

FDH STOCKBROKERS LIMITED

Financial Statements for the year ended
31 December 2010

FDH STOCKBROKERS LIMITED
FINANCIAL STATEMENTS
For the year ended 31 December 2010

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FDH STOCKBROKERS LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2010

The Directors have pleasure in presenting the financial statements of FDH Stockbrokers Limited, which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cashflows for the year ended 31 December 2010.

ACTIVITIES

The company is a registered stockbroker under the Capital Market Development Act, 1990 and its main business is to offer an agent broking service to its clients wishing to invest in the capital markets. FDH Stockbrokers Limited was incorporated on 13 September 2006 and started its operations on 18 January 2007.

RESULTS AND DIVIDENDS

The directors report a loss of (K1.38m) for the year (2009: K6.87m loss). No dividend has been declared in the year (2009: nil).

SHARE CAPITAL

The authorised and issued share capital of the company is K14,000,000 divided into 14,000,000 Ordinary shares of K1 each.

The company is a wholly owned subsidiary of FDH Financial Holdings Company Limited, an investment holding company registered under the Companies Act, 1984.

DIRECTORS

The following directors served in office during the year:

Mr. S. Tembenu	-	All year
Mr. T.F. Mpinganjira	-	All year
Mr. P. Mukunga	-	June 2010 to 31 December 2010
Mr. D. Manyenje	-	All year

AUDITORS

Deloitte has expressed willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting to re-appoint Deloitte as auditors in respect of the 31 December 2011 financial statements.

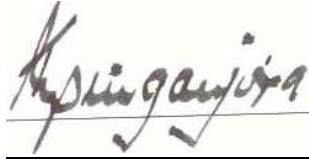
FOR AND ON BEHALF OF THE BOARD

DIRECTOR:

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FDH STOCKBROKERS LIMITED

DIRECTOR:

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DATE:

7th April, 2011

FDH STOCKBROKERS 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 applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with International Financial Reporting Standards when preparing 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 in the foreseeable future.

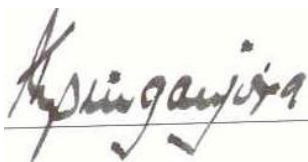
The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

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:

A handwritten signature in black ink, appearing to be 'K. S. G.', written over a horizontal line.

DATE:

7th April, 2011

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

We have audited the financial statements of FDH Stockbrokers Limited as set out on pages 4 to 27, which comprise of the statement of financial position as at 31 December 2010, 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 determine is necessary to enable the preparation of financial statements that are free from material misstatements 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 misstatement.

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 give a true and fair view of the financial position of the company 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 in the manner required by the Companies Act, 1984.



Certified Public Accountants
Blantyre, Malawi

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FDH STOCKBROKERS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	<u>Notes</u>	<u>2010</u> <u>K'000</u>	<u>2009</u> <u>K'000</u>
INCOME			
Trading income		8,436	8,885
Non-trading income		<u>12,972</u>	<u>14,423</u>
Total income		<u>21,408</u>	<u>23,308</u>
EXPENDITURE			
Administrative costs		11,198	14,436
Staff costs		<u>12,077</u>	<u>18,877</u>
Total expenditure		<u>23,275</u>	<u>33,313</u>
Loss before tax	5	(1,867)	(10,005)
Income tax credit	6	<u>478</u>	<u>3,140</u>
LOSS FOR THE YEAR		<u>(1,389)</u>	<u>(6,865)</u>
Loss per share (tambala)	7	<u>(10)</u>	<u>(49)</u>

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

STATEMENT OF FINANCIAL POSITION
31 December 2010

	<u>Notes</u>	<u>2010</u> <u>K'000</u>	<u>2009</u> <u>K'000</u>
ASSETS			
NON-CURRENT ASSETS			
Plant and equipment	8	2,496	3,547
Deferred tax	9	<u>3,341</u>	<u>2,863</u>
Total non-current assets		<u>5,837</u>	<u>6,410</u>
CURRENT ASSETS			
Treasury bills	10	-	918
Share investments	11	21,248	-
Receivables	12	21,003	39,930
Tax recoverable		3,404	3,404
Bank balances and cash		<u>-</u>	<u>15,853</u>
Total current assets		<u>45,655</u>	<u>60,105</u>
TOTAL ASSETS		<u>51,492</u>	<u>66,515</u>

FDH STOCKBROKERS LIMITED
EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

Share capital		14,000	14,000
Retained earnings		<u>5,759</u>	<u>7,148</u>
Total shareholders' equity		<u>19,759</u>	<u>21,148</u>

NON-CURRENT LIABILITIES

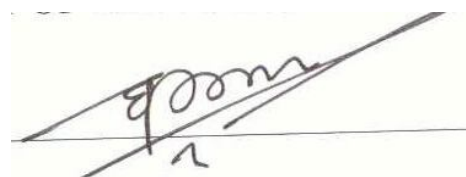
Post employment benefit obligations	13	<u>413</u>	<u>413</u>
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CURRENT LIABILITIES

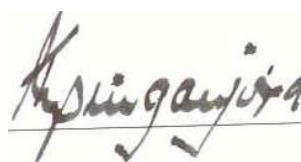
Trade payables		27,225	43,216
Provisions	14	1,215	1,738
Bank overdraft		<u>2,880</u>	<u>-</u>
Total current liabilities		<u>31,320</u>	<u>44,954</u>

TOTAL EQUITY AND LIABILITIES		<u>51,492</u>	<u>66,515</u>
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The financial statements were approved and authorised for issue by the Board of Directors on2011 and were signed on its behalf by:



Director



Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital K'000	Retained earnings K'000	Total K'000
2009			
As at 1 January 2009	14,000	14,013	28,013
Loss for the year	<u>-</u>	<u>(6,865)</u>	<u>(6,865)</u>
As at 31 December 2009	<u>14,000</u>	<u>7,148</u>	<u>21,148</u>
2010			
As at 1 January 2010	14,000	7,148	21,148
Loss for the year	<u>-</u>	<u>(1,389)</u>	<u>(1,389)</u>
As at 31 December 2010	<u>14,000</u>	<u>5,759</u>	<u>19,759</u>

FDH STOCKBROKERS LIMITED

2010
K'000

2009
K'000

ANALYSIS OF SHARE CAPITAL

Authorised, issued and fully paid

14,000,000 Ordinary shares of K1 each

14,000

14,000

FDH STOCKBROKERS LIMITED
STATEMENT OF CASHFLOWS
For the year ended 31 December 2010

	<u>2010</u> K'000	<u>2009</u> K'000
Cash flows from operating activities		
Loss before tax	(1,867)	(10,005)
Adjustments for:		
• Depreciation	1,051	1,196
• Movement in share investments	(21,248)	20,391
• Movement in receivables	18,927	3,585
• Movement in treasury bills	918	28,081
• Movement in payables and provisions	<u>(16,514)</u>	<u>(25,260)</u>
Cash generated from operations	(18,733)	17,988
Taxation paid	<u>-</u>	<u>(1,231)</u>
Net cash flow from operating activities	<u>(18,733)</u>	<u>16,757</u>
Net (decrease)/increase in cash and cash equivalents	(18,733)	16,757
Cash and cash equivalents at beginning of the year	<u>15,853</u>	<u>(904)</u>
Cash and cash equivalents at the end of the year	<u>(2,880)</u>	<u>15,853</u>

FDH STOCKBROKERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

1. General information

FDH Stockbrokers Limited is a registered stockbroker under the Capital Market Development Act, 1990, and its main business is to offer an agent only broking service to its clients wishing to invest in the capital markets. The company's registered office and principal place of business is Umoyo House, Ground Floor, P. O. Box 512, Blantyre, Malawi.

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 company 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 company.

2.2 Standards and Interpretations in issue, not yet effective

At the date of authorisation of these financial statements, the following 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 company, 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. No other procedures have been adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices. The principal accounting policies are set out below.

3.1 Foreign currency translations

The results and financial position of the company are expressed in Malawi Kwacha, which is the functional currency of the company and the presentation currency for the financial statements.

Transactions in currencies other than the entity's functional currency (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 the statement of financial position 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 directly in other comprehensive income.

3.2 Plant and equipment

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

Plant and equipment are depreciated on the straight-line basis at rates that will reduce book amounts to estimated residual values over the anticipated useful lives of the assets.

The assets' residual values, useful lives, and depreciation method are reviewed, and adjusted if appropriate, at each statement of financial position date.

Subsequent expenditure on an asset is capitalised only when it increases the future economic benefits embodied in an item of plant and equipment. All other expenditure is recognised in profit or loss as an expense as incurred.

3. Significant accounting policies (Continued)

3.3 Impairment of non-financial assets

At each statement of financial position date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

3.4 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 it 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)

3.4 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.

3.5 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. Significant accounting policies (continued)

3.6 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 group, including:
 - adverse changes in the payment status of borrowers in the group; and
 - national or local economic conditions that correlate with defaults on the assets in the group.

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 company 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)

3.6 *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 group 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)

3.6 Impairment of financial assets (Continued)

(b) Assets carried at fair value

The company assesses at each statement of financial position 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 other comprehensive income.

3.7 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. Liabilities to customers and financial institution

These are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. They are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

ii. Other payables

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

iii. Equity instruments

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

3.8 Derecognition of financial instruments

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The company also derecognises certain assets when they are deemed to be uncollectible.

3. Significant accounting policies (Continued)

3.9 Customer balances

Funds held on behalf of customers are invested in Malawi Government securities or placed on call with reputable financial institutions. The funds are managed separately from the company's own funds. Details of funds held on behalf of customers are shown in note 15 to these financial statements.

These assets and income arising thereon are excluded from these financial statements, as they are not assets of the company.

3.10 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 statement of comprehensive income 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 recognised 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.

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 profit or loss, except when it relates to items charged or credited to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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. Significant accounting policies (continued)

3.11 Revenue recognition

Trading income

Trading income comprises brokerage fees and commissions earned. Fees and commissions are generally recognised on an accruals basis when the service has been rendered.

Non-trading income

Non-trading income comprises interest receivable on investments and other sundry income. 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.

3.12 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, a 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.

3.13 Retirement benefit costs

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.

3.14 Earnings per share

The calculation of earnings per share is based on the profit for the year and the weighted average number of shares in issue throughout the year. Where new equity shares have been issued by way of capitalisation or subdivision, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly.

4. Critical accounting judgements and key sources of estimation uncertainty

4.1 Critical judgements in applying the company's accounting policies

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.

There were critical judgments in applying the company's accounting policies concerning the carrying values of depreciation and severance allowance as outlined in notes 8 and 12, respectively.

4.2 Key sources of estimation uncertainty

There are no 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 other than the recoverability of receivables as outlined below.

4.2.1 Provision for doubtful debts

In arriving at the provision for doubtful debts, management has taken into account the past payment history of the individual debtors, the willingness or otherwise of customers to acknowledge their indebtedness, together with other objective evidence of impairment as a result of one or more events that have occurred after initial debt recognition which suggest that future cash flows may be impaired. Provisioning on this basis can be subjective by nature as it requires the assessment of financial, as well as non-financial information in arriving at an impairment value, which can only be borne out by future events.

	<u>2010</u> K'000	<u>2009</u> K'000
5. Loss before tax		
Loss before tax is arrived at after taking account of the following:		
Auditors' remuneration	1,832	2,410
Depreciation	1,050	1,196
Directors' fees	1,666	1,332
Pension contribution	<u>331</u>	<u>606</u>

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	<u>2010</u> K'000	<u>2009</u> K'000
6. Income tax expense		
Income tax	-	(368)
Deferred tax credit	<u>(478)</u>	<u>(2,772)</u>
Total income tax credit	<u>(478)</u>	<u>(3,140)</u>
<u>Reconciliation of rate of tax</u>	%	%
Standard rate of taxation	30	30
Permanent differences	<u>(4)</u>	<u>1</u>
Effective rate of taxation	<u>26</u>	<u>31</u>
7. Loss per share		
The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the company is based on the following data:		
<i>Loss</i>		
Loss for the purposes of basic/diluted earnings per share (K'000)	<u>1,389</u>	<u>6,865</u>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purposes of basic/diluted earnings per share (Nos. '000)	<u>14,000</u>	<u>14,000</u>
Loss per share (tambala)	<u>10t</u>	<u>49t</u>

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8. Plant and equipment

	<u>Computer equipment</u> K'000	<u>Motor vehicles</u> K'000	<u>Furniture and office equipment</u> K'000	<u>Total</u> K'000
<u>2009</u>				
COST				
At beginning and end of the year	<u>1,518</u>	<u>2,929</u>	<u>2,427</u>	<u>6,874</u>
DEPRECIATION				
At beginning of the year	743	1,163	225	2,131
Charge for the year	<u>395</u>	<u>582</u>	<u>219</u>	<u>1,196</u>
At end of the year	<u>1,138</u>	<u>1,745</u>	<u>444</u>	<u>3,327</u>
NET BOOK VALUE				
At end of the year	<u>380</u>	<u>1,184</u>	<u>1,983</u>	<u>3,547</u>
<u>2010</u>				
COST				
At beginning and end of the year	<u>1,518</u>	<u>2,929</u>	<u>2,427</u>	<u>6,874</u>
DEPRECIATION				
At beginning of the year	1,138	1,745	444	3,327
Charge for the year	<u>210</u>	<u>583</u>	<u>258</u>	<u>1,051</u>
At end of the year	<u>1,348</u>	<u>2,328</u>	<u>702</u>	<u>4,378</u>
NET BOOK VALUE				
At end of the year	<u>170</u>	<u>601</u>	<u>1,725</u>	<u>2,496</u>

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

Computer equipment and software	-	4 years
Motor vehicles	-	5 years
Office equipment	-	5 years
Furniture and fittings	-	10 years

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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	<u>2010</u> K'000	<u>2009</u> K'000
9. Deferred tax		
At beginning of the year	2,863	91
Income tax expense	<u>478</u>	<u>2,772</u>
At end of the year	<u>3,341</u>	<u>2,863</u>
<u>Analysed as</u>		
Accelerated capital allowances	(46)	(211)
Tax losses	2,992	2,690
Other temporary differences	<u>395</u>	<u>384</u>
Total deferred tax	<u>3,341</u>	<u>2,863</u>
10. Treasury bills		
Treasury bills held with First Discount House Limited	<u>-</u>	<u>918</u>
11. Share investments		
Shares registered in the name of FDH Stockbrokers Limited	<u>21,248</u>	<u>-</u>
12. Receivables		
Trade receivables	6,098	26,036
Staff loans and advances	500	846
VAT receivable	10,728	9,737
Other receivables	68	49
Related party receivables	<u>3,609</u>	<u>3,262</u>
Total receivables	<u>21,003</u>	<u>39,930</u>
<p>The company's credit risk is primarily attributed to credit facilities extended to customers. The average credit period on sales is 30 days. No interest is charged on long overdue trade receivables.</p> <p>A specific provision for doubtful debts is estimated at each statement of financial position date by management based on prior experience and the current economic environment.</p>		
<u>Ageing of past due but not impaired</u>		
90 - 120 days	<u>21,003</u>	<u>39,930</u>
Total	<u>21,003</u>	<u>39,930</u>

FDH STOCKBROKERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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	<u>2010</u> K'000	<u>2009</u> K'000
13. Post employment benefit obligations		
Post employment benefit obligations	1,350	1,019
Cummulative employer pension contribution	<u>(937)</u>	<u>(606)</u>
Unfunded employment benefit obligations	<u>413</u>	<u>413</u>
Movements in employment benefit obligations in the current year were as follows:		
Opening employment benefit obligations	1,019	-
Current service cost of severance allowance	<u>331</u>	<u>1,019</u>
Closing employment benefit obligations	<u>1,350</u>	<u>1,019</u>
Movements in the employer pension contribution in the current year were as follows:		
At the beginning of the year	606	-
Contributions	<u>331</u>	<u>606</u>
At the end of the year	<u>937</u>	<u>606</u>

Cummulative employer pension contribution

The company contributes to employee pension fund managed by Old Mutual Malawi Limited. The pension fund rules allow for the offsetting of the employers pension contribution against the severance allowance due. Employer contributions are recognised in profit or loss in the period that they arise.

Post employment benefit obligations

The severance allowance provision has been computed in line with the company's accounting policy which is based on the employment legislation as it stood at the end of the financial year. During the financial year, the legislation giving rise to the requirement to provide for severance allowance, the Employment Act has been amended. The principal change to the Act is the removal of the provision requiring employers to accrue for severance allowance relating to future retirement costs. In addition, the amended Act has introduced an obligation on the part of employers to ensure that employees are covered by registered pension arrangements.

Subsequent to year end, parliament passed into law the Pension Bill. This Act together with the amended Employment Act, removes the provision requiring employers to accrue for severance allowance relating to future retirement costs. In addition, the amended Acts introduce an obligation on the part of employers to ensure that employees are covered by registered pension arrangements. The application of these new regulations will impact the level of required provision. The current provision is expected to adequately cover the new requirements.

FDH STOCKBROKERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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14. Provisions

	At beginning of the year K'000	Additions in the year K'000	Utilised during the year K'000	At end of the year K'000
Gratuity	788	1,777	(2,565)	-
Audit fees	<u>950</u>	<u>1,970</u>	<u>(1,705)</u>	<u>1,215</u>
Total	<u>1,738</u>	<u>3,747</u>	<u>(4,270)</u>	<u>1,215</u>

15. Customer balances

Customer funds	-	(33,178)
Investment in treasury bills	<u>-</u>	<u>33,178</u>
Total customer balances	<u>-</u>	<u>-</u>

16. Related party balances and transactions

The company is a wholly owned subsidiary of FDH Financial Holdings Company Limited.

The company transacts a portion of its business with FDH Financial Holdings Company Limited and fellow subsidiaries in the FDH Financial Holdings Group and at the end of the year the balances due from the holding company and fellow subsidiaries (included in receivables) were as follows:

	<u>2010</u> K'000	<u>2009</u> K'000
FDH Financial Holdings Company Limited	3,270	3,224
First Discount House Limited	338	-
FDH Bank Limited	<u>-</u>	<u>38</u>
	<u>3,609</u>	<u>3,262</u>

Inter-company balances due to other group companies and included in payables as at the end of the year were as follows:

First Discount House Limited	-	5,624
FDH Bank Limited	<u>2,414</u>	<u>520</u>
	<u>2,414</u>	<u>6,144</u>

FDH STOCKBROKERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010

	<u>2010</u> K'000	<u>2009</u> K'000
16. Related party balances and transactions		
The following transactions were conducted with related parties:		
Interest received from First Discount House Limited	_____ -	_____ <u>2,164</u>
Investments held with other group companies and included on the face of the statement of financial position as at year end are as follows:		
First Discount House Limited	_____ -	_____ <u>918</u>
Compensation of key management personnel		
The remuneration of executive directors and other members of key management during the period was as follows:		
Short-term employee benefits	_____ <u>8,089</u>	_____ <u>10,826</u>

17. Financial risk management

Through its normal operations, the company is exposed to a number of risks, the most significant of which are credit, liquidity, and interest rate risks. Responsibility for the management of these risks is vested in the board of directors. The board is responsible for formulating high-level risk policies, setting standards, monitoring concentrations and providing an independent review.

	<u>2010</u> K'000	<u>2009</u> K'000
17.1 Categories of financial instruments		
Financial assets		
Held for trading investments-share investments	21,248	-
Held to maturity investments-treasury bills	-	918
Loans and receivables (receivables, cash and cash equivalents)	_____ <u>21,003</u>	_____ <u>55,783</u>
Total financial assets	_____ <u>42,251</u>	_____ <u>56,701</u>
Financial liabilities		
At amortised cost	_____ <u>31,320</u>	_____ <u>43,216</u>

17. Financial risk management (continued)

17.2 Capital risk management

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

The Reserve Bank of Malawi has set the minimum capital requirement for stock brokers at K14million. As at year end the capital of the company was K19.7 million (2009: K21 million).

17.3 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.

17.4 Credit risk

Credit risk is the probability that a financial obligation will not be honoured by a counterparty, and exists in lending and other trading activities. The risk covers both balance sheet and off statement of financial position activities.

The company mitigates credit risk by proactively managing it. Investment (including money market and bank accounts) is only made if the level of risk is acceptable. This is achieved primarily by investing in Government treasury bills and money market products of good credit-rated banks and other financial institutions. Credit risk levels are monitored to avoid undue concentrations.

The carrying amount of financial assets recorded in the financial statement, which is net of impairment losses, represent the company's maximum exposure to credit risk.

	<u>2010</u> K'000	<u>2009</u> K'000
Credit Risk exposure		
Share investments	21,248	-
Treasury bills	-	918
Share trading receivables	21,003	39,930
Bank balances	<u>-</u>	<u>15,853</u>
Gross exposure	42,251	56,701
Provision for doubtful debts	<u>-</u>	<u>-</u>
Net exposure	<u>42,251</u>	<u>56,701</u>

FDH STOCKBROKERS LIMITED
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17. Financial risk management (continued)

17.5 Liquidity risk

Liquidity risk arises where the operations of the company cannot be funded due to mismatches in the cash flows of assets and liabilities within the statement of financial position. The Board reviews the potential for these mismatches and takes measures to alter certain maturity profiles where necessary with a view to minimising the impact of such mismatches.

	Less than <u>1 month</u> K'000	1 – 3 <u>months</u> K'000	3 – 12 <u>months</u> K'000	<u>Total</u> K'000
<u>2010</u>				
Assets				
Receivables and prepayments	6,435	570	13,998	21,003
Held for trading investments	-	-	21,248	21,248
Total assets	<u>6,435</u>	<u>570</u>	<u>35,246</u>	<u>42,251</u>
Liabilities				
Payables	3,956	2,492	20,570	27,018
Accruals	1,215	-	-	1,215
Bank overdraft	2,880	-	-	2,800
Total liabilities	<u>8,258</u>	<u>2,492</u>	<u>20,570</u>	<u>31,320</u>
Net liquidity gap	(1,823)	(1,922)	14,676	10,931
Cumulative liquidity gap	<u>(1,823)</u>	<u>(3,745)</u>	<u>10,931</u>	<u>10,931</u>
<u>2009</u>				
Assets				
Receivables and prepayments	27,951	2,242	9,737	39,930
Held to maturity investments	918	-	-	918
Bank and cash balances	15,853	-	-	15,853
Total assets	<u>44,722</u>	<u>2,242</u>	<u>9,737</u>	<u>56,701</u>
Liabilities				
Payable and accruals	30,251	7,390	5,575	43,216
Total liabilities	<u>30,251</u>	<u>7,390</u>	<u>5,575</u>	<u>43,216</u>
Net liquidity gap	14,471	(5,148)	4,162	13,485
Cumulative liquidity gap	<u>14,471</u>	<u>9,323</u>	<u>13,485</u>	<u>13,485</u>

17. Financial risk management (continued)

17.6 Interest rate risk

Interest rate risk is generally referred to as the exposure of the company net interest income to adverse movements in interest rates as a result of assets and liabilities re-pricing at different times and using different bases. The risk therefore has a direct impact on the company net interest margin. The Board reviews the re-pricing gap periodically and appropriate action is taken to reduce the effect of the risk.

17.7 Fair value of financial instruments

17.7.1 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 (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- 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.

17.7.2 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, grouped 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).

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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17. Financial risk management (continued)

	<u>2010</u> K'000	<u>2009</u> K'000
17.7 Fair value of financial instruments (continued)		
<i>Financial assets at fair value</i>		
Non-derivative financial assets held for trading		
Level 1 – share investments	<u>21,248</u>	<u>-</u>
Total	<u>21,248</u>	<u>-</u>

18. Exchange rates and inflation

The average of the period 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 period, which represents an official measure of inflation.

	<u>2010</u>	<u>2009</u>
Kwacha/Rand	23.5	19.91
Kwacha/US Dollar	<u>150.8</u>	<u>145.99</u>
Inflation rate (%)	<u>6.3</u>	<u>7.6</u>

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

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