

**FDH MONEY BUREAU LIMITED**

Financial Statements for the year ended  
31 December 2010

FDH MONEY BUREAU LIMITED  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2010

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FDH MONEY BUREAU LIMITED  
**REPORT OF THE DIRECTORS**  
For the year ended 31 December 2010

The Directors have pleasure in submitting their report together with the annual financial statements of FDH Money Bureau Limited for the year ended 31 December 2010.

**REGISTERED OFFICE**

The company's registered office is in Umoyo House along Victoria Avenue in Blantyre, Malawi.

**NATURE OF BUSINESS**

The main business of the company which is incorporated in Malawi is that of foreign currency trading. The principal places of business are the Umoyo House located on Victoria Avenue in Blantyre and the entity has 3 branches in Lilongwe, 3 branches in Blantyre and 1 branch in Mzuzu.

**DIRECTORS**

The following directors served in office during the year:

- |                    |   |                           |
|--------------------|---|---------------------------|
| Mr. N. Mpinganjira | - | (Chairman -All year)      |
| Dr. E. Sankhulani  | - | (All year)                |
| Mr. C.C. Kahiya    | - | (January to October 2010) |
| Mr. M.N. Katsala   | - | (All year)                |
| Mr. J. Kayuni      | - | (All year)                |

Half of the directors shall retire at the next Annual General Meeting. However, being eligible, the retiring directors offer themselves for re-election.

**AUDITORS**

The auditors, Deloitte, have signified their willingness to continue in office.

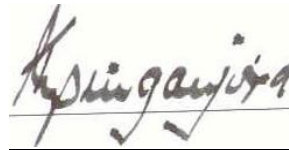
**HOLDING COMPANY**

The company is owned 100% by FDH Bank Limited, a company incorporated in Malawi, which is a subsidiary of FDH Holdings Limited.

**FOR AND ON BEHALF OF THE BOARD**



**DIRECTOR**



**DIRECTOR**

**DATE:** 7<sup>th</sup> April, 2011

FDH MONEY BUREAU LIMITED  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
For the year ended 31 December 2010

The Companies Act, 1984, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year.

The Act also requires the 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 Companies Act, 1984.

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

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and consistent application thereof;
- Making judgements and estimates that are reasonable and consistently applied;
- Compliance with applicable accounting standards when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business in the foreseeable future.

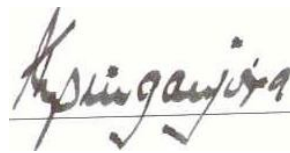
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to maintain adequate systems of internal control to prevent and detect fraud and other irregularities.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results.

Director:

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Director:

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Date:

7<sup>th</sup> April 2011

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
**FDH MONEY BUREAU LIMITED**

We have audited the financial statements of FDH Money Bureau Limited as set out on pages 4 to 25, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly in all material respects the financial position of FDH Money Bureau Limited as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act, 1984.



Public Accountants  
Blantyre, Malawi

7<sup>th</sup> April, 2011

FDH MONEY BUREAU LIMITED  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2010

	Notes	<u>2010</u> K'000	<u>2009</u> K'000
<b>REVENUE</b>			
Gains and commissions on foreign currency trading		188,773	166,533
Other income		<u>46</u>	<u>1,591</u>
Total revenue		<u>188,819</u>	<u>168,124</u>
<b>EXPENDITURE</b>			
Administrative costs		75,779	49,603
Staff costs		47,235	39,969
Interest expense		6,280	7,999
Other trading costs		<u>23,586</u>	<u>545</u>
Total expenditure		<u>152,880</u>	<u>98,116</u>
OPERATING PROFIT before taxation	5	35,939	70,008
TAX EXPENSE	6	<u>11,100</u>	<u>21,158</u>
<b>PROFIT FOR THE YEAR</b>		<u><u>24,839</u></u>	<u><u>48,850</u></u>

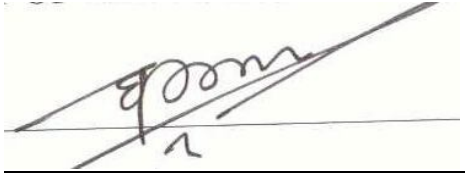
The company had no other comprehensive income in the current or prior year.

FDH MONEY BUREAU LIMITED  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2010

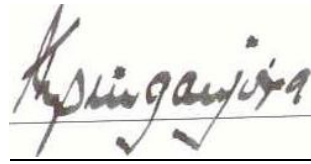
	<u>Notes</u>	<u>2010</u> K'000	<u>2009</u> K'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	7	<u>26,605</u>	<u>21,125</u>
<b>CURRENT ASSETS</b>			
Related party receivables	8	39,947	11,258
Receivables and prepayments		4,713	10,737
Currency inventories		68,930	52,054
Bank balances and cash		<u>40,738</u>	<u>18,040</u>
Total current assets		<u>154,328</u>	<u>92,089</u>
<b>TOTAL ASSETS</b>		<u>180,933</u>	<u>113,214</u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		14,000	14,000
Retained earnings		<u>1,745</u>	<u>8,906</u>
Shareholders' equity		<u>15,745</u>	<u>22,906</u>
<b>NON CURRENT LIABILITIES</b>			
Deferred tax	9	2,464	989
Borrowings	8	<u>-</u>	<u>7,430</u>
Total non-current liabilities		<u>2,464</u>	<u>8,419</u>
<b>CURRENT LIABILITIES</b>			
Payables		7,126	10,119
Current portion of long term borrowings	8	7,430	14,861
Related party payables	8	57,485	17,369
Taxation payable		5,675	9,252
Bank overdraft		<u>85,008</u>	<u>30,288</u>
Total current liabilities		<u>162,724</u>	<u>81,889</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>180,933</u>	<u>113,214</u>

The financial statements were authorised for issue by the Board of Directors on 7<sup>th</sup> April, 2011 and were signed on its behalf by:

FDH MONEY BUREAU LIMITED

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Director

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Director

FDH MONEY BUREAU LIMITED  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2010

	<b><u>Share capital</u></b> <b>K'000</b>	<b><u>Retained profit</u></b> <b>K'000</b>	<b><u>Total</u></b> <b>K'000</b>
<b><u>2009</u></b>			
At the beginning of the year	5,450	84,393	89,843
Net assets not transferred on acquisition	-	(88,787)	(88,787)
Capitalisation of earnings	8,550	(8,550)	-
Profit for the year	-	48,850	48,850
Dividends declared and paid in 2009	<u>-</u>	<u>(27,000)</u>	<u>(27,000)</u>
As at 31 December 2009	<u>14,000</u>	<u>8,906</u>	<u>22,906</u>
<b><u>2010</u></b>			
At the beginning of the year	14,000	8,906	22,906
Profit for the year	-	24,839	24,839
Dividends declared			
-		Final for the year ended 31 December	
2009	-	(5,000)	(5,000)
-		Interim for the year ended 31	
December 2010	<u>-</u>	<u>(27,000)</u>	<u>(27,000)</u>
As at 31 December 2010	<u>14,000</u>	<u>1,745</u>	<u>15,745</u>

FDH MONEY BUREAU LIMITED  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2010

	<u>2010</u> <b>K'000</b>	<u>2009</u> <b>K'000</b>
<b>Cash flows from operating activities</b>		
Profit before tax	35,939	70,008
Adjustments for:		
- Depreciation of plant and equipment	4,600	845
- Excess of final acquired assets net book value over take over valuation	-	(133)
- Interest expenses	6,280	7,999
- Movement in receivables and prepayments	6,024	(10,737)
- Movement in payables	(2,993)	10,119
- Movement in related party balances	<u>11,427</u>	<u>6,111</u>
<b>Cash generated from operations</b>	61,277	84,212
Taxation paid	(13,202)	(10,917)
Interest paid	<u>(6,280)</u>	<u>(7,999)</u>
<b>Net cash generated by operating activities</b>	<u>41,795</u>	<u>65,296</u>
<b>Cash flows from investing activities</b>		
Purchases of plant and equipment	<u>(10,080)</u>	<u>(20,781)</u>
<b>Net cash used in investing activities</b>	<u>(10,080)</u>	<u>(20,781)</u>
<b>Cash flows from financing activities</b>		
Cash and cash equivalents not transferred on acquisition	-	(74,434)
Dividends paid	(32,000)	(27,000)
Borrowings received	-	30,000
Borrowings repaid	<u>(14,861)</u>	<u>(7,709)</u>
<b>Net cash used in financing activities</b>	<u>(46,861)</u>	<u>(79,143)</u>
<b>Net decrease in cash and cash equivalents</b>	(15,146)	(34,628)
<b>Cash and cash equivalents at beginning of the year</b>	<u>39,806</u>	<u>74,434</u>
<b>Cash and cash equivalents at end of the year</b>	<u>24,660</u>	<u>39,806</u>
<b>Cash and cash equivalents comprise</b>		
Cash and bank balances	40,738	18,040
Currency inventories	68,930	52,054
Bank overdraft	<u>(85,008)</u>	<u>(30,288)</u>
	<u>24,660</u>	<u>39,806</u>

FDH MONEY BUREAU LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2010

**1. General information**

The main business of the company which is incorporated in Malawi is that of foreign currency trading. The company's registered office is in Umoyo House located along Victoria Avenue in Blantyre. The principal place of business is Umoyo House located on Victoria Avenue in Blantyre and the entity has 3 branches in Lilongwe, 3 branches in Blantyre and 1 branch in Mzuzu.

**2. Adoption of new and revised International Financial Reporting Standards**

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

In the current year, the entity has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2010. The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the entity.

**2.2 Standards and Interpretations in issue, not yet effective**

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

- 2.2.1 IFRS 7 *Financial Instruments: Disclosures* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.2 IFRS 7 *Financial Instruments: Disclosures* - Amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 July 2011).
- 2.2.3 IFRS 9 *Financial Instruments - Classification and Measurement* (effective for annual periods beginning on or after 1 January 2013).
- 2.2.4 IAS 1 *Presentation of Financial Statements* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.5 IAS 12 *Income Taxes – Limited scope amendment* (recovery of underlying assets). Effective for annual periods beginning on or after 1 January 2012.
- 2.2.6 IAS 24 *Related Party Disclosures* - Revised definition of related parties (effective for annual periods beginning on or after 1 January 2011).
- 2.2.7 IAS 32 *Financial Instruments: Presentation* - Amendments relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010).
- 2.2.8 IFRIC 13 *Customer Loyalty Programmes* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.9 IFRIC 14 *IAS19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - November 2009 Amendments with respect to voluntary prepaid contributions (effective for annual periods beginning on or after 1 January 2011).
- 2.2.10 IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).

The directors anticipate that other than IFRS 9 these Standards and Interpretations in future periods will have no significant impact on the financial statements of the entity. IFRS 9 will impact the measurement of financial instruments.

### 3. Significant accounting policies

#### *Statement of compliance*

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

#### *Basis of preparation*

The financial statements are prepared in terms of the historical cost convention except as set out in note 3.6 and 3.7. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies are set out below.

#### **3.1 Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

#### **3.2 Taxation**

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

##### Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

##### Deferred tax

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

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**3. Significant accounting policies (Continued)**

**3.2 Taxation (Continued)**

Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

**3.3 Foreign currency translation**

The financial statements are presented in Malawi Kwacha (rounded to the nearest thousand), the currency of the primary economic environment in which the company operates and its functional currency.

In preparing the financial statements, transactions in currencies other than Malawi Kwacha (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

**3. Significant accounting policies (Continued)**

**3.4 Provisions**

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

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

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

**3.5 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Commission and interest revenue

Revenue represents gains and commissions on foreign currency trading and is recognised when the sale has been completed.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**3.6 Financial assets**

The company classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired or incurred principally for the purpose of selling in the short term or if is part of a portfolio of identified financial investments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

**3. Significant accounting policies (Continued)**

**3.6 Financial assets (Continued)**

- ii 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 arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.
- iii Held-to-maturity  
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Were the company to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.
- iv Available-for-sale  
Available-for-sale investments include those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

“Regular way” purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

3. Significant accounting policies (Continued)

3.7 Impairment of financial assets

(a) Assets carried at amortised cost

The company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company, including:
  - adverse changes in the payment status of borrowers in the company; and
  - national or local economic conditions that correlate with defaults on the assets in the company.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

**3. Significant accounting policies (Continued)**

**3.7 Impairment of financial assets (Continued)**

(a) Assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the company to reduce any differences between loss estimates and actual loss experienced.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. 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 debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

**3. Significant accounting policies (Continued)**

**3.7 Impairment of financial assets (Continued)**

(b) Assets carried at fair value

The company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

**3.8 Financial liabilities and equity**

Financial liabilities and equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of the liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below;

i. Other payables

Other payables comprise letters of credit and sundry accruals which are carried at fair value on recognition and subsequently at amortised cost, using the effective interest rate method.

ii. Equity instruments

Equity instruments issued by the company are recorded at the face value of proceeds received.

**3.9 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**3.10 Retirement benefits**

The company operates a defined contribution retirement benefit plan. Contributions to the scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

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**4. Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

**4.1 Critical judgements in applying the company's accounting policies**

There were no critical judgments in applying the company's accounting policies.

**4.2 Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

**4.2.1 Useful lives and residual value of plant and equipment**

The company reviews the estimated useful lives and residual values of plant and equipment at the end of each reporting period. These estimates are subjective by nature as they require assessment of financial and non-financial information in arriving at the residual values and useful lives which can only be borne out by future events.

	<u>2010</u> K'000	<u>2009</u> K'000
<b>5. Profit before taxation</b>		
Profit before taxation is arrived at after taking into account:		
Auditor's remuneration	2,250	2,136
Depreciation of plant and equipment	4,600	845
Directors' remuneration fees	2,148	1,426
Pension contribution	<u>1,129</u>	<u>379</u>
<b>6. Taxation</b>		
Income tax	9,625	20,169
Deferred tax	<u>1,475</u>	<u>989</u>
Tax expense	<u>11,100</u>	<u>21,158</u>
Reconciliation of standard to effective tax rates	%	%
<b>Effective tax rate</b>		
Standard rate of tax	30	30
Permanent differences	<u>1</u>	<u>-</u>
Effective rate of tax	<u>31</u>	<u>30</u>

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**7. Plant and equipment**

	<b>Computer equipment K'000</b>	<b>Motor vehicles K'000</b>	<b>Furniture and fittings K'000</b>	<b>Total K'000</b>
<b><u>2009</u></b>				
<b>COST</b>				
At beginning of the year	-	16,761	2,036	18,797
Additions	<u>1,694</u>	<u>4,069</u>	<u>15,018</u>	<u>20,781</u>
At end of the year	<u>1,694</u>	<u>20,830</u>	<u>17,054</u>	<u>39,578</u>
<b>DEPRECIATION</b>				
At beginning of the year	-	16,160	1,448	17,608
Current year charge	<u>73</u>	<u>146</u>	<u>626</u>	<u>845</u>
At 31 December 2009	<u>73</u>	<u>16,306</u>	<u>2,074</u>	<u>18,453</u>
NET BOOK AMOUNT	<u>1,621</u>	<u>4,524</u>	<u>14,980</u>	<u>21,125</u>
<b><u>2010</u></b>				
<b>COST</b>				
At beginning of the year	1,694	20,830	17,054	39,578
Additions	<u>2,866</u>	<u>-</u>	<u>7,214</u>	<u>10,080</u>
At end of the year	<u>4,560</u>	<u>20,830</u>	<u>24,268</u>	<u>49,658</u>
<b>DEPRECIATION</b>				
At beginning of the year	73	16,306	2,074	18,453
Current year charge	<u>639</u>	<u>853</u>	<u>3,108</u>	<u>4,600</u>
At 31 December 2010	<u>712</u>	<u>17,159</u>	<u>5,182</u>	<u>23,053</u>
NET BOOK AMOUNT	<u>3,848</u>	<u>3,671</u>	<u>19,086</u>	<u>26,605</u>

The following useful lives were used in the calculation of depreciation:

Fixtures, fittings and equipment	-	10 years
Computer equipment	-	5 years
Motor vehicle	-	4 years

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**8. Related parties**

Related party balances as at year end were as follows:-

	<b>Amounts owed to related parties K'000</b>	<b>Amounts owed by related parties K'000</b>
<i>As at 31 December 2009</i>		
First Discount House Limited	102	-
FDH Financial Holdings Limited	-	11,258
FDH Bank Limited	<u>17,267</u>	<u>-</u>
	<u>17,369</u>	<u>11,258</u>
<i>As at 31 December 2010</i>		
FDH Discount House Limited	-	58
FDH Financial Holdings Limited	-	39,889
FDH Bank Limited	<u>57,485</u>	<u>-</u>
	<u>57,485</u>	<u>39,947</u>
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b>K'000</b>	<b>K'000</b>
<i>Borrowings with FDH Bank Ltd</i>		
Opening balance	22,291	-
Additions	-	30,000
Repayments	<u>(14,861)</u>	<u>(7,709)</u>
	<u>7,430</u>	<u>22,291</u>
Maturity		
Current portion of borrowings	7,430	14,861
Non-current portion of borrowings	<u>-</u>	<u>7,430</u>
	<u>7,430</u>	<u>22,291</u>
<p>The Bureau obtained a loan from its holding company, FDH Bank Limited of K30m in 2009. The debt is being serviced over 24 equal consecutive monthly installments and it attracts interest at 10%.</p>		
<i>Compensation of key management personnel</i>		
Current period earnings and short-term benefits	<u>12,448</u>	<u>11,690</u>
<b>9. Deferred tax</b>		
<u>Analysed as follows: -</u>		
Accelerated capital allowances	2,464	2,125
Other temporary differences	<u>-</u>	<u>(1,136)</u>
Deferred tax liability	<u>2,464</u>	<u>989</u>

## 10. Financial instruments

### a). *Capital risk management*

The company, through its Directors, monitors its capital adequacy to ensure that it remains a going concern while maximising return to stakeholders.

The capital structure of the company consists of share capital and retained earnings as disclosed on page 6, Statement of changes in equity.

The Directors review the capital structure on a regular basis. As a part of this review, the directors consider the cost of capital, its associated risks and minimum capital requirements set by the Reserve Bank of Malawi, as a regulator. Based on their recommendations, the company will balance its overall capital structure through the payment of dividends and advances from the shareholders.

The Reserve Bank of Malawi has set the minimum capital requirement for exchange bureaus at K14 million. As at year end the capital of the company was K15 million (2009: K23 million).

As at year end, the company's gearing ratio (borrowings divided by equity) was 47% (2009: 97%).

### b). *Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in note 3 to the financial statements.

### c). *Financial risk management objectives*

The company's operations consist of foreign currency trading to a large number of counter parties and the directors manage the financial risks relating to the operations of the company through internal risk reports by Asset and Liability Committee (ALCO), directors reviews and recommendations. These risks include market risk (including currency risk, interest rate risk and price risk) and liquidity risk.

### d). *Market risk*

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

#### **Management of market risks**

Overall authority for market risk management is vested in the ALCO.

**10. Financial instruments (Continued)****e). Foreign currency risk management**

The company deals in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and taking of appropriate positions to benefit from currency movements. The Company has the following currency positions:

**Currency sensitivity analysis**

	<u>USD</u> K'000	<u>GBP</u> K'000	<u>Euro</u> K'000	<u>ZAR</u> K'000	<u>MK</u> K'000	<u>Total</u> K'000
<b>At 31 December 2010</b>						
<b>Assets</b>						
Cash and bank balances	15,076	1,335	4,151	6,480	13,696	40,738
Currency inventories	15,766	7,673	22,504	22,987	-	68,930
Other receivables and prepayments	-	-	-	-	44,660	44,660
<b>Total assets</b>	<u>30,842</u>	<u>9,008</u>	<u>26,655</u>	<u>29,467</u>	<u>58,356</u>	<u>154,328</u>
<b>Liabilities</b>						
Bank overdraft	-	-	-	-	85,008	85,008
Payables and related party payables	-	-	-	-	64,611	64,611
Borrowings	-	-	-	-	7,430	7,430
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,049</u>	<u>157,049</u>
<b>Net balance open position</b>	<u>30,842</u>	<u>9,008</u>	<u>26,655</u>	<u>29,467</u>	<u>(98,693)</u>	<u>(2,721)</u>
<b>5% movement</b>	<u>1,542</u>	<u>450</u>	<u>1,333</u>	<u>1,473</u>	<u>-</u>	<u>-</u>

## 10. Financial instruments (Continued)

## Currency sensitivity analysis

	<u>USD</u> K'000	<u>GBP</u> K'000	<u>Euro</u> K'000	<u>ZAR</u> K'000	<u>MK</u> K'000	<u>Total</u> K'000
<b>At 31 December 2009</b>						
<b>Assets</b>						
Cash and bank balances	13,605	25	1,760	940	1,710	18,040
Currency inventories	27,474	3,297	13,694	7,589	-	52,054
Other receivables and prepayments	-	-	-	-	21,995	21,995
<b>Total assets</b>	<u>41,079</u>	<u>3,322</u>	<u>15,454</u>	<u>8,529</u>	<u>23,705</u>	<u>92,089</u>
<b>Liabilities</b>						
Bank overdraft	-	-	-	-	30,288	30,288
Payables and related party payables	-	-	-	-	27,488	27,488
Borrowings	-	-	-	-	22,291	22,291
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,067</u>	<u>80,067</u>
<b>Net balance open position</b>	<u>41,079</u>	<u>3,322</u>	<u>15,454</u>	<u>8,529</u>	<u>(56,362)</u>	<u>12,022</u>
<b>5% movement</b>	<u>2,054</u>	<u>166</u>	<u>773</u>	<u>426</u>	<u>-</u>	<u>3,419</u>

**10. Financial instruments (Continued)**

**f). *Interest rate risk management***

The company is exposed to interest rate risk as it deals with banks on a continuous basis i.e. can either borrow or extend funds to banks depending on whether there is excess or less cash balances. The risk is managed by adhering to board mandates in respect of borrowings and investments.

There are no significant exposures as at year-end due to current stability of interest rates prevailing in Malawi.

**g). *Credit risk management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company transacts predominantly in cash and credit risk is assessed as low.

The credit risk on liquid funds is limited because the counterparties are banks with sound integrity and robust financial positions.

**h). *Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors through management's Assets and Liabilities Committee (ALCO), 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 responsibility for the management of these risks lies with the management. The company manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecast and actual cash flows.

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**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
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**10. Financial instruments** (Continued)

i). *Categories of financial instruments, accounting classifications and fair values*

	<b>Held for trading K'000</b>	<b>Loans and receivables K'000</b>	<b>Other amortised cost K'000</b>	<b>Total carrying amount K'000</b>	<b>Fair value K'000</b>
<b><u>At 31 December 2010</u></b>					
<b>Assets</b>					
Cash and bank balances	-	40,738	-	40,738	40,738
Currency inventories	68,930	-	-	68,930	68,930
Receivables and prepayments	<u>-</u>	<u>44,660</u>	<u>-</u>	<u>44,660</u>	<u>44,660</u>
Total financial assets	<u>68,930</u>	<u>85,398</u>	<u>-</u>	<u>154,328</u>	<u>154,328</u>
<b>Liabilities</b>					
Bank overdraft	-	-	85,008	85,008	85,008
Payables and accruals	-	-	64,611	64,611	64,611
Borrowings	<u>-</u>	<u>-</u>	<u>7,430</u>	<u>7,430</u>	<u>7,430</u>
Total financial liabilities	<u>-</u>	<u>-</u>	<u>157,049</u>	<u>157,049</u>	<u>157,049</u>
<b><u>At 31 December 2009</u></b>					
<b>Assets</b>					
Cash and bank balances	-	18,040	-	18,040	18,040
Currency inventories	52,054	-	-	52,054	52,054
Receivables and prepayments	<u>-</u>	<u>21,995</u>	<u>-</u>	<u>21,995</u>	<u>21,995</u>
Total financial assets	<u>52,054</u>	<u>40,035</u>	<u>-</u>	<u>92,089</u>	<u>92,089</u>
<b>Liabilities</b>					
Bank overdraft	-	-	30,288	30,288	30,288
Payables and accruals	-	-	27,488	27,488	27,488
Borrowings	<u>-</u>	<u>-</u>	<u>22,291</u>	<u>22,291</u>	<u>22,291</u>
Total financial liabilities	<u>-</u>	<u>-</u>	<u>80,067</u>	<u>80,067</u>	<u>80,067</u>

**10. Financial instruments** (Continued)

**j. Valuation techniques and assumptions applied for the purposes of measuring fair value**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

**k. Fair value measurements recognised in the statement of financial position**

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

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

	<u>2010</u> K'000	<u>2009</u> K'000
<i>Financial assets at fair value through profit or loss</i>		
Non-derivative financial assets held for trading		
Level 1 – Foreign currency inventory	<u>68,930</u>	<u>52,054</u>
Total	<u>68,930</u>	<u>52,054</u>

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**11. Exchange rates and inflation**

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

	<b>2010</b>	<b>2009</b>
Kwacha/GBP	272.5	237.04
Kwacha/Euro	235.00	211.40
Kwacha/US Dollar	179.25	145.99
Kwacha/Rand	23.50	19.91
Inflation rate (%)	<u>6.40</u>	<u>7.60</u>

As at 21 March 2011, the above noted rates had moved as follows:

Kwacha/GBP	247.19
Kwacha/Euro	216.0
Kwacha/US Dollar	150.8
Kwacha/Rand	22.4
Inflation rate (%) (January 2011)	<u>6.6</u>