

NAMING'OMBA TEA ESTATES LIMITED

FINANCIAL STATEMENTS

For the year ended

31 MARCH 2020

NAMING'OMBA TEA ESTATES LIMITED

FINANCIAL STATEMENTS
For the year ended 31 March 2020

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NAMING'OMBA TEA ESTATES LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2020

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 March 2020.

Incorporation and registered office

Naming'omba Tea Estates Limited is a company incorporated in Malawi under Companies Act, 2013 of Malawi and is domiciled in Malawi. The address of the company's registered office is:

Naming'omba Tea Estates Limited
P.O. Box 2
Thyolo

Financial statements

The results and state of affairs of the Company are set out in the accompanying statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and accounting policies and notes to the financial statements.

Dividend

Due to reported loss for the financial year ended on 31st March, 2020, the Board of Directors have not proposed any dividend on the ordinary shares of the Company.

Directors and secretary

The directors and secretary of the Company who served during the year are listed below:

| <u>Name</u> | <u>Position</u> | <u>Duration</u> | <u>Nationality</u> |
|---------------------------|-----------------|---------------------------------|--------------------|
| Mr. Arthur Alick Msowoya | Director | Whole year | Malawian |
| Mr. Anand Vardhan Kothari | Director | From 10 th May 2019 | Indian |
| Mr. Vijay Kumar | Director | Whole year | Indian |
| Mr. Remmie Ng'omba | Director | Whole year | Malawian |
| Mr. Santosh Kumar Giri | Director | Up to 10 th May 2019 | Indian |
| Mrs. Susan Mkandawire | Secretary | Whole year | Malawian |

Auditors

Messrs Grant Thornton, Chartered Accountants (Malawi), have expressed their willingness to continue in office as auditors in respect of the company's 31 March 2021 financial statements and a resolution proposing their appointment will be tabled at the Annual General Meeting.

Acknowledgement

The Directors would like to record their appreciation for the co-operation and support received from the employees shareholders, banks, government agencies and all stakeholders.


.....
DIRECTOR


.....
DIRECTOR

12 May 2020

NAMING'OMBA TEA ESTATES LIMITED

**DIRECTORS' RESPONSIBILITY STATEMENT
For the year ended 31 March 2020**

The directors are responsible for the preparation and fair presentation of the financial statements of Naming'omba Tea Estates Limited comprising the statement of financial position at 31 March 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, 2013 of Malawi.

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

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

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

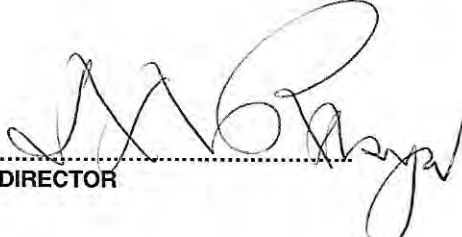
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of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

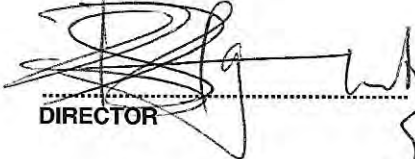
The directors' have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the 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 financial statements

The financial statements of Naming'omba Tea Estates Limited, as identified in the first paragraph were approved by the Board of Directors on~~12~~...**May 2020** and were signed on its behalf by:


.....
DIRECTOR


.....
DIRECTOR

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
NAMING'OMBA TEA ESTATES LIMITED**

Opinion

We have audited the financial statements of Naming'omba Tea Estates Limited ("the Company") set out on pages 5 to 35, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Naming'omba Tea Estates Limited as at 31 March 2020, and of its financial performance and its 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 financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and the Directors' Responsibilities Statement. The other information does not include the financial statements and our audit report thereon.

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

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

Responsibilities of directors for the financial statements

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE SHAREHOLDERS OF NAMING'OMBA TEA ESTATES LIMITED
For the year ended 31 March 2020

Responsibilities of directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for assessing 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 Company or to cease operations, or have no realistic alternative but to do so.

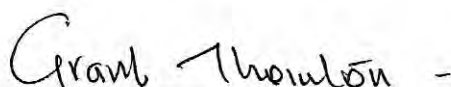
Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA's 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 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 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 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 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 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 Company to cease to continue as a going concerns.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Grant Thornton Malawi
Chartered Accountants and Business Advisors



Hastings Bofomo Nyirenda
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi

15 May 2020

NAMING'OMBA TEA ESTATES LIMITED

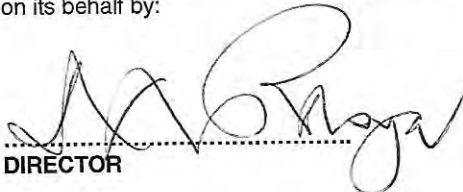
STATEMENT OF FINANCIAL POSITION

At 31 March 2020

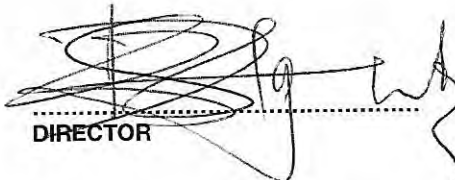
In thousands of Malawi Kwacha

| | <u>Note</u> | <u>2020</u> | <u>2019</u> |
|---------------------------------------|-------------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10(a) | 5,635,921 | 5,553,949 |
| Bearer plants | 10(b) | <u>21,699,574</u> | <u>19,598,539</u> |
| Total Non-current assets | | <u>27,335,495</u> | <u>25,152,488</u> |
| Currents assets | | | |
| Biological assets | 11 | 1,002,435 | 891,910 |
| Inventories | 12 | 1,574,631 | 1,434,902 |
| Trade and other receivables | 13 | 735,283 | 1,107,961 |
| Cash and cash equivalents | 14 | <u>5,309</u> | <u>5,426</u> |
| Total current assets | | <u>3,317,658</u> | <u>3,440,199</u> |
| Total assets | | <u>30,653,153</u> | <u>28,592,687</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 16.1 | 1,284 | 1,284 |
| Share premium | 16.2 | 60,977 | 60,977 |
| Property revaluation reserve | 16.3 | 4,010,138 | 3,880,638 |
| Bearer plants revaluation reserve | 16.4 | 16,406,546 | 14,436,263 |
| Capital reserve | 16.5 | 301,564 | 301,564 |
| Biological assets revaluation reserve | 16.6 | 417,529 | 402,861 |
| Accumulated losses | | <u>(6,450,149)</u> | <u>(6,140,150)</u> |
| Total equity | | <u>14,747,889</u> | <u>12,943,437</u> |
| Non-current liabilities | | | |
| Borrowings | 15 | 3,100,802 | 3,770,511 |
| Deferred tax liability | 9 | <u>9,015,413</u> | <u>8,109,220</u> |
| Total non-current liabilities | | <u>12,116,215</u> | <u>11,879,731</u> |
| Current liabilities | | | |
| Bank overdraft | 14 | 1,938,442 | 1,593,960 |
| Trade and other payables | 17 | 891,364 | 714,001 |
| Borrowings | 15 | 796,369 | 1,102,817 |
| Income tax payable | 9 | <u>162,874</u> | <u>358,741</u> |
| Total current liabilities | | <u>3,789,049</u> | <u>3,769,519</u> |
| Total liabilities | | <u>15,905,264</u> | <u>15,649,250</u> |
| Total equity and liabilities | | <u>30,653,153</u> | <u>28,592,687</u> |

These financial statements were approved for issue by the Company's board of directors on 12 May 2020 and were signed on its behalf by:



 DIRECTOR



 DIRECTOR

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | <i>Note</i> | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------------------|-------------------------|
| Revenue | 5 | 4,643,633 | 4,767,213 |
| Cost of sales | | <u>(2,572,072)</u> | <u>(1,939,212)</u> |
| Gross profit | | 2,071,561 | 2,828,001 |
| Grant income | 18 | 30,167 | - |
| Other income | 6 | 51,385 | 44,971 |
| Fair value gains | 11- | 20,954 | 78,057 |
| Selling expenses | | <u>(106,657)</u> | <u>(50,145)</u> |
| Administration expenses | 7 | <u>(1,571,419)</u> | <u>(1,391,534)</u> |
| Operating profit | | 495,991 | 1,509,350 |
| Exchange loss | 8 | <u>(15,117)</u> | <u>(19,861)</u> |
| Finance cost | 8 | <u>(592,045)</u> | <u>(614,394)</u> |
| (Loss)/profit before taxation | | (111,171) | 875,095 |
| Income tax expense | 9 | <u>(184,160)</u> | <u>(425,032)</u> |
| (Loss)/profit after tax | | <u>(295,331)</u> | <u>450,063</u> |
| Other comprehensive income | | | |
| <i>Items that will not be classified to profit or loss</i> | | | |
| Revaluation surplus | | 2,999,690 | 2,665,060 |
| Deferred tax thereon | | <u>(899,907)</u> | <u>(799,518)</u> |
| Total other comprehensive income | | <u>2,099,783</u> | <u>1,865,542</u> |
| Total comprehensive income for the year | | <u>1,804,452</u> | <u>2,315,605</u> |

NAMING'OMBA TEA ESTATES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | Share capital | Share premium | Property revaluation reserve | Bearer plants revaluation reserve | Capital reserve | Biological asset revaluation reserve | Accumulated losses | Total |
|--|---------------|---------------|------------------------------|-----------------------------------|-----------------|--------------------------------------|--------------------|-------------------|
| 2020 | | | | | | | | |
| Balance as at 1 April 2019 | 1,284 | 60,977 | 3,880,638 | 14,436,263 | 301,564 | 402,861 | (6,140,150) | 12,943,437 |
| <i>Other comprehensive income</i> | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (295,331) | (295,331) |
| Revaluation surplus | - | - | 185,000 | 2,814,690 | - | - | - | 2,999,690 |
| Deferred tax on revaluation surplus | - | - | (55,500) | (844,407) | - | - | - | (899,907) |
| Total other comprehensive income | 1,284 | 60,977 | 4,010,138 | 16,406,546 | 301,564 | 402,861 | (6,435,481) | 14,747,889 |
| <i>Transfers within reserves</i> | | | | | | | | |
| Biological assets fair value gains transferred | - | - | - | - | - | 20,954 | (20,954) | - |
| Deferred tax on fair value gains transferred | - | - | - | - | - | (6,286) | 6,286 | - |
| Balance at 31 March 2020 | 1,284 | 60,977 | 4,010,138 | 16,406,546 | 301,564 | 417,529 | (6,450,149) | 14,747,889 |
| 2019 | | | | | | | | |
| Balance as at 1 April 2018 | 1,284 | 60,977 | 3,762,173 | 12,689,186 | 301,564 | 348,221 | (6,535,573) | 10,627,832 |
| <i>Other comprehensive income</i> | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 450,063 | 450,063 |
| Revaluation surplus | - | - | 169,236 | 2,495,824 | - | - | - | 2,665,060 |
| Deferred tax on revaluation surplus | - | - | (50,771) | (748,747) | - | - | - | (799,518) |
| Total other comprehensive income | 1,284 | 60,977 | 3,880,638 | 14,436,263 | 301,564 | 348,221 | (6,085,510) | 12,943,437 |
| <i>Transfers within reserves</i> | | | | | | | | |
| Biological assets fair value gains transferred | - | - | - | - | - | 78,057 | (78,057) | - |
| Deferred tax on fair value gains transferred | - | - | - | - | - | (23,417) | 23,417 | - |
| Balance at 31 March 2019 | 1,284 | 60,977 | 3,880,638 | 14,436,263 | 301,564 | 402,861 | (6,140,150) | 12,943,437 |

Accumulated loss comprises the brought forward recognized income, net of expenses, plus current year profit/loss attributable to shareholders. Refer to note 16 for explanation of the share capital, share premium and reserves.

NAMING'OMBA TEA ESTATES LIMITED

STATEMENTS OF CASH FLOWS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | <u>Note</u> | <u>2020</u> | <u>2019</u> |
|---|-------------|---------------------------|---------------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit before tax | | (111,171) | 875,095 |
| <i>Adjusted for:</i> | | | |
| Depreciation | 10(a)&(b) | 1,011,689 | 887,553 |
| Interest expense | 8 | 507,440 | 581,444 |
| Profit on disposal of assets | - | (796) | - |
| Unrealised exchange gain on bank overdraft | | (17,421) | (20,333) |
| Fair value gain on biological assets | 11 | <u>(20,954)</u> | <u>(78,057)</u> |
| Cashflows generated in operations | | <u>1,368,787</u> | <u>2,245,702</u> |
| Increase in inventories | | (139,729) | (648,895) |
| Decrease/(increase) in trade and other receivables | | 372,678 | (425,808) |
| Increase in trade and other payables | | <u>177,363</u> | <u>261,789</u> |
| Cash generated from operating activities | | 1,779,099 | 1,432,788 |
| Taxation paid | | <u>(373,741)</u> | <u>(204,974)</u> |
| Net cash from operating activities | | <u>1,405,358</u> | <u>1,227,814</u> |
| Cash flows from investing activities | | | |
| Development expenditure | | (139,822) | (125,513) |
| Proceeds from disposal of equipment | | 2,150 | - |
| Acquisition of property, plant and equipment | 10(b) | <u>(146,109)</u> | <u>(214,212)</u> |
| Cash flows utilised in financing activities | | <u>(283,781)</u> | <u>(339,725)</u> |
| Loan receipts | | 2,576,491 | - |
| Loan repayment | | (3,552,648) | (1,042,638) |
| Interest expense | | <u>(507,440)</u> | <u>(581,444)</u> |
| Net cash utilised in financing activities | | <u>(1,483,597)</u> | <u>(1,624,082)</u> |
| Net decrease in cash and cash equivalents for the period | | (362,020) | (735,993) |
| Cash and cash equivalents at the beginning of the period | | (1,588,534) | (872,874) |
| Effect of movement in exchange rate on cash balance | | <u>17,421</u> | <u>20,333</u> |
| Cash and cash equivalents at the end of the period | 14 | <u>(1,933,133)</u> | <u>(1,588,534)</u> |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. General Information

Naming'omba Tea Estates Limited is a limited liability company incorporated under the Companies Act, 2013 of Malawi.

The Company is involved in growing, processing and selling tea and Macademia Nuts.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in a manner required by the Companies Act, 2013 of Malawi.

2.2 Basis of measurement

The financial statements are presented in Malawi Kwacha, rounded to the nearest thousand. They are prepared on the historical cost convention except for biological assets and certain items of property, plant and equipment that are measured at fair value.

2.3 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires 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 in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements can be found in the following notes:

Note 9 - Recognition of deferred tax assets, availability of future taxable profit against which carry forward tax losses can be used.

Note 11 - Key assumptions underlying in the biological asset model.

Note 14 - Impairment test: assumptions underlying recoverable amounts.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values for non-financial assets.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liability.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Property improvements with fair value amounting **MK2,576 million** (2019: MK2,679 million) was revalued at 31 March 2016 and was not revalued at the reporting date. Management determined that the effect of the changes in fair values between that date and the reporting date is immaterial.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

2. Basis of preparation (continued)

2.4 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. Revisions to accounting estimates are recognized prospectively. Judgements made by management in the application of IFRSs that have significant impact on the financial statements and estimates with significant risk of material adjustment in the next year are detailed below:

2.4.1 Estimated impairment of trade receivable

The Company tests annually whether receivables have suffered any impairment and makes a provision for bad debts in accordance with the accounting policy stated in note 3.8. This assessment requires judgement.

2.4.2 Income taxes

The Company is subject to income tax in Malawi, and provision for income tax payable is made in the financial statements as at each financial year end. Subsequent to the year end a tax return is filed with the revenue authorities. Where the final tax assessed is different from the amounts that were initially provided, such differences will be accounted for as an income tax under/over provision in the statement of comprehensive income for the period when such determination is made.

Deferred tax asset is only recognised to the extent that there will be future taxable profits to offset the tax losses within the allowable period for carrying forward tax losses.

2.4.3 Biological assets valuation

Included in the rate used to discount the yields for macadamia and tea is a time value for money risk factor representing risks associated with the loss of value of money as a consequence of the passage of time.

In accordance with the Company's strategic plans, tea, macadamia and timber plantations are assumed to have productive life of 100 years, 50 years and 7 years respectively.

The models assume no capacity constraints, sustained global market demand and continued positive market conditions.

Standard ratios for conversion of green leaf to make tea and shelling of macadamia to kernels are applied.

These models contain estimates of yields and future proceeds and these assumptions are reconsidered annually.

2.4.4 Assets' economic lives and residual values

Management uses its judgement, based on its understanding of the business, capital policy and the economic environment in which it operates, to assess the residual value, and the estimated useful life of assets. Changes in residual values, indexation and estimated useful lives result in changes in depreciable and annual depreciation charges for individual assets.

2.4.5 Going concern basis of accounting

The Company has reported a loss of **MK295.3 million** (2019: Profit MK450.1 million). The Company's current liabilities of MK3.8 billion exceed the current assets by MK471 million.

This condition casts doubt on the company ability to remain a going concern.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet the mandatory repayment terms of all its liabilities as and when they fall due.

The shareholders have undertaken to continue to support the company.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Foreign currency translation

3.1.1 Functional and presentation currency

Items included in the financial statements of the financial statements are measured using the currency of the primary economic environment in which the Company operates "the functional currency". The financial statements are presented in Malawi Kwacha which is the Company's functional and presentation currency.

3.1.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of profit or loss within finance income or cost.

3.2 Revenue recognition

3.2.1 Revenue

Revenue comprises the fair value of the consideration received or receivable from the sales of tea and Macadamia Nuts. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue from sales is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of goods; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.2.2 Other income

Other income comprises net revenue on other farm produce, rental income management fees, and sundry revenue, and is accounted for on an accruals basis.

3.2.3 Finance income and finance cost

Interest income is recognised using the effective interest rate method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Finance cost comprise of interest expense as borrowings and is recognised in statement of profit or loss.

3.3 Development cost

Establishment costs in respect of tea and macadamia plantations, including expenditure on the necessary infrastructure, are capitalised as biological assets as they are incurred. Establishment costs do not include the cost of clearing and stumping, terracing or irrigation work for new plantations, which are classified as land development costs within property, plant and equipment. Replanting and in-filling costs are expensed when incurred.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.4 Property, plant and equipment

Items of property, plant and equipment are measured at revaluation less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant or equipment have different useful lives, then they are accounted for as separate items (major components) of property plant and equipment.

Any gains or losses on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

Increase in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. The revaluation reserve is realised on disposal. All other decreases are recognised in statement of profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company.

On-going repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

| | | | |
|-------------------------------------|---|-------|----------|
| Freehold buildings and construction | - | 2% | |
| Plant and machinery | - | 3.5% | - 12.5% |
| Water schemes | - | 3.5% | - 10% |
| Motor vehicles | - | 8% | - 17% |
| Office equipment | - | 10% | - 20% |
| Furniture and fittings | - | 10% | |
| Bearer plants | - | 1.05% | - 16.67% |

Economic lives and residual values are reassessed annually and adjusted where appropriate.

3.5 Biological assets

Tea, timber, and macadamia and plantations are measured at fair value. The fair value of plantations is determined based on the present value of expected net cash flows from the plantations determined by discounting the expected net cash flows from the plantations using a determined pre-tax rate of cost of capital.

3.6 Future crop expenditure

The Company's financial year end and crop seasons are not altogether concurrent. The fertiliser application and other costs other than establishment costs of biological assets incurred prior to the reporting date in respect of crops which will be harvested in the subsequent financial year are fully charged to the profit and loss in order to be consistent with the accounting policy being applied at the Head Office.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.7 Inventories

Inventories including consumable stores, made tea and macadamia stocks are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost method. The cost of made tea and macadamia comprise direct labour, other direct costs and the related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.8 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Bad debts are written off during the year in which they are identified. Impairment is calculated as the difference between carrying amount and present values of expected cash flow from customers.

3.9 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non financial assets to determine whether there is any indication of impairment. If any such indicator exists, than the assets recoverable amount is estimated.

For impairment testing assets are grouped together into the smallest Group of assets that generate cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from a business combination is allocated to cash generating units or Groups of cash generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell.

Value in use is based on the estimated future cash flows discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised to profit or loss.

3.10 Financial assets

3.10.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Company does not currently have any financial assets other than trade and other receivables and cash and cash equivalents.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

3.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade - date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The transaction differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities as classified available-for-sale are transferred to a fair value reserve.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.10.3 Derecognition

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

3.10.4 Offsetting

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

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

3.11 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if there is objective evidence of one or more events that occurred after the initial recognition of the assets (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that the Company uses to determine whether there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligant;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the debtors financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) Adverse changes in the payment of borrowers in the portfolio;
 - (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is then measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

3.12 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise cash on hand; deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are disclosed as current liabilities in the statement of financial position. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.13 Deferred and current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statements, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of tax rates and laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax assets realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different 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.

3.14 Employee benefits

3.14.1 Pension

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in the profit or loss. The Company has no further obligations once the contributions have been made.

3.14.2 Other long-term employee benefits

Severance pay

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior period.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company 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 measured reliably.

3.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligations has been reliably estimated. Where it cannot be, the obligation is disclosed as a contingent liability.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

3.18 Equity

Ordinary shares, share premium, revaluation and indexation surpluses, non-distributable and distributable retained earnings are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

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

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 Company.

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 Company'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
- 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 January 2020 and apply prospectively. Earlier adoption is permitted.

3.19(b) New accounting standards and interpretations adopted as at 1 January 2019

The Company 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 Company has adopted IFRS 16 on 1 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 Company has no leases hence the standard has no effect on the company.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.19(b) New accounting standards and interpretations adopted as at 1 January 2019 (continued)

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 Company'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 company's position in relations to the borrowing costs.

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 company'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 Company 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 Company.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.20 Financial instruments

Non-derivative financial assets and financial liabilities

Recognition

Financial assets and financial liabilities are recognised when the Company 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 Company does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:

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

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

Subsequent measurement of financial assets

Financial assets at amortised cost

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

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

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company'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 Company's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Company'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 Company 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.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.20 Financial instruments (continued)

Derecognition

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

Offsetting

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

The Company 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 Company 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 Company's accounting policy for borrowing costs (see note 3.9).

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.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.20 Financial instruments (continued)

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize 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 amortized cost and FVOCI, trade receivables, contract assets recognized 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 Fund first identifying a credit loss event. Instead the Fund 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 recognized for the first category while 'lifetime expected credit losses' are recognized for the second 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.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2020

4. Financial Risk Management

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate and cash flow interest risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board of Directors provide principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, currency exposures, interest rate risk and credited risk and investment of excess liquidity.

4.2. Financial risk management objectives

The following is the analysis of the financial instruments:

| | <u>Note</u> | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------|------------------|------------------|
| Financial assets | | | |
| Trade and other receivables | 13 | 735,283 | 1,107,961 |
| Cash and cash equivalents | 14 | <u>5,309</u> | <u>5,426</u> |
| | | <u>740,592</u> | <u>1,113,387</u> |
| Financial liabilities | | | |
| Trade and other payables | 17 | 891,364 | 714,001 |
| Borrowings | 15 | 3,897,171 | 4,873,328 |
| Bank overdraft | 14 | <u>1,938,442</u> | <u>1,593,960</u> |
| | | <u>6,726,977</u> | <u>7,181,289</u> |

4.3. Market risk management strategies

The Company is exposed to financial risks arising from changes in tea and macadamia prices. The Company does not anticipate that tea and macadamia prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in produce prices. The Company reviews its outlook for produce prices regularly in considering the need for active market risk management.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

4. Financial Risk Management (continued)

4.4 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. The trading in a strong foreign currency acts as a hedge against exchange rate fluctuations.

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities are as follows:

| US\$ denominated assets | 2020 | 2019 |
|-------------------------------------|------------------|------------------|
| Trade receivables | <u>497,733</u> | <u>958,409</u> |
| US\$ denominated liabilities | | |
| Bank overdraft | <u>1,938,442</u> | 1,593,960 |
| Borrowings | <u>3,897,171</u> | <u>4,873,328</u> |
| | <u>5,835,613</u> | <u>6,467,288</u> |

Foreign currency sensitivity analysis

The Company's sensitivity to a 5% increase and decrease in the Malawi Kwacha against the United States Dollar. 5% is the rate management use when doing variance analyses.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 5% change in foreign currency rate. A negative number below indicates a decrease in profit where Malawi Kwacha weakens 5% against the United States Dollar. For a 5% strengthening of the Malawi Kwacha against the United States Dollar, there would be an equal and opposite impact on profit.

| | 2020 | 2019 |
|----------------|------------------|------------------|
| Profit or loss | <u>(248,493)</u> | <u>(275,393)</u> |

The above movement is mainly attributable to the exposure outstanding of the carrying of the Company's foreign currency denominated monetary assets and liabilities.

The Company manages foreign currency risk by maintaining sufficient resources in its foreign currency denominated account by which it largely transacts its sales to meet foreign currency liabilities.

4.5 Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating rate. The risk is managed by the company by maintaining an appropriate mix between fixed and semi – fixed rates borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on exposure to interest rate for non-derivative instruments at the reporting date. For the floating rate and semi-floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. The floating rate has been assumed at 7.1% above the reference rate of 13.2% which gives an effective interest rate of 20.3% (2019:21%) and semi-floating rate has been assumed at three months LIBOR plus 5.8848% making an effective rate of 7.75% LIBOR plus .

A 5% increase or decrease in floating rate has been adopted and 0.5% increase or decrease has been adopted in semi-floating rates.

If the floating interest rates had been 5% higher/lower and all other variables were held constant, the company's profit for the period ended 31 March 2020 would have decreased/increased by **MK0.14 million** (2019: MK0.015 million).

If the semi-floating rates had been 0.5.% higher/lower and all other variables were held constant, the Company's profit for the period ended 31 March 2020 would decrease/increase by **MK31.054 million** (2019: MK32.327 million).

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

4. Financial Risk Management (continued)

4.6 Credit risk management

The Company is exposed to risk of failure by customers to honour their debts. Trade receivables mainly consist of private sales and auction sales which have proved to be reliable customers in the past. The company does not have significant credit risk exposure.

| | | |
|------------------------------|----------------|----------------|
| | <u>2020</u> | <u>2019</u> |
| Maximum credit risk exposure | <u>497,733</u> | <u>958,409</u> |

The ageing of trade receivables at the reporting date was:

| | | | | | | |
|--------------|----------------|-------------------|----------------|----------------|-------------------|----------------|
| | <u>2020</u> | | | <u>2019</u> | | |
| | <u>Gross</u> | <u>Impairment</u> | <u>Total</u> | <u>Gross</u> | <u>Impairment</u> | <u>Total</u> |
| Not past due | <u>497,733</u> | <u>-</u> | <u>497,733</u> | <u>958,409</u> | <u>-</u> | <u>958,409</u> |

4.7 Liquidity risk management

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

Maturity analysis for financial assets and financial liabilities are detailed below:

31 March 2020

| | <u>Note</u> | <u>Up to 1 Month</u> | <u>1 to 3 Months</u> | <u>3 to 12 Months</u> | <u>More than 12 months</u> | <u>Total</u> | <u>Fair value</u> |
|------------------------------------|-------------|--------------------------|--------------------------|---------------------------|------------------------------------|--------------------|-----------------------|
| Financial assets | | | | | | | |
| Trade and other receivables | 13 | 492,533 | - | 242,750 | - | 735,283 | 735,283 |
| Cash and cash equivalents | 14 | 5,309 | - | - | - | 5,309 | 5,309 |
| | | <u>497,842</u> | <u>-</u> | <u>242,750</u> | <u>-</u> | <u>740,592</u> | <u>740,592</u> |
| Financial liabilities | | | | | | | |
| Trade payables | 17 | 93,432 | 211,884 | 248,571 | - | 553,887 | 553,887 |
| Borrowings | 15 | - | - | 796,369 | 3,100,802 | 3,897,171 | 3,897,171 |
| Bank overdraft | 14 | - | - | 1,938,442 | - | 1,938,442 | 1,938,442 |
| Total financial liabilities | | <u>93,432</u> | <u>211,884</u> | <u>2,983,382</u> | <u>3,100,802</u> | <u>6,389,500</u> | <u>6,389,500</u> |
| Periodic gap | | <u>404,410</u> | <u>(211,884)</u> | <u>(2,740,632)</u> | <u>(3,100,802)</u> | <u>(5,648,908)</u> | <u>(5,648,908)</u> |
| Cumulative gap | | <u>404,410</u> | <u>192,526</u> | <u>(2,548,106)</u> | <u>(5,648,908)</u> | <u>(5,648,908)</u> | <u>(5,648,908)</u> |

31 March 2019

| | <u>Note</u> | <u>Up to 1 Month</u> | <u>1 to 3 Months</u> | <u>3 to 12 Months</u> | <u>More than 12 months</u> | <u>Total</u> | <u>Fair value</u> |
|------------------------------------|-------------|--------------------------|--------------------------|---------------------------|------------------------------------|--------------------|-----------------------|
| Financial assets | | | | | | | |
| Trade and other receivables | 13 | 328,508 | 629,901 | 149,552 | - | 1,107,961 | 1,107,961 |
| Cash and cash equivalents | 14 | 5,426 | - | - | - | 5,426 | 5,426 |
| | | <u>333,934</u> | <u>629,901</u> | <u>149,552</u> | <u>-</u> | <u>1,113,387</u> | <u>1,113,387</u> |
| Financial liabilities | | | | | | | |
| Trade payables | 17 | 187,076 | 144,303 | 88,370 | - | 419,749 | 419,749 |
| Borrowings | 15 | - | - | 1,102,817 | 3,770,511 | 4,873,328 | 4,873,328 |
| Bank overdraft | 14 | - | - | 1,593,960 | - | 1,593,960 | 1,593,960 |
| Total financial liabilities | | <u>187,076</u> | <u>144,303</u> | <u>2,785,147</u> | <u>3,770,511</u> | <u>6,887,037</u> | <u>6,887,037</u> |
| Periodic gap | | <u>146,858</u> | <u>485,598</u> | <u>(2,635,595)</u> | <u>(3,770,511)</u> | <u>(5,773,650)</u> | <u>(5,773,650)</u> |
| Cumulative gap | | <u>146,858</u> | <u>632,456</u> | <u>(2,003,139)</u> | <u>(5,773,650)</u> | <u>(5,773,650)</u> | <u>5,773,650</u> |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

4. Financial Risk Management (continued)

4.9. Financial instruments – Fair values and risk management

a) Accounting classifications and fair values

A number of the Fund's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on various methods. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to those assets or liabilities.

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 March 2020

| | Note | Carrying amount | Fair value through profit & loss | Assets/liabilities at amortised cost | Fair value | | | | |
|---|------|------------------|----------------------------------|--------------------------------------|------------|---------|---------|---------|-------|
| | | | | | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value | | | | | | | | | |
| Trade and other receivables | 13 | 735,283 | - | 735,283 | - | - | - | - | - |
| Cash and cash equivalents | 14 | <u>5,309</u> | - | <u>5,309</u> | - | - | - | - | - |
| | | <u>740,592</u> | - | <u>740,592</u> | - | - | - | - | - |
| Financial liabilities not measured at fair value | | | | | | | | | |
| Borrowings | 15 | 3,897,171 | - | 3,897,171 | - | - | - | - | - |
| Trade and other payables | 17 | 891,364 | - | 891,364 | - | - | - | - | - |
| Bank overdrafts | 14 | <u>1,938,442</u> | - | <u>1,938,442</u> | - | - | - | - | - |
| | | <u>6,726,977</u> | - | <u>6,726,977</u> | - | - | - | - | - |

NAMING'OMBA TEA ESTATES LIMITED

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For the year ended 31 March 2020

In thousands of Malawi Kwacha

4. Financial Risk Management (continued)

4.9. Financial instruments – Fair values and risk management (continued)

31 March 2019

| | Note | Carrying amount | Fair value through profit & loss | Assets/liabilities at amortised cost | Fair value | | | |
|---|------|------------------|----------------------------------|--------------------------------------|------------------|----------|----------|----------|
| | | | | | Total | Level 1 | Level 2 | Level 3 |
| | | | | | Total | Level 1 | Level 2 | Level 3 |
| Financial assets not measured at fair value | | | | | | | | |
| Trade and other receivables | 13 | 1,107,961 | - | 1,107,961 | 1,107,961 | - | - | - |
| Cash and cash equivalents | 14 | 5,426 | - | 5,426 | 5,426 | - | - | - |
| | | <u>1,113,387</u> | <u>-</u> | <u>1,113,387</u> | <u>1,113,387</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liabilities not measured at fair value | | | | | | | | |
| Borrowings | 15 | 4,873,328 | - | 4,873,328 | 4,873,328 | - | - | - |
| Trade and other payables | 17 | 714,001 | - | 714,001 | 714,001 | - | - | - |
| Bank overdrafts | 14 | 1,593,960 | - | 1,593,960 | 1,593,960 | - | - | - |
| | | <u>7,181,289</u> | <u>-</u> | <u>7,181,289</u> | <u>7,181,289</u> | <u>-</u> | <u>-</u> | <u>-</u> |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | | |
|--|--------------------|--------------------|
| 5. Revenue | <u>2020</u> | <u>2019</u> |
| <i>See accounting policy note 3.2.1</i> | | |
| Tea | 2,003,718 | 2,282,394 |
| Macadamia | <u>2,639,915</u> | <u>2,484,819</u> |
| | <u>4,643,633</u> | <u>4,767,213</u> |
| 6. Other income | | |
| <i>See accounting policy note 3.2.2</i> | | |
| Profit on sale of fixed assets | 796 | - |
| Other income | <u>50,589</u> | <u>44,971</u> |
| | <u>51,385</u> | <u>44,971</u> |
| 7. Administration expenses | | |
| Auditor's remuneration - current | 27,000 | 27,600 |
| - prior year underprovision | 1,629 | 1,960 |
| Bank charges | 37,289 | 12,341 |
| Depreciation (Note 10) | 1,011,691 | 887,553 |
| Directors Fee | 2,353 | 3,820 |
| Insurance expenses | 39,193 | 30,249 |
| Legal fees and other professional services fees | 11,039 | 36,472 |
| Other costs | 156,608 | 105,433 |
| Repairs and maintenance expenses | 17,575 | 15,396 |
| Malawi Tea 2020 project expenses | 30,167 | - |
| Salaries and wages | 209,188 | 242,139 |
| Travelling expenses | <u>27,687</u> | <u>28,571</u> |
| | <u>1,571,419</u> | <u>1,391,534</u> |
| 8. Finance income/(cost) | | |
| <i>See accounting policy note 3.2</i> | | |
| Exchange gain/(loss) | | |
| Realised exchange gain | 2,304 | 472 |
| Unrealised exchange loss | <u>(17,421)</u> | <u>(20,333)</u> |
| | <u>(15,117)</u> | <u>(19,861)</u> |
| <p>There is a notional loss of (K15.12 million) (2019: K19.86 million) as a result of exchange rate movement on translation of foreign currency borrowing.</p> | | |
| Finance cost | | |
| Interest expense | <u>(592,045)</u> | <u>(614,394)</u> |
| Net Finance costs | <u>(592,045)</u> | <u>(614,394)</u> |

Finance cost includes an amount of **K368.46 million** (2019: K493.69 million) which relates to Gillanders (Mauritius) Holdings Limited, a related party and the Holding Company of Naming'omba Tea Estates Limited.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | 2020 | <u>2019</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|------------------------------------|--|------------------------------------|--|--------------------------------|-------------------------------|-----------|--------|-------------|-----------|---|-------------|--------|-------------------------------|---------|------------|------------------|-----------------|-----------|------------------|---|------------------|---------------|----------------|------------------|---------|---------|------------|------------------|---|------------------|------------------|---|------------------|--|------------------|------------------|------------------|------------------|------------------|------------------|--|--|
| 9. Taxation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <i>See accounting policy note 3.13</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The taxation charge for the year comprises: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current tax expense | 177,874 | 412,964 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax expense | <u>6,286</u> | <u>12,068</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total income tax charge | <u>184,160</u> | <u>425,032</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income Tax reconciliation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (Loss)/profit before taxation | <u>(111,171)</u> | 875,095 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income tax @ 30% (2019: 30%) | <u>(33,351)</u> | 262,529 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non deductible expenses | <u>217,511</u> | <u>162,503</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>184,160</u> | <u>425,032</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current tax (assets)/liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| At 1 April | 358,741 | 150,751 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current year tax charge | 177,874 | 412,964 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income tax paid | <u>(373,741)</u> | <u>(204,974)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| At 31 March | <u>162,874</u> | <u>358,741</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred tax (assets)/liabilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="0"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">2020</th> <th colspan="2" style="text-align: center;">2019</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">Assets</th> <th style="text-align: center;">Liabilities</th> <th style="text-align: center;">Net</th> <th style="text-align: center;">Assets</th> <th style="text-align: center;">Liabilities</th> <th style="text-align: center;">Net</th> </tr> </thead> <tbody> <tr> <td>Property, Plant and Equipment</td> <td style="text-align: center;">-</td> <td style="text-align: right;">8,494,310</td> <td style="text-align: right;">8,494,310</td> <td style="text-align: center;">-</td> <td style="text-align: right;">7,594,403</td> <td style="text-align: right;">7,594,403</td> </tr> <tr> <td>Fair value adjustments on biological assets</td> <td></td> <td style="text-align: right;">651,033</td> <td style="text-align: right;">651,033</td> <td style="text-align: center;">-</td> <td style="text-align: right;">644,747</td> <td style="text-align: right;">644,747</td> </tr> <tr> <td>Provisions</td> <td style="text-align: right;"><u>(129,930)</u></td> <td style="text-align: center;">-</td> <td style="text-align: right;"><u>(129,930)</u></td> <td style="text-align: right;"><u>(129,930)</u></td> <td style="text-align: center;">-</td> <td style="text-align: right;"><u>(129,930)</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>(129,930)</u></td> <td style="text-align: right;"><u>9,145,343</u></td> <td style="text-align: right;"><u>9,015,413</u></td> <td style="text-align: right;"><u>(129,930)</u></td> <td style="text-align: right;"><u>8,239,150</u></td> <td style="text-align: right;"><u>8,109,220</u></td> </tr> </tbody> </table> | | 2020 | | 2019 | | | | Assets | Liabilities | Net | Assets | Liabilities | Net | Property, Plant and Equipment | - | 8,494,310 | 8,494,310 | - | 7,594,403 | 7,594,403 | Fair value adjustments on biological assets | | 651,033 | 651,033 | - | 644,747 | 644,747 | Provisions | <u>(129,930)</u> | - | <u>(129,930)</u> | <u>(129,930)</u> | - | <u>(129,930)</u> | | <u>(129,930)</u> | <u>9,145,343</u> | <u>9,015,413</u> | <u>(129,930)</u> | <u>8,239,150</u> | <u>8,109,220</u> | | |
| | 2020 | | 2019 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Property, Plant and Equipment | - | 8,494,310 | 8,494,310 | - | 7,594,403 | 7,594,403 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fair value adjustments on biological assets | | 651,033 | 651,033 | - | 644,747 | 644,747 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Provisions | <u>(129,930)</u> | - | <u>(129,930)</u> | <u>(129,930)</u> | - | <u>(129,930)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>(129,930)</u> | <u>9,145,343</u> | <u>9,015,413</u> | <u>(129,930)</u> | <u>8,239,150</u> | <u>8,109,220</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | Balance at 1 April 2019 | Recognised in profit or loss | Recognised in comprehensive income | Balance at 31 March 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Property, plant and equipment | 7,594,403 | - | 899,907 | 8,494,310 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fair value adjustments on biological assets | 644,747 | 6,286 | - | 651,033 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Provisions | <u>(129,930)</u> | - | - | <u>(129,930)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>8,109,220</u> | <u>6,286</u> | <u>899,907</u> | <u>9,015,413</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | Balance at 1 April 2018 | Recognised in profit or loss | Recognised in comprehensive income | Balance at 31 March 2019 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Property, plant and equipment | 6,794,885 | - | 799,518 | 7,594,403 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fair value adjustments on biological assets | 621,330 | 23,417 | - | 644,747 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Provisions | <u>(118,581)</u> | <u>(11,349)</u> | - | <u>(129,930)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <u>7,297,634</u> | <u>12,068</u> | <u>799,518</u> | <u>8,109,220</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

NAMING'OMBA TEA ESTATES LIMITED

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In thousands of Malawi Kwacha

| 10 (a. Property plant and equipment <i>See accounting policy note 3.4</i> | Freehold land and development | Freehold buildings and constructions | Plant and Machinery | Motor vehicles | Water Schemes | Furniture, fittings and equipment | Capital work in progress | Total |
|--|--|---|------------------------|-------------------|------------------|---|--------------------------------|------------------|
| Cost/valuation 2020 | | | | | | | | |
| At 1 April 2019 | 2,875,128 | 1,579,004 | 1,487,639 | 311,921 | 28,213 | 44,928 | - | 6,326,833 |
| Additions during the year | 185,000 | 27,239 | 24,574 | 89,706 | - | 1,702 | 2,888 | 146,109 |
| Revaluation surplus | - | - | - | (4,300) | - | - | - | 185,000 |
| Disposal during the year | - | - | - | - | - | - | - | (4,300) |
| Transfer from WIP | - | - | - | - | - | - | - | - |
| At 31 March 2020 | 3,060,128 | 1,606,243 | 1,512,213 | 397,327 | 28,213 | 46,630 | 2,888 | 6,653,642 |
| Depreciation 2020 | | | | | | | | |
| At 1 April 2019 | - | 247,536 | 335,638 | 156,531 | 11,240 | 21,939 | - | 772,884 |
| Eliminated on disposal | - | - | - | (2,946) | - | - | - | (2,946) |
| Charge for the year | - | 86,606 | 116,373 | 37,201 | 4,040 | 3,563 | - | 247,783 |
| At 31 March 2020 | - | 334,142 | 452,011 | 190,786 | 15,280 | 25,502 | - | 1,017,721 |
| Cost/valuation 2019 | | | | | | | | |
| At 1 April 2018 | 2,705,892 | 1,528,106 | 1,413,766 | 223,492 | 27,920 | 43,604 | 604 | 5,943,384 |
| Additions during the year | - | 50,898 | 73,873 | 88,429 | 293 | 1,324 | - | 214,817 |
| Revaluation surplus | 169,236 | - | - | - | - | - | - | 169,236 |
| Transfer from WIP | - | - | - | - | - | - | (604) | (604) |
| At 31 March 2019 | 2,875,128 | 1,579,004 | 1,487,639 | 311,921 | 28,213 | 44,928 | - | 6,326,833 |
| Depreciation 2019 | | | | | | | | |
| At 1 April 2018 | - | 163,806 | 227,873 | 133,120 | 7,200 | 19,177 | - | 551,176 |
| Charge for the year | - | 83,730 | 107,765 | 23,411 | 4,040 | 2,762 | - | 221,708 |
| At 31 March 2019 | - | 247,536 | 335,638 | 156,531 | 11,240 | 21,939 | - | 772,884 |
| Carrying amount | | | | | | | | |
| At 31 March 2020 | 3,060,128 | 1,272,101 | 1,060,202 | 206,541 | 12,933 | 21,128 | 2,888 | 5,635,921 |
| At 31 March 2019 | 2,875,128 | 1,331,468 | 1,152,001 | 155,390 | 16,973 | 22,989 | - | 5,553,949 |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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10 (b). Property plant and equipment

See accounting policy note 3.4

| <u>Cost/valuation</u> | <u>Capital WIP Bearer Plants</u> | <u>Bearer Plants</u> | <u>Total</u> |
|-------------------------------------|--------------------------------------|--------------------------|--------------------------|
| 2020 | | | |
| At 1 April 2019 | 621,492 | 18,977,047 | 19,598,539 |
| Depreciation reversed | | (763,906) | (763,906) |
| Reclassification/Transfers from WIP | (89,571) | - | (89,571) |
| Additions during the year | 139,822 | - | 139,822 |
| Revaluation surplus | (49,105) | 2,863,795 | 2,814,690 |
| Transfer from WIP | <u>(195,886)</u> | <u>195,886</u> | <u>-</u> |
| At 31 March 2020 | <u>426,752</u> | <u>21,272,822</u> | <u>21,699,574</u> |
| Depreciation | | | |
| 2020 | | | |
| At 1 April 2019 | - | - | - |
| Charge for the year | | 763,906 | 763,906 |
| Depreciation reversed | <u>-</u> | <u>(763,906)</u> | <u>(763,906)</u> |
| At 31 March 2020 | <u>-</u> | <u>-</u> | <u>-</u> |
| Cost/valuation | | | |
| 2019 | | | |
| At 1 April 2018 | 617,306 | 17,025,741 | 17,643,047 |
| Depreciation reversed | - | (665,845) | (665,845) |
| Additions during the year | 125,513 | - | 125,513 |
| Revaluation surplus | 81,484 | 2,414,340 | 2,495,824 |
| Transfer from WIP | <u>(202,811)</u> | <u>202,811</u> | <u>-</u> |
| At 31 March 2019 | <u>621,492</u> | <u>18,977,047</u> | <u>19,598,539</u> |
| Depreciation | | | |
| 2019 | | | |
| At 1 April 2018 | - | - | - |
| Charge for the year | - | 665,845 | 665,845 |
| Depreciation reversed | <u>-</u> | <u>(665,845)</u> | <u>(665,845)</u> |
| At 31 March 2019 | <u>-</u> | <u>-</u> | <u>-</u> |
| Carrying amount | | | |
| At 31 March 2020 | <u>426,752</u> | <u>21,272,822</u> | <u>21,699,574</u> |
| At 31 March 2019 | <u>621,492</u> | <u>18,977,047</u> | <u>19,598,539</u> |

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For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | <u>2020</u> | <u>2019</u> |
|--|------------------|----------------|
| 11. Biological assets | | |
| <i>See accounting policy note 3.5</i> | | |
| Balance at 1 April | 891,910 | 813,853 |
| Additions during the year | 89,571 | - |
| Fair value gains | <u>20,954</u> | <u>78,057</u> |
| Balance at 31 March | 1,002,435 | 891,910 |
| Fair value movement in the year | | |
| <i>Analysed by:</i> | | |
| Tea | 34,492 | 15,852 |
| Macadamia | 14,815 | 5,588 |
| Timber plantation | <u>(28,353)</u> | <u>56,617</u> |
| | <u>20,954</u> | <u>78,057</u> |

Information required in connection with Biological Assets

2020

| | <u>Tea</u> | <u>Macadamia</u> | <u>Total</u> |
|--|------------|------------------|--------------|
| Other information | | | |
| Hecterage covered at year end | 1,281 | 419 | 1,700 |
| Total tonnage harvested during the year | 9,421 | 2,065 | 11,486 |
| The proceeds net of point of sales costs | 1,924,350 | 2,612,625 | 4,536,975 |

Information required in connection with Biological Assets

2019

| | <u>Tea</u> | <u>Macadamia</u> | <u>Total</u> |
|---|------------|------------------|--------------|
| Other information | | | |
| Hecterage covered at year end | 1,281 | 404 | 1,685 |
| Total tonnage harvested during the period | 10,395 | 2,219 | 12,614 |
| The proceeds net of point of sales costs | 2,246,531 | 2,470,537 | 4,717,068 |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | <u>2020</u> | <u>2019</u> |
|--|---------------------------|---------------------------|
| 12. Inventories | | |
| <i>See accounting policy note 3.7</i> | | |
| Finished goods: | | |
| - Macadamia | 586,868 | 468,445 |
| - Made tea | 690,775 | 712,060 |
| Consumables | 252,786 | 212,702 |
| Nursery | <u>44,202</u> | <u>41,695</u> |
| | <u>1,574,631</u> | <u>1,434,902</u> |
| 13. Trade and other receivables | | |
| <i>See accounting policy note 3.8</i> | | |
| Trade receivables | 497,733 | 958,409 |
| Other receivables | <u>237,550</u> | <u>149,552</u> |
| Total | <u>735,283</u> | <u>1,107,961</u> |
| <p>The carrying amounts of trade and other receivables approximates their fair value due to their short term nature.</p> <p>There is no impairment in the trade and other receivables at 31 March 2020 (2019: MKnil).</p> <p>The Company did not hold any collateral on the receivables.</p> | | |
| 14. Cash and cash equivalents | | |
| <i>See accounting policy note 3.12</i> | | |
| Cash on hand at bank | 5,309 | 5,426 |
| Overdrafts presented in current liabilities | <u>(1,938,442)</u> | <u>(1,593,960)</u> |
| Cash and cash equivalents as disclosed in statement of cashflows | <u>(1,933,133)</u> | <u>(1,588,534)</u> |

The overdraft facilities are with Standard Bank and National Bank of Malawi Plc. A total facility equivalent to **US\$1.15 million** (equivalent MK 847.21 million) with Standard Bank is secured by way of mortgage charged on Naming'omba while a total facility of US\$ 1 million equivalent MK736 million) with National Bank of Malawi Plc is also secured by way of mortgage created and charged on the same Naming'omba Tea Estates. All the US\$ denominated loans and overdrafts accrue interest at **7.75%** (2019: 7.75%) while the Malawi Kwacha overdraft facility accrues interest at **20.3%** (2019: 21%) All the overdraft facilities are secured by way of legal mortgage charged over property held on Deeds Registry numbers 92115, 92117 and 92118 situated in Thyolo district overdraft facilities are secured by way of legal mortgage charged over property held on Deeds Registry numbers 92115, 92117 and 92118 situated in Thyolo district

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| 15. Long term Borrowings | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| <i>Third party</i> | | |
| a. First Capital Bank | | |
| Opening balance | 571,263 | 740,877 |
| Payment during the year | (575,895) | (177,795) |
| Exchange loss | <u>4,632</u> | <u>8,181</u> |
| Closing balance | <u>-</u> | <u>571,263</u> |
| b. Standard Bank | | |
| Opening balance | - | - |
| Receipts during the year | 587,385 | - |
| Payment during the year | (154,594) | - |
| Exchange loss | <u>2,772</u> | <u>-</u> |
| Closing balance | <u>435,563</u> | <u>-</u> |
| c. National Bank of Malawi | | |
| Opening balance | - | - |
| Receipts during the year | 1,989,106 | - |
| Closing balance | <u>1,989,106</u> | <u>-</u> |
| <i>Related party</i> | | |
| Gillanders (Mauritius) Holdings Limited | 4,302,065 | 5,175,088 |
| Payment during the year | (2,855,456) | (913,249) |
| Exchange loss | <u>25,893</u> | <u>40,226</u> |
| | <u>1,472,502</u> | <u>4,302,065</u> |
| Total borrowings | <u>3,897,171</u> | <u>4,873,328</u> |
| Split as follows: | | |
| Non-current | 3,100,802 | 3,770,511 |
| Current | <u>796,369</u> | <u>1,102,817</u> |
| | <u>3,897,171</u> | <u>4,873,328</u> |

The outstanding balance of USD 659,298.05 on First Capital Bank Limited long-term loan was fully repaid during the year.

Standard Bank PLC granted a term loan of USD 800,000 repayable over a period of 18 months and shall be fully repaid not later than 30 April 2021. Interest is charged at 3 months Libor plus 5.88487% per annum. The facility is secured by way of mortgage charged over property held on Deeds Registry number 39951 situated in Thyolo district.

National Bank of Malawi granted a long term loan of USD 4,623,850 repayable semi annually over a period of 5 years after a six months moratorium on principal and interest. The amount disbursed so far as at the reporting date was USD 2,700,000 which has since been used to partly pay off the outstanding long-term of USD 4,623,850 from Gillanders Holdings (Mauritius) Limited. The facility is secured by way of legal mortgage charged over property held on Deeds Registry numbers 92115, 92117 and 92118 situated in Thyolo district. Interest is charged at a flat rate of 7.5% per annum.

The Long term Unsecured Loan of USD 8,407,000 from Gillanders Holdings (Mauritius) Limited which is a related party was repayable in 8 years shall be settled in full through National Bank of Malawi long-term loan. Interest is charged at 7.00% per annum Plus 3 months Libor.

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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16. Equity

| | | |
|---|-------------------|-------------------|
| 16.1 Share capital | 2020 | 2019 |
| <i>See accounting policy note 3.18</i> | | |
| Authorised: | | |
| 1,650,000 ordinary shares of K1 each | 1,650 | 1,650 |
| Issued and fully paid: | | |
| 1,283,574 ordinary shares of K1 each | 1,284 | 1,284 |
| A total number of shares of 366,426 (2019: 366,426) remain unissued. | | |
| The holders of ordinary share capital are entitled to dividend as declared in the annual general meeting. | | |
| 16.2 Share premium | 60,977 | 60,977 |
| Share premium arises from the excess paid over the nominal value by shareholders for their shares. | | |
| Share premium arose on the issue of share capital of 1,283,574. It is not available for distribution. | | |
| 16.3 Property revaluation reserve | 4,010,138 | 3,880,638 |
| Property revaluation reserve represents the increase in value of property arising from revaluation of property from time to time. It is not available for distribution to shareholders. | | |
| At 1 April | 3,880,638 | 3,762,173 |
| Revaluation surplus for the year | 185,000 | 169,236 |
| Deferred tax on revaluation | (55,500) | (50,771) |
| At 31 March | 4,010,138 | 3,880,638 |
| 16.4 Bearer plants revaluation reserve | 16,406,546 | 14,436,263 |
| Bearer plants revaluation reserve represents increase in value of bearer plants arising from revaluation surplus from time to time and it is not available for distribution to shareholders. | | |
| At 1 April | 14,436,263 | 12,689,186 |
| Revaluation surplus for the year | 2,814,690 | 2,495,824 |
| Deferred tax on revaluation | (844,407) | (748,747) |
| At 31 March | 16,406,546 | 14,436,263 |
| 16.5 Capital reserve | 301,564 | 301,564 |
| Capital reserve arose following injection of additional capital by the shareholders to settle liabilities directly with creditors. It is not available for distribution. | | |
| 16.6 Biological assets revaluation reserve | 417,528 | 402,861 |
| Biological assets revaluation reserve represents the increase in fair value of the biological assets following revaluations of the biological assets to their fair value less deferred income tax. The revaluation reserve is not available for distribution to the shareholders. | | |
| At 1 April | 402,861 | 348,221 |
| Revaluation surplus for the year | 20,954 | 78,057 |
| Deferred tax on revaluation | (6,286) | (23,417) |
| At 31 March | 417,529 | 402,861 |

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

In thousands of Malawi Kwacha

| | | | |
|------------|--|----------------|----------------|
| 17. | Trade and other payables | <u>2020</u> | <u>2019</u> |
| | <i>See accounting policy note 3.17</i> | | |
| | Trade payables | 553,887 | 419,748 |
| | Other payables | <u>337,477</u> | <u>294,253</u> |
| | | <u>891,364</u> | <u>714,001</u> |

The other payables amount of **K337.48 million** includes K20.00 million (2019: K32.9 million) interest payable to Gillanders (Mauritius) Holdings Limited which is a related party.

Included in other payables is also an amount of K10.5 million relating to deferred income in respect of unspent IDH grant received during the year which is earmarked to Malawi Tea 2020 project activities to be incurred in the subsequent financial period.

| | | | |
|-------------|--|----------------|----------------|
| 17.1 | Other payables | | |
| | <i>See accounting policy note 3.15</i> | | |
| | Employee accruals | 153,237 | 164,266 |
| | Other accruals | <u>184,240</u> | <u>129,987</u> |
| | | <u>337,477</u> | <u>294,253</u> |
| 17.2 | Employee accruals | | |
| | Wages accruals | 76,855 | 86,280 |
| | Gratuity | 41,386 | 40,875 |
| | Leave pay | <u>34,996</u> | <u>37,111</u> |
| | | <u>153,237</u> | <u>164,266</u> |
| 17.3 | Other accruals | | |
| | At 1 April 2018 | 129,987 | 136,615 |
| | Net movements during the period | <u>54,253</u> | <u>(6,628)</u> |
| | | <u>184,240</u> | <u>129,987</u> |

- 18. Grant income**
- An amount of grant of **K40.7 million** (equivalent to Euro 49,600) was received from IDH Sustainable Trade Initiative during the ensuing financial period and was initially recognized as deferred income. Upon utilizing the funding through various Malawi Tea 2020 project expenditure activities, an amount of **K30.2 million** was transferred from deferred income to revenue and recognized in the statement of comprehensive income as grant income.
 - IDH Sustainable Trade Initiative is a foundation established under the laws of the Netherlands, registered with the Dutch Chamber of Commerce under number 53521129, having its registered office and its place of business at Arthur van Schendelstraat 500 (3511 MH) Utrecht, the Netherlands.
 - IDH Sustainable Trade Initiative is a foundation established under the laws of the Netherlands, registered with the Dutch Chamber of Commerce under number 53521129, having its registered office and its place of business at Arthur van Schendelstraat 500 (3511 MH) Utrecht, the Netherlands.
 - The overall purpose of IDH is to accelerate sustainability within the value chains of various program sectors under the IDH strategy 2016 – 2020 'Innovating Impact @ scale' through the development of impact coalitions of companies, NGOs, governments, trade unions, financial institutions, and universities that strive for impact on public good.
 - The Malawi Tea 2020 Program (which is being funded by IDH) aims at improving the profitability of the Malawi tea sector in order to achieve a living wage for workers and a living income for smallholders. The program has five thematic areas or pillars which are:
 - Profitable estate sector investing in its future ("Pillar 1");
 - Significant progress towards living wage ("Pillar 2");
 - Healthy, motivated and productive workforce ("Pillar 3");
 - Profitable smallholder sector investing in its future ("Pillar 4");
 - Energy and environmental sustainability ("Pillar 5").

NAMING'OMBA TEA ESTATES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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18. Grant Income (continued)

- The purpose for which Naming'omba Tea Estates Limited was engaged in this Malawi Tea 2020 Program was to improve the quality of its tea with the aim of increasing its profitability in order to pay a living wage to its workers; and also to create a conducive working environment to ensure that workers are motivated and free from sexual harassment or any abuse at the work place.
- Naming'omba Tea Estates Limited is currently engaged in a two year co-funding program which was effective from 01 March 2019 and shall terminate automatically on 31 December 2020, unless extended by the Parties in writing.
- Any Party may exit the Agreement or the Project - in full or in part - before the end of the term of the Agreement or the Project, subject to three (3) month's written notice, but such Party is not allowed to withdraw funding already spent under the Agreement and/or committed by the Project Partner under a sub-agreement between the Project Partner and a third party related to the execution of the activities by the Project Partner under the Agreement.

19. Contingencies

There were contingencies as at 31 March 2020 amounting to **MK30.6 million** (2019: MK30.6 million), arising from the fact that the Company is a defendant in a number of legal cases that are before the Courts of Malawi. While liability is not admitted, the directors have formed an opinion that their outcome would not have a significant impact on the results of the Company.

20. Exchange rates and inflation

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

| | | |
|------------------|-------------|-------------|
| Exchange rates | <u>2020</u> | <u>2019</u> |
| Kwacha/GBP | 912.0 | 957.5 |
| Kwacha/Rand | 41.4 | 50.5 |
| Kwacha/US Dollar | 736.7 | 731.2 |
| Inflation rate % | 9.8% | 9.2% |

At the time of approval of these financial statements, the exchange rates had moved to:

| | |
|------------------|-------|
| Kwacha/GBP | 919.1 |
| Kwacha/Rand | 39.8 |
| Kwacha/US Dollar | 736.7 |

21. Capital commitments

There were no capital commitments as at 31 March 2020 (2019: MKnil).

22. Events after the reporting date

There have been no events subsequent to year end necessitating adjustments or disclosures to these financial statements.

The recent outbreak and spread of the coronavirus has disrupted many businesses globally and has had a significant impact on financial markets. Management have made an assessment on the impact of the Corona virus on its assets and liabilities and have formed an opinion that it may not have significant impact on the entity. The company's property and equipment continue to operate at optimum levels as such no further impairment is required in their respect.