

MEDICINES CONTROL AUTHORITY OF ZIMBABWE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2016

1. NATURE OF BUSINESS.

The Medicines Control Authority of Zimbabwe was established by the Medicines and Allied Substances Control Act [Chapter 15:03] and became operational from August 1, 1997. The main purpose of the Authority is to ensure the availability of safe and effective medicines on the market for human and animal consumption. The purpose of the Act was to create an autonomous institution able to operate as a business entity.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements for the year ended December 31, 2016, have been prepared in conformity with International Financial Reporting Standards promulgated by the International Accounting Standard Board (IASB).

2.2 Basis of measurement

The Group's financial statements are based on the statutory records that are maintained under the historical cost basis, except for the following material items in the statement of financial position:

- Available-for-sale financial assets are measured at fair value;
- Investment property is measured at market value;

2.3 Functional and presentation currency

The Group's financial statements are presented in United States Dollar (US\$) which is the Group's functional currency. All the financial information presented has been rounded to the nearest dollar.

2.4. Critical accounting judgments, assumptions and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant judgments include the following:

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2.4.1 Useful lives and residual values of property, plant and equipment

The Group assesses useful lives and residual values of Property, Plant and Equipment each year taking into account past experience and technology changes. The depreciation rates are set out in note 3.1.2 and no changes to these useful lives have been considered necessary during the year. Management has set residual values for all classes of property, plant and equipment at nil.

2.5 New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted

The Authority did not adopt any new or revised accounting standards or interpretations in the current year that could have had an impact on the amounts or disclosures reported in these financial statements.

i. IFRS 9 Financial Instruments effective January 1, 2018

a. Classification and measurement of financial assets

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL.

However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) (without subsequent reclassification to profit or loss).

b. Classification and measurement of financial liabilities

For financial liabilities designated as fair value through profit or loss (FVTPL) using the fair value option (FVO), the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in other comprehensive income (OCI). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS

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9, including the embedded derivative separation rules and the criteria for using the FVO.

c. Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard is effective for accounting periods beginning on or after January 1, 2018, however early adoption is permitted.

2.6 Basis of Consolidation

2.6.1 Group

The consolidated financial statements comprise the financial statements of the Group and its 59% stake in the subsidiary as at 31 December 2016.

2.6.2 Subsidiary

Subsidiary is an entity over which MCAZ exercises effective control. Control is achieved when the Authority is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

A Subsidiary is fully consolidated from the acquisition date, being the date on which control is transferred to MCAZ and continue to be consolidated until the date that control ceases. On acquisition of subsidiary, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The excess of

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the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

All intra group balances, income, expenses, unrealized gains, and losses resulting from intra-group transactions are eliminated in full on consolidation. In all material respects, the accounting policies of the subsidiaries are consistent with those adopted by the Group.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Group, and are presently disclosed in profit or loss and within equity in the Group statement of financial position, separate from parent shareholders' equity. Non-controlling interests are measured at its proportionate share of the net assets acquired.

2.6.2.1 Change in degree of control

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

2.6.2.2 Loss of Control

If the Group loses control over a subsidiary, it;

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative transaction differences recorded in equity;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Recognises the fair value of the consideration received;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.7 Going concern

Management of Medicines Control Authority of Zimbabwe (MCAZ) have satisfied themselves that the Group is in a sound financial position and has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements.

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3 ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2014.

3.1 Property, Plant and Equipment

3.1.1 Recognition and measurement

Property, plant and equipment held for use in the supply of services or for administrative purposes, are stated at cost less accumulated depreciation and impairment losses.

3.1.2 Depreciation

Depreciation, which is calculated on the straight line basis, is provided to write off the cost less the estimated residual value of fixed assets over their estimated useful lives. The Group assesses useful life and residual values of property, plant and equipment each year taking into account past experiences and technological changes. No changes to these useful lives have been considered necessary for all other items of property, plant and equipment. Management has set residual values for all classes of property, plant and equipment as zero. Land is not depreciated.

The rates that were applied per annum are as follows:

Furniture, fixtures and fittings	10%
Office equipment	25%
Computer equipment	33.33%
Motor vehicles-new	20%
Motor vehicles – pre used	33.3%
Buildings	2.5%
Plant and machinery	10%

3.1.3 Revaluation of Property, Plant and Equipment

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of property, plant and equipment is recognized in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

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3.1.4 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Subsequently the Investment Property is measured under fair value model. Any gains or losses on disposal of an investment property is recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.2 Grants and donations

Grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position as deferred income under non-current liabilities and are recognized as income on a systematic and rational basis over the useful life of the asset.

Revenue grants are recognised as income in the year in which they are received and are credited to the statement of comprehensive income.

Donations are recognised as deferred income when used to purchase assets and are amortised over the economic useful life of the assets.

3.3 Taxation

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

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Deferred tax is recognised on difference between carrying amounts of assets and the liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged directly to equity, in which case the deferred tax is also dealt in equity. Deferred tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred income tax

Current income tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred income tax is provided using the full balance sheet liability method on temporary differences at year end between the tax bases of assets and liabilities at year end between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and carrying forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized.

The Authority is exempted from paying tax.

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3.4 Financial Instruments

Financial instruments are contracts that give rise to financial assets or financial liabilities. Financial assets and financial liabilities are recognized on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. These instruments are generally carried at their estimated carrying values.

Non-derivative financial instruments carried in the statement of financial position comprise: cash and cash equivalents, trade and other receivables, trade and other payables. These instruments are recognized initially at fair value plus any directly attributable transaction costs.

3.4.1 Financial assets

3.4.1.1 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits (funds on placement) with maturities of three months or less from acquisition date that are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

3.4.1.2 Trade and other receivables

Trade and other receivables are measured at their cost less impairment losses. 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 of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the trade receivables are impaired. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against the trade receivables impairment provision in profit or loss.

3.4.1.3 Impairment

A financial asset not classified at fair value through profit or loss is measured at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

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Objective evidence that financial assets are impaired includes default or delinquency by the debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, changes in the payment status, and disappearance of an active market for a security.

3.4.1.4 Treasury Bill

Financial assets represent treasury bills held at Standard Chartered Bank. These are non-derivative assets with fixed or determinable payments and fixed maturities. Investments in financial assets will be derecognised once the contractual rights to receive the cash flows deriving from such investments have expired.

3.4.2 Financial liabilities

3.4.2.1 Liabilities and provisions

Liabilities payable after one year from the reporting date are treated as non-current liabilities in the statement of financial position. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate to the amount of such obligation can be made. Obligations payable at the demand of the creditor or within one year of the reporting date are treated as current liabilities in the statement of financial position.

3.5. Revenue recognition.

Medicines and laboratory services income is realized after services are or have been rendered. Interest income is accrued over the period in which it is earned based on the underlying agreements. Other income is recognized in accordance with the underlying transactions and events. 30% of the registration income is allocated to samples registration.

Provided the amount of revenue can be measured reliably and it is probable that the Group will receive any consideration, revenue for services is recognized in the period in which they are rendered.

3.6 Employment benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan under which the Authority promises a specified pension payment, lump-sum (or combination thereof) on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age.

The actuarial valuation was conducted on 30 June 2017