BVI

BOTSWANA VACCINE INSTITUTE

Annual Report 2016

CONTENTS

BOTSWANA VACCINE INSTITUTE

2016 THEME

PROGRESSIVE FOCUS ON CONSOLIDATING OUR GAINS

As Highlighted in the 2015 Annual Report, our growth framework is grounded in three key areas:-

- Focus in strategy ;
- Simplicity in communication; and
- Empowerment in execution.

This framework has allowed BVI not only to excel in the field of manufacturing of livestock vaccines and facilitation of implementation of successful disease control strategies.

Over the years, we have seen the BVI products being used not only in the traditional market within SADC but also in most of the countries within the African continent. This is largely attributable to the fact that over the years, the main focus has been placed on understanding what the market needs rather than what do we have for the market. Although it took time for this strategy to yield positive results in terms of market diversification, there are clear signs that market growth has gathered momentum. The facts paint a brighter future.

Against this backdrop, the main theme of this year's annual report is the progressive focus on consolidating our gains and we would use our past experience to take advantage of the opportunities that are available. There is evidence that our market penetration strategies have started to yield some positive results one of the indicators being the increased revenues earned from a much diversified portfolio of customers.

Although we operate in an environment characterized by a high level of uncertainty, what gives us comfort is our knowledge of the market and continuous dialogue with both existing and potential customers.

VISION

BVI IS COMMITTED TO BE THE LEADER IN THE PRODUCTION OF QUALITY LIVESTOCK VACCINES

Mission

To support the livestock industry by manufacturing relevant vaccines and providing services of the highest quality through utilization of the best technology, skilled and dedicated employees to combat economically devastating livestock diseases.

Through a network of partnerships, enhance adherence to sound manufacturing and environmentally friendly processes and remain sustainable.

Core values

- **Teamwork**
- **Total Customer Satisfaction**
- **Employee First**
- **Uphold HSE Standards**
- **Performance Focus**
- **Botho** [respect courtesy/ humility]
- **Social Responsibility**

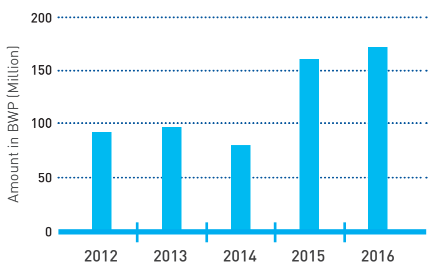
LEADERSHIP PRINCIPLES

- COMMUNICATE EFFECTIVELY
- SET DIRECTION AND ALIGN TEAMS
- FOSTER AN ENVIRONMENT OF EMPOWERMENT AND EXCELLENCE
- MAKE DECISIONS AND ENABLE OTHERS TO MAKE DECISIONS

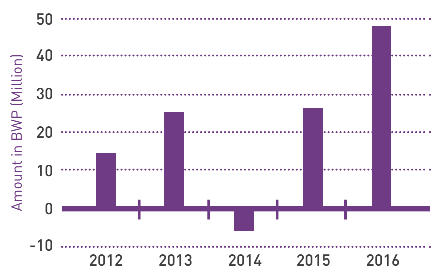
Five Year Annual Review

AS AT 31 DECEMBER 2016

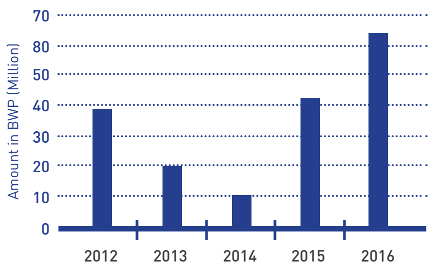
Sale of Goods & Services



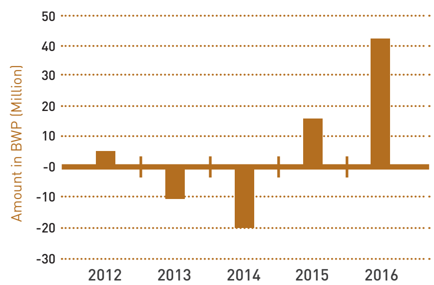
Operating Profit



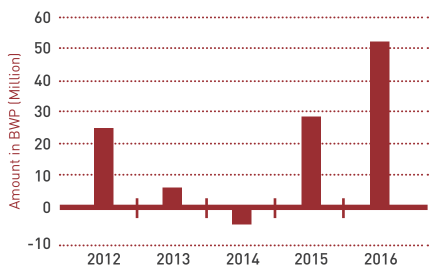
Earnings before Interest, Taxation, Depreciation & Amortisation (EBITDA)



Net Profit/[Loss]



Earnings before Interest, Taxation, & Amortisation (EBITA)



BVI MILESTONES

1992
Anthrax Vaccine and Black Leg Vaccine

1993
CBPP (Contagious Bovine Pleuro Pneumonia) Vaccine

1978
20,000 monovalent doses of FMD (Foot & Mouth Disease) Vaccine produced in the emergency laboratory

1985
Rinderpest Vaccine

1979
4.5 million monovalent doses of FMD Vaccine produced in the module

1980
7 million monovalent doses of FMD vaccine in the module extended for more products

1981
Grand opening of the permanent manufacturing site with a capacity of 12 million monodoses of FMD vaccines annually

1994
Rinderpest Vaccine (thermostable) discontinued in 2005 due to GREP recommendations

2015
Sequestration and Return of Rinderpest Material to the AU PANVAC.

2014
Renewal of the Technical Cooperation Agreement with MERIAL

1998
Pest des Petits Ruminants Vaccine

2016
Launch of a GMP Compliant Blending and Filling Laboratory Project

2013
Award of the OIE PPR vaccine bank for Africa

2007
Launch of an expansion project to increase the production capacity of the FMD antigens

2010
Launch of new GMP Compliant Laboratory to produce purified FMD vaccine Aftovaxpur, which has capacity for emergency antigen banks

2011
Launch of new purified FMD vaccine “Aftovaxpur”

BVI BOARD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b.


c.


d.


e.


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g.

a. MR EDWARD J. KEMSLEY
Chairman

b. DR ANNE BLACKBEARD
Board Member

c. MR LENTSWE MONARE
Board Member

d. DR P. DUBOURGET
Board Member

e. MS PINKIE MOTHOPENG - MAKEPE
Board Member

f. MR STEPHANE JEANE - PIERRE PERRIN
Board Member

g. DR KEKGONNE E. BAIPOLEDI
Board Member

Chairman's Statement

TOTAL REVENUE
8%
increase to P170.57 compared to P157.98 million in 2015

GROSS PROFIT
56%
increase to P93.51 compared to P59.84 million in 2015

"It is evident that our cost control initiatives have started yielding positive results as evidenced by an increase in operating profit by 81.8 % to P 47.59 million."

Mr EDWARD J. Kemsley | Chairman

Chairman's Statement
[Continued]

Honourable Patrick Pule Ralotsia
Minister of Agricultural Development and Food Security

HONOURABLE MINISTER,

It is my honour and privilege to submit, on behalf of the Board of Directors, the annual report and audited financial statements for Botswana Vaccine Institute Ltd (BVI) for the financial year ended 31st December 2016.

This year, there have been a significant number of changes within BVI that were necessitated by the ever changing operating environment. What remained unchanged however is the unique ability of the Company to continuously adapt to an environment that remains volatile and challenging, and respond in a manner that reflects our professionalism and experience. Nevertheless, we continued to deliver against our mandate.

Although the 2016 performance was lower than the target, the results are satisfactory as evidenced by the increased revenues and profitability that was achieved on account of improved efficiencies. Honorable Minister, the impressive performance achieved in 2016 would not have been possible if it was not for the unwavering support that we continuously receive from the Shareholder. It is worth reporting that the BVI relevance to both the domestic and foreign market in terms of successful Foot and Mouth Disease control strategies cannot be underestimated.

OPERATIONAL PERFORMANCE

Total revenue was P170.5 million compared to P157.98 million reported for 2015 financial year, an 8.0 % (P12.5 million) year on year increase. It is evident that our cost control initiatives have started yielding positive result as evidenced by an increase in operating profit by 81.8 % to P 47.59 million. Although the cash flow challenges emanating from delayed settlement of outstanding invoices by most of our traditional customers still persist, the increase in debtors' balances as at year end was partly attributable to the increased sales.

CHALLENGES

The environment within which BVI operates is largely unpredictable and as such makes it difficult to make reasonable demand projections as evidenced by the high stockholdings as at year end. While our business model is still relevant, the need to come up with initiatives that would have a positive impact on the working capital cycle cannot be overemphasized. Lack of long term supply agreements with customers makes it difficult for the Company to plan production activities so as to fully realize the benefits of economies of scale.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is an integral part of our business processes. As our business has evolved, so has our commitment to the implementation of sound corporate responsibility policies and practices. These policies and practices are applied throughout our product's value chain, from raw materials to production and all the way to the end of the entire product life cycle. BVI has made a commitment to sponsor the annual essay competition for rabies disease for schools and students through contribution of prizes during the commemoration of the World Rabies Day in Jwaneng. This disease is prevalent on domestic pets and hence our children are mostly at risk because of their relationship with pets. The same initiative of contributing prize money for schools and students was also extended to the competitions that were held as part of the activities to commemorate the World Food Day in Mochudi. It is through these initiatives that BVI is contributing to youth empowerment and development.

LOOKING AHEAD – 2017 AND BEYOND

Although one cannot predict how the disease situation would evolve within the Region, there are indications that the demand for the BVI products would be significantly reduced in 2017 financial year. The need to continuously explore ways of diversifying both the BVI product portfolio and the market remains a priority going forward. While it is acknowledged that market diversification is not an event but rather a continuous process, I believe that the foundations have now been laid and BVI is well positioned to respond to the ever changing customer demands in a very positive way. The ability of BVI to penetrate new markets in 2016 is a clear testimony that the Company matches the world standards in manufacturing vaccines, which in turn proves that Botswana can successfully compete in the international markets for products that rely on advanced technology.

ACKNOWLEDGMENTS

On behalf of the Board, I wish to express our sincere gratitude to our parent Ministry of Agricultural Development and Food Security, who continue to provide steadfast support to BVI. I wish to record our appreciation for the support we have been receiving from our Technical Partners (MERIAL) who have been with us in this journey for more than 37 years! I wish to express my sincere thanks to our Management for their diligence continued focus on business performance despite all the challenges experienced during the year. The Company's financial performance could not be achieved without committed, dedicated employees, and I would like to thank all of them for their contribution towards delivering these strong results and embracing so enthusiastically the changes that had to be made in order to align the business with the prevailing market conditions.

To our customers, your continued support and loyalty to our products is highly appreciated. Without your support it would not be possible to achieve this level of maturity as a Company.

Thank you!!

Edward. J. Kemsley
Chairman

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

Corporate governance defines the decision systems by which the owners directly or indirectly manage the Company. The Board constitutes the highest decision – making body in the Company. The Board is committed to the highest standards of business integrity, ethical values, transparency and accountability in all activities.

The Board of Directors recognize that the role the Board plays in reviewing strategy, monitoring performance, understanding risk and reviewing controls is of paramount importance for the success and long term sustainability of the Company. Corporate Governance is core to ensuring the creation, protection and enhancement of shareholder value.

The Board of Directors has a duty to promote the success of the Company for the Shareholder. The Board understands that adhering to good corporate governance is critical for maintaining trust of key stakeholders and is accountable to the Shareholder. This also allows them to ultimately achieve the Company's goals. The Directors are satisfied that the Company has adopted the best corporate governance practices in the conduct of business.

MEMBERSHIP OF THE BOARD

As at the 31st December 2016, the Board comprised seven independent Directors who have an appropriate balance of skills, experience and expertise. BVI was established as a company limited by shares and the objectives, mandate and the power of the Board of Directors as well as the relationship with the Shareholder are set out in the Memorandum and Articles of Association. The role of the Chairman (as fulfilled by E.J. Kemsley) and General Manager are separated and clearly defined. The Chairman's main responsibility is to lead and manage the board, encourage critical discussions, challenge mindsets and additionally promote effective communication within the Board. In addition he is responsible for promoting best practice corporate governance and effective communication with the Shareholder. The Board has delegated the day to day responsibility for the Company's operations, compliance and performance to the General Manager to ensure that the strategic direction agreed by the Board is followed. The General Manager is responsible for keeping the Board informed of the performance of the operations, and for ensuring that they are being conducted in accordance with laid down policies and procedures.

The BVI Board for the year was constituted by the following members:

MEMBER	POSITION	DATE AND PERIOD OF APPOINTMENT
Mr. Edward. J. Kemsley	Chairman	Appointed on 1st July 2009, reappointed on 1st July 2012; 1st July 2015 and for a further for three years expiring on the 30th June 2018.
Dr. Philippe Dubourget	Member	Member since 28th October 2004 and retired at the end of 2016.
Dr. Anne Blackbeard	Member	Appointed on 1st April 2003, reappointed on 1st April 2006; 1st April 2012; 1st April 2015 and for a further three years expiring on the 31st March 2018.
Dr. Kekgonne E. Baipoledi	Member	Member since 1st January 2015
Mr Stephane Jean - Perrin	Member	Member since 1st March 2015
Ms. Pinkie Mothopeng - Makepe	Member	Appointed on 1st April 2002, reappointed on 1st April 2005 for three years, reappointed on the 1st April .2014 for a further three years expiring on the 31st March 2017.
Mr. Lentswe Monare	Member	Appointed on 1st June 2005, reappointed on 1st June 2011 for three years, reappointed on 1st June 2014 for a further three years expiring on the 31st May 2017.

RESPONSIBILITIES OF THE BOARD

The Board continuously assesses the activities and processes of the Company to ensure that there is transparency, accountability and responsibility in the manner in which the mandate is being executed. The Board is responsible for setting and reviewing the strategic direction of BVI and monitoring the implementation of that strategy by Executive Management, including but not limited to:-

- Monitoring the performance of the Company against set objectives
- Promoting ethical and responsible decision making
- Monitoring compliance with laws, tax obligations, regulations, applicable standards and corporate policies
- Approving annual operating, budget and monitoring operating and financial performance of the Company
- Approving annual capital expenditure budget
- Ensuring that risk management processes, internal controls and business management support systems are appropriate for the achievement of the Company's objectives.

CORPORATE GOVERNANCE
[continued]

CONFLICTS OF INTEREST

Appropriate conflict management procedures are in place. At every Board and Committee meeting, the Directors are requested to submit an updated declaration of interest form. Directors have a continuing duty to update any changes in these interests. No conflicts of interest were recorded during the year.

BOARD MEETINGS

The Board meets at least four times a year and two of these meetings have to be attended by the French Directors. One of these meetings serves to review and approve the business plan and budgets for the next financial year. In addition, the local Directors may meet to discuss urgent issues that require immediate action and the Board documents for such meetings are circulated in time to allow the French Directors to share their views on matters being discussed. All Directors are kept informed between meetings of major developments affecting the Company. During the year, no meeting was cancelled due to the Directors not forming a quorum.

BOARD COMMITTEES

In accordance with the provisions of the 2004 Company's Act, the Board has established two Committees operating under their own specific terms of reference. The minutes of all meetings of Board Committees are circulated to all Directors for information with their board papers and are formally noted by the Board.

Details of these Committees are provided below:-

Finance and Audit Committee – comprises of three Non Executive Directors, all of whom are independent. As at 31st December 2016, the Audit Committee members were Ms. Pinkie Mothopeng - Makepe (Committee Chairperson), Dr. Anne Blackbeard and Dr. Kekgonne E. Baipoledi. The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information in advance of publication, reviewing on a continuing basis the systems of internal controls regarding finance and accounting that Management and the Board have established and reviewing in general the auditing, accounting and financial reporting processes. The ultimate responsibility for reviewing and approving the annual accounts remains with the Board.

The terms of reference of the Committee are documented and agreed by the Board. The key terms set out that the Committee will:-

- Monitor the integrity of the financial statements, including compliance with applicable legislative, regulatory and accounting standards
- Review the appropriateness and completeness of the system of internal financial control
- Review and appraise the audit efforts of external Auditors
- Review and monitor the effectiveness of the risk management processes of the Company

Human Resources Committee – the Committee is comprised of three Directors. During the year, the Human Resources Committee members were Dr. Anne Blackbeard (Committee Chairperson), Mr. Lentswe Monare and Dr. Kekgonne. E. Baipoledi. The terms of reference for the Committee are documented and agreed by the Board. The purpose of the Committee is to assist the Board in fulfilling its obligations relating to human resources management and compensation matters including but not limited to:-

- Reviewing, monitoring and making recommendations to the Board and ensuring that the necessary policies and procedures are in place to drive performance against the Company's strategy.
- Ensuring that the company has an effective organizational structure and competitive human resources and compensation policies and practices
- Review, monitor and make recommendations to the Board on the Company's human resources strategy and policies that pertain to staffing, compensation, benefits and related issues of strategic importance that directly affect the Company's ability to recruit, develop and retain the staff with skills and competences needed for the achievement of the mandate.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

Within the remit of the Finance and Audit Committee, the financial statements for the year ended 31st December 2016 were reviewed by the Committee, and made recommendations to the Board concerning their approval and content. Based on the recommendations of the Committee, the accounts were approved by the Board and accordingly signed on behalf of the Company by the Board Chairman and the Finance and Audit Committee Chairperson.

GOING CONCERN

In determining the basis of preparation of the financial statements, the Directors have considered the company's business activities, together with the factors likely to affect its future development, performance and position. This includes an overview of the Company's financial position, cash flows, liquidity position and borrowing facilities.

The Directors confirm that they are satisfied that the Company has adequate resources to continue to operate for a foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

CHANGES TO THE BOARD

Dr. Philippe Dubourget retired from the BVI Board at the end of 2016 and was accordingly replaced by Dr. Noel Joseph – Francois DETRAZ. These changes would be filed with the Registrar of Companies in 2017.

REPORT OF THE FINANCE AND AUDIT COMMITTEE

"Within the remit of the Finance and Audit Committee, the financial statements for the year ended 31st December 2016 were reviewed by the Committee and recommendations made to the Board for their approval and content"

Ms. Pinkie Mothopeng – Makepe
Chairperson

Report of the Finance and Audit Committee [Continued]

The Finance and Audit Committee (the Committee) represents and assists the Board in fulfilling its oversight responsibilities by reviewing the financial information which is provided to the Shareholder and other stakeholders, the system of internal controls which Management and the Board of Directors have established, the performance and selection of independent Auditors and the Company's audit and financial reporting and risk management processes for compliance with laws and regulations.

The Management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of the internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited Financial Statements and the related schedules in the Annual Report with both the Management and the Auditors, including a discussion of the quality, not just the acceptability of the accounting principles; but also the reasonableness of significant judgements and the clarity of disclosures in the financial statements.

COMMITTEE'S GOVERNANCE STRUCTURE

Members of the Finance and Audit Committee are appointed by the Board and the Committee is governed by a charter which was approved by the Board. During the 2016 financial year, the Committee held 3 meetings.

As of the 31st December 2016, the membership of the Committee, together with appointment dates and attendance at meetings is set forth below:

Committee Member	Committee Member since	Attendance of Committee meetings during 2016
Ms. Pinkie Mothopeng-Makepe	2010	3 meetings attended out of 3 held (3/3)
Dr. Anne Blackbeard	2010	3 meetings attended out of 3 held (3/3)
Dr. Kekgonne E. Baipoledi	2015	0 meetings attended out of 3 held (0/3)

The meetings of the Committee are designed to facilitate and encourage communication among the Committee, the Board and the External Auditors. The Committee discussed with the independent Auditor the overall scope and plan for the audit. At the end of the audit, the Committee met with the Auditors in the presence of Management, to discuss the results of their examinations; evaluations of the Company's internal control including controls over financial reporting; and the overall quality of the Company's financial reporting.

INDEPENDENCE OF THE AUDITOR

The Finance and Audit Committee recognizes the importance of maintaining the independence of the Company's statutory Auditors both in fact and appearance. The independent Auditor is normally appointed for a five year term. During the five years term, the Committee continuously evaluates the performance and independence of the Company's independent Auditors and determines whether to re – engage or not. In doing so, the Committee considers the quality and efficiency of the services provided by the Auditors, their capabilities, technical expertise and knowledge of the Company's operations and industry. Based on this evaluation, the Committee has retained PricewaterhouseCoopers as the independent Auditor for BVI for the 2016 financial year.

CONSIDERATION OF THE FINANCIAL RESULTS FOR 2016

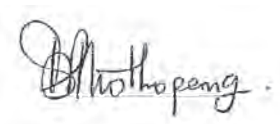
In accordance with its Charter, the Committee reviewed and approved the independent Auditor's plan for the 2016 audit of BVI's financial statements, including major issues related to the audit as presented by the Engagement Partner. The Committee reviewed with the independent Auditor, the conformity of the audited financial statements with the International Financial Reporting Standards, its judgements as to the quality, not just the acceptability of the Company's accounting principles and such other matters as are required to be discussed with the Committee by the International Auditing Standards including but not limited to setting of materiality limits, fraud identified as the main risk and ways of improving the internal control systems of the Company. The Committee discussed with the Management and the Auditors, material weaknesses and significant deficiencies identified during the course of the assessment and the Management's plan to correct those identified control deficiencies.

After diligent review and annual evaluation, the Committee;

- Finds that the internal controls / risk management systems of the Company remain adequate;
- Affirms that the audited financial statements are true and fairly represent the performance of the Company; and
- Endorses the retention of PricewaterhouseCoopers as the Company's statutory auditors for the next reporting period.

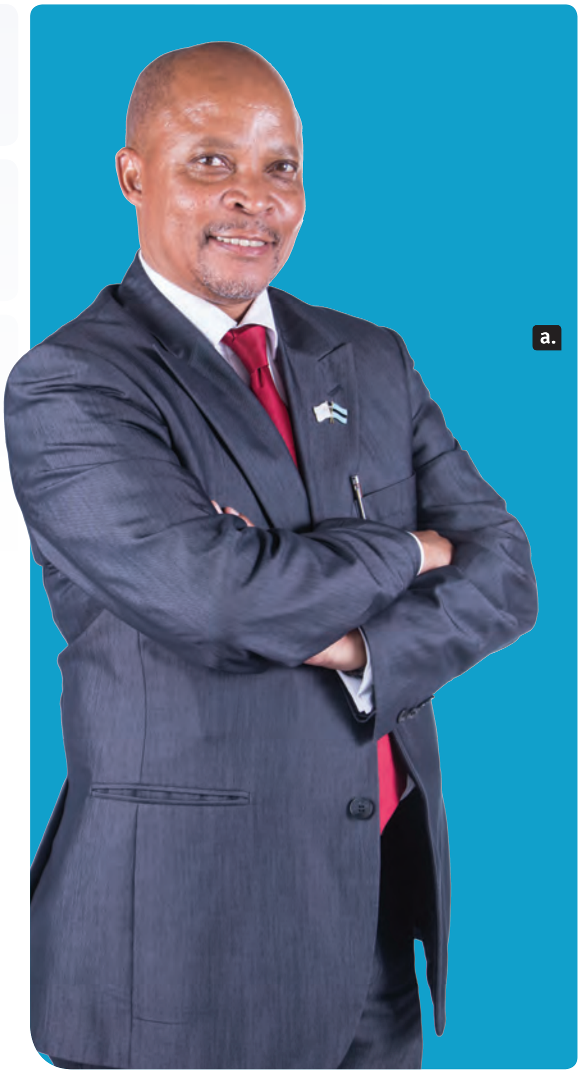
In reliance on the reviews and discussions referred to earlier in the report, the Committee recommended to the Board of Directors, and the Board has approved the audited Financial Statements for the year ended 31st December 2016.

On behalf of the Committee



Ms. Pinkie Mothopeng – Makepe
Chairperson

BVI MANAGEMENT



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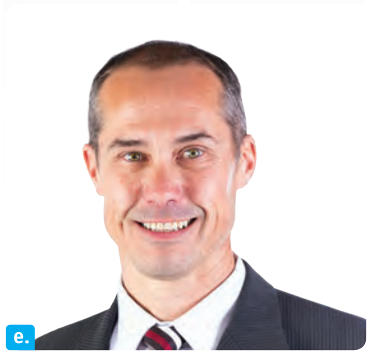

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a. DR O. G. MATLHO
General Manager

b. MS K. M. TIBE
Finance Manager

c. DR M. MOKOPASETSO
Chief Veterinary Officer

d. MR B. OBUSITSE
Quality Assurance & Sheb Manager

e. MR D. GERVAIS
Technical Manager

f. MS J. BANNYADITSE
Human Resources and Administration Manager

g. DR M. MAZWIDUMA
Sales & Marketing Manager

h. DR J. HYERA
OIE Laboratory Manager

i. MS B. SALANI
FMD Production Manager

j. MR J. VIDAL
Technical Support and Continuous Improvement Manager

k. MR. EDWIN MLAZIE
Engineering Manager

L. DR. KEABETSWE MOAGABO
Quality Control Manager

M. MS L. MOZOLA
Other Vaccines Production Manager

N. MR M. GAONAKGANG
Procurement & Supplies Manager

General Manager's Statement

NET PROFIT
P41.94 million
compared to P 15.81 million recorded in 2015

NET GAIN
P72.84 million
on revaluation of property, plant and equipment

> "2016 has been yet another good year for the Institute as we continued to post good results through successfully addressing our challenges and difficult situations"

DR O. G. MATLHO | General Manager

General Manager's Statement

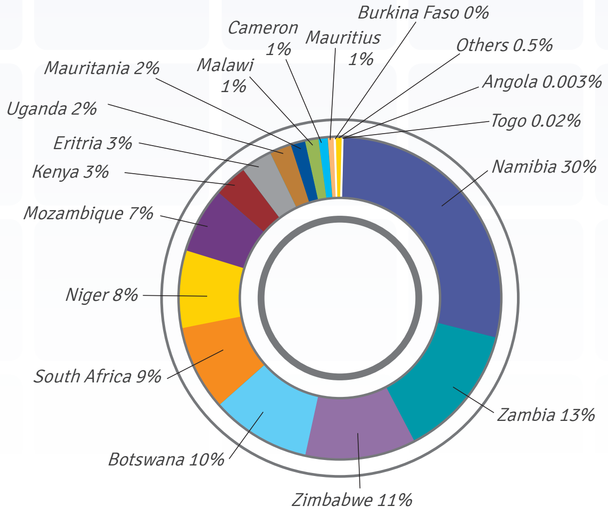
[Continued]

"The revenue sales for the period under review were below the set target though higher than 2016 (8%)."

STRONGER PERFORMANCE

2016 has been yet another good year for the Institute as we continued to post good results through successfully addressing our challenges and difficult situations.

We have continued to find ways to better meet these challenges including our cash follow resulting from the delayed payments by our major customers to achieve continued growth in revenues and profitability. No matter the challenge, we emerged stronger because of our understanding of the Institute business operational environment. It required the Institute to review the challenges from previous years to be responsive to the future customer needs. However, more still needs to be done to sustain the good performance and achieve success in executing the Institute's mandate.



SALES CONTRIBUTIONS

The revenue sales for the period under review were below the set target though higher than previous year (8%). The reduction was mainly attributable to delayed payments by major customers resulting in failure to procure more vaccines for second round of foot and mouth disease vaccinations in the region except for Namibia. The other factor that impacted negatively on the sales was delayed finalization of Agreements for PPR vaccines resulting in deferred shipments to 2017.

IMPROVEMENTS IN SERVICE DELIVERY

During 2014 annual report I outlined several challenges which put at risk the business continuity and resulted in poor Company performance including high incidence of product bacterial contaminations and equipment failures during production amongst others. Continuous improvements initiatives implemented from 2015 substantially contributed to improved performance. This performance was sustained during 2016 resulting in higher performance results compared to the two previous years. It was the first year since the launch of the new FMD laboratory in 2010 that the Institute operated at optimal production capacity throughout the year and recorded a lower rate of waste through contaminations and this is largely attributable to our ability to ensure continuous improvement throughout the product lifecycle.

Following the successful implementation of the continuous improvement initiatives referred to earlier in the report, we have been able to execute on delivery services that are more efficient and with improved timelines and consistency. In this way, we delivered great value for our customers by utilizing our resources more efficiently and reducing waste. These changes not only improved outcomes and reduce lead times for deliveries, they also allowed BVI to increase its customer satisfaction index and resultant customer retention. This is important as we predominantly rely on sales of vaccines and will lessen reliance of funding of operations from overdrafts if only the issue of delayed payments is satisfactorily addressed.

STRENGTHENING COLLABORATIVE RESEARCH

During 2016 the Institute continued to explore ways to enhance the achievement of its mandate and to improve its long term sustainability through service and product offerings to the customers through collaborations with national and international organizations. The collaboration with University of Botswana (UB) and PITZER College (USA) on the development of Lumpy Skin Disease (LSD) through the cultivation on virus on tobacco mosaic plants continued. Candidate vaccine strains were developed and tested on laboratory animals and cattle trials and demonstrated to elicit good specific immune response to LSD compared to commercial vaccines currently available in the market.

On the diagnostic side the Institute continued collaboration with Botswana Institute for Technology Research and Innovation (BITRI) for the development of a rapid foot and mouth disease (FMD) field test using lateral flow device for the detection FMD viral antigens or antibodies without requiring biosafety containment facilities. A prototype has been developed and undergoing validation process.

This demonstrates how we view ourselves in the delivery of product and services particularly focusing on the needs of the region and improving the scientific approaches to address the need through partnerships. We will continue to use national, regional and international partnerships to make effective contributions towards the control of infectious animal diseases through collaborative research.

LOOKING AHEAD

The future of the Institute though very uncertain still looks viable. Demands for both FMD and PPR vaccines still continue to exist. FMD vaccine demands are driven by the cyclical nature of disease outbreaks whilst the PPR vaccines will be due to the launch of the PPR Global Control and Eradication Programme as has been targeted for 2030. The investments on the new Blending and Filling laboratory that complies with the new Good Manufacturing Practices (GMP) commenced with Concept designs at the end of 2016 and the final drawings will be approved during 2017 with construction scheduled for the first quarter of 2018.

ACKNOWLEDGEMENTS

On behalf of the Management Team, I would like to thank all members of Staff, and the Staff Union Executives for the contributions and the dedicated efforts towards the Institute's business and mandate. Though it was not a smooth year, we managed to deliver quality products on time. I would like to thank our customers and stakeholders for their continuing support.

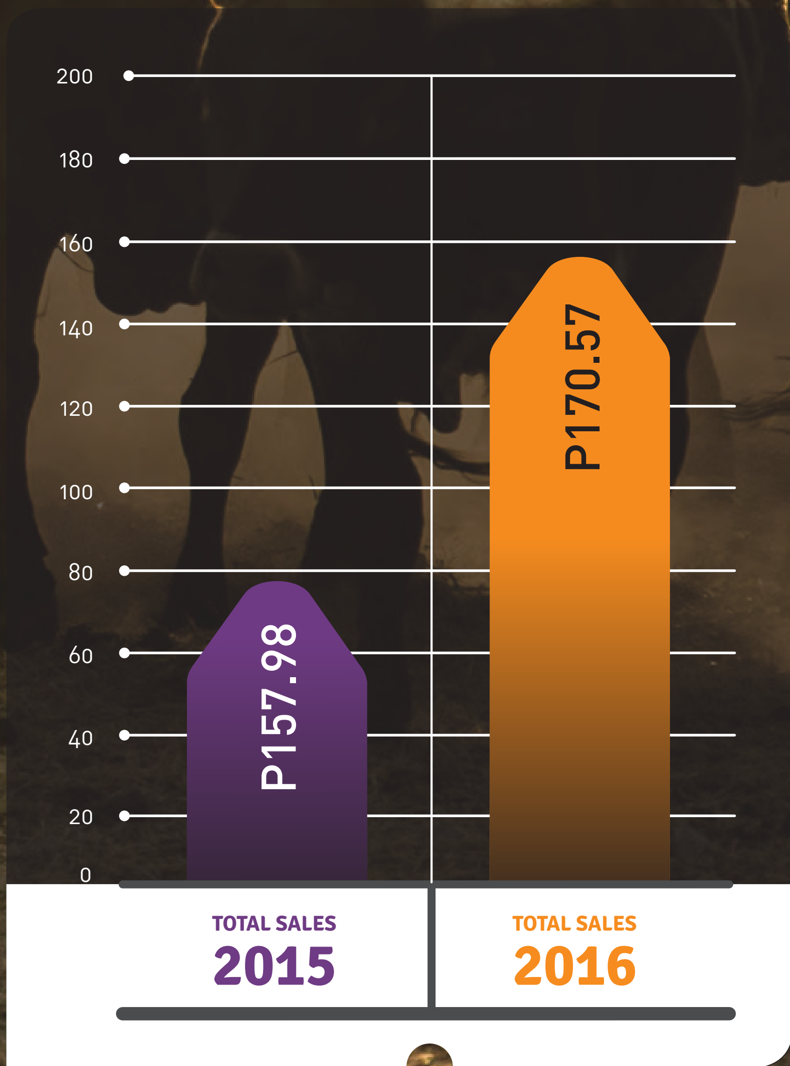
Lastly I wish to thank the Board of Directors, the Shareholder and the Technical Partner, MERIAL, for the strategic directions during the year.

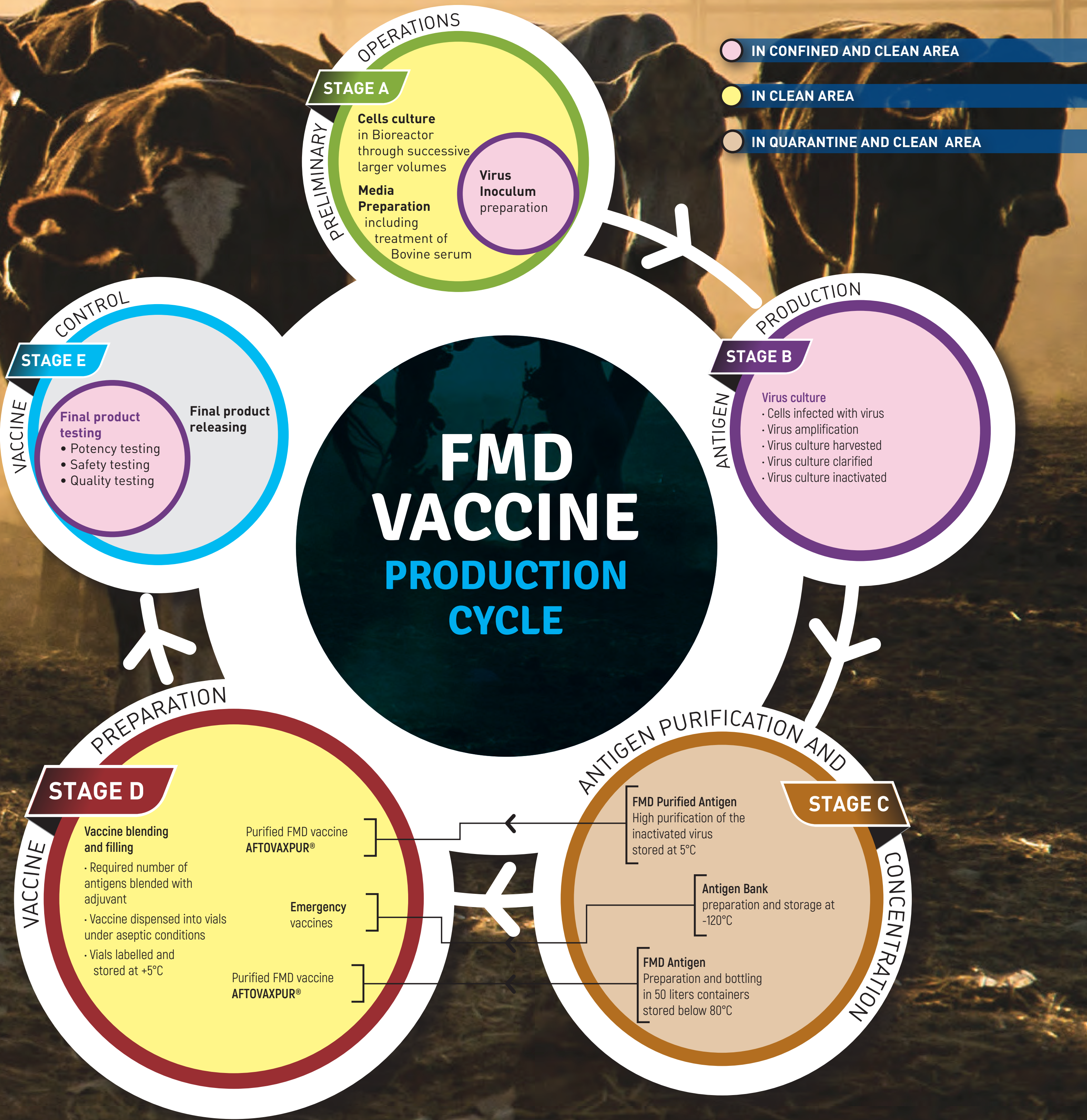
Thank you!!

Dr O. G. Matlho
General Manager

TOTAL VACCINE SALES

IN BWP MILLION 2015 vs 2016




IN CONFINED AND CLEAN AREA
IN CLEAN AREA
IN QUARANTINE AND CLEAN AREA
FMD VACCINE PRODUCTION CYCLE
PRELIMINARY OPERATIONS
STAGE A
Cells culture in Bioreactor through successive larger volumes
Media Preparation including treatment of Bovine serum
Virus Inoculum preparation
ANTIGEN PRODUCTION
STAGE B
Virus culture
· Cells infected with virus
· Virus amplification
· Virus culture harvested
· Virus culture clarified
· Virus culture inactivated
ANTIGEN PURIFICATION AND CONCENTRATION
STAGE C
FMD Purified Antigen
High purification of the inactivated virus stored at 5°C
Antigen Bank
preparation and storage at -120°C
FMD Antigen
Preparation and bottling in 50 liters containers stored below 80°C
VACCINE PREPARATION
STAGE D
Vaccine blending and filling
· Required number of antigens blended with adjuvant
· Vaccine dispensed into vials under aseptic conditions
· Vials labelled and stored at +5°C
Purified FMD vaccine AFTOVAXPUR®
Emergency vaccines
Purified FMD vaccine AFTOVAXPUR®
VACCINE CONTROL
STAGE E
Final product testing
• Potency testing
• Safety testing
• Quality testing
Final product releasing

Technical Manager's Report

"The business remained strongly cash generative over the past year while achieving record levels of sales and maintaining a healthy cash flow position."

MR D. GERVAIS | Technical Manager

Technical Manager's Report

[Continued]

"We cannot underrate the importance of carrying out the production activities in a secure environment as well as within the Quality Assurance procedures and the techniques or standard operating instructions in force."

IMPROVED BUSINESS PERFORMANCE

I am pleased to be reporting on the performance of the Technical Department for the year ending 31st December 2016. What is most pleasing is that most of the targets that were set for the Department were reached if not surpassed. In 2016, new production levels were reached for both Foot and Mouth Disease (FMD) and Peste des Petits Ruminants (PPR) vaccines.

In line with the BVI's Vision, the Mission of the Technical Department is to supply products of good quality, and "On Time and In Full" to our Customers, while controlling production costs within acceptable levels while not compromising the quality of the final product. We cannot underrate the importance of carrying out the production activities in a secure environment as well as within the Quality Assurance procedures and the techniques or standard operating instructions in force. The biosecurity and biosafety requirements are adhered to throughout the production cycle.

Our main goals are:

- To produce **good quality** products and service
- To reduce the **variability** of our processes
- To be efficient by **reducing waste** (all types)
- To be **flexible and align our operations to changing customer needs**
- To work **safely**
- **To work together as a Team**

The Foot and Mouth Disease (FMD) vaccine process:
The FMD vaccine is still the main product of the Institute both in terms of the quantities produced a year and contribution to total turnover reported for the year. The FMD production process is depicted in the diagram on page 27 and is intended to demonstrate the time it takes to produce the vaccine;

In 2016, BVI produced 20.3 million monovalent doses of FMD antigens. BVI formulated and released 8.70 million doses of FMD vaccine (corresponding to 23.68 million monovalent doses), and thus responding "in Full" to the different orders received in 2016.

The quantities produced in 2016 were increased by 15.5% compared to those achieved in 2015 in anticipation of the increased demand from the traditional customers. As at the year end, some of the vaccines were still held as part of inventory.

Annual FMD vaccines production [monodoses]

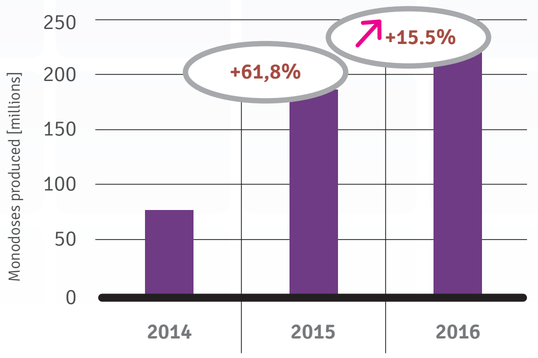


Figure No 1: Comparison of the cumulative FMD Vaccine production in 2014, 2015 and 2016 (expressed in monovalent doses)

The ratio of the different kinds of FMD vaccines is 71% for aftovax (semi purified) and 28% for aftovaxpur (highly purified) vaccines containing Southern African Territories (SAT) types (SAT1, SAT2 and SAT3) strains. The balance was for the combination of SAT2- type O - and type A vaccine, produced for West Africa, representing 1%. The West African market has the potential for our future business development when countries in this area start implementing FMD control strategies through regular vaccinations.

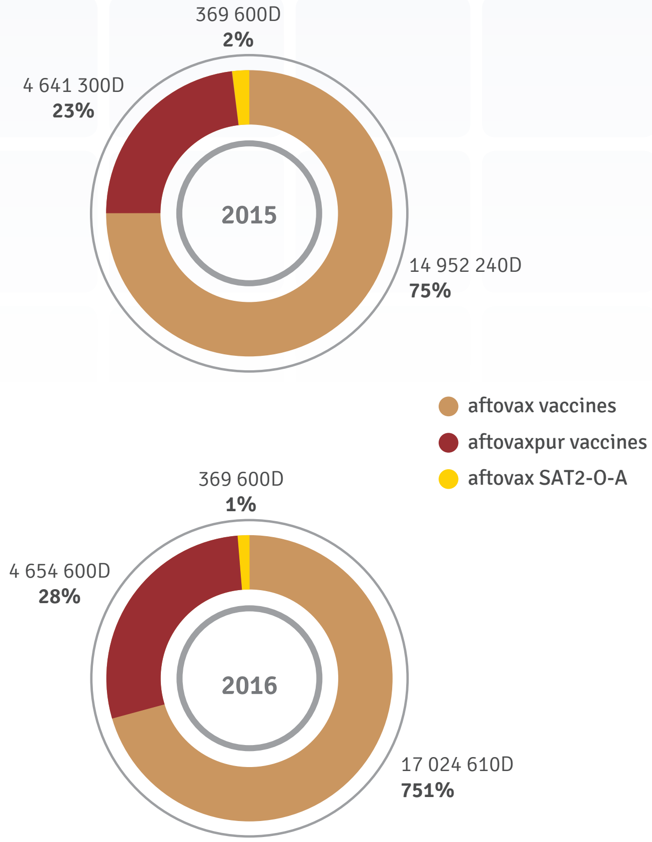


Figure No 2: aftovax and aftovaxpur product mix ratio in 2015 and 2016 (quantities expressed in monovalent doses)

Technical Manager’s Report
[Continued]

Other products:
Globally, in 2016, the product mix for the other vaccines changed in favour of the PPR vaccine due to the increased orders from customers through the World Organisation for Animal Health (OIE) Peste des Petits Ruminants (PPR) vaccine bank as well as those that were financed through the World Bank programme. While in 2015 there was no batch produced for CBPP vaccine as customers were supplied from inventories that were carried forward from 2014, in 2016, 2 batches were produced.

Table n°2: Comparison of the production volume for BVI other products between 2015 and 2016

Products	ASYMPTOL(1)	CARBOVAX(2)	PERIBOV(3)	PPR(4)
2015	2 040 700D	2 613 200D	0	2 061 800D
2016	**1 005 300D**	**3 565 900D**	**3 808 900D**	**27 969 000D**

(1) Inactivated vaccine against toxi-infections due to Clostridium chauvoei (Blackleg)

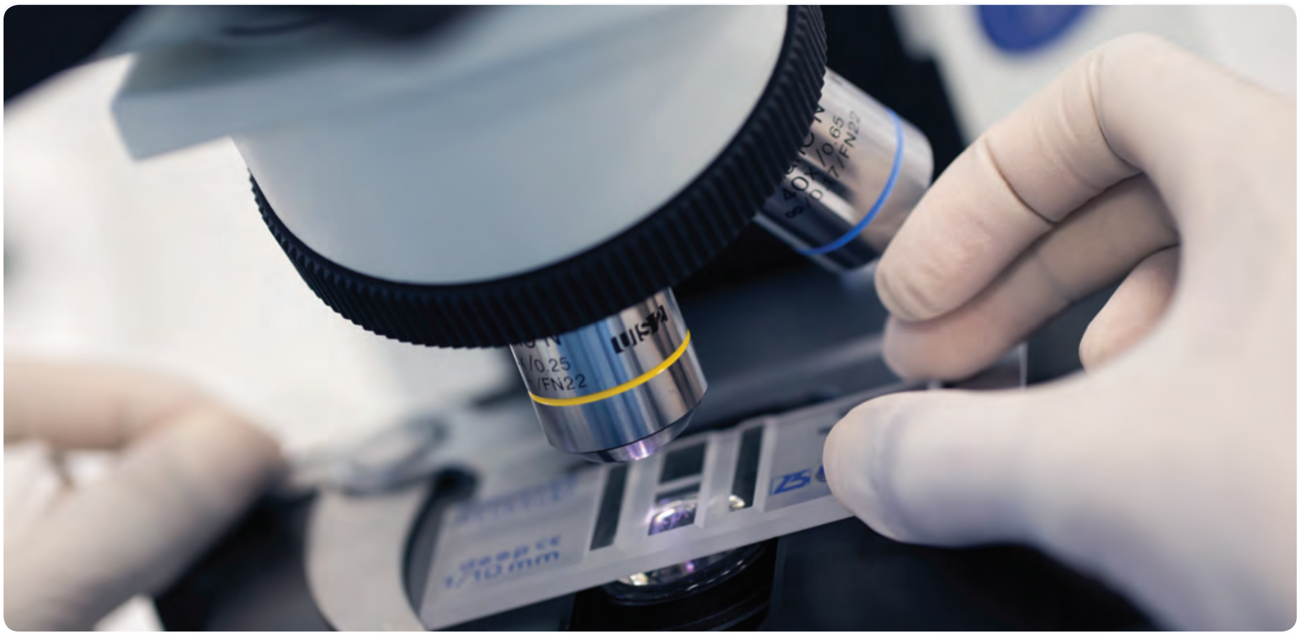
(2) Live vaccine against Anthrax, prepared from attenuated spores.

(3) Freeze-dried vaccine against Contagious Bovine Pleuropneumonia (CBPP)

(4) Freeze-dried modified virus vaccine against Peste des Petits Ruminants (PPR)

Industrial Performance:
The implementation of continuous improvement initiatives coupled with the preventative maintenance yielded positive results as demonstrated by the decrease in destruction rate of products for technical reasons. In 2016, the destruction rate was 2.13% (P3.4 million) against a target of 4%) which was an improvement when compared to 8% (P6.5 million) recorded in 2015. While this was a commendable achievement, the Technical Department would continuously work towards reducing the level of destruction so as to improve the gross margins. This is mainly the result of the implementation of the preventive maintenance plan on the production equipment and utilities in the FMD Antigen production building and a better daily housekeeping of the installations by the Production and Engineering Teams. In an effort to secure the production process, BVI invited the suppliers of the HVAC system and purified water plant to audit the installations so as to assess whether the installations are still aligned with the originally set parameters. Action plans were defined in the audit reports and the implementation would be part of the focus for 2017.

Main projects:
In 2015, different assessments were done and User Requirement Specifications were written to define the refurbishments needs of the production laboratories areas of some buildings for implementation during 2016. As a follow up to this action, during the shutdown period, the blending and filling areas (Virus free Zone - Phase 2) were refurbished to improve the sterility of the environment. The implementation of new practices to limit the open phases during the blending operations was also implemented with the support of the Continuous Improvement Manager. The aim is to limit the risk of bacterial contamination during this sensitive and high value production step and to conform to the Standards.



CONCLUSION

During this year, the Technical Department has been facing a huge increase in the demand for vaccines. The high involvement of Staff, the flexibility of their organizations and reactivity to propose solutions have allowed BVI to overreach its sales.

A major training program to develop the Engineering Team competencies was initiated and followed during the year and this initiative would be continued through 2017.

During the second part of 2016, the Technical Department pursued the implementation of the improvements decided during the DMAIC analysis, Technical review, Biosafety and QA audits with the aim of making Technical operations more reliable, sustainable and compliant to the standards.

2016 is a reference year in terms of quantity and quality of vaccines produced for both FMD & PPR vaccines. It's been a record year with more than 23 M doses FMD vaccines and 27 M doses PPR vaccines produced, while achieving a significantly lower rate of destruction.

OUTLOOK

The main focus for the Technical Department in 2017 will be to ensure the sustainability and reliability of its operations and equipment through the continuous implementation of preventive maintenance plan in all the production laboratories and major equipment monitored by the Engineering Department. This will be partially achieved through training of Technicians to align their skills with the service requirements from different user Departments. Specific attention will be focused on the development of Technical Staff through internal and external training programs to improve both the pharmaceutical culture and their skills.

Mr D. Gervais
Technical Manager

MARKET REVIEW

"We continuously review our position in the market to ensure that the products that we supply are still relevant for our customers."

Botswana Vaccine Institute operates in a very volatile market both in terms of customer demands and price sensitivity. 2016 has seen a significant milestone achieved in terms of market diversification as evidenced by the increased number of new customers supplied with vaccines during the year.

Cost containment so as to offer customers products at a price within their budgetary limits remains a priority for BVI. We continuously review our position in the market to ensure that the products that we supply are still relevant for our customers. 2016 has provided further evidence that most of our customers are experiencing cash flow challenges / budgetary constraints making it impossible for most of them to settle their outstanding debts within the agreed credit period.

In terms of products, BVI experienced significant growth in the demand for the PPR vaccine and this trend is expected to continue as the World eradication programme targeted for 2030 is rolled out in most countries.

We will continue to adapt to the ever changing operating environment and remain focused on delivering consistent, competitive and sustainable growth. Key to our sustainable business model are our stakeholders and in order to succeed there has to be a continuous engagement. Some of our stakeholders are direct participants in our value chain and are integral to our ability to create value for our Shareholder.

BVI Product Market Distribution

WEST AFRICA

- GHANA
- BURKINA FASO
- NIGERIA
- SENEGAL
- MALI
- TOGO
- MALI
- MAURITANIA

EAST AFRICA

- SOUTH SUDAN
- TANZANIA
- UGANDA
- ERITREA
- KENYA

NORTH AFRICA

- EGYPT
- LIBYA
- MOROCCO

CENTRAL AFRICA

- CHAD
- DRC
- CAR

SOUTHERN AFRICA

- ANGOLA
- BOTSWANA
- MALAWI
- MOZAMBIQUE
- NAMIBIA
- SOUTH AFRICA
- ZAMBIA
- ZIMBABWE

MIDDLE EAST

- ISRAEL
- UNITED ARAB EMIRATES

Finance Manager's Report

REVENUE
P170.57 million

compared to **P157.98 million** achieved in 2015, an increase of about 8%

OPERATING PROFIT
P47.59 million

increased by more than 81% from P26.17 million in 2015

> “Despite the low economic growth and constrained customer spending that has prevailed in recent years, BVI has produced strong financial results, highlighting the defensive nature of the business and of the markets we in which we operate”

MS K. M. TIBE | Finance Manager

Finance Manager's Report

[Continued]

"I am pleased to be reporting on a resilient set of results for 2016 despite the challenging economic environment within which we operate."

SOLID FINANCIAL RESULTS

The financial results for Botswana Vaccine Institute Ltd (BVI) continue to illustrate an improvement in the Company's financial stability. The Company achieved the highest sales than ever recorded although the main challenge of customers paying for vaccines supplied outside the agreed credit period still remains to be addressed. The delayed payments by debtors therefore negatively impacted on the Company's closing cash position.

FINANCIAL OVERVIEW

Once again, despite the low economic growth and constrained customer spending that has prevailed in recent years, BVI has produced strong financial results, highlighting the defensive nature of the business and the maturity of the markets in which we operate. It is reassuring to report that the Company performed well in the 2016 financial year thereby surpassing what we thought was the best results that were achieved in 2015.

I am pleased to be reporting on a resilient set of results for 2016 despite the challenging economic environment within which we operate. On the revenue side, BVI recorded **P170.57 million** compared to **P157.98 million** achieved in 2015, an increase of about 8%, operating profit on a reported basis increased by more than 81% to **P47.59 million** (2015: operating Profit of **P26.17 million**) and a net profit of **P41. 94 million** was recorded compared to **P 15.81** million recorded in 2015. Net gain on revaluation of property, plant and equipment amounted to **P 72.84 million**. Net cash used in operating activities was **P22.16 million** (2015: - net cash generated in operating activities was **P63.69 million**).

The high debtors' balances as at year end clearly point out to the need for a more stringent credit control policy that would significantly reduce the debtor days.

REVIEW OF THE STATEMENT OF COMPREHENSIVE INCOME

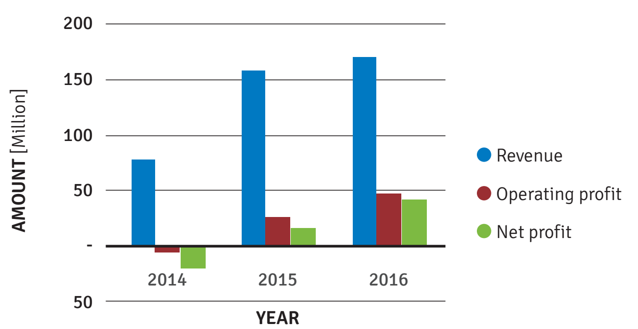
Total revenues generated

- The demand for our vaccines continues increase though in 2016 a marginal increase was achieved.
- Total revenue increased by P12.58 million (8%) to P170.57 million (2015: P157.98 million). The increase in revenue is largely attributable to the increased demand for the PPR vaccines while the demand for the FMD vaccines was negatively affected by delayed payments.
- Increased sales were driven primarily by the ability of the Company to penetrate new markets as demonstrated by the increased number of customers supplied in 2016.

Profitability

- The Company realized a decrease in cost of sales on account of the plant being utilized at full capacity and thereby realizing economies of scale. That is, increased sales were achieved without necessarily increasing the cost of production. This is largely attributable to the fact that most of the costs are fixed and therefore do not vary with increased level of activity.
- Gross profit increased by 56% from P59.84 million in 2015 to P93.51 million in 2016
- Operating profit increased from P26.17 million in 2015 to P47.59 million in 2016, on account of successful implementation of continuous improvement initiatives that resulted in a significant reduction of the value of products destroyed on account of non – compliance with the quality standards.
- Net profit of P41.94 million was achieved compared to P15.81 million recorded in 2015.
- Finance costs for the year were P10.11 million, compared to P12.45 million on a comparable annual basis. In an effort to reduce the finance costs, the Board resolved to redeem P30 million worth of the BVI 001 bond which carried a coupon rate of 11.23%.
- Total salary costs increased from P20.31 million in 2015 to P24.73 million in 2016 as a result of a 3% inflationary adjustment coupled with a 3% performance bonus that was paid to the employees. The high level of activity also contributed to the increase in salary costs. Also contributing to the increased payroll costs was the implementation of double shift throughout the year to cope with the increased production activities. Furthermore, additional employees we hired on short term contracts to support the increased activities in the production of the PPR vaccines.

Graph 1: PROFITABILITY



STATEMENT OF FINANCIAL POSITION

As at 31 December 2016 the capital employed (calculated as total assets minus current liabilities) had increased to P590.60 million compared to P505.59 million in 2015. This was primarily due to the increase in Property, Plant and Equipment on account of revaluation.

CASH FLOW, NET DEBT AND CAPITAL STRUCTURE

The debt facility comprises a balance of P40 million 10 year medium term note programme with a fixed interest rate of 11.23%, falling due in May 2018. During the year, the Company bought back P30 million worth of the BVI 001 bond which resulted in a significant decrease in liabilities and cash balances. The main priority of the Company is to accumulate sufficient cash flows to facilitate the redemption of the P40 million balance when it falls due in May 2018. BVI is committed to ensuring that the delayed payments by most of our traditional customers do not compromise the Company's ability to fulfill its debt obligations in future.

LOOKING AHEAD – OUR PATHWAY TO VALUE CREATION IN 2017 AND BEYOND

2016 has been the best year both in terms of revenues and profitability. Looking further ahead, the initiatives that have been implemented within the business in recent years give us the confidence that BVI will continue to deliver strong results.

Although creating a competitive cost base for BVI remains critical for the long term financial sustainability of the Company, improved cash flow generation/ management continues being a priority in 2017. Market and product diversification still remains critical for the long term sustainability of the Company.

Ms K. M. Tibe
Finance Manager

BOTSWANA VACCINE INSTITUTE LIMITED
(Company Registration No CO 2738)

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2016

BOTSWANA VACCINE INSTITUTE

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INDEX TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

COMPANY INFORMATION

Business operations
The Company manufactures and distributes veterinary vaccines

Company registration no
CO 2738

Registered address
Plot 6385/90
Lejara Road, Broadhurst Industrial Estate
Gaborone

Auditors
PricewaterhouseCoopers

Secretary
Ms. Mmabasotho Tibe

Bankers
Barclays Bank of Botswana Limited
Standard Chartered Bank Botswana Limited
BancABC Limited
First National Bank of Botswana Limited

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 31 December 2016

The Directors of Botswana Vaccine Institute Limited are responsible for the annual financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The Company maintains systems of internal control, which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of Company assets. The Directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the Directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The Directors have no reason to believe that the Company will not be a going concern in the foreseeable future based on forecasts, available cash resources and the continued financial support pledged by the Shareholder.

Our external Auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between Management and our external Auditors to review matters relating to internal controls and financial reporting. The external Auditors have unrestricted access to the Board of Directors.

The financial statements set out on pages 49 to 92 were authorised for issue by the Board of Directors on 20th June 2017 and are signed on its behalf by:

Director

Director

INDEPENDENT AUDITOR'S REPORT

To the members of Botswana Vaccine Institute Limited

Report on the Financial Statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Vaccine Institute Limited (the Company) as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Botswana Vaccine Institute Limited's financial statements set out on pages 49 to 92 comprise:

- the statement of financial position as at 31st December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Botswana Institute of Chartered Accountants Code of Ethics (the "BICA Code") and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Our audit approach

Overview

Overall materiality

- P 2,096,000 which represents 5% of profit before tax.

Key Audit Matters

- Transfer of risk and rewards
- Assessing impairment of receivables.

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T: (267) 395 2011, F: (267) 397 3901, www.pwc.com/bw

Country Senior Partner: B D Phirie
Prtners: R Binedell, A S Edinisinghe, R van Schalkwyk, S K K Wiyesena

INDEPENDENT AUDITOR'S REPORT [continued]

To the members of Botswana Vaccine Institute Limited

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	P 2,096,000
How we determined it	5% of the profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Transfer of risk and rewards The Company's revenue is generated through the supply of veterinary vaccine consignments to customers. A significant portion of the revenue is from exports to governments in the African continent. Due to the dynamic nature of each customer, terms and conditions are individually negotiated to take into account many considerations and unique circumstances.	We obtained an understanding of the revenue and receivables process and tested the relevant controls relating to shipping and invoicing. For a sample of transactions we tested whether the specific conditions of each sales transaction, meet the criteria set by IAS 18 for revenue recognition by inspecting customer contracts and other official customer correspondence.

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INDEPENDENT AUDITOR'S REPORT [continued]

To the Members of Botswana Vaccine Institute Limited

Key audit matter	How our audit addressed the key audit matter
The dynamics of each contract does not lend itself for automation, requiring significant manual intervention in determining when the risks and rewards are transferred for each transaction to recognise the related revenue in terms of International Accounting Standards 18, Revenue ("IAS 18"). Consequently, determining the transfer of risks and rewards and the recognition of revenue was considered a matter of significance to our audit as any errors that may occur could significantly impact the results of the Company. The disclosures associated with revenue recognition are set out in the financial statements in the following notes: • Note 2 – Revenue (page 54) • Note 15.3 – Revenue recognition (page 86)	Where necessary, we directly contacted the customer to obtain further clarity over the terms and conditions of sale and the point at which the risks and rewards transferred to the customer. The sample tested revealed that the risks and rewards had been transferred to the customer and that the related revenue had been recorded accurately. To test that transactions were recognised in the correct period we selected a sample of transactions and inspected the supporting documentation for when risk and rewards transferred. We focussed our attention on those transactions that occurred immediately before and after 31 December 2016 and confirmed that the transactions selected had been appropriately recognised in the correct period.
Assessment of impairment of receivables The nature of the Company's business is such that its customers mainly consist of state owned and government enterprises. Consequently these customers are subject to economic and political risk that may bear significantly upon counterparty credit risk. The assessment of the recoverability of receivables therefore, requires significant judgement by the Company and may have a significant impact on the financial statement. For these reasons the determination of the provision for impairment is considered to be a matter of most significance to our current year audit. The principal assumption used by management in determining if there is objective evidence of impairment is the period of recovery, which is assessed individually and is dependent on the political and economic stability and sources of funding of each customer. The disclosures associated with impairment of receivables are set out in the financial statements in the following notes: • Note 5.1 – Trade and other receivables (page 57) • Note 9 – Risk Management, Credit Risk (page 71) • Note 8.1.2 – Use of Estimates and Judgements, Impairment provision on trade receivables (page 70)	Our audit of accounting for the credit risk related to outstanding receivable balances included the following procedures: • We assessed and tested the Company's controls to identify sign of impairment indicators. These included, testing the reliability of the debtors ageing report which is utilised by management to identify receivables at risk; • We compared the principal assumptions made by management in respect of each individual customer to historical customer experiences that consider matters such as history of payment patterns, outcomes of prior correspondences, source of customer financing for orders placed and market indicators and we were satisfied with management's assumptions based on the evidence obtained during the testing; and • Where individual impairments were identified: - We performed tests to assess whether the loss event (the point at which impairment is specifically assessed) was identified in a timely manner; and - We examined estimates of future cash flows prepared by the Company to support the calculation of the impairment, challenging the assumptions and comparing estimates to historical collection.

INDEPENDENT AUDITOR'S REPORT [continued]

To the Members of Botswana Vaccine Institute Limited

Other information

The Directors are responsible for the other information. The other information comprises the Chairman's Report, Directors' Report, Audit Committee's Report, General Manager's Report, Technical Manager's Report, Finance Manager's Report and Detailed income statement. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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 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 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

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INDEPENDENT AUDITOR'S REPORT [continued]

To the Members of Botswana Vaccine Institute Limited

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers

Individual practicing member: Sheyan Edirisinghe
Membership number: 20030048

30 June 2017
Gaborone

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Note	2016 P	2015 P
Revenue	2	170,566,616	157,982,626
Cost of sales		(77,056,509)	(98,141,976)
Gross profit		93,510,107	59,840,650
Administrative expenses		(18,774,040)	(16,250,262)
Distribution costs		(23,486,676)	(21,028,439)
Other income	3.1	1,038,371	944,466
Other (losses) / gains - net	3.2	(4,692,792)	2,667,079
Operating profit		47,594,970	26,173,494
Finance income	3.4	4,453,480	2,086,716
Finance costs	3.4	(10,109,786)	(12,449,506)
Finance costs - net		(5,656,306)	(10,362,790)
Profit before income tax		41,938,664	15,810,704
Income tax expense	4	-	-
Profit for the year		41,938,664	15,810,704
Other comprehensive income			
Item that will not be reclassified to income statement			
Revaluation gain on property, plant and equipment	6.1	72,843,300	-
Total comprehensive income for the year		114,781,964	15,810,704

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Note	2016 P	2015 P
ASSETS			
Non-current assets			
Property, plant and equipment	6.1	331,554,239	269,151,980
Current assets			
Inventories	6.2	56,911,888	44,665,053
Trade and other receivables	5.1	68,728,911	54,969,587
Financial assets at fair value through profit or loss	5.2	70,050	67,853
Cash and cash equivalents (excluding bank overdrafts)	5.3	165,910,136	219,243,942
		291,620,985	318,946,435
Total assets		623,175,224	588,098,415
LIABILITIES			
Non-current liabilities			
Interest bearing borrowings	5.5	39,683,462	69,454,376
Current liabilities			
Trade and other payable	5.4	29,079,232	79,462,522
Interest bearing borrowings	5.5	147,775	608,822
Employee benefit obligations	6.3	3,346,579	2,436,483
		32,573,586	82,507,827
Total liabilities		72,257,048	151,962,203
Net assets		550,918,176	436,136,212
EQUITY			
Capital and reserves			
Stated capital	7.1	278,347,000	278,347,000
Other reserves	7.2	162,035,210	89,191,910
Retained earnings		110,535,966	68,597,302
Total equity		550,918,176	436,136,212

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Notes	Stated capital P	Other reserves P	Retained earnings P	Total equity P
For the year ended 31 December 2015					
Balance at 1 January 2015		28,347,000	89,191,910	52,786,598	170,325,508
Profit for the year		-	-	15,810,704	15,810,704
Transactions with owners in their capacity as owners:					
Issue of shares	7.1	250,000,000	-	-	250,000,000
Balance at 31 December 2015		278,347,000	89,191,910	68,597,302	436,136,212
For the year ended 31 December 2016					
Balance at 1 January 2016		278,347,000	89,191,910	68,597,302	**436,136,212**
Profit for the year		-	-	41,938,664	**41,938,664**
Other comprehensive income					
Revaluation gain	7.2	-	72,843,300	-	**72,843,300**
Balance at 31 December 2016		**278,347,000**	**162,035,210**	**110,535,966**	**550,918,176**

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	2016 P	2015 P
Cash flows from operating activities			
Operating profit		47,594,970	26,173,494
Adjustment for non cash items:			
Depreciation	6.1	15,463,118	15,796,432
Profit on disposal of property, plant and equipment	3.2	(5,789)	(74,423)
Unrealised fair value gain	3.2	(2,197)	(4,238)
Changes in working capital			
Inventories		(12,246,835)	20,080,100
Trade and other receivables		(13,759,324)	(43,520,991)
Employee benefit obligations		910,096	(25,661)
Trade and other payable		(50,383,290)	57,340,754
Cash generated from operations		(12,429,251)	75,765,467
Interest paid		(9,733,197)	(12,072,207)
Net cash (outflow) / inflow from operating activities		(22,162,448)	63,693,260
Cash flows from investing activities			
Payment for property, plant and equipment	6.1	(5,040,317)	(2,841,477)
Interest received	3.4	4,453,480	2,086,716
Proceeds from sale of property, plant and equipment		24,029	74,423
Net cash outflow from investing activities		(562,808)	(680,338)
Cash flows from financing activities			
Repayment of borrowings		(30,249,612)	(76,092,861)
Proceeds from issue of shares		-	250,000,000
Net cash (outflow) / inflow from financing activities		(30,249,612)	173,907,139
Net (decrease) / increase in cash and cash equivalents		(52,974,868)	236,920,061
Cash and cash equivalents at beginning of year		218,885,004	(18,035,057)
Cash and cash equivalents at end of year	5.3	165,910,136	218,885,004

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 SEGMENT INFORMATION

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, responsible for allocating resources and assessing performance of the operating segment has been identified as the Company's steering committee, made up of General Manager and Finance Manager. They are responsible of making strategic decisions for the Company, which are approved by the Board of Directors.

The Steering Committee examines the Company's performance and has identified single segment as the Company operates through a single operational unit in Gaborone, Botswana and approximately 80% of its product-line comprise of a single product, the foot and moth diseases (FMD) vaccine. Therefore the Company's operations exhibit similar long-term financial performance and similar economic characteristics. Accordingly these financial statements reflect the manner in which the steering committee manages and operates the Company's affairs. They review the results of the segment on a monthly basis by going through the activities of the Company and their impact on the results of the segment.

The steering committee primarily uses a measure of operating profit before interest and tax to assess the performance of the operating segments. However, the steering committee also receives information about the segment's geographical revenue information on monthly basis.

1.1 Geographical information

Company's revenue is from sales to governments in the African continent. Therefore, there is only one customer in each country. The Company's revenue from customers is attributable to the following countries:

	2016 P	2015 P
Namibia	**50,792,327**	56,843,554
Zambia	**21,593,146**	23,890,954
Zimbabwe	**18,974,446**	25,716,563
Botswana	**17,094,231**	16,855,415
South Africa	**14,689,452**	14,112,865
Niger	**13,235,543**	-
Mozambique	**11,580,017**	9,391,369
Kenya	**5,146,512**	1,204,387
Eritrea	**5,237,536**	1,999,105
Uganda	**3,327,791**	1,601,086
Mauritania	**2,653,577**	-
Malawi	**2,212,254**	223,743
Cameroon	**1,414,421**	-
Mauritius	**1,795,071**	-
Burkina Fasso	**-**	1,117,824
Other	**772,834**	1,111,013
Angola	**5,613**	1,941,260
Togo	**41,845**	1,973,488
	170,566,616	157,982,626

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

1 SEGMENT INFORMATION [continued]

Revenues are attributed to countries on the basis of the customer's location.

Revenues from a single customer, which are significant, and where these revenues exceed 10% of the total revenues, arise from the following geographical locations.

Botswana
Namibia
Zambia
Zimbabwe

2 REVENUE (NOTE 15.3)

	2016 P	2015 P
Sales of vaccines	165,195,529	156,742,832
Freight	5,371,087	1,239,794
	170,566,616	157,982,626

3 OTHER INCOME AND EXPENSES ITEMS

	2016 P	2015 P
3.1 Other income		
Cattle sales	134,581	156,208
Other income	903,790	788,258
	1,038,371	944,466

	2016 P	2015 P
3.2 Other (losses) / gains		
Net gain on disposal of property, plant and equipment	5,789	74,423
Fair value gain on financial assets at fair value through profit or loss	2,197	4,238
Net foreign exchange (loss) / gain	(4,700,778)	2,588,418
	(4,692,792)	2,667,079

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

3.3 Breakdown of expenses by nature

	Notes	2016 P	2015 P
Cost of sales		77,056,509	98,141,976
Auditors' remuneration		152,472	138,225
Depreciation (excluding plant and machinery)	6.1	3,374,601	3,079,560
Directors' remuneration		87,976	64,470
Donations		57,215	50,565
Export commission		18,971,619	19,707,129
Professional fees		533,393	547,917
Repairs and maintenance - motor vehicles		135,191	113,933
Repairs and maintenance - other		224,692	36,965
Provision for impairment of trade receivables	5.1	800,673	883,124
Salaries and wages		7,418,873	6,094,312
Other expenses		10,504,011	6,562,501
Total cost of sales, distribution and administrative expenses		119,317,225	135,420,677

	Notes	2016 P	2015 P
Salaries and wages			
Salaries and wages		21,252,395	17,747,198
Pension costs		2,108,995	2,034,722
Gratuity and leave pay provision		1,368,188	532,454
		24,729,578	20,314,374

	Notes	2016 P	2015 P
The salaries and wages have been expensed as follows:			
Cost of sales		17,310,705	14,220,062
Administrative expenses		7,418,873	6,094,312
		24,729,578	20,314,374

	Notes	2016 P	2015 P
3.4 Finance income and costs			
Finance income			
Interest received on short term investments		4,453,480	2,086,716
Finance costs			
Interest expenses - interest bearing borrowings		(10,109,786)	(12,449,506)
Net finance cost		(5,656,306)	(10,362,790)

The interest income relates to interest earned on short-term deposits maintained with the banks.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

4. INCOME TAX EXPENSE

Botswana Vaccine Institute Limited has been exempted from paying income tax through the Tax Agreement (Ratification) Act No. 22 of 1990.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company holds the following financial instruments:

Financial assets	Notes	Assets at fair value through profit or loss P	Financial assets at amortised cost P	Total P
At 31 December 2016				
Trade and other receivables*	5.1	-	39,654,617	39,654,617
Financial assets at fair value through profit or loss	5.2	70,050	-	70,050
Cash and cash equivalents	5.3	-	165,910,136	165,910,136
		70,050	**205,564,753**	**205,634,803**
At 31 December 2015				
Trade and other receivables*	5.1	-	20,046,131	20,046,131
Financial assets at fair value through profit or loss	5.2	67,853	-	67,853
Cash and cash equivalents	5.3	-	219,243,942	219,243,942
		67,853	239,290,073	239,357,926

*excluding prepayments

Financial liabilities	Notes	Liabilities at amortised cost
At 31 December 2016	5.4	**29,079,232**
Trade and other payables*	5.5	**39,831,237**
Borrowings		**68,910,469**
At 31 December 2015	5.4	79,462,522
Trade and other payables*	5.5	70,063,198
Borrowings		149,525,720

*excluding non-financial liabilities

The Company's exposure to various risks associated with the financial instruments is discussed in note 9. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

NOTES TO THE FINANCIAL STATEMENTS [continued]
for the year ended 31 December 2016

5.1 Trade and other receivables

	2016 P	2015 P
Trade receivables	67,820,506	53,456,185
Less - adjustment to amortised cost	(598,665)	(337,856)
Less - provision for impairment (Note 9.2)	(800,673)	(889,052)
	66,421,168	52,229,277
Other receivables	195,701	126,669
VAT receivables	827,962	1,178,338
Deposits and prepayments	1,284,080	1,435,303
	68,728,911	54,969,587

(i) Classification as trade and other receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Company's impairment and other accounting policies for trade and other receivables are outlined in notes 9.2 and 15.6 respectively.

(ii) Other receivables
These amounts generally arise from transactions outside the usual operating activities of the Company.

(iii) Fair values of trade and other receivables
Fair value of Trade receivables as at 31 December 2016 amount to P 66,421,168 (2015 : P 52,229,227).

Due to the short-term nature of the other receivables, their carrying amount is considered to be the same as their fair value.

The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (Note 9.2).

(iv) Impairment and risk exposure
Information about the impairment of trade and other receivables, their credit quality and the Company's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 9.1 and 9.2.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

5.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading and include the following:

	2016 P	2015 P
Current assets		
Stanlib Botswana Money Market Fund	66,679	64,337
Stanlib Botswana Management Prudential Fund	3,371	3,516
	70,050	67,853

(i) *Classification of financial assets at fair value through profit or loss*

The Company classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short-term, i.e. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. See note 15.8 for the Company's other accounting policies for financial assets.

(ii) *Amounts recognised in profit or loss*

Changes in fair values of financial assets at fair value through profit or loss are recorded in other (losses) / gains in the income statement (2016 – gain of P 2,197; 2015 – gain of P 4,238).

5.3 Cash and cash equivalents

	2016 P	2015 P
Bank balances	7,699,531	17,773,026
Short term deposits	158,210,283	201,470,879
Cash on hand	322	37
	165,910,136	219,243,942

(i) Reconciliation to cash flow statement

The below figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	2016 P	2015 P
Bank balances	7,699,531	17,773,026
Short term deposits	158,210,283	201,470,879
Bank overdrafts (Note 5.5)	-	(358,938)
Cash on hand	322	37
	165,910,136	218,885,004

(ii) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest. See note 15.5 for the Company's other accounting policies on cash and cash equivalents.

(iii) Restricted cash

The cash and cash equivalents disclosed above and in the statement of cash flows include P 155,179,199 which are held for the expansion project. Therefore, it's not available for general use by the Company.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

5.4 Trade and other payables

	2016 P	2015 P
Trade accounts payable	2,527,773	8,484,972
Accrued interest	674,790	1,180,252
Advance received from customers	1,517,495	41,833,548
Other accruals	2,807,122	1,838,185
Amounts due to related parties (Note 14)	21,552,052	26,125,565
	29,079,232	79,462,522

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

5.5 Borrowings

	Notes	Int. rate	2016 Current P	2016 Non-current P	2016 Total P	2015 Current P	2015 Non-current P	2015 Total P
Bank overdraft		5.75	-	-	-	358,938	-	358,938
Bond	II	11.23	-	39,490,982	39,490,982	-	69,114,122	69,114,122
Debt Participation Capital Funding Limited:								
Loan 2		9.50	-	-	-	119,652	-	119,652
Loan 5	III	12.00	87,865	-	87,865	78,200	87,864	166,064
Loan 6	IV	14.60	59,910	192,480	252,390	52,032	252,390	304,422
			147,775	39,683,462	39,831,237	608,822	69,454,376	70,063,198

i) The Company has an overdraft facility of P 3 million with Standard Chartered Bank Botswana Limited, which is unsecured and attracts interest at the rate of 5.75% per annum.

ii) On 7 May 2008, the company issued non convertible and redeemable bonds with a face value of P 70,000,000 at a fixed rate of 11.23% per annum to finance its expansion programme. The bonds are repayable on 7 May 2018. The bond is unsecured and interest is payable semi-annually. The bonds are initially recognised at fair value which equals to the par value less issue cost of P 3,236,508. The bonds are subsequently measured at amortised cost using effective interest method. The effective interest rate of the bond is 12.05%. During, the year the Company redeemed nominal value of P 30,000,000. The fair value of bonds as at 31 December 2016 amounted to P 43,804,000.

iii) Loan 5 is repayable in semi-annual instalments of P 47,924 (including interest). The final instalment is due in 2017. This loan is unsecured and is negotiated at a fixed rate of interest. The fair value of the loan as at 31 December 2016 amounted to P 87,865.

iv) Loan 6 is repayable in semi-annual instalments of P 47,323 (including interest). The final instalment is due in 2020. This loan is unsecured and is negotiated at a fixed rate of interest. The fair value of the loan as at 31 December 2016 amounted to P 319,596.

v) The Company has complied with the financial covenants of its borrowing facilities during the 2016 and 2015 reporting periods.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

5.5 Borrowings [continued]

vi) Fair value disclosures

BVI - 001 is listed on the Botswana Stock Exchange and the fair value disclosure has been determined with reference to published market value information as of 31 December 2016.

In all other instances where the fair value disclosed differs from the carrying amount, the fair value disclosure has been determined on a discounted cash flow basis. The significant assumptions used in applying the discounted cash flow method, are as follows:

a) The loan will be settled in accordance with the original contract terms.
b) The Company has the intent and the ability to meet payment obligations as they fall due.
c) The rate of interest used for the purpose of discounting future cash flows, assumes the market yield applicable to listed debt instruments with comparable credit risk to that of the Company with similar maturity periods.

These assumptions have been consistently applied.

vii) Risk exposures

Details of the Company's exposure to risks arising from current and non-current borrowings are set out in note 9.

5.6 Recognised fair value measurements

(i) Fair value hierarchy

The Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	Notes	Level 1 P	Level 2 P	Level 3 P	Total P
Financial assets as at 31 December 2016					
Financial assets at fair value through profit or loss	5.2	-	**70,050**	-	**70,050**
Financial assets as at 31 December 2015					
Financial assets at fair value through profit or loss	5.2	-	67,853	-	67,853
Financial labilities as at 31 December 2016					
Borrowings	5.5	**-**	**39,831,237**	**-**	**39,831,237**
Financial liabilities as at 31 December 2015					
Borrowings	5.5	-	69,704,260	-	69,704,260

NOTES TO THE FINANCIAL STATEMENTS [continued]

5.6 Recognised fair value measurements [continued]

There were no transfers between levels during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6 NON-FINANCIAL ASSETS AND LIABILITIES

6.1 Property, plant and equipment

	Capital Work-In-Progress (Cost) P	Land and buildings (Valuation) P	Residential property (Valuation) P	Plant and machinery (Valuation) P	Motor vehicles (Cost) P	Furniture, fittings and office equipment (Cost) P	Total (Cost / Valuation) P
At 1 January 2015							
Cost or fair value	250,208	56,581,808	19,457,601	220,478,029	1,359,124	4,280,300	302,407,070
Accumulated depreciation	-	(1,939,177)	(782,332)	(12,850,602)	(1,121,624)	(3,606,400)	(20,300,135)
Net book amount	250,208	54,642,631	18,675,269	207,627,427	237,500	673,900	282,106,935
Year ended 31 December 2015							
Opening net book amount	250,208	54,642,631	18,675,269	207,627,427	237,500	673,900	282,106,935
Additions	-	1,739,590	14,028	634,464	-	453,395	2,841,477
Transfers	(250,208)	250,208	-	-	-	-	-
Depreciation	-	(1,888,508)	(779,706)	(12,716,872)	(118,750)	(292,596)	(15,796,432)
Closing net book amount	-	54,743,921	17,909,591	195,545,019	118,750	834,699	269,151,980
At 31 December 2015							
Cost or fair value	-	58,571,606	19,471,629	221,112,493	1,359,124	4,733,695	305,248,547
Accumulated depreciation	-	(3,827,685)	(1,562,038)	(25,567,474)	(1,240,374)	(3,898,996)	(36,096,567)
Net book amount	-	54,743,921	17,909,591	195,545,019	118,750	834,699	269,151,980
Year ended 31 December 2016							
Opening net book amount	-	54,743,921	17,909,591	195,545,019	118,750	834,699	269,151,980
Additions	1,200,000	598,097	300,008	2,109,299	268,971	563,942	5,040,317
Revaluation surplus	-	6,672,807	4,597,596	61,572,897	-	-	72,843,300
Disposals	-	-	(12,668)	-		(5,572)	(18,240)
Depreciation	-	(1,987,826)	(782,527)	(12,088,517)	(162,082)	(442,166)	(15,463,118)
Closing net book amount	1,200,000	60,026,999	22,012,000	247,138,698	225,639	950,903	331,554,239
At 31 December 2016							
Cost or fair value	1,200,000	60,026,999	22,012,000	247,138,698	1,628,095	5,178,135	337,183,927
Accumulated depreciation	-	-	-	-	(1,402,456)	(4,227,232)	(5,629,688)
Net book amount	1,200,000	60,026,999	22,012,000	247,138,698	225,639	950,903	331,554,239

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6.1 Property, plant and equipment [continued]

(i) Disclosure of depreciation in the statements of comprehensive income

Depreciation charge for the year has been classified in the statement of comprehensive income as follows:

	2016 P	2015 P
Cost of sales	12,088,517	12,716,872
Administration expenses	3,374,601	3,079,560
	15,463,118	15,796,432

(ii) Revaluation, depreciation methods and useful lives

Land and buildings, plant and machinery and residential property are recognised at fair value based on periodic, but at least triennial valuations, by external independent valuers, less subsequent depreciation for buildings and plant and machinery. A revaluation surplus is credited to other reserves (Note 7.2). All other property, plant and equipment is recognised at historical cost less depreciation.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Buildings	10 - 40 years
Residential properties	25 years
Plant and machinery	10 - 30 years
Motor vehicles	4 years
Furniture, fittings and office equipment	10 years

See note 15.10 for other accounting policies relevant to property, plant and equipment.

(iii) Significant estimates – valuations of land and buildings

Information about the valuation of land and buildings, residential properties and plant and machinery is provided in Note 8.

(iv) Carrying amounts that would have been recognised if land and buildings and plant and machinery that were revalued were stated at cost

If the building, plant and machinery and residential property were carried at cost before the above revaluation adjustment, the respective carrying amounts would be as follows;

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6.1 Property, plant and equipment [continued]

	Cost P	Accumulated depreciation P	Net book amount P
At 31 December 2015			
Land and buildings	58,321,204	(10,459,233)	47,861,971
Residential property	3,204,573	(2,134,674)	1,069,899
Plant and machinery	205,459,926	(52,117,860)	153,342,066
	266,985,703	(64,711,767)	202,273,936
At 31 December 2016			
Land and buildings	58,919,301	(10,720,714)	**48,198,587**
Residential property	3,504,581	(2,220,061)	**1,284,520**
Plant and machinery	207,569,225	(57,329,646)	**150,239,579**
	269,993,107	**(70,270,421)**	**199,722,686**

6.2 Inventories

	2016 P	2015 P
Finished goods (at cost)	**41,737,378**	34,525,719
Finished goods (at net realisable value)	**4,144,024**	1,858,546
Raw materials (at cost)	**11,030,486**	8,280,788
	56,911,888	44,665,053

(i) Assigning costs to inventories

The costs of individual items of inventory are determined using standard costing. See note 15.7 for the Company's other accounting policies for inventories.

(ii) Amounts recognised in profit or loss

Inventories recognised as an expense during the year ended 31 December 2016 amounted to P 43,711,767 (2015: P 71,205,095). These were included in cost of sales.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6.3 Employee benefit obligations

	Leave pay P	Gratuity and pension P	Total P
Balance at beginning of the year	1,749,660	686,823	2,436,483
Provisions for the year	576,018	792,170	1,368,188
Payments during the year	(118,813)	(339,279)	(458,092)
Balance at end of the year	2,206,865	1,139,714	3,346,579

Gratuity

Certain employees receive terminal gratuities in accordance with their contracts of employment. An accrual is made for the estimated liability towards such employees up to the end of reporting period.

Leave pay

The current portion of this liability includes all of the accrued annual leave. The entire amount of the provision of P 2,206,865 (2015 - P 1,749,660) is presented as current, since the Company does not have an unconditional right to defer settlement of this obligations.

6.4 Recognised fair value measurements

(i) Fair value hierarchy

The Company has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in Note 5.6.

Non-recurring fair value measurements	Notes	Level 1 P	Level 2 P	Level 3 P	Total P
At 31 December 2016					
Land and building	6.1	-	-	60,026,999	60,026,999
Residential properties	6.1	-	-	22,012,000	22,012,000
Plant and machinery	6.1	-	-	247,138,698	247,138,698
Total non-financial assets		-	-	329,177,697	329,177,697
At 31 December 2015					
Land and building	6.1	-	-	54,743,921	54,743,921
Residential properties	6.1	-	-	17,909,591	17,909,591
Plant and machinery	6.1	-	-	195,545,019	195,545,019
Total non-financial assets		-	-	268,198,531	268,198,531

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

In 2015, the Company reclassified land and buildings, residential properties, plant and machinery from level 2 to level 3. The transfer is due to the most significant inputs being unobservable and therefore level 3 is the appropriate presentation.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6.4 Recognised fair value measurements [continued]

(ii) Valuation techniques used to determine level 3 fair values
The Company obtains independent valuations for its land and building, residential properties and plant and machinery at least every three years.

At the end of each reporting period, Management updates their assessment of the fair value of land and building, residential properties and plant and machinery, taking into account the most recent independent valuations. Management determines values within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;

- discounted cash flow projections based on reliable estimates of future cash flows; and

- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

Land and buildings were revalued on 31 December 2016 by RealReach (Pty) Limited `based on the open market value at P 60,026,999 and the residential properties were valued by Kwena Property Services (Pty) Limited based on the open market valued at P 22,012,000.

All resulting fair value estimates for properties are included in level 3. The key inputs under this approach are the price per square metre from current year sales of comparable lots of land in the area (location and size).

Plant and machinery were revalued on 31 December 2016 by RealReach (Pty) Limited based on Depreciated Replacement Cost of the assets. Depreciated Replacement Cost is the cost of acquiring and installing a new or a modern substitute asset having the same productive capacity as that existing, depreciated according to age, obsolescence, use and condition.

Fair value measurements determined using valuation techniques based on observable inputs (Level 2) - *Land and buildings, residential property and plant and machinery*

(iii) Valuation inputs and relationships to fair value
The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See (ii) above for the valuation techniques adopted.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

6.4 Recognised fair value measurements [continued]

Description	Fair value 2016 P '000	2015 P '000	Unobservable inputs*	Range of inputs (probability - weighted average) 2016	2015	Relationship of unobservable inputs to fair value
Land and building	**60,027**	54,744	Remaining useful life	**17 Years**	18 Years	The higher the remaining useful life higher the fair value
			Physical deterioration and obsolescence	**8% - 10%**	8% - 10%	The higher the rate of physical deterioration and obsolescence
Residential properties	**22,012**	17,910	Comparable value of a similar land and building	**P 6,470 sq.m**	P 4,988 sq.m	The higher the comparable value, higher the fair value
Plant and machinery	**247,139**	195,545	Remaining useful life	**17 Years**	18 Years	The higher the remaining useful life higher the fair value
			Technical obsolescence, usage and condition	**8% - 10%**	8% - 10%	The higher the adjustment for technical obsolescence, usage and condition lower the fair value.

*There were no significant inter-relationships between unobservable inputs that materially affect fair values.

(iv) Valuation processes

The Company engages external, independent and qualified valuers to determine the fair value of the Company's land and building, residential properties and plant and machinery at least every three years. As at 31 December 2016, the fair values of the land and building and plant and machinery have been determined by RealReach (Pty) Limited. The residential properties valued by Kwena Property Services (Pty) Limited as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

7 EQUITY

7.1 Stated capital

	2016 P	2015 P
Ordinary shares issued and fully paid		
At beginning of year	278,347,000	28,347,000
Issued during the year	-	250,000,000
At end of year	278,347,000	278,347,000

The 275,000,002 (2015: 275,000,002) ordinary shares in issue have no par value.

7.2 Other reserves

	Revaluation reserve P
At 1 January 2015	89,191,910
At 31 December 2015	89,191,910
At 1 January 2016	89,191,910
Revaluation - gross (Note 6.1)	72,843,300
At 31 December 2016	162,035,210

The revaluation reserve arises as a result of revaluation of land and building, residential properties and plant and machinery to reflect the current market value. There are no restrictions on the distribution of the revaluation reserve to the equity holders.

8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in notes 1 to 7 together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

8.1 Significant estimates and judgements

The areas involving significant estimates or judgements are:

8.1.1 Estimation of fair values of land and buildings – Notes 6.4

Land and building, residential properties and plant and machinery are valued at least triennially as the assets do not experience significant and volatile changes in fair value, thus negating the necessity for annual revaluation.

The fair value of the Company's land and building, residential property and plant and machinery were determined by independent valuers based on following methods.

(i) Plant and machinery

Plant and machinery were revalued on 31 December 2016 by an independent valuer based on Depreciated Replacement Cost of the assets. Depreciated Replacement Cost is the cost of acquiring and installing a new or a modern substitute asset having the same productive capacity as that existing, depreciated according to age, obsolescence, use and condition.

(ii) Land and buildings and residential properties

Land and buildings and residential properties were revalued on 31 December 2016 by an independent valuer based on Open Market Value. The Open Market Value is the best price at which an interest in the property might reasonably be expected to be sold at the date of the valuation assuming:

- a willing seller;
- a reasonable period in which to negotiate the sale taking into account the nature of the property and the state of the market;
- that values will remain static during that period;
- that the property will be freely exposed to the open market; and
- that no account will be taken of any additional bid by a purchaser with special interest.

8.1.2 Impairment provision on trade receivables – Note 5.1

The nature of the Company's business is such that its customers mainly consist of state owned enterprises. Consequently these customers are subject to economic and political risk. The assessment of the recoverability of receivables therefore, requires significant judgement by the Company and many have a significant impact on the financial statement.

The Company reviews its debtors to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company takes into consideration adverse movement in the Sovereign credit ratings, unfavorable changes in fiscal policy, changes to the political environment and historical experience with customers such as the period of time taken to settle in the past and past events that resulted in the amounts due not being collected.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS [continued]

8.1.2 Impairment provision on trade receivables – Note 5.1 [continued]

When Management prepares estimates of cash flows and the timing thereof for each counter-party, following are the significant assumptions used:

(i) The timing of cash flows will assume to take a similar pattern to the historical cash flow pattern as modified by known changes based on correspondences;
(ii) The credit risk (measured by reference to the sovereign credit ratings), fiscal policy and political environment of each customer will remain unchanged over the forecast period;
(iii) Where relevant, donor financing pledged to customers for specific orders will remain in place over the forecast period;
(iv) Significant movements in foreign exchange rates are not expected to occur over the forecast period in respect of sales transactions denominated in foreign currencies; and
(v) A pre-tax rate interest of LIBOR adjusted for risk for specific countries (ranging from +2 to +5), for foreign debtors and fixed deposit rates for local debtors are used to determine the present value estimated future cash flows.

The assumptions used for estimating the amount and timing of cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

8.1.3 Residual value and useful lives of property, plant and equipment

The Company determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The Company increases the depreciation charge where the useful lives are less than previously estimated, or it will appropriately impair, technically obsolete or non-strategic assets that have been abandoned or identified for sale.

Residual values are based on current estimates of the value of these assets at the end of their useful lives.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

8.1.4 Transfer of risk and rewards

Due to the dynamic nature of each customer, terms and conditions are individually negotiated to take into account many considerations and unique circumstances.

The dynamics of each contract does not lend itself for automation, requiring significant manual intervention in determining when the risks and rewards are transferred for each transaction to recognise the related revenue in terms International Accounting Standards 18, Revenue (“IAS 18”).

Management identifies and assess the specific conditions of each sales transactions, meets the criteria set by IAS 18 for revenue recognition.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in Botswana Pula	Cash flow forecasting Sensitivity analysis	Assets/liability matching to the extent possible by maintaining appropriate level of relevant foreign currency cash balances taking into consideration foreign currency cash flows from receivables to meet foreign currency obligations.
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Assets/liabilities matched to the extent possible by holding assets earning variable rates of interest
Credit risk	Cash and cash equivalents and trade receivables	Aging analysis	Diversification of bank deposits, credit limits and letters of credit.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and bor-rowing facilities.

The Company's risk management is carried out by the Finance Department under policies approved by the Board of Directors. The Finance Department identifies andevaluates financial risks in close co-operation with the Company's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, , and investment of excess liquidity.

9.1 Market risk

(i) Foreign currency risk

Foreign currency risk is managed by the finance function. Its objective is to minimise losses arising from the Company's exposure to various currencies by attempting to match foreign currency denominated current liabilities against current assets of similar currencies to the extent possible.

In the ordinary course of business, the Company enters into transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

At 31 December 2016, if the currency had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit for the year would have been P 1,476,285 (2015: P2,250,694) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US Dollar denominated bank balances, trade receivables and trade payable.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT [continued]

9.1 Market risk [continued]

At 31 December 2016, if the currency had weakened / strengthened by 5% against the Euro with all other variables held constant, post-tax profit for the year would have been P 1,474,287 (2015: P 1,790,817) higher / lower, mainly as a result of foreign exchange gains / losses on translation of Euro denominated bank balances, trade receivables and trade payable.

Exposure

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Botswana Pula, was as follows:

	31 December 2016			31 December 2015		
	USD	**Euro**	**ZAR**	**USD**	**Euro**	**ZAR**
Trade and other receivables	**25,671,679**	**22,169,047**	**-**	20,785,791	25,582,813	**-**
Cash and cash equiva-lents	**226,500**	**7,770,751**	**5,583**	15,079,753	231,916	-
Trade payables	**5,114,696**	**1,022,526**	**329,616**	11,399,035	11,792,420	528,111

(ii) Cash flow and fair value interest rate risk

Interest rate risk is managed by the Finance Function. Its objective is to minimise the cost of financing through the placement of temporary excess funds in high yielding money market investments and cash deposits and to the extent possible by re-scheduling more expensive borrowings with cheaper finance.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially off-set by cash held at variable rates. The borrowings do expose the Company to fair value interest rate risk..

(iii) Price risk

The Company is not exposed to other price risks such as commodity price risk, equity price risk, prepayments risk, and residual value risk.

9.2 Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, and outstanding trade receivables. If customers are independently rated, these ratings are used. If there is no independent rating, Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9.2 Credit risk [continued]

	2016 P	2015 P
Trade receivables		
Counterparties with external credit rating (Moody's)		
A2	5,995,868	7,499,632
Baa3	9,180,000	-
Counterparties with external credit rating (Fitch Ratings)Á		
Fitch B	13,361,202	-
Fitch B+	634,340	-
Fitch B-	1,090,213	-
*Counterparties without external credit rating**		
Group 1	-	-
Group 2	8,598,635	12,419,830
Group 3	-	-
Total trade receivables	38,860,258	19,919,462
Other receivables**	195,701	126,669

***Group 2 – existing customers (more than 6 months) with no defaults in the past

****The Company has procedures in place to assess whether to enter into transactions with third parties, including mandatory credit checks.

The credit ratings have been assessed by Moody's and Fitch Ratings Inc. are independent credit rating organisations. The definitions of the ratings are given below:

Moody's
- An Aa2 rating relates to a "High quality" credit standing, subject to "very low credit risk"
- A Baa3 rating relates to a "Moderate" credit standing. They are considered medium grade and as such may possess certain speculative characteristics.

Fitch Ratings
- B rating related to a "Highly Speculative" standing. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment. The modifiers "+" of "-" appended to rating to denote relative status with major rating categories.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT [continued]

9.2 Credit risk [continued]

Other financial assets at fair value through profit or loss

		2016 P	2015 P
Stanbic Money Market Fund	- not rated	66,679	64,337
Stanbic Management Prudential Fund	- not rated	3,371	3,516
		70,050	67,853

	2016 P	2015 P
Cash at bank		
Barclays Bank of Botswana Limited	556,649	130,981,324
Standard Chartered Bank Botswana Limited	402,023	15,091,072
BancABC Limited	7,765,525	73,154,199
First National Bank of Botswana Limited	15,680	17,310
Botswana Insurance Fund Management Unit Trust	157,169,939	-
	165,909,816	219,243,905

The Company only deposits cash with major banks and unit trusts with high quality credit standing and limits exposure to any one counter-party. The Company has deposits with Barclays Bank of Botswana Limited, Standard Chartered Bank Botswana Limited, BancABC Limited, First National Bank of Botswana Limited and BIFM Unit Trust. There are no credit ratings available in Botswana. The banks are listed companies and have reported sound financial results and continued compliance with minimum capital adequacy requirements. None of the financial assets that are fully performing have been re-negotiated during the year.

Barclays Bank of Botswana Limited is listed on the Botswana Stock Exchange. Barclays Bank of Botswana is a subsidiary of Barclays Africa Group Limited which is listed on Johannesburg Stock Exchange. The bank's ultimate holding Company is Barclays Bank PLC - UK, which is listed on the London Stock Exchange and has a credit rating of A-2 for short-term and A – (Negative) for long-term (Standard & Poor's) in the UK.

Standard Chartered Bank Botswana Limited is listed on the Botswana Stock Exchange and is a subsidiary of Standard Chartered PLC. Standard Chartered Bank is rated by Fitch, Moody's, Standard & Poor's. Long-term credit rating assigned to the bank by Fitch is A+ (high credit quality). Long-term credit rating assigned to the bank by Moody's is Aa3 (high grade). Long-term credit rating assigned to the bank by Standard & Poor's is A (strong capacity to meet its financial commitments).

African Banking Corporation Botswana Limited is a subsidiary of ABC Holdings Limited. ABC Holdings Limited is a subsidiary of Atlas Mara Limited. Atlas Mara Limited was listed on London Stock Exchange in 2013.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT [continued]

9.2 Credit risk [continued]

First National Bank of Botswana Limited is listed on the Botswana Stock Exchange and is a subsidiary of FirstRand Bank Limited, a Company listed on the Johannesburg Stock Exchange. Long-term credit rating assigned to the bank by Moody's is Baa2. Long-term credit rating assigned to the bank by Standard & Poor's is BB+ (strong capacity to meet its financial commitments). FirstRand Botswana's rating reflect the bank's strong market position as one the big four banks in South Africa as well as its focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

Impaired trade receivables

Individual receivables which are known to be uncollectible are written-off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Company considers that there is evidence of impairment if any of the following indicators are present:

- An adverse movement in the Sovereign credit ratings, unfavourable change in fiscal policy and prolonged period for settlement of dues;
- Historical loss data and qualitative factors on the individual receivables; and
- Changes to the political environment.

Receivables for which an impairment provision was recognised are written-off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within administration expenses. Subsequent recoveries of amounts previously written off are credited against administration expenses.

The ageing of these impaired trade receivables is as follows:

	Carrying amounts	
	2016 P	2015 P
Over 6 months	800,673	889,052

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	2016 P	2015 P
At 1 January	889,052	255,018
Reversal / (charge) during the year	(88,379)	883,124
Written-off during the year	-	(249,090)
At 31 December	800,673	889,052

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT [continued]

9.2 Credit risk [continued]

Past due but not impaired

As at 31 December 2016, trade receivables of P 27,560,910 (2015: P 32,309,815) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 P	2015 P
Between 31 to 60 days	-	8,833,080
Between 61 and 120 days	-	7,718,038
Over 120 days	27,560,910	15,758,697
	27,560,910	32,309,815

The other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

9.3 Liquidity risk

Management monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance.

Surplus cash is invested in interest bearing call accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the Company held money market funds of P70,050 (2015: P 67,853) and other liquid assets of P 165,909,814 (2015: P 218,885,004) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Company's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

9 FINANCIAL RISK MANAGEMENT [continued]

9.3 Liquidity risk [continued]

As at 31 December 2016 Liabilities	Less than 6 months P	Between 6 and 12 months P	Between 1 and 2 years P	Between 2 and 5 years P	Total P
Borrowings	2,341,248	2,341,248	41,752,262	47,323	46,482,081
Trade and other payables	29,079,232	-	-	-	29,079,232
Financial guarantee	2,500,000	-	-	-	2,500,000
Total	33,920,480	2,341,248	41,752,262	47,323	78,061,313

As at 31 December 2015 Liabilities	Less than 6 months P	Between 6 and 12 months P	Between 1 and 2 years P	Between 2 and 5 years P	Total P
Borrowings	4,448,807	4,089,868	8,003,570	73,329,160	89,871,405
Trade and other payables	79,462,522	-		-	79,462,522
Financial guarantee	2,500,000	-	-	-	2,500,000
Total	86,411,329	4,089,868	8,003,570	73,329,160	171,833,927

10 CAPITAL RISK MANAGEMENT

The Company manages its capital informally in order to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholder, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company monitors capital on the basis of the following gearing ratio: Net debt as per note 5.5, divided by Total 'equity' (as shown in the statement of financial position).

During 2016, the Company's strategy, which was unchanged from 2015, was to maintain a nil gearing ratio. This is because the Company maintains a higher cash balance than the borrowings. The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

10 CAPITAL RISK MANAGEMENT [continued]

	2016 P	2015 P
Total borrowings	39,831,237	70,063,198
Less – Cash and cash equivalents	(165,910,136)	(219,243,942)
Net borrowings	(126,078,899)	(149,180,744)
Total equity	550,918,176	436,136,212
Total capital	424,839,277	286,955,468
Gearing ratio	Nil	Nil

11 CONTINGENT LIABILITIES

All permanent employees of the Company are entitled to a loan to purchase motor vehicles and acquire a residential property under an agreed scheme with Botswana Savings Bank. The Company has provided a guarantee of P 2,500,000 to operate the above scheme. The total advances due by eligible employees to the scheme as at 31 December 2016 amounted to P 2,921,277 (2015: P 2,851,509).

12 COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2016 P	2015 P
Buildings	5,552,809	-

The above commitments include professional fee for design and building the new manufacturing plant.

There were no other commitments at the end of the year that require disclosure in the financial statements.

13 EVENTS AFTER REPORTING PERIOD

There were no material events that occurred after the end of reporting period date that require disclosure or adjustment to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

14 RELATED PARTY TRANSACTIONS AND BALANCE

i) Merial S.A.S., a Company incorporated in France, provides technical and operational assistance to the Company. Merial is a major supplier of the company's raw materials. Two Directors of Merial also hold directorships in the Company. By virtue of these relationships Merial is able to exercise significant influence over the operational decisions of the Company.

Transactions carried out with Merial during the year were as follows :

	2016 P	2015 P
Purchase of goods	9,026,366	14,010,067
Technical fees charged	6,016,023	5,712,826
Export commission charged	-	19,707,129
Royalties charged	7,022,128	5,724,746
Other expenses	14,265	18,914

Balance payable to Merial at year-end is as follows.	2016 P	2015 P
Export commission payable	13,027,404	7,320,051
Royalty payable	2,294,739	2,373,021
Trade payable	6,229,909	16,432,493
Royalties charged	21,552,052	26,125,565

Trade accounts payable to related parties arise mainly from purchase transactions in the normal course of business. These amounts are unsecured, are payable based on negotiated credit terms and bear no interest.

Royalties and export commission

(a) Royalties

Royalties are charged on sale of FMD monovalent vaccine by Merial on the following basis;

- sales within Botswana - USD 0.02 per dose
- all export sales - USD 0.03 per dose

(b) Export commission

Commission is charged on export sales of the monovalent vaccine by Merial based on the value of doses sold. Commission varies from 5% - 20% based on the agreement effective from 1 January 2015.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

14 RELATED PARTY TRANSACTIONS AND BALANCE [continued]

(ii) Following are the transactions with the senior management :

	2016 P	2015 P
Salaries paid		
Salaries paid to key personnel	1,494,006	1,533,900
Salary advances		
Salary advances outstanding at the year end	4,735	3,667

Salary advances granted to staff are recoverable over a maximum period of six months, secured on the terminal benefits, and bears no interest.

Following are the transactions with Directors :

	2016 P	2015 P
Directors' fees paid		
Mrs. P. Makepe	16,800	11,760
Dr. A. Blackbeard	23,118	14,280
Government of Botswana	10,920	8,400
Mr. L. Monare	20,338	18,480
Mr. E. Kemsley	16,800	11,550
	87,976	64,470
Board members expenses	384,232	240,682

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

15.1 Basis of preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and plant and machinery, and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on Management's best knowledge of the current events and actions, actual results may ultimately differ from those estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 8.

(i) Adoption of standards in the current financial year

New and amended standards adopted by the Company

The following new standards, amendments and interpretations to existing standards have been adopted for the Company's accounting periods beginning on or after 1 January 2016.

- Amendments to IAS 1,'Presentation of financial statements' disclosure initiative - In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies (effective 1 January 2016).

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation - In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset (effective 1 January 2016).

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.1 Basis of preparation [continued]

(i) Adoption of standards in the current financial year [continued]

New and amended standards applicable to the current period but not relevant to the Company

Management assessed the relevance of the following amendments and interpretations with respect to the Company's operations and concluded that they are not relevant to the Company.

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on applying the consolidation exemption - The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries (effective from 1 January 2016).

- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation - This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions (effective from 1 January 2016).

- IFRS 14 – Regulatory deferral accounts - The IASB has issued IFRS 14, 'Regulatory deferral accounts' specific to first time adopters ('IFRS 14'), an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts').

  Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body (effective from 1 January 2016).

- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants - In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant include examples of non-bearer plants and remove current examples of bearer plants from IAS 41 (effective from 1 January 2016).

- Amendments to IAS 27, 'Separate financial statements' on equity accounting - In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements (effective from 1 January 2016).

- Amendment to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' - This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.

  The amendment also clarifies that changing the disposal method does not change the date of classification (effective from 1 January 2016).

- Amendment to IFRS 7 – 'Financial Instruments: Disclosures' - Applicability of the offsetting disclosures to condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.1 Basis of preparation [continued]

(i) Adoption of standards in the current financial year [continued]

New and amended standards applicable to the current period but not relevant to the Company [continued]

The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose '[] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report (effective from 1 January 2016).

- Amendment to IFRS 7 – 'Financial Instruments: Disclosures' - Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required (effective from 1 January 2016).

- Amendment to IAS 19 – 'Employee Benefits' - Discount rate: regional market issue - The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used (effective from 1 January 2016).

- Amendment to IAS 34 – 'Interim Financial Reporting' - Disclosure of information 'elsewhere in the interim financial report'

  The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

  The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete (effective from 1 January 2016).

(ii) Adoption of standards in future financial periods

New standards, amendments and interpretations which are relevant to the Company's operations

The following new standards, amendments and interpretations to existing standards are relevant for the Company's accounting periods beginning after 1 January 2017. These have not been early adopted by the Company. The Company is yet to assess the impact of these new standards.

- Amendment to IAS 7 – Cash flow statements - In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities (effective from 1 January 2017).

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.1 Basis of preparation [continued]

(ii) Adoption of standards in future financial periods [continued]

New standards, amendments and interpretations which are relevant to the Company's operations [continued]

- IFRS 15 – Revenue from contracts with customers- The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer (effective from 1 January 2018).

- IFRS 9 – Financial Instruments (2009 & 2010)
  - Financial liabilities
  - Derecognition of financial instruments
  - Financial assets
  - General hedge accounting

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss (effective 1 January 2018).

- IFRIC 22, 'Foreign currency transactions and advance consideration - This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice (effective 1 January 2018).

Management is currently assessing the impact of the application of these new standards, amendments and interpretations on the Company's financial statements in the period of initial application. At this time, the adoption of these standards and interpretations is only expected to have an impact on the classification and disclosure of items in the Company's financial statements.

New standards, amendments and interpretations which are not relevant to the Company's operations

Management assessed the relevance of the following new amendments and improvements with respect to the Company's operations and concluded that they are not relevant to the Company:

- Amendment to IAS 12 – Income taxes - Recognition of deferred tax assets for unrealised losses - The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

  The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets (effective 1 January 2017).

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.1 Basis of preparation [continued]

(ii) Adoption of standards in future financial periods [continued]

New standards, amendments and interpretations which are not relevant to the Company's operations [continued]

- Amendments to IFRS 2 – 'Share-based payments' - This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority (effective from 1 January 2018).

- Amendment to IFRS 9 -'Financial instruments', - on general hedge accounting - The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39 (effective 1 January 2018).

- IFRS 16 – Leases - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

  Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

  For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' (effective from 1 January 2018).

- IFRS 4, 'Insurance contracts' - Regarding the implementation of IFRS 9, 'Financial instruments' - These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

  - Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and

  - Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

- IAS 40, 'Investment property' - Transfers of investment property - These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence (effective from 1 January 2018).

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.1 Basis of preparation [continued]

(ii) Adoption of standards in future financial periods [continued]

New standards, amendments and interpretations which are not relevant to the Company's operations [continued]

- IFRS 1,' First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 (effective from 1 January 2018).
- IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
- IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition (Effective form 1 January 2018).

15.2 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Botswana Pula, which is the Company's functional and the presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Such monetary assets and liabilities are translated at the exchange rates prevailing at the year end.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within "other losses and gains". All other foreign exchange gains and losses are presented in profit or loss within cost of sales.

15.3 Revenue recognition – Sale of vaccines

Revenue is recognised using fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities and freight charges on export sales. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company manufactures and sells vaccines to foreign and local customers. Revenue is recognised when substantially all risks and rewards are transferred to customer, which is dependent upon the individual customer contracts and terms and conditions negotiated. Most often is at the point at which goods have been delivered and accepted by the customer.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.4 Impairment of non-financial assets

Non-financial assets are reviewed annually 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). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period date.

As a minimum, Management considers the existence of the following external and internal indicators at the end of each reporting period date which individually or collectively may indicate impairment on non-financial assets.

External sources of information

- An unexpected significant decline in market value of an asset.
- A significant change in the technological, market, economic or legal environment within which the Company operates or in the market to which an asset has been dedicated, that adversely affects the Company.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- The carrying amount of the net assets of the Company is more than its market capitalisation.

Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.

Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

15.5 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

15.6 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 5(a) for further information about the Company's accounting for trade receivables and note 9(b) for a description of the Company's impairment policies.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average costing method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Cattle purchased for testing purposes are expensed in the year of purchase.

15.8 Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss, and
- loan and receivables

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See note 5 for details about each type of financial asset.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(iv) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.8 Investments and other financial assets [continued]

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment testing of trade receivables is described in note 9.2.

(v) Income recognition

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

15.9 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

15.10 Property, plant and equipment

The Company's accounting policy for land and buildings, plant and machinery, residential properties is explained in note 6.1. All other assets is stated at historical cost less depreciation. 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 recognised 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.10 Property, plant and equipment [continued]

Increase in the carrying amount arising on revaluation of residential properties land and buildings and plant and machinery is credited to other comprehensive income and shown as revaluation reserve in the statement of changes in equity. Decreases that off-set previous increases of the same assets are charged against the revaluation reserve; all other decreases are charged to profit or loss. The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The depreciation methods and periods used by the Company are disclosed in note 6.1.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

15.11 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

15.12 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.13 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

15.14 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

15.15 Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service.

They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expect future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS [continued]

for the year ended 31 December 2016

15.15 Employee benefits [continued]

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

The Company operates a defined contribution pension plan for its employees. The Company pays contributions to a privately administered pension insurance plan on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

DETAILED INCOME STATEMENT

for the year ended 31 December 2016

	2016 P	2015 P
Revenue		
Domestic	16,509,079	11,383,210
Export	145,823,100	140,930,582
Agency	2,863,350	4,429,040
	165,195,529	156,742,832
Freight	5,371,087	1,239,794
	170,566,616	157,982,626
Cost of sales	(77,056,509)	(98,141,976)
Gross profit	93,510,107	59,840,650
Other income	1,038,371	944,466
Other (losses) / income	(4,692,792)	2,667,079
Distribution costs		
Advertising and travel	(249,222)	(131,268)
Custom freight and insurance	(4,265,835)	(1,190,042)
Export commission	(18,971,619)	(19,707,129)
	(23,486,676)	(21,028,439)
Administrative expenses	(18,774,040)	(16,250,262)
Operating profit	47,594,970	26,173,494

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