REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF SIMLAW SEEDS COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE 2017

Simlaw Seeds

Superior & Reliable

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

CONTENTS

Principal Place of Business	Kijabe Street P.O Box 40042 - 00100 Nairobi
Registered Office	Kijabe Street P.O Box 40042 - 00100 Nairobi
Principal Bankers	Barclays Bank of Kenya Limited Moi Avenue Nairobi P.O Box 30116 - 00100 Nairobi
	Barclays Bank of Kenya Limited Barclays Plaza P.O Box 30120 - 00100 Nairobi
	Kenya Commercial Bank Limited Loitokitok Branch P.O Box 182 Loitokitok
	Kenya Commercial Bank Limited University Way Branch P.O Box 7206-00300 Nairobi
Secretary	Wilkister Muyoka Simiyu, CPS (Kenya) P.O Box 2795-30100 Eldoret
Independent Auditor	Auditor General Kenya National Audit Office P.O Box 25426 – 00100 Nairobi, Kenya

The directors submit their report together with the audited financial statements for the year ended 30 June 2017. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Companies Act, 2015 this report has been prepared in accordance with Section 157 of the repealed Companies Act , as if that repeal had not taken effect.

1. PRINCIPAL ACTIVITIES

The company carries out the business of importing, production and distribution of seeds.

2. COMPANY RESULTS

The results for the year are set out on page 11.

3. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2017 (30 June 2016: nil)

4. RESERVES

The reserves of the company are set out on page 13.

5. DIRECTORS

The directors who served during the year and to the date of this report were: -

Mr. Lawrence Njiru (Chairman)
Mr. William Kundu
Managing Director- Kenya Seed Company Limited
Managing Director- Agricultural Development Corporation
Principal Secretary -Ministry of Finance

6. INDEPENDENT AUDITOR

The Auditor General is responsible for the statutory audit of the company's books of account in accordance with Sections 14 and 39 (i) of the Public Audit Act, 2015, and Article 229 of the Kenya Constitution which empowers the Auditor-General to nominate other auditors to carry out the audit on her behalf.

Parker Randall Eastern Africa, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 30 June 2017.

By Order of the Board

Company Secretary

....

Date 27|02|2018

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and errors.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on ......27 FEBRUARY....... and signed on its behalf by:

....

Director Director

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON SIMLAW SEEDS COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Simlaw Seeds Company Limited set out on pages 4 to 42, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Simlaw Seeds Company Limited as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Water Act, 2002 and the Kenya Companies Act, 2015 (CAP 486).

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter and Basis for Qualified Opinion sections of my report, based on the procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Financial Statements

1.1 Presentation and Accuracy of Financial Statements

A review of financial statements for the year ended 30 June 2017 presented for audit revealed the following anomalies:

i) Page 11 to 14 of financial statements indicate notes to the financial statements are set out on page 15 to page 44. However, the notes to the financial statements are set from page 9 to page 42.

ii) The statement of financial position indicate that the financial statements are set out on pages 11 to 44 instead of pages 4 to 42.

Under the circumstances, the financial statements have not been presented accurately in accordance with the International Financial Reporting Standards (IFRS).

2. Trade and Other Receivables

2.1 Variances in Stock

Note 16b to the financial statements reflects other receivables balance of Kshs.43,838,000 as at 30 June 2017 relating to variances in stock in different stores which was not supported by appropriate audit evidence . Further, management has not explained how the variances in the stocks were incurred and the measures put in place to recover the lost stocks from the storekeepers.
Consequently, the Validity, existence, accuracy and recoverability of the balance of Kshs.43,838,000 relating to variances in stock in different stores as at 30 June 2017 could not be confirmed.

2.2 Staff Receivables

Included in the staff receivables balance of Kshs.10,499,000 as disclosed under note 16b to the financial statements is a balance of Kshs.9,104,926 whose supporting documents were not provided for audit verification.
Under the circumstances, the validity, existence, accuracy and recoverability of the balance of Kshs.9,104,926 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Simlaw Seeds Company Ltd in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Administration Expenses

1.1 Fringe Benefit Tax

Available information indicate that the company does not compute and remit fringe benefit tax on staff car loans in adherence to Section 12(B) 1 of the Income Tax Act which states that a tax to be known as fringe benefit tax shall be payable commencing on the 12th June, 1998 by every employer in respect of a loan provided at an interest rate lower than the market interest rate, to an individual who is a director or an employee or is a relative of a director or an employee, by virtue of his position as director or his employment or the employment of the person to whom he is related. The management is therefore in breach of the law.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Company's or to cease operations, or have no realistic alternative but to do so. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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 conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I 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 my 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 and for the purpose of giving an assurance 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 management.

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

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company's to express an opinion on the financial statements.

- Perform such other procedures, as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act,2015, I report based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,

iii. The Company's financial statements are in agreement with the accounting records and returns.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

23 August 2019

SIMLAW SEEDS COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 Kshs '000	2016 Kshs '000
Sales	4	943,117	748,220
Cost of sales	5	(733,378)	(553,061)
Gross profit		**209,739**	**195,159**
Other operating income	6	15,026	12,077
Administration expenses	7	(122,687)	(128,957)
Selling and distribution expenses	8	(33,700)	(30,334)
Operating expenses	9	(40,310)	(79,492)
Research and development expenses	11	(4,854)	(3,533)
Fair value gain/(loss) on biological assets	15	38	(133)
		(186,487)	(230,372)
Operating profit/(loss)		**23,252**	**(35,213)**
Finance costs	12	(10,567)	(11,204)
Profit/(loss) before tax		12,685	(46,417)
Provision for tax (charge)/credit	17(c)	(5,021)	13,227
Profit/(loss) for the year		7,664	(33,190)
Other comprehensive income		-	-
Total comprehensive income/(loss)		**7,664**	**(33,190)**

The notes set out on pages 15 to 44 form an integral part of the financial statements

	Notes	2017 Kshs '000	2016 Kshs '000
ASSETS			
Non-current assets			
Land and buildings	13	110,192	110,192
Property, plant and equipment	13	22,123	23,561
Deferred tax asset	17(a)	19,540	24,557
		151,855	158,310
Current assets			
Inventories	14	674,672	661,540
Consumable biological assets	15	93	180
Trade and other receivables	16	189,574	178,158
Tax recoverable	17(b)	26,211	26,211
Amount due from group companies	18(a)	62,491	62,990
Amount due from other government bodies	18(b)	3,377	15,187
Cash and bank balance	19	37,669	20,484
		994,087	964,750
TOTAL ASSETS		**1,145,942**	**1,123,061**
EQUITY & LIABILITIES			
Capital and reserves			
Share capital	20	200	200
Retained earnings		158,554	150,890
Revaluation reserve		23,798	23,798
Loan capital from parent company		144,298	144,298
		326,850	319,186
Non-current liabilities			
Borrowing	21	63,275	76,473
Current liabilities			
Trade and other payables	22	97,744	209,162
Amount due to Kenya seed company limited	18(c)	646,387	507,912
Provision for employee entitlement	23	11,686	10,328
		755,817	727,402
TOTAL EQUITY AND LIABILITIES		**1,145,942**	**1,123,061**

The financial statements on pages 11 to 44 were approved by the Board of Directors on ...27 FEBRUARY..... and signed on its behalf by:

.... Director

.... Director

The notes set out on pages 15 to 44 form an integral part of the financial statement

	Share capital Kshs '000	Retained earnings Kshs '000	Loan capital Kshs '000	Revaluation reserves Kshs '000	Total equity Kshs '000
For the year ended 30 June 2016					
As at 1 July 2015	200	194,145	144,298	23,798	362,441
Total Comprehensive loss	-	(33,190)	-	-	(33,190)
Prior period adjustment	-	(10,065)	-	-	(10,065)
As at June 2016	200	150,890	144,298	23,798	319,186
For the year ended 30 June 2017					
As at 1 July 2016	200	150,890	144,298	23,798	319,186
Total Comprehensive loss	-	7,664	-	-	7,664
As at June 2017	**200**	**158,554**	**144,298**	**23,798**	**326,850**

The notes set out on pages 15 to 44 form an integral part of the financial statements.

SIMLAW SEEDS COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 Kshs '000	2016 Kshs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		12,685	(46,417)
Adjustments for:			
Depreciation	13	7,811	8,427
Interest expense	12	10,567	11,204
Exchange loss	9	9,064	15,749
Operating profit before working capital		40,127	(11,037)
Changes in working capital:			
Decrease in staff receivables		-	2,836
Increase in trade and other receivables	16	(11,416)	(17,080)
Increase in inventories	14	(13,132)	(66,240)
Decrease/(increase) in biological assets	15	87	(30)
Decrease/(Increase) in amount due from group companies	18 (a)	499	(4,780)
Decrease in amount due from related parties	18 (b)	11,810	18,796
Increase/(decrease) in amount due to parent companies	18 (c)	138,475	(15,531)
Increase in provision for employee entitlements	23	1,358	5,318
(Decrease)/increase in trade and other payables	22	(111,421)	17,818
Cash (used in)/generated from operations		56,387	(69,930)
Interest expense	12	(10,567)	(11,204)
Net cash flows (used in)/from operating activities		45,820	(81,134)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(6,373)	(5,914)
Net cash (used in) investing activities		(6,373)	(5,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease)/increase in borrowings	21	(13,198)	76,473
Net cash flows from financing activities		(13,198)	76,473
Net increase/(decrease) in cash and cash equivalent		26,249	(10,575)
Cash and cash equivalents as at 1 July		20,484	46,808
Effects of changes in exchange rates	9	(9,064)	(15,749)
Cash and cash equivalents as at 30 June	19	**37,669**	**20,484**

The notes set out on pages 15 to 44 form an integral part of the financial statements.

STATEMENT OF BUDGET COMPARISON

REVENUE	Original & Final Budget 2016-2017 Kshs'000	Actual performance 2016-2017 Kshs'000	Performance Difference Kshs'000	% change
Maize	147,079	181,394	(34,315)	-23%
Wheat Seed	158	188	(30)	-19%
Pasture	32,800	39,122	(6,323)	-19%
Vegetable Seed	470,286	572,868	(102,582)	-22%
Other Seed	140,376	149,544	(9,168)	-7%
Sales	**790,698**	**943,117**	**(152,419)**	**-19%**
cost of sales	(537,675)	(733,379)	195,704	-36%
Other operating Income	7,660	15,026	(7,366)	-96%
Gross Profit	**260,683**	**224,764**	35,919	**14%**
Administrative expenses	(115,652)	(122,686)	7,034	-6%
Selling and Distribution Expenses	(41,944)	(33,700)	(8,244)	20%
Other Operating Expenses	(48,491)	(40,310)	(8,181)	17%
Research and Development Costs	(13,769)	(4,816)	(8,953)	65%
	(219,856)	**(201,512)**	**(18,344)**	**8%**
Operating Profit/(Loss)	40,827	23,251	17,576	43%
Finance Costs	(10,828)	(10,567)	(262)	2%
Profit/(Loss) Before Tax	**29,999**	**12,685**	**17,314**	**58%**

Budget Notes for the variances of more than 10%:

1. **Sales**
   The sales revenue increased by 19% from the budget Kshs 791 Million to Kshs 943 Million due to product promotional campaigns, aggressive marketing through personal selling, and timely availability of stock for trade and company business remodel ling.
2. **Cost of sales**
   The cost of sales increased by 36% over the budget due increase in sales and product mix. The budget gross profit margin was 31% whereas actual gross margin realized were 22%.The products trading margins ranges from 8% to 30%.
3. **Gross profit**
   The gross profit decreased by 14% below the budget due to the lower sales margins from products such as maize whose prices are subject to Government controls.
4. **Selling and distribution**
   The selling and distribution expenses recorded a saving of 20% from the budget due competitive sourcing of promotional goods and services and customer targeted activities and less of generalized advertising.
5. **Other operational expense**
   There was a 15% favorable variance on the cost centre due gain foreign exchange gain attributed to favorable exchange rate and cost saving measures adopted.
6. **Research and development**
   The was a 43% saving on research and development vote due lower level activity occasioned by less staff in the department and abandonment of planned large scale irrigation activities.

1. NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED BY THE COMPANY

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2016:

- IAS 19 Employee Benefits (Revised)
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
- *IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*
- *IFRS 1 Government Loans – Amendments to IFRS 1*
- *IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IAS 36 Impairment of Assets - Disclosure requirements for the recoverable amount of impaired assets*
- *Annual Improvements May 2015*

The adoption of the standards or interpretations is described below:

IAS 19 Employee Benefits (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. Past service costs as a result of plan amendments are to be recognised immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. Although the company will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments have no impact on the company.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is effective for annual periods beginning on or after 1 January 2016 and has no impact on the company as the company does not have any investments in associates and interests in joint arrangements.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments have no impact on the company's financial position or performance and the standard is effective for annual periods beginning on or after 1 January 2016.

IFRS 1 Government Loans – Amendments to IFRS 1
These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2016. The amendment has no impact on the company.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments have no impact the company's financial position or performance and is effective for annual periods beginning on or after 1 January 2016.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Ventures.* IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard is effective for annual periods beginning on or after 1 January 2016, and has no impact on the company as it is not party to any joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The IFRS has no impact on the company's operations.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard is effective for annual periods beginning on or after 1 January 2016. The new interpretation did not have an impact on the Company.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2016. The new interpretation did not have an impact on the Company.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The IFRS did not have any impact on the company's operations.

IAS 36 Impairment of Assets - Disclosure requirements for the recoverable amount of impaired assets
The IASB has issued amendments to IAS 36 - *Impairment of Assets,* to clarify the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarify the IASB's original intention: that the scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendment will become effective for annual periods beginning on or after 1 January 2016 and did not have material impact on the company's disclosure.

Annual Improvements May 2015
These improvements did not have an impact on the company, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2016.

Standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the company's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the company is still assessing the possible impact.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2016, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2016. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The company is currently assessing the impact of adopting IFRS 9. However, since the impact of adoption depends on the assets held by the company at the date of adoption, it is not practical to quantify the effect.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IFRS 9 Financial Instruments (2016)
A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: Classification and measurement; Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2016 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to that under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. Impairment; The 2016 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. Hedge accounting; Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Derecognition; The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39, effective for annual period beginning on or after 1 January 2018. The IFRS may have an impact on the company's disclosures.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to: apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11 and disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). Applicable to annual periods beginning on or after 1 January 2016. This IFRS will have no impact on the company's financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to: clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated, add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. Applicable to annual periods beginning on or after 1 January 2016 and the company will assess the impact on the operations.

1. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
Amends IAS 16 Property, Plant and Equipment and IAS 41 Agriculture to: include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16; introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; clarify that produce growing on bearer plants remains within the scope of IAS 41. Applicable to annual periods beginning on or after 1 January 2016. The company will assess impact on the company's financial statements.

Equity Method in Separate Financial Statements (Amendments to IAS 27)
Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. Applicable to annual periods beginning on or after 1 January 2016. This IFRS will have no impact on the company's financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017. This IFRS will have no impact on the company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The company's financial statements have been prepared on historical cost basis of accounting. The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act. The financial statements are presented in Kenyan Shillings (Kshs), and all values are rounded to the nearest thousand (Kshs' 000) except when otherwise stated.

(b) Revenue recognition

Revenue is recognised in the statement of comprehensive income when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue is measured at fair value net of taxes and discount.

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis taking into account the effective yield on the asset.

(c) Research and development costs

Expenditure on research and related development is capitalised and amortised on a straight line basis over its useful life when:
- It is probable that the future economic benefits that are attributable to the asset will flow to the company; and
- The cost of the asset can be measured reliably.

Expenditure on research and development is charged to the income statement when the expenditure relates to maintaining and running the day to day operations.

(d) Taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

(e) Deferred tax

Deferred tax is provided for using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Deferred tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(f) Dividends

Proposed dividends are shown as a separate component of equity until declared

(g) Property, plant, equipment and depreciation

Property, plant and equipment are stated at their historical cost or at professionally revalued amounts less accumulated depreciation and any impairment losses. The basis of valuation is as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant, equipment and depreciation (Continued)

i) Buildings – open market value

ii) Other assets – depreciated replacement cost

Professional valuations are carried out in accordance with the company's policy of revaluing property, plant and equipment every three to five years. The last valuation was as at 30 June 2008.

Increases in the carrying amounts of property, plant and equipment resulting from revaluations are credited to the revaluation surplus, except to the extent that it reverses a revaluation reserve decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent the decrease was previously charged. Decrease in carrying amounts of property, plant and equipment are charged to income statement to the extent they exceed the balances, if any, held in the revaluation reserve surplus relating to previous revaluation of the relevant assets. On subsequent disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation surplus is transferred directly to the retained earnings.

Properties in the course of construction for administrative or other purposes are held in the books of account as work in progress at historical cost less any accumulated impairment losses. The cost of such assets includes professional fees and costs directly attributable to the asset. Such assets are not depreciated until they are ready for the intended use.

Gains or losses arising on disposal of an asset is determined as the difference between the net sales proceeds and the carrying amount of the asset at the time of sale and is recognised in the income statement in the year in which the sale occurred.

Depreciation is charged so as to write off the cost or valuation of the property, plant and equipment in equal annual instalments over their estimated useful lives at the following annual rates:

Machinery	10%
Computers	$33^1/_3$%
Motor vehicles	25%
Furniture and equipment	20%

The useful life of property, plant and equipment and the pattern of utilization of economic benefits arising from the use of the assets are reviewed at each reporting date to take into account any changes in the market, economic and industry trends.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the company as a lessee.

All other leases are classified as operating leases.

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and stated at historical cost less accumulated amortization and any accumulated impairment losses. Annual amortization is charged on a straight line basis over the remaining period of the lease.

Rentals payable under operating leases are charged to the income statement on the straight line basis over the term of the relevant lease.

(h) Intangible assets

Intangible assets represent computer software and are stated at cost less the accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of computer software on the straight line basis over its estimated useful life of three years. The useful life of intangible assets and the pattern of utilization of economic benefits arising from the use of the intangible assets are reviewed at each reporting date to take into account the any changes in the market, economic and industry trends.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises expenditure directly incurred in purchasing, field inspection and monitoring costs and processing the inventory, together with appropriate allocation of processing overheads. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress, which comprises raw seed and seed in bulk form not yet processed, is stated at the lower of cost and net realisable value. Cost comprises expenditure directly incurred in the purchase of the seeds.

(j) Biological assets

Living plants with probable future economic benefits, which are owned and controlled by the company, are accounted for as biological assets. Biological assets and agricultural produce are measured at their fair value less estimated point-of-sale costs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Biological assets (Continued)

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined based on the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate.

The fair value of the company's newly planted crops is estimated by reference to costs incurred on the crops up to the reporting date.

Point of sale costs include commissions to brokers and dealers, levies by regulatory agencies and transfer taxes and duties but exclude transport and other costs necessary to get the assets to the market.

For financial reporting purposes, the company classifies its biological assets as follows:

Consumable biological assets

Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets.

Bearer biological assets

For bearer plants, costs capitalization should cease when the bearer plants reach maturity. Judgment may be needed to identify when bearer plants reach maturity; and, hence, costs will cease to be capitalized and depreciation charge will commence.

Gains or losses arising on initial recognition of biological asset and agricultural produce and from changes in fair value less point of sale costs are recognised in the income statement for the year.

(l) Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss. Whenever the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the income statement unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Impairment gains that represent reversal of losses previously recognized in relation to certain assets are captured as income unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of assets

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the market reassessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(m) Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale assets.

Management determines the appropriate classification of its investments at initial recognition and re-evaluates its portfolio every reporting date to ensure that all financial instruments are appropriately classified.

Purchase and sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular way purchases) are recognised on the trade date, which is the date that the company commits to purchase or sell the asset.

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset and has transferred its right to cash flows from the asset or has assumed an obligation to pay the received cash flows without material delay to a third party under a 'pass through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another by the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts are recognised in the statement of comprehensive income.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include receivables arising from day to day sale of goods and services. They are measured at amortised cost less impairment losses using the effective interest rate method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Available-for-sale financial assets

Financial assets that are not:

- Financial assets at fair value through profit or loss,
- Loans and receivables, or
- Financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

Trade and other receivables

Trade and other receivables consist of all receivables, which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate. An allowance is made for any unrecoverable amounts.

Borrowings

Interest bearing loans are recorded at the proceeds received. Finance charges are recognised on the accrual basis and are added to the carrying amount of the related instrument to the extent that they are not settled in the period they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments (Continued)

Trade payables

Trade and other payables, consist of all payables, which are of short duration with no stated interest rate and are measured at amortised cost using the effective interest rate.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments, which are readily convertible to known amounts of cash and which were within three months to maturity when acquired, less advances from banks repayable within three months from date of disbursement or confirmation of the advance. Cash and cash equivalents are measured at amortised cost.

(n) Foreign currency transactions

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year which are expressed in foreign currencies are translated into Kenya Shillings at the rates ruling on the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

(o) Employee benefits

Accrued leave pay

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding annual leave entitlement as a result of services rendered by employees up to the reporting date.

(p) Contingent liabilities

Contingent liabilities arise if there is a possible or present obligations that may, but probably will not, require an outflow of economic resources; or there is a present obligation, but there is no reliable method to estimate the monetary value of the obligation.

(q) Critical judgements and use of accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires directors to exercise their judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements.

Although these estimates are based on directors' best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. In particular, critical judgement has been applied by the directors in:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Critical judgements and use of accounting estimates (Continued)

- Valuation of biological assets;
- Estimation of useful life of property, plant and equipment and intangible assets;
- Determination of revalued amounts of property, plant and equipment;
- Determination of actuarial deficit between the assets and liabilities of employee benefits scheme;
- Determination on whether the company's assets have been impaired.

4 SALES

Varieties	2017 Shs '000'	2016 Shs '000'
Cabbage	325,358	250,733
Maize	181,394	84,419
Tomato	53,797	61,686
Collard	48,654	47,546
Carrot	44,021	44,639
Onion	21,774	44,296
Beans	50,493	43,370
Mellon	24,279	25,560
Greengrams	40,672	20,624
Spinach	21,369	20,522
Pasture legume	21,685	19,507
Capsicum	12,709	12,129
Indigenous	20,907	11,858
Cowpeas	13,633	8,903
Lawn-grass	6,150	7,499
Pasture grass	11,287	6,625
Other Product Sales (5% of Total)	44,934	38,304
	943,117	**748,220**

The company earns revenue from the sale of imported and locally produced vegetable, cereal and other seed varieties as listed below.

5. COST OF SALES

	2017 Kshs '000	2016 Kshs '000
Purchases	662,730	586,413
Seed production and testing	49,082	44,670
Movement in inventories	15,567	(83,569)
Depreciation of production equipments	4,811	4,636
Repairs and maintenance	1,185	902
Fuels and oils	3	9
	733,378	553,061

6. OTHER OPERATING INCOME

Provision for obsolete stock	13,884	-
Miscellaneous income	990	4,600
Bad debts recovered – Trade debtors	152	7,477
	15,026	12,077

Miscellaneous income relates to income from transportation of seeds, write back of long outstanding payables and penalties on bounced cheques. The company recovered a debt of Kshs 152,241 from an individual debtor.

7. **ADMINISTRATION EXPENSES**	**2017** **Kshs '000**	**2016** **Kshs '000**
Salaries	76,364	76,495
Staff Training, welfare and medical	15,666	16,186
Gratuity	2,353	11,544
Pension	7,608	7,423
Wages	8,535	6,230
Rent and rates	5,572	4,910
Leave pay provisions	2,815	2,476
Power, light and water.	2,605	2,079
Repairs and maintenance	949	1,388
Social security costs (NSSF)	220	226
	122,687	128,957

8. **SELLING AND DISTRIBUTION COST**	**2017** **Kshs '000**	**2016** **Kshs '000**
Travelling	15,747	8,455
Public relations and advertising	11,510	12,630
Freight and transport	6,125	8,906
Depreciation	318	343
	33,700	30,334

9. **OPERATING EXPENSES**	**2017** **Kshs '000**	**2016** **Kshs '000**
Exchange loss	9,064	15,749
Other expenses	8,959	12,844
Donations and subscriptions	4,570	3,912
Security	3,769	3,835
Auditors remunerations	2,095	2,095
Depreciation on other office equipment	2,674	3,999
Postage and telecommunication	2,324	4,776
Legal and professional fees	2,069	806
Insurance	1,712	1,591
Bank charge	1,581	1,479
Printing, stationery and publications	866	2,594
Directors emoluments	531	773
Provision for doubtful debts	96	5,537
Provision for obsolete stock	-	19,502
	40,310	79,492

The drastic change in provision for obsolete stock is due to a valuation carried out of the obsolete seeds based on how much can be recovered from the low germinating seeds.
Other expenses include Kephis seed test fees of Kshs 1,455,412 and local & overseas travel costs of Kshs 4,770,887.

10. Directors fees

	2017 Kshs '000	2016 Kshs '000
Directors emoluments	531	773

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs	4,854	3,533

Research and development costs include costs for land preparation and rental, labour expense and associated travel, training and KEPHIS testing expenditure.

12. FINANCE COSTS

	2017 Kshs '000	2016 Kshs '000
Bank loan interest	10,567	11,204

The bank loan interest relates to interest charge on borrowings to purchase the Kijabe street property (note 20).

13. PROPERTY AND EQUIPMENT

a) For the year ended 30 June 2017

	Land and building	Machinery	Motor vehicle	Furniture and computer equipment	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost / Valuation					
As at 1 July 2016	110,192	46,868	33,936	39,225	230,221
Additions	-	57	3,897	2,419	6,373
As at 30 June 2017	110,192	46,925	37,833	41,644	236,594
Accumulated depreciation					
As at 1 July 2016	-	27,671	33,936	34,861	96,468
Charge for the year	-	4,673	205	2,933	7,811
As at June 2017	-	32,344	34,141	37,794	104,279
Net carrying amount					
As at 30 June 2017	**110,192**	**14,581**	**3,692**	**3,850**	**132,315**

13. **PROPERTY AND EQUIPMENT (Continued)**

b) **For the year ended 30 June 2016**

	Land and Building Kshs '000	Machinery Kshs '000	Motor vehicle Kshs '000	Furniture and computer equipment Kshs '000	Total Kshs '000
Cost or Valuation					
As at 1 July 2015	108,014	45,857	33,936	36,500	116,293
Additions	2,178	1,011	-	2,725	3,736
As at June 2016	110,192	46,868	33,936	39,225	120,029
Accumulated depreciation					
As at 1 July 2015	-	23,101	33,936	31,004	88,041
Charge for the year	-	4,570	-	3,857	8,427
As at June 2016	-	27,671	33,936	34,861	96,468
Net carrying amount					
As at 30 June 2016	**110,192**	**19,197**	**-**	**4,364**	**23,561**

Machinery and equipments were revalued in 2008 by Metrocosmo Limited, registered valuers and were valued on the basis of depreciated replacement cost for existing use. The resulting surplus was transferred to the revaluation reserve.

14. INVENTORY

	2017	2016
	Kshs '000	Kshs '000
Seeds and materials finished	205,349	351,941
Work in progress	479,941	336,264
Provision for obsolete inventories	(10,618)	(26,665)
	674,672	661,540

Obsolete stock in the year reduced by Kshs 13,884,144 due to the valuation of the obsolete seeds based on recoverability of low germinating seeds through sale for human and animal consumption, blending and own use.

15. CONSUMABLE BIOLOGICAL ASSETS

The consumable biological assets comprise of vegetables	2017	2016
	Kshs '000	Kshs '000
Fair value as at 1 July	180	150
Decrease in fair value due to harvesting	(180)	(150)
Additions at cost	55	313
	55	313
Fair value loss arising from physical changes	38	(133)
Fair value as at 30 June	93	180

Significant assumptions made in the estimation of the fair value of the biological assets:

i) The market conditions will remain constant;
ii) The prevailing climatic conditions will not change;
iii) The pre-tax incremental borrowing rate will remain at 14%; and,
iv) The prices of the farm inputs required to sustain the estimated yields will not change in the entire period considered to be the life cycle of the crops.

16. TRADE AND OTHER RECEIVABLES

	2017	2016
a). Trade receivables	**Kshs '000**	**Kshs '000**
Trade receivables	133,172	94,272
Provision for bad and doubtful debts	(8,138)	(8,194)
	125,034	86,078
b). Other receivables		
Growers receivables	11,510	8,737
Provision for bad and doubtful debts	(4,998)	(4,998)
	6,512	3,739
Other receivables	43,838	39,942
Provision for bad and doubtful debts	(4,633)	(4,633)
	39,205	35,309
Staff Receivables	10,499	12,758
VAT recoverable	7,799	39,805
Pre-payments	525	469
Net trade and other receivables	189,574	178,158

For trade receivables in respect of contracted seed growers, credit amount is limited to the delivery of seeds expected from the growers. The credit is in form of the cost of farm inputs and supplies taken by the grower to facilitate farm operations during seed growing seasons.

Staff receivables consist of staff advances on salaries of Kshs 7,701,724, staff imprests of Kshs 2,389,787 and staff car loans of Kshs 407,642. In the year 2017, all staff advances were accounted for as current assets.

Other receivables relate to negative variances arising from the stock count at year end.

Movement in the provision for bad debts of trade receivables is as below:

	2017	2016
	Kshs '000	**Kshs '000**
As at 1 July	8,194	6,353
Provision during the year	96	1,945
Recovered during the year	(152)	(104)
As at 30 June	8,138	8,194

Movement in the provision for other receivables is as below:

	2017	2016
	Kshs '000	**Kshs '000**
As at 1 July	4,633	1,041
Provision during the year	-	3,592
As at 30 June	4,633	4,633

17. TAXATION

a) Deferred tax movement

Movement in deferred tax during the year was as follows:

Deferred tax assets	As at 1 July 2016	(Credit)/charge Statement of comprehensive Income	As at 30 June 2016
Property, plant and equipment	(1,242)	(480)	(1,722)
Leave provision	(1,263)	(497)	(1,760)
Gratuity provision	(1,836)	89	(1,747)
General bad debt provision	(8,782)	17	(8,765)
Unrealized exchange losses	(631)	(527)	(1,158)
Tax losses utilized	(10,803)	6,415	(4,388)
	(24,557)	5,017	(19,540)

	2017 Kshs '000	2016 Kshs '000
b) Tax recoverable		
As at 1 July	26,211	26,211
Charge for the year	-	-
As at 30 June	26,211	26,211
c) Taxation charge		
Current tax based on adjusted profit at 30%	5,021	-
Prior year under provision	-	(457)
Deferred tax credit/(charge)	-	(12,770)
	5,021	(13,227)
d) Reconciliation of income tax to accounting profit/(loss)		
Accounting profit/(loss)before tax	12,685	(46,417)
Tax at the applicable rate of 30%	3,806	(13,925)
Tax effect of non deductible expenses	1,054	1,155
Prior year under provision	161	(457)
	5,021	(13,227)

18. RELATED PARTY TRANSACTIONS

Simlaw Seeds Company is a subsidiary of Kenya Seed Company Limited which holds 98% of its shares. The remaining 2% of the shares are held by private individuals.

The company transacts with other companies related to it by virtue of common shareholding. These transactions are carried out at mutually agreed terms and are in the normal course of business.

During the year, the following transactions were entered into with related parties:

		2017 Kshs '000	2017 Kshs '000
i.	**Sales to related parties**		
	Kenya seed company limited	192,767	130,473
	Kibo Seeds company limited	5,015	14,731
	Simlaw seed company Uganda	3,398	609
		201,180	145,813
ii.	**Purchases from related parties**		
	Kenya seed company limited	206,690	52,227

Outstanding balances arising from sale and purchase of goods/services or advances to/from related companies

		2017 Kshs '000	2016 Kshs '000
a)	**Due from group companies**		
	Kibo seeds company limited	50,913	49,990
	Simlaw seeds company Uganda Ltd	11,578	13,000
	Mt Elgon seeds company limited	25,285	25,285
		87,776	88,275
	less provision- Mt Elgon seeds company limited	(25,285)	(25,285)
		62,491	62,990
b)	**Due from Government bodies**		
	Kenya Farmers Association	9,597	10,232
	Ministry of Agriculture	984	984
	County Governments	1,813	12,989
	Provision of doubtful debts	(9,017)	(9,017)
		3,377	15,188
c)	**Due to Kenya Seed Company Limited**		
	Current account sales	2,889	178,297
	Current account purchases	(649,276)	(686,209)
		(646,387)	(507,912)

18. RELATED PARTY TRANSACTIONS (Continued)

iii. Directors' remuneration

A listing of the members of the Board of Directors is shown on page 2 of the Annual Report. In the financial year under review, the total remuneration to the directors amounted to Kshs 531,104 (2016: Kshs 772,964).

iv. Key management compensation

The total remuneration to senior management amounted to Kshs 24,340,200 (2016: Kshs 25,788,000)

v. Loan capital from parent company

The loan capital from the parent company of Kshs. 144,297,606 represents the net value of assets and liabilities transferred from the parent company, Kenya Seed Company Limited, on 1 July 2003, on sale of the Simlaw branch to Simlaw Seeds Company Limited. The parent company has resolved that the loan should be treated as loan capital as it will be used to increase the share capital of the company.

Cash and cash equivalents in the statement of cash flow comprise of the above.

19. CASH AND CASH EQUIVALENTS

Name	Account Number	2017 KShs'000'	2016 KShs'000'
Cash in Hand		1,050	1,039
BBK current Moi Avenue	075-5759562	20,112	2,514
Simlaws US Dolar Account	022-7050470	3,110	1,775
KCB Loitokitok	1103830139	1,716	926
KCB University way Euro	1114678287	874	94
KCb University Way	1114669210	10,808	14,136
		37,669	**20,484**

20. SHARE CAPITAL

	2017 KShs'000'	2016 KShs'000'
Authorized issued and fully paid		
5000 Ordinary share of Kshs 40 each	200	200

21. BORROWING

	2017	2016
	KShs'000'	KShs'000'
As at 1 July	76,473	-
(Repayments)/additions	(1,3198)	76,473
As at 30 June	63,275	76,473

Borrowings relate to a bank loan for the purchase of property on Kijabe street, L.R. no 209/4360/33, used as security for the loan. The loan was acquired from Kenya Commercial Bank for a duration of 5 years, at an interest rate of 17%.

22. TRADE AND OTHER PAYABLES

	2017	2016
	Kshs '000	Kshs '000
Trade payables	78,126	203,558
Other payables	19,618	5,604
	97,744	209,162

Trade payables are payable within one month of the date of the transactions, no interest is charged on the balances.

Other payables are accruals at the end of the year for amounts whose invoices have not been received by the end of the year.

23. PROVISION FOR EMPLOYEE ENTITLEMENT

	2017	2016
	Kshs '000	Kshs '000
a) Leave pay provision		
As at 1 July	4,210	3,427
Provision for leave pay	2,815	2,476
Paid Leave	(1,157)	(1,693)
As at 30 June	5,868	4,210
b) Gratuity Provision		
As at 1 July	6,118	1,583
Paid gratuity	(2,653)	(7,009)
Provision for gratuity	2,353	11,544
At the year end	5,818	6,118
Total Employee Entitlement Provisions	11,686	10,328

24. PROFIT BEFORE TAXATION	**2017 Kshs '000**	**2016 Kshs '000**
The profit before taxation is arrived after charging:		
Audit remuneration	2,069	2,095
Exchange loss	-	15,749
Depreciation	8,427	8,427
Operating lease rentals	5,572	4,910
Directors remuneration	96	773
And after crediting:		
Miscellaneous income	990	4,600
Bad debts recovered	152	7,477

25. OPERATING LEASE COMMITMENTS	**2017 Kshs '000**	**2016 Kshs '000**
Lease payment committed under non- cancellable operating lease due:		
Not later than one year	12,563	10,947
Later than one year but not later than 5 Years	45,652	42,912
	58,215	53,859

26. CAPITAL COMMITMENTS	**2017 Kshs '000**	**2016 Kshs '000**
Authorized but not contracted for	154,349	55,581

The increase in capital commitments by Kshs. 98,768,000 compared to that of year 2016 represents what the organisation would want to increase its capital base with 57.43% being utilized for construction of Loitoktok store and another 22.68% to plant and machinery.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company's activities expose it to a variety of financial risks, including market risk, credit risk, liquidity risk, operational risks and interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing on the return on the risk.

(i) Foreign currency exchange risk

The company records transactions in foreign currencies at the rates in effect at the date of the transaction. It retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the reporting date. All the gains or losses arising from the changes in the currency exchange rates are accounted for in the income statement.

At 30 June 2017, if the Shilling had weakened/(strengthened) by 8% against the US dollar with all other variables held constant, post tax profit for the year would have been Kshs. 1,409,833 (2016: Kshs. 12,152,358) higher/(lower), mainly as a result of US dollar denominated bank balances.

At 30 June 2017, if the Shilling had weakened/(strengthened) by 15% against the Euro with all other variables held constant, post tax profit for the year would have been Kshs. 770,657 (2016: Kshs. 3,227,361) lower/(higher), mainly as a result of US dollar denominated trade payables.

(ii) Interest rate risk

The company utilises non-interest bearing balances from related parties used to fund ongoing activities, thus has no major exposure to interest rate risk.

CREDIT RISK

The company is exposed to credit risk in its trade debtors and a provision for impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of the trade debts.

The management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The credit risk is managed through management's constant monitoring of the status of the credit worthiness of the company's customers.
The utilisation of credit limits is regularly monitored.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT(Continued)

CREDIT RISK (Continued)

The company's trade and other receivables at year-end were as follows:

	2017	2016
	Kshs '000	Kshs '000
Trade receivables	125,034	86,077
Other receivables	64,540	92,081
	189,574	178,158

No collateral is held for any of the above assets and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

	2017	2016
Trade receivables	Kshs '000	Kshs '000
Past due but not impaired:		
- by up to 30 days	42,022	27,828
- by 31 to 60 days	28,503	16,305
- Over 60 days	52,509	41,945
Total past due but not impaired	125,034	86,078
Movement in provision for doubtful debts		
At the beginning of the year	8,194	6,353
Recoveries during the year	(152)	(104)
Provision for the year	-	1,945
Balance as at 30 June	8,042	8,194

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities when due at a reasonable cost.

Prudent liquidity risk management includes maintaining sufficient cash for operations. Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flow.

28. CAPITAL MANAGEMENT

The primary objectives of the company's capital management are to ensure that the company complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the company's capital base is monitored using, among other measures, the parameters determined by the directors. The company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

29. CONTINGENT LIABILITIES

There are no contingent liabilities for which provisions have not been made in these financial statements.

30. INCORPORATION AND DOMICILE OF THE COMPANY

The Company is domiciled and incorporated in The Republic of Kenya under the Companies Act, Cap 486, Laws of Kenya. The company is a wholly owned subsidiary of Kenya Seed Company Limited. Kenya Seed Company Limited on the other hand is a subsidiary of Agricultural Development Corporation, which is wholly owned by the Government of the Republic of Kenya under the Agricultural Development Corporation Act and the State Corporations Act.

31. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (Kshs'000).

32. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the accounting date and the date of this report.

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

REPORTED	MATTER	MANAGEMENT COMMENTS	RESPONSIBLE PERSON	TIME FRAME	STATUS
Management letter 2017	Working capital management	The matter is still being addressed by the management.	Finance Manager	Dec 2018	Unresolved
Management letter 2017	Delay in accounting for staff advances and staff imprest	The Long outstanding staff advances for staff who left are to be reconciled and investigated and recommend for write off amount unrecoverable	Human resource & Finance Manager	Mar2019	Unresolved
Management letter 2017	Over deduction on loan advance	The management to track all loan advanced their repayments and account closed immediately on fully paid			Resolved
Management letter 2017	Unrecovered staff imprest	The management to introduce staff clearing procedure to ensure that company does not suffer more losses			Resolved
Management Letter 2017	Staff Car Loan Agreements	The staff loan agreements are still with the Parent Company.	Human resource & Finance Manager	Dec 2018	Unresolved
Management Letter 2017	Fringe Benefit Tax	The organisation began compiling fringe benefit tax in June 2017.			Resolved
Management Letter 2017	Supporting documents for expenses not stamped paid	The company is still working towards ensuring this is adhered to.			Resolved
Management Letter 2017	Handling payroll by ICT	The processing of payroll by ICT to be handled by Human resource department and Finance			Resolved
Management Letter 2017	Incomplete Employee files	Management to consolidated all documents			Resolved
Management Letter 2017	Late filling of Statutory deduction	The management to ensure statutory returns are file in time			Resolved
Management Letter 2017	Variance between valuation of inventory	The company is still working towards resolving this issue.			Resolved

Management Letter 2017	Under insurance of inventory	The company will relook in to that in the next financial year.	Finance Manager	Dec 2018	Unresol
Management Letter 2017	Documentation of finance policies and procedures	The management to prepare policy and procedure manuals	Finance Manager	Mar 2018	Unresol
Management Letter 2017	Negative Margin on Products	The company will try resolving the matter in the financial year.			Resolv
Management Letter 2017	Capitalization policy	The company is still working on capitalization policy	Finance Manager	Dec 2018	Unresol
Management Letter 2017	Compliance to laws on ethnic diversity	The managements is still in the process of complying.	General Manager	Ongoing	Unresol
Management Letter 2016	Insufficient control over procurement of imported seed inventory	The company trades in a competitive seed environment that requires unique traits and attributes of seeds that go through vigorous research trial before commercialization and finally adoption by farmers.			Unresolv
Management Letter 2016	Insufficient controls over purchases Kenya Seed.	The company has put in place adequate controls over company purchases.			Resolv
Management Letter 2016	Inconsistent accounting treatment of clearing charges	The clearing charges have been correctly accounted for in the current financial year.			Resolv
Management Letter 2016	Variance between valuation of inventory	The company is still working towards resolving this issue.			Resolv
Management Letter 2016	Under insurance of inventory	The company will relook in to that in the next financial year.	Finance Manager	Dec2018	Unresol
Management Letter 2016	Negative Margin on Products	The company will try resolving the matter in the financial year.			Resolve
Management Letter 2016	Controls in accounts function				Unresolv
Management Letter 2016	Incorrect Accounting for unrealized gains or losses	The company has correctly accounted for unrealised gains and losses in current year.			Resolve

Management Letter 2016	Tagging of Assets	The company has acquired an asset management system and has tagged of all assets.			Resolved
Management Letter 2016	Incomplete asset register	The company has now a complete fixed assets register.			Resolved
Management Letter 2016/Financial statements 2016	Variance between accounts payable balance and vendor listing	The company accounts payable and vendor listing are now in agreement.			Resolved
Management Letter 2016	Compliance to laws on ethnic diversity	The managements is still in the process of complying.	General Manager	Ongoing	Unresolved
Financial statements 2015	Recoverability of VAT balance of 22,205,699.68				Resolved
Financial statements 2015	Purchase of imported seed contrary to Public Procurement and Disposal Act	Overseas suppliers continued to be used and have not gone through competitive bidding process or subject to inspection and acceptance			Unresolved
Financial statements 2015	Import clearing agency not procured through competitive bidding process	The clearing agency is on prequalified supplier listing however has not gone through competitive bidding process			Unresolved
Financial statements 2015	Irregular staff advances. 2.6m held by terminated staff and 5.2m held by existing staff with no supporting documentary evidence		Human Resource/ Finance Manager	June 2019	Unresolved
Management letter 2014	Absence of policy to provision for slow moving inventory	The management state slow moving inventories when kept in cool conditions could last for many years; hence the need for such a policy is still under consideration	General Manager	Dec 2018	Unresolved
Management letter 2014	Absence of reconciliation of VAT account				Resolved

Management letter 2014	Absence of periodic review of the distributor's database	A period review of distributors' database is now in place.			Resolv
Management letter 2014	Lack of formal process and criteria for advancing credit to customers	The company came up with its own policy			Resolve
Management letter 2014	Provisioning for bad debts		Finance Manager	Jun2019	Unresolv
Management letter 2014	Imprest advanced to staff with outstanding balances		Human Resource/ Finance Manager	Jun2019	Unresolv
Management letter 2014	Non-compliance with imprest policy				Resolve
Management letter 2014	Absence of monthly reconciliations of supplier accounts	Supplier accounts are reconciled on payment			Resolved
Management letter 2014	Inadequate fixed asset register	A proper fixed assets register has been prepared.			Resolve
Management letter 2014	Asset tagging	Assets were tagged			Resolve
Management letter 2014	Access of payroll system by IT department				Resolve

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Mr. David Kiplagat
General Manager

...27 FEBRUARY... 2018

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Mr.Lawrence Njiru
Chairman of the Board

...27 FEBRUARY... 2018