	9	9
Leisure and airlines	8	14	8	15
Online	3	3	4	4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

#### Geographical Source of Business

The geographical source of business is predominantly domestic:

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Malawi	86	84	85	82
Africa	7	8	8	9
Europe	4	4	4	4
Americas	2	3	2	3
Other	1	1	1	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 27. COMMITMENTS

See accounting policy 3.21

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Capital expenditure:				
Authorised but not contracted for	1,867,644	1,806,204	1,764,050	1,636,688

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

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019  
In thousands of Malawi Kwacha

### 28. CONTINGENCIES

See accounting policy 5.2

	<u>Consolidated</u>		<u>Separate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Legal claims	10,000	10,000	10,000	10,000
Guarantees in respects of staff and bank loans	50,000	50,000	50,000	50,000
	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>

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

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

### 29. EXCHANGE RATES AND INFLATION

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

	<u>2019</u>	<u>2018</u>
Kwacha/GBP	943.85	901.01
Kwacha/Rand	51.61	48.51
Kwacha/US Dollar	743.31	729.85
Kwacha/Euro	829.04	807.51
Inflation rate (%)	9.4%	9.2%

At the end of the year, the Reserve Bank of Malawi reference base-lending rate was **12.5%** (2018: 16%). Commercial banks' base lending rates are 6% to 20% above the prevailing Reserve Bank of Malawi rate.

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

Kwacha/GBP	857.96
Kwacha/US Dollar	736.71
Kwacha/Rand	42.13
Kwacha/Euro	796.78
Inflation rate (%)	11%

## NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

*For the year ended 31 December 2019*  
*In thousands of Malawi Kwacha*

### 30. EVENTS AFTER REPORTING PERIOD

Sunbird Tourism Plc reports the annual financial statements as at 31<sup>st</sup> December. There has been an event after the reporting period that does not require adjustment to the company's annual financial statements. The disclosure will affect the company financial statements for period beginning 1<sup>st</sup> January 2020.

## Divisionalisation of Catering Solutions Limited

The Board, in pursuit of its corporate strategy resolved to have a wholly owned subsidiary, Catering Solutions Limited, cease to operate as an independent company, the business would from 1<sup>st</sup> January 2020 start operating as a division within Sunbird Tourism Plc. The division, Sunbird Catering and Management Services, will be the umbrella division for all the management contracts and catering solutions business.

Sunbird Tourism Plc in its growth strategy intends to expand the management contracts business and related services as part of increasing its visibility on the local and international market and it was seen that Catering Solutions Limited would perform better in this setup.

The directors for Catering Solutions Limited will resign effective 31<sup>st</sup> December 2019.

Sunbird Tourism Plc is in the process of regularising the divisionalisation transaction with the relevant regulatory authorities in accordance with the Companies Act 2013.

The company will take all the assets and liabilities from Catering Solutions Limited at their carrying values.

## Notes

## Notes



### Sunbird Mount Soche

Tel: (265) (0) 1 820 588, Fax: (265) (0) 1 820 154  
Email: mountsoche@sunbirdmalawi.com

### Sunbird Lilongwe

Tel: (265) (0) 1 756 333, Fax: (265) (0) 1 756 580  
Email: lilongweres@sunbirdmalawi.com



### Sunbird Mzuzu

Tel: (265) (0) 1 332 622, Fax: (265) (0) 1 332 660  
Email: mzuzuhotel@sunbirdmalawi.com

### Sunbird Capital

Tel: (265) (0) 1 773 388, Fax: (265) (0) 1 771 273  
Email: capitalres@sunbirdmalawi.com



### Sunbird Ku Chawe

Tel: (265) (0) 1 514 211, Fax: (265) (0) 1 514 230  
Email: kuchawe@sunbirdmalawi.com

### Sunbird Livingstonia Beach

Tel: (265) (0) 1 263 444, Fax: (265) (0) 1 263 452  
Email: livingstonia@sunbirdmalawi.com



### Sunbird Nkopola Lodge

Tel: (265) (0) 1 580 444 / 802, Fax: (265) (0) 1 580 420  
Email: nkopola@sunbirdmalawi.com

### Sunbird Thawale Lodge

Tel: (265) (0) 999 891 672, Fax: (265) (0) 999 965 021  
Email: thawale@sunbirdmalawi.com



### Sunbird Kara O'Mula

Tel: (265) (0) 999 466 500/ (265) (0) 1 466 515  
Email: reservations@karaomula.com

Visit us on [www.sunbirdmalawi.com](http://www.sunbirdmalawi.com)



[www.sunbirdmalawi.com](http://www.sunbirdmalawi.com)

Designed & Printed by Kris Offset & Screen Printers Ltd