

HESTER BIOSCIENCES KENYA LIMITED

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2019

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COMPANY INFORMATION

BOARD OF DIRECTORS	:	Rajiv Gandhi (India)
	:	Darayus Lakdawalla (India)
REGISTERED OFFICE	:	Plot L.R No 7158/602
	:	Kalamu House, Grevillea Groove, Westlands
	:	P.O. Box 47323, 00100
	:	NAIROBI
INDEPENDENT AUDITOR	:	PKF Kenya
	:	Certified Public Accountants
	:	P.O. Box 14077, 00800
	:	NAIROBI
COMPANY SECRETARY	:	Equatorial Secretaries and Registrars
	:	Certified Public Secretaries
	:	P.O. Box 47323, 00100
	:	NAIROBI
PRINCIPAL BANKER	:	Standard Chartered Bank of Kenya Limited
	:	NAIROBI
SUBSIDIARY	:	Hester Biosciences Tanzania Limited
	:	TANZANIA

REPORT OF THE DIRECTORS

The directors submit their report and the audited consolidated financial statements for the year ended 31 March 2019, which disclose the state of affairs of the company and the group.

PRINCIPAL ACTIVITY

The principal activity of the group is that of manufacturing, distribution and supply of animal health products, diagnostic platforms, animal vaccine and to provide high quality poultry vaccine, diagnostics and medicines to farmers in Africa and other regions in the world

BUSINESS REVIEW

Key performance indicators	Group		Company	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Turnover	3,197,393	-	-	-
Gross profit	400,969	-	-	-
Loss before tax	(6,722,158)	(5,711,440)	(1,476,177)	(2,720,027)
Net assets	99,278,575	93,768,210	110,817,929	97,234,106

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the group's products and services. The group's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions.

In addition to the business risks discussed above, the group's activities expose it to a number of financial risks including credit risk, cash flow and foreign currency risk and liquidity risk as set-out below:

Credit risk

The group's principal financial assets are cash and bank balances and trade and other receivables. The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Cash flow and foreign currency risk

The majority of the group's purchases and sales are in Kenya Shillings but where purchases and sales are made in foreign currency, the group is exposed to currency risk. This risk is managed through appropriate operational offset of open receivable and payable foreign currency positions.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company monitors its need for cash on a regular basis and takes appropriate action through [intercompany and banking] financing arrangements.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the group and the company; that disclose, with reasonable accuracy, the financial position of the group and company and that enable them to prepare financial statements of the group and the company that comply with International Financial Reporting Standard for Small and Medium-sized Entities. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. They also accept responsibility for:

- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances.


The directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and of the company as at 31 March 2019 and of the company's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of, and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

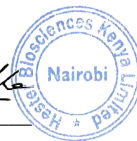
Approved by the board of directors on 20 April 2019 and signed on its behalf by:



DIRECTOR



DIRECTOR



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF HESTER BIOSCIENCES KENYA LIMITED

Opinion

We have audited the financial statements of Hester Biosciences Kenya Limited and its subsidiaries (the group) set out on pages 6 to 17, which comprise the consolidated and company statements of financial position as at 31 March 2019, consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity, consolidated and company statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Hester Biosciences Kenya Limited as at 31 March 2019, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

Basis of 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restriction on use

We draw attention to note 1(a) of the financial statements which describes the basis of preparation. The financial statements have been prepared to assist the parent company prepare combined financial statements and as a result may not be suitable for any purpose. Our report is intended solely for management of Hester Biosciences Kenya Limited and should not be used by parties other than these. Our report is not modified in that aspect

Other matters

The holding company's year end is 30 June, hence the last general purpose financial statements were 30 June 2018. This is the first set of special purpose financial statements prepared for the company as at 31 March 2019. The comparative are derived from the management accounts as at 31 March 2018 and partly from audited accounts from 30 June 2018.

The financial statements for the subsidiary are prepared using the full IFRS. There are no material differences in accounting policies hence no material adjustments

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF HESTER BIOSCIENCES KENYA LIMITED (CONTINUED)**

Other information

The directors are responsible for the other information. The other information comprises group information, report of the directors, statement of directors responsibilities, consolidated and company manufacturing account and consolidated and company schedule of expenditure but 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standard for Small and Medium-sized Entities, 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 consolidated 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 consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF HESTER BIOSCIENCES KENYA LIMITED (CONTINUED)**

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 director's 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 group'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 group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

PKF Kenya
**Certified Public Accountants
Nairobi**

06 May, 2019

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STATEMENT OF PROFIT OR LOSS AND RETAINED EARNINGS					
		GROUP		COMPANY	
	Notes	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Revenue	4	3,197,393	-	-	-
Cost of sales		<u>(2,796,424)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross profit		400,969	-	-	-
Administrative expenses		(4,152,996)	(3,221,518)	(1,018,229)	(2,195,013)
Other operating expenses		<u>(3,138,817)</u>	<u>(2,389,142)</u>	<u>(457,948)</u>	<u>(525,014)</u>
Operating loss		(6,890,844)	(5,610,660)	(1,476,177)	(2,720,027)
Finance expenses		168,686	(100,780)	-	-
(Loss) before tax	6	(6,722,158)	(5,711,440)	(1,476,177)	(2,720,027)
Tax		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss) for the year		<u><u>(6,722,158)</u></u>	<u><u>(5,711,440)</u></u>	<u><u>(1,476,177)</u></u>	<u><u>(2,720,027)</u></u>
Other comprehensive income					
Currency translation		<u>(2,827,477)</u>	<u>(474,483)</u>	<u>-</u>	<u>-</u>
Total other comprehensive income		<u><u>(9,549,635)</u></u>	<u><u>(6,185,923)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.




STATEMENT OF FINANCIAL POSITION		GROUP		COMPANY	
		As at 31 March		As at 31 March	
	Notes	2019 Shs	2018 Shs	2019 Shs	2018 Shs
CAPITAL EMPLOYED					
Share capital	8	15,060,300	300	15,060,300	300
Capital grant	9	57,232,375	57,232,375	57,232,375	57,232,375
Translation reserve		(3,301,960)	(474,483)	-	-
Retained earnings		30,287,860	37,010,018	38,525,254	40,001,431
Shareholders' funds		99,278,575	93,768,210	110,817,929	97,234,106
REPRESENTED BY					
Non-current assets					
Property plant & equipment	10	523,233	2,249,277	3,062	8,312
Investment in subsidiary	11	-	-	57,232,375	57,232,375
		523,233	2,249,277	57,235,437	57,240,687
Current assets					
Inventory	12	6,626,938	9,672,884	-	-
Trade and other receivables	13	96,043,225	82,500,741	48,913,653	39,690,592
Cash and cash equivalents	14	7,707,346	10,015,531	5,680,533	2,198,827
		110,377,509	102,189,156	54,594,186	41,889,419
Current liabilities					
Trade and other payables	15	1,735,588	3,525,541	1,011,694	1,896,000
Loans and advances	16	9,886,579	7,144,682	-	-
		11,622,167	10,670,223	1,011,694	1,896,000
Net current assets		98,755,342	91,518,933	53,582,492	39,993,419
		99,278,575	93,768,210	110,817,929	97,234,106

The financial statements on pages 7 to 19 were authorised and approved for issue by the Board of Directors on 20 April 2019 and were signed on its behalf by:



DIRECTOR

DIRECTOR



The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital Shs	Capital grant Shs	Group Translation reserve Shs	Retained earnings Shs	Total Shs
Year ended 31 March 2018					
At start of year	300	57,232,375	-	42,721,458	99,954,133
Total other comprehensive income	-	-	(474,483)	(5,711,440)	(6,185,923)
At end of year	<u>300</u>	<u>57,232,375</u>	<u>(474,483)</u>	<u>37,010,018</u>	<u>93,768,210</u>
Year ended 31 March 2019					
At start of year	300	57,232,375	(474,483)	37,010,018	93,768,210
Total other comprehensive income	-	-	(2,827,477)	(6,722,158)	(9,549,635)
Addition share capital	<u>15,060,000</u>	-	-	-	<u>15,060,000</u>
At end of year	<u>15,060,300</u>	<u>57,232,375</u>	<u>(3,301,960)</u>	<u>30,287,860</u>	<u>99,278,575</u>
Company					
	Share capital Shs	Capital grant Shs	Retained earnings Shs	Total Shs	
Year ended 31 March 2018					
At start of year	300	57,232,375	42,721,458	99,954,133	
Total other comprehensive income	-	-	(2,720,027)	(2,720,027)	
At end of year	<u>300</u>	<u>57,232,375</u>	<u>40,001,431</u>	<u>97,234,106</u>	
Year ended 31 March 2019					
At start of year	300	57,232,375	40,001,431	97,234,106	
Total other comprehensive income	-	-	(1,476,177)	(1,476,177)	
Share capital	<u>15,060,000</u>	-	-	<u>15,060,000</u>	
At end of year	<u>15,060,300</u>	<u>57,232,375</u>	<u>38,525,254</u>	<u>110,817,929</u>	

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.



STATEMENT OF CASH FLOWS		GROUP		COMPANY	
		As at 31 March		As at 31 March	
Cash (used in)/from operations	Note	2019 Shs	2018 Shs	2019 Shs	2018 Shs
(Loss) before tax		(6,722,158)	(5,711,440)	(1,476,177)	(2,720,027)
Adjustments for:					
Depreciation on equipment	10	641,477	353,894	5,250	3,938
Translation adjustment		(2,826,546)	(474,483)	-	-
Changes in working capital:					
- Inventory	12	3,045,946	-	-	-
- trade and other receivables	13	(13,542,484)	(18,778,944)	(9,223,061)	(18,787,181)
- trade and other payables	15	(1,789,953)	(57,900,891)	(884,306)	(59,015,033)
Net cash (used in)/from operating activities		<u>(21,193,718)</u>	<u>(82,511,864)</u>	<u>(11,578,295)</u>	<u>(80,518,303)</u>
Investing activities					
Cash used in purchase of equipment	10	(84,305)	2,665,583	-	-
Proceeds from disposal of plant and ec	10	1,167,941	-	-	-
Share capital	8	15,060,000	-	15,060,000	-
Investment in subsidiary	11	-	-	-	(57,232,375)
Net cash (used in) operating activities		<u>16,143,636</u>	<u>2,665,583</u>	<u>15,060,000</u>	<u>(57,232,375)</u>
Financing activities					
Capital grant received from donors	9	-	-	-	57,232,375
Proceeds from loans and advances	16	2,741,897	7,144,682	-	-
		<u>2,741,897</u>	<u>7,144,682</u>	<u>-</u>	<u>57,232,375</u>
Increase/(decrease) in cash and cash equivalent		<u>(2,308,185)</u>	<u>(72,701,599)</u>	<u>3,481,705</u>	<u>(80,518,303)</u>
Movement in cash and cash equivalents					
At start of year		10,015,531	82,717,130	2,198,827	82,717,130
Increase/(decrease)		<u>(2,308,185)</u>	<u>(72,701,599)</u>	<u>3,481,705</u>	<u>(80,518,303)</u>
At end of year		<u>7,707,346</u>	<u>10,015,531</u>	<u>5,680,532</u>	<u>2,198,827</u>

The notes on pages 11 to 19 form an integral part of these financial statements.

Report of the independent auditor - pages 4 to 6.



NOTES

1. General information

Hester Biosciences Kenya Limited (the Company) is incorporated in Kenya under the Companies Act, 2015 as a private company limited by shares, and is domiciled in Kenya. The address of its registered office and principal place of business is as shown on page 2. The principal activity of the company is that of manufacturing, distribution and supply of animal health products, diagnostic platforms and animal vaccine.

2. Basis of preparation

The consolidated financial statements are prepared on a historical cost basis in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

The consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements have been presented in Kenya Shillings.

The preparation of consolidated financial statements in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 3.

These financial statements have been prepared for the year 1 April 2018 to 31 March 2019 for the purpose of assisting the group in preparing combined financial statements. Separate general purpose financial statements will be prepared for the period 1 July 2018 to 30 June 2019

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss and retained earnings. The financial position of the company is set out in the statement of financial position.

During the year ended 31 March 2019 the group had no revenue and incurred a loss of Shs. 6,722,158 (2018: Shs. 6,268,511). The directors are of the opinion that the company will remain a going concern for the foreseeable future. This opinion is based on the assumption that continued financial support will be made available to the company by its parent company.

Based on the financial performance and position of the group and its risk management policies, the directors are of the opinion that the group is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

3. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

a) Key sources of estimation uncertainty

In the application of the accounting policies, the directors are required to make the judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Useful lives of property, plant equipment and intangible assets** - Management reviews the useful lives and residual values of the items of property, plant and equipment and intangible assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.
- **Fair value measurement and valuation process** - In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the group makes use of financial models or engages third party qualified valuers to perform the valuation techniques and inputs to the model.
- **Impairment of trade receivables** - the group reviews their portfolio of trade receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.



NOTES (CONTINUED)

3. Significant accounting policies (continued)

b) Significant judgements made by management in applying the company's accounting policies

Directors have made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- **Control of subsidiaries** - The directors assess whether or not the group has control over any entity based on whether or not the group has the practical ability to direct the relevant activities of the entity unilaterally. In making their judgement, the directors considered the groups absolute size of holding in the entity and the relative size of dispersion of the shareholdings owned by the other shareholders.

c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for the group's activities. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

- i) Sales of goods are recognised upon delivery of products and customer acceptance.
- ii) Dividend income is accounted for in the period in which it is declared.
- iii) Donation income is accounted for on accrual basis

d) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies. Control is achieved when the group has power over the investee; is exposed or has right to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The purchase method of accounting is used to account for the acquisition of a subsidiary by the company. The cost of an acquisition is measured at the fair value of consideration given (i.e. the fair values of assets given, equity instruments issued and liabilities incurred or assumed, plus costs that can directly attributed to the acquisition) at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the company's share of the identifiable net assets acquired is recorded as goodwill. Goodwill generated on the acquisition of a subsidiary is subject to annual impairment review. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognised directly in profit or loss as income.

Subsidiaries are fully consolidated from the date at which the company starts controlling them and are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates.



NOTES (CONTINUED)

3. Summary of significant accounting policies (continued)

f) Translation of foreign currencies (continued)

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

g) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Leasehold land and buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged to other comprehensive income; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the retained earnings to revaluation reserve.

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 company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated on the reducing balance basis method to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life using the following annual rates:

	<u>Rate %</u>
Motor vehicles	25
Plant and machinery	12.5
Furniture, fittings and equipment	12.5
Computer & Telephone equipment	30

Leasehold land and buildings are not depreciated since their market values approximate their book values.

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

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 disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings in the statement of changes in equity.



NOTES (CONTINUED)

3. Significant accounting policies (continued)

h) Financial instruments

Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The group's financial assets which include trade and other receivables, cash and bank balances, tax recoverable and unquoted shares fall into the following category:

Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12 months of the reporting date and are carried at fair value where fair value gains or losses are recognised directly in equity, net of deferred tax.

Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the reporting date. All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. 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 assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in profit or loss under administrative expenses when there is objective evidence that the group will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in the fair value of the asset are considered indicators that the asset is impaired.

The amount of the impairment loss is calculated at the difference between the assets carrying amount and the present values of expected future cash flows, discounted at the financial instrument's effective interest rate.

Subsequent recoveries of amounts previously written off/impaired are credited to profit or loss in the year in which they occur.

On disposal of investments whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.



NOTES (CONTINUED)

3. Significant accounting policies (continued)

h) Financial instruments (continued)

Financial assets (continued)

Management classifies financial assets as follows:

Quoted equity investments are classified as 'available-for-sale' financial instruments. The fair values of quoted investments are based on current bid prices at the reporting date.

Cash in hand and balances with financial institutions and trade and other receivables are classified as loans and receivables and are carried at amortised cost.

The management classify the fair values of financial assets at fair value based on the qualitative characteristics of the fair valuation as at the reporting date. The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.
- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
- **Level 3:** where fair values are not based on observable market data.

Financial liabilities

The group's financial liabilities which include borrowings, trade and other payables and current tax fall into the following category:

Financial liabilities measured at amortised cost: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in profit or loss under finance costs.

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortised over the period of the facility.

All financial liabilities 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 date.

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

i) Capital grant

These represents grants received for the purpose of capital expenditure including investments

Grants received for investments are classified as part of capital employed if there are no specific conditions on disposal. Where there are conditions in the event of disposal the same is classified as non-current liabilities.

j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.



NOTES (CONTINUED)

3. Significant accounting policies (continued)

k) Accounting for leases

Leases of property, plant and equipment, where the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period and is included under finance costs. Such property, plant and equipment is depreciated over its useful life.

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of raw materials, packaging materials, consumables and finished goods comprises raw materials, direct labour, other direct costs and related production overheads, attributable to bringing the inventory to its present location and condition but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

m) Retirement benefit obligations

Employee entitlements to leave gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

The group and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The group's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

n) Share capital

Ordinary shares are classified as equity.

o) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



NOTES (CONTINUED)

	GROUP		COMPANY	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
4. Revenue				
Revenue from sale of goods	<u>3,197,393</u>	<u>-</u>	<u>-</u>	<u>-</u>
5. Operating (loss)				
The following items have been charged/(credit) in arriving at the operating (loss):				
Depreciation on property, plant and equipment (Note 10)	640,166	352,140	3,938	3,938
Audit fees	935,552	407,888	332,000	203,000
Rent and rates	2,213,244	1,392,448	354,010	511,326
Repairs and maintenance	79,065	587,308	-	-
Staff costs (Note 7)	<u>888,902</u>	<u>-</u>	<u>-</u>	<u>-</u>
6. Tax				
Current tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:				
(Loss) before tax	<u>(6,722,158)</u>	<u>(5,711,440)</u>	<u>(1,476,177)</u>	<u>(2,720,027)</u>
Tax calculated at a tax rate of 30% (2018: 30%)	<u>(2,016,648)</u>	<u>(1,713,432)</u>	<u>(442,853)</u>	<u>(816,008)</u>
Tax effect of:				
- expenses not deductible for tax purposes	2,136,938	1,713,432	442,854	816,008
- income not subject to tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
7. Staff costs				
Salaries and wages	800,812	-	-	-
Pension costs:				
- National Social Security Fund	80,081	-	-	-
- W.C.F Expenses	<u>8,008</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>888,902</u>	<u>-</u>	<u>-</u>	<u>-</u>
8. Share capital				
Authorised:				
151,000 (2018: 1,000 ordinary shares of Shs. 100 each)	<u>15,100,000</u>	<u>100,000</u>	<u>15,100,000</u>	<u>100,000</u>
Issued and fully paid:				
150,603 (2018: 3) ordinary shares of Shs. 100 each	<u>15,060,300</u>	<u>300</u>	<u>15,060,300</u>	<u>300</u>
9. Capital grant				
Capital grant	<u>57,232,375</u>	<u>57,232,375</u>	<u>57,232,375</u>	<u>57,232,375</u>
The capital grant were funds received specifically for purpose of purchasing shares in Hester Biosciences Tanzania Limited				



NOTES (CONTINUED)

10. Property, plant and equipment

	GROUP		COMPANY	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Cost				
At start of year	2,596,066	-	17,500	17,500
Additions	84,305	2,665,583	-	-
Disposals	(2,003,024)	-	-	-
Translation adjustment	(47,820)	(85,945)	-	-
At end of year	<u>629,668</u>	<u>2,597,138</u>	<u>17,500</u>	<u>17,500</u>
Depreciation				
At start of year	347,720	5,250	9,188	5,250
Disposals	(876,323)	-	-	-
Charge for the year	641,477	353,894	5,250	3,938
Translation adjustment	(6,580)	(11,283)	-	-
At end of year	<u>106,435</u>	<u>347,861</u>	<u>14,438</u>	<u>9,188</u>
Net book value	<u><u>523,233</u></u>	<u><u>2,249,277</u></u>	<u><u>3,062</u></u>	<u><u>8,312</u></u>



NOTES (CONTINUED)

		GROUP		COMPANY	
11. Investment in subsidiary	% Holding				
Hester Biosciences Tanzania Limited	100%	-	-	57,232,375	57,232,375
12. Inventory					
Finished goods		6,626,938	9,672,884	-	-
13. Trade and other receivables					
Trade receivables		1,455,125	-	-	-
Other receivables and prepayments		616,940	398,234	150,353	152,899
Receivable from related parties (Note 17)		93,971,161	82,102,506	48,763,300	39,537,693
		96,043,225	82,500,741	48,913,653	39,690,592
14. Cash and cash equivalents					
Cash at bank and in hand		7,707,346	10,015,531	5,680,533	2,198,827
For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the above.					
15. Trade and other payables					
Current					
Trade payables		364,220	219,850	364,220	219,850
Other payables and accruals		1,023,894	3,150,676	300,000	200,000
Amount payable to related party (Note 17)		347,474	155,015	347,474	1,476,150
		1,735,588	3,525,541	1,011,694	1,896,000
16. Loans and advances					
Hester Biosciences Limited (Note 17)		9,886,579	7,144,682	-	-
17. Related party balances					
Outstanding balances:					
- Receivable from related parties (Note 13)		93,971,161	82,102,506	82,102,506	48,763,300
- Payable to related parties - short term (Note 15)		347,474	155,015	347,474	1,476,150
- Payable to related parties - long term (Note 16)		9,886,579	7,144,682	-	-
		10,234,053	7,299,697	347,474	1,476,150
18. Deferred tax					

No provision for deferred tax has been made in these financial statements as there are no material temporary differences.



SCHEDULE OF EXPENDITURE

1. ADMINISTRATIVE EXPENSES	GROUP		COMPANY	
	2019 Shs	2018 Shs	2019 Shs	2018 Shs
Employment:				
Salaries and wages	800,812	-	-	-
N.S.S.F expenses	80,081	-	-	-
W.C.F expenses	8,008	-	-	-
Other staff expenses	924	-	-	-
	<u>889,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other administrative expenses				
Legal and professional fees	573,730	459,404	98,600	150,800
Secretarial fees	496,288	-	496,288	-
Audit fees	935,552	407,888	332,000	203,000
Bank charges	78,450	64,371	12,674	10,844
Printing and stationery	18,718	90,119	15,660	6,960
Subscriptions	-	147,669	-	147,669
Foreign exchange loss	59,527	1,689,648	59,527	1,689,648
Miscellaneous expenses	3,480	(13,908)	3,480	(13,908)
Transport expenses	71,721	2,389	-	-
Stamp duty	22,369	101,020	-	-
Other duty	15,377	13,782	-	-
Business promotion expense	-	46,314	-	-
Office expense	41,017	2,343	-	-
Vehicle running expense	61,148	15,849	-	-
Labour expense	46,720	28,574	-	-
Telephone & internet	48,533	2,325	-	-
Other expenses	56,761	60,639	-	-
Reimbursement expense	347,808	-	-	-
Marketing & promotion services	385,971	103,093	-	-
	<u>3,263,170</u>	<u>3,221,518</u>	<u>1,018,229</u>	<u>2,195,013</u>
Total other administrative expenses				
	<u>3,263,170</u>	<u>3,221,518</u>	<u>1,018,229</u>	<u>2,195,013</u>
Total administrative expenses	<u>4,152,996</u>	<u>3,221,518</u>	<u>1,018,229</u>	<u>2,195,013</u>
2. OTHER OPERATING EXPENSES				
Rent and rates	2,213,244	1,392,448	354,010	511,326
Licenses	155,441	51,554	100,000	9,750
Electricity and water	24,292	5,692	-	-
Insurance	26,609	-	-	-
Repai & Maintenance	79,065	587,308	-	-
	<u>640,166</u>	<u>352,140</u>	<u>3,938</u>	<u>3,938</u>
Depreciation on property, plant and equipment				
	<u>3,138,817</u>	<u>2,389,142</u>	<u>457,948</u>	<u>525,014</u>
3. FINANCE COSTS				
Foreign exchange (gain)/loss	<u>(168,686)</u>	<u>100,780</u>	<u>-</u>	<u>-</u>

