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PGI Group Limited

Report & Accounts

Year ended 31 December 2017

Contents

Strategic report

Group Performance

We are pleased to report an increase in profits before tax to £9.08 million (2016: £4.91 million), which have delivered an earnings per share of £543.70 (2016: £287.09). This improvement in group profitability was driven by a strong performance from our renewable energy division.

We are recommending the payment of a dividend of £36.00 per share payable in July 2018 to shareholders on the register on 21 May 2018 (2016: £36.00).

The Group had net debt of £13.73 million at 31 December 2017 (2016: £19.04 million) and gearing was 33% (2016: 47%).

The Company is proposing to raise new capital through an open offer to shareholders in May 2018. Shareholders will be able to subscribe for 1 new share for every 4 shares owned at £2,500 per share. The company will raise a maximum of £7.8 million which will be applied to the further development of the renewable energy division

Group Strategy and Objectives

Our strategy remains unchanged, which is to create long term value for our shareholders by investing in two sectors within the Southern African region:

a) Large scale export agriculture, where we aim to build market leading businesses in plantation crops. We will maintain a long term competitive advantage by both regular replanting of our estates with improved cultivars; and new investments in our factories and packsheds to improve product quality and productivity. We work closely with our major customers to improve the consistency and quality of our products so as to both retain and build on our market position.

b) To develop renewable energy power schemes in the 1MW-15MW size range to generate electricity for supplying into the southern African national grids.

We will also work to provide both a safe and secure working environment for all our employees and to minimise the environmental impact of all our operations.

Operational Review

Agribusiness division

Operating profit was unchanged at £2.3 million (2016: £2.3 million).

Tea

Tea revenue increased to £23.0 million (2016: £17.0 million). This was achieved from higher black tea production at 16,215 tonnes (2016: 15,109 tonnes) of which 13,255 tonnes came from our own fields and 2,960 tonnes from smallholder farmers around our estates. Our estate yield per hectare (a KPI measurement) increased slightly to 2,847 kgs /ha from 2,643 kgs/ha.

Tea prices, as sold through the Mombasa weekly tea auction, increased by 23% in the year. We sell most of our teas on forward contracts to our tea blending customers. Our tea can be found across a number of different mass market black tea blends on European supermarket shelves.

All our businesses and smallholders are accredited to at least two internationally recognised ethical standards from: Rainforest Alliance, UTZ and Fairtrade. We work closely with the Ethical Tea Partnership and the Malawi 2020 tea programme which endeavours to increase wages across the plantation sector and the long term sustainability of the tea industry.

We continue to work closely with our surrounding smallholder farmers to increase their yields and income. We undertake to purchase all their output, which we process through our tea factories. Over the year we purchased 13,455 tonnes of greenleaf (2016: 13,468 tonnes) from over 10,000 farmers. We continue to assist them with crop inputs and new plants propagated in our nurseries

Cut flowers

Rose stem revenue increased to £11.0 million (2016: £10.6 million). Output was constrained by the residual effects of the 2016 drought, with export stem production declining to 143 million stems (2016: 154 million stems). Our KPI productivity measurement, export stems per square metre declined to 245 stems/sq metre (2016: 264 stems/sq metre).

The main market for our roses continues to be the supermarkets of northern Europe. We take responsibility for the cold chain from the farm to the European distribution centres. We airfreight using the cargo capacity of the passenger planes from Johannesburg which continues to be a reliable and cost effective routing.

Macadamia nuts

Our Malawi macadamia nut business, Thyolo Nut Company, endured a low output year. Orchard output was significantly down at 305 tonnes of kernel (2016: 335 tonnes). Tree health was still affected by the drought conditions of 2016. The yield per hectare (a KPI measurement) dropped to 439 kgs kernel/ha (2016: 511 kgs kernel/ha.).
We planted new orchards in both Malawi and Zimbabwe which will come into commercial production in 2025.

Renewable energy division

Operating profit increased to £9.8 million (2016: £5.4 million), driven by a higher revenue of £13.2 million (2016: £7.7 million)

Electricity output increased to 112,809 MWh (2016: 69,876 MWh, a KPI measurement). The improvement was all due to strong river flows which were boosted by above average rainfall in the catchments over the first half of the year. This allowed us to operate the generators at 47% of their installed capacity, whereas in a more normal rainfall year we would expect them to operate around 36% of their capacity.

We commissioned the 2.3MW Hauna power station scheme and constructed our first solar farm, a 2.5MW scheme outside Mutoko in Zimbabwe. This was commissioned in January 2018. All our electricity generation output is sold into the national grid and our sole offtaker is the state owned electricity utility, Zimbabwe Electricity Transmission and Distribution Company Ltd.

Strategic report (continued)

Russian property management division
The Jensen Fund 1 which was raised in 2006 continues to be in a formal wind up process. The efforts of our advisors and sales agents to dispose of the St Petersburg properties came to nothing. The market continues to be very illiquid.

Corporate Social Responsibility

All our African businesses depend on the goodwill of their neighbours. We work to ensure that the communities surrounding our estates and power stations benefit from our actions and feel a sense of common purpose and shared responsibility

In Malawi our tea smallholders benefit from the sales of Fairtrade accredited tea that we sell to various European brands. Premiums totalling £430,000 have been received in the year to be spent on long term infrastructure improvements in the community. In Zimbabwe we continue, together with our partners, to improve access to electricity through the extension of the national grid to rural villages and schools.

Financial Review

Profits
The operating profit before interest and tax amounted to £11.68 million (2016: £6.75 million). The profit before tax increased to £9.08 million (2016: £4.91 million).

Earnings per share
Earnings per share (a KPI measurement) amounted to £543.70 (2016: £287.09).

Dividend
The Board continues to keep the dividend policy under review in the light of the Goup's performance and capital requirements. The recommended dividend of £36.00 per share in respect of the year ended 31 December 2017 remains unchanged, as we plan further large investments into hydro electric power generation schemes in Southern Africa. The cost to the company of the dividend amounts to £451,000.

Net cash and borrowings
At 31 December 2017, the Group had net borrowings of £13.73 million (2016: £19.04 million). Approximately £21.6 million of the Group's net debt at the end of 2016 was denominated in US$, or currencies linked to the US$. The weakening of the US$ against sterling during 2017 has reduced the Group's reported net debt by £1.84 million. Excluding these exchange rate movements, net debt has decreased by £3.47 million. The gearing ratio reduced to 33% (2016: 47%).

The cash balances in the UK at the year end amounted to £5.23 million (2016: £3.49 million).

The effect of Zimbabwe currency changes on monetary assets and liabilities
A new surrogate currency, called the bond note dollar, was introduced by the Reserve Bank of Zimbabwe at the end of 2016, to alleviate the chronic scarcity of US dollars both in circulation and within the domestic banking system. Under Zimbabwe legislation, the bond note dollars trade at parity to the US dollar.

The functional currency of our Zimbabwean entities is US dollars. At the end of 2017, these entities had net monetary liabilities in bond note dollars, which have been recognised in the Group's financial statements at an exchange rate of parity with the US dollar, as per current Zimbabwe legislation.

Financial risk management
Details of the Group's financial risk management objectives and policies including capital management and capital structure are contained in Note 24 to the Accounts on pages 30 to 32.

Pensions
The Group's defined benefit pension plan, valued in accordance with IAS19, recorded an increase in its deficit from £4.62 million at the end of 2016 to £5.53 million at the end of 2017. The value of the liabilities has been calculated by adjusting and updating the results of the Plan's triennial valuation as at 31 December 2016, the impact of which was to introduce gains and losses that arose between 1 January 2014 and 31 December 2016. This has had the effect of increasing the value placed on the Plan's liabilities by approximately £0.7 million, which was largely due to improved mortality. Additionally, a reduction in the discount rate, based on the yield of high quality corporate debt, from 2.5% to 2.3%, has served to increase the plan's liabilities. The overall increase in liabilities has been partially offset by the plan's assets performing better than expected when compared with the assumptions made last year. Full details of the pension plan are contained in Note 22 to the accounts on pages 27 to 29.

Going concern basis

The Group's financial position and its business activities together with the factors likely to affect its future development and performance are included in this Strategic Report. The principal risks and uncertainties that are likely to affect the Group's future development are reviewed below.

A summary of the Group's policies and processes in respect of capital and financial risk management including foreign exchange, interest rate, credit and liquidity risks are included within Note 24 to the accounts.

The Group meets its day-to-day working capital and other funding requirements through a combination of medium term loans and short term overdraft lending. The overseas bank facilities have recently been renewed and the directors are not aware of any reason why these facilities should not be renewed in the future. As a consequence, and after reviewing the current situation, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Group's annual report and accounts for 2017.

Strategic report (continued)

Principal risks and uncertainties

The Group's operations are primarily based in Malawi, Zambia and Zimbabwe. The political, economic, legal and regulatory environments in the countries differ, in many respects, from those in more developed countries. Consequently, the Group results and assets could be affected by factors such as: political or labour unrest; violence and lack of law enforcement; expropriation of property; high inflation and interest rates not off-set by devaluations of the local currency and imposition of, or changes to exchange controls.

The principal risks of the group are:

In Zimbabwe there is an ongoing acute foreign exchange crisis, whereby local banks are failing to convert onshore US$ deposits into overseas payments to buy imports and service debts. This crisis has been exacerbated by the Government's introduction, in November 2016, of the bond note dollar and its pegged exchange rate at parity to the US Dollar. There is evidence that a parallel market has developed which charges a premium on the conversion of bond notes into US Dollars. We expect this risk to remain very material to the Group for the foreseeable future.

The effect of climate change on the the seasonal weather pattern. Agricultural productivity is affected by deviations from average temperatures and rainfall. Hydro-electric power generation is directly linked to river levels which are closely correlated to rainfall. Drought conditions in the main rainy season have a major impact on the flows throughout the year.

Fluctuations in the internationally traded tea price, as evidenced by the weekly Mombasa tea auction. These hammer prices are related to the prices we can achieve for our tea sales.

Our Zimbabwe renewable energy schemes despatch electricity into the Zimbabwe national transmission grid and the sole offtaker is the state owned transmission and distribution utility. We have very limited alternatives in the short term should this counterparty become unreliable.

The Group operates a defined benefit pension plan, which has been closed to future accrual for active members since 2011. A material proportion of the assets of this scheme are invested in equities and the value of these assets will fluctuate in line with global equity markets. The liabilities of the scheme may also increase due to continuing improvements in mortality rates and unfavourable movements in economic variables.

By Order of the Board

Margaret Gage
Secretary
3rd Floor
45 Ludgate Hill
London EC4M 7JU
18 April 2018

Directors' report

The directors present their report and audited accounts for the year ended 31 December 2017.

Statement of directors' responsibilities
The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law to prepare Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with IFRS as adopted by the EU; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the PGI Group website.

Principal activities and strategic report
The Company is a holding company and is domiciled and incorporated in England and Wales under the Companies Act 1948. The Company operates under the Companies Act 2006.

The principal activities of the Company's subsidiaries comprise agribusinesses and renewable energy power generation. The information that fulfils the requirements relating to the Strategic Report can be found on pages 1 to 3 which are incorporated in this report by reference.

Results and dividends
The results for the year are shown in the consolidated income statement on page 6.

A final dividend in respect of the year ended 31 December 2017 of £36.00 per ordinary share is recommended by the directors for payment on 4 July 2018 to shareholders on the register on 21 May 2018 (2016: £36.00 paid on 16 August 2017). A final dividend can only be paid after it has been approved by the shareholders and cannot exceed the amount recommended by the board. Resolution 4 to be proposed at the Annual General Meeting would declare this dividend.

Authority to allot shares and disapplication of pre-emption rights
The Companies Act 2006 gives a private company with only one class of shares the ability to grant its directors the authority to allot shares without having to go to the Company's shareholders to seek power to allot. The Company's articles of association give the directors this ability.

The Companies Act 2006 requires that, subject to certain exceptions, before directors of a company can issue any new shares for cash, the shares must first be offered to existing members of the Company in proportion to the number of shares which they hold at the time of the relevant offer. The Company's articles of association allow shareholders the ability to give the directors authority to allot shares (up to a specified nominal value) so that this statutory pre-emption requirement does not apply; such authority is subject to renewal by shareholders. Resolution 5 to be proposed at the Annual General Meeting would allow the directors to allot shares for cash only:

a. up to a nominal value of £3,132,250, which represents 10 per cent. of the Company's issued share capital as at 31 December 2017 and as at 17 April 2018, being the latest practicable date before this report; or
b. in connection with a Rights Issue (as defined in article 5.1 of the Company's articles of association).

This means that, if a share issue is not a Rights Issue, the proportionate interest of existing shareholders could not, without their agreement, be reduced by more than 10 per cent. by the issue of new shares for cash to new shareholders. This authority would lapse on 30 June 2019. The directors have no present intention of exercising this authority but, as in previous years, consider it desirable that they should have the flexibility to act in the best interest of shareholders when opportunities arise.

Directors' report (continued)

Employees
As at 31 December 2017, the Group employed on average 14,772 people, mainly located in Southern Africa. The Group places considerable value on the involvement of its employees, recognising that in order to achieve its objectives, the Group depends on the skills and commitment of its employees. It is the policy of the Group to encourage and develop all members of staff to realise their potential and wherever possible, vacancies are filled from within the Group. The Group recognises the importance of effective communication and employees are kept informed on matters affecting them as employees.

It is Group policy to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. In the event of an employee becoming disabled the Group offers, if appropriate, retraining or suitable alternative employment.

Creditor payment policies
Subsidiary companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

Liability insurance for company officers
As permitted by section 233 of the Companies Act 2006, the Company has maintained insurance cover for the directors against liabilities in relation to the Company.

Overseas branches
Two Group companies, Bandanga Ltd and Nchima Tea and Tung Estates Ltd, have branches registered outside the United Kingdom in Malawi.

Trading in the Company's shares
Shareholders may, if they wish, trade in the ordinary shares of the Company. A facility is available to find a counter party on a commission-free basis through our website. This service can be accessed at: www.pgi-uk.com and the link should be followed to the Shareholder Private Access section where it is necessary to enter the username and password that have been sent to shareholders and which can be re-sent on request.

For shareholders requiring to contact the Company's share registrars, Link Asset Services, the address is:
Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Directors
The directors of the Company who served during the year and the shareholdings of the directors and their families in the Company as at the date of this report were as follows:

	Ordinary shares
R.L. Pennant-Rea	48
S.S. Hobhouse	350
M.A. Gage	25
L. Hene	13
J.C Mackintosh (appointed 1 February 2017)	2
S.N. Roditi	9,594
C.E. Ryan	126
D.M. Ryan	24
M.W. Wright	4

S.N. Roditi is the ultimate controlling party of the Group.

Registered number
The Company's registered number is 01338135.

Auditor
Each of the persons who is a director at the date of approval of this report confirms that:
a. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
b. the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

A resolution for the re-appointment of RSM UK Audit LLP as auditor of the Company and a separate resolution to give the directors authority to determine their remuneration are to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Margaret Gage
Secretary
3rd Floor
45 Ludgate Hill
London EC4M 7JU
18 April 2018

Consolidated income statement
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Continuing operations			
Revenue	4	**52,239**	40,362
Cost of sales		**(26,735)**	(20,482)
Gross profit		**25,504**	19,880
Distribution costs		**(4,585)**	(4,615)
Administrative expenses		**(9,791)**	(8,858)
Other operating income		**556**	162
Share of associate's results	2	**-**	185
Profit from operations		**11,684**	6,754
Finance costs (net)	3	**(2,604)**	(1,843)
Profit before taxation		**9,080**	4,911
Taxation	7	**(1,989)**	(1,246)
Profit for the year	4	**7,091**	3,665
Profit attributable to:			
Owners of the parent		**6,812**	3,597
Non-controlling interests		**279**	68
		7,091	3,665

		£	£
Earnings per ordinary share			
- basic and diluted	8	**543.70**	287.09
Dividend per ordinary share	9	**36.00**	33.00

The notes on pages 12 to 35 form part of these accounts

Consolidated statement of other comprehensive income

for the year ended 31 December 2017

	Group	
	2017	2016
	£000	£000
Profit for the year	**7,091**	3,665
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net actuarial loss on defined benefits pension plan	**(889)**	(470)
Deferred tax on property revaluations	**(34)**	81
	(923)	(389)
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of net overseas assets	**(4,333)**	7,135
Other comprehensive income for the year (net of tax)	**(5,256)**	6,746
Total comprehensive income for the year	**1,835**	10,411
Attributable to:		
Owners of the parent	**1,820**	9,787
Non-controlling interests	**15**	624
	1,835	10,411

Items in the statement of other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 7.

The notes on pages 12 to 35 form part of these accounts

Statement of financial position

at 31 December 2017

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
ASSETS					
Non-current assets					
Goodwill	10	**343**	375	–	–
Biological assets	11(a)	**271**	277	–	–
Property, plant and equipment	12	**65,181**	68,464	–	4
Investments:					
- associates	14	–	–	–	–
- other	14	**123**	135	**44,245**	36,872
		65,918	69,251	**44,245**	36,876
Current assets					
Biological assets	11(b)	**1,390**	1,491	–	–
Inventories	15	**5,492**	5,080	–	–
Trade and other receivables	16	**5,579**	6,701	**25**	12
Current tax assets		**165**	–	–	–
Other financial assets	25	**1,252**	24	–	11
Cash and cash equivalents		**10,775**	9,495	**5,055**	11,568
		24,653	22,791	**5,080**	11,591
TOTAL ASSETS		**90,571**	92,042	**49,325**	48,467
LIABILITIES					
Current liabilities					
Interest bearing loans and borrowings	19	**9,737**	10,844	–	–
Trade and other payables	20	**8,491**	7,976	**568**	805
Current tax liabilities		**11**	32	–	–
		18,239	18,852	**568**	805
Non-current liabilities					
Interest bearing loans and borrowings	19	**14,772**	17,686	–	–
Trade and other payables	20	**1,532**	2,901	–	–
Deferred tax liabilities	21	**5,951**	4,393	–	–
Defined pension plan deficit	22	**5,528**	4,618	**5,528**	4,618
		27,783	29,598	**5,528**	4,618
TOTAL LIABILITIES		**46,022**	48,450	**6,096**	5,423
NET ASSETS		**44,549**	43,592	**43,229**	43,044
EQUITY					
Share capital	17	**31,323**	31,323	**31,323**	31,323
Share premium account		**425**	425	**425**	425
Capital redemption reserve		**1,023**	1,023	**1,023**	1,023
Retained earnings		**9,026**	7,657	**10,458**	10,273
Equity attributable to owners of the parent		**41,797**	40,428	**43,229**	43,044
Non-controlling interests		**2,752**	3,164	–	–
TOTAL EQUITY		**44,549**	43,592	**43,229**	43,044

The Company's registered number is 01338135.

The Company's profit for the year was £1,525,000 (2016: £1,007,000) and its total comprehensive income for the year was £636,000 (2016: £537,000)

The notes on pages 12 to 35 form part of these accounts. The accounts were approved and authorised for issue by the Board on 18 April 2018 and were signed on its behalf by:

Directors

R.L. Pennant-Rea M.A. Gage

Statement of cash flows
for the year ended 31 December 2017

		Group		Company	
	Notes	**2017** **£000**	2016 £000	**2017** **£000**	2016 £000
Operating activities					
Profit before tax		**9,080**	4,911	**1,525**	1,007
Adjustments:					
Depreciation of property, plant and equipment		**3,307**	3,113	**4**	7
(Profit)/loss on disposal of property, plant and equipment		**(17)**	11	**–**	–
Profit on disposal of financial assets		**(12)**	–	**–**	–
Additional retirement benefit costs		**(93)**	(89)	**(93)**	(89)
Net finance costs		**2,593**	1,843	**315**	78
Fair value adjustments		**76**	(319)	**11**	(5)
Share of net profit of associate		**–**	(185)	**–**	–
Working capital adjustments:					
Decrease in biological assets		**177**	136	**–**	–
Increase in inventories		**(412)**	(1,675)	**–**	–
Decrease/(increase) in trade and other receivables		**1,122**	(657)	**(13)**	2
Increase in financial assets at fair value through profit or loss		**(1,388)**	–	**–**	–
(Decrease)/increase in trade and other payables		**(854)**	1,851	**(237)**	91
Exchange difference on working capital		**(662)**	570	**–**	–
Overseas tax paid		**(277)**	(225)	**–**	–
Net cash from operating activities		**12,640**	9,285	**1,512**	1,091
Cash flows from investing activities					
Purchase of property, plant and equipment		**(5,840)**	(6,414)	**–**	–
Acquisition of subsidiary, net of cash acquired		**–**	58	**–**	–
Proceeds from disposal of property, plant and equipment		**25**	–	**–**	–
Interest and finance income received		**22**	397	**19**	71
Receipts from/(additions to) investments		**–**	185	**(7,373)**	165
Net cash from investing activities		**(5,793)**	(5,774)	**(7,354)**	236
Cash flows from financing activities					
Proceeds from loans and borrowings		**2,821**	5,260	**–**	–
Repayment of loans		**(1,856)**	(810)	**–**	–
Repayment of loans from related parties		**(2,736)**	(2,831)	**–**	–
Interest and finance costs paid		**(2,501)**	(2,100)	**(220)**	(4)
Dividends paid to equity holders of the parent		**(451)**	(413)	**(451)**	(413)
Dividends and other payments to non-controlling interests		**(427)**	(492)	**–**	–
Net cash from financing activities		**(5,150)**	(1,386)	**(671)**	(417)
Net increase/(decrease) in cash and cash equivalents		**1,697**	2,125	**(6,513)**	910
Cash and cash equivalents at beginning of period		**5,979**	3,349	**11,568**	10,658
Effects of exchange rate changes on cash and cash equivalents		**(332)**	505	**–**	–
Cash and cash equivalents at end of period		**7,344**	5,979	**5,055**	11,568
Cash and cash equivalents comprise:					
Cash	23	**10,775**	9,495	**5,055**	11,568
Overdrafts	23	**(3,431)**	(3,516)	**–**	–
Cash and cash equivalents	23	**7,344**	5,979	**5,055**	11,568
Interest bearing loans and borrowings due within one year		**(9,737)**	(10,844)	**–**	–
Less: short term debt (other than overdrafts)		**6,306**	7,328	**–**	–
Overdrafts	23	**(3,431)**	(3,516)	**–**	–

The notes on pages 12 to 35 form part of these accounts

Consolidated statement of changes in equity

	Attributable to owners of the parent					
	Share capital £000	Share premium & capital redemption reserves £000	Retained earnings £000	Total controlling interests £000	Non-controlling interests £000	Total equity £000
Balance at 1 January 2016	31,323	1,448	(1,717)	31,054	3,032	34,086
Profit for the year	–	–	3,597	3,597	68	3,665
Other comprehensive income:						
Exchange differences on translation of net overseas assets	–	–	6,579	6,579	556	7,135
Net actuarial loss on defined benefit pension plan	–	–	(470)	(470)	–	(470)
Deferred tax on property revaluations	–	–	81	81	–	81
Total comprehensive income for the year	–	–	9,787	9,787	624	10,411
Dividend paid (note 9)	–	–	(413)	(413)	–	(413)
Transactions with owners	–	–	9,374	9,374	624	9,998
Dividend paid to non-controlling interests	–	–	–	–	(492)	(492)
Balance at 31 December 2016	31,323	1,448	7,657	40,428	3,164	43,592
Profit for the year	–	–	**6,812**	**6,812**	**279**	**7,091**
Other comprehensive income:						
Exchange differences on translation of net overseas assets	–	–	**(4,069)**	**(4,069)**	**(264)**	**(4,333)**
Net actuarial loss on defined benefit pension plan	–	–	**(889)**	**(889)**	–	**(889)**
Deferred tax on property revaluations	–	–	**(34)**	**(34)**	–	**(34)**
Total comprehensive income for the year	–	–	**1,820**	**1,820**	**15**	**1,835**
Dividend paid (note 9)	–	–	**(451)**	**(451)**	–	**(451)**
Transactions with owners	–	–	**1,369**	**1,369**	**15**	**1,384**
Dividend paid to non-controlling interests	–	–	–	–	**(427)**	**(427)**
Balance at 31 December 2017	**31,323**	**1,448**	**9,026**	**41,797**	**2,752**	**44,549**

The notes on pages 12 to 35 form part of these accounts

Statement of changes in equity – Company

	Attributable to owners				
	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2016	31,323	425	1,023	10,149	42,920
Profit for the year	–	–	–	1,007	1,007
Net actuarial loss on defined benefit pension plan	–	–	–	(470)	(470)
Total comprehensive income for the year	–	–	–	537	537
Dividend paid (note 9)	–	–	–	(413)	(413)
Balance at 31 December 2016	31,323	425	1,023	10,273	43,044
Profit for the year	–	–	–	**1,525**	**1,525**
Net actuarial loss on defined benefit pension plan	–	–	–	**(889)**	**(889)**
Total comprehensive income for the year	–	–	–	**636**	**636**
Dividend paid (note 9)	–	–	–	**(451)**	**(451)**
Balance at 31 December 2017	**31,323**	**425**	**1,023**	**10,458**	**43,229**

PGI Group Limited has not presented its own income statement as permitted by Section 408 of the Companies Act 2006.

The notes on pages 12 to 35 form part of these accounts

Notes to the accounts

General information
The consolidated financial statements of PGI Group Limited for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 18 April 2018. PGI Group Limited is a private company limited by shares, incorporated and domiciled in the United Kingdom. The address of the Company's registered office and principal place of business is 3rd Floor, 45 Ludgate Hill, London, EC4V 5JM. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 3 to the accounts.

1. Basis of preparation and significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union. They have been prepared on the historical cost basis, except for certain biological assets, which have been measured at fair value less costs to sell, freehold land and buildings which have been measured at their depreciated replacement cost and certain financial assets and liabilities, which have been measured at fair value. The financial statements have also been prepared on the going concern basis as set out in the Strategic Report on pages 1 to 3 to the accounts.

The consolidated and company financial statements are presented in sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated.

Changes in accounting policy – new and revised accounting standards
New and amended standards adopted by the Group
A number of new standards and amendments are effective for annual periods commencing on or after 1 January 2017, none of which have any impact on the accounting policies and consolidated financial statements of the Group.

Company accounts
The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRS. They have been prepared on the historical cost basis and the principal accounting policies adopted are the same as those set out below.

As permitted by S.408 of the Companies Act 2006, the Company has not presented its own Income Statement.

Basis of consolidation
Subsidiaries
The consolidated financial statements comprise the financial statements of PGI Group Limited and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies.

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

All intra-group balances, transactions, income and expenses, are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in both the income statement and within equity in the consolidated statement of financial position.

Associates
An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of that entity.

Investments in associates are accounted for by the equity method of accounting. Under this method the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Group's presentation currency and the Company's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Finance income or costs. All other foreign exchange gains and losses are presented in the income statement within the category to which they relate.

Notes to the accounts (continued)

1. Basis of preparation and significant accounting policies (continued)

Foreign currency translation (continued)
Group companies
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting exchange differences are recognised in other comprehensive income.

Exchange differences since the adoption of IFRS, arising from the translation of the net investment in foreign entities are taken to shareholders' equity until the disposal of the net investment, at which time they are recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Biological assets
The Group's biological assets mainly comprise the produce growing on tea bushes, macadamia trees and rose plants. The fair value of the growing crops is determined using models based on expected yields, market prices for the saleable produce, after allowing for harvesting costs and other costs yet to be incurred in getting the produce to maturity. Any changes in fair value are recognised in the income statement in the year in which they arise. The Group's livestock comprises cattle and game animals and is stated at fair value, based on selling prices, less estimated costs to sell.

Property, plant and equipment
Long leasehold property, plant and equipment are stated at historical cost, less accumulated depreciation.

Freehold land and buildings comprises property in southern Africa. Factories and ancillary property of the Group, located in southern Africa are revalued and stated at their depreciated replacement cost as at the balance sheet date. The directors consider that the balance sheet better portrays the state of affairs of the Group if the southern African property is included at current valuations prepared by the directors instead of including these assets at cost. Reliable full market valuations are difficult to obtain and accordingly the depreciated replacement cost approach has been adopted and applied consistently to the Group's southern African property assets since the adoption of IFRS in 2005.

Movements in the carrying amount arising on the valuation of land and buildings are credited to other comprehensive income and included in retained earnings in shareholders' equity.

Freehold land is not depreciated.

The Group's bearer plants, which comprise tea bushes, macadamia trees and rose plants are measured at amortised cost and depreciated over their useful lives.

Depreciation on other assets is calculated on a straight line basis over the useful life of the assets, as follows:

	Years
Bearer plants	15-60
Freehold and long leasehold buildings	25-50
Plant and equipment & hydro electric power plant	10-50
Motor vehicles	4-10

Assets under construction are not depreciated until commissioned.

Notes to the accounts (continued)

1. Basis of preparation and significant accounting policies (continued)

Bearer plants are classified as immature until the produce can be commercially harvested. At that point they are reclassified and depreciation commences. Immature tea bushes, macadamia trees and rose plants are measured at accumulated cost.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in Other operating income.

The residual values, useful lives and methods of depreciation for the assets are reviewed and adjusted, if appropriate, at each financial year end.

Other investments
Other investments are stated at cost or fair value.

Fair value measurement
Fair value measurements are classified in the accounts using the following levels:
Level 1 uses quoted prices in active markets for identical assets
Level 2 uses inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 uses inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Inventories
Agricultural produce at the point of harvest is measured at fair value less estimated costs to sell. Such measurement is the cost at that date when they are recognised as inventories.

Inventories including products that are the result of processing after harvest are stated at the lower of cost and net realisable value.

Trade and other receivables
Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is recognised in the income statement.

Current asset investments
Current asset investments are designated as financial assets at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term and are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash and deposits held at call with banks.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. Borrowing costs are recognised in the income statement in the period in which they are incurred.

Leasing
Operating lease payments are recognised as an expense is the income statement on a straight line basis over the lease term.

Taxation
The tax expense represents tax currently payable adjusted for provisions for deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than in a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related tax asset is realised or the tax liability is settled.

Deferred tax assets are generally not recognised unless it is certain that future taxable profit will be available against which the temporary differences can be utilised.

Dividends
Dividends are recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

Notes to the accounts (continued)

1. Basis of preparation and significant accounting policies (continued)

Pension obligations
The Group has both a defined benefit plan and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension cost for the defined benefit plan is assessed in accordance with the advice of qualified independent actuaries using the Defined Accrued Benefits method.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Actuarial gains and losses are recognised in full in the statement of changes in shareholders' equity.

Payments to defined contribution pension plans are charged to the income statement as an expense as they fall due.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, value added tax and other sales related taxes and after eliminating intra-group sales. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the sale of goods by the agribusinesses is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the renewable energy power companies is recognised monthly based on the generation of megawatt hours of electricity feeding into the Zimbabwean national grid. Management fee income, mainly derived from the investment property management companies, is recognised monthly based on a percentage of the funds under management.

Derivative financial instruments
The Group uses derivative financial instruments namely forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Going concern basis
The Group meets its day-to-day working capital and other funding requirements through a combination of medium term loans and short term overdraft lending. The overseas bank facilities have recently been renewed and the directors are not aware of any reason why these facilities should not be renewed in the future. In addition, the Group has positive bank balances. As a consequence, and after reviewing the current situation, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Group's annual report and accounts for 2017.

Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. The resultant estimates will differ from actual results and may require adjustment in subsequent accounting periods. Where key estimates and assumptions that may cause a material adjustment to the carrying amount of assets and liabilities in the next financial year have been applied, these are referred to in the relevant notes, the most significant being in goodwill, biological assets, freehold property and pension benefits.

Standards and interpretations issued but not yet effective
New standards and interpretations not yet adopted by the Group
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group.

The new standard, IFRS 16, Leases, was issued in January 2016 and is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. It will result in most leases being recognised on the balance sheet, as the distinction between operating leases and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £339,000 (Note 13). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and and how this will affect the Group's profit and classification of cash flows.

There are no other standards that are not yet effective and that would be expected to have a material impact on the consolidated financial statements of the Group.

Notes to the accounts (continued)

2. Share of associate's results

	2017	2016
	£000	£000
The Group's share of the results of its associated company comprises:		
Profit from operations	**230**	187
Impairment provision against investment in associate	**(230)**	(2)
Taxation on profit from operations	**–**	–
Profit after taxation	**–**	185

The share of associate's results relate to a 20% interest in K2 Management Ltd (2016: 20%), which is part of the Jensen Group. K2 has invested in the Russian property fund, which it manages. An impairment provision of £230,000 has been made in the year (2016: £2,000) against the cost of its investment in the property fund and against balances receivable by the management company from the property fund.

3. Finance income and costs

	2017	2016
	£000	£000
Finance income comprises:		
Bank and other interest receivable	**22**	4
Foreign exchange profit on financing activities	**58**	393
	80	397
Finance costs comprise:		
On amounts wholly repayable within 5 years:		
Bank	**2,347**	2,161
Foreign exchange loss/(profit) on financing activities	**212**	(61)
Fair value loss/(profit) on derivatives	**11**	(5)
	2,570	2,095
Imputed interest on pension plan liabilities (net)	**114**	145
	2,684	2,240

4. Revenue and profit for the year

	2017	2016
	£000	£000
Analysis of the Group's revenue:		
Sale of agribusiness produce	**38,510**	32,118
Hydro-electric power generation	**13,174**	7,709
Property management income	**555**	535
	52,239	40,362
Profit for the year is stated after charging/(crediting):		
Cost of inventories recognised as expense	**26,735**	20,482
Depreciation of property, plant and equipment	**3,307**	3,113
(Profit)/loss on disposal of property, plant and equipment	**(17)**	11
Operating lease payments	**45**	43
Rents received	**(20)**	(16)
Gain on acquisition of subsidiary	**–**	(7)
Net foreign exchange losses/(gains)	**13**	(28)
Fair value adjustments:		
Biological assets	**(94)**	(316)
Other financial assets	**170**	(3)

Notes to the accounts (continued)

5. Auditor's remuneration

	2017 £000	2016 £000
The analysis of the auditor's remuneration is:		
Audit services		
Statutory audit of the Company and the group accounts	**76**	76
Other services		
Statutory audit of the accounts of the Company's subsidiaries pursuant to legislation	**–**	–
Tax compliance	**17**	–
	93	76

These fees relate to fees paid to RSM UK Audit LLP and its associates. Fees paid to other auditors not associated with RSM UK Audit LLP in respect of the audit of the Company's subsidiaries amounted to £101,000 (2016: £104,000).

6. Employees

	2017	2016
Average numbers employed in:		
Agribusinesses including seasonal workers	**14,543**	13,966
Hydro electric power generation	**226**	71
Head office	**3**	3
	14,772	14,040

	2017 £000	2016 £000
Staff costs:		
Wages and salaries	**12,945**	11,361
Social security	**282**	322
Other pension costs	**101**	99
	13,328	11,782

7. Taxation

a) Analysis of charge for the year

	2017 £000	2016 £000
Current taxation:		
UK corporation tax	**–**	–
Double taxation relief	**–**	–
	–	–
Foreign tax:		
Current tax on income for the period	**72**	149
Adjustment in respect of prior periods	**3**	–
Withholding tax	**13**	120
	88	269
Deferred taxation:		
Origination and reversal of temporary differences	**1,924**	808
Adjustment in respect of prior periods	**(23)**	169
	1,901	977
Total tax expense reported in the income statement	**1,989**	1,246

Notes to the accounts (continued)

7. Taxation (continued)

b) Factors affecting the tax charge for the year:
The tax assessed for the year differs from the effective rate of corporation tax in the UK of 19.25% (2016: 20%):

	2017	2016
	£000	£000
Profit before tax	**9,080**	4,911
Profit before tax multiplied by the effective rate of corporation tax in the UK of 19.25% (2016: 20%)	**1,748**	982
Effects of:		
Items not chargeable for tax purposes	**74**	68
Net increase/(decrease) in tax losses	**113**	(20)
Different tax rates on overseas earnings	**200**	14
Adjustment in respect of prior years	**(20)**	169
Exchange differences	**(126)**	33
Total tax expense reported in the income statement	**1,989**	1,246

c) Tax effects relating to other comprehensive income

		2017			2016	
	Before tax amount	**Tax expense**	**Net of tax amount**	Before tax amount	Tax Expense	Net of tax amount
	£000	**£000**	**£000**	£000	£000	£000
Exchange differences on translation of net overseas assets	**(4,069)**	**–**	**(4,069)**	6,579	–	6,579
Revaluation of property	**–**	**(34)**	**(34)**	–	81	81
Net actuarial loss on defined benefit pension plan	**(889)**	**–**	**(889)**	(470)	–	(470)
	(4,958)	**(34)**	**(4,992)**	6,109	81	6,190

8. Earnings per ordinary share

Basic and diluted

Basic and diluted earnings per ordinary £2,500 share are calculated by dividing the profit attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the year. There are no dilutive shares.

	2017	2016
Weighted average number of ordinary shares in issue	**12,529**	12,529

	2017	2016
	£000	£000
Profit attributable to owners of the parent:	**6,812**	3,597

	£	£
Basic and diluted earnings per ordinary share	**543.70**	287.09

Notes to the accounts (continued)

9. Dividends

	2017	2016
	£000	£000
Amounts recognised as distributions to owners of the parent in the year:		
Dividend for the year ended 31 December 2016 of £36.00 (2015: £33.00) per share	**451**	413

A dividend for the year ended 31 December 2017 of £36.00 per share has been recommended by the directors for payment on 4 July 2018.

10. Goodwill

	2017	2016
	£000	£000
Goodwill arising on the acquisition of:		
Khal Amazi Ltd	**343**	375
The movement on goodwill during the year comprises:		
Opening balance	**375**	315
Exchange differences	**(32)**	60
Closing balance	**343**	375

The Group determines on an annual basis whether goodwill is impaired. An impairment review has been carried out for Khal Amazi Ltd at 31 December 2017 whereby its recoverable amount has been determined based on value-in-use calculations. This requires the Group to make various estimates, assumptions and judgements, which have been based on historical experience and other factors, including reasonable expectations of future events. The resultant estimates will differ from actual results.

As a long term agricultural business, twenty year cash flow projections, assuming no growth in the cash flows, have been used for Khal Amazi Ltd. A pre-tax discount rate of 16.9% has been used. The calculations use cash flow forecasts derived from the most recent financial budgets supplemented by forecasts of performance for the years thereafter, revised where appropriate, to take account of current economic conditions.

Khal Amazi's recoverable amount, based on value-in-use calculations, exceeded its carrying value by £2.0 million (2016: £0.1 million), indicating that no impairment charge was necessary for the year ended 31 December 2017 (2016: £nil). A key assumption used in the value-in-use calculations is the exchange rate between the Euro and US dollar. The forecasts have been based on current rates of exchange.

Notes to the accounts (continued)

11. Biological assets

Biological assets comprise the fair value of livestock and the fair value of agricultural produce growing on tea bushes, macadamia trees and rose plants until the point of harvest:

	Livestock 2017 £000	Agricultural produce 2017 £000	Total 2017 £000	Livestock 2016 £000	Agricultural produce 2016 £000	Total 2016 £000
Opening balance at 1 January	**277**	**1,491**	**1,768**	**250**	1,290	1,540
Exchange differences	**(24)**	**(129)**	**(153)**	48	255	303
Increase due to purchases	–	**1,006**	**1,006**	–	1,155	1,155
Change in fair value due to:						
Biological transformation	**18**	**76**	**94**	(21)	337	316
Decrease due to harvest	–	**(1,054)**	**(1,054)**	–	(1,546)	(1,546)
Closing balance at 31 December	**271**	**1,390**	**1,661**	277	1,491	1,768
a) Non-current assets:						
Livestock	**271**	–	**271**	277	–	277
b) Current assets:						
Agricultural produce	–	**1,390**	**1,390**	–	1,491	1,491

Biological assets are carried at fair value less estimated costs to sell, except a small amount of livestock, which is carried at selling prices less estimated costs to sell.

The fair value of growing green tea leaf, macadamias-in-husk and rose buds have been determined using models based on expected yields, market prices for the saleable produce, after allowing for harvesting costs and other costs yet to be incurred in getting the produce to maturity. The fair value of the agricultural produce has been measured using valuation Level 3, whereby inputs for the asset are not based on observable market data. This requires the Group to make various estimates and judgements, which have been based on historical experience and other factors, including the volume and stages of maturity at the balance sheet date, yields and market prices. The year end fair value amounted to £1.39 million (2016: £1.49 million). The livestock has been measured at fair value using valuation Level 2, whereby inputs other than quoted prices that are observable for the asset are used. There were no transfers between any levels during the year.

The areas planted to the significant crop types at the end of the year:

	2017 Hectares	2016 Hectares
Tea	**4,778**	4,921
Macadamia	**983**	916
Roses	**64**	64

A major operational risk is the seasonal weather pattern. Agricultural productivity is affected by deviations from average temperatures and rainfalls. The Group's agribusinesses are also exposed to international commodity prices, which are related to the prices achieved by the Group for the sale of its produce.

Notes to the accounts (continued)

12. Property, plant and equipment

	Group						Company
	Bearer plants	Land and buildings Freehold	Land and buildings Long leasehold	Renewable energy Plant and equipment	Plant equipment and vehicles	Total	Plant equipment and vehicles
	£000	£000	£000	£000	£000	£000	£000
Year ended 31 December 2017							
Opening cost or valuation	17,251	2,658	3,443	44,989	19,060	87,401	60
Exchange differences	(1,451)	(59)	(295)	(3,890)	(1,646)	(7,341)	-
Additions	713	143	13	3,646	1,325	5,840	-
Disposals	-	-	-	-	(135)	(135)	-
Closing cost or valuation	16,513	2,742	3,161	44,745	18,604	85,765	60
At directors' valuation	-	2,742	-	-	-	2,742	-
At cost	16,513	-	3,161	44,745	18,604	83,023	60
Opening accumulated depreciation	1,705	664	610	3,007	12,951	18,937	56
Exchange differences	(107)	4	(53)	(261)	(1,116)	(1,533)	-
Charge for the year	787	17	156	1,131	1,216	3,307	4
Disposals	-	-	-	-	(127)	(127)	-
Closing accumulated depreciation	2,385	685	713	3,877	12,924	20,584	60
Net book value	14,128	2,057	2,448	40,868	5,680	65,181	-
Historical cost							
Cost	16,513	1,693	3,161	44,745	18,604	84,716	60
Accumulated depreciation	2,385	194	713	3,877	12,924	20,093	60
	14,128	1,499	2,448	40,868	5,680	64,623	-

Immature bearer plants of £556,000 were reclassified as mature in 2017. Immature bearer plants at the year end amounted to £3,110,000 and are not depreciated.

At the year end £2,711,000 (2016: £4,371,000) of the cost of renewable energy plant and equipment was under construction.

During the year, the Group capitalised borrowing costs on qualifying assets of £159,000 (2016: £nil).

Net book value of property, plant and equipment pledged as security for bank loans and overdrafts:

	Net book value 2017	Net book value 2016
	£000	£000
	24,121	28,051

Valuation method
The freehold properties recognised at directors' valuation are located in southern Africa and have been valued on a depreciated replacement cost basis, which has required the Group to make various estimates about building replacement costs and the expected useful life of the assets. Accordingly, a degree of judgement has been applied to these valuations. This method of valuation has been applied consistently to the Group's African property assets since the adoption of IFRS in 2005.

Notes to the accounts (continued)

12. Property, plant and equipment (continued)

	Group						Company
				Renewable			
	Bearer	Land and buildings		energy	Plant		Plant
	plants		Long	Plant and	equipment		equipment
	(Restated)	Freehold	leasehold	equipment	and vehicles	Total	and vehicles
	£000	£000	£000	£000	£000	£000	£000
Year ended 31 December 2016							
Opening cost or valuation	13,934	2,478	2,849	33,599	14,470	67,330	60
Exchange differences	2,727	127	549	6,491	2,792	12,686	-
Additions	590	53	45	4,923	803	6,414	-
Acquisition of subsidiary	-	-	-	-	1,232	1,232	-
Disposals	-	-	-	(24)	(237)	(261)	-
Closing cost or valuation	17,251	2,658	3,443	44,989	19,060	87,401	60
At directors' valuation	-	2,658	-	-	-	2,658	-
At cost	17,251	-	3,443	44,989	19,060	84,743	60
Opening accumulated depreciation	702	631	501	1,621	9,321	12,776	49
Exchange differences	137	17	95	313	1,791	2,353	-
Charge for the year	866	16	14	1,086	1,131	3,113	7
Acquisition of subsidiary	-	-	-	-	944	944	-
Disposals	-	-	-	(13)	(236)	(249)	-
Closing accumulated depreciation	1,705	664	610	3,007	12,951	18,937	56
Net book value	15,546	1,994	2,833	41,982	6,109	68,464	4
Historical cost							
Cost	17,251	1,711	3,443	44,989	19,060	86,454	60
Accumulated depreciation	1,705	198	610	3,007	12,951	18,471	56
	15,546	1,513	2,833	41,982	6,109	67,983	4

Immature bearer plants of £652,000 were reclassified as mature in 2016. Immature bearer plants at the year end amounted to £3,093,000 and are not depreciated.

13. Capital and operating lease commitments

The Group had no commitments for capital expenditure contracted for, but not provided at 31 December 2017 (2016: £nil). Replanting and estate development costs, which are incurred on an ongoing basis, are excluded from capital commitments.

The Group had future minimum lease payments under a non-cancellable operating lease for each of the following periods:

	Land and buildings	
	2017	2016
	£000	£000
Not later than one year	**74**	26
Later than one year and not later than five years	**265**	–

The operating lease commitments represent rentals payable by the Group for office premises. The lease has a term of five years at a fixed rent, expiring in August 2022.

Notes to the accounts (continued)

14. Investments

Associates are accounted for in accordance with IAS 28 – Investments in Associates. At the 31 December 2017, the share of the associate's results relate to a 20% interest in K2 Management Ltd, which is part of the Jensen Group.

Group	Other unlisted investments 2017 £000	Other unlisted investments 2016 £000	Associates 2017 £000	Associates 2016 £000
Analysis of movement during the year:				
At beginning of year	**135**	114	–	–
Profit from operations (Note 2)	–	–	230	187
Impairment provision against investment in associate (Note 2)	–	–	(230)	(2)
Dividends paid	–	–	–	(187)
Addition to associate	–	–	–	2
Exchange differences	**(12)**	21	–	–
At end of year	**123**	135	–	–

Other unlisted investments are recognised at cost in the balance sheet at £123,000 (2016: £135,000).

Share of the associate's balance sheet:	Associates 2017 £000	Associates 2016 £000
Non-current assets	–	–
Current assets	**55**	100
Current liabilities	**(55)**	(100)
Carrying amount of investment	–	–
Share of the associate's revenue and profits:		
Continuing operations		
Revenue	**361**	347
Share of profit after tax (Note 2)	–	185

Company	Subsidiary undertakings Shares £000	Subsidiary undertakings Loans £000	Subsidiary undertakings Total £000
At 1 January 2016	31,308	5,729	37,037
Decrease	–	(165)	(165)
At 31 December 2016	**31,308**	**5,564**	**36,872**
Increase	–	**7,373**	**7,373**
At 31 December 2017	**31,308**	**12,937**	**44,245**

Management charges made by the Company to group subsidiaries amounted to £nil (2016: £96,000).

Subsidiary undertakings
All subsidiary undertakings are listed on page 35 and operate principally in their country of incorporation. All the holdings in the operating entities are held through subsidiary undertakings.

Business combination - acquisition of Hydro Power Contractors (Private) Limited
On 31 December 2016, the Group acquired 100% of the share capital of Hydro Power Contractors (Private) Limited, a Zimbabwe hydro-electric power construction company, as a result of the waiver of pre-emption rights by the shareholder on an issue of shares by the acquired business. No purchase consideration was payable for the acquisition. The total identifiable net assets acquired amounted to £7,000. There were no acquisition-related costs. The acquired business did not contribute any revenue, or profits or losses to the Group from the date of acquisition. Neither would the acquired business have contributed to the Group's revenues, or its profit, had the acquisition occurred on 1 January 2016.

Notes to the accounts (continued)

14. *Investments (continued)*

Net assets of Hydro Power Contractors (Private) Ltd acquired on 31 December 2016:

	2016
	£000
Fair value and carrying value of net assets acquired:	
Property, plant and equipment	288
Trade and other receivables	636
Current tax	23
Trade and other payables	(971)
Deferred tax	(35)
Cash and cash equivalents	66
Total identifiable net assets	7
Gain on acquisition of subsidiary	(7)
Cash outflow on acquisition	-

There were no acquisitions in the year ended 31 December 2017.

15. *Inventories*

	2017	2016
	£000	£000
Produce	2,111	2,087
Raw material	3,381	2,993
	5,492	5,080

16. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Due within one year:				
Trade receivables	2,463	2,943	–	–
Other receivables	2,049	3,471	13	8
Prepayments and accrued income	1,067	287	12	4
	5,579	6,701	25	12

There is no fixed repayment date on £298,000 (2016: £326,000) of the Other receivables. Included in Other receivables is £1,072,000 (2016: £2,225,000), which relates to VAT reclaimable in some of the Zimbabwe renewable energy companies and some of the Group's agribusinesses. These amounts are being offset against future output tax and other local taxes as they fall due.

Credit risk

The Group's principal financial assets are cash and cash equivalents and trade and other receivables. The Group's credit risk is primarily attributable to its trade and other receivables. Within the agribusinesses, the Group has no significant concentration of credit risk, with exposure spread over a number of customers. The Group's credit risk policy is set out in Note 24.

As at 31 December 2017, trade and other receivables presented in the statement of financial position have been reduced by a provision which may be necessary for doubtful receivables of £1,036,000 (2016: £728,000).

Movement in provision for doubtful receivables:

	2017	2016
	£000	£000
At 1 January	728	521
Increase in provision for doubtful receivables	371	106
Exchange differences	(63)	101
At 31 December	1,036	728

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total	Neither past due nor impaired	less than 3 months	3 – 6 months	more than 6 months
	£000	£000	£000	£000	£000
2017	**2,463**	**2,463**	–	–	–
2016	2,943	2,816	102	25	–

Notes to the accounts (continued)

17. Share capital

Ordinary shares of £2,500 each	Issued and fully paid number	Issued and fully paid £000
At 31 December 2017 and 2016	12,529	31,323

Details of the shareholdings of the directors are disclosed on page 5 in the Directors' Report.

18. Reserves and non-controlling interests

The movement on reserves and non-controlling interests is shown in the statements of changes in equity on pages 10 and 11. Distributions to owners of the parent may not be made from either the Company's share premium account or its capital redemption reserve, both of which are statutory non-distributable reserves.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. This reserve is included in the accompanying consolidated statement of changes in equity within retained earnings. The movement on this reserve for the years ended 31 December 2017 and 2016 is as follows:

	Retained Earnings £000
Exchange differences on translation of net overseas assets:	
Opening balance 1 January 2016	(20,557)
Movement for the year	6,579
At 31 December 2016	**(13,978)**
Movement for the year	**(4,069)**
At 31 December 2017	**(18,047)**

Remittances of profits and repayment of loans and advances in Malawi and Zimbabwe are subject to exchange control approval by the Reserve Bank in both of these countries.

Subsidiary with material non-controlling interest
There is a material non-controlling interest of 25.24% in Khal Amazi Ltd. The principal place of business and country of incorporation of Khal Amazi Ltd is Zambia. The loss allocated to the non-controlling interest in the subsidiary for the year ended 31 December 2017 was £211,000 (2016: loss £292,000). Of the non-controlling interest at 31 December 2017 amounting to £2,752,000 (2016: £3,164,000), disclosed on page 10, £1,841,000 (2016: £2,239,000) relates to the non-controlling interest in Khal Amazi Ltd. No dividends were paid by Khal Amazi Ltd in the year under review (2016: £nil). Its decrease in cash and cash equivalents for the year ended 31 December 2017 amounted to £343,000 (2016: decrease £260,000). Its net assets at the year ended 31 December 2017, before inter-company eliminations, were £8,255,000 (2016: £9,942,000).

19. Interest bearing loans and borrowings

		Group 2017 £000	Group 2016 £000
Debentures, bank loans and overdrafts – secured	(i) and (ii)	**24,509**	28,530
Debentures, bank loans and overdrafts are repayable:			
Within one year		**9,737**	10,844
Between one and two years		**4,096**	5,049
Between two and five years		**10,306**	12,164
After five years		**370**	473
		24,509	28,530
Due within one year		**9,737**	10,844
Due after more than one year		**14,772**	17,686
		24,509	28,530

There are no interest bearing loans and borrowings in the Company.

(i) Debentures, bank loans and overdrafts are secured by floating charges over certain assets of the Group and by fixed charges over certain property, plant and equipment and book debts. A Company guarantee has been provided for an outstanding term loan of £8.0 million (2016:£10.9 million).

(ii) A five year secured corporate debenture was raised by the Group's renewable energy holding company in Zimbabwe at the end of 2016 for five million dollars with a coupon of 9% per annum. The debenture was fully subscribed. Subscriptions were received in 2017 for two million dollars (£1,478,000) (2016: three million dollars (£2,428,000)). The debenture has been recognised in the accounts at an exchange rate of parity with the US dollar, as per current Zimbabwe legislation.

Notes to the accounts (continued)

20. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Due within one year				
Trade payables	**2,668**	2,711	**2**	16
Other taxation and social security	**61**	37	**32**	29
Accruals and deferred income	**2,300**	2,950	**525**	751
Other payables	**3,462**	2,278	**9**	9
	8,491	7,976	**568**	805
Due after one year				
Trade payables	**989**	1,122	**–**	–
Accruals and deferred income	**119**	80	**–**	–
Other payables	**424**	1,699	**–**	–
	1,532	2,901	**–**	–

21. Provisions for deferred tax liabilities

The Group's provision for deferred tax comprises:

	2017	2016
	£000	£000
Accelerated tax depreciation	**9,928**	8,958
Unrealised foreign exchange differences	**(335)**	(540)
Other temporary differences	**311**	349
Tax losses	**(4,327)**	(4,746)
Provision for deferred tax on temporary differences	**5,577**	4,021
Potential tax due on property revaluations	**374**	372
Total provision for deferred tax	**5,951**	4,393
The movement in the provision for deferred tax was:		
At 1 January	**4,393**	2,865
Deferred tax charge in income statement (Note 7a)		
Current year from continuing operations	**1,924**	808
Prior year adjustment	**(23)**	169
	1,901	977
Changes in potential tax on property revaluations charged to:		
Retained earnings	**34**	(81)
	34	(81)
Acquisition of subsidiary	**–**	35
Exchange differences	**(377)**	597
At 31 December	**5,951**	4,393

There are losses arising in the UK of approximately £0.6 million (2016: £0.6 million) which are available to offset against future taxable profits in the companies in which the loss arose. There are also capital losses of £19.2 million (2016: £19.2 million) which are available to offset against future capital gains arising in the UK. The total potential deferred tax asset of £3.8 million in relation to these losses has not been recognised as there is insufficient evidence of future profits against which this asset could be utilised.

The Group also has losses arising in Zimbabwe of approximately £1.3 million (2016: £1.4 million). The potential deferred tax asset at 31 December 2017 of £0.3 million (2016: £0.4 million) has not been recognised as there is insufficient evidence of future profits against which this asset could be utilised.

22. Retirement benefit liabilities

The retirement benefit liabilities of the Group and Company are summarised below:

	2017 £000	2016 £000
PGI Group Pension Plan	**5,528**	4,618

The Group operates a funded defined benefit pension plan in the United Kingdom, the PGI Group Pension Plan, which was closed to future accrual for active members from 1 October 2011. The plan is subject to the funding legislation, which came into force on 30 December 2005, as set out in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK. Total contributions to the plan amounted to £173,000 (2016: £169,000). The Group incurred other pension costs of £101,000 (2016: £99,000) for certain employees in respect of defined contribution plans.

The total membership of the plan at 31 December 2017 was 443 members (2016: 458 members), analysed as follows:

	Deferred pensioners Number	Pensioners in payment Number	Total Number
Males	135	197	332
Females	31	80	111
Total	166	277	443

The total pensions paid during the year ended 31 December 2017 amounted to £810,000 (2016: £810,000). In 2016 a trivial commutation exercise was undertaken, administered by the Plan's actuaries. Twenty-one members commuted their pensions in full and ceased to be members of the Plan, at a cost of £141,000. A summary of the unaudited financial statements of the scheme for 2017 and the audited financial statements of the previous year is shown below:

	2017 £000	2016 £000
Company contributions	**173**	169
Benefits payable:		
Pensions	**(810)**	(810)
Commutation and lump sum benefits	**(160)**	(84)
Trivial commutations	**(2)**	(141)
	(972)	(1,035)
Administration expenses	**(80)**	(80)
Net return on investments	**1,743**	2,292
Net increase in the fund	**864**	1,346
Net assets at 1 January	**13,948**	12,602
Net assets at 31 December	**14,812**	13,948

Net assets statement at 31 December:

	2017		2016	
	£000	**% of total**	£000	% of total
Investments				
Managed equity funds:				
Aquila Life UK Equity Index fund	**7,789**	**52**	7,321	52
Aquila Life European Equity Index fund	**1,412**	**9**	1,208	9
Aquila Life US Equity Index fund	**1,482**	**10**	1,395	10
Aquila Life Overseas Fixed Bench Equity fund	**2,808**	**19**	2,610	19
Managed gilt and corporate bond funds:				
Aquila Life Corporate Bond 5 to 15 years fund	**1,298**	**9**	1,334	9
	14,789	**99**	13,868	99
Net current assets:				
Cash deposits	**77**	**1**	145	1
Accruals	**(54)**	**–**	(65)	–
Total net assets	**14,812**	**100**	13,948	100

The Pension Plan's investment managers, BlackRock are responsible for investing the plan's assets in indexed linked funds in the proportions agreed with the trustees. The trustees meet regularly with BlackRock to monitor performance of the portfolio.

Notes to the accounts (continued)

22. Retirement benefit liabilities (continued)

The last full actuarial valuation of the plan was performed by the Plan's actuaries, CPRM Limited, as at 31 December 2016. The valuation was carried out using the Defined Accrued Benefits method. The principal economic assumptions were a valuation rate of interest of 5.6% and an allowance of 3.3% per annum for increases to pensions in payment of 5% per annum or RPI if less.

On a continuing valuation basis, the funding position at 31 December 2016 was:

	£000
Past service liabilities	(17,431)
Value of assets	13,948
Deficit	(3,483)
Funding level	80.0%

In addition to the funding level on the continuing valuation basis, the asset coverage has also been calculated at 63% on a Section 179 (PPF valuation) basis and 46% on a solvency (winding-up) basis.

IAS 19 Disclosures

To assess the position of the plan at 31 December 2017, the IAS 19 disclosures have been calculated on an approximate basis by appropriately adjusting and updating the results for the latest actuarial valuation at 31 December 2016.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2017	2016
	£000	£000
Defined benefit obligation at start of year	**18,566**	16,694
Expenses	**80**	80
Interest expense	**452**	582
Actuarial losses/(gains) due to plan experience	**727**	(140)
Actuarial losses due to changes in demographic assumptions	**1,121**	–
Actuarial losses due to changes in financial assumptions	**446**	2,464
Benefits paid and expenses	**(1,052)**	(1,114)
Defined benefit obligation at end of year	**20,340**	18,566

Reconciliation of opening and closing balances of the fair value of plan assets

	2017	2016
	£000	£000
Fair value of assets at start of year	**13,948**	12,602
Interest income	**338**	437
Return on plan assets (excluding amounts included in interest income)	**1,405**	1,854
Contributions by the Company	**173**	169
Benefits paid and expenses	**(1,052)**	(1,114)
Fair value of assets at end of year	**14,812**	13,948

The average duration of the benefit obligation at 31 December 2017 is 14 years (2016: 12 years).

The charge to the income statement comprises:

	2017	2016
	£000	£000
Expenses	**(80)**	(80)
Other finance charges:		
Interest expense	**(452)**	(582)
Interest income	**338**	437
Net interest cost	**(114)**	(145)
Defined benefit costs recognised in the income statement	**(194)**	(225)

Present values of defined benefit obligations, fair value of assets and deficit

	2017	2016
	£000	£000
Present value of defined benefit obligation	**(20,340)**	(18,566)
Fair value of plan assets	**14,812**	13,948
Deficit in plan recognised in the balance sheet	**(5,528)**	(4,618)

A deferred tax asset in relation to the plan's deficit has not been recognised as there is insufficient evidence of future profits against which this asset could be utilised.

Notes to the accounts (continued)

22. Retirement benefit liabilities (continued)

Present values of defined benefit obligations, fair value of assets and deficit:

	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000
Fair values at 31 December					
Equities	**13,491**	12,534	11,165	11,775	9,804
Bonds	**1,298**	1,334	1,377	1,596	3,655
Cash and other net assets	**23**	80	60	69	108
Present value of plan	**14,812**	13,948	12,602	13,440	13,567
Liabilities	**(20,340)**	(18,566)	(16,694)	(17,780)	(19,049)
Plan deficit	**(5,528)**	(4,618)	(4,092)	(4,340)	(5,482)
Percentage funding	**72.8%**	75.1%	75.5%	75.6%	71.2%
Contribution rate	–	–	–	–	–
Contribution towards plan's administration expenses	**£80,000**	£76,000	£89,000	£77,000	£94,000
Additional contributions	**£93,500**	£93,500	£320,000	£320,000	£320,000

The best estimate of contributions to be paid to the plan for the year ending 31 December 2018 is £230,000, made up of £80,000 contribution towards the plan's administration expenses and £150,000 additional contributions.

Actual return on plan assets
The actual return on the plan assets over the year ending 31 December 2017 was £1,743,000 (2016: return of £2,291,000).

Major assumptions

	2017	2016
	% per annum	% per annum
Inflation	**3.20**	3.30
Discount rate	**2.30**	2.50
Pensions in payment increases	**3.10**	3.30
Revaluation rate for deferred pensioners	**3.20**	3.30

The discount rate is a key assumption in the valuation of the Plan's liabilities which may, within limits, take a range of values. The results quoted are based on a discount rate of 2.30% per annum. Adopting a different discount rate would lead to different results being disclosed. For example, if the discount rate was increased by 0.25% per annum, the liabilities would reduce by approximately £712,000 for the plan. There would be a similar increase in liabilities if the discount rate was reduced by 0.25% per annum.

Mortality
The mortality assumptions adopted at 31 December 2017 imply the following future life expectations at age 65:

	2017	2016
	Years	Years
Male currently aged 45	**21.3**	19.9
Female currently aged 45	**23.4**	23.8
Male currently aged 65	**20.2**	18.5
Female currently aged 65	**22.1**	22.2

Movement in the plan deficit during the year

	2017	2016
	£000	£000
Deficit at 1 January	**(4,618)**	(4,092)
Pension expenses recognised in the income statement:	**(194)**	(225)
Amounts recognised in other comprehensive income	**(889)**	(470)
Contributions by the Company	**173**	169
Deficit at 31 December	**(5,528)**	(4,618)

The actuarial loss recognised in other comprehensive income comprises:

	2017	2016
	£000	*£000*
Experience adjustment on plan assets	**1,405**	1,854
Experience adjustment on plan liabilities	**(727)**	140
Effect of change in assumptions	**(1,567)**	(2,464)
	(889)	(470)

Notes to the accounts (continued)

23. Consolidated cash flow statement

Analysis of net debt:

	Opening balance 2017 £000	Cash Flow £000	Transfers £000	Exchange movement £000	Closing balance 2017 £000
Cash	**9,495**	1,916	–	(636)	**10,775**
Overdrafts	**(3,516)**	(219)	–	304	**(3,431)**
Cash and cash equivalents	**5,979**	1,697	–	(332)	**7,344**
Debt due within one year	**(7,328)**	4,469	(4,081)	634	**(6,306)**
Debt due after more than one year	**(17,686)**	(2,698)	4,081	1,531	**(14,772)**
	(19,035)	3,468	–	1,833	**(13,734)**

24. Financial risk management objectives and policies

Policy
The Group's principal financial liabilities, other than derivatives, comprise bank loans, overdrafts and trade payables. The purpose of bank loans and overdrafts is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The Group entered into forward currency contracts during 2017 with the purpose of managing currency risks arising from the Group's operations.

The Group's policy remains not to trade in derivative instruments.

The Group's activities expose it to varying degrees of financial risk. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing risks in order to minimise potential adverse effects on the Group's financial performance.

Foreign currency risk
The Group operates internationally and is exposed to foreign exchange risk arising from commercial transactions, recognised assets and liabilities and net investments in foreign operations. Exposure to commercial transactions arises from sales or purchases by operating companies in currencies other than the companies' functional currency. The Group sometimes uses forward currency contracts to hedge significant sales or purchases denominated in foreign currencies.

The Group which is based in the UK and reports in pound sterling, has significant investment in overseas operations in the Southern African states of Malawi, Zambia and Zimbabwe. Some of these countries have currencies which are referred to as 'soft' and as a result, the Group's balance sheet can be significantly affected by movements in these countries' exchange rates. Some of these currency denominated net assets are partially hedged by local borrowings. Currency exposures are reviewed regularly.

There is an acute foreign currency scarcity in the Zimbabwe banking system. This results in the Group's renewable energy division failing to pay in full, all its foreign obligations on time. Any overdue balance is subject to a default interest charge.This is a continuing risk that the Group takes very seriously. Within Zimbabwe, the foreign exchange shortage manifests itself in multiple different exchange rates between onshore and offshore dollars. These market-set exchange rates are typically at lower rates than the Government mandated exchange rate.

The table below shows the extent at 31 December 2017 to which the Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of such assets and liabilities are taken to the income statement.

Net foreign currency monetary assets/(liabilities)

	2017				2016			
Group	**US$ £000**	**Euro £000**	**Other £000**	**Total £000**	US$ £000	Euro £000	Other £000	Total £000
Functional currency of operations								
Malawi: US dollar	**–**	**–**	**(1,130)**	**(1,130)**	–	–	(629)	(629)
UK: Pound sterling	**1,444**	**–**	**–**	**1,444**	1,183	–	–	1,183
Zambia: US dollar	**–**	**779**	**290**	**1,069**	–	1,311	874	2,185
	1,444	**779**	**(840)**	**1,383**	1,183	1,311	245	2,739

In Zimbabwe, all assets and liabilities are denominated in US dollars, which is one of the country's adopted currencies.

Notes to the accounts (continued)

24. Financial risk management objectives and policies (continued)

The following table demonstrates the sensitivity to a possible change in the £ sterling exchange rate, with all other variables held constant, on the Group's profit before tax, due to foreign exchange movements on non-functional currency monetary assets and liabilities as at the year end.

	Increase/decrease in £ exchange rate against non-functional currency	Effect on profit before tax US dollar £000	Euro £000	Other £000	Total £000
2017	**+ 10%**	**(132)**	**(71)**	**102**	**(101)**
	– 10%	**144**	**78**	**(112)**	**110**
2016	+ 10%	(108)	(119)	38	(189)
	– 10%	118	131	(42)	207

Interest rate risk
The Group borrows and is therefore exposed to fluctuations due to changes in market interest rates. Short term borrowings are at floating interest rates, which are mainly expressed as a percentage above local bank base rates.

The Group's policy is to place surplus funds on short-term deposit. In overseas countries these deposits are sometimes made in US dollars to protect against currency fluctuations.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate borrowings.

The interest rate profile of the Group's borrowings at 31 December 2017 were:

	Floating rate £000	Fixed rate £000	Total £000	Weighted average of Fixed rate debt interest rate %	period years
2017					
US dollar	**20,250**	**4,259**	**24,509**	**10**	**3.6**
2016					
US dollar	24,527	3,716	28,243	11	4.1
Malawi kwacha	287	–	287		
	24,814	3,716	28,530		

Interest on floating rate borrowings is re-priced at intervals of less than one year. Interest on borrowings classified as fixed rate is fixed until the maturity of the instrument. The fair value of borrowings approximate to the above stated carrying values.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate risk table
The following table demonstrates the sensitivity of the Group's profit before tax to a possible change in interest rates on floating rate borrowings as at 31 December 2017, with all other variables held constant.

	Basis points increase/ decrease	Effect on profit before tax £000
2017		
US Dollar	**± 100**	**± 203**
2016		
US dollar	± 100	± 245
Malawi kwacha	± 100	± 3

Notes to the accounts (continued)

24. Financial risk management objectives and policies (continued)

Credit risk
The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in Note 16.

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group manages liquidity risk by holding significant cash deposits in the UK and maintaining adequate overseas borrowing facilities for the short and medium term in order to meet all its potential liabilities as they fall due, including shareholder distributions. The Group has various sources of overseas funding. The overseas bank facilities have recently been renewed and the directors are not aware of any reason why these facilities should not be renewed in future.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure borrowings remain within short and medium term facilities.

The table below summarises the maturity of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted payments.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
Year ended 31 December 2017					
Interest bearing loans and borrowings	**9,737**	**4,096**	**10,306**	**370**	**24,509**
Other liabilities	**5,823**	**543**	**–**	**–**	**6,366**
Trade and other payables	**2,668**	**989**	**–**	**–**	**3,657**
	18,228	**5,628**	**10,306**	**370**	**34,532**
Year ended 31 December 2016					
Interest bearing loans and borrowings	10,844	5,049	12,164	473	28,530
Other liabilities	5,265	2,743	–	–	8,008
Trade and other payables	2,711	158	–	–	2,869
	18,820	7,950	12,164	473	39,407

Capital management
The main objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to maximise shareholder value in the long term.

The Group manages its capital structure and makes adjustments to it, in light of the requirements of the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. The directors also keep under review the balance of capital and debt funding of the group on an on-going basis.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, interest bearing loans and borrowings less cash and cash equivalents. Capital includes the net equity attributable to the equity holders of the parent.

	2017 £000	2016 £000
Interest bearing loans and borrowings	**24,509**	28,530
Less: cash and short term deposits	**(10,775)**	(9,495)
Net debt	**13,734**	19,035
Equity attributable to equity holders of the parent	**41,797**	40,428
Gearing ratio	**32.9%**	47.1%

Notes to the accounts (continued)

25. Financial instruments

The carrying amounts and fair values of the Group's financial instruments are set out below:

	Group		Company	
	2017	2016	**2017**	2016
Categories of financial instruments	**£000**	£000	**£000**	£000
Financial assets				
Trade and other receivables	**5,579**	6,701	**25**	12
Cash and cash equivalents	**10,775**	9,495	**5,055**	11,568
At amortised cost	**16,354**	16,196	**5,080**	11,580
Derivative financial instruments at fair value through profit or loss	–	11	–	11
Current asset investments at fair value through profit or loss	**1,252**	13	–	–
Total financial assets	**17,606**	16,220	**5,080**	11,591
Financial liabilities				
Trade and other payables	**9,962**	10,840	**568**	805
Bank overdraft	**3,431**	3,516	–	–
Interest-bearing loans and borrowings				
Floating rate borrowings	**16,819**	21,298	–	–
Fixed rate borrowings	**4,259**	3,716	–	–
At amortised cost	**34,471**	39,370	**568**	805
Derivative financial instruments at fair value through profit or loss	–	–	–	–
Total financial liabilities	**34,471**	39,370	**568**	805

The financial instruments measured at fair value use the following measurements:

	2017		2016	
	Level 1	**Level 2**	Level 1	Level 2
Financial assets at fair value through profit or loss	**£000**	**£000**	£000	£000
Trading derivatives:				
Foreign exchange contracts	–	–	–	11
Other financial assets	**1,252**	–	13	–

There were no transfers between levels in the years

Fair value reconciliation

Financial assets and liabilities – at fair value through profit or loss:	Instruments held for trading	
	Financial assets	Financial liabilities
	2017	**2017**
	£000	**£000**
At 1 January	**24**	–
Exchange differences	**(2)**	–
Additions to financial assets at fair value through profit or loss	**1,405**	–
Disposals of financial assets at fair value through profit or loss	**(5)**	–
Loss for year recognised in income statement	**(170)**	–
At 31 December	**1,252**	–

A loss of £159,000 is recognised within Other operating income. A loss of £11,000 is recognised within Finance costs.

Derivatives not in a formal hedge relationship
The Group's policy is not to use derivatives for trading purposes, however due to the complex nature of hedge accounting under IAS 39 some derivatives, namely foreign exchange forward contracts, may not qualify for hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Current asset investments
The Group has designated current asset investments as financial assets at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term and are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Notes to the accounts (continued)

26. Directors' emoluments

The emoluments of the directors in respect of qualifying services comprised:

	2017	2016
	£000	£000
Aggregate emoluments	**715**	592
Social security costs	**84**	63
Company pension contributions to defined contribution scheme for 2 directors (2016: 2 directors)	**20**	26
	819	681

None of the directors were accruing benefits under a defined benefit scheme at the year end

There were no long term incentive plan payments made during the year (2016: £nil). For the purpose of this disclosure, the directors are considered to be the key management of the Group.

Emoluments of highest paid director:

	2017	2016
	£000	£000
Aggregate emoluments	**364**	296
Company pension contributions to defined contribution scheme	**10**	14
	374	310

The accrued pension for the highest paid director under the defined benefit scheme at the end of the year amounted to:

	2017	2016
	£000	£000
Highest paid director – accrued pension	**52**	52

27. Related party transactions

a) In addition to the pension contributions paid to the PGI Group Pension Plan, the Company also made net payments of £80,000 (2016: £80,000) in respect of administration and other expenses which have been charged to the plan. No amount was outstanding for payment at 31 December 2017 (2016: £nil). Other related party transactions with the Company are covered in Note 14.

b) Three loans amounting to £9.1 million (2016: £12.9 million) were owing at 31 December 2017 to a company controlled by a director. The loans have been used to finance the Group's hydro-electric power projects in Zimbabwe. The first loan has £0.4 million outstanding at the year end; it bears interest at a fixed rate of 12% per annum and repayments fall due semi-annually from 2013 to 2018. Owing on the second loan is an amount of £8.0 million, which bears interest at 3 month US dollar LIBOR + 7.75% and is repaid annually from 2015 to 2021. The third loan has £0.7 million outstanding, which bears interest at 3 month US dollar LIBOR + 7.0% and is repaid annually from 2017 to 2019. Interest accruing on the loans in 2017 amounted to £1.1 million (2016: £1.2 million).

   Post the year end, the ownership of the company to whom the above three loans were owing, has changed and it is no longer controlled by a director. The terms of the loans are unchanged.

28. Contingent liabilities

a) The Group may become liable for a tax liability in an overseas jurisdiction arising from payments made during the five year period ending 31 December 2012. If these taxes were levied, the potential tax liability and possible related penalty are estimated to be approximately £0.4 million. No provision has been made in the financial statements for this contingency as the directors consider there is only a low probability that the liability will materialise.

b) In September 2005, under the terms of the Constitution of Zimbabwe Amendment (Number 17) Act 2005 promulgated at the time, freehold title to rural land was abolished, with no right of appeal. No replacement land title has been created by the Government of Zimbabwe. The Act only affects the land titles of our Zimbabwean tea business, Eastern Highlands Plantations Ltd.

29. Post balance sheet event – Open Offer to shareholders

In May 2018 the Company will be raising new capital through an open offer to shareholders. Shareholders will be able to subscribe for 1 new share for every 4 shares owned at £2,500 per share. The company will raise a maximum of £7.8 million which will be applied to the further development of the renewable energy division.

Investments in subsidiaries

The Group had the following subsidiaries and associates at 31 December 2017. The individually significant subsidiary undertakings are all audited with the exception of Perishables Direct Ltd, which is exempt from statutory audit.

Individually significant subsidiaries	Country of Incorporation	Percentage held by Group	Principal activities
Agribusinesses			
Lujeri Tea Estates Ltd	Malawi	100	Tea and macadamia estates
Thyolo Nut Company Ltd	Malawi	100	Macadamia processing
Khal Amazi Ltd	Zambia	75	Rose producer
Eastern Highlands Plantations Ltd	Zimbabwe	100	Tea estates
Renewable energy businesses			
Pungwe A Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Pungwe B Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Pungwe C Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Duru Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Hauna Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Nyamingura Power Station (Pvt) Ltd	Zimbabwe	100	Hydroelectric power generation
Riverside Power Station (Pvt) Ltd	Zimbabwe	100	Solar power generation
Hydro Power Contractors (Pvt) Ltd	*Zimbabwe*	*100*	Renewable energy project construction
Honde Hydro Power Consolidated (Pvt) Ltd	Zimbabwe	100	Holding company
Nyangani Renewable Energy (Pvt) Ltd	Zimbabwe	60	Renewable energy management
Trading, logistics and marketing			
PGI Holdings Ltd	UK	100	Holding company and trading
Tree Nuts Direct Ltd	UK	100	Logistics and marketing
Perishables Direct Ltd	Isle of Man	75	Logistics and marketing
Investment property management			
Jensen Management 1 Ltd	Cayman Islands	71	Property investment management - Russia

Other subsidiaries and holding companies			
Clover Investments Ltd	Malawi	100	Provision of warehousing
Mulanje Hydro Ltd	Malawi	100	Dormant
Michuru Ltd	Malawi	100	Holding company
Khal Amazi Game Farm Ltd	Zambia	75	Game farm
Sunrose Ltd	Zambia	75	Dormant
Aberfoyle Industries (Pvt) Ltd	Zimbabwe	100	Dormant
Aberfoyle Lodge (Pvt) Ltd	Zimbabwe	100	Provision of accommodation
Hippocrene Farming (Pvt) Ltd	Zimbabwe	100	Smallholder development company
Overseas Farmers Group Ltd	UK	100	Dormant
Sayama Tea Estates Ltd	UK	100	Holding company
Thyolo Nut Ltd	UK	100	Holding company
Nchima Tea and Tung Estates Ltd	UK	100	Holding company
Bandanga Ltd	UK	100	Holding company
Cessnock Holdings Ltd	UK	100	Holding company
Heathleigh Investments Ltd	UK	100	Holding company
Renewable Energy Africa Ltd	UK	100	Holding company
Renewable Energy Malawi Ltd	UK	100	Holding company
Khal Amazi Holdings Ltd	Isle of Man	75	Holding company
Jensen Ltd	Cayman Islands	80	Property investment management - Russia
JPI Ltd	Cayman Islands	71	Property investment management - Russia
Jensen Partners 1 Ltd	Cayman Islands	73	Property investment management - Russia

Associates			
K2 Management Ltd	Cayman Islands	20	Property investment management - Russia
K2 GP Ltd	Cayman Islands	20	Property investment management - Russia
K2 CI Ltd	Cayman Islands	20	Property investment management - Russia

All subsidiary undertakings are included in the consolidation. The subsidiaries have share capital consisting solely of ordinary shares and the proportion of the voting rights held directly or indirectly by the Company in the subsidiary undertakings, do not differ from the proportion of ordinary shares held.

By virtue of Section 479A of the Companies Act 2006, the subsidiary companies Renewable Energy Africa Ltd, Sayama Tea Estates Ltd and Thyolo Nut Ltd are exempt from the Companies Act requirements relating to the audit of their individual accounts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PGI GROUP LIMITED

Opinion

We have audited the financial statements of PGI Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the income statement, the statement of other comprehensive income, the statements of financial position, the statement of cash flows, the statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities This description forms part of our auditor's report.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Harwood (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London, EC4A 4AB

19 April 2018