RESILIENCE

IN CHALLENGING TIMES

ANNUAL REPORT 2018

BVI
BOTSWANA VACCINE INSTITUTE

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BVI
BOTSWANA VACCINE INSTITUTE

OUR 2018 ANNUAL REPORT THEME

RESILIENCE IN CHALLENGING TIMES

Turbulent times normally present significant challenges to the operational environment within which we operate.

This is an environment that is characterised by high levels of uncertainty both in terms of demand and supply. Building operational resilience over the years has allowed BVI to improve and focus on the key competences.

As for BVI, building resilience means understanding the role of leadership thinking and behaviours in keeping the workforce engaged, willing and able to carry out the actions necessary to drive operational excellence!

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

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

	2018 P	2017 P	2016 P	2015 P	2014 P
Statement of operational data	**5,040,317**	598,097	300,008	2,109,299	268,971
Sale of goods and services	**152,615,823.00**	83,006,095.00	170,566,616.00	157,982,626.00	78,277,303.00
Other operating income/ loss	**2,192,320**	(223,159)	(3,654,421)	3,611,545	(622,985)
Cost of goods sold (less depreciation)	**(64,472,396)**	(43,142,939)	(83,939,611)	(105,132,233)	(43,298,147)
Selling and distribution costs	**(16,736,989)**	(4,361,842)	(4,515,057)	(1,321,310)	(9,624,991)
Administration costs	**(26,254,282)**	(14,802,270)	(15,399,439)	(13,170,702)	(14,668,596)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**47,344,476**	20,475,885	63,058,088	41,969,926	10,062,584
Depreciation	**(14,903,589)**	(14,304,119)	(15,463,118)	(15,796,432)	(16,041,780)
Operating profit	**32,440,887**	6,171,766	47,594,970	26,173,494	-5,979,196
Finance income	**7,190,134**	5,820,922	4,453,480	2,086,716	74,932
Earnings before interest , taxation and amortisation (EBIT)	**39,631,021**	11,992,688	52,048,450	28,260,210	-5,904,264
Finance cost	**(2,431,842)**	(4,967,891)	(10,109,786)	(12,449,506)	(14,052,969)
Net profit/ (Loss)	**37,199,179**	7,024,797	41,938,664	15,810,704	(19,957,233)

BVI Milestones

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

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

1985
Rinderpest Vaccine

1992
Anthrax Vaccine and Black Leg Vaccine

1993
CBPP (Contagious Bovine Pleuro Pneumonia) Vaccine

2018
Celebrated 40 years of successful technical partnership with MERIAL

2016
Launch of a GMP Compliant Blending and Filling Laboratory Project

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

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


A


B


C


F


G

A. MR MAKUKE STEPHEN MAKUKE
Chairman

B. MS PINKIE MOTHOPENG - MAKEPE
Board Member

C. DR NOEL JOSEPH – FRANCOIS DETRAZ
Board Member

D. DR JOHN C. MOREKI
Board Member

E. MR LENTSWE MONARE
Board Member

F. MR BENNETT MAIFALA
Board Member

G. MR STEPHANE JEANE - PIERRE PERRIN
Board Member

H. DR KEBADIRE TLOTLENG
Board Member

I. MS DIKABELO GAOLAOLWE
Board Member

MS GODIRAONE PEARL MAHLALA
Company Secretary

Chairman's Statement

Honourable Dr Edwin Dikoloti

Minister of Agricultural Development and Food Security

Dear Honourable Minister

It is my honour and privilege to submit on behalf of the Board of Directors of the Botswana Vaccine Institute Limited (BVI), the Annual Report and Audited Financial Statements for the year ended 31st December 2018.

In 2018, the Company achieved a second consecutive year of profit. We ended the year with the strongest financial results as evidenced by a significant increase in net profit when compared to the previous years.

This solid financial performance demonstrated the continued demands for the Company's products and services being vaccines and

diagnostic services for the control of transboundary animal diseases in the sub-Saharan Africa region. While it is acknowledged that there is room for improvement, we are pleased with the results which is a demonstration of the organisational achievement of its mandate.

During the year under review, the Company achieved total revenues of P152.6 million compared to P83.0 million in 2017, representing an 84% increase. The total profit of P37.2 million compared to P7.0 million in 2017.

Our upstream operational processes delivered high level of activity as we streamlined production towards customer demands. We maintained production close to full capacity throughout the year compared to 2017. This performance was driven by the gaps in regional animal health situations caused by Foot-and-Mouth-Disease outbreaks due to low vaccinations by most customers during the previous year and resulted in low level of herd immunity to prevent infections. For the downstream processes, we maintained our position in the markets through the promotion for the use of the premium purified foot-and-mouth-disease vaccines by some of our major customers.

The other notable milestone which was achieved during the year was the ability of the Company to redeem the BVI 001 Bond with a face value of P70 million on the 7th May 2018. The Bond was listed on the Botswana Stock Exchange.

Despite the good results the Company continues to experience operational challenges attributable to customer payments made outside the agreed credit periods. This is a recurring challenge which creates a working capital and operational cash flow constraints. The Company continues to be involved in providing technical support to customers. The support require offering deeper industry expertise, sound technology and relationship of trust.

Chairman's Statement [continued]

The Hon Minister approved the recommendation for the appointment of two (2) additional Board Members to increase the Board of Directors from seven (7) to a total of nine (9). This was to allow for the strengthening of the Corporate Governance for the Company by assuring adequate members are appointed to allow proper functioning of the Board Committees. Our ability to continue creating value for the Shareholder and Stakeholders relies on maintaining financial and operational sustainability. This is achieved by continuously strengthening the industrial culture in our business operations.

As the Board we are committed to building on these strengths to propel the Company's growth. The Directors bring a diverse and valuable sets of experience, skills, as a Team. They also offer fresh view point to the strategic leadership of the Company. I am grateful for the contributions and commitment to the highest standards of good Corporate Governance currently being implemented.

To maintain our commitment to the Shareholder, the Board with the support of Management Team continued to assess the Company's Strategy and operating performance.

At the end of the year, the Company hosted a commemorative event to celebrate a significant milestone to mark the 40th Anniversary of the successful collaborative partnership between the Government of Botswana and IFFA-Merieux (later MERIAL), and now Boehringer Ingelheim Animal Health (BI) as technical partners since May 1978. The successful collaboration resulted in the establishment of Botswana Vaccine Institute Limited (BVI) in 1979.

The primary objective of the Cooperation was to carry out joint research on the circulating FMD viruses, development and commercial production of appropriate vaccines at industrial scale necessary for the assurance to establish the biological safeguards to secure the national beef exports and trade to Europe. Meat export formed the corner stone of the Botswana economy prior to full mineral exploitation.

The occasion was co-sponsored with the Technical Partner and was graced by various stakeholder representatives to witness the renowned commitments by the Company to continue serving the animal health sector

in Africa. His Honour, the Vice President of Republic of Botswana and Member of Parliament for Boteti West Hon Slumber Tsogwane officiated at the occasion. The President of Boehringer Ingelheim also presented his remarks as the Head of Delegation for the Technical Parners.

The Parties jointly expressed high level of satisfaction on the basis of the successful collaboration and growth of BVI as the only existing model amongst many which were created in other regions but had collapsed. BVI and BI further expressed joint commitment to strengthen the collaboration and to explore ways of broadening the existing collaboration with the possibility of MERIAL putting in some investment according to the provisions of the current Agreement.

As part of its Corporate Social Responsibility the Company appointed a Youth owned Company to coordinate and oversee the event for the 40th Anniversary. The occasion was very well organised and the success was rated as a world class by all Guests.

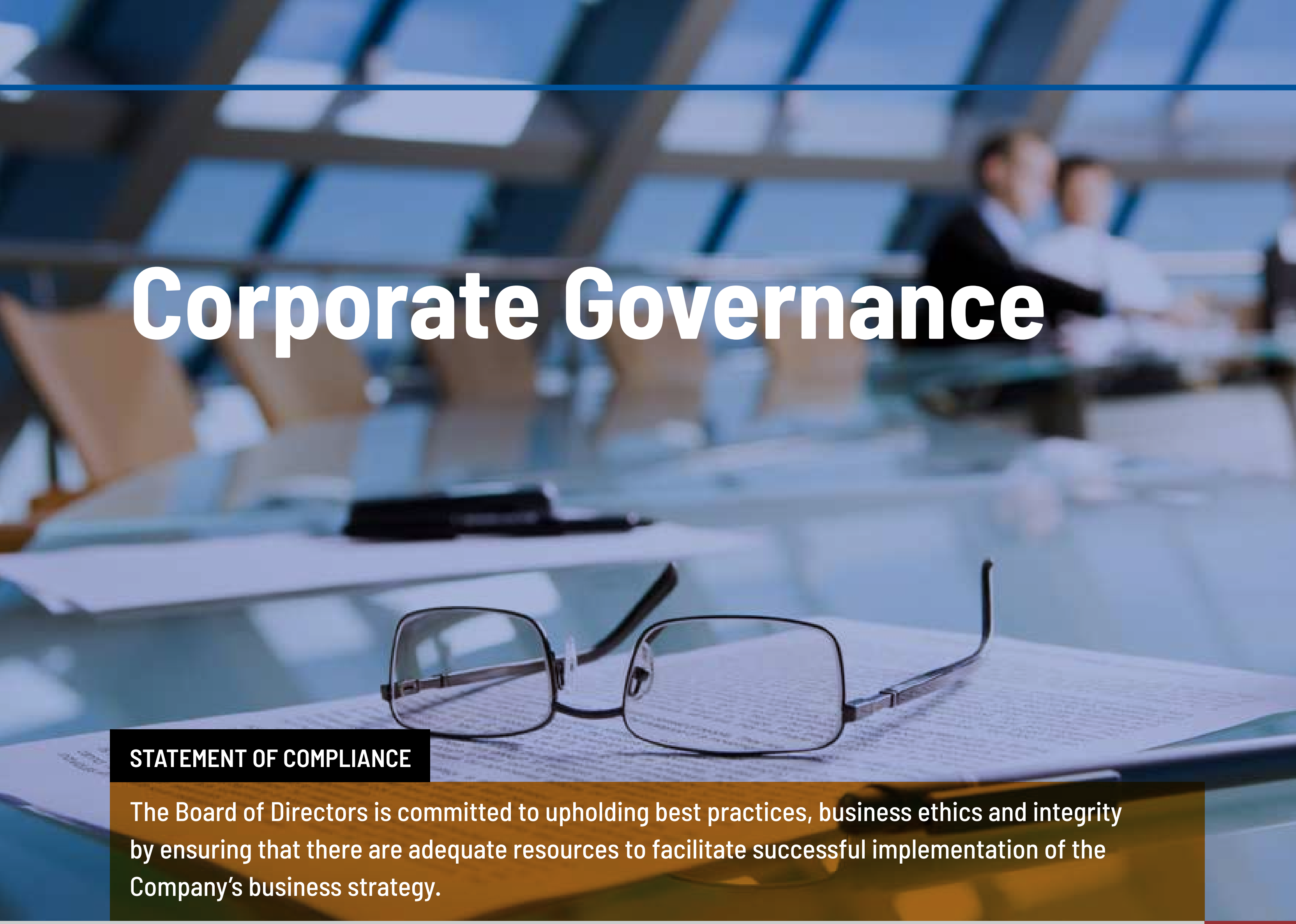
ACKNOWLEDGMENTS

I would like to take this opportunity, on behalf of the Board, to express our sincere gratitude to our parent Ministry of Agricultural Development and Food Security and our Technical Partners, BI, for the support we have been receiving over the years. I would like to extend my appreciation to the Management Team and the Staff in general, who have worked with so much dedication and high level of professionalism.

Our customers have also demonstrated their commendable loyalty to our products and services.

Lastly, I would like to acknowledge the financial support that we received from our partners within the Financial Services sector for playing such an important role in the organisation of the 40th anniversary celebrations. It is because of your contributions that we managed to stage a "world class"event.

Mr Makuke Stephen Makuke
Chairman



Corporate Governance

STATEMENT OF COMPLIANCE

The Board of Directors is committed to upholding best practices, business ethics and integrity by ensuring that there are adequate resources to facilitate successful implementation of the Company's business strategy.

Three important elements which support Board effectiveness are its composition; how it keeps abreast with the latest developments affecting the business and the governance structure and how it monitors the performance of the Company to ensure that the objectives are aligned with the mandate as defined by the Shareholder. Details of Board and Committee membership are also provided as part of the Report.

The Board of Directors recognize that the role they play 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 ensure that structures, policies, processes and procedures implemented to enable the efficient and effective management of risks impacting on the sustainability of the Company. The Board understands that adhering to good corporate governance is critical for maintaining trust of key stakeholders and the Shareholder. This objective includes compliance with King III Code of Corporate Governance Principles and ensuring compliance with applicable Legislation and Regulations.

MEMBERSHIP OF THE BOARD

As at the 31st December 2018, the Board comprised nine (9) 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 Mr M. S. Makuke) and General Manager (Dr O. G. Matlho) 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 BVI Board for the year was constituted by the following members:

MEMBER	POSITION	DATE AND PERIOD OF APPOINTMENT
Mr Makuke Stephen Makuke	Chairman	Appointed on 1st July 2018 for three years expiring on the 30th June 2021.
Dr Noel Joseph-Francois Detraz	Member	Member since 11th November 2016
Dr John Cassius Moreki	Member	Appointed on 1st February 2017.
Dr Kebadire Tlotleng	Member	Appointed on 1st July 2018 for three years expiring on the 30th June 2021.
Mr Bennett Maifala	Member	Appointed on 1st July 2018 for three years expiring on the 30th June 2021.
Ms Dikabelo Gaolaolwe	Member	Appointed on 1st July 2018 for three years expiring on the 30th June 2021.
Mr Stephane Jean - Pierre Perrin	Member	Member since 1st March 2015
Ms Pinkie Mothopeng -Makepe	Member	Appointed on 1st April 2005, reappointed on 1st April 2011 for three years, reappointed for three years on the 1st April 2014, reappointed on 1st April 2017 for a further three years expiring on the 31st March 2020.
Mr Lentswe Monare	Member	Appointed on 1st June 2005, reappointed on 1st June 2011 for three years, reappointed on 1st June 2014 for three years, reappointed on 1st June 2017 for a further three years expiring on the 31st May 2020.

RESPONSIBILITIES OF THE BOARD

The Board is mainly responsible for ensuring positive performance of the Company and creating value the Shareholder whilst taking into consideration some legitimate expectations of all stakeholders. The Board is responsible for setting and reviewing the strategic direction of BVI and monitoring the implementation of that strategy by Executive Management, which include but is 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.

CONFLICTS OF INTEREST

Appropriate conflict management procedures are in place. The Directors are requested to submit an updated declaration of interest form prior to the circulation of the board documents and in the event that such interest is declared by a Director, all the documentation related to that particular agenda item is not shared with that Member. Directors have a continuing duty to update any changes in these interests. No conflicts of interest were recorded during the year.

Corporate Governance [continued]

BOARD MEETINGS

The Board meets at least four times a year and two of these meetings have to be attended by the MERIAL Representatives. One of these meetings serves to review and approve the business plan and budgets for the next financial year while the other one is for the consideration and approval of the Audited Financial Statements. 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 three 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. The Committee fulfils the vital role of ensuring the integrity of reporting on the financial position, financial controls and the general management of financial risks and internal controls. It also ensures that there is a combined assurance for all significant risks identified. The ultimate responsibility for reviewing and approving the annual accounts remains with the Board.

Human Resources Committee – the Committee is comprised of three Directors. During the year, the Human Resources Committee members were Mr Bennett Maifala (Committee Chairperson), Mr Lentswe Monare and Ms Dikabelo Gaolaolwe. 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.

Board Tender Committee – the Committee is comprised of three Directors. During the year, the Board Tender Committee members were Dr Kebadire Tlotleng (Committee Chairperson), Mr Lentswe Monare and Mr Bennett Maifala. The Terms of Reference (ToR) 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 procurement matters.

The Committee shall, among other things, review, monitor and recommend to the Board significant matters related procurement of goods and services for the Botswana Vaccine Institute Limited in accordance with the approved Procurement Authority Limits and the Procurement Policy.

While the Committee has an independent role, it is still accountable to the Board. The Committee derives its mandate from the delegated authority by the Board as recorded in the Terms of Reference.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

Within the remit of the Finance and Audit Committee, the financial statements for the year ended 31st December 2018 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

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 Anne Blackbeard's term expired and four (4) additional Directors were appointed :-
Mr Makuke Stephen Makuke
Mr Bennett Maifala
Dr Kebadire Tlotleng
Ms Dikabelo Gaolaolwe


BVI

Report of the Finance and Audit Committee

The Finance and Audit Committee (the Committee) comprises members of the Board and is mainly responsible for assisting the Board in fulfilling its oversight responsibilities by reviewing the financial information which is provided to the Shareholder and other stakeholders.

The Committee is also responsible for assisting the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting and information systems as applied in the day to day management of the business. The Committee provides a forum for communication between the Board of Directors, Management and External Auditors where necessary introduce measures that would enhance the credibility and objectivity of the financial reports.

On a continuous basis, the Committee monitors and evaluates the performance and selection of independent Auditors and the Company's audit, financial reporting and risk management processes for compliance with the laws and regulations. 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 2018 financial year, the Committee held 3 meetings.

As of the 31st December 2018, 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 2018
Ms Pinkie Mothopeng - Makepe	2010	3 meetings attended out of 3 (3/3)
Dr J. C. Moreki	2017	1 meetings attended out of 3 (1/3)
Ms Dikabelo Gaolaolwe	2018	3 meetings attended out of 3 (3/3)

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 and as such limit the involvement of the Auditors to the provision of an independent opinion on the Financial Statements. The Committee continuously evaluates the performance and independence of the Company's independent Auditors and determines whether to re – engage or not. The Audit Committee engages in an annual evaluation of the independent Auditor's qualifications, assessing the firm's quality of service, the firm's sufficiency of resources, the quality of the communication and interaction with the firm, and the firm's independence, objectivity, and professional scepticism. In evaluating and selecting the Company's independent Auditors, the Audit Committee considers, among other things, historical and recent performance of the firm, an analysis of known significant legal or regulatory proceedings related to the firm, industry experience, audit fees, audit approach, and the independence of the firm. The Audit Committee also periodically considers the advisability and potential impact of selecting a different independent Audit firm.

On the basis of this evaluation, the Committee has retained PricewaterhouseCoopers as the independent Auditor for BVI for the 2018 financial year.

CONSIDERATION OF THE RESULTS FINANCIAL FOR 2018

In accordance with its Charter, the Committee reviewed and approved the independent Auditor's plan for the 2018 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.

During 2018 financial year, the Audit Committee fulfilled its duties and responsibilities as outlined in its charter.

Specifically, the Audit Committee, among other actions:

- reviewed and discussed with Management and the independent Auditors related financial reports and other relevant matters;
- reviewed with Management, the independent Auditors, Management's assessment of the effectiveness of the Company's internal control over financial reporting,
- reviewed with the independent Auditors the critical audit matters expected in their report for the 2018 audit;
- reviewed with the independent Auditors and Management, as appropriate, the audit scope and plans for the 2018 audit;
- reviewed and pre-approved all fees paid to PricewaterhouseCoopers, and considered whether all the planned activities for the current audit were compatible with the independence of the firm.

It is however important to highlight that the challenges that are related to the valuation of Plant and Machinery, which is largely attributable to the fact that the equipment is highly specialized, was also discussed in detail before the decision to review the valuation method was made. 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 2018.

On behalf of the Committee

Mothopeng.

Ms Pinkie Mothopeng – Makepe
Chairperson

Management

DR O. G. MATLHO
General Manager

MS K. M. TIBE
Finance Manager

DR M. MOKOPASETSO
Chief Veterinary Officer

MR B. CHEVALIER
Technical Support Manager

DR J. HYERA
OIE Laboratory Manager

MR M. GAONAKGANG
Procurement & Supplies Manager

MS B. SALANI
FMD Production Manager

MR E. MLAZIE
Engineering Manager

MS L. MOZOLA
Other Vaccines Production Manager

MS K. HENRY
HR & Administration Manager

MS S. PERCET
Technical Manager

DR K. MOAGABO
Quality Control Manager

DR M. MAZWIDUMA
Sales & Marketing Manager

MR B. OBUSITSE
Quality Assurance & Sheb Manager

General Manager's Report

P152.6Mil

Total Revenue for 2018

P83.0Mil

Total Revenue for 2017

I am very pleased to present my chapter for the Botswana Vaccine Institute Limited (BVI) 2018 annual report. This year we achieved exceptional results and continued to sustain and to grow Company profitability under the unpredictable business environment for providing sustainable animal health solutions to the industry which presents both challenges and opportunities year on year because of the many different external factors.

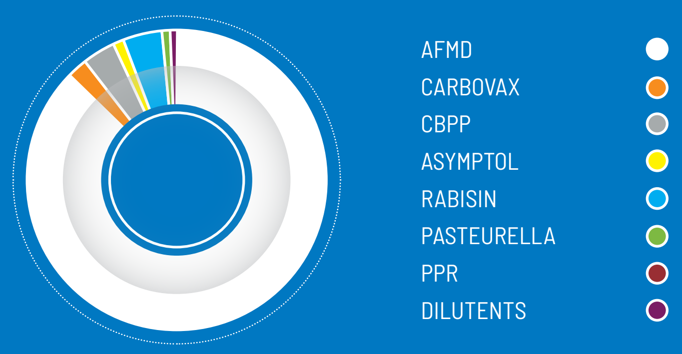
Operationally, the business performed optimally well to a full production capacity utilisation. This required the deployment of production shifts to meet the annual target and to deliver on the expectation of the customer demands for vaccine orders compared to the previous year. It was also pulled by consistent vaccine uptake by customers according to their yearly forecasts for the effective implementation of national disease control programmes through prophylactic vaccination.

As was in the previous years, Foot-and-Mouth Disease (FMD) vaccines (highly purified and standard) continued to contribute significantly to the Company revenues. This is an indication that we need to strengthen research and innovation for exploring the development of other new products relevant for the regional market and to explore new markets outside the mature market of the Southern Africa Development Community (SADC) region. This will become part of the Company strategy going forward for product and market diversification.

2018 PERFORMANCE HIGHLIGHTS

We recorded cumulative sales revenue of P152.6 million compared to P83.0 million for 2017. The good performance was attributable to our ability to fulfil our mission to work closely with our customers, to provide relevant technical advice and add value for our products and services offerings to make an impact on the customer disease control programmes.

Summary of 2018 sales



The mature markets including Zimbabwe, Namibia, Mozambique and Botswana respectively contributed most to the revenues for the year. The impact from the regional economic downturn affected some of the key customers like Zambia which procured less vaccines compared to the forecast for the year and 2017 sales due to budgetary constraints. We also extended our global footprints during 2018 to supply new customers like Benin outside of our regional SADC markets.

The continued execution of process efficiency and cost focus through the successful implementation of quality management systems also helped us to achieve good performance from effective cost control. The accumulated cost of wastage remained below the set target of 4% for 2018.

ANIMAL HEALTH STATUS

The uncertainty of the disease outbreaks situation in the Sub-Saharan Africa region especially FMD is the main determining factor for our varied levels of performance and activity each year. FMD outbreaks were reported in some member countries of the SADC region and disease confirmed from samples submitted to our World Organisation for Animal Health (OIE) Regional Reference Laboratory for FMD at BVI for laboratory testing and characterisation.

In Botswana, the disease was reported in Ngamiland (Zone 2), but was outside the traditional outbreak areas. The outbreak was associated with cattle coming into contact with the African buffalo (Syncirous caffer) which is the reservoir and host of the FMD virus in our region. This was also attributable to good level of active disease surveillance by both local Framers and the Veterinary Authorities in the area who reported timely.

For the other parts of the SADC region, FMD was reported and virus isolated from Zimbabwe, Zambia, and Mozambique samples. The outbreaks were attributable to the continuation of disease outbreaks from 2017 due to delayed vaccinations and poor coverages by the customers. Hence the required levels of herd immunity or protection antibodies could not be established to resist the circulating FMD viral load challenge from in the environment. A good match between viruses isolated from Botswana, Zimbabwe and Mozambique samples and the vaccines was established. This enabled the outbreaks to be successfully controlled by vaccination with current vaccines.

General Manager's Report [continued]

From the Zambian samples, some isolates were similar to the viruses isolated from previous outbreaks and were equally controlled with current vaccines. An unfamiliar FMD virus in SADC region (serotype "O") was also isolated from the samples, which was attributed to livestock trade (importations) from Northern neighbouring countries. The virus spread further into the central parts of the country and posed a potential threat for further spread into the rest of SADC region. A special blend of vaccine including type "O" was formulated for this region which halted the spread. The country was severely affected due to lack of adequate resources to procure sufficient quantities of vaccines during the year.

Our People

Our Employees who throughout the year offered unwavering support and their commitment and dedication to the work to serve their customers, have remained the fundamental assets for our Company responsible for driving the excellent performances. It is therefore necessary that as a progressive and technology based Company, we continue to review our policies and programmes, and to put emphasis on attracting, developing and retaining talents especially in our core areas to remain sustainable and competitive. The youth that have been seconded to the Company through the graduate internship programme are continually absorbed into the permanent employment after attaining on the job training to replace the retiaries retiring.

We also continued to implement the reinforcement of the industrial culture of Health, Safety and Environment (HSE) measures as an ongoing process for continuous improvements that demonstrates our commitment towards providing a safe and secure workplace for our employees. The benchmarks with our Partners sites (MERIAL) for best practice and technology were continued.

Innovative research towards the future Successful innovations are necessary for the new product development to drive long term growth and sustainability for the Company through strengthening of research and developments supported by possible technology transfers. Over the past two years, we have continued innovative collaborative research in partnership with other national research Institutions for the development of other potential products and services on demand for our regional markets.

Initial consideration has been made for the development of complementary foot-and-mouth disease test kits (a lateral flow device) as a point of care initiative in collaboration with the Botswana Institute for Technology Research and Innovation (BITRI). The test kit will facilitate efforts towards early detection of FMD virus, before samples are submitted to the laboratory for testing and confirmation. It will improve the management and control of the disease thereby improving trade facilitation and food security. The kit will complement the use of our vaccines in the field to continue adding value for our products and services. When samples are submitted for laboratory confirmation, the local Authorities would have already established a preliminary diagnosis regarding the disease and make a determination of the planned actions towards disease control. The application dossier from laboratory work has been submitted to OIE the application for the registration of the FMD test kit prior to its authorisation and approval for its commercialisation as an internationally adopted test method.

For the vaccines development, the focus was on lumpy skin disease vaccine (LSD) and novel FMD vaccines from plant based material (Nicoteana bentjamina) in collaboration with University of Botswana (UB). The technology provides alternative systems of production for safe and cheaper products for our regional markets. The current FMD vaccine production technology requires high biocontainment classification facilities (bio-safety level 3) for the propagation of the live virus which are expensive to maintain.

Just like FMD which is a disease of high economic importance due to its impact on trade, LSD is one of the major production and profit eroding disease of cattle in Africa but has recently been reported in Europe. It is caused by pox virus and transmitted by biting insects. The disease is characterised by permanent skin damage and decline in fertility and productivity. There is no treatment for the disease and it is recommended its prevention through annual vaccinations. There is currently shortage of vaccines in the market especially during the peak periods of outbreaks. Some viable prototypes from vaccine development innovative research have been demonstrated from which more data will be generated over the next coming years for the evaluation of their commercial viability.

OUTLOOK FOR 2019

We emerged stronger from 2018 and looking ahead with high anticipation for optimistic results in the next year, though the business environment remains unpredictable between the years. The outlook for 2019 demonstrates continuous high demand for vaccines by most customers. We also expect to achieve another good performance from anticipated sales to East Africa market, following the success negotiations and of a strategic move for the transfer of FMD working seed virus from the our Technical Partners MERIAL/BI. The acquisition of the new viruses will fortify our portfolio collection and enhance our ability to penetrate the rest of the African addressable markets (East, Central, and West) due to the availability of appropriate vaccines strains in the BVI collection.

Conclusion

We are moving forward with confidence backed by our skilled people, our partners, and technologies as well our products and services.

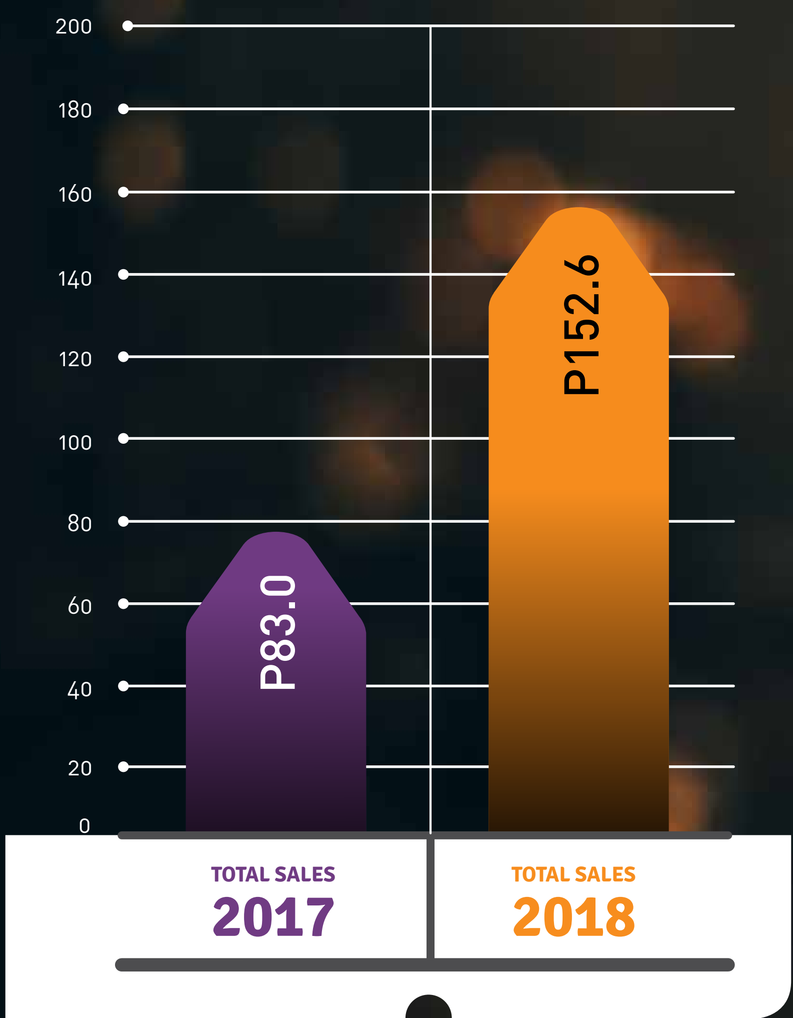
Finally I want to express my sincere gratitude to all our customers, inclusive of those who did not procure vaccines during 2018, for their continued support and confidence in our brands and people now and in the future. I also wish to say special thank you the Shareholder for your trust and support to the Company. The Board of Directors for the positive and visionary leadership for the Company, and Technical Partners MERIAL(now Boehringer Ingelheim Animal Health-BIAH) for your continued commitments to the partnership and ensuring the nurturing the organic growth of BVI. Lastly thank you BVI Management Team and Employees for your dedication and all the hard work during 2018. Your sterling performance to ensure the organisation for 40th commemorations will go down memory lane.

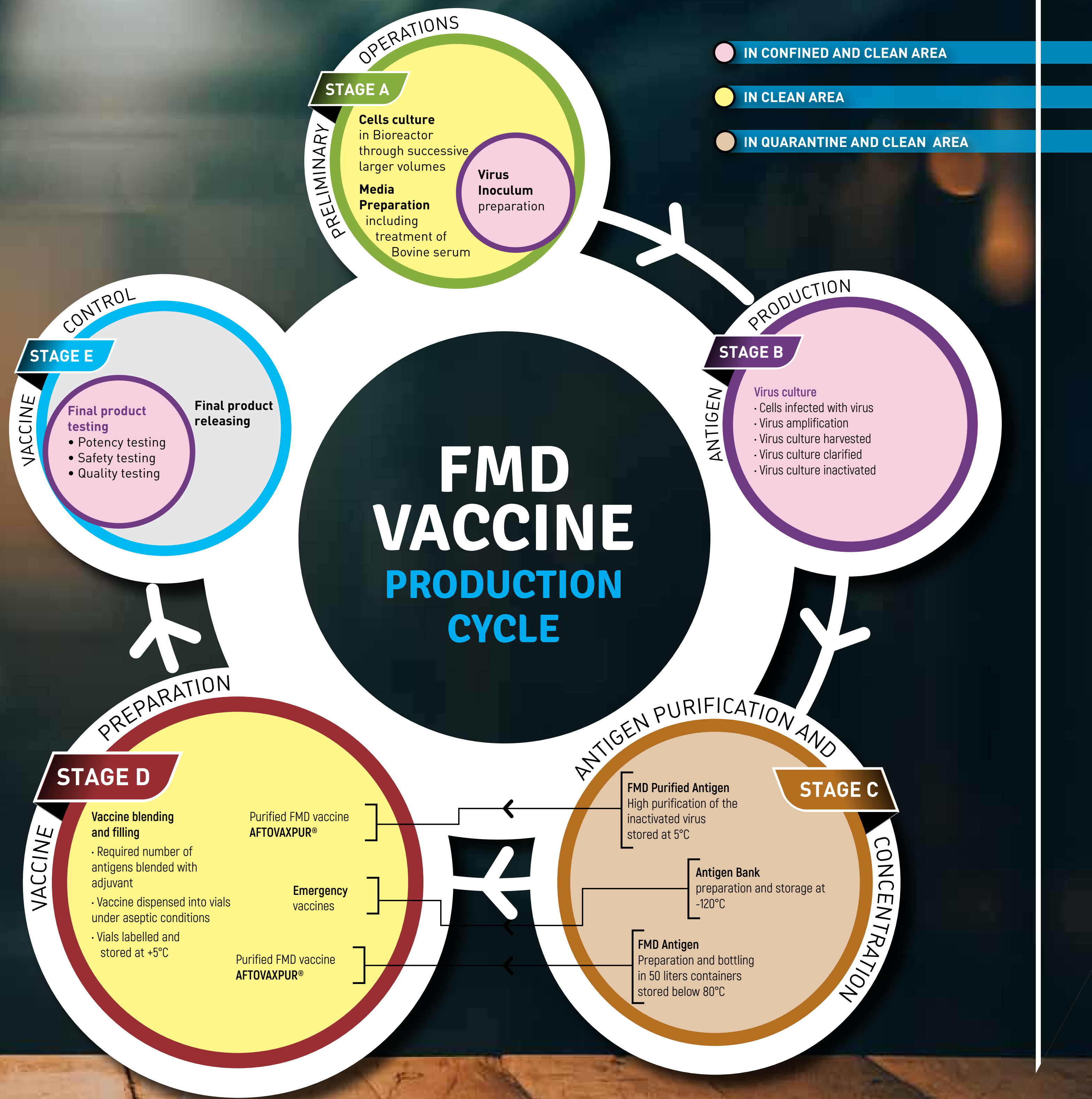
Thank you

Dr O. G. Matlho
General Manager

TOTAL VACCINE SALES

IN BWP MILLION 2017 vs 2018




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

After a challenging 2017, the Company reported an improved performance in 2018 both in terms of achieving the targets in terms of total production as well as containment of production costs on account reduced level of contaminations.

This was achieved despite the fact that in comparison to last year, the production activities were higher as evidenced by the implementation of the shift organisation to cope with increased demand. The production plans have been developed to best fit the demand as well as the stock level strategy and as a result, 2018 is the second most important year after reference year being 2016. This is a significant achievement and it was delivered thanks to rich collaborations between empowered TeaMs

In line with the BVI's Vision, the Mission of the Technical Department is to ensure competitive supply of high-quality product at adequate level of complexity and agility. 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 process
- To be efficient by reducing waste (all types)
- To be agile 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.

In 2018, BVI produced 12.8 million monovalent doses of FMD antigens. This is 40% more than what was achieved in 2017.

BVI formulated and released 7.1 million doses of FMD vaccine (corresponding to 21.9 million monovalent doses), and thus responding "in Full" to the different orders received in 2018. This nearly three times more than 2017. In terms of production level, 2018 is the second most successful after the reference year being 2016.

Annual FMD vaccines production (monodoses)

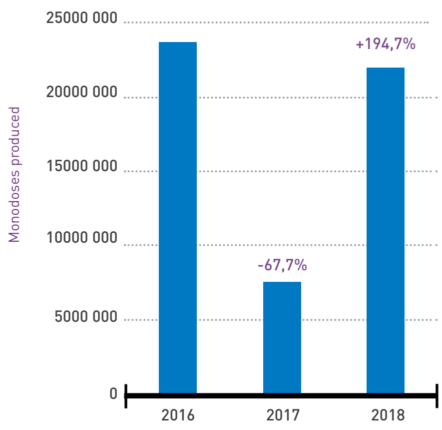


Figure No1: Comparison of the cumulative FMD Vaccine production in 2016, 2017 and 2018 (expressed in monovalent doses)

The ratio of the purified FMD vaccine (Aftovaxpur) is high compared to the previous years: 45% in 2018 instead of 5% at the end of 2017 and 21% in 2016.

This is in line with BVI decision to supply the major customers (Botswana, South Africa and Malawi) with Aftovaxpur.

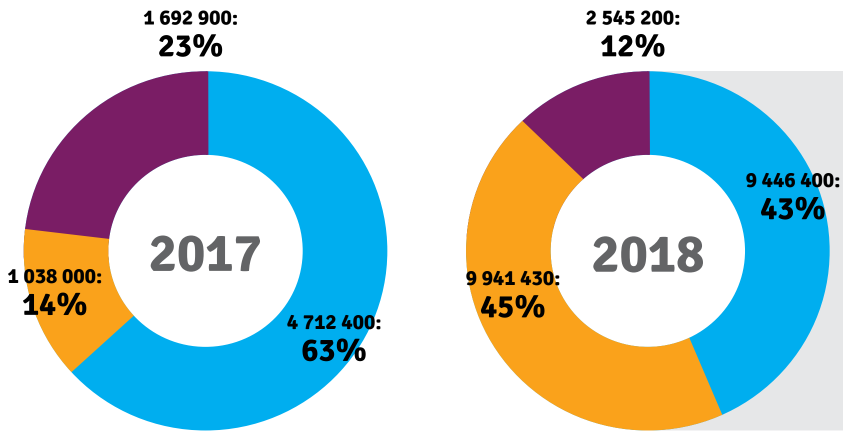


Figure no.2: aftovax and aftovaxpur product mix ratio in 2017 and 2018 (quantities expressed in monovalent doses)

- afftovax vaccines
- aftovaxpur vaccines
- aftovax SAT1-SAT 2-0

Other products:
In 2018, the production for the other vaccines followed the customer's need and the production targets were met. Globally, the product mix for the other vaccines is close to the one in 2017 and the low demand for PPR was confirmed. Only the new thermotolerant PPR vaccine (PPR-T Vac) was produced.

Table no.2: Comparison of the production volume for BVI other products between 2016 and 2018

Products	ASYMPTOL(1)	CARBOVAX(2)	PERIBOV(3)	PPR(4)
2016	1 005 300D	3 565 900D	3 808 900D	27 969 000D
2017	1 149 300D	1 136 000D	4 177 900D	5 125 800D
2018	0	2 947 000D	4 563 600D	2 156 600D

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

Industrial Performance:
In 2018, the destruction rate was at the target (4%) (P4.6 million). Since 2015, the target for the technical destruction is set at 4%. This is the same target than the best-in-class biological operations worldwide. It's linked to the combined effect of the preventative maintenance in place, the continuous training of the Team, and a close follow-up of the production events through the DMAIC (Define-Measure-Analyse-Implement-Check) process. 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.

Main projects:
In 2018, the freeze-dried product laboratories (Phase 1) were refurbished to improve the sterility of the environment. The refurbishment project which commenced in May was completed and handed over during the last week of August. The cleaning operations and the validation through particle counts and environmental controls were successfully carried out in September.

Conclusion

Driven by increased and continued vaccine sales in the SADC region, the production activities during this year were much higher than in 2017. To best fit the 2018 demands, the double shift organization was maintained the most part of the year in order to build the necessary antigen stock. In terms of production level, 2018 is the second most significant after the reference year being 2016 whilst the technical destruction rate is below 4% for the third consecutive year. This ranks BVI amongst the best-in-class biological operations worldwide.

Outlook

In 2019, the Technical Department will continue to commit to implementing the actions identified during the DMAIC analysis, Technical review, and more particularly GMP audits with the aim of building the foundation of technical operations more reliable and compliant with the more stringent standards. A particular focus will be made on specialized staff trainings and implementation of fully efficient mode of working. The rolling out of performance action plans following a holistic approach with rich collaborations will prepare the Institute for cost competitive and sustainable future.

Ms Stephanie Percet
Technical Manager

Market Review

BVI operates in a very volatile market, predominantly composing of Government Departments and is vulnerable to changes in both economic and political environments. While in the past attempts were made to diversify this market, the fact that most of the products manufactured and distributed by BVI are public goods and as such are procured through the Department of Veterinary Services within the respective countries.

This in its own creates serious cash flow challenges for BVI because most of the time such customers pay outside the agreed credit period. The delayed payments also have a negative impact on the production planning because the next date of delivery is normally known after the customer has settled overdue invoices. It is however important to highlight that while there are challenges associated with operating in this market, this is in line with the BVI Mandate of "producing livestock vaccines for diseases that have devastating impacts to facilitate beef trade". BVI was therefore established mainly to support Government initiatives of disease control to improve beef trade which was the main contributor to the Gross Domestic Product (GDP) before diamonds were discovered. It is therefore against this background that after 40 years in operation, the sale of Foot and Mouth Disease vaccines accounts for more than 80% of the BVI revenues

While it is acknowledged that within the BVI product portfolio, we have two products that are available for the private market (Rabisin and Pasteurella), the demand for these products is still low. Opportunities for further product and market diversification are still being explored.

According to the Global Animal Health Research reported that in 2018, **USD 45.8 billion dollars** was the market size on animal health (product and Services) worldwide. Animal pharmaceuticals contribute almost **60 percent** of the total market, while the rest is made up of ***animal diagnostic, feed additives*** and technology related services. About **68%** of global revenue is generated by the farm animals segment and the rest is for companion animals. This clearly indicates that there are opportunities for BVI to increase its foot print within the farm animal segment. This is very possible because BVI is in partnership with the Boehringer Ingelheim Animal Health business which is one of the key players in the animal health industry and part of family-owned Boehringer Ingelheim, founded in 1885. The Company discovers, develop and manufacture vaccines, parasiticides, and therapeutics, complemented by diagnostics & monitoring platforms for animals. The Company operates globally to fulfil the growing needs of protein and the increasing needs for animal companionship. According to Boehringer Ingelheim by 2050, the global population will reach 9.7 billion people, thus with a significant increase in the middle class, and substantial growth in emerging markets like Africa and Asia. As a result, the demand for animal protein is expected to increase by 70 percent. BVI is therefore well positioned to take advantage of these opportunities through this technical partnership.

BVI Product Market Distribution

CENTRAL AFRICA

- CHAD
- DRC
- CAR

WEST AFRICA

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

EAST AFRICA

- SOUTH SUDAN
- TANZANIA
- UGANDA
- ERITREA
- KENYA

NORTH AFRICA

- EGYPT
- LIBYA
- MOROCCO

SOUTHERN AFRICA

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

MIDDLE EAST

- ISRAEL
- UNITED ARAB EMIRATES

Finance Manager's Report

2018 – A year of significant progress in terms of financial stability

In 2018, we made good progress in reversing the effects of the challenging operational environment recession on our financial performance. Despite strong economic headwind which affected most of our traditional customers, we continued on a steady path of improvement driven by performance focus and cost control initiatives.

We are comforted by the fact that in 2018, profitability was achieved with increased sales which is partly attributable to the ability of the Company to penetrate new markets. This was a major achievement for the Company in view of the fact that in 2017 total revenues of P83.0 million while in 2018, 152.6 million was achieved.

Financial Overview

I am pleased to be reporting on a resilient set of financial results for 2018 despite challenging economic environments. Whilst total revenues recorded in 2018 amounted to P152.6 million, an 83.9 % decrease when compared to 2017, operating profit on a reported basis increased by four (4) folds to P32.44 million (2017: P6.17million) and a net profit of P37.2 million was recorded compared to P 7.0 million recorded in 2017. Net cash generated from operating activities was P30.7 million (2017: - P11.18million) and represented a cash conversion of 94.6% of operating profit.

Stringent credit control policy coupled with continuous follow up on debtors yielded positive results as evidenced by a reduction in the ratio of total debtor balance to total revenues 48.4% as at the end of 2018 compared to 70.3% in 2017.

Review of the Statement of Comprehensive Income

Total revenues generated

- Total revenue increased by P69. 6million (83.9%) to P152.6million (2017: P83.0 million). The revenue increase is largely attributable to a significant increase in the demand for our vaccines from our traditional customers coupled with the ability of the Company to penetrate new markets. The increased demand emanates from the fact that .most of the customers did not procure vaccines as they still had outstanding debts carried over from prior years which had to be settled before additional supply could be made.
- Most of our customers had to increase their annual orders so as to improve their herd immunity after poor vaccination coverage in 2017 that was partly attributed to the drought. The increase in demand is evidenced by an upsurge in export sales by 90.6 %.

Profitability

- BVI continued to demonstrate its ability to reduce controllable costs, resulting in gross margins increasing from 35.0%. in 2017 to 49.9% in 2018.This was largely attributable to the efficiencies that were realized through, among other things, the implementation of shift work as well as implementation of continuous improvement initiatives.
- Gross profit increased by 1.62 times from P29.04 million in 2017 to P76.17 million in 2018
- Operating profit increased from 6.17 million in 2017 to P32.44 million in 2018, on account of successful implementation of continuous improvement and cost cutting measures. Initiatives such as quality management systems significantly improved our cost efficiencies as we managed to reduce our destruction rate from 4.6% to 3. 6% in 2018.

- Net profit of P37.2. million was achieved compared to P 7.02 million recorded in 2017.
- Finance costs for the year were P2.43million, compared to P4.97 million on a comparable annual basis. The reduction in interest expense is attributable to the redemption of the BVI 001 Bond on the 7th May 2018.
- Total salary costs increased from P26.04 million in 2017 to P28.52 million in 2018 as a result of a 4.5% inflationary adjustment coupled with the ex – gratia performance incentive that was awarded in the form of a thirteenth (13th) cheque.

Statement of Financial Position

As at 31 December 2018 the capital employed (calculated as total assets minus current liabilities) had increased to P598.91 million compared to P567.58 million in 2017. This was primarily due to the decrease in current liabilities reported during the period resulting from the reduced trade and other payables. The Company maintained a net gearing of Nil.

Cash Flow, Net Debt and Capital Structure

The Company has an outstanding overdraft balance of P 5, 135,810 as at 31st December 2018. The overdraft is unsecured and attracts an interest of 6.5% per annum. In addition to the overdraft, the Company had a loan balance P123, 512 from the Debt Participation Capital Funding Limited.

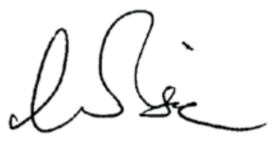
Despite the cash flow challenges experienced during 2018, BVI managed to fulfill all the debt obligations, and is committed to ensuring that this does not compromise the Company's ability to fulfill its debt obligations in future. This is evidenced by the redemption of the BVI 001 bond on maturity date.

Looking ahead – our trail to value creation in 2019 and beyond

2018 has been another year of good progress. Most of our financial indicators were positive. Growth in our total revenues, gross margins and operating profit are a clear indication of our commitment towards achieving long term financial sustainability.

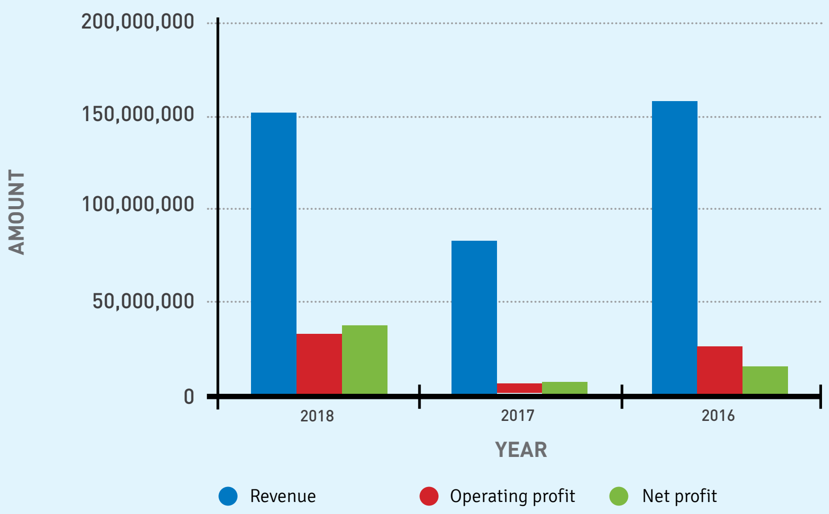
Looking further ahead, the improvements made to the business in recent years give us the confidence that BVI will continue to deliver good profits and positive cash flows through the business cycle.

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 to be focus in 2019 and beyond.



Ms K. M. Tibe
Finance Manager

PROFITABILITY



BOTSWANA VACCINE INSTITUTE

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS	PAGE

Company Information

Business operations:	Botswanace Vaccine Institute (the “Company”) is limited liability Company registered in Botswana. 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 Godiraone.Pearl Mahlala
Bankers:	Barclays Bank of Botswana Limited Standard Chartered Bank Botswana Limited BancABC Limited

Statement of Responsibility by the Board of Directors

for the year ended 31 December 2018

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 and available cash resources.

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 36 to 96 were authorised for issue by the Board of Directors on 18th September 2019 and are signed on behalf of the Company by:

Mr Makuke Stephen Makuke
Director

Ms Pinkie Mothopeng – Makepe
Director

Independent Auditor's Report

To the Shareholder of Botswana Vaccine Institute Limited

Our qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements give a true and fair view of the financial position of Botswana Vaccine Institute Limited (the "Company") as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Botswana Vaccine Institute's financial statements set out on pages 08 to 61 comprise:

- the statement of financial position as at 31 December 2018;
- 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 qualified opinion

As disclosed in note 6.1 to the financial statements, the carrying amount of the Company's plant and machinery as at 31 December 2018 amounted to P 242,072,472. In terms of the Company's accounting policy described in note 6.1 (ii) to the financial statements, plant and machinery should be carried at fair value, which is determined at least once every three years, less subsequent accumulated depreciation. Note 8.1.1 to the financial statements describes that plant and machinery are valued at least triennially as the assets do not experience significant and volatile change in fair value, thus negating the necessity for annual revaluation. Note 8.1.1. further states that in the year that a detailed valuation is not performed, management performs a desktop review to compare year on year fair values. Per the note, any change in fair value, which is below P5 million is not considered to be a significant change in fair value. Management did not perform a desktop review for the year ended 31 December 2018. Instead, the carrying amount of plant and machinery as at 31 December 2018 was recognised as the fair value determined on 31 December 2017 less depreciation for the year ended 31 December 2018. We were therefore unable to determine whether there was a significant change to the fair value that required a revaluation of the plant and machinery for the year ended 31 December 2018.

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 qualified opinion.

Independence

We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Botswana.

PricewaterhouseCoopers, Plot 50371, Fairground Office Park, Gaborone, P O Box 294, Gaborone, Botswana
T: (267) 395 2011, F: (267) 397 3901, www.pwc.com/bw

Independent Auditor's Report [Continued]

To the members of Botswana Vaccine Institute Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matter described in the *Basis for qualified opinion* section, we determined the matters described below to be key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matters
Recognition of revenue The Company adopted IFRS 15 - Revenue from contracts with customers (IFRS 15) for the first time during the 2018 reporting period. The standard requires revenue to be recognised according to the five-step model framework as follows: - Identification of a customer contract - Identify the performance obligations in the contract - Determine the transaction price - Allocate the transaction price to the performance obligations in the contract - Recognise revenue when (or as) the entity satisfies a performance obligation The Company's revenue is generated through the manufacture and distribution of livestock 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 taking 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 control is passed to the customer (where control is defined by the ability to direct use of, or substantially all the remaining rewards associated with the asset) and consequently when revenue is recognised. We considered recognition of revenue to be a matter of significance to the current year audit due to the following: • the significant judgement applied by management in determining when control has passed to the customer in terms of IFRS 15; and • the significance of revenue to the financial statements.	We obtained an understanding of the revenue and receivables process through discussions with management. Where we intended to rely on controls, we tested the operating effectiveness of those controls. We obtained and read all significant contracts and other official customer correspondence to obtain an understanding of the terms of business. We then analysed the terms and conditions of each contract (which took into account the terms of the signed contracts and customary business practices) using the five-step model set out in IFRS 15 for revenue recognition. We compared our analysis of these contracts to the analysis performed by management. No material differences were noted. For a sample of sales transactions, we tested the revenue recognition by agreeing the amount recognised to the relevant supporting documents. We also compared the timing (when performance obligations were satisfied) to information contained in the supporting documents. No material differences were noted.

Independent Auditor's Report [Continued]

To the members of Botswana Vaccine Institute Limited

Key audit matters	How our audit addressed the key audit matters
The disclosures associated with revenue are set out in the financial statements in the following notes: • Note 1 – Segment information • Note 2 – Revenue from contracts with customers • Note 8.1.4 – Transfer of risks and rewards • Note 17.1 (i) 1.1 – IFRS 15 Revenue from contracts with customers • 17.3 – Revenue recognition – sale of vaccines	
Expected credit losses of trade receivables As at 31 December 2018, the Company recognised trade receivables of P73,977,200, after deducting expected credit losses (ECL) of P14,257,011. The Company adopted IFRS 9 - Financial Instruments (IFRS 9) for the first time in the 2018 reporting period. Adjustments relating to prior periods resulting from the adoption of IFRS 9 were made using the modified retrospective application wherein the day 1 adjustment would be processed through retained earnings. The Company applied the simplified approach to determine the expected credit loss (ECL) of trade receivables as required by IFRS 9. The nature of the Company's business is such that its customers mainly comprise of state-owned and government enterprises. Consequently, these customers are subject to economic and political risk. The assessment of the ECL of receivables, therefore, requires significant judgement by the Company and may have a significant impact on the financial statements. Significant assumptions used by management in the determination of ECL are: • The timing of future cash flows are assumed to take a similar pattern to historical cash flows, as modified by known changes; • The risk of default (measured with reference to sovereign credit ratings); • Where relevant, donor financing pledged to customers (credit enhancements) will remain in place over the forecast period; and	Our audit procedures included the following: • Through discussions with management, we gained an understanding of the Company's relevant controls relating to credit origination, credit control and debt collection. Where we intended to rely on controls, we tested the operating effectiveness of those controls by selecting a sample of transactions. • We assessed the policy adopted by management with respect to the ECL model against the requirements of IFRS 9 and found the policy to be consistent with the principles of IFRS 9. • We agreed a sample of the data utilised in management's ECL model as at 1 January 2018, and 31 December 2018, respectively, to relevant documents. No material differences were identified. • We compared the cash flows used by management with respect to each individual customer to historical payment patterns, outcomes of recent correspondences that are relevant to the assessment and where applicable, the validity of credit enhancements in place. Based on our work performed, we accepted management's cash flow assumptions. • We tested the reasonability of the loss rates applied by management by comparing them to actual incurred loss rates and Based on our work performed, we accepted management's assumptions. • We compared management's calculated rates of default for the determination of ECL to our independently obtained sovereign credit ratings applicable to each customer. No material differences were noted.

Independent Auditor's Report [Continued]

To the members of Botswana Vaccine Institute Limited

Key audit matter	How our audit addressed the key audit matter
• A pre-tax LIBOR interest rate, adjusted for country specific risk with respect to foreign debtors and the fixed deposit rate for local debtors are used to discount expected future cash flows The determination of expected credit losses of trade receivables was considered to be a matter of most significance to the current year audit due to the following: • first time adoption of the IFRS 9; • significant judgement and estimates applied by management in determining the ECL; and • the magnitude of the ECL and the impact on the financial statements. The disclosures associated with expected credit loss of receivables are set out in the financial statements in the following notes: • Note 5.1 – Trade and other receivables • Note 9.2 – Risk Management, Credit Risk • Note 8.1.2 – Use of Estimates and Judgements, Impairment provision on trade receivables	• With respect to amounts due from local debtors, we obtained the credit ratings from an independent source to consider whether the use of the fixed deposit rate as a discount rate was reasonable. With regards to foreign debtors, we made use of our internal valuations expertise to test the discount rate applied. No material differences in rates were noted; and • We evaluated the financial statement disclosures of the trade receivables against the requirements of IFRS 7. In doing so, we considered the following: - judgements and assumptions applied by management; - the classification of trade and other receivables on the date of initial application of IFRS 9; and - the impact of the transition to IFRS 9 on the opening balances relating to trade receivables and retained earnings.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Botswana Vaccine Institute Limited Annual Financial Statements for the year ended 31 December 2018", which we obtained prior to the date of this auditor's report and the other sections of the document titled "Botswana Vaccine Institute annual report 2018", which is expected to be made available to us after the date. The 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. As described in the Basis for qualified opinion section above, management has not recorded the fair value of plant and machinery. 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.

pwc

Independent Auditor's Report [Continued]

To the members of Botswana Vaccine Institute Limited

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.
- 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.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters 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 **19 February 2020**
Membership number: 20030048
Gaborone

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 P	2017 P
Revenue	2	**152,615,823**	83,006,095
Cost of sales	3.3	**(76,446,684)**	(53,965,225)
Gross profit		**76,169,139**	29,040,870
Administrative expenses		**(29,183,583)**	(18,284,103)
Distribution costs		**(16,736,989)**	(4,361,842)
Other income	3.1	**1,242,546**	1,057,433
Other gains \ (losses)	3.2	**949,774**	(1,280,592)
Operating profit		**32,440,887**	6,171,766
Finance income	3.4	**7,190,134**	5,820,922
Finance costs	3.4	**(2,431,842)**	(4,967,891)
Net finance income		**4,758,292**	853,031
Profit before income tax		**37,199,179**	7,024,797
Income tax expense	4	**-**	-
Profit for the year		**37,199,179**	7,024,797
Other comprehensive income			
Item that will not be reclassified to income statement			
Revaluation gain on property, plant and equipment	6.1	**-**	9,503,520
Total comprehensive income for the year		**37,199,179**	16,528,317

Statement of Financial Position

as at 31 December 2018

	Notes	2018 P	2017 P
ASSETS			
Non-current assets			
Property, plant and equipment	6.1	**329,188,914**	334,961,376
Current assets			
Inventories	6.2	**89,102,678**	71,730,950
Trade and other receivables	5.1	**79,140,764**	64,575,970
Financial assets at fair value through profit or loss	5.2	**74,832**	72,515
Cash and cash equivalents (excluding bank overdrafts)	5.3	**168,530,025**	179,207,341
		336,848,299	315,586,776
Total assets		**666,037,213**	650,548,152
LIABILITIES			
Non-current liabilities			
Interest bearing borrowings	5.5	**76,190**	132,574
Current liabilities			
Trade and other payable	5.4	**56,815,327**	34,193,609
Interest bearing borrowings	5.5	**5,183,132**	44,580,597
Employee benefit obligations	6.3	**5,125,401**	4,194,879
		67,123,860	82,969,085
Total liabilities		**67,200,050**	83,101,659
Net assets		**598,837,163**	567,446,493
EQUITY			
Capital and reserves			
Stated capital	7.1	**278,347,000**	278,347,000
Other reserves	7.2	**171,538,730**	171,538,730
Retained earnings		**148,951,433**	117,560,763
Total equity		**598,837,163**	567,446,493

Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	Stated capital P	Other reserves P	Retained earnings P	Total equity P
For the year ended 31 December 2017					
Balance at 1 January 2017		278,347,000	162,035,210	110,535,966	550,918,176
Profit for the year		-	-	7,024,797	7,024,797
Other comprehensive income					
Revaluation gain	7.2	-	9,503,520	-	9,503,520
Balance at 31 December 2017		278,347,000	171,538,730	117,560,763	**567,446,493**
For the year ended 31 December 2018					
Balance at 1 January 2018		278,347,000	171,538,730	117,560,763	**567,446,493**
Adjustment on initial application of IFRS 9				(5,808,513)	**(5,808,513)**
Adjusted Balance at 1 January 2018		**278,347,000**	**171,538,730**	**111,752,250**	**561,637,980**
Profit for the year		-	-	37,199,183	**37,199,183**
Balance at 31 December 2018		**278,347,000**	**171,538,730**	**148,951,433**	**598,837,163**

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 P	2017 P
Cash flows from operating activities			
Operating profit		32,440,887	6,171,766
Adjustment for non cash items:			
Depreciation	6.1	14,903,589	14,304,119
Loss / (Profit) on disposal of property, plant and equipment	3.2	11,596	(3,605)
Unrealised fair value gain	3.2	(2,318)	(2,465)
Changes in working capital			
Inventories		(17,371,728)	(14,819,062)
Trade and other receivables		(20,373,303)	4,152,941
Employee benefit obligations		930,522	848,300
Trade and other payables		22,621,718	5,114,377
Cash generated from operations		33,160,964	15,766,371
Interest paid	3.4	(2,431,842)	(4,587,286)
Net cash inflow from operating activities		30,729,122	11,179,085
Cash flows from investing activities			
Payment for property, plant and equipment	6.1	(9,145,856)	(8,207,736)
Interest received	3.4	7,190,134	5,820,922
Proceeds from sale of property, plant and equipment		3,133	3,605
Net cash outflow from investing activities		(1,952,589)	(2,383,209)
Cash flows from financing activities			
Repayment of borrowings	5.5	(39,937,846)	(150,484)
Net cash outflow from financing activities		(39,937,846)	(150,484)
Net (decrease)/ increase in cash and cash equivalents		(11,161,313)	8,645,392
Cash and cash equivalents at beginning of year		174,555,528	165,910,136
Cash and cash equivalents at end of year	5.3	163,394,215	174,555,528

Notes to the Financial Statements

for the year ended 31 December 2018

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 the General Manager and the 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 a 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:

	2018 P	2017 P
Namibia	30,892,068	1,889,548
Zambia	5,245,393	26,999,940
Zimbabwe	55,106,071	15,615,926
Botswana	22,290,486	16,807,622
South Africa	5,757,753	4,821,517
Uganda	-	4,345,696
France	-	3,188,048
Niger	-	2,525,466
Chad	-	2,205,299
Burkina Fasso	-	1,684,918
Mozambique	13,176,874	1,390,583
Kenya	-	434,725
Benini	9,871,931	-
Malawi	3,584,089	684,197
Other	901,401	412,610
South Sudan	5,789,757	-
	152,615,823	83,006,095

Notes to the Financial Statements

for the year ended 31 December 2018

1 SEGMENT INFORMATION [continued]

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

Revenues from external customers come from the sale of vaccines and where the customer does not arrange for the transportation of the products, the freight charges are billed accordingly.Revenues from a single customer, which are significant, and where these revenues exceed 10% of the total revenues, arise from the following geographical locations.

	2018 P	2017 P
Namibia	**30,892,068**	1,889,548
Zimbabwe	**55,106,071**	15,615,926
Botswana	**22,290,486**	16,807,622

2 REVENUE FROM CONTRACTS WITH CUSTOMERS (NOTE 17.3)

a) Disaggregation of revenue from contracts with customers

The main contributing product to the BVI revenues is the Foot and Mouth Disease vaccine (FMD), contributing more than 80% annually with the remaining 20% derived from all other vaccines. The Company derives revenue from the sale of vaccines at a point in time in the following major product lines and geographical locations:

Other income	2018 P	2017 P
FMD Vaccines:		
Botswana	**17,591,422**	14,197,429
South Africa	**5,757,753**	4,821,517
Zimbabwe	**49,962,006**	15,540,475
Zambia	**5,082,321**	26,192,998
Benin	**45,904**	-
Mozambique	**20,562,297**	640,957
Malawi	**3,558,409**	675,944
Namibia	**29,976,916**	-
France	**-**	3,145,062
Uganda	**-**	3,955,375
Sub Total	**132,537,028**	69,169,757
Other Vaccines:		
Botswana	**4,672,607**	2,591,693
Zimbabwe	**4,873,581**	-
Zambia	**121,108**	806,942
Namibia	**794,376**	1,820,248
Mozambique	**2,309,651**	736,502
Angola	**8,708**	-
South Sudan	**5,286,451**	384,769
Tanzania	**520,600**	-
Congo	**13,750**	-

Notes to the Financial Statements

for the year ended 31 December 2018

2 REVENUE FROM CONTRACTS WITH CUSTOMERS (NOTE 17.3) [continued]

A) Disaggregation of revenue from contracts with customers [continued]

	2018 P	2017 P
Other Vaccines (continued)		
Benguela	6,938	-
EU Commission	306,373	-
Burkina Faso	-	1,616,890
Kenya	-	405,919
Chad	-	1,783,105
Uganda	-	305,383
Niger	-	2,167,852
Sub Total	18,914,144	12,619,301
Freight :		
Zimbabwe	270,484	75,451
Namibia	120,776	69,300
Botswana	26,458	18,500
Mozambique	130,954	13,124
South Sudan	503,305	22,044
Zambia	41,965	-
Malawi	25,679	8,253
Tanzania	37,989	-
Congo	7,042	5,799
Burkina Faso	-	68,028
Chad	-	422,194
France	-	42,986
Kenya	-	28,806
Niger	-	357,614
Uganda	-	84,938
Sub Total	1,164,652	1,217,037
Total Revenues	152,615,823	83,006,095

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

3 OTHER INCOME AND EXPENSES ITEMS

	2018 P	2017 P
3.1 Other income		
	142,556	99,415
Cattle sales	-	348,842
Training fees refund	-	180,909
Travel insurance refund	1,099,990	428,267
Other income	1,242,546	1,057,433

3.2 Other gains / (losses)	2018 P	2017 P
Net (losses) / gains on disposal of property, plant and equipment	(11,596)	3,605
Fair value gain on financial assets at fair value through profit or loss	2,318	2,465
Net foreign exchange gains / (losses)	959,052	(1,286,662)
	949,774	(1,280,592)

3.3 Breakdown of expenses by nature	Notes	2018 P	2017 P
Cost of sales		76,446,684	53,965,225
Auditors' remuneration		140,600	248,572
Custom freight and insurance		796,548	1,151,455
Depreciation (excluding plant and machinery)	6.1	2,929,301	3,481,833
Directors' remuneration	15	84,570	90,657
Donations		61,445	67,525
Export commission		15,653,174	3,063,833
Professional fees		372,027	464,708
Repairs and maintenance - motor vehicles		-	133,051
Repairs and maintenance - other		68,184	61,678
Provision for / (reversal) of trade receivable impairment		13,515,501	(59,163)
Salaries and wages		8,556,820	7,811,456
Trade receivable amortisation reversal		-	(598,665)
Other expenses		3,742,402	6,729,005
Total cost of sales, distribution and administrative expenses		122,367,256	76,611,170

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

	Notes	2018 P	2017 P
Salaries and wages			
Salaries and wages		23,707,224	21,226,495
Pension costs		3,011,935	2,743,474
Gratuity and leave pay provision		1,803,575	2,068,217
		28,522,734	26,038,186

	Notes	2018 P	2017 P
The salaries and wages have been expensed as follows:			
Cost of sales		19,965,914	18,226,730
Administrative expenses		8,556,820	7,811,456
		28,522,734	26,038,186

3.4 FINANCE INCOME / (COSTS)

	2018 P	2017 P
Finance income		
Interest received on short term investments	7,190,134	5,820,922
Finance costs		
Interest expenses - interest bearing borrowings	(2,431,842)	(4,967,891)
Net finance cost	4,758,292	853,031

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 2018

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 2018				
Trade and other receivables*	5.1	-	74,299,457	74,299,457
Financial assets at fair value through profit or loss	5.2	74,832	-	74,832
Cash and cash equivalents	5.3	-	168,530,025	168,530,025
		74,832	**242,829,482**	**242,904,314**
At 31 December 2017				
Trade and other receivables*	5.1	-	60,404,793	60,404,793
Financial assets at fair value through profit or loss	5.2	72,515	-	72,515
Cash and cash equivalents	5.3	-	179,207,341	179,207,341
		72,515	239,612,134	239,684,649

*excluding prepayments and statutory receivables

Financial liabilities	Notes	Liabilities at amortised cost
At 31 December 2018	5.4	**56,815,327**
Trade and other payables*	5.5	**5,259,322**
Borrowings		**62,074,649**
At 31 December 2017	5.4	**34,193,609**
Trade and other payables*	5.5	**44,713,171**
Borrowings		**78,906,780**

*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 2018

5.1 Trade and other receivables

	2018 P	2016 P
Trade receivables	**88,234,211**	59,086,499
Less - provision for impairment (Note 9.2)	**(14,257,011)**	(741,510)
	73,977,200	58,344,989
Other receivables from related parties (Note 15)	**-**	1,888,792
Other receivables	**322,257**	171,012
VAT receivables	**1,243,126**	2,106,211
Deposits and prepayments	**3,598,181**	2,064,966
	79,140,764	64,575,970

(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 17.6 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 and other receivable as at 31 December 2018 amount to P 74,299,457 (2017 : P 60,404,793)

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 Note 9.2. In line with the new requirements of the impairment model under the IFRS 9, an assessment of the expected credit loss of P 13,459,686 was estimated as the lower end and the carrying value of trade receivables was accordingly adjusted to incorporate this estimated loss.

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:

	2018 P	2017 P
Current assets		
Stanlib Botswana Money Market Fund	54,739	53,067
Stanlib Botswana Management Prudential Fund	20,093	19,448
	74,832	72,515

(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 17.8 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 in the income statement (2018 – gain of P 2,318; 2017 – gain of P 2,465).

5.3 Cash and cash equivalents

	2018 P	2017 P
Bank balances	6,285,450	3,324,846
Short term deposits	162,244,343	175,882,408
Cash on hand	232	87
	168,530,025	179,207,341

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

5.3 Cash and cash equivalents [continued]

(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:

	2018 P	2017 P
Bank balances	**6,285,450**	3,324,846
Short term deposits	**162,244,343**	175,882,408
Bank overdrafts (Note 5.5)	**(5,135,810)**	(4,651,813)
Cash on hand	**232**	87
	163,394,215	174,555,528

(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 17.5 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 161,803,189 which are held for the expansion project. Therefore, it's not available for general use by the Company. (2017: P157,972,735).

5.4 Trade and other payables

	2018 P	2017 P
Trade accounts payable	**4,940,780**	3,412,811
Accrued interest	**3,487**	670,004
Advance received from customers	**1,677,343**	4,156,933
Other accruals	**17,084,673**	11,016,255
Amounts due to related parties (Note 15)	**33,109,044**	14,937,606
	56,815,327	34,193,609

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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

5.5 Borrowings

	Notes	Int. rate	2018 Current P	Non-current P	Total P	2017 Current P	Non-current P	Total P
Bank overdraft		5.75	5,135,810	-	5,135,810	4,651,813	-	4,651,813
Bond	II	11.23	-	-	-	39,868,874	-	39,868,874
Debt Participation Capital Funding Limited:								
Loan 5	III	12.00	-	-	-	-	-	-
Loan 6	IV	14.60	47,322	76,190	123,512	59,910	132,574	192,484
			5,183,132	76,190	5,259,322	44,580,597	132,574	44,713,171

(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 fixed rate of 5.75% per annum. This facility was unutilised as at year end.

(ii) The Company has an overdraft facility of P 15 million with Barclays Bank of Botswana Limited, which is unsecured and attracts interest at the fixed rate of 6.50% per annum.

(iii) 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 were fully repaid 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%.

(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 2018 amounted to P 123,512 (2017: 192,484).

(v) The Company has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

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 . The bond was redeemed on the 7th May 2018.

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 2018					
Financial assets at fair value through profit or loss	5.2	-	**74,832**	-	**74,832**
Financial assets as at 31 December 2017					
Financial assets at fair value through profit or loss	5.2	-	72,515	-	72,515
Financial labilities as at 31 December 2018					
Borrowings (excluding bank overdraft)	5.5	-	**123,512**	-	**123,512**
Financial labilities as at 31 December 2017					
Borrowings (excluding bank overdraft)	5.5	-	40,061,358	-	40,061,358

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 2018

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
Year ended 31 December 2017							
Opening net book amount	1,200,000	60,026,999	22,012,000	247,138,698	225,639	950,903	**331,554,239**
Additions	6,362,366	19,786	33,402	1,351,868	-	440,314	**8,207,736**
Revaluation surplus	-	-	-	9,503,520	-	-	**9,503,520**
Depreciation	-	(2,148,500)	(881,652)	(10,822,286)	(67,304)	(384,377)	**(14,304,119)**
Closing net book amount	**7,562,366**	**57,898,285**	**21,163,750**	**247,171,800**	**158,335**	**1,006,840**	**334,961,376**
At 31 December 2017							
Cost or fair value	7,562,366	60,046,785	22,045,402	247,171,800	1,628,095	5,466,303	**343,920,751**
Accumulated depreciation	-	(2,148,500)	(881,652)	-	(1,469,760)	(4,459,463)	**(8,959,375)**
Net book amount	**7,562,366**	**57,898,285**	**21,163,750**	**247,171,800**	**158,335**	**1,006,840**	**334,961,376**
Year ended 31 December 2018							
Net book amount	7,562,366	57,898,285	21,163,750	247,171,800	158,335	1,006,840	**334,961,376**
Additions	3,704,296	1,701,239	-	3,458,059	-	282,262	**9,145,856**
Revaluation surplus	-	-	-	-	-	-	**-**
Disposal - cost	-	-	-	(15,100)	-	(27,584)	**(42,684)**
Disposal - accumulated depreciation	-	-	-	371	-	27,584	**27,955**
Transfers	(3,431,630)	-	-	3,431,630	-	-	**-**
Depreciation	-	(1,635,945)	(881,816)	(11,974,288)	(67,243)	(344,297)	**(14,903,589)**
Closing net book amount	**7,835,032**	**57,963,579**	**20,281,934**	**242,072,472**	**91,092**	**944,805**	**329,188,914**
At 31 December 2018							
Cost or fair value	7,835,032	61,748,024	22,045,402	254,046,389	1,628,095	5,720,981	**353,023,923**
Accumulated depreciation	-	(3,784,445)	(1,763,468)	(11,973,917)	(1,537,003)	(4,776,176)	**(23,835,009)**
Net book amount	**7,835,032**	**57,963,579**	**20,281,934**	**242,072,472**	**91,092**	**944,805**	**329,188,914**

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:

	2018 P	2017 P
Cost of sales	**11,974,288**	10,822,286
Administration expenses	**2,929,301**	3,481,833
	14,903,589	14,304,119

(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 accumulated depreciation for buildings and plant and machinery. To ensure that management's assumption in this regard remains appropriate, in the year that a detailed valuation is not performed, Management performs a "desk top" review to compare year-on-year fair values. A revaluation surplus is credited to other reserves (Note 7.2). All other property, plant and equipment is recognised at historical cost less accumulated 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 17.10 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 2018

6.1 Property, plant and equipment [continued]

	Cost P	Accumulated depreciation P	Net book amount P
At 31 December 2017			
Land and buildings	58,939,087	(10,988,732)	47,950,355
Residential property	3,537,983	(2,308,863)	1,229,120
Plant and machinery	208,918,293	(63,062,611)	145,855,682
	271,395,363	(76,360,206)	195,035,157
At 31 December 2018			
Land and buildings	60,640,326	(11,263,450)	**49,376,876**
Residential property	3,537,983	(2,401,218)	**1,136,765**
Plant and machinery	215,792,882	(69,368,872)	**146,424,010**
	279,971,191	(83,033,540)	196,937,651

6.2 Inventories

	2018 P	2017 P
Finished goods (at the lower of cost and net realisable value)	**81,367,630**	63,287,759
Raw materials (at the lower of cost and net realisable value)	**7,735,048**	8,443,191
	89,102,678	71,730,950

(i) Assigning costs to inventories
The costs of individual items of inventory are determined using standard costing. See note 17.7 for the Company's other accounting policies for inventories.

(ii) Amounts recognised in profit or loss
Inventories recognised as an expense/ (credit) during the year ended 31 December 2018 amounted to P 18, 859, 715 (2017: P 24,916,207). These were included in cost of sales.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

6.3 Employee benefit obligations

	Leave pay P	Gratuity and pension P	Total P
Balance at beginning of the year	2,412,014	1,782,865	4,194,879
Provisions for the year	771,640	1,031,935	1,803,575
Payments during the year	(247,769)	(625,284)	(873,053)
Balance at end of the year	2,935,885	2,189,516	5,125,401

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

This liability includes all of the accrued annual leave. The entire amount of the provision of P 2,935,885 (2017- P 2,412,014) is presented as current, since the Company does not have an unconditional right to defer settlement of these 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 2018					
Land and building	6.1	-	-	57,963,579	57,963,579
Residential properties	6.1	-	-	20,281,934	20,281,934
Plant and machinery	6.1	-	-	242,072,472	242,072,472
Total non-financial assets		-	-	320,317,985	320,317,985
At 31 December 2017					
Land and building	6.1	-	-	57,898,285	57,898,285
Residential properties	6.1	-	-	21,163,750	21,163,750
Plant and machinery	6.1	-	-	247,171,800	247,171,800
Total non-financial assets		-	-	326,233,835	326,233,835

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.

There were no transfers for non-recurring fair value measurements during the year.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

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. To ensure that Management's assumption in this regard remains appropriate, in the year that a detailed valuation is not performed, Management performs a "desk top" review to compare year-on-year fair values.

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 2018 by physical review done by The Property Partnership 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 the existing plant and machinery, depreciated according to age, obsolescence, use and condition. The results of the revaluation indicated a material decline in the value of the assets reviewed which was even lower than the values that would be recognised if the assets were valued at cost and hence were not adopted.

(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.

6.4 Recognised fair value measurements [continued]

Description	Fair value 2018 P '000	2017 P '000	Unobservable inputs*	Range of inputs (probability - weighted average) 2018	2017	Relationship of unobservable inputs to fair value
Land and building	57,964	57,898	Remaining useful life	**15 Years**	17 Years	The higher the remaining useful life higher the fair value
			Physical deterioration and obsoles-cence	**8% - 10%**	8% - 10%	The higher the rate of physical deterioration and obsolescence
Residential properties	**20,282**	21,164	Comparable value of a similar land and building	**P 6,221 sq.m**	P 6,221 sq.m	The higher the comparable value, higher the fair value
Plant and machinery	**242,072**	247,172	Remaining useful life	**15 Years**	16 Years	The higher the remaining useful life higher the fair value
			Technical obso-lescence, usage and condition	**8% - 10%**	8% - 10%	The higher the adjustment for technical obsoles-cence, 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 31st December 2018, a detailed valuation for plant and machinery was undertaken by an independent valuers, The Property Partnership. As at 31 December 2016, the fair values of the land and buildings have been determined by RealReach (Pty) Limited. The residential properties valued by Kwena Property Services (Pty) Limited as at 31 December 2016. As at 31 December 2018, Management reviewed their assessment of the fair value of land and building, residential properties and plant and machinery.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

7 EQUITY

7.1 Stated capital

	2018 P	2017 P
Ordinary shares issued and fully paid		
At beginning of year	278,347,000	278,347,000
Issued during the year	-	-
Ordinary shares issued and fully paid	278,347,000	278,347,000

The 275,000,002 (2017: 275,000,002) ordinary shares in issue have no par value.

7.2 Other reserves

	Revaluation reserve P
At 1 January 2017	162,035,210
Revaluation - gross (Note 6.1)	9,503,520
At 31 December 2017	171,538,730
At 1 January 2018	171,538,730
Revaluation - gross (Note 6.1)	-
At 31 December 2018	171,538,730

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 different to the actual outcomes. 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

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 6.1

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. It is usually expected in most industries that the value of plant and machinery will fluctuate materially, year-on-year. The assumption that no significant and volatile changes in fair value of the Company's plant and machinery will occur on an annual basis, is therefore a significant management assumption. To ensure that management's assumption in this regard remains appropriate, in the year that a detailed valuation is not performed, management performs a "desk top" review to compare year-on-year fair values. Any change in fair value, which is below P 5Mn is not considered to be a significant change in fair value.

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 2017 by an independent valuer based on the 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 the existing plant and machinery, 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 the 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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS [continued]

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 and Government 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 may have a significant impact on the financial statements.

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, unfavourable 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.

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. A detailed assessment for impairment of trade receiveables was undertaken in line with the revised provisions of IFRS 9 and this resulted in an impairment loss of P 13,459,686 recognised in the financial statements.

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 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS [continued]

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 of the International Financial Reporting Standards 15, Revenue ("IFRS 15").

Management identifies and assesses if the specific conditions of each sales transactions meets the criteria set by IFRS 15 for revenue recognition.

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	Short-term borrowings at fixed rates	-	There is no interest rate risk since short-term borrowings are holding at fixed rates.
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 fore-casts	Availability of committed credit lines and borrowing 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 and evaluates 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 2018, 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 3,321,012 (2017: P 1,536,487) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US Dollar denominated bank balances, trade receivables and trade accounts payable.

At 31 December 2018, 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 689,485 (2017: P 1,483,295) 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 2018			31 December 2017		
	USD	**Euro**	**ZAR**	**USD**	**Euro**	**ZAR**
Trade and other receivables	**73,988,346**	**3,001,875**	**-**		26,789,966	-
Cash and cash equivalents	**3,018,454**	**3,259,372**	**5,420**	251,493	3,524,487	1,780
Trade and other payables	**13,907,818**	**19,361,462**	**857,199**	5,303,152	9,997,311	608,990

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 short-term borrowings. Borrowings issued at fixed rates did not expose the Company to cash flow 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 can be assessed by reference to historical information about counterparty default rates:

	2018 P	2017 P
Counterparties with external credit rating (Moody's)		
A2	306,373	2,376,821
Aa2	22,115,254	1,888,792
Baa3	-	-
Counterparties with external credit rating (Fitch Ratings)		
Fitch B	2,642,450	12,447,856
Fitch B+	-	-
Fitch B-	-	-
*Counterparties without external credit rating**		
Group 1	-	-
Group 2	61,935,221	16,252,038
Group 3	-	-
Total trade receivables	86,999,298	33,387,885
Other receivables**	322,257	171,012

*Group 2 – existing customers (more than 4 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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

9.2 Credit risk [continued]

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.

Other financial assets at fair value through profit or loss

		2018 P	2017 P
Stanbic Money Market Fund	- not rated	54,739	53,067
Stanbic Management Prudential Fund	- not rated	20,093	19,448
		74,832	72,515

	2018 P	2017 P
Cash at bank		
Barclays Bank of Botswana Limited	818,850	45,201
Standard Chartered Bank Botswana Limited	2,628,909	1,988,403
BancABC Limited	3,220,707	3,520,170
Botswana Insurance Fund Management Unit Trust	161,861,327	173,653,480
	168,529,793	179,207,254

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 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.

9.2 Credit risk [continued]

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.

While cah and cash equivalents are also subject to the impairment requirements of IFRS 9, there was no impairment identified.

Expected credit loss on trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credi losses which uses an expected loss allowance for all trade receivables.

In order to measure the expected credit losses, trade receivables were assessed individual basis. Management has therefore concluded that based on the historic data available, the lower end estimate of impairment of trade receivables was considered to be a reasonable approximation of loss rates for the trade receivables.

The expected loss rates are based on Loss Given Default (LGD) rate and Possibility of Default (PD) rate within this period.

In accordance with the requirements of IFRS 9, the following assumptions were used in the derivation of the upper and lower bound estimates of impairments:

- The LGD used when calculating our range of Expected Credit Loss (ECL) values used the generic unsecured LGD values from the Basel accord. This is due to the large variability in and lack of sovereign default loss information. The LGD estimate for corporates, sovereigns and banks is 45% and was thus deemed appropriate for the purposes of this calculation;
- Since no interest is raised on outstanding trade receivables, the calculation makes no explicit allowance for the discounting of expected credit losses;
- The PDs used in the calculation have been sourced from an independent external data source. The outstanding debtors are all government institutions and thus it was appropriate to use Sovereign Foreign Currency Default Rates as a proxy for the probability of default for each debtor; and
- The monthly trade receivable data indicates that the debtors periodically pay a small portion of their outstanding debt. A PD of 100% is thus likely to be conservative and thus to determine a lower bound for impairments a more optimistic PD that associated with the S&P risk grade C, which is the risk grade just before default was used.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

9.2 Credit risk [continued]

Expected credit loss on trade receivables [continued]

On the basis of the above, the expected loss allowance as at 31st December 2018 and 31st December 2017 was determined. A high level of the reasonable expectation of the range of ECL per debtor country is given below:

As at 31 December 2018

Debtor Country	Total Exposure (Pula)	Lower Bound ECL (Pula)	Upper Bound ECL (Pula)
Belgium	306,373	326	326
Cameroon	187,192	772	772
Malawi	2,372,385	18,169	18,169
Mozambique	24,616,876	5,535,607	13,514,665
Namibia	22,115,254	77,690	77,690
Zambia	2,642,450	10,904	10,904
Zimbabwe	34,758,768	7,816,218	19,082,564
Botswana	1,234,913	-	-
Total	**88,234,211**	**13,459,686**	**32,705,090**

As at 31 December 2017

Debtor Country	Total Exposure (Pula)	Lower Bound ECL (Pula)	Upper Bound ECL (Pula)
Angola	41,998	322	322
Burkina Faso	1,619,936	6,987	6,987
Cameroon	1,077,378	4,368	4,368
France	1,888,792	2,028	2,028
Malawi	422,378	3,303	3,303
Mozambique	8,999,656	2,259,403	5,516,120
Namibia	9,050,097	31,793	31,793
South Sudan	401,892	30,765	30,765
Tanzania	699,553	2,486	2,486
Uganda	374,384	1,623	1,623
Zambia	13,579,948	58,347	58,347
Zimbabwe	14,247,603	3,407,088	8,318,086
Botswana	8,571,717	-	-
Total	**60,975,332**	**5,808,513**	**13,976,228**

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

9.2 Credit risk [continued]

Expected credit loss on trade receivables [continued]

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 is 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.

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

Loss allowances are recognised in profit or loss within administration expenses. Subsequent recoveries of amounts previously written-off are credited against administration expenses. The loss allowance on trade receivables is provided for as follows:

The ageing of these impaired trade receivables is as follows:

	Carrying amounts	
	2018 P	**2017 P**
Loss allowance	14,257,011	741,510

Movements in the loss allowance of trade receivables are as follows:

	2018 P	**2017 P**
At 1 January	741,510	800,673
Addition /Reversal during the year	55,815	(59,163)
Loss allowance as per IFRS 9	13,459,686	-
At 31 December	14,257,011	741,510

Trade receivable settlement profile
The ageing analysis of these trade receivables is as follows:

	2018 P	**2017 P**
Current	18,384,315	8,571,717
Between 31 to 90 days overdue	28,592,258	27,788,459
Between 91 and 180 days overdue	23,170,135	4,943,646
Over 180 days overdue	18,087,503	19,671,510
Total gross trade receivables	88,234,211	60,975,332
Expected credit loss	(14,257,011)	(741,510)
Net trade receivables	73,977,200	60, 233,822

As at 31 December 2018, trade receivables of P 55,592,885 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of deafaults.

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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

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 P 74,832 (2017: P 72,515) and other liquid assets of P 168,530,025 (2017: P 179,207,341) 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.

As at 31 December 2018	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Total
Liabilities	P	P	P	P
Borrowings	5,183,132	76,190	-	5,259,322
Trade and other payables	55,219,164	-	-	55,219,164
Financial guarantee	2,500,000	-	-	2,500,000
Total	**57,858,827**	**76,190**	**-**	**62,978,486**

As at 31 December 2017	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Total
Liabilities	P	P	P	P	P
Borrowings	44,580,597	85,251	47,323	-	44,713,171
Trade and other payables	34,193,609	-	-	-	34,193,609
Financial guarantee	2,500,000	-	-	-	2,500,000
Total	**81,274,206**	**85,251**	**47,323**	**-**	**81,406,780**

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

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 to the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order the 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 2018, the Company's strategy, which was unchanged from 2017, was to maintain a 0% to 10% gearing ratio. The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	2018 P	2017 P
Total borrowings	5,259,322	44,713,171
Less – Cash and cash equivalents	(168,530,025)	(179,207,341)
Net borrowings	(163,270,703)	(134,494,170)
Total equity	600,433,326	559,653,730
Total capital	437,162,623	425,159,560
Gearing ratio	Nil	Nil

11 NET DEBT RECONCILIATION

	2018 P	2017 P
Cash and cash equivalent	168,530,025	179,207,341
Borrowings - repayable with in one year (including bank overdraft)	(5,183,132)	(44,580,597)
Borrowings - repayable after one year	(76,190)	(132,574)
Net debt	163,270,703	134,494,170
Cash and cash equivalent	168,530,025	179,207,341
Gross debt - fixed interest rate	(5,259,322)	(44,713,171)
Gross debt - fixed interest rate	163,270,703	134,494,170

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

11 NET DEBT RECONCILIATION

	Cash / bank overdraft P	Borrow. due with in 1 year P	Borrow. due after 1 year P	Total P
Net debt as at 1 January 2017	165,910,136	(147,775)	(39,683,462)	**126,078,899**
Cash flows	8,645,392	150,484	-	**8,795,876**
Other non-cash movement	-	(39,931,493)	39,550,888	**(380,605)**
Net debt as at 31 December 2017	174,555,528	(39,928,784)	(132,574)	**134,494,170**
Cash flows	(11,161,313)	39,881,462	56,384	**28,776,533**
Net debt as at 31 December 2018	**163,394,215**	**(47,322)**	**(76,190)**	163,270,703

12 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 2018 amounted to P 1,011,896 (2017:P 2,427,819).

13 COMMITMENTS

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

	2018 P	2017 P
Building	**5,804,111**	2,329,830

The above commitments include design and build electrical works on the Company building .

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

14 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.

15 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 :

	2018 P	2017 P
Purchase of goods	21,506,446	4,805,992
Technical fees charged	5,852,166	6,102,217
Export commission charged	15,653,174	3,063,833
Royalties charged	6,960,495	2,362,860
Other expenses	20,186	22,749

Balance receivable / payable to Merial at year-end is as follows.

	2018 P	2017 P
Other receivables	-	1,888,792

Other receivable arise from sale of vaccines to Merial in the normal course of business. The balance is unsecured, is receivable based on negotiated credit terms and bear no interest.

Export commission payable	10,073,639	6,020,224
Royalty payable	3,643,822	3,180,895
Trade payable	19,391,583	5,736,487
	33,109,044	14,937,606

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 2018

15 RELATED PARTY TRANSACTIONS AND BALANCE [continued]

(ii) Following are the transactions with the key management personnel:

	2018 P	2017 P
Salaries paid		
Salaries and other allowance paid	1,749,055	2,715,167
Gratuity	503,688	147,208
	2,252,743	2,862,375
Salary advances		
Salary advances outstanding at the year end	13,334	-

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

(iii) Following are the transactions with Directors :

	2018 P	2017 P
Directors' fees paid		
Mrs. P. Makepe	16,380	12,600
Dr A. Blackbeard	4,770	21,000
Government of Botswana	2,520	11,760
Mr L. Monare	27,720	32,697
Government of Botswana	-	12,600
Government of Botswana	10,500	-
Mr L. Monare	10,080	-
Government of Botswana	7,560	-
Mr L. Monare	5,040	-
	84,570	90,657
Board members expenses	85,269	140,258

(iv) Following transactions with Ministry of Agriculture

	2018 P	2017 P
Sale of vaccines	22,264,029	17,087,479
Receivable from Ministry of Agriculture	538,593	8,071,750

16 BANKING FACILITIES

The company has the following facilities from Standard Chartered Bank:

Bank overdraft	**BwP**	**3,000,000**
Bond and Guarantees	**USD**	**200,000**

17 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.

17.1 Basis of preparation

The 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 2018.

- 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/date of adoption by the company is 1 January 2018).

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.1 Basis of preparation [continued]

- 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/date of adoption by the company is 1 January 2018).

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time

Except for the changes required from adopting the new and revised standards below, the Company has consistently applied the accounting policies to all periods presented in the Financial Statements.

The following new and revised IFRSs issued by the IASB are mandatory for accounting periods that begin on or after 1 January 2018, and have been applied to all the years presented. A number of other amendments and interpretations apply for the first time in 2018, but do not have any impact on the financial statements of the Company. The Company has opted not to early adopt any standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards have been adopted and the nature and effect of the changes as a result of application of these new accounting standards are described below: -

IFRS 9 Financial Instruments

The Standard replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all the three aspects of financial instruments: classification and measurement; impairment and hedge accounting. IFRS 9 has been adopted in the current year and prior year adjustments would use the modified retrospective application wherein the day 1 adjustment would be processed through retained earnings. Hedge accounting does not apply to BVI.

According to the revised standard, all recognised financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortised cost or fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL) or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI).

17.1 Basis of preparation [continued]

IFRS 9 Financial Instruments [continued]

All other debt and equity investments are measured at fair value at the end of the reporting period. Under IFRS 9, Entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

With regards to the measurement of financial liabilities designated as at fair value through profit or loss, the Standard requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income unless the recognition of the effect of the changes of the liability's risk in other comprehensive income would create or worsen an accounting mismatch in profit or loss.

As for the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for the expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since the initial recognition. According to the Standard, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The adoption of the IFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Standard also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures. It is therefore against this background that for notes and disclosures, the consequential amendments to IFRS 7 have also been applied to the current period.

The impact of adopting IFRS 9 is as follows:

Classification and measurement of financial instruments

The Company's financial assets comprise of cash and cash equivalents and trade and other receivables, which includes staff loans and advances. The financial liabilities comprise of trade and other payables, which includes Employee obligations.

The measurement category and the carrying amounts of financial assets in accordance with IAS 39 and IFRS 9 effective 1st January 2018 are as follows: -

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.1 Basis of preparation [continued]

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time [continued]

Financial instruments	Original classification under IAS 39	New classification under IFRS 9	01 January 2018 Original carrying amount under IAS 39	01 January 2018 New carrying amount under IFRS 9	31 December 2018 Carrying amount under IFRS 9
			P	P	P
Financial assets					
Trade and other receivables	Loans and receivables	Amortised cost	60,404,793	54,596,280	74,299,457
Financial assets at fair value through profit or loss	Designated FVPL	Designated FVPL	72,515	72,515	74,832
Cash and cash equivalent	Loans and receivables	Amortised cost	179,207,341	179,207,341	168,530,025
Total financial assets			**239,684,649**	**233,876,136**	**242,904,314**
Financial liabilities					
Trade and other payables	Amortised cost	Amortised cost	34,193,609	34,193,609	56,815,327
Borrowings	Amortised cost	Amortised cost	44,713,171	44,713,171	5,259,322
Total Financial liabilities			**78,906,780**	**78,906,780**	**62,074,649**

17.1 Basis of preparation [continued]

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time [continued]

Financial instruments	As previously reported under IAS 39	Transition adjustment	As classified under IFRS 9
	P	P	P
Financial assets	239,684,649	5,808,513	233,876,136
Financial liabilities	78,906,780	-	78,906,780
Gross transition adjustment	-	5,808,513	-
Taxation	-	-	-
Net transition adjustment	-	5,808,513	-
Trade and other payables	34,193,609	34,193,609	56,815,327
Borrowings	44,713,171	44,713,171	5,259,322
Total Financial liabilities	**78,906,780**	**78,906,780**	**62,074,649**

As at 01 January 2018, management reviewed and assessed the trade and other receivables for impairment in accordance with the requirement of IFRS 9 and determined that the expected credit loss on trade and other receivables as of 31 December 2017 amounted to P 5,808,513.

Financial Assets:

The financial assets of the Company were classified as loans and receivables and measured at amortised cost under IAS 39 and these will continue to be measured at amortised cost since they satisfy the SPPI test and business model tests for classification as amortised cost.

Cash and Cash Equivalents

If in the opinion of Management, the credit risk on a financial asset has increased significantly, the Company measures a loss allowance on its cash and cash equivalents at an amount equal to the life time expected credit losses. If at the reporting date, the credit risk has not increased significantly since the initial recognition, the Company measures the loss allowance on its cash and cash equivalents at an amount equal to 12 month expected credit losses. The historic default rates for deposits held at banks and investments held with other non-bank financial institutions is nil. Management's review of forward-looking macroeconomic factors does not suggest possible defaults on bank deposits and other investments in financial instruments and consequently no provision has been recognised as a result of the adoption of IFRS 9. Since there was no objective evidence of impairment of cash and cash equivalents under IAS 39, no provision was made in the financial statements. It therefore follows that there was no impact of the application of IFRS 9 on the recognition and measurement of cash and cash equivalents on the Company's Financial Statements.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.1 Basis of preparation [continued]

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time [continued]

Trade receivables

The Company has adopted the simplified approach for impairment of trade receivables and other receivables. The Company has used the guideline in IFRS 9 to calculate expected credit loss. The account balance largely comprises of outstanding trade receivables from our traditional customers who are mostly Governments. Each individual customer was assessed on the basis of loss given default rates coupled with possibility of defaults relevant to the credit risk profile of such a customer, based on which the Company has made a reasonable adjustment to the carrying amount of trade receivables.

The trade receivables have been adjusted to recognise an impairment loss of P 13,459,686 which is considered to be at the low end. If the Company was to recognise impairment at the highest estimated impairment loss, a total adjustment of P 32,705,089 would have been provided for. Management is of the view that since there has been no history of default it is reasonable to make provision based on the lowest estimate.

Financial liabilities

There have been no changes in the classification and measurement of financial liabilities which were carried at amortised cost and continue to be the same under IFRS 9.

Assumptions made in the adoption of IFRS 9

Classification and measurement

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurementand impairment and accordingly has not restated comparative periods in the year of intial application. As a consequence:

- Any adjustment to carrying amount of trade receivables are recognised at the beginning of the current reporting period, with the difference recognised in the opening retained earnings; and
- Financial assets are not ressified in the balance sheet for the comparative period;
- Provisions for impairment have not been reinstated in the comparative period.

Loss allowance

The Company has adopted the expected credit loss model for its impairment of trade receivables as required by IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The main principle of IFRS 15 is that an entity recognises revenue from performance obligations satisfied (or partially satisfied). Revenue is recognised when control is passed where control is defined by the ability to direct the use of, or obtain substantially all the remaining benefits associated with the assets. The control could be transferred over time. The entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

17.1 Basis of preparation [continued]

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time [continued]

According to the Standard, revenue is to be recognised when the following conditions have been satisfied:

- Identification of a contract
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

The Company has adopted the amendment for the first time in 2018 annual financial statements and applied the same principles for 2017 financial statements for year on year comparison. The adoption of the new standard did not result in any changes related to the revenue recognised in the financial statements.

		01 January 2018	31 December 2018
	Original amount recognised under IAS 18 P	New amount recognised under IFRS 15 P	Amount recognised under IFRS 15 P
Revenue	83,006,095	83,006,095	152,615,827
Contract liabilities	1,205,616	1,205,616	1,205,616

Opening transition adjustments as at 01 January 2018:

	As previously reported under IAS 18 P	Transition adjustment P	As classified under IFRS 15 P
Revenue	83,006,095	-	83,006,095
Contract liabilities	1,205,616	-	1,205,616
Gross transition adjustment	-	-	-
Taxation	-	-	-
Net transition adjustment	-	-	-

As at 01 January 2018, management reviewed and assessed the revenue to transition adjustment in accordance with the requirement of IFRS 15 and determined that there was no impact to the financial statements.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.1 Basis of preparation [continued]

1.1 New standards, Amendments and Interpretations effective in the current Financial Year for the first time [continued]

- 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/date of adoption by the company 1 January 2018).

  Management has assessed the impact of the application of these new standards, amendments and interpretations on the Company's financial statements in the period of initial application and where necessary, adjustments have been processed in the financial statements.

  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:

- 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).

- 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).

- 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).

17.1 Basis of preparation [continued]

(ii) Adoption of standards in future financial periods

- 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 2019).

- 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 2019).

- IFRS 17, 'Insurance contracts'-The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators (Effective form 1 January 2021).

- IFRIC 23, 'Uncertainty over income tax treatments'- IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12 (Effective form 1 January 2019).

- Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.1 Basis of preparation [continued]

(ii) Adoption of standards in future financial periods

The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.

- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings. (Effective from 1 January 2019)

• Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement.

  These amendments require an entity to:
  - Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and

  - Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss The impact of the amendments is to confirm that these effects are not offset. (Effective from 1 January 2019)

17.2 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 reporting date.

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.

17.3 Revenue recognition – Sale of vaccines

The Company manufactures and distributes livestock vaccines. Revenue is recognised when control of the products has been transferred, being when the vaccines are delivered or collected by the customer. The Company has full discretion over the channel and price to sell the vaccines and as at year end there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the vaccines have been shipped to the specific location, the risks of expiry and loss have been transferred to the customer and either the customer has accepted the products in accordance with the terms and conditions negotiated at the time of agreeing on the sale or the Company has objective evidence that all criteria for acceptance have been satisfied. Revenue is shown net of value-added tax, returns, rebates and discounts. A receivable is recognized when the goods are delivered. The adoption of the revised IFRS 15 in the current financial year did not give rise to any change in revenue recognition.

Revenue recognition further described in note 17.1.

17.4 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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.5 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.

17.6 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 5.1 for further information about the Company's accounting for trade receivables and note 9.2 for a description of the Company's impairment policies.

17.7 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.

17.8 Financial assets and financial liabilities

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through profit or loss or other comprehensive income (OCI), and
- Those to be measured at amortised costs.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cashflows. Management determines the classification of its investments at initial recognition. For assets measured at fair value, gains and losses are recognised in the OCI.

17.8 Financial assets and financial liabilities [continued]

(ii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Company recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(iii) Classification and subsequent measurement

From 1 April 2018, the Company has applied IFRS 9 and classifies its financial assets as amortised cost and fair value through profit or loss.

The classification requirements for debt measured at amortised cost are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.8 Financial assets and financial liabilities [continued]

Classification and subsequent measurement of debt instruments depend on:
- the Company's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments as amortised cost as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured using the simplified expected loss model. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets, which is held by the Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

17.8 Financial assets and financial liabilities [continued]

Financial liabilities

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

All financial liabilities are measured subsequently at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(iv) Expected credit loss on financial assets

The Company recognises expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost which include, trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using simplified ECL model based on the loss given default rates and possibility of default rates. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Impairment testing of trade receivables is described in note 9.2.

(v) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. If the

Company enters into transaction whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, such transferred assets are not derecognised.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.9 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.

17.10 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 are stated at historical cost less accumulated 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 company 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.

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.

17.11 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.

17.12 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.

17.13 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.

17.14 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the company 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.

Notes to the Financial Statements [continued]

for the year ended 31 December 2018

17.14 Provisions [continued]

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.

17.15 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.

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 2018

	2018 P	2017 P
Revenue		
Domestic	22,290,486	16,470,615
Export	122,517,950	64,263,434
Agency	6,642,731	1,055,009
	151,451,167	81,789,058
Freight	1,164,656	1,217,037
	152,615,823	83,006,095
Cost of sales	(76,446,684)	(53,965,225)
Gross profit	76,169,139	29,040,870
Other income	1,242,546	1,057,433
Other gains / (losses)	949,774	(1,280,592)
Distribution costs		
Advertising and travel	(287,267)	(146,554)
Custom freight and insurance	(796,548)	(1,151,455)
Export commission	(15,653,174)	(3,063,833)
	(16,736,989)	(4,361,842)
Administrative expenses	(29,183,583)	(18,284,103)
Operating profit	32,440,887	6,171,766

“This detailed income statement does not form part of the audited financial statements covered by the audit opinion on pages 3 to 7”.

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