

Myanmar Agribusiness Public Corporation Limited

Consolidated Financial Statement

(2014-2015)



Reference:

INDEPENDENT EXTERNAL AUDITOR'S REPORT

To the shareholders of *Myanmar Agribusiness Public Corporation Limited (MAPCO)*Certificate of Company Registration No: 134/2012-2013
Address: MAPCO Building, No.100, Wardan Port Area, Seikkan Township, Yangon, Myanmar.

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *Myanmar Agribusiness Public Corporation Limited (MAPCO)*, which comprise the consolidated statements of financial position, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the fiscal year 2014-2015 and the notes which explain those statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Myanmar Financial Reporting Standards (MFRS) and the provisions of the Myanmar Companies Act. This responsibility of the management of *Myanmar Agribusiness Public Corporation Limited (MAPCO)* includes design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements which are free from material misstatement, whether due to fraud or error, Management is also responsible for selecting and applying appropriate accounting policies and making the accounting estimates that are reasonable in the business circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

No.122, 1st Floor, 41st Street, Botataung Township, Yangon, Myanmar.

Tel: 01-392904, 09-5172158 Fax: 01 392904 Email: thaungaye.associates@gmail.com

Auditors & Financial Consultants

2016 February 22

No.122, 1st Floor, 41st Street, Botataung Township, Yangon, Myanmar. Tel: 01-392904, 09-5172158 Fax: 01 392904

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Opinion

In our opinion, the consolidated financial statements of *Myanmar Agribusiness Public Corporation Limited (MAPCO)* present a true and fair view of the consolidated financial position as of March 31, 2015 and of its financial performance and cash flow for the year then ended in accordance with Myanmar Financial Reporting Standards and the provision of the Myanmar Companies Act.

Report on Legal Requirements in accordance with Myanmar Companies Act

In accordance with the provisions stated in Myanmar Companies Act, we as the external auditor have obtained all information and explanations we required and books of account have been maintained by the Company as required by the Section 130 of the Myanmar Companies Act.

U Thaung Aye

Certified Public Accountant Thaung Aye & Associates

Auditors & Financial Consultants

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MYANMAR AGRIBUSINESS PUBLIC CORPORATION (MAPCO) LIMITED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

Assets	Note	31-Mar-15	31-Mar-14
Current Assets			
Inventory	7	6,314,514,856.29	8,002,894,124.00
Account Receivable	9	10,688,453,696.75	3,946,569,212.36
Temporary Loan	9	627,810,250.00	-
Deferred Expenses	10	956,217,474.20	681,769,736.20
Advanced & Prepaid	11	1,145,443,001.00	3,589,141,281.40
Prepaid Taxes	11	498,740,578.00	246,830,821.00
Cash and Cash Equivalent	8	648,161,836.88	527,051,082.12
Sundary Debtors	9	256,551,581.66	53,651,408.00
Total current assets		21,135,893,274.78	17,047,907,665.08
Non-current assets			
Property, Plant & Equipment	5	15,944,104,517.45	4,428,660,095.83
Intangible Assets	6	58,994,247.20	8,861,999.60
Work in Progress			1,708,876,355.00
Investment		5,607,036,814.65	3,088,545,793.14
Total non-current assets		21,610,135,579.30	9,234,944,243.57
Total Assets		42,746,028,854.08	26,282,851,908.65
LIABILITIES AND EQUITY			
Current Liabilities			
Bank Overdraft		_	<u> </u>
Account Payable	12	12,766,251,607.79	1,345,081,304.56
Loan & Advances	13	9,302,652,897.78	11,452,883,813.03
Other Payable	12	459,323,305.00	389,662,330.00
Tax Payable	12	75,756,043.35	143,870,843.40
Γotal current liabilities		22,603,983,854.32	13,331,498,291.39
Non-current liabilities		=	-
Total non-current liabilities		E	
Total Liabilities		22,603,983,854.32	13,331,498,291.39

Shareholder's equity Share Capital 15,243,900,000.00 11,380,450,000.00 Share Premium 67,883,200.00 Group Retained Earning 2,757,679,998.12 (584,256,292.49) Prior Year Adjustments (168,674,163.01) (93,369,478.00) Non Controlling Interest 2,241,255,964.65 2,248,529,388.15 Exchange Rate Translation Reserve Total shareholders' equity 20,142,044,999.76 12,951,353,617.66

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

Director

Myanmar Agribusiness Public Corporation Ltd.

Ye Min Aung

42,746,028,854.08

Managing Director
Myanmar Agribusiness Public Corporation Ltd.

26,282,851,909.05

MYANMAR AGRIBUSINESS PUBLIC CORPORATION (MAPCO) LIMITED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

	31-Mar-15	31-Mar-14
Revenue	22,440,083,286	18,381,222,657
Less: Cost of Sale	(21,038,462,003)	(17,673,282,911)
Commercial Tax	(10,604,785)	(52,711,398)
Gross Profit	1,391,016,498	655,228,349
Less: Operating Expenses	(1,709,182,593)	(1,542,770,994)
Less: Selling & Distribution Expenses	(1,705,102,555)	(2,704,050)
Add: Exchange Gain/(Loss)	90,195,903	66,546,167
Operating Profit	(227,970,192)	(823,700,528)
Add: Non-operating income	371,733,601	52,405,733
Less: Non-operating expenses	-	-
Profit/ (loss) on disposal of non-current assets		·=
Profit before tax	143,763,409	(771,294,795)
Income tax expenses	•	
Net Operating Profit	143,763,409	(771,294,795)
Income From Associate	_	
Revaluation Surplus	3,190,899,458	1097924390
Retained Earning For The Year	3,334,662,867	326,629,595
Opening Retained Earning	(585,726,904)	(912,356,500)
Closing Retained Earning	2,748,935,963	(585,726,904)



MYANMAR AGRIBUSINESS PUBLIC CORPORATION (MAPCO) LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2015

CASH FLOW FROM OPERATING ACTIVITIES	ММК	ММК
Net profit before tax and extraordinal items		3,334,662,867.11
Adjustments for:		
Depreciation & Amortisation Expenses		76,506,047.66
Revaluation		(3,190,899,458.49)
Unrealised Foreign Exchange		-
Prior Year Adjustment		(75,304,685.01)
Operating profit before working capital changes		
Adjustments for working capital:		
(increase)/Decrease in Trade & Other Receivables	(5,027,443,872.65)	
(increase)/Decrease in Inventories	3,397,255,622.71	
Increase/(Decrease) in Trade & Other Payables	11,422,716,478.18	
Increase/ (Decrease) in Client Advances		
		9,792,528,228.24
A NET CASH FLOW FROM OPERATING ACTIVITIE	ES .	9,937,492,999.51
CASH FLOW FROM INVESTING ACTIVITIES		
Net Cash of NonCurrent Assets	(8,451,183,258.55)	
Investment	(2,518,491,021.51)	
	(2,310,431,021.51)	
B NET CASH FLOW FROM INVESTING ACTIVITIES	•	(10,969,674,280.06)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issued of Share	3,931,333,200.00	
Repayment of Loan	(2,778,041,165.25)	
	(2),,,0,0,11,103.23)	
C NET CASH FLOW FROM FINANCING ACTIVITIES	-	1,153,292,034.75
NET INCREASE IN CASH AND CASH EQUIVALENT		121,110,754.20
CASH AND CASH EQUIVALENT AT 1 APRIL 2013		527,051,082.12
CASH AND CASH EQUIVALENT AT 31 MARCH 2014	-	648,161,837.32
	_	

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land & Buildings	Furniture & Fittings	Equipment & Motor Vehicles	Total
Cost				
As at 1 April 2014	3,922,946,398	59,093,935	499,534,141	4,481,574,474
Addition	8,390,486,256	36,848,430	205,301,905	8,632,636,591
Disposal			(233,445,500)	(233,445,500)
Revaluation	3,190,899,458			3,190,899,458
Transferred Of Assets			(8,961,882)	(8,961,882)
As at 31 March 2015	15,504,332,112	95,942,365	462,428,663	16,062,703,141
Accumulated Depreciation				
As at 1 April 2014	,	6,765,047	46,149,331	52,914,378
Depreciation for the Year	1,000,000	4,849,718	59,834,527	65,684,245
As at 31 March 2015	1,000,000	11,614,765	105,983,858	118,598,623
Net Book Value as at 31 March 2015	15,503,332,112	84,327,600	356,444,805	15,944,104,517



6. INTANGIABLE ASSETS

Cost	Preliminary Expenses	Software	Total
As at 1 April 2014	50768450	13,528,437	64296887
Addition		10,185,600	10185600
As at 31 March 2015	50,768,450	23,714,037	74,482,487
Accumulated Amortization & Impairment Loss			
As at 1 April 2014		4,666,437	4,666,437
Amortization & Impairment for the Year	6078995	4,742,807	10,821,802
As at 31 March 2015	6,078,995	9,409,245	15,488,240
Carrying Amount as at 31 March 2015	44,689,455	14,304,792	58,994,247





7. INVENTORY

MMK

Raw Material & Consumables

1,445,890,318.99

Spares

451,929,589.56

Work In Progress

894,036,613.74

Finished Goods

3,522,658,334.00

6,314,514,856.29

8. CASH AND CASH EQUIVALENTS

MMK

Bank Balances

592,214,732.14

Cash Balance

55,947,104.74

648,161,836.88

9. TRADE AND OTHER RECEIVABLE

MMK

Amount Due from Related Parties

130,154,900.00

Trade Receivable

10,227,496,872.00

Amount Due from Subsidaries

330,801,924.75

Sundary Debtors

256,551,581.66

Temporary Loan

627,810,250.00

11,572,815,528.41



There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers.

The fair values of the trade and other receivables are not materially different from their carrying values.

Outstanding balances with subsidiaries and related parties are unsecured. There is no allowance for doubtful debts arising from these outstanding balances.

10. DEFERRED EXPENSES

	MMK
Renovation to Deferred Expenses	956,217,474.20
	956,217,474.20

11. DEPOSIT AND PREPAYMENTS

	MMK
Advance Payment to Suppliers	529,000,000.00
Prepayments	574,095,001.00
Deposit Advanced Tax	42,348,000.00 498,740,578.00
	1,644,183,579.00



12. TRADE AND OTHER PAYABLES

	MMK
Trade Payable	4,590,257,099.79
Trade Creditor	7,851,322,409.40
Other Payable	324,672,099.00
Amount Due to Subsidaries	1,766,300.00
Sundary Creditors	457,557,005.00
Tax Payable	75,756,043.35
	13,301,330,956.40

13. LOANS AND ADVANCE RECEIPTS

	MMK
Loan	2,911,855,325.82
Advance Receipt	6,390,797,571.96
	9,302,652,897.78

MYANMAR AGRIBUSINESS PUBLIC CORPORATION (MAPCO) LIMITED STATEMENT OF CHANGES INEQUITY **AS AT 31 MARCH 2015**

SING	AV
13	30
73	25
37 A	1

2,241,255,964.6	(168,674,163.01) 2,241,255,964.65	2,757,679,998.12	07,003,200.00	10,700,000.00	
			67 882 700 00	15.243 900 000 00	As at 31 March 2015
(7,273,423.50)	ţ				Exchange Rate Translation Reserve
	(75,304,685.01)				NonControlling Interest
		3,341,330,230,01	67,883,200.00	3,863,450,000.00	Capital contributions Prior Year Adjustment
	1	3 3 4 1 0 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2			Retained earning for the year
	t 1				Increase / (decrease) during the year
2,248,529,388	(93,369,478.00) 2,248,529,388.15	(584,256,292.49)		11,380,450,000.00	The state of the s
Non Controlling Interest	Prior Year Adjustments	Group Retained Earning	Share Premium	Share Capital	As at 1 April 2014

1. DOMICILE AND ACTIVITIES

Myanmar Agribusiness Public Corporation (MAPCO)Company Limited is domiciled and incorporated in the Republic of the Union of Myanmar with its registered office at No.(100), Wardan Street & Kannar Street, Beside The Concrete Express Way, Wardan Port Area ,Seik Kan Port Township, Yangon, Myanmar. The Company was incorporated under Certificate of Incorporation No. 134/2012-2013 dated 5 April 2012 under the Union of Myanmar Company Act 1914.

The principal activities of the Company are as follows:

- · Agriculture and Agribusiness Activities which includes Farm Mechanization Services
- Contract Farming, Corp Protection & Agrochemicals, Rice Milling & Processing Business
- · Agro-commodity Trading
- Strategic Investment and Services

2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(a) Bass of preparation

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

The financial statements have been presented on a going concern basis.

The financial statements have been presented under the historical cost convention, except for certain financial assets, financial liabilities (including derivative financial instruments) and investment properties which have been measured at fair value. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant requirements.

(b) Statement of compliance with Myanmar Financial Reporting Standards

The financial statements present fairly and fully the financial position of the Group and the Company as at 31 March 2015 and the financial performance and the cash flows for the year then ended in accordance with MFRSs

(c) Accounting period

The accounting year of the Group is from 1 April to 31 March of each calendar year.

(d) Business Combination

Business combinations are accounted for using the acquisition method in accordance with MFRS Business Combination as at the acquisition date, which is the date on which control is transferred to the Group.

NCI that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the NCI's proportionate share of the recognised amounts of the acquiree's identifiable net assets,

at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other NCI are measured at acquisition-date fair value, unless another measurement basis is required by MFRSs.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the NCI in a subsidiary are allocated to the NCI even if doing so causes the NCI to have a deficit balance.

(e) Functional currency and presentation currency

The Group's reporting and presentation currency is Myanmar Kyat ("MMK"). Unless otherwise stated, the unit of the currency is MMK. The subsidiaries, jointly-controlled entities and associates of the Group may determine their own functional currencies based on their specific economic environments which the entity operates ("functional Currency). In preparation of financial statements, their functional currencies shall be translated into MMK at the rate on transaction date.

Transactions and balances

The Group translates the amounts of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the rates of exchange ruling at the balance sheet date. All differences are taken into the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognized in other comprehensive income.

For foreign operations, the Group translates functional currencies of overseas businesses into Myanmar Kyats when preparing financial statements. All assets and liabilities are translated at the rates of exchange ruling at the balance sheet date; shareholders' equity, with the exception of retained earnings, are translated at the rates of exchange ruling at the transaction date; all income and expense items in the income statement are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognized as

other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

Foreign currency cash flows and cash flows of overseas subsidiaries are translated into MMK at the rates of exchange ruling at the dates of the cash flows. The effect of changes in rates of exchange on cash and cash equivalents are presented separately in the statement of cash flows.

(f) Property, Plant & Equipment

Buildings comprise mainly Property, plant and equipment, including leasehold land classified as finance lease, are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated to write off the cost to their residual value on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Land	Nil
Plant & Building	10%
Furniture & Fitting	10% to 20%

Vehicles and Equipment	12.5% to 20%
Software & System	10%

Properties under development and freehold land are not subject to depreciation and are stated at cost less accumulated impairment, if any.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other operating expenses in the income statement.

(g) Intangible assets

The Company's intangible assets include preliminary expenses, software and system.

An intangible asset shall be recognized only when it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured initially at cost. However, intangible assets acquired in a business

combination with a fair value that can be measured reliably are recognized separately as intangible assets and measured at the fair value at the date of acquisition.

The useful lives of intangible assets are assessed based on estimated economic benefits periods. Those intangible assets without foreseeable economic benefits periods are classified as intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortised over the useful lives on the straight-line basis. The Group reviews the useful lives and amortisation method of intangible assets with finite useful lives, and adjusts if appropriate, at least at each balance sheet date.

(i) Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables

The Group's receivables and comprise accounts receivable, long-term accounts receivable and other receivables. The Group assesses the carrying amount of receivables at the balance sheet date. If there is objective evidence that impairment loss has been incurred, a provision, which is the difference between the carrying amount and the present value of the estimated future cash flow, is recognized as impairment loss.

(k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, being cost of purchase, is determined on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

(l) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(m) Provisions

Except for contingent consideration transferred and contingent liability assumed in business combinations, the Group recognizes an obligation related to a contingency as a provision when all of the following conditions are satisfied:

- the obligation is a present obligation of the Group;
- it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and
- the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a

provision is reviewed at the balance sheet date. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

(n) Revenue

Revenue comprises the fair value for the sales of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

(o) Other revenue:

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend income from other investments is recognized when the right to receive payment is established.

(p) Taxation

Tax expense is determined on accounting profit for the year. No provision for taxation has been made as the Company had no assessable income during the financial year.

(q) Related Party

A party id related to an entity if:

- a. Directly, or indirectly through one or more intermediaries, the party:
 - Controls, is controlled by or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - II. Has an interest in the entity that gives it significant influence over the entity; or
 - III. Has joint control over the entity
- b. The party is an associate of the entity
- c. The party is a joint venture in which the entity is a venture;
- d. The party is a member of key management personnel of the entity or its parents;
- e. The party is a close member of that family of any individual referred to in (a)or (d);
- f. The party is an entity that is controlled, joint controlled or significantly influenced by, or for which significant voting power in such entity resides with directly or indirectly, any individual referred to in (d)or (e);or

The party is a post –employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity

3. FINANCIAL RISK MANAGEMENT

Exposures to credit risk, foreign currency risk, interest rate risk and liquidity risk arise in the normal course of Company's operations. The Company's overall strategies, tolerance of risks and general risk management philosophy are determined by the Board in accordance with prevailing economic and operating conditions. The company has significant financial assets and liabilities such as trade and other receivable, and trade and other payables, which are directly derived from its operation.

Foreign exchange risk

The Company is mainly exposed to currency risk on revenue and expenses that are denominated in currency other than the functional currency of the Company, Myanmar Kyats (MMK).In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalance.

However, the Company does not hedge its exposures to foreign exchange risk is not expected to be significant.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and rises principally from the Company's receivable from customers.

The maximum credit risk associated with recognized financial assets is the carrying amount of receivables recorded in the statement of financial position. However, policies had been established by the Company to minimize such risks.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holdings of financial instrument. The objective of market risk management its to manage and control market risk exposures with acceptable parameters while optimizing the return.

The Company is not exposed to any market risk.

Liquidity and cash flow risks

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash of another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation. The Company monitors and maintains a level of bank balances deemed adequate by the directors to finance the operation and mitigate the effects of fluctuation in cash flow.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(b) Estimate of fair value of investment properties

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers. The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration is given to assumptions that are mainly based on market conditions existing at the date of the statement of financial position, expected rental from future leases in the light of current market conditions and appropriate capitalization rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. For investment properties under construction, the Group has also taken into account estimated costs to completion and allowances for contingencies.

(c) Critical judgements in applying the entity's accounting policies Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for these portions separately.

If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.