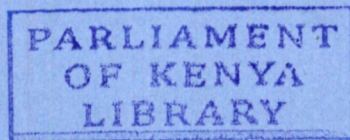


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA SEED COMPANY LIMITED
AND ITS SUBSIDIARIES

FOR THE YEAR
ENDED 30 JUNE 2015

*Paper laid
by majority whip
Wednesday
25/1/2017
Morning
Agada*





KENYA NATIONAL AUDIT OFFICE
RIFT VALLEY PROVINCE
RECEIVED

14 JUN 2016

P.O. Box 3774, 30100, ELDORET
TEL: 02031133.

KENYA SEED COMPANY LIMITED

Top quality seed.

ISO9001:2008 CERTIFIED FIRM

Annual Report And Financial Statements For the Year Ended 30th June 2015



P.O BOX 553-30200 KITALE. TEL : (054)31909-14 (054) 30385, 31775

Mobile: 0722 205 144, 0726 141 856, 0733 623 668

Email: infor@kenyaseed.co.ke

www.kenyaseed.com



Page 2

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Vision

Leading supplier of top quality seed in Africa

Mission

To avail sufficient quality certified seed competitively through research and development to the satisfaction of stake holders

Core Values

Integrity: In discharging our functions, we consistently uphold the highest ethical standards, demonstrating honesty and fairness in all our operations at all levels of the organization.

Teamwork and effective partnerships: KSC staff work as a team committed to the realization of the Company goals. We endeavor to pull in one direction internally and externally in delivering on our mandate.

Professionalism: We take a professional and objective approach in all our operations. We uphold competence, high standards, reliability and excellence in our work.

Innovativeness: KSC recognizes that innovation and creativity in processes and products is key in improving service delivery. The Company is therefore committed to fostering innovation and creativity in the entire work force. Towards this, the Company supports and encourages learning among its staff.

Passion for quality: We recognize that our customers are the reason we exist. We therefore endeavor to provide high quality services which meet customer needs and honour commitments that we have made to them.

Client focus: We provide services that satisfy customer needs and exceed expectations. We strive to deliver reliable products and services to our customers.

Efficiency: We provide services with the minimum time, resources and the rightful amount of resources. We strive to eliminate wastages in discharging our mandate.

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Notice of Annual General Meeting

To: All the Shareholders of Kenya Seed Company Ltd

NOTICE IS HEREBY GIVEN that the 50th Annual General Meeting of the Shareholders of Kenya Seed Company Limited will be held at the Company's Board room at Mbegu Plaza, Kitale on xxx xxx xxx 2016 at 10.00am to transact the following Ordinary Business:-

A. Ordinary Business:

1. To read the Notice convening the meeting.
2. To table the proxies and confirm the presence of quorum.
3. To Confirm the Minutes of the 49th Annual General Meeting held on 5th June 2015
4. To receive, consider and if approved, adopt the audited financial statements for the Year ended 30th June 2015 together with the Chairman, Managing Director's, Director's and Auditors Reports thereon
5. To receive and consider payment of dividend for the period 30th June 2015 as recommended by the Board.
6. To authorize payment of Directors' fees for the period 30th June 2015.
7. To note that the audit of the company's books of accounts will continue to be undertaken by the Auditor General or an audit firm appointed by him in accordance with Section 14 of the State Corporations Act and Sections 14 and 39 (i) of the Public Audit Act 2003.
8. To authorise the Directors to fix the remuneration of the Auditors.
9. To conclude the agenda's that were not concluded in the 49th Annual General Meeting

B. To transact any other business of the Annual General Meeting for which notice has been given.

By Order of the Board



**Rose Cauri (Mrs.)
Company Secretary**

A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A Proxy Form is available in this report. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return it to the registered office of the Company situated at Mbegu Plaza, Kitale, not later than 48 hours before the time for holding the meeting at which the proxy purposed to vote and in the case of a poll not more than 24 hours before the time appointed for taking the poll, failing which it will be invalid. In the case of a corporate body, the proxy must be under its common seal.

KENYA SEED COMPANY LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2015

Directors

Non-Executive

Dr. Andrew Tuimur – Acting Chairperson (Managing Director, ADC)
Mr. Jack Chebett -Acting Chairperson from 18th December 2015

Mr. Lawrence Njiru
Ms. Alice Munke
Mr. William Kundu
Mr. David Kiplagat
PS, The National Treasury
PS, Ministry of Agriculture
Managing Director, KFA

Executive

Mr. Willy Bett –Managing Director
Mr. Francis Ndambuki -Acting Managing Director from 18th
December 2015

Company Secretary

Ms. Rose Cauri, CPS (Kenya)
P.O. Box 553 – 30200
Kitale, Kenya.

**Registered office and
Principal place of
Business**

Wamalwa Street
P.O. Box 553 – 30200
Kitale, Kenya.

Principal Bankers

Kenya Commercial Bank Limited
P.O. Box 1974 – 30200
Kitale, Kenya.

National Bank of Kenya Limited
P.O. Box 1192 – 30200
Kitale, Kenya.

Barclays Bank of Kenya Limited
Eldoret Branch
P.O. Box 22 – 30100
Eldoret, Kenya.

Equity Bank Kenya Limited
Kitale Branch
P.O. Box 801 – 30200
Kitale, Kenya.

Independent Auditors

Auditor General
Kenya National Audit Office
P.O. Box 30084 – 00100 GPO
Nairobi, Kenya.

KENYA SEED COMPANY LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2015

Advocates, Commissioners for Oaths and Notaries Public
Ground floor, Mea Building
P.O. Box 437 – 30200
Kitale, Kenya

Albert Kamunde & Company
Advocates, Commissioners for Oaths, Notary Public and
Certified Public Secretaries
4th Floor, Blue Violets Plaza
Kindaruma Road, off Ngong Road
P.O. Box 56936 – 00100
Nairobi, Kenya.

Namachanja & Mbugua
Advocates, Notaries Public and Commissioners for Oaths
A4, Hurlingham Park
Arwings Kodhek Road
P.O. Box 26301 – 00100
Nairobi, Kenya.

Subsidiaries

Simlaw Seeds Company Limited
Kijabe Street
P.O. Box 40042 – 00100
Nairobi, Kenya.

Kibo Seed Company Limited
Mbegu House, Opposite Golden Rose Hotel
Plot No. 355 Block X, Area F
P.O. Box 25
Arusha, Tanzania.

Simlaw Seeds Company Tanzania Limited (Dormant Entity)
Mbegu House, Opposite Golden Rose Hotel
Plot No. 355 Block X, Area F
P.O. Box 25
Arusha, Tanzania.

Simlaw Seeds Company Uganda Limited
6th Street, Industrial Area
P.O. Box 21303
Kampala, Uganda.

Mount Elgon Seed Company (Dormant Entity)
Nakivubo Place
P.O. Box 23810
Kampala, Uganda.

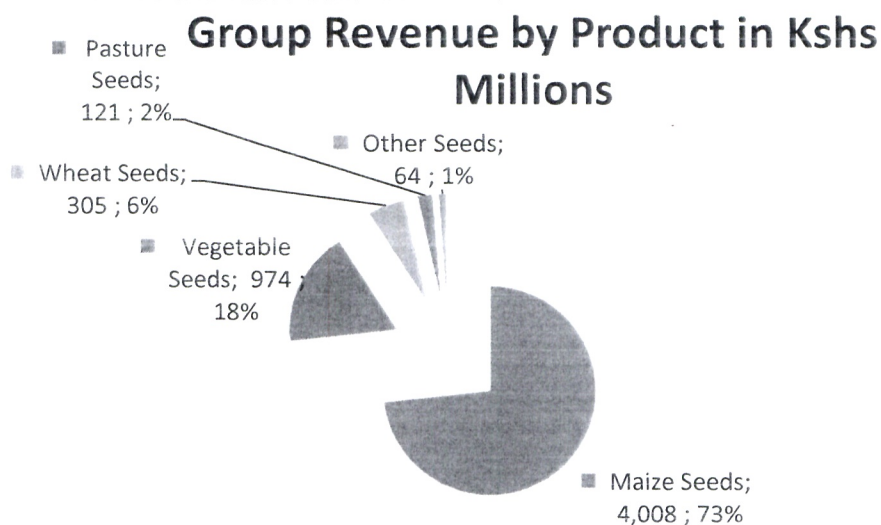
Key Performance Indicators

Maize Seed Kilos
 Sold in Millions

23.7

Maize Seed Kilos
 Produced in Millions

33.6



Turnover in Billions

Kshs 5.5

Where to Find KSC Branches

- Kitale
- Eldoret
- Bungoma
- Kakamega
- Kapsabet
- Kericho
- Kisii
- Nakuru
- Ruaraka
- Narok
- Simlaw Seeds and her Branches

Turnover of Group Companies in Kenya Shillings (Millions):

KSC Group Revenue-5,799
 Kenya Seed Company-
 4,602
 Simlaw Kenya-778
 Kibo Seeds-266
 Simlaw Tanzania-Nil
 Simlaw Uganda-145
 Mt Elgon Uganda-Nil

**Profit before Tax of
Group Companies in
Kenya Shillings (Millions):**

KSC Group --389
KSC-434
Simlaw Kenya-40
Kibo Seeds-(73)
Simlaw Tanzania-(0.186)
Simlaw Uganda-(13)
Mt Elgon Uganda-(1.208)

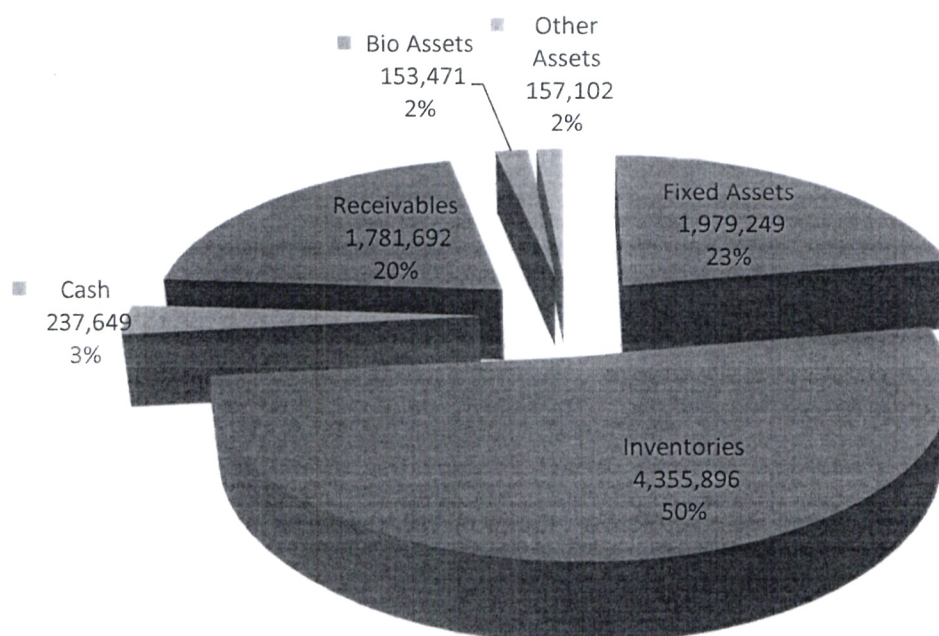
**Shareholders' Funds in
each Group Company in
Kenya Shillings
(Millions):**

KSC Group -6,321
KSC-6,223
Simlaw Kenya-218
Kibo Seeds-(89)
Simlaw Tanzania-26
Simlaw Uganda-(54)
Mt Elgon Uganda-(144)

**Balance Sheet Size in
Kenya Shillings (Millions):**

KSC Group -8,665
KSC Company-8,296
Simlaw Kenya-1,045
Kibo Seeds-301
Simlaw Tanzania-26
Simlaw Uganda-116
Mt Elgon Uganda-62

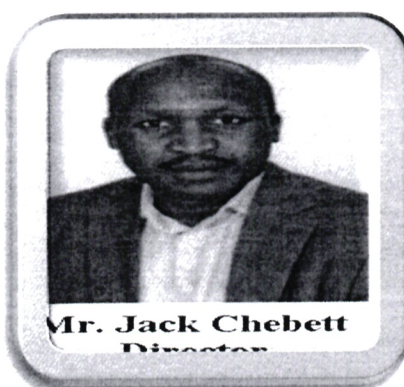
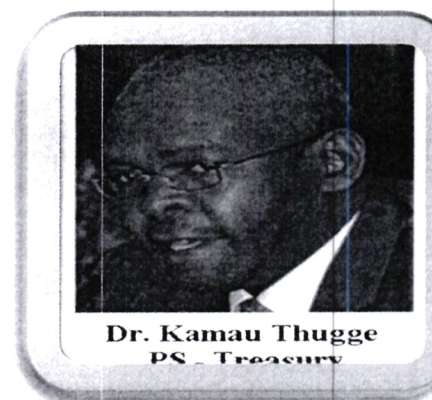
KENYA SEED COMPANY LIMITED
PERFORMANCE HIGHLIGHTS
FOR THE YEAR ENDED 30 JUNE 2015



Distribution of Kes 8.665 Billion Assets

KENYA SEED COMPANY LIMITED
REPORT OF THE CHAIRMAN
FOR THE YEAR ENDED 30 JUNE 2015

The Board of Directors who served in the Financial Year 2014/15 are as follows:



DIRECTORS PROFILE

Andrew Tuimur

Dr. Andrew Tuimur, Acting Chairman of Kenya Seed Company Board of Directors was born in 1958 and holds a Bachelor of Science degree in Veterinary medicine.

Dr. Tuimur is the managing director of Agricultural Development Corporation (ADC). He is an experienced business leader and a board member of several schools. He is also the Chairman of the Board of African Inland Church Kapsabet Bible College in Nandi County. Dr. Tuimur left the Board on 17th December 2015 and was replaced by Mr. Richard Aiyabei.

Jackson Kiplimo Chebet

Mr. Jack Chebett was born in 1971. He holds a Master of Business Administration (International Business Management) from the University of Nairobi. Mr. Chebett is an International Business Professional with over 20 years experience gained in the Telecommunications, Manufacturing and Energy Sectors. He has accumulated Leadership, Management, Marketing and Logistics experience in the Cement and Petroleum industry. Mr. Chebett is The Executive Director - Stabex International Limited, The Chairman of Oil Marketers Association of Kenya (OMAK), a director of Supplycor Kenya Limited and he is also a director of Petroleum Institute of East Africa (PIEA). Mr. Chebett was appointed the acting Chairman on 18th December 2015

Dr Kamau Thugge

Dr. Kamau Thugge is currently the Principal Secretary at The National Treasury. Prior to his appointment as Principal Secretary, he worked as a Senior Economic Advisor in the Ministry of Finance from the year 2010. He has also worked at the International Monetary Fund in various capacities for over twenty years. He was the Head of the Fiscal and Monetary Affairs Department, between 2004 and 2005, and the Economic Secretary and Head of Economic Affairs Department, between 2005 and 2008. He represented the Permanent Secretary, Treasury on various Boards. Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics; and Doctor of Philosophy (PhD) in Economics, from Johns Hopkins University, USA.

Ms Sicily Kariuki

Ms Sicily Kariuki was the Principal Secretary, State Department of Agriculture at the Ministry of Agriculture, Livestock and Fisheries. Before joining the Ministry, Sicily was the Managing Director/Chief Executive Officer of Tea Board of Kenya (TBK) for a period of 8 years. During her tenure at TBK, Sicily led the tea industry to become Kenya's top foreign exchange earner, bringing in over Kenya Shillings 130 billion (1.5 Billion US Dollars) in foreign exchange earnings in 2012. Sicily has also worked in the private sector within Kenya's vibrant horticulture & floriculture industry as the Chief Executive Officer of Fresh Produce Exporters Association of Kenya (FPEAK). Prior to that, she worked for Kenya Investment Authority (KENINVEST). Sicily studied marketing at the University of Nairobi and has a Master of Business Administration with specialization in management and marketing and Post Graduate qualifications in International Food Laws and Leadership. Ms Kariuki left the office of the Principal Secretary (and hence the Board) Board on 17th December 2015 and was replaced by Dr. Richard Lesiyempe.

Dr. Richard Lesiyempe

Dr. Richard Lesiyempe is the Principal Secretary, State Department of Agriculture at the Ministry of Agriculture, Livestock and Fisheries. Before joining the Ministry, Mr. Lesiyempe was

Principal Secretary, State Department of Environment and Natural Resources, in the Ministry of Environment, Water and Natural Resources. Formerly, he was the Chief Executive Officer of Kenyatta National Hospital and previously worked for Kenya Wildlife Service. He has served in various capacities rising from a District Officer, Personnel Officer, Deputy Director and Chief Executive Officer to his current position as Principal Secretary. Dr. Lesiyempe is a holder of a PHD degree from Methodist University and MBA from the University of Nairobi. Dr. Lesiyempe is a member of several organizations, including Sunshine Secondary School where he is the Chairman and was also Director at Kenya Medical Training College and a recipient of Presidential Award – (MBs) in the year 2012 for the Stability and Management of Kenyatta National Hospital. Dr. Lesiyempe is the Chairman of Samburu Professionals Association and the patron of the Samburu County University Students

Willy Bett

Mr. Willy Bett, the Managing Director and CEO of Kenya Seed Company was born in 1963. He is responsible for the operational running of the Company to ensure that the mission is achieved and has wide experience gained as the Managing Director of Kenya Seed from 2009 to date and several years working experience at Postbank. Mr. Bett is a holder of BA (Economics) as well as MBA degrees, both from the University of Nairobi. In 2012, he completed the Advanced Management Programme from Strathmore University. Mr. Bett served as the Managing Director until 17th December 2015.

Francis Ndambuki

Mr. Francis Ndambuki, who was appointed the acting Managing Director and CEO of Kenya Seed Company on 18th December 2015, was born in 1948. He is responsible for the operational running of the Company to ensure that the mission is achieved and has wide experience gained in his career. Mr. Ndambuki is a holder of BSc (Agriculture) as well as MSc (Plant Breeding) degrees, both from the University of Nairobi. Mr. Ndambuki has risen through the ranks at Kenya Seed Company from 1985 when he joined the company. Previously, Mr. Ndambuki worked with KARI.

Lawrence Njiru Mark

Mr. Lawrence Mark Njiru was born in 1972. He holds a Masters Degree in Business administration, Bachelor's Degree in Economics and is a Certified public accountant. Mr. Njiru has vast experience in audit acquired while serving in KPMG where he served as a senior auditor for over 5 years. He also has vast knowledge in Finance, sales and marketing acquired while serving in the media sector.

William Kundu Ndombi

Mr. William Ndombi was born 1948. He is a holder of Diploma in Range Management, Egerton University. Mr. Kundu has vast knowledge in the Seed industry while serving in the Production, marketing and quality management in Kenya Seed Company. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of marketing function.

Symon Kipchumba Cherogony

Mr. Symon Cherogony was born in 1954. He holds a Bachelor of Science Degree in Engineering and Masters of Business Administration in Strategic Management, both from the University of Nairobi. In 2012, he completed the Advanced Management Programme from

Strathmore University. He is a registered Professional Engineer with the Engineers Board of Kenya and a member of the Institution

Alice Munke Sision

Ms Alice Munke Sision was born in 1954. She holds an Education degree from American World University. Ms Sision has a wide experience in teaching and mentoring spanning over 22 years. She has extensive knowledge in resource mobilization, prioritization and utilization for quality education.

David Kiplagat Tum

Mr. David Tum was born in 1978. Mr Tum holds a BSc in Business Administration from USIU and Masters of Business Administration from Staffordshire University in UK. Mr Kiplagat worked as an Accountant at Simlaw Seeds between 2000 and 2003. He was a Director of Soet Group from 2003 to 2007 and has been the Managing Director of Commercial Grain Services Ltd from 2008 to date.

Zakayo Kipkong'a Cheruiyot, Alternate Director to David Kiplagat Tum

Mr. Zachary Cheruiyot was born in 1957. He holds a B.Com (Accounting Option) from the University of Nairobi. He is also a CPA (K) and a CPS (K) and a member of both ICPAK and ICPSK. Mr. Cheruiyot started his career as an auditor with Coopers and Lybrand before moving to ICDC as a Financial Analyst. Mr. Cheruiyot worked in Kenya Seed Company from 1986 in various roles including Management Accountant, Chief Accountant and left as Company Secretary in 2004. Mr Cheruiyot is currently a consultant at Soet (K) Ltd & Commercial Grain Services Ltd.

Dr. Johnson Irungu Waithaka, Alternate Director-Ministry of Agriculture

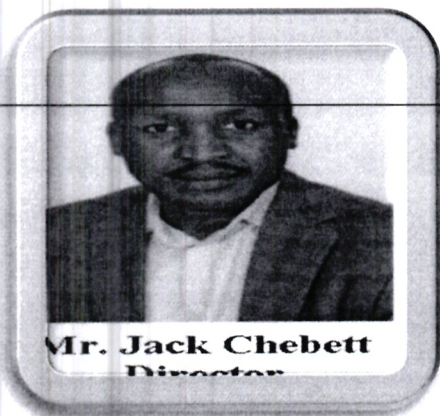
Dr Johnson Irungu Waithaka is the Director of Agriculture, Crop Management with the Ministry of Agriculture in Kenya since 2008. He obtained his BSc in Agronomy from the University of Nairobi in 1989 and his PhD in Soil Science from the University of Reading in 1998. From 1988 - 2001, he worked as a Principal Research Scientist with Kenya Agricultural Research Institute and from 2001-2008, he was the Agriculture Program Manager with the Catholic Relief Services, Kenya

Mr. Abraham Koech, Alternate Director-The National Treasury

Mr. Abraham Koech was born in 1969. He is currently an economist at the Ministry of Planning (Department of Government investments and Public Enterprises) and previously worked at Postbank Kenya rising to the position of Manager, Strategy and Change. Mr Koech holds a BA degree in Economics and MBS in Strategic Management from the University of Nairobi.

Richard Aiyabei

Mr. Richard Aiyabei, who joined the Board on 18th December 2015 when he became the Ag. Managing Director of ADC was born in 1966. He holds a Masters in Agronomy from the University of Eldoret and a Bachelor of Science in Agriculture from Moi University. Mr. Aiyabei sits in various Boards where he has represented ADC. Mr. Aiyabei has worked for various departments in ADC for the last 26 years where he has risen through the ranks until December 2015 when he was appointed to the position of the Managing Director



Dear Shareholders,

On behalf of the members of the Board, It gives me great pleasure to present the Annual Report and Financial Statements for the year ended 30th June 2015.

The company attained respectable performance results in the key performance indicators despite experiencing various operational challenges facing the agricultural sector in general and seed industry in particular.

The investment in R& D continued to pay off, with Research releasing 3 new maize and 4 new sorghum varieties in the year under review. The focus remains production of MLN resistant varieties, eradication of noted defects in our existing product mix, production of high-yielding stress resistance seed and production of uniform sized products for machine management and harvesting. The company has entered several of her products in the National Performance Trials.

During the year, the company experienced liquidity challenges which were mainly attributed to the outstanding Kshs 800 Million dues from the Government of Kenya and reduced sales revenues.

Economy and Business Environment

In 2015, the global economy grew by 3.4% while the Sub-Sahara African countries grew their GDP by 3.7%. Kenya GDP grew by 5.4% compared with 5.7% in 2014 and 4.5% in 2013. In 2015, real output amounted to KSh 3.83 trillion compared with KSh 3.64 trillion in 2014. Of the total volume produced in 2015, Agriculture contributed 22.0%. Real growth in output from agriculture slowed to 3.5 percent in 2014 compared with 5.2 percent in 2014. The sector's contribution to total GDP also declined from 22.4 percent to 22.0 percent. The subdued performance was attributed to unfavorable weather conditions in some parts of the country and cheap food imports which are discouraging local production and seed purchase.

The year 2014/15 was one of the challenging business years for the Kenyan economy as it was marred by high inflation, rising commodity prices, shilling depreciation, higher fiscal deficit, slowing of foreign investments, tight liquidity, higher interest rates and lower industrial productivity aside other factors. The heightened inflationary pressures led to overall increase in the cost of production. The agriculture sector, which contributes 22% of the Kenyan GDP displayed mixed performance during the year with different crops' performance depending mainly on weather conditions experienced.

Erratic performance of both the long and short rains in different regions, led to a decline in overall sale of seeds due to lower-than-normal rainfall, negative effects of Maize Lethal Necrosis Disease-(MLND), prolonged drought in various parts of the country leading to losses in acreage, hence decline in farm output.

Financial Review

The group produced commendable results despite the various challenges. During the year under review, the Company's business reflected mixed progress in all aspects – revenues, operating income, profit before tax, and profit after tax. It gives me immense pleasure to inform you that the group attained a turnover of Kshs 5.472 Billion, a 9% drop from the previous year turnover of Kshs 5.993 Billion. The company attained a Profit before Tax figure of Kshs 389 Million which is a 15% drop from the FY2013/14 figure of KSHS 450 million. This is due to higher cost of finance, decline in sales volumes and increased losses in the subsidiaries.

The Profit after Tax of Kshs 228 Million attained was lower than the 2014 figure of Kshs 302 Million by 25%. The Balance Sheet grew by 3% from Kshs 8.4 Billion in 2014 to Kshs 8.7 Billion in 2015. The net overdraft position however reduced by 12% from Kshs 1.23 Billion to Kshs 1.08 Billion due to receipt of Ksh 400 Million from the Government.

Seed Supply

We experienced stock-outs of key seed varieties due to changing dynamics in the markets. As a result, we did not meet the demands for Boma Rhodes and Pokot Rhodes pasture, Njoro II Seed Wheat, 513 Seed Maize, 624 Seed Maize, 628 Seed maize popular in regional markets and DH4 Seed Maize. The company has put measures to avoid recurrence of such shortfall in future.

Operations

The company produced 33.6 Million Kilos of maize seed in 2015 compared to 24.5 Million Kilos of seed maize in 2014 whilst selling 23.7 Million Kilos of Maize Seed in 2015 compared to 25.8 Million Kilos in 2014. Although the company has a huge production capacity, it has been forced to optimize the production quantities to avoid over-stocking and production beyond the market demand. The market demand of seed maize has been affected by the effects of MLN disease, erratic weather increasing demand for early maturing varieties and cheap imports of commercial maize from neighboring countries which has driven the local commercial prices downwards. The company continues to diversify her production and marketing to reduce the over-reliance on maize seed.

In line with Section 4(2) of the State Corporations Regulations 2004, the Board has been signing Annual Performance Contracts with Government which provides annual performance targets. The Board places a great deal of importance to the Performance Contracts signed with the Government because it believes that achieving the set targets implies continued overall performance improvement of the Company itself. During the year 2014/15 the company achieved a composite score of 2.77 graded at very good against 2.82 attained in 2013/14 graded also at very good.

Dividend

In line with the strategic objective to create and manage stakeholder value, the company has continued to pay healthy dividends to her shareholders. In line with the company's dividend policy of pegging dividend at the higher of 20% of after tax profit and a fixed dividend payout of Kshs 5.25 dividend per share, the Board proposes to pay a first and final dividend of Kshs 5.25 per share subject to approval by the shareholders.

Legal Matters

Although the 2001 share issue was discussed in the suit filed at the High Court, the validity of the said share issue was not determined. To facilitate the determination of the validity of the 2001 share issue, ADC filed a suit being *Nairobi HCCC No.575 of 2004*, which is still before the court. This suit has taken long to be determined, however, the ADC lawyers have applied for reconstruction of the same.

During the 246th Board Meeting held on 2nd May 2014, the board directed Management to liaise with ADC together with their Legal Counsel, and to seek the intervention of the Chief Justice to expedite the matter. As a result, the money collected from the 2001 Share issuance have been treated as a payable figure in the company's Financials.

Future Outlook

The seed industry in Kenya is at crossroads. Production acreage is shrinking due to population pressure and subdivision of land. The remaining farms need to produce more yields to provide food to meet the demands of the growing Population. The farmers require reliable and high quality seed to maximize their returns on investment in agriculture.

The future outlook of Kenya Seed Company cannot be brighter. More and more farmers are adopting use of hybrid and certified seeds. The company is now doing business in Tanzania, Uganda, Rwanda and Burundi. Due to the high regard of Kenya Seed Company as the provider of high quality seeds, we expect the demand of our products throughout the region to grow exponentially and herald great tidings in the future.

The changing lifestyle of the East Africa region population and the growing middle class has seen increased demand of vegetable and pasture seeds to meet the high food and milk demand. Many farmers are now buying our maize seed for use as silage for their animals. We expect the demand for vegetables seeds, pasture seeds and maize seed for use as silage to increase, thus growing our sales volumes, turnover, profitability and dividend distribution. The Board of Directors will continuously review the various business strategies in place to ensure sustained business profitability and growth. The Board is optimistic of a satisfactory performance in FY2015/16 and in the future.

Changes

I was appointed the acting Chairman of Kenya Seed Company on 18th December 2015. This was after the appointment of my predecessor, Dr. Andrew Tuimur into the position of the Principal Secretary, State Department of Agriculture in the Ministry of Agriculture, Livestock and Fisheries. I want to start my appreciation by thanking Dr. Tuimur for his stewardship of the Board up to 17th December 2015 and wish him well in his current assignment and in future. I also want to thank my fellow directors for the confidence in my leadership which resulted in their appointing me as the acting chairman.

As you are aware, the former Managing Director Mr. Willy Bett left the organization on 17th December 2015, after he was appointed the Cabinet Secretary, Ministry of Agriculture, Livestock and Fisheries and was

KENYA SEED COMPANY LIMITED
REPORT OF THE CHAIRMAN
FOR THE YEAR ENDED 30 JUNE 2015

replaced in acting capacity by Mr. Francis Ndambuki. I want to thank Mr. Bett for his leadership role that took Kenya Seed to the current heights it is enjoying and wish him well in his current assignment and in future. I take this opportunity to congratulate Mr. Ndambuki for his appointment as the acting Managing Director from 18th December 2015 and assure him of my support and that of the Board of Kenya Seed Company. We are confident that Mr. Ndambuki will excel in his role.

Appreciation

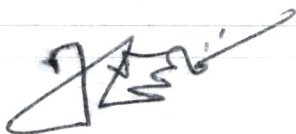
I want to take this opportunity to convey the board's gratitude to the Managing Director and his staff and management team for their dedication, leadership and commitment to continue delivering on the company strategy during these challenging times.

The board members have continued to work effectively to provide valuable leadership, insight and guidance to the management team. I am grateful for their diverse and collective business skills and experience which the company continues to leverage in to scale to even greater heights.

On Behalf of the Board, I want to thank our shareholders who have supported us consistently, and without whose loyalty, understanding, and encouragement we would not have attained this success. I also thank our employees in our many operations across our business for their contribution to our success and their commitment to serving our customers in the country and across east Africa.

The Board and management will redouble their efforts and take steps necessary to boost performance of the Company and sustain its profitability in the years ahead.

Thank you



Mr. Jack Chebett
Chairman



Mr. Francis Ndambuki
Ag. Managing Director

It is my privilege to present to you the performance of Kenya Seed Company for the year ended 30th June 2015.

The year ending 30th June 2015 was an eventful one as the company successfully navigated through several business challenges. Despite these challenges, the Company is on the verge of take off after consolidating these gains and lessons learned and accrued over the years. The company strengthened and continues to strengthen her human resources and infrastructure and continues to revamp her Research & Development strategy for developing new hybrids that will continue to grow the company's competitiveness

We are on course to attain optimal stock carry over volumes while resources are being beefed up with a view of pushing up sales volumes. Further, to avoid over-reliance on rain-fed agriculture, the company is now focusing on increasing seed production on existing irrigation areas in the country, mainly Bura, Hola, Perkera, Weiwei, Migotio and Gicheha farms while also encouraging more partners and potential growers to invest in irrigation. The company is also using part of the KARI farm in Masongaleni in producing to produce Basic and Research Seeds for dry-land varieties under irrigation

Financial Performance

In the FY2014/15, Turnover shrank by 9% from Kshs 5.993 Billion to Kshs 5.472 Billion attributed to drop in seed maize sales due to inability to supply sufficient transition varieties and the adverse effect of MLN diseases on maize sales.

Despite the above reduction in turnover, operating profit marginally increased from Kshs 602 Million to Kshs 609 Million, a testament to efficient cost management. At the parent company, the operating profit actually recorded a 3% increase from Kshs 591 Million to Kshs 610 Million even with the recorded reduction in turnover.

Profit before Tax dropped by 16% from Kshs 451 Million in FY2013/2014 to Kshs 389 Million. The Profit figures were significantly reduced by the huge Finance costs of Kshs 220 Million in 2015 compared to Kshs 151 Million in 2014 due to continued reliance on bank overdraft and increased interest rates. This financing cost will significantly reduce with improved cash position upon the receipt of the Kshs 800 Million outstanding from the Ministry of Agriculture.

The Balance Sheet grew by 3% from Kshs 8.4 Billion in 2014 to Kshs 8.7 Billion in 2015 mainly as a result of growth in inventory and retention of profits in the company

Research and development Research and development

With over five decades in the seed industry, Kenya Seed Company's research and development efforts are focused on developing seed varieties that meets the changing needs of the market demands.

KENYA SEED COMPANY LIMITED
REPORT OF THE MANAGING DIRECTOR
FOR THE YEAR ENDED 30 JUNE 2015

In tune with the philosophy of ensuring maximum returns to the farmer and satisfaction to the consumer, I am pleased to report to you that we are in the process of commercializing the Maize Lethal Necrosis Disease (MLND) tolerant maize varieties i.e. WE1101 and MZ1202 which we expect to start selling in 2016. The department has also improved five maize varieties i.e. H614D, H627, H9401, H6213 and H513; and is continuing with the defect reduction strategy on all our products.

The company has continued to make investments in research which has enabled the release of 3 seed maize varieties, and 4 sorghum varieties which when fully commercialized, shall help the company maintain top seed quality, regain her lost sales volumes and maintain a competitive edge in the market.

Production and Farm Operations

In the year ending 30th June 2014, the company produced 24.5 Million kilos of seed maize from 24,480 acres. This was increased to 33.6 Million kilos of seed maize from 33,000 acres for the year ending 30th June 2015. The company has been optimizing her production to match the units produced with the projected market demands and maintain adequate and optimal carry-overs while reducing holding money with over-stocking. In the same light, the company produced 2.9 Million kilos of seed wheat in 2014 and 2.0 Million kilos of seed wheat in 2015. The company has invested heavily in the market intelligence and business development section and going forward, management will only produce the seed products and seed varieties mix that will closely match the projected market demand. The Production figures at the parent company are highlighted below:

Product(Tonnes)	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Seed Maize	33,648	24,480	35,762	34,750	21,201	15,103
Seed Wheat	2,058	2,857	4,741	7,960	8,758	4,891
Pasture seed	63	152	297	439	241	121
Sorghum	-	-	7,325	3,702	2,316	1,115
Millet	-	-	170	135	1,044	526
Sunflower-Seed	225	336	391	417	474	120
Sunflower-Commercial	-	-	-	-	891	892
Nerica Rice	99	22	365	40	-	-

Marketing Activities

The company has continued to invest in her marketing activities. We have increased the training opportunities for our marketing staff and availed them with the required support. In 2014/15, the sales were affected by delayed rainfall, the outbreak and spread of MLN disease, low commercial maize prices as well as changing demands of our farmers where the company lost sales as it could not meet the demand of the 5-series, the DH-Series and H624. Due to erratic weather, the company recorded a reduction in demand for the highland varieties with more and more farmers preferring the early maturing varieties. The company has increased the production of varieties that are exhibiting growing demand and once the production matches the demand, we expect to see significant increase in sales volume and turnover.

During the year, the company also experienced a number of challenges in the marketing front. The company faced onslaught from multinationals who have invaded the Kenya and regional market with huge marketing budgets, big incentives to their sales agents and distributors and rock bottom prices of the seed products. Local seed companies who are financed by international bodies have also increased their market presence by offering their seed products at prices far below the cost of production. To overcome this onslaught, the company has enhanced the quality of her seed product as her competitive advantage and is continuously reviewing her policies and procedures to maximize sales. The trend of the sales figures at the parent company is as highlighted below:

Product(Tonnes)	Sales Volumes Per Product				
	2014/15	2013/14	2012/13	2011/12	2010/11
Seed Maize	23,686	25,789	22,283	28,047	20,492
Seed Wheat	2,480	1,700	3,642	3,165	2,921
Pasture seed	195	244	137	91	91
Sorghum	82	-	-	-	-
Sunflower-Commercial	133	-	-	-	-
Millet	45	122	148	667	664
Sunflower-Seed	89	118	107	263	255
Vegetable seed –in Kshs	97	80	93	200	193
Beans	251	82	253	200	193
Nerica Rice	62	122	61	-	-

Maize seed contributed 73% of the group revenue and 87% of the parent company revenue.

Product	Group Revenue	%	KSC Revenue	%
Maize Seeds	4,007,979	73%	3,992,528	87%
Vegetable Seeds	973,650	18%	170,868	4%
Wheat Seeds	305,450	6%	305,450	7%
Pasture Seeds	121,084	2%	93,509	2%
Other Seeds	63,938	1%	39,878	1%
Totals	5,472,101	100%	4,602,233	100%

Performance contracting

At the commencement of the FY 2014/15, the Board signed an annual Performance Contract with the Government of Kenya through the Parent Ministry which sets out targets that the Board is expected to achieve during the financial year. The annual targets are monitored on quarterly basis; progress reports submitted to the Board for approval and subsequently submitted to State Corporations Advisory Committee under the Office of the President.

During FY 2014/15, the Board scored an average of 2.77 (very good) compared to 2.82 in FY 2013/14, which was an improvement from the previous financial year, with the highest score being one in performance contracting. The company has cascaded the Performance Contract and it is now clear to all staff members that performance is the only criteria for retention, career progression, growth and enhanced compensation.

Human Resources

The company has continued to invest in training and development of her staff. Several scientists have enrolled in masters and PhD programs and the company continues to expose them to the latest breeding and production practices. The company has an approved Training Needs Analysis which it is using to train her employees and increase their productivity. The relationship between management and the Union remained harmonious with the usual consultations on the Collective Bargaining Agreement (CBA) and welfare matters.

Our Director of Operations Mr. Alfred Busolo is still seconded by the Ministry of Agriculture to his current position as the Interim Director General of AFFA. Mr. Busolo remains in the payroll of Kenya Seed Company and we have continued to pay his salary which we later invoice AFFA.

The company engaged the services of the Kenya School of Government to undertake organizational and job analysis in the company. The exercise is expected to review the organizational structure and align it to the company's core mandate functions, vision and mission, developing an appropriate grading structure of the company, determine optimal staffing levels, provide updated job descriptions & job specifications and address any other incidental staff matters.

Employee Productivity

The company has put in place a number of strategies to ensure employee productivity with a strong and competent workforce. In order to ensure continual improvement in staff productivity, the company is increasing its investment in the following.

1. Capacity building

The company has programmes on training and development which provides both the company as a whole and the individual employees with benefits that make the cost and time a worthwhile investment.

2. Employee support systems

This is geared towards supporting the company's employees to improve their knowledge & skills and work towards achieving company objectives. This includes;

HIV/AIDS

Recognizing the negative effects of HIV/AIDS on employee productivity, the company has put in place elaborate strategies to militate against the side effects. Some of these strategies are periodic HIV/AIDS awareness programmes in collaboration with the National Aids control council and other sector specific organizations counseling and testing.

Housing

Due to the nature of its operations the company has improved the housing facilities at its Elgon Downs Farm to cater for employees whose nature of duty requires them to be near their work place. The total number of houses at Elgon downs to date is 32. The Company is also offering competitive house allowances to other staff that do not access company housing.

Safety and Work Environment

The company has continually improved the working environment of employees by ensuring conducive and adequate environment at all times. This includes ensuring all work places are safe and clean, in addition, the company has established a management occupation and safety and health committee whose mandate among others include implementation of health and safety programme.

Employee feedback systems

The company uses staff appraisal system to measure employee performance and to give feedback to encourage performance. This is done annually and is accomplished through completing a staff performance appraisal form. The primary reason for having a performance appraisal program is to monitor' performance, motivate employees and improve company morale.

Staff recognition

In its endeavor to improve employee productivity, the company constantly reviews rewards and recognition policies from time to time in tune with the industrial trends.

Implementation of Quality Management System (QMS)

In order to fully address customer' needs and improve customer satisfaction, the company embarked, in the year 2006, on a program to attain certification based on a globally recognized Quality Management System. This culminated in ISO 9001: 2000 certification on 1st July 2007, later revised to ISO 9001: 2008. The company has continued to comply with the requirements of the quality management system which has resulted in international recognition and continued improvement in company processes through regular audits and management reviews. In 2014, the company increased recertification scope to include Narok and Ruaraka branches. The last surveillance audit was carried out in July 2015 for which the company retained her ISO 9001:2008 certification.

Technology and Automation

One of the thirteen key objectives identified in our strategic plan towards being a leading supplier of top quality seed in Africa is the improvement of our gross margins.

In order to attain this objective the company is automating the whole value chain so as to improve efficiency, reduce the turnaround time for business processes, eliminate wastages and reduce overhead cost.

To achieve this objective, the company contracted Amity Software Inc- based in USA to supply and install the SAP/AMS system. The installation started in 2014 and the company went live on 1st July 2015. This automation shall cover all the departments of the company.

The benefits expected to accrue from the implementation of this system are:

1. Integration of operations into single real time system spreading across all departments whose result is money saving.
2. Introduction in designed work flow that will result in efficiency in human resource
3. improved reporting, as departments will be enabled to share information
4. reduced inventory cost, resulting from better planning, tracking and forecasting of requirements
5. low cost of operation
6. improved information access and
7. Provision of a consolidated picture of company activities for better decision making.

Risk Management

The management understands and takes accountability for all risks that potentially affect the achievement of its strategic priorities and has delegated the responsibility for overseeing the adequacy and effectiveness of risk management to the audit and risk committees. Our objectives are to instill greater risk awareness throughout the organization, standardize the approach to risk management and to embed the process into day-to-day running of the business.

The company has adopted robust risk management frameworks which consist of proactively identifying and understanding the facts and events that may impact the achievement of our strategic and business priorities, then managing them through effective mitigating plans, internal controls and monitoring and reporting processes.

The business risk management function is responsible for ensuring the existence of an effective policy and framework for risk management and driving the implementation of these throughout the company. This is mainly attained by implementation of the risk registers and the control frameworks

Our Core Values

We believe that our culture is a strategic asset enabling our success. We express our culture through our core values and vital behavior. We believe in a culture of team work and effective partnerships, professionalism, innovation, passion for quality, integrity, efficiency, and client focus to get it done. By instilling this in our employees, we ensure that we are able to deliver on our strategy, and ultimately on our

vision and mission. We achieve this through what we consider to be KSC's vital core values, which set the tone for what is expected of every leader and employee in interactions with each other and all stakeholders across the company

Future Outlook

Going forward, the Company is on the right path to greater prosperity with numerous opportunities for business growth and expansion supported by anticipated economic growth. We are committed to pursuing strategies aimed at ensuring attainment of our grand vision, provision of top quality seed in Africa.

The company's future growth will come from:

- ✓ Focus on the short to medium season seed varieties whose demand could increase with the changing weather patterns
- ✓ Delivery of MLN resistance varieties which are high yielding
- ✓ Investment and expansion into the lucrative vegetable market which returns high profit margins
- ✓ Turning around external subsidiaries to profitability, thus transforming them to adding into the group profitability
- ✓ Diversifying and getting bigger contribution from non maize products thus reducing over reliance on seed maize
- ✓ Increasing the supply of pasture seed and meet the pasture demand
- ✓ Enhancing efficiencies from the new AMS/SAP and the new organizational structure expected to be rolled out.

Towards this end, the company continues to implement her strategic plan and deploy resources optimally to generate maximum returns to the company.

Acknowledgement

I take this opportunity to express my gratitude— and that of my colleagues in the company – to our Customers for their loyalty and continued patronage. My appreciation also goes out to our Shareholders for their patience and commitment to our Strategy, to the Directors on our board whose unwavering support, leadership and guidance have continued to inspire and challenge us, to our regulators the government through the ministry of agriculture whose invaluable oversight, assistance and encouragement have been key to our progress so far, to our stake holders and other business partners and to the communities that we have the privilege of serving

KENYA SEED COMPANY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2015

I also wish to thank my colleagues in the company for their focus, energy, and determination to succeed. Without them, our successes in all these years would not have been possible, nor can our ambitions for the future be realized.

We remain indebted to you all, and look forward to your continued support and goodwill towards jointly building the company envisaged in our Corporate Vision – The Leading Supplier of Top Quality Seed in Africa. We are committed to operating within our financial means and in a way that does not compromise the sustainability of our company.

I was appointed the Acting Managing Director on 18th December 2015. I want to take this opportunity to thank the Board of Directors for the confidence they have in me and assure them of my total dedication to meet and exceed the expectations and targets they have given me. I want to thank my predecessor Mr. Willy Bett, from whom I learned valuable leadership lessons for his excellent leadership skills which grew this company significantly. I assure him that I intend to continue with his excellent policies and take this company to even greater heights.

Lastly I am conveying my best wishes and that of staff of Kenya Seed Company to Mr. Bett, who is the current Cabinet Secretary in the Ministry of Agriculture, Livestock and Fisheries

Thank you and God bless you.


Francis Ndambuki
Acting Managing Director

Leadership Team of Kenya Seed Company

The Company has a diverse and dedicated management team that assists the Managing Director in his role of achieving the company's strategic objectives. The Leadership team of Kenya Seed Company Limited and their roles which reports directly to the Managing Director as at 30th June 2015 is as set out below:

○ Willy Bett	Managing Director
○ Rose Cauri	Company Secretary
○ Adano Kadubo	Internal Audit Manager
○ Azariah Soi	General Manager, Simlaw Seeds Kenya
○ Francis Mwaura	General Manager, Simlaw Seeds Tanzania
○ Sylvia Kyenune	General Manager, Simlaw Seeds Uganda
○ Patrick Thuo	Finance Director
○ Francis Ndambuki	Head of Research and Development
○ Alphonse Laboso	Research & Development Manager
○ Sammy Chepsiror	Head of Sales & Marketing
○ Hosea Sirma	Head of Production-EDF & BSU
○ Ambrose Ngare	Head of Security
○ Eunice Ombachi	Head of Production-Seed Maize/Pasture
○ Fred Oloibe	Head of Strategy & Business Development
○ Andrew Ngeno	Head of Processing & Engineering
○ Erick Tegei	Quality Assurance Manager
○ Philip Chemwetich	ICT Manager
○ Stephen Malakwen	Ag. Head of Human Resources
○ Esther Bii	Nakuru Branch Manager
○ Anthony Korir	Ag. Procurement Manager
○ Elizabeth Rerimoi	Ag.Chief Corp. Affairs Officer
○ Edwin Rutto	Admin Officer/PA to the MD

Corporate Governance Statement

Corporate Governance

Corporate governance is the manner in which the power of, and the power over a company is exercised in the stewardship of its assets and resources so as to enhance and sustain shareholders value while at the same time satisfying the needs and interests of all its stakeholders.

The board is committed to the principle that the company and its subsidiary companies should operate with integrity and ethics and maintain a high standard of corporate governance in the interest of shareholders and all other stakeholders. The Board believes that the company has complied with the highest standards of Corporate Governance Practices

The spirit and practice of corporate governance in Kenya Seed Company is about commitment to values and ethical business practices. This implies timely compliances and correct disclosures of financial information on performance, ownership and governance of the company.

The key elements of corporate governance are transparency, disclosure, accountability, supervision and internal controls, risk management, internal and external communication and high standards of safety, health environment, accounting, and product and service quality. The board has empowered responsible persons to implement its board policies and guidelines and has set up adequate review process.

The company is committed to optimizing long term value for its stake holders with strong emphasis on the transparency on its operations and instilling pride of association. The company follows best practice of corporate governance and reporting systems

Board of Directors

The composition of the Board is compliant with good corporate governance practices. The role of the Chairman and the Managing Director are segregated. The Managing Director is in charge of the day to day running of the business of the Company. A non-executive director acts as Chairman of the Board.

The directors are given appropriate and timely information to enable them to maintain full and effective control over all strategic, financial, operational and compliance issues.

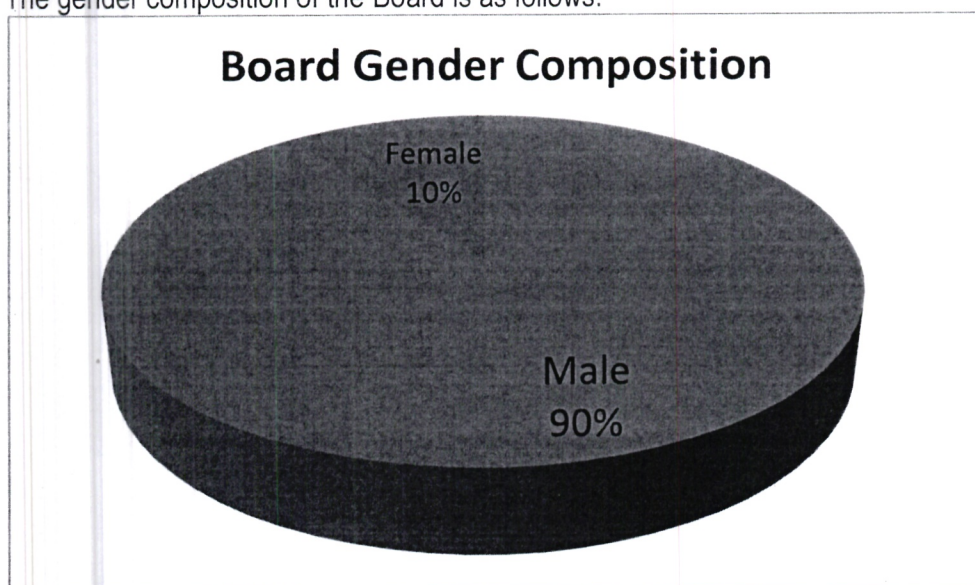
The current Board of Kenya Seed Company is composed of one executive director and ten non- executive directors including the Chairman, all of whom were appointed on 31st January 2014. The directors are committed members with diverse and complementary skills and expertise in the fields of strategy, management, production, finance, marketing and human resource development. The board provides leadership, strategic guidance, objective and independent view of the company's management while discharging its fiduciary responsibilities thereby ensuring the management adheres to high standards of ethics, transparency and disclosure.

KENYA SEED COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT
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The composition of board, date of appointment and position held by each of them as on 30th June 2015

Name	Date of Appointment	Position
Dr Andrew Tuimur	31 st January 2014	Acting chairperson (representative ADC)
Mr. Willy Bett	31 st January 2014	Managing Director
Mr. Laurence Njiru	31 st January 2014	Director
Mr. Jack Chebett	31 st January 2014	Director
Ms Alice Munke	31 st January 2014	Director
Mr. William Kundu	31 st January 2014	Director
Mr. David Kiplagat	31 st January 2014	Director
Mr. Abraham Koech	State representative National Treasury	Director
Mr. Johnson Irungu Waithaka	State representative-Ministry of Agriculture	Director
Mr. Symon Cherogony	representative Kenya Farmers Association	Director

The gender composition of the Board is as follows:



Board Meetings

The Board meets at least once quarterly or more often in accordance with exigencies of the business. The Board work plan and calendar of meetings is prepared in advance. Adequate notice is given for each board meeting, the agenda and papers are circulated in good time.

The Board held 9 meetings in the year. During their meetings the Board reviews the Companies performance against the planned strategies and also approves issues of strategic nature.

KENYA SEED COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT
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The attendance at the Board meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Dr Andrew Tuimur	9	8
Mr. Willy Bett	9	8
Mr. Laurence Njiru	9	8
Mr. Jack Chebett	9	8
Ms Alice Munke	9	8
Mr. William Kundu	9	8
Mr. David Kiplagat	9	8
Mr. Abraham Koech	9	8
Mr. Johnson Irungu Waithaka	9	7
Mr. Symon Cherogony	9	8

Board Committees

The structure of the board and the planning of the board's work are key elements to effective governance. The company's board of directors has established board committees as one way of managing its work thereby strengthening the board's governance role. The company has three committees that focus on specific areas thereby allowing the board to concentrate on broader and strategic issues and directions. The Board has an additional three committees (Boards) for her three subsidiaries. These are committee include:

1. Audit Committee

The board of directors has entrusted the audit committee to supervise the processes relating to financial reporting and disclosure on financial information in accordance with the financial reporting standards, safeguarding of assets, adequacy of financial systems and reviewing of the company's financial and risk management policies

Role of Audit Committee:

- 1) Overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible information is disclosed.
- 2) Reviewing the financial statements and draft audit report, including quarterly information.
- 3) Reviewing with management the annual financial statements before submission to the Board focusing primarily on:
 - Any changes in accounting policies and practices;
 - Major accounting entries based on exercise of judgment by management;
 - Qualifications in draft audit report;
 - Significant adjustments arising out of audit;
 - The going concern assumption;
 - Compliance with accounting standards;

Composition and other details of Audit Committee

The Audit Committee comprises of four members, all of whom are non-executive directors. The Audit Committee Meetings are usually held at the Registered Office of the Company and are

KENYA SEED COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT
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usually attended by the Internal Auditor of the Company. The internal auditor acts as Secretary of the Audit Committee.

The attendance at the audit Committee meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. Symon Cherogony-Chairman	4	4
Mr. Laurence Njiru	4	4
Mr. Abraham Koech	4	4
Dr Andrew Tuimur	4	4

2. Production Research and Marketing Committee

The company has the production research and marketing committees that assist in discharging Board's responsibilities relating to matters of production, sales, marketing, research and development

The attendance at the **Production Research and Marketing Committee** meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. William Kundu-Chairman	4	4
Mr. Willy Bett	4	4
Mr. Jack Chebii	4	3
Dr. Johnson Irungu	4	2
Mr. Abraham Koech	4	4

3. Finance, Staff and General Purpose Committee

This committee assists the Board in matters relating to finances including sourcing and uses of Company funds, staff remuneration, recruitment, incentives and filling of vacancies.

The attendance at the **Finance, Staff and General Purpose Committee** meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. David Kiplagat-Chairman	5	5
Mr. Willy Bett	5	5
Mr. William Kundu	5	5
Mrs. Alice Munke	5	3
Dr. Johnson Irungu	5	1
Mr. Abraham Koech	5	4
Dr. Andrew Tuimur	5	4

The Board Committees remained fully active during the period under review. As required by the Company's Board Charter, Committee members were regularly exposed to training on corporate governance. In addition, each member of the Committee was given induction on the Company's code of conduct which stresses the importance for each member to fully understand corporate behavior expectations, compliance with Board ethics and regulatory requirements

4. Board of Simlaw Seeds Kenya Limited

This Board oversees the strategies of Simlaw Seed Kenya Limited

The attendance of the **Simlaw Seeds Kenya Limited** Board meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. Lawrence Njiru-Chairman	3	3
Mr. Willy Bett	3	3
Mr. David Kiplagat	3	3
Mr. Abraham Koech	3	3
Dr. Andrew Tuimur	3	2

5. Board of Kibo Seeds Tanzania Limited

This Board oversees the strategies of Kibo Seed Tanzania Limited

The attendance of the **Kibo Seeds Tanzania Limited** Board meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. Jack Chebett-Chairman	2	2
Mr. Willy Bett	2	2
Mr. Symon Cherogony	2	2
Mr. Abraham Koech	2	2
Dr. Andrew Tuimur	2	2

6. Board of Simlaw Seeds Uganda Limited

This Board oversees the strategies of Simlaw Seeds Uganda Limited

The attendance of the **Simlaw Seeds Uganda Limited** Board meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mr. William Kundu-Chairman	2	2
Mr. Willy Bett	2	2
Mr. Lawrence Njiru	2	2
Dr. Johnson Irungu	2	2
Dr. Andrew Tuimur	2	2

7. Board Procurement Oversight Committee

This Committee reviews, approves and oversees the implementation of the Procurement Plan

The attendance of this Committee meetings during the financial year 2014-15 is as under:

Member	Number of Meetings	Attendance
Mrs. Alice Munke-Chairman	2	2
Mr. Willy Bett	2	2
Mr. David Kiplagat	2	2
Dr. Johnson Irungu	2	2
Mr. William Kundu	2	1

Board Evaluation

As required by the Government, the Board has been carrying out performance evaluation facilitated by an approved facilitator. The evaluation exercise focuses on issues of effectiveness of the whole Board, individual assessment of the directors, effectiveness of the Chairman and performance of the Managing Director. The evaluation is marked out of a score of 5. In the evaluation for FY2013/14, the performance of the whole Board was 4.08, and individual Board members scored an average of 4.41. The Chairman was rated at 4.74 and the Managing Director at 4.38. The whole Board's evaluation examined knowledge of the mandate and strategy of the Company, functions of the Board, Board effectiveness, and relevant issues of strategic thinking, corporate governance, risk management, institutional leadership qualities and human resource management among others

Code of Conduct

The Company has a code of conduct which seeks to guide employees in ethical conduct of business. All directors, management and employees are expected to observe high standards of integrity and ethical conduct when dealing with customers, staff, suppliers and regulators.

Internal Control

The effectiveness of the internal control is monitored on a regular basis by the Internal Audit function. The Internal Audit function reviews the Company's compliance with the laid down policies and procedures as well as assessing the effectiveness of the internal control structures. The Internal Audit function focuses their attention to areas where the Company could be exposed to greatest risks. The Internal Audit function reports to the Audit Committee of the Board.

The Company has established operational procedures and controls to facilitate proper safeguard of assets and accurate financial reporting.

Conflicts of Interest

All directors and management are under duty to avoid conflicts of interest. The directors are required to disclose outside business interests which would conflict with the Group business.

Going Concern

The directors confirm that the Company has adequate resources to continue in business for the foreseeable future and therefore to continue to use the going concern basis when preparing the financial statements.

Company Shareholding

ADC acquired shares in KSC through periodic purchases and direct allotments which accumulated in acquiring majority shareholding of 52.88% in 1986. On 30th May 2001, a prospectus was issued for sale of 4 million ordinary shares by private offer to existing shareholders and officers, employees of the company, seed growers, sub-agents and stockists, who were specifically invited to subscribe. The issued and fully paid share capital excludes 3,370,000 ordinary shares worth KShs 67,400,000 that were issued in the year ended 30 June 2002, which were revoked after the High Court of Kenya ruling on 6 April 2006. These shares are currently a subject matter before the Kenyan Court of Appeal. The nominal share capital together with the premium on these shares is now classified under trade and other payables which amount to Kshs 124.9 Million.

KENYA SEED COMPANY LIMITED
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The ten largest shareholders of the company as at 30th June 2015 were as follows:

No.	List of Shareholders	No. of Shares	% Shareholding
1	Agricultural Dev. Corporation	5,700,720	52.88
2	KFA	1,601,256	14.85
3	Soet Kenya Ltd	1,500,000	13.91
4	Burch Colin Mr.	549,660	5.10
5	Tum Nathaniel Kipkorir	419,131	3.89
6	Woodland Kristin Annetta	206,172	1.91
7	Anderson Robert Allen	103,032	0.96
8	Gogar Farms Ltd	103,032	0.96
9	Selly Neville Gordon	86,760	0.80
10	Goes Eufrazio Juliao	79,470	0.74

Distribution of Shareholders

No. of Shares	No. of Shares Held	No. of Shareholders	% Shareholdings
Below 10,000	104,784	25	0.97
10,000-100,000	493,478	17	4.58
100,000-1,000,000	1,381,027	5	12.81
Above 1,000,000	8,801,976	3	81.64
Total	10,781,265	50	100.00

CORPORATE SOCIAL RESPONSIBILITY (CSR REPORT)

Kenya Seed is committed to the sustainable development of our environment and supporting communities in which we operate. As a company our contribution towards a better livelihood for of the community is our priority.

During the year in review, we continued to support various health, education, sports, environmental sustainability initiatives among other charitable causes in the various markets we serve.

We are proud of the CSR initiatives which we accomplished during this financial year and these include the following:-

Environmental Sustainability:

The Company assisted in restoring and rehabilitating the environment by donating 780,000 indigenous tree seedlings. Notably, we donated 500,000 to farmers in the markets we serve, 200,000 seedlings to public schools, women and youth groups and 70,000 seedlings towards the rehabilitation of the forest around the Cherangany and Mt. Elgon water towers in Trans Nzoia and 10,000 for the 'run for Mau initiative'.

Education:

The Company invested a total of Kshs 400,000 shillings to implement various educational programmes. We spent KShs 200,000.00 for the construction of a science laboratory and 100 desks for Ruto Kokwo secondary and primary school in Trans-Nzoia County respectively, Kshs 100,000 towards rebuilding of Chesamisi High School dormitory in Bungoma County following a fire incident, Kshs 60,000 Bursary for Student at St. Josephs High School- Trans Nzoia all with aim of providing a conducive learning environment for its pupils.

Health:

During the year, we donated beans and maize worth Kshs 60,000 towards the Trans Nzoia public primary schools feeding program purposely to give students a chance of a healthier, brighter future.

Harvests from all our ASK shows are donated to Children's homes or rehabilitation centers. Some of the beneficiaries include: Mumias School for the Blind in Kakamega County, Kapsabet Deaf School in Nandi County, Mama Ngina Children's home in Kisumu County, Seed of Hope in Trans Nzoia among many others.

Rural Development:

We partnered with Saboti Constituency Development Fund to improve mobility in rural areas noting that roads make a crucial contribution to economic development and growth and bring important social benefits such as access to hospitals, schools, and markets; improved comfort, speed, and safety; and lower vehicle operating costs. We donated 1000 litres of fuel at a cost of Kshs 88,000.00

Sports

The company has always strived to nurture and develop talent among the youth and supports growth of sports in the country. During the year we sponsored several sports events including the KASS Marathon,

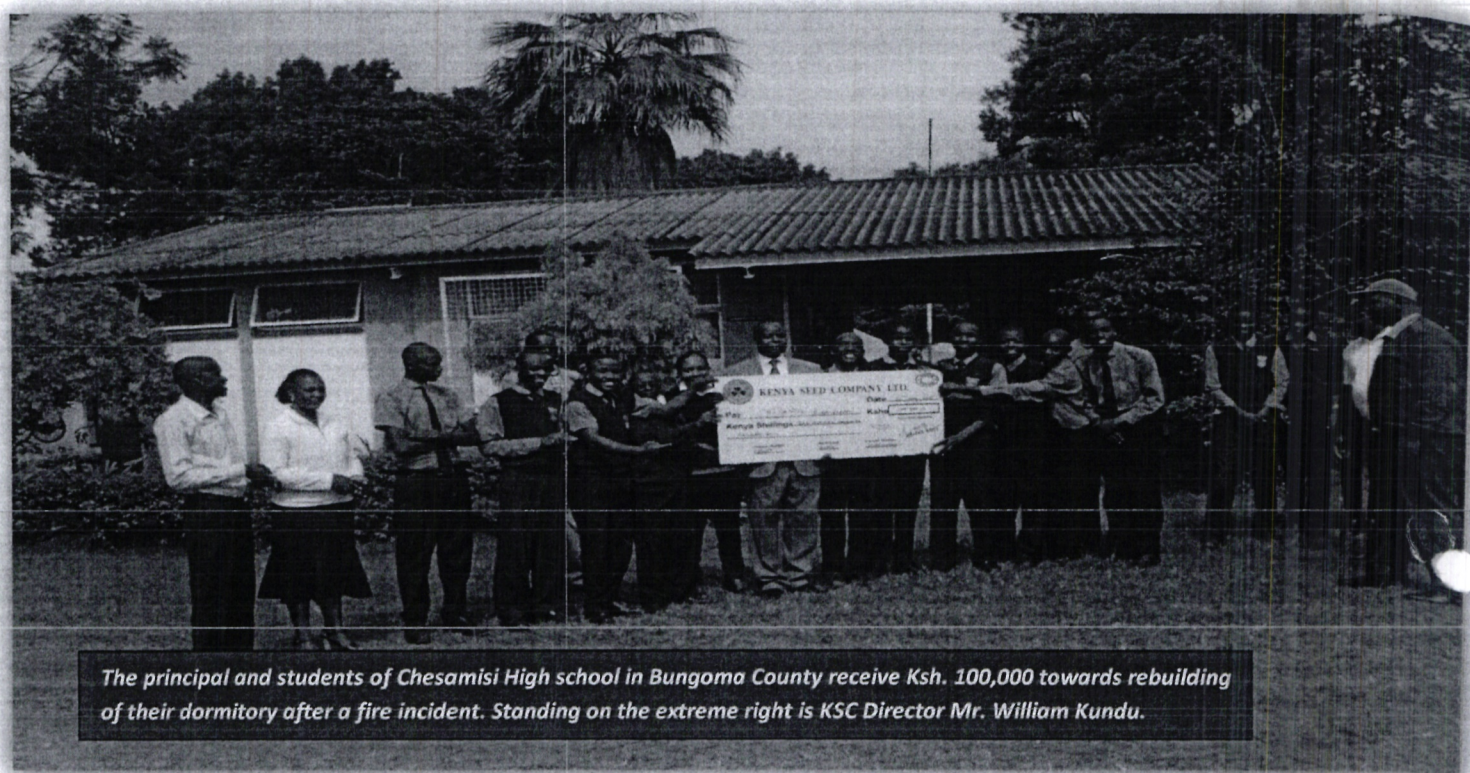
KENYA SEED COMPANY LIMITED
STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY
FOR THE YEAR ENDED 30 JUNE 2015

Ndalat Gaa Kids Marathon and Kinyoro youth at a cost of Kshs 300,000, Kshs 86,000 and Kshs. 20,000 respectively.

Other charitable Causes

In addition we supported various social welfare initiatives in various parts of the country. We gave the Kitale Police Kshs. 80,000 as humanitarian aid to 30 police families whose houses were razed down by fire. We also contributed Kshs. 10,000 towards the Redcross humanity walk in Nakuru

Pictorials



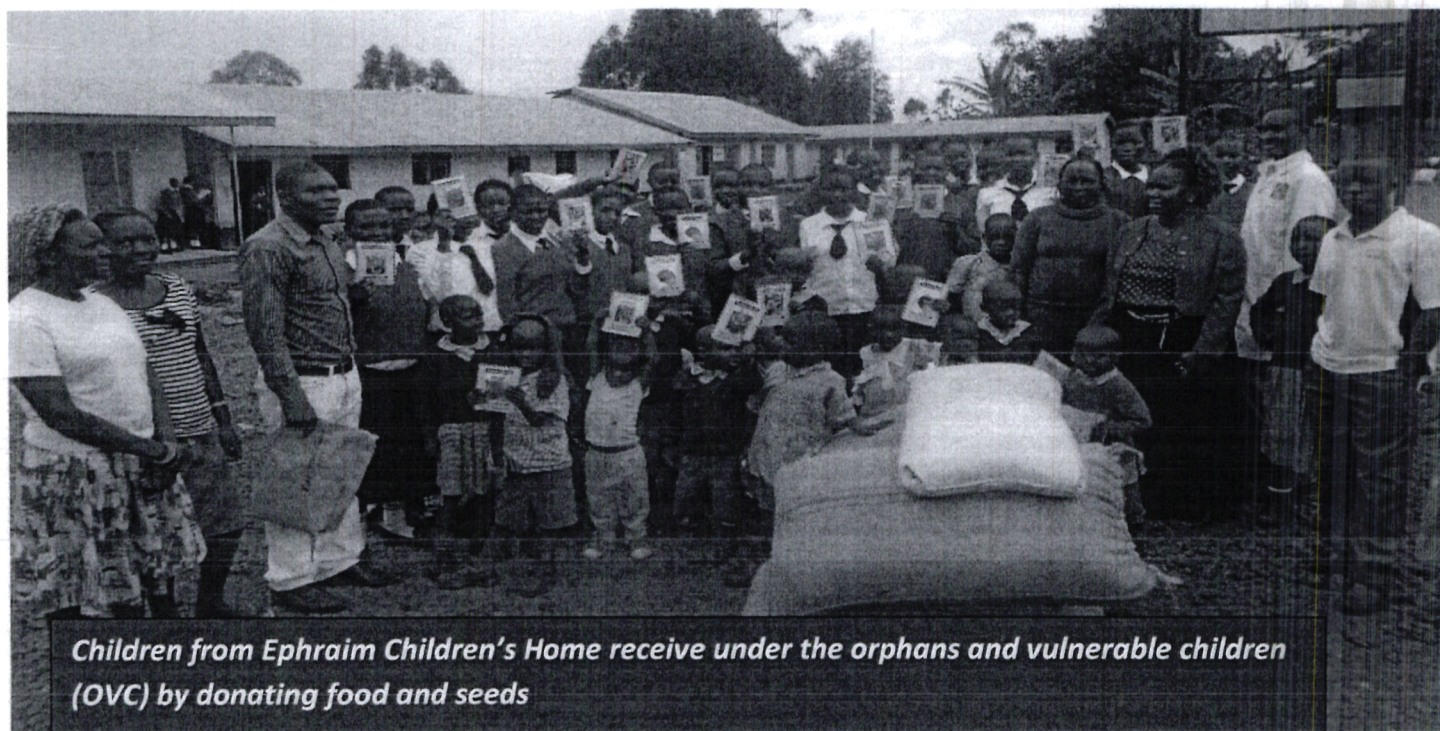
The principal and students of Chesamisi High school in Bungoma County receive Ksh. 100,000 towards rebuilding of their dormitory after a fire incident. Standing on the extreme right is KSC Director Mr. William Kundu.



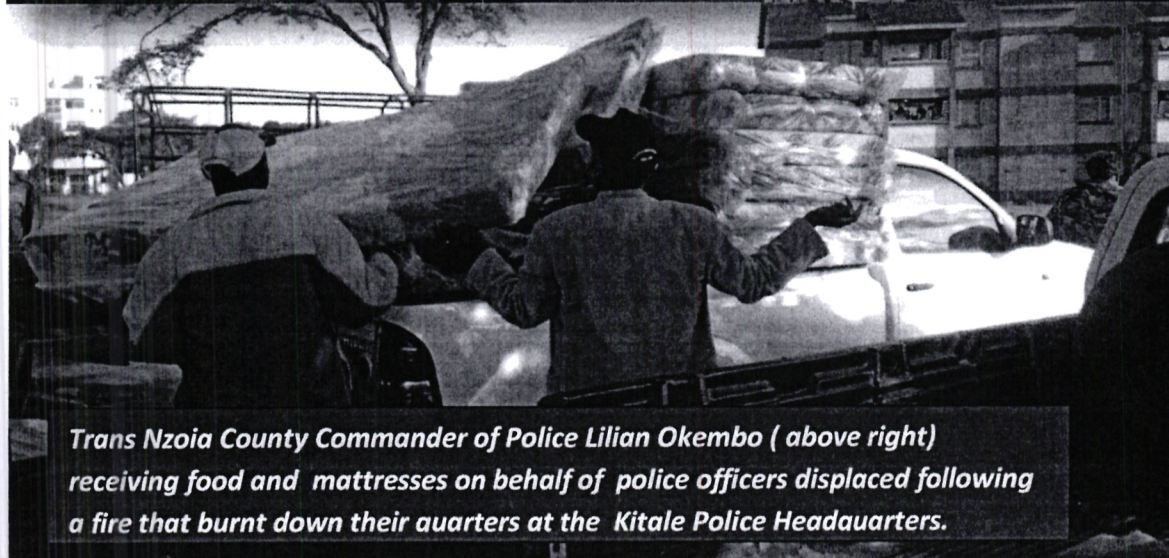
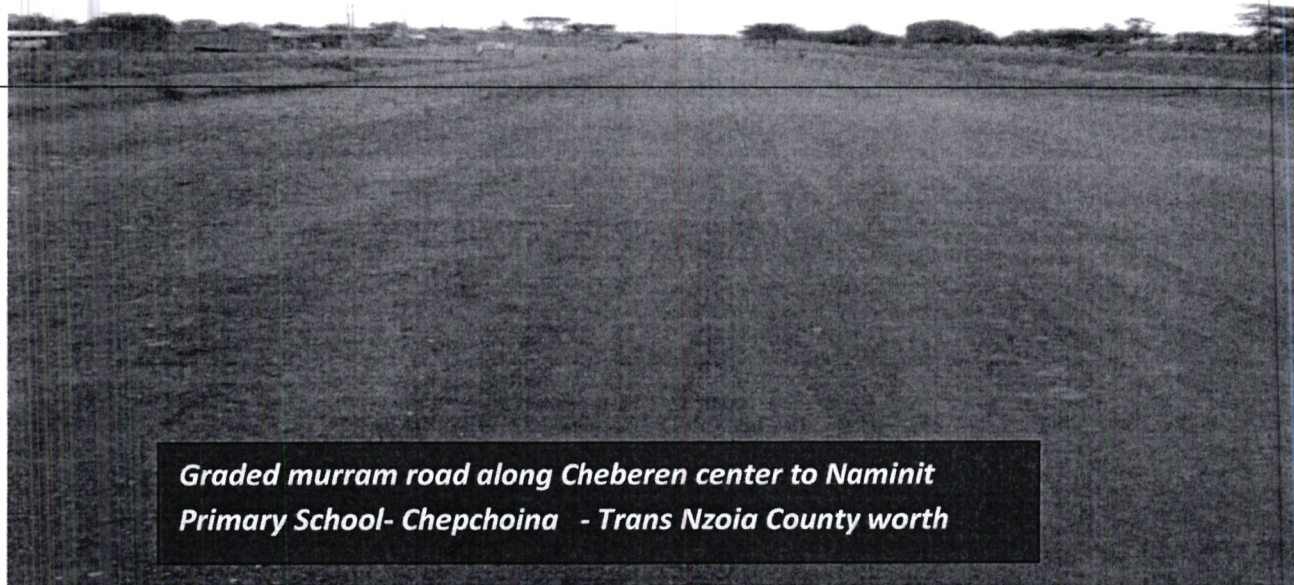
Children from Seed of Hope Home in Trans Nzoia County receiving crop harvested from our Kitale ASK show stand.



Ruto Kokwo pupils In Trans Nzoia County receive desks from Company Staff



Children from Ephraim Children's Home receive under the orphans and vulnerable children (OVC) by donating food and seeds



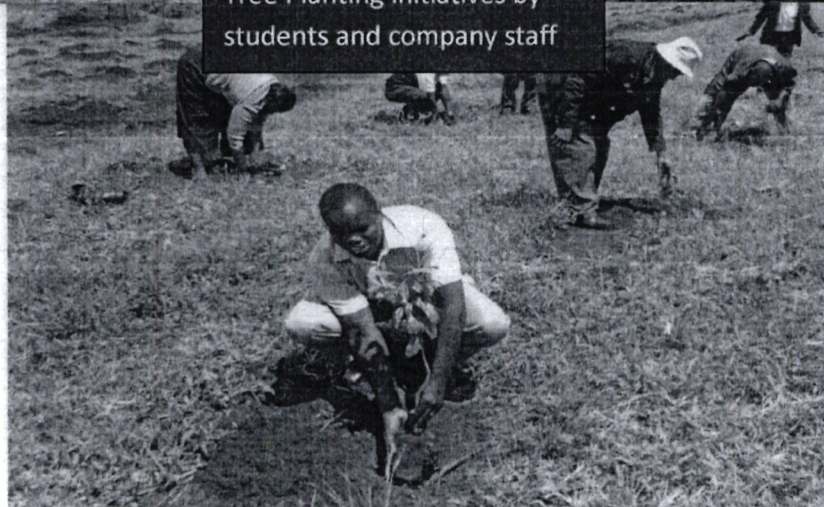
KENYA SEED COMPANY LIMITED
STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY
FOR THE YEAR ENDED 30 JUNE 2015



Company Staff participate at the 2015 KASS marathon in Uasin Gishu



Tree Planting initiatives by
students and company staff



KENYA SEED COMPANY LIMITED
REPORT OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2015

The Directors submit their audited consolidated financial statements for the year ended 30 June 2015 which show the state of the company and group affairs.

1. Principal Activities

The company and its subsidiaries carry on the business of seed growers and seed merchants. It operates a seed maize shelling and drying plant and a small cereals drying plant. The Company also distributes vegetable seeds under the brand name of "Simlaw Seeds".

2. Results

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before taxation	388,662	450,836	434,458	443,935
Taxation charge	(160,935)	(149,301)	(143,246)	(154,482)
Profit for the year	227,727	301,535	291,211	289,453

3. Dividends

The Board of Directors approved a dividend policy where dividend paid will be the higher of KShs 5.25 per share and 20% of the after-tax profit. Subject to the Shareholders approval, the Directors propose payment of a first and final dividend of KShs 5.25 (2014: KShs 5.59) per share totaling KShs 56,601,641 in respect of the year ended 30 June 2015 (2014: KShs 60,265,790). The dividend is payable subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470, Laws of Kenya.

4. Directors

The directors who served during the year and to the date of this report are as shown on page 1.

5. Independent Auditors

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 14 of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. The Auditor General did not appoint another auditor and carried out the audit exercise himself.

BY ORDER OF THE BOARD

Ms. Rose Cauri
Company Secretary
Kitale, Kenya.

..... 2016

KENYA SEED COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015

Governance Principals

Corporate governance is the system of clearly defined authorities and responsibilities, which results in the establishment, operation and maintenance of a system of internal control that is regularly tested to ensure effectiveness. The system enables the Board of Directors to ensure that the managers of the Group are acting in the interests of the shareholders and other key stakeholders.

At Kenya Seed Company Limited, we place a great deal of importance on robust corporate governance practices and are committed to applying the highest standards of business integrity and professionalism in all our activities. The Group achieves this by using a risk based approach to establish a system of internal control and by reviewing the effectiveness of the system of internal control on a regular basis.

The Kenya Seed Company Limited has formulated and applies sound internal corporate governance guidelines, which address the responsibilities of management, the Board and its composition, selection procedures for new directors and relationships with stakeholders.

Board Committees

The Group has set up three key Board committees to help in the implementation of its policy guidelines and strategy. These committees meet regularly and are chaired by non-executive directors. The committees report their findings to the Board for further vetting and subsequent ratification by the Board. They include:

- The Audit Committee, which is responsible for the oversight of the integrity of financial statements, risk management, internal controls, compliance and ethics and effectiveness of internal and external audit activities in the company and its subsidiaries.
- The Finance, Staff and General Purposes Committee, which handles human resource and finance matters including sourcing and application of funds.
- The Production, Research and Marketing Committee, which handles production; research and development; and sales and marketing matters in the Group.

Independence

All the non-executive directors on the Board are independent of management and free from any business or other relationships, which could materially interfere with the exercise of their independent judgment.

Activities and Achievements

The Board meets regularly and has a formal schedule of matters reserved to it. All directors have access to the Company Secretary and Legal Counsel. Currently, the Board comprises ten non-executive directors and a Managing Director.

.....
Chairman

30/5 2016
.....
Date

KENYA SEED COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the company as at the end of the financial year and of the operating results of the Group for that year. It also requires the directors to ensure that the Group and the company keep proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and the company. They are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the company and operating results of the Group and company. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Kibo Seed Company Limited has a net current liability position of KShs 104 million as at 30 June 2015 (2014: KShs 21.37 million). The company made a loss of KShs 79 million for the year ended 30 June 2015 resulting to accumulated losses of KShs 89 million as at 30 June 2015 (2014: KShs 8.5 million) and is heavily dependent upon its parent company for financing. This casts doubt about the company's ability to continue as a "going concern." However, the parent company has committed to continue providing financial support necessary to ensure that the company meets its financial requirements and they will not call the amount they are owed in the foreseeable future in a manner that will affect the operations of the company.

Mount Elgon Seed Company limited is technically insolvent. It has a net liability position of KShs 145 million as at 30 June 2015 (2014: KShs 145 million). The company made a loss of KShs 1.2 million for the year ended 30 June 2015 (2014: KShs 0.16 million). This casts doubt about the company's ability to continue as a "going concern." In view of the above circumstances, company directors after considering the advice of management and independent valuers decided to cease trading with effect from 30 June 2012. As stipulated in their resolution ratified on 26 September 2012, the Board of Directors confirmed that they will not commence the winding up process of the company in the foreseeable future and that the company will remain dormant since 30 June 2012. The directors have presented the assets and liabilities at the amounts expected to be realized and settled respectively.

Simlaw Seeds Company Uganda Limited is technically insolvent. It has a net liability position of KShs 51 million as at 30 June 2015 (2014: KShs 37.48 million). The company made a loss of KShs 12 million for the year ended 30 June 2015 (2014: KShs 1.68 million) and is heavily dependent upon its parent company for financing. This casts doubt about the Company's ability to continue as a "going concern." However, the parent company has committed to continue providing financial support necessary to ensure that the company meets its financial requirements and they will not call the amount they are owed in the foreseeable future in a manner that will affect the operations of the company.

Simlaw Seeds Company Tanzania was incorporated in April 2014. The parent company injected KShs 28.6 million to start operations.

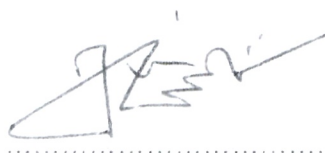
KENYA SEED COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)
ON THE FINANCIAL STATEMENTS

Minimal transactions were done to the year ended 30 June 2015. The company has made losses in the three periods in operation totaling to accumulated losses of KShs 0.72 million as at 30 June 2015 (2014: KShs 0.57 million).

The subsidiary companies rely on the parent company and other related companies for provision of working capital. These companies' ability to continue as going concerns depend on the continued support they receive from the parent company and other related companies. The parent company and other related companies have undertaken not to recall the amounts they are owed in the foreseeable future in a manner that will affect the operations of the companies. In view of these, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements of the subsidiary companies which have been consolidated in these financial statements.

Nothing has come to the attention of the directors to indicate that Kenya Seed Company Limited and its subsidiaries will not remain going concern for at least the next twelve months from the date of this statement.

The financial statements and the notes on pages 45 to 106 were approved by the Board of Directors on30/5/..... 2016 and were signed on its behalf by:


.....

Director


.....

Director

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
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P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA SEED COMPANY LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying consolidated financial statements of Kenya Seed Company Limited and its Subsidiaries (the Group) set out on pages 45 to 106, which comprise the statement of financial position as at 30 June 2015, 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

Kenya Seed Company Limited and its Subsidiaries – Annual Report and Financial Statements for the year ended 30 June 2015

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1.0 Inaccuracies in the Financial Statements

Note 4 to the financial statements reflects group revenue figure of Kshs.5,472,101,000. However, the schedules availed reflects Kshs.5,790,861,000 resulting to unexplained or unreconciled variance of Kshs.318,761,000 as shown below:-

Revenue item	Reported figures (Kshs) "000"	Supported figures (Kshs) "000"	Variance (Kshs) "000"
Income from- Maize Seeds	4,007,979	4,216,349	(208,370)
Income from- Vegetable Seeds	973,650	1,073,650	(100,000)
Income from- Wheat Seeds	305,450	305,450	0
Income from-Pasture Seeds	121,084	131,475	(10,391)
Income from- Other Seeds	61,299	10,703	50,596
Income from-Sales of milk	2,638	2,638	0
Income from-Sunflower Seeds	-	50,596	(50,596)
Total	5,472,100	5,790,861	(318,761)

Under the circumstances, the accuracy and validity of revenue figure of Kshs.5,472,101,000 for the year ended 30 June 2015 could not be confirmed.

2.0 Investment in Fixed Deposit

Note 33 to the financial statements reflects group investment in fixed deposit of Kshs.56,762,000 at Kenya Commercial Bank. However, bank confirmation certificate as at 30 June 2015 reflects Kshs.55,286,740.95. The variance between the two figures of Kshs.1,475,259.05 has not been explained or reconciled.

Under the circumstances, the accuracy and validity of group investment in fixed deposit figure of Kshs56, 762,000 could not be confirmed.

3.0 Property, Plant and Equipment

3.1 Valuation of Land and Buildings

As similarly reported in the previous year 2013/2014, note 17 to the group financial statements reflects freehold land and buildings totalling Kshs1, 736,753,000 at cost or valuation. Further, records availed for audit review indicated that in the year 2008, a consultant was engaged to revalue the Company's assets in line with the International Accounting Standards, whereby land and buildings were valued at Kshs.1,570,489,000 and Kshs.1,539,001,000 respectively. However, the client adopted a conservative cost and valuation based figure of Kshs1,736,753,000 resulting in undervaluation of Kshs1,372,737,000 on land and buildings.

In the circumstances, it has not been possible to ascertain whether the group property, plant and equipment balance of Kshs.1,979,249,000 as at 30 June 2015 is fairly stated.

3.2 Land Ownership Titles

In addition, the ownership documents of a number of parcels of land owned by the Company were not availed for audit verification. In particular the titles for the parcels listed below were not provided for audit review.

No	Title No	Location	Size
1	LR No 2041 (IR No 1025)	Kitale West Township	168.5 Acres
2	LR No 2116/484 (IR No 24487)	Kitale Municipality	2.398 Hectares
3	LR No. 2989 (IR No. 3118/1)	Not provided	192 Acres

In the circumstances, the ownership, completeness and validity of land and building balance of Kshs.1,086,136,000 as at 30 June 2015 could not be confirmed.

4.0 Contingent Liabilities

As similarly reported in the previous year, note 40 to the financial statements indicates that there are litigation claims pending arbitration process totalling to Kshs.842,067,000 which comprise Kshs.53,590,000 pending litigation claims instituted by third parties against the Company, Kshs.2,000,000 litigation claim by a former employee and Kshs.786,477,000 litigation claim by former contractor for alleged unlawful termination of contract in which the aggrieved is seeking compensation. However, no provision has been made for the amount in the financial statements.

Consequently, contingent liabilities figure of Kshs.842,067,000 will impact negatively on the financial operation of the Company if they actualize.

5.0 Use of Company Assets as Security for Bank Loans

5.1 Irregular Overdraft

Included in the group statements of financial position under current liabilities figure of Kshs.1,938,839,000 for the year ended 30 June 2015 is bank overdraft figure of Kshs.1,079,144,000. The Company acquired a Kenya Commercial Bank overdraft facility of up to a maximum of Kshs.1.4 billion which was secured by Company parcels of land valued at Kshs1billion plus a debenture over all assets of Kshs1 billion. The interest on the bank overdraft and loan negotiation fees totalling Kshs175, 483,000 paid by the Company during the year under review is too costly to the company. However, there is no evidence that approvals were sought from the Ministry of Agriculture and Treasury prior to signing of the contracts with the bank in line with Government Circulars and Public Finance Management Act, 2012. The particulars of the secured land parcels and value are as listed below:-

No.	Security Details	Value (Kshs)
1.	L.R 5337/2 & 12215 Kitale Municipality	769.1 Million
2.	Nakuru municipality/Block 8/16	230.9 Million
3	Fixed and floating Debenture	1 billion

5.2 Unconfirmed Loan Facility

Further, documents availed for audit review indicated that two parcels of land LR No. 5397 (IR No. 1498) Endebess measuring 1308 acres and LR No. 2290/3 (IR No. 302) Endebess measuring 1808 acres were also charged as security by Barclays Bank. Although the management stated that the loan was secured in the year 2001 and the loan was fully paid in 2007, it is not clear and the management has not provided justification why the titles have not been freed from encumbrances eight (8) years after the purported payment of the loan.

Consequently, the ownership status of the two parcels of land measuring 3116 acres could not be established. Further, the validity, accuracy, completeness and propriety of the amount of Kshs.175, 483,000 paid in respect of interest on bank overdraft facility and the secured loan facility overdraft of Kshs.1,079,144,000 as at 30 June 2015 could not be confirmed.

6.0 Payment to an Officer on Secondment

Included in the group comprehensive income under operating expenses figure of Kshs.892,982,000 for the year ended 30 June 2015 is a payment of Kshs.1,650,000 made to an officer working for Pyrethrum Board of Kenya on secondment from Kenya

Seed Company by the Ministry of Agriculture, contrary to Code of Regulations of Kenya Section E.32 which states that officers on secondment will be paid their salaries and other allowances by the organizations in which they are deployed. It could not be confirmed the basis upon which Kenya Seed Company paid the above amounts when the officer was working for Pyrethrum Board of Kenya from 7 October 2013 to 7 August 2014.

Consequently, the propriety of the amount of Kshs 1,650,000 for the year ended 30 June 2015 could not be confirmed.

7.0 Consultancy Fee for Expansion of Seed Driers

Included in the group statements of comprehensive income under research and development costs figure of Kshs.69,938,000 for the year ended 30 June 2015 was Kshs.5,887,000 (exclusive of Kshs.1,359,520 paid in the previous year 2013/2014) paid to a consultant for the expansion of seed driers at contract price of Kshs11,516,720. The decision to expand the seed drier and subsequently to contract the consultant were informed by a board paper of 6 October 2011 referenced Committee Paper No.RMPC25/231.The management through a memo dated 20 February, 2015 made a decision that the Company sales had gone down and by implication the production would come down in which case the drier expansion would not be necessary. On the basis of this board paper the consultancy contract was terminated. However, the contract signed with the consultant on 7 march 2013 did not contain termination clause.

Consequently, the propriety of the expenditure of Kshs.5,887,000 for the expansion of the seed drier for the year ended 30 June 2015 could not be confirmed.

8.0 Payments for Hotel Services

Included in the group statements of financial position under property, plant and equipment figure of Kshs 1,979,249,000 for the year ended 30 June 2015 was work in progress cost or valuation figure of Kshs 123,468,000 out of which an amount of Kshs.6,840,886 was paid to two hotels for catering services rendered to Kenya Seed Software Consultants and reflected in the financial statements as part of work in progress relating to installation of SAP and AMS software.

However, it is not clear and the management has not explained the procurement procedures followed in the process of acquiring the services, since the amounts involved were within the threshold of open tender. Further, cash totalling Kshs.6,840,886 was paid on the basis of cash receipts from the hotels, through an imprest drawn in the name of the two hotels contrary to the requirements of Section 5.6.1 of the Government Financial Regulations and Procedures which require that, an imprest authorized by the accounting officers to be issued to officers who in the course of their duty are required to make payments which cannot be conveniently be made through the cash office of their department. Further, Section 17.3.1 requires all

procurement of goods and services, including construction works, to be made through open competitive tenders or quotations which are subject to approval by the appropriate tender board before orders are placed.

Consequently, the management breached the law and the propriety of an expenditure of Kshs 6,840,886 paid for the hotel services for the year ended 30 June 2015 could not be confirmed.

9.0 Trade and Other Receivables.

9.1 Customers Supplied with Certified Seeds on Credit.

Included in the group statements of financial position under current assets figure of Kshs.6,402,181,000 is trade and other receivables figure of Kshs.664,492,000 out of which an amount of Kshs.278, 959,774 relates to customers who were supplied with certified seeds on credit. However, as at 30 June 2015 the amount had not been recovered/repaid. This amount comprises Kshs.210,777,753 which had remained outstanding for more than one year while Kshs.68,182,021 was incurred in the year under review.

9.2 Trade Export Accounts Receivable

Included in the group statements of financial position under current assets figure of Kshs.6,402,181,000 is trade and other receivables figure of Kshs.664,492,000 which include an amount of Kshs.122,940,099 relating to trade export out of which Kshs.65,283,821 was in respect of amounts owed by the Ministry of Agriculture Rwanda. No information was provided for audit review to confirm what the debt constitute and when it was incurred. It was also not clear what strategy the Company intended to adopt to make recoveries from the Government of Rwanda. Further, details such as aging analysis and particulars of invoices outstanding were also not provided.

9.3 Staff Receivables

Included in the group statements of financial position under current assets figure of Kshs.6,402,181,000 for the year ended 30 June 2015 is trade and other receivables figure of Kshs.664,492,000 out of which an amount of Kshs77, 121,209 relates to staff receivables under categories of staff advances and stock shortages charged on staff. The advances were however noted to be long overdue with some dating back to the year 2009.

In the circumstances, it has not been possible to confirm whether the group trade and other receivable balance of Kshs.664,492,000 is fairly stated as at 30 June 2015.

10.0 Amounts Due from Subsidiaries

Note 24(b) to the financial statements reflects amounts due from subsidiaries totaling to Kshs.796,497,000 which relate to advances given by the parent company to its subsidiaries. However, the documentary evidence such as ageing analysis of debts, statements and invoices were not provided for audit review as shown below:-

Subsidiary	Amount (Kshs)
Simlaw Seeds Company Limited – Kenya	522,694,000.00
Kibo Seed Company Limited-Tanzania	230,595,000.00
MT.Elgon Seed Company	123,463,000.00
Simlaw Seed Company Uganda Ltd	32,126,000.00
Total	908,878,000.00
Provisions for Mt Elgon Seed Company Ltd	(112,381,000.00)
Total	796,497,000.00

In the circumstances, the validity, accuracy and completeness of the amounts due from Subsidiaries totalling Kshs.796,497,000 as at 30 June 2015 could not be confirmed.

11.0 Dues from Parastatal and Other Government Controlled Organization

Included in the group statements of financial position under current assets figure of Kshs.6,402,181,000 is Kshs.1,107,467,000 in respect of amounts due from parastatal and other government controlled organizations. However, the management failed to provide for audit review the schedules showing the aging analysis to ascertain the recoverability of the amounts due.

In the circumstances, it has not been possible to confirm whether the amount due from parastatal and other government organization balance of Kshs.1,107,467,000 is fairly stated as at 30 June 2015.

12.0 Un-receipted Revenue

Note 4 to the group financial statements reflects revenue figure of Kshs.5,472,101,000 for the year ended 30 June 2015. However, customer payments to the Company amounting to Kshs.351,155,742.17 out of a total of Kshs.5,472,101,000 were un receipted from the records extracted from the Sage Accounting System as detailed below:-

Customer	Name	Order No.	Invoice No.	Value	Date	Receipt No.
0260520	Ouro Super Stores	398136A	OP/1779483	62,810,126.00	10/6/2015	
EP0S20	Narok Seedshop Till 20	376559A	OP/1782712	60,130,594.00	29/6/2015	
S310156	Solomon Otido Advance	491555	OP/1782878	59,103,398.00	30/6/2015	
B310079	Ben Biwott Advance	491554	OP/1782866	54,579,512.00	30/6/2015	
K270982	KSC Kapsabet Store	369138K	OP/1782718	34,253,200.00	29/6/2015	
N240021	Ngongongeri Farm	353459NP	OP/1782036	31,391,780.00	24/6/2015	
V360697	Vivienne Ronoh	394532A	OP/1782628	28,649,805.00	9/6/2015	
M270913	Misc Cash sales A/C	400049	OP/1684076	4,683,600.00	26/9/2014	
G254562	Gicheha Farm	PV131	OP/1753521	3,821,472.00	8/4/2015	
T262035	Turbo General Hardware	325174A	OP/1773327	3,595,016.00	6/5/2015	
K280902	Kibo Seed Company Ltd (Debtor)	408773B	OP/1780750	3,236,075.00	17/6/2015	
C360098	EDF Cash Sale A/C	484394	OP/1772491	2,321,390.10	29/4/2015	
R270983	KSC Rwanda Store	808440A	OP/1783106	2,094,159.17	30/6/2015	
K256136	Kabarak University	345171	OP/1781479	465,149.90	22/6/2015	
K260281	Kiletien Agro-Vet	399325	OP/1681955	17,065.00	19/9/2014	
S257095	Solomon Kaimoi Kimosop	4733	OP/1679883	3,400.00	11/9/2014	
TOTAL				351,155,742.17		

Consequently, the propriety of the unreceipted figure of Kshs.351,155,742.17 could not be confirmed for the year ended 30 June 2015.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of Kenya Seed Company Limited and its subsidiaries as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance

with International Financial Reporting Standards and does not comply with the Kenyan Companies Act.

Emphasis of Matter

1.0 Company Ownership

I draw your attention to Note 1 to the financial statements which indicates that there is a dispute regarding ownership of the Company. A suit was filed in court in 2005 by the Agricultural Development Corporation, being the major shareholders of the Company against the former Company's directors. The matter is still in court pending determination.

2.0 Provision for Obsolete Stocks

Note 25 to the financial statements reflect inventories figure of Kshs.4,355,896,000 out of which an amount of Kshs.224,433,000 (Kshs.217,367,000 in 2013/2014) relates to provision for obsolete stocks for the year ended 30 June 2015. The movement reflect obsolete stock increase of Kshs.7,066,000 between 2013/2014 and 2014/2015 financial years. However, no explanation was provided by the management for such a high level of obsolete stocks. Consequently, the public may not have received the value for money due to high levels of obsolete stocks.

3.0 Accrued Leave Pay

Note 30 to the financial statements reflects trade and other payables figure of Kshs.765,476,000 out of which Kshs.21,465,000 relates to accrued leave pay for the year ended 30 June 2015. Audit review of staff leave accrual records revealed that members of staffs rarely go on leave. No information was availed for the anomaly.

4.0 Going Concern Status of Subsidiary Companies

As disclosed in note 2 to the financial statements, the Company's subsidiary – Kibo Seed Company Limited (Tanzania) has a net current liability of Kshs.104 million and accumulated losses of Kshs.89 million; Mount Elgon Seed Company limited (Uganda) has a net liability of Kshs.145 million; Simlaw Seeds Company Uganda Limited has a net liability of Kshs.51 million as at 30 June 2015 while Simlaw Seeds Company Tanzania has continued to make losses which has accumulated to Kshs.0.72 million as at 30 June 2015.

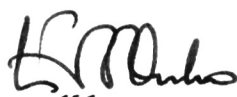
The continued operation of these subsidiaries as going concern is thus dependent upon continued financial support from the parent Company, creditors and their bankers.

My opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit, that:-

- i. I have not 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, proper books of account have not been kept by the group and Company, so far as appears from examination of those books; and
- iii. The group and the Company's statement of financial position is not in agreement with the books of account.



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

Nairobi

28 September 2016

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

		Group		Company	
	Notes	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
Revenue	4	5,472,101	5,992,711	4,602,233	5,022,982
Cost of sales	5	(3,443,860)	(3,795,710)	(2,944,680)	(3,184,589)
Gross profit		2,028,240	2,197,001	1,657,552	1,838,393
Other income	6	272,241	231,895	254,180	220,080
Fair value gain on biological assets	23(c)	8,638	20,290	8,706	20,151
		<u>2,309,120</u>	<u>2,449,186</u>	<u>1,920,439</u>	<u>2,078,624</u>
EXPENSES					
Operating expenses	7	(892,982)	(921,439)	(668,079)	(690,899)
Administration expenses	8	(337,632)	(478,389)	(240,648)	(424,937)
Selling and distribution expenses	9	(262,310)	(255,873)	(196,560)	(187,352)
Research and development costs	10	(69,938)	(83,912)	(67,801)	(75,961)
Other costs	11	(137,410)	(108,044)	(137,410)	(108,044)
TOTAL EXPENSES		(1,700,272)	(1,847,657)	(1,310,499)	(1,487,193)
OPERATING PROFIT		608,847	601,529	609,940	591,431
Finance cost	13 (a)	(220,174)	(150,693)	(175,483)	(147,496)
Finance income	13 (b)	(11)	-	-	-
Profit before taxation		388,662	450,836	434,458	443,935
Taxation charge	14 (a)	(160,935)	(149,301)	(143,246)	(154,482)
Profit for the year		227,727	301,535	291,211	289,453
Profit attributable to:					
Owners of the parent company		<u>227,727</u>	<u>301,535</u>	<u>291,211</u>	<u>289,453</u>
Earnings per share attributable to:					
Basic (KShs per share)	15	<u>21.12</u>	<u>27.97</u>	<u>27.01</u>	<u>26.85</u>
Profit for the year		227,727	301,535	291,211	289,453
Other comprehensive income:-					
Exchange differences on translating foreign operations		(30,240)	(6,959)	-	-
Income tax effect		9,072	2,088	-	-
Revaluation overprovision		-	-	-	-
Income tax effect		-	-	-	-
Total comprehensive income		206,559	296,664	291,211	289,453
Attributable to:					
Owners of the parent		<u>206,559</u>	<u>296,664</u>	<u>291,211</u>	<u>289,453</u>

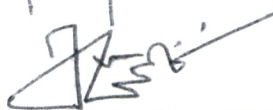
KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2015

		Group		Company	
		2015	2014	2015	2014
	Notes	KShs '000	KShs '000	KShs '000	KShs '000
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,979,249	1,887,366	1,800,633	1,818,284
Prepaid operating lease rentals	18	138,183	135,032	138,183	135,032
Intangible assets	19	7,588	8,297	7,981	5,677
Investment in subsidiaries	20	-	-	55,696	55,696
Deferred tax asset	28 (b)	11,330	19,863	-	-
Available-for-sale Investments	21	-	-	-	-
Staff receivables	22	9,733	-	6,896	-
Bearer biological assets	23 (a)	116,793	115,576	116,793	115,576
Loan capital to subsidiaries	24 (a)	-	-	194,566	194,566
		<u>2,262,876</u>	<u>2,166,134</u>	<u>2,320,750</u>	<u>2,324,831</u>
Current assets					
Consumable biological assets	23 (b)	36,678	130,043	36,528	129,808
Inventories	25	4,355,896	3,647,917	3,492,938	2,833,470
Trade and other receivables	26	664,492	571,444	420,289	393,483
Amounts due from subsidiaries	24 (b)	-	-	796,497	716,041
Due from parastatal and other government controlled organization	24 (c)	1,107,467	1,408,049	1,073,484	1,406,933
Investment in FDR	33	56,762	53,678	56,762	53,678
Cash and cash equivalents	33	180,886	367,238	98,428	170,844
		<u>6,402,181</u>	<u>6,178,369</u>	<u>5,974,927</u>	<u>5,704,257</u>
Total assets		<u>8,665,057</u>	<u>8,344,503</u>	<u>8,295,677</u>	<u>8,029,088</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	27	215,625	215,625	215,625	215,625
Share premium	27	281	281	281	281
Revaluation surplus		725,993	859,817	835,247	835,248
Translation reserve		(32,257)	(11,089)	-	-
Retained earnings		5,411,720	5,078,834	5,172,701	4,956,274
		<u>6,321,362</u>	<u>6,143,468</u>	<u>6,223,855</u>	<u>6,007,428</u>
Non-current liabilities					
Deferred tax liability	28 (c)	393,644	453,845	393,644	453,845
Amounts due to directors	24 (d)	11,213	1,124	11,213	1,124
		<u>404,856</u>	<u>454,969</u>	<u>404,856</u>	<u>454,969</u>

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2015

	Notes	Group		Company	
		2015	2014	2015	2014
		KShs '000	KShs '000	KShs '000	KShs '000
Current liabilities					
Amounts due to directors	24 (d)	-	8,438	-	8,438
Bank overdraft	33	1,079,144	1,222,325	1,079,144	1,222,275
Due to parastatal and other government controlled organisation	24 (e)	17,661	33,466	17,661	33,466
Tax recoverable	14 (c)	24,100	-	67,911	-
Employee benefits obligations	29	44,691	33,102	43,108	27,210
Trade and other payables	30	765,476	429,403	451,374	203,416
Unclaimed dividends	31	7,768	3,377	7,768	3,377
Tax payable	14 (c)	-	15,955	-	68,509
		<u>1,938,839</u>	<u>1,746,066</u>	<u>1,666,966</u>	<u>1,566,691</u>
Total equity and liabilities		<u>8,665,057</u>	<u>8,344,503</u>	<u>8,295,677</u>	<u>8,029,088</u>

The financial statements and the notes on pages 45 to 110 were approved by the Board of Directors on 30/5/2016 and signed on its behalf by:


.....
Director


.....
Director

KENYA SEED COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Share capital KShs '000	Share premium KShs '000	Revaluation Reserve KShs '000	Translation Deficit KShs '000	Retained Earnings KShs '000	Total KShs '000
Year ended 30 June 2014						
As at 1 July 2013	215,625	281	987,882	(6,218)	4,923,709	6,121,279
Total comprehensive income for the year	-	-	-	(4,871)	301,535	296,664
Prior year adjustment	-	-	-	-	(23,810)	(23,810)
Transfer of excess depreciation	-	-	(182,950)	-	182,950	-
Deferred tax on the excess depreciation	-	-	54,885	-	(54,885)	-
Interim and final dividend paid for year 2003/2004 to 2010/2011	-	-	-	-	(194,063)	(194,063)
Interim dividend proposed - 2012/2014	-	-	-	-	(56,602)	(56,602)
As at 30 June 2014	<u>215,625</u>	<u>281</u>	<u>859,817</u>	<u>(11,089)</u>	<u>5,078,834</u>	<u>6,143,468</u>
Year ended 30 June 2015						
As at 1 July 2014	215,625	281	859,817	(11,089)	5,078,834	6,143,468
Total comprehensive income for the year	-	-	-	(21,168)	227,727	214,939
Prior year adjustment	-	-	(772)	-	79,614	78,842
Transfer of excess depreciation	-	-	(202,046)	-	202,046	-
Deferred tax on the excess depreciation	-	-	60,614	-	(60,614)	-
Profit for the year	-	-	8,380	-	(115,888)	(115,888)
Interim dividend proposed - 2012/2014	-	-	-	-	-	-
As at 30 June 2015	<u>215,625</u>	<u>281</u>	<u>725,993</u>	<u>(32,257)</u>	<u>5,411,720</u>	<u>6,321,362</u>

KENYA SEED COMPANY LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Share Capital KShs '000	Share Premium KShs '000	Revaluation Reserve KShs '000	Retained earnings KShs '000	Total KShs '000
Year ended 30 June 2014					
As at 1 July 2013	215,625	281	963,313	4,789,421	5,968,640
Total comprehensive income for the year	-	-	-	289,453	289,453
Transfer of excess depreciation	-	-	(182,950)	182,950	-
Deferred tax on the excess depreciation	-	-	54,885	(54,885)	-
Final dividend paid for years 2003/2004 to 2010/2011	-	-	-	(194,063)	(194,063)
Interim and final dividend paid 2011/2012	-	-	-	(56,602)	(56,602)
As at 30 July 2014	<u>215,625</u>	<u>281</u>	<u>835,248</u>	<u>4,956,274</u>	<u>6,007,428</u>

Year ended 30 June 2015

As at 1 July 2014	215,625	281	835,248	4,956,274	6,007,428
Total comprehensive income for the year	-	-	-	291,211	291,211
Transfer of excess depreciation	-	-	(202,046)	202,046	-
Deferred tax on the excess depreciation	-	-	60,614	(60,614)	-
Final dividend paid for years 2003/2004 to 2010/2011	-	-	-	(115,888)	(115,888)
As at 30 July 2015	<u>215,625</u>	<u>281</u>	<u>693,816</u>	<u>5,314,133</u>	<u>6,223,855</u>

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

		Group		Company	
	Notes	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
OPERATING ACTIVITIES:					
Profit before taxation		388,662	450,836	434,458	443,935
Adjustment for:-					
Depreciation and amortization		284,665	299,605	263,144	277,514
Gain on disposal of Assets		(3,625)		(3,625)	
Finance costs		-	150,693	-	147,496
		669,702	901,134	693,977	868,945
Changes in working capital:-					
Inventories		(613,027)	356,250	(567,405)	378,759
Trade and other receivables		(112,627)	(87,238)	(33,703)	(59,815)
Trade and other payables		451,655	(92,504)	268,845	(186,946)
Amounts due from/to parastatals		317,644	(778,966)	317,644	(796,270)
Amounts due from/to directors		(1,651)	1,470	(1,651)	1,470
Amounts due from/to related parties		(93,400)	-	(80,457)	(35,296)
Cash flows used in operations		618,298	300,146	597,251	170,847
Finance costs		(175,483)	(150,693)	(175,483)	(147,496)
Finance income		-	-	-	-
Tax paid		(208,562)	(47,585)	(205,494)	(46,092)
Net cash flows used in operating activities		234,253	(101,868)	216,274	(22,741)
INVESTING ACTIVITIES:					
Purchase of property, plant and equipment		(335,598)	(60,548)	(205,233)	(51,583)
Purchase of prepaid operating lease rentals		(975)	(6,930)	(975)	(6,930)
Purchase of intangible assets		(5,695)	(2,314)	(5,695)	(2,132)
Interest on FDR		(3,084)	-	(3,084)	-
Disposal proceeds from sale of assets		11,954	5,163	11,954	5,163
Net cash flows from investing activities		(333,399)	(64,629)	(203,034)	(55,482)
FINANCING ACTIVITIES:					
Dividends paid		(115,888)	(250,665)	(115,888)	(250,665)
Loan movement		183,651	9,130	183,651	-
		67,763	(241,535)	67,763	(250,665)
Cash and cash equivalents:					
Movement during the year		(31,383)	(204,296)	81,003	(328,888)
Effect of foreign exchange changes		(8,702)	(33,560)	(7,203)	(45,403)
As at 1 July		(801,409)	(563,553)	(997,753)	(623,462)
As at 30 June	33	(841,495)	(801,409)	(923,953)	(997,753)

1. 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 years presented, unless otherwise stated.

a) Reporting entity

Kenya Seed Company Limited is a private liability company incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The company has a number of subsidiaries in Kenya, Uganda and Tanzania (together referred to as "the Group"). The registered office is as shown on page 1.

b) Presentation of financial statements

The consolidated financial statements have been prepared in accordance with, and comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), and the manner required by the Kenyan Companies Act.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates as detailed in note 1(d) below. It also requires management to exercise its judgment in the process of applying the company's accounting policies.

These accounting policies are consistent with the previous period.

c) Consolidation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the group and all its subsidiaries which are controlled by the company as at 30 June 2015. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognized separately from the group's interest therein, and are recognized within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognized for non-controlling interest.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Consolidation (continued)

Basis of consolidation (continued)

Transactions which result in changes in ownership levels, where the group has control of the subsidiary both before and after the transaction are regarded as equity transaction and are recognized directly in the statement of changes in equity.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary. It also derecognizes the carrying amount of any non-controlling interest and the cumulative translation differences, recorded in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognized in equity attributable to the owners of the parent.

Where a subsidiary is disposed off and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognized in profit or loss as part of the gain or loss on disposal of the controlling interest.

d) Critical judgments and sources of estimation uncertainty

In preparing the financial statements conformity with International Financial Reporting Standards, management (representing directors) is required to make certain critical accounting estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. It also requires directors to exercise their judgment in the process of applying the Group's accounting policies.

Use of available information and the application of judgment is inherent in the formation of estimates. Although these estimates are based on directors' best knowledge of current events and actions they may undertake in the future, actual results in the future could differ from these estimates which may be material to the financial statements. In particular, critical judgments applied include:

- Trade receivables, held to maturity investments and loans and other receivables;
- Available - for - sale assets;
- Taxation;
- Valuation of biological assets – detailed in Note 23;
- Estimation of useful lives of property, plant and equipment, prepaid operating lease rentals and intangible assets; Notes 1(f); 1(g); and 1(h).
- Determination of revalued amounts of property, plant and equipment; Notes 1(f) and 17.

Where applicable, the directors consulted experts to determine accounting estimates that require special or technical knowledge and experience.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) **Critical judgments and sources of estimation uncertainty (continued)**

Trade receivables, held to maturity investments and loans and other receivables

The Group assesses its trade receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows of a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Available - for - sale assets

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment.

In making this judgment, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financial cash flow.

Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognizes liabilities for anticipated tax issues based on the estimates of whether additional taxes will be due. Where the final tax and outcome of matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in which such determination are made.

The group recognizes the net future tax benefit related to deferred income tax asset to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets require the group to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and applications of existing tax laws. To the extent that the future cash flow and taxable income differ significantly from estimates, the ability of the group to realize the net deferred tax assets recorded at the statement of financial position date could be impacted.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Revenue recognition

- i) Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable and represents the value of goods invoiced to customers during the year less discounts allowed to customers, sales returns and Value Added Tax.

- Revenue from sale of goods is recognized when the group has transferred to the buyers the significant risks and rewards incidental to the ownership of the goods; and
- Interest income is recognized on time basis, using the effective interest method. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to that asset's net carrying amount.

- ii) Other income is recognized on an accrual basis. It mainly relates interest on growers' advances, sale of chemicals, fertilizers, rental income and gain on disposal on assets.

f) Property, plant and equipment

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

- i) Buildings, warehouses, godowns and houses – based on the Depreciated Replacement Cost taking into account the age of the building and the cost of replacing the same. The existing use was also considered since the buildings are part and parcel of the production process.

- ii) Machinery

The valuation analysis took into account the following factors:

- Cost of the machines;
- Existing use;
- Depreciation;
- Appreciation of the same in value (inflation);
- Functionability; and
- Cost of assembly of the various machines to make it a plant.

- iii) Other assets – based on their fair market values

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Property, plant and equipment (Continued)

iii) Other assets – based on their fair market values

Increases in the carrying amounts of property, plant and equipment resulting from revaluations are credited to the revaluation surplus, except to the extent that they represent a reversal of a decrease in the value of an 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. Decreases 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 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 are determined as the difference between the net sales proceeds and the carrying amount of the asset at the time of sale and are recognized in the profit or loss in the year in which the sale occurred.

iv) Depreciation

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

• Industrial and residential buildings	5%
• Farm works	5%
• Plant and machinery	10%
• Tractors, trailers and forklifts	10%
• Furniture and equipment	20%
• Motor vehicles	25%
• Computers	33.33%

Freehold land is not depreciated.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the 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 profit or loss on a straight line basis over the term of the relevant lease.

Assets held under finance leases are recognized as assets of the Group at the lower of the fair value of the leased asset and the present value of the minimum lease payments determined as the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease liability to income statement over the lease term so as to produce constant annual rate of charge on the remaining balance of the obligations for each accounting year.

h) Intangible assets

Intangible assets represent computer software and are stated at their historical cost less accumulated amortization and any accumulated impairment losses.

Amortization is calculated to write off the cost of computer software on a 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 any changes in the market, economic and industry trends.

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) **Investment in subsidiaries**

The investments in subsidiaries are stated at their acquisition cost less any accumulated impairment losses in the separate (company) annual financial statements.

j) **Biological assets**

Living plants and animals with probable future economic benefits which are owned and controlled by the Group are accounted for as biological assets. Biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. They are subsequently measured at lower of cost and net realizable value in accordance with IAS 2 once harvested.

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 at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate. The fair value of the Group'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 Group classifies its biological assets as follows:

i) *Consumable biological assets*

Consumable biological assets are those that are to be harvested as agricultural produce or to be sold as biological assets. These are seasonal crops grown by the Group i.e. maize, wheat, sunflower, pasture, millet, oats and vegetables.

ii) *Bearer biological assets*

Other biological assets are classified as bearer biological assets.

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

j) **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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Impairment of non-financial assets

At each reporting date, the Group 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 relevant asset's recoverable amount is estimated in order to determine the extent of the impairment loss. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease in revaluation.

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

Recoverable amount is the higher of fair value less selling costs, and value in use. 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.

l) Financial instruments

Financial instruments are recognized in the Group financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, the financial instruments are measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

For the purpose of financial reporting, the financial instruments are classified into the following four categories:

- Financial instruments at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables;
- Available-for-sale financial assets; and,
- Financial liabilities at amortized cost.

i) Financial instruments at fair value through profit or loss

A financial instrument at fair value through profit or loss is a financial asset or financial liability that is classified as held for trading or is designated as at fair value through profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

ii) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments in an active market that an entity has the positive intention and ability to hold to maturity.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

iv) Available for sale financial instruments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments (c) or financial assets at fair value through profit or loss.

The Group's principal financial instruments include unquoted equity investments, government securities, trade and other receivables, bank and cash balances and trade and other payables.

iv) Financial liabilities at amortized cost

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

Unquoted equity instruments

Investments in shares of other enterprises that give the Group a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Unquoted investments are reported at their acquisition costs, less any accumulated impairment losses since their fair values cannot be reliably determined. All equity investments are classified as available for sale investments.

Trade and other receivables

Trade receivables are carried at amortized cost less impairment. An estimate made for bad and doubtful receivables based on a review of all outstanding amounts, on an account by account basis, at the year end.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

Trade and other receivables (Continued)

Bad debts are written off in the year in which they are identified as irrecoverable. Trade and other receivables falls under the category loans and receivables.

Government securities

The Group's investments in government securities such as treasury bills are classified as held to maturity investments and are carried at amortized cost using the effective interest method less impairment.

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, treasury bills maturing within three months of the acquisition date and which are subject to an insignificant risk of changes in value, net of any outstanding overdrafts.

Offsetting

Financial assets and liabilities are offset and the net amounts reported on the reporting date when there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Accounts payable

Accounts payable are non interest bearing financial liabilities and are carried at amortized cost, which is measured at the fair or contractual value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed to the Group or not, less any payments made to the suppliers.

Gains and losses

Gains or losses on revaluation of financial assets and financial liabilities carried at fair value are dealt with as follows:

- For financial assets and financial liabilities classified as fair value through profit or loss, the gains or losses are recognized through the income statement;
- For financial assets and financial liabilities classified as available for sale, the gains or losses are recognized directly through equity. However, impairment losses and foreign exchange differences, if any, are dealt with through the income statement; and,
- For financial assets and financial liabilities carried at amortized cost, gains or losses are recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

Impairment and uncollectibility of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is written down through use of an allowance account. The amount of the loss is recognized through the profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

When there is a decline in the fair value of an available-for-sale financial asset whose fair value gains and losses have been accumulated in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been accumulated in equity is removed from equity and recycled from other comprehensive income into the profit or loss even though the financial asset has not been derecognized.

Impairment losses recognized in the income statement for an investment in an equity instrument classified as available for sale are not reversed in the profit or loss. Increases are recognized in other comprehensive income.

De-recognition

Financial assets (or a portion thereof) are de-recognized when the Group rights to the cash flows expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the Group loses control of the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

De-recognition (Continued)

Financial liabilities (or a portion thereof) are de-recognized when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortized costs and amounts paid for it, are included in the statement of comprehensive income.

n) Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

o) Foreign operations

The subsidiary companies operating in Tanzania and Uganda are classified as foreign entities since their operations are carried out with significant level of autonomy. In translating the financial statements of the subsidiary companies;

- i) The assets and liabilities, both monetary and non monetary are translated at the closing rate;
- ii) Transactions of the subsidiaries for the year are translated at the average exchange rates ruling in the year; and,
- iii) All the resulting exchange differences are recognized in other comprehensive income and accumulated in the translation reserve in equity until the disposal of the net investment. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the profit or loss.

p) Provisions

Provisions for liabilities are recognized when there is a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Loan capital to subsidiaries

The loan capital relates to amounts advanced to the subsidiaries to help start operations. The directors resolved that the loans should be treated as loan capital as they will be used to increase the share capital of the parent company in the subsidiaries.

r) Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

s) Employee benefits

(i) Defined benefits scheme

The Group operated a defined benefits pension scheme for its employees in Kenya Seed Company Limited and Simlaw Seeds Company Limited. The scheme was administered independently by Aon Minet Insurance Brokers Limited and was funded by contributions from both the Group companies and employees at rates which were determined every three years by certified actuaries. The employer contributed 15% while the employee contributed 10% of the employee's basic pay to the scheme. The scheme's funds were managed by Old Mutual Asset Managers (Kenya) Limited.

The scheme was subjected to valuations by independent actuaries once every three years to fulfill the requirements under the scheme rules and the requirements of the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Act, 1997. The actuarial valuation method adopted entailed the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The company's obligations to all staff retirement benefits schemes are charged to the profit or loss as they fall due.

Gains and losses on the actuarial valuation were dealt with in the statement of comprehensive income.

(i) Defined contribution scheme

The Group also contributes to the statutory National Social Security Funds (NSSF) in Kenya, Uganda and Tanzania. Contributions to the NSSF are determined by local statutes.

The Group's contributions to the retirement benefit schemes are charged to the profit or loss in the year to which they relate.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Employee benefits (Continued)

(ii) *Accrued leave pay*

Employee entitlements to annual leave are recognized 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.

(iii) *Gratuity*

Entitlements to gratuity are recognized when they accrue to qualifying employees and directors. A provision is made for the estimated annual gratuity as a result of services rendered by employees and directors up to the reporting date.

t) Contingent liabilities

Contingent liabilities arise if there is a possible obligation; 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.

u) Taxes

Current Tax

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 recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the income statement.

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 realized 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 recognized directly in other comprehensive income or equity is recognized in equity and not in the profit or loss.

Deferred tax liabilities are recognized 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 recognized 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 utilized 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;
- 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 associates and interests in joint ventures, deferred tax assets are recognised only to the extent a 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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered; and,
- 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.

u) Segmental reporting

Segment result is segment revenue less segment expenses.

Segment revenue is the revenue that is directly attributable to a segment plus the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis. Segment revenue excludes finance income.

Segment expenses are expenses resulting from the operating activities of a segment plus the relevant portion of an expense that can be allocated to the segment on a reasonable basis. Segment expenses exclude finance costs and income taxes.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

v) Segmental reporting (Continued)

Segment assets and segment liabilities exclude income tax assets and income tax liabilities respectively.

Capital expenditure represents the total cost incurred during the year to acquire segment assets (property, plant and equipment) that are expected to be used during more than one year.

w) New Standards and Interpretations

- i) *New and amended standards and interpretations*

The group applied, for the first time, certain standards and amendments in 2015 financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement. These standard and amendments do not impact the annual consolidated financial statements of the group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standards and amendments is described below:

IFRS 10, Consolidated Financial Statements

Standard replaces the consolidation sections of IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The standard sets out a new definition of control, which exists only when an entity is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to effect those returns through power over the investee.

The effective date of the standard is for years beginning on or after January 01, 2014. The Group adopted the standard for the first time in the 2015 financial statements. The standard does not have a material impact on the Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The effective date of the standard is for years beginning on or after January 01, 2014.

The group adopted the standard for the first time in the 2015 financial statements. The standard does not have a material impact on the Group's financial statements.

IFRS 13 Fair Value Measurement

New standard setting out guidance on the measurement and disclosure of items measured at fair value or required to be disclosed at fair value in terms of other IFRS's.

The effective date of the standard is for years beginning on or after January 01, 2014. The Group adopted the standard for the first time in the 2015 financial statements. The standard does not have a material impact on the Group's financial statements.

ii) Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group has chosen not to early adopt the these standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after January 01, 2015 or later periods. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

This new standard was issued as part of a three phase project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. To date, the Standard includes chapters for classification, measurement and derecognition of financial assets and liabilities. The following are the main changes from IAS 39:

- Financial assets will be categorized as those subsequently measured at fair value or at amortized cost.

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- Financial assets at amortized cost are those financial assets where the business model for managing the assets is to hold the assets to collect contractual cash flows (where the contractual cash flows represent payments of principal and interest only). All other financial assets are to be subsequently measured at fair value.
- Under certain circumstances, financial assets may be designated as at fair value
- For hybrid contracts, where the host contract is an asset within the scope of IFRS 9, then the whole instrument is classified in accordance with IFRS 9, without separation of the embedded derivative. In other circumstances, the provisions of IAS 39 still apply.
- Voluntary reclassification of financial assets is prohibited. Financial assets shall be reclassified if the entity changes its business model for the management of financial assets. In such circumstances, reclassification takes place prospectively from the beginning of the first reporting period after the date of change of the business model.
- Financial liabilities shall not be reclassified.
- Investments in equity instruments may be measured at fair value through other comprehensive income. When such an election is made, it may not subsequently be revoked, and gains or losses accumulated in equity are not recycled to profit or loss on derecognition of the investment. The election may be made per individual investment.
- IFRS 9 does not allow for investments in equity instruments to be measured at cost.
- The classification categories for financial liabilities remain unchanged. However, where a financial liability is designated as at fair value through profit or loss, the change in fair value attributable to changes in the liabilities credit risk shall be presented in other comprehensive income. This excludes situations where such presentation will create or enlarge an accounting mismatch, in which case, the full fair value adjustment shall be recognized in profit or loss.

ii) *Standards and interpretations issued but not yet effective (Continued)*

IFRS 9 Financial Instruments (Continued)

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 2014, 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 2015.

In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets, but will not have an impact on classification and measurements of the group's financial liabilities. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. It is unlikely that the standard will have a material impact on the group's financial statements.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2015 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. It is unlikely that the standard will have a material impact on the group's financial statements.

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" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2015. These amendments are not expected to be relevant to the group.

1. OWNERSHIP OF KENYA SEED COMPANY LIMITED

Kenya Seed Company Limited was incorporated as a limited company under the Kenyan Companies Act, Chapter 486 of the Laws of Kenya on 2 July 1956 and its subscribers were private individuals. In 1960, it was converted to a public limited liability company. Until the year 2002, the Company was a 52.88% subsidiary of Agricultural Development Corporation (ADC), which is wholly owned by the Government of Kenya.

During the year 2002, the Company increased the authorized share capital from 11 million to 20 million ordinary shares of KShs 20 each. Subsequently, the Company issued 3,370,000 shares following a board resolution. By December 2003, the company had issued 14,151,265 shares, resulting in a dilution of ADC shareholding to 40%.

Following this, Agricultural Development Corporation (ADC) filed a suit in the High Court of Kenya (Case reference number 575 of 2005) seeking various declarations to stop the issue of 3,370,000 ordinary shares and to restore the Company's original memorandum and articles of association. This case has not yet been decided.

In addition, by Kenya Gazette notices No. 976/2003 and 3/2005, the Minister for Agriculture invoked his powers under section 6(1) of the Kenya State Corporations Act and appointed a new management team to take over from the existing management and declared the 3,370,000 shares issued as void. The former company management and some seed growers, moved to court on 31 December 2003 seeking judicial review for orders of Certiorari, mandamus and prohibition.

The court ruling was delivered on 6 April 2006 in which the application by the former management and seed growers was dismissed with costs. Subsequently, the former management and seed growers filed a case at the Court of Appeal on 30 June 2006 requesting the court to quash the High Court ruling. The case was ruled upon on 10 December 2010 and the net result of the decision was that the appeal must fail. The court of appeal ordered that it be dismissed and the ex parte appellants bear two thirds of the costs in the court of appeal and in the courts above.

2. GOING CONCERN STATUS OF THE SUBSIDIARY COMPANIES

Kibo Seed Company Limited has a net current liability position of KShs 104 million as at 30 June 2015 (2014: KShs 21.37 million). The company made a loss of KShs 79 million for the year ended 30 June 2015 resulting to accumulated and accumulated losses of KShs 89 million as at 30 June 2015 (2014: KShs 8.5 million) and is heavily dependent upon its parent company for financing. This casts doubt about the company's ability to continue as a "going concern." However, the parent company has committed to continue providing financial support necessary to ensure that the company meets its financial requirements and they will not call the amount they are owed in the foreseeable future in a manner that will affect the operations of the company.

Mount Elgon Seed Company limited is technically insolvent. It has a net liability position of KShs 145 million as at 30 June 2015 (2014: KShs 145 million). The company made a loss of KShs 1.2 million for the year ended 30 June 2015 (2014: KShs 0.16 million). This casts doubt about the company's ability to continue as a "going concern." In view of the above circumstances, company directors after considering the advice of management and independent valuers decided to cease trading with effect from 30 June 2012. As stipulated in their resolution ratified on 26 September 2012, the Board of Directors confirmed that they will not commence the winding up process of the company in the foreseeable future and that the company will remain dormant since 30 June 2012. The directors have presented the assets and liabilities at the amounts expected to be realized and settled respectively.

Simlaw Seeds Company Uganda Limited is technically insolvent. It has a net liability position of KShs 60 million as at 30 June 2015 (2014: KShs 37.48 million). The company made a loss of KShs 12 million for the year ended 30 June 2015 (2014: KShs 1.68 million) and is heavily dependent upon its parent company for financing. This casts doubt about the Company's ability to continue as a "going concern." However, the parent company has committed to continue providing financial support necessary to ensure that the company meets its financial requirements and they will not call the amount they are owed in the foreseeable future in a manner that will affect the operations of the company.

Simlaw Seeds Company Tanzania was incorporated in April 2014. The parent company injected KShs 28.6 million to start operations.

Minimal transactions were done to the year ended 30 June 2015. The company has made losses in the three periods in operation totaling to accumulated losses of KShs 0.72 million as at 30 June 2015 (2014: KShs 0.57 million).

The subsidiary companies rely on the parent company and other related companies for provision of working capital. These companies' ability to continue as going concerns depend on the continued support they receive from the parent company and other related companies. The parent company and other related companies have undertaken not to recall the amounts they are owed in the foreseeable future in a manner that will affect the operations of the companies

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	Group		Company	
	2015	2014	2015	2014
4. REVENUE	KShs '000	KShs '000	KShs '000	KShs '000
Income from Maize Seeds	4,007,979	4,437,967	3,992,528	4,361,670
Income from Vegetable Seeds	973,650	907,638	170,868	97,426
Income from Wheat Seeds	305,450	205,582	305,450	205,582
Income from Pasture Seeds	121,084	359,250	93,509	316,550
Income from Other Seeds	61,299	80,282	37,240	39,762
Income from sale of milk	2,638 ⁹	1,992	2,638	1,992
	<u>5,472,101</u>	<u>5,992,711</u>	<u>4,602,233</u>	<u>5,022,982</u>
5. COST OF SALES				
Opening stock	3,647,917	4,044,857	2,833,470	3,252,709
Purchases	3,751,555	3,019,684	2,932,088	2,166,452
Factory overheads	719,046	607,930	672,060	598,898
Less:				
Closing stock	(4,355,896)	(3,647,917)	(3,492,938)	(2,833,470)
Low Germinating Seed	-	(3,593)	-	-
Intra-group purchases	(318,762)	(225,251)	-	-
Cost of goods sold	<u>3,443,860</u>	<u>3,795,710</u>	<u>2,944,680</u>	<u>3,184,589</u>
6. OTHER INCOME				
Bad debts recovered - trade debtors	31,774	46,355	29,929	44,267
Bad debts recovered - related parties	-	-	-	-
Gain on disposal of property, plant and equipment	3,575	1,964	3,575	1,964
Rental income	1,542	1,421	1,542	1,421
Interest on FDR	1,499	8,450	1,499	1,366
Other - interest on growers advances and car loans	17,485	22,254	17,461	22,164
Sale of chemicals and fertilizer	142,523	109,909	142,523	109,909
Sale of gunnies & sundry items	19,833	-	19,833	-
Miscellaneous	54,009	41,542	37,818	38,990
	<u>272,241</u>	<u>231,895</u>	<u>254,180</u>	<u>220,080</u>
7. OPERATING EXPENSES				
(a) EMPLOYMENT COSTS				
Salaries and allowances	404,510	428,602	280,034	301,754
Wages	72,641	88,990	66,032	79,731
Staff welfare	83,259	56,542	58,501	40,962
Leave pay accrual	22,384	21,838	21,027	21,443
Pension scheme contributions	20,891	18,203	13,831	12,705
Staff gratuity accrual	14,731	6,396	10,426	2,643
National Social Security Fund (NSSF)	2,954	1,461	960	1,143
	<u>621,370</u>	<u>622,032</u>	<u>450,810</u>	<u>460,381</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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	Group		Company	
7. OPERATING EXPENSES (CONTINUED)	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
(b) ESTABLISHMENT COSTS				
Depreciation	72,046	79,020	69,473	71,132
Amortization (Note 18)	18,889	26,023	18,276	24,062
Rent and rates	52,568	53,840	26,749	24,248
Power and light	12,637	9,582	10,326	6,839
Repairs and maintenance—buildings	8,255	6,381	2,992	3,700
Water supply	1,216	1,645	1,040	1,281
Other establishment costs	3,868	3,490	2,419	2,852
	<u>169,478</u>	<u>179,981</u>	<u>131,276</u>	<u>134,114</u>
(c) MACHINERY COSTS				
Depreciation	40,084	57,958	35,470	47,887
Fuel and oil costs	33,701	32,829	27,907	28,021
General repairs	28,158	26,279	22,425	18,602
Weighbridge costs	187	295	187	295
Other workshop costs	4	2,065	4	1,599
	<u>102,134</u>	<u>119,426</u>	<u>85,994</u>	<u>96,404</u>
TOTAL OPERATING EXPENSES	<u>892,982</u>	<u>921,439</u>	<u>668,079</u>	<u>690,899</u>
8. ADMINISTRATION EXPENSES				
provisions				
- Trade receivables	31,276	74,473	16,786	73,250
- Staff receivables	13,147	3,593	13,147	3,593
Provision for obsolete stocks	128,185	92,128	103,240	84,391
Directors' remuneration - fees	5,511	4,500	4,950	4,500
- other expenses	17,182	19,703	10,210	12,612
Legal and professional fees	19,177	16,737	18,094	14,111
Insurance	14,072	15,571	10,968	12,222
Postage and telecommunications	17,488	17,643	14,511	12,883
Bank charges	11,609	12,221	8,736	8,723
Printing and stationery	15,107	7,412	9,390	3,223
Auditors remuneration	8,004	5,984	4,361	3,014
Office equipment	295	376	55	150
Licenses and trade subscriptions	9,166	8,980	5,836	4,647
Publications	621	2,557	621	2,557
Corporate social responsibility	21	886	21	886
Stocks write down	1,271	122,354	1,271	122,354
Other expenses	31,552	62,407	4,504	50,957
Farm expenses	13,949	10,864	13,949	10,864
	<u>337,632</u>	<u>478,389</u>	<u>240,648</u>	<u>424,937</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
9. SELLING AND DISTRIBUTION EXPENSES				
Transport and travelling	196,296	205,230	152,816	150,489
Publicity	47,104	46,318	25,920	35,441
Entertainment	178	69	136	-
Demonstrations	7,637	4,256	6,594	1,422
Anticounterfeit costs	11,095	-	11,095	-
	<u>262,310</u>	<u>255,873</u>	<u>196,560</u>	<u>187,352</u>
10. RESEARCH AND DEVELOPMENT EXPENSES				
Research and development	52,428	71,665	50,291	65,321
Laboratory and analysis of sample	17,510	12,247	17,510	10,640
	<u>69,938</u>	<u>83,912</u>	<u>67,801</u>	<u>75,961</u>
11. OTHER COSTS				
Fertilizer and chemicals	<u>137,410</u>	<u>108,044</u>	<u>137,410</u>	<u>108,044</u>

These costs correspond to other income relating to fertilizers and chemicals sold

12. OPERATING PROFIT

The operating profit is arrived at after charging:

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Provision for obsolete inventories	128,185	92,128	103,240	84,391
Provision for bad and doubtful debts	44,423	78,066	29,933	76,843
Depreciation of property, plant and equipment	253,908	242,891	233,861	223,961
Amortization of prepaid operating rentals	25,893	52,838	25,893	52,838
Amortization of intangible assets	5,264	3,876	3,391	715
Employment costs (note 7(a))	619,417	622,032	450,810	460,381
Directors' emoluments - fees	4,950	4,500	4,950	4,500
- other expenses	17,743	19,703	10,210	12,612
Auditors' remuneration	8,365	5,984	4,361	3,014
Stocks write down	1,271	122,354	1,271	122,354
Effects of discounting of staff receivables	<u>1,319</u>	<u>830</u>	<u>1,319</u>	<u>830</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

12. OPERATING PROFIT (Continued)	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
And after crediting:				
Gain on disposal of property, plant and equipment	(3,575)	(1,964)	(3,575)	(1,964)
Operating lease rentals receivable	(1,542)	(1,421)	(1,542)	(1,421)
Bad debts recovered	(29,990)	(46,355)	(29,929)	(44,267)

13. FINANCE COSTS AND INCOME

(a) FINANCE COSTS

Interest charged on overdraft	169,431	142,489	169,431	139,251
Loan negotiation fees	6,052	4,047	6,052	4,088
Foreign exchange loss	44,702	4,157	-	4,157
	<u>220,185</u>	<u>150,693</u>	<u>175,483</u>	<u>147,496</u>

(b) FINANCE INCOME

Interest income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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14. TAXATION

- Statement of comprehensive income:-

(a) Taxation charge

Charge for the year	212,872	193,705	203,447	193,487
Deferred tax credit	(51,937)	(44,404)	(60,201)	(39,005)
Under provision in previous years	-	-	-	-
	<u>160,935</u>	<u>149,301</u>	<u>143,246</u>	<u>154,482</u>

(b) Reconciliation of tax based on accounting profit to tax expense:-

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Accounting profit before tax	<u>383,021</u>	<u>450,836</u>	<u>434,458</u>	<u>443,935</u>
Tax at the applicable rate of 30%	114,906	135,251	130,337	133,181
Tax effect of expenses not deductible for tax purposes	48,846	40,312	22,071	33,279
Tax effect of revenues that are not taxable	(3,144)	(26,262)	(9,162)	(11,978)
Prior year current tax under provision	<u>327</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>160,935</u>	<u>149,301</u>	<u>143,246</u>	<u>154,482</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

14. TAXATION (Continued)	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
- Statement of financial position:-				
(c) Tax (payable)/recoverable				
As at 1 July	(15,955)	129,819	(68,509)	78,886
Taxation charge	(212,872)	(193,705)	(203,447)	(193,487)
Exchange rate adjustment	-	357	-	-
Tax paid	206,892	47,574	205,494	46,092
Prior years understatement	(10,545)	-	(1,449)	-
As at 30 June	<u>(32,480)</u>	<u>(15,955)</u>	<u>(67,911)</u>	<u>(68,509)</u>

15. EARNINGS PER SHARE

Earnings per share have been calculated on the after tax profit for the year of KShs 227,727 and KShs 291,211,337 for the Group and Company respectively (2014: KShs 301,535,000) and KShs 289,453,000 for the Group and Company respectively), and the 10,781,265 shares in issue at the respective reporting dates.

There were no potentially dilutive shares in issue on either 30 June 2015 or 30 June 2014. Therefore the diluted earnings per share are the same as the basic earnings per share.

16. DIVIDEND PROPOSED

In respect of the current year, the directors propose that a dividend of KShs 5.25 (2014: KShs 5.59) per share totaling KShs 60,265,790 be paid to shareholders (being 20% of the Profit after Tax). This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed dividends are subject to approval when the respective Annual General Meetings are held. The unpaid proposed dividends have not been recognized as liabilities in the financial statements.

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

17. PROPERTY, PLANT AND EQUIPMENT

Group

Year ended 30 June 2015

	Freehold Land KShs '000	Residential Buildings KShs '000	Farm works KShs '000	Plant and Machinery KShs '000	Tractors and forklifts KShs '000	Furniture Equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work-in- progress KShs '000	Total KShs '000
Cost or valuation										
At 1 July 2014	4,714	1,608,607	320,294	931,335	80,633	140,711	208,760	69,073	37,235	3,401,362
Additions	111,222	12,210	-	19,892	-	43,932	57,307	4,740	87,435	336,738
Disposals	-	-	(260)	(280)	(1,750)	(247)	(8,769)	(265)	(1,202)	(12,773)
At 30 June 2015	<u>115,936</u>	<u>1,620,817</u>	<u>320,034</u>	<u>950,947</u>	<u>78,883</u>	<u>184,396</u>	<u>257,298</u>	<u>73,548</u>	<u>123,468</u>	<u>3,725,327</u>
Depreciation										
At 1 July 2014	(406)	445,862	155,812	551,405	37,516	108,949	159,723	55,135	-	1,513,996
Charge for the year	-	79,961	28,293	88,253	6,460	20,604	23,190	7,125	-	253,884
Adjustment	-	(280)	(32)	(8,396)	(6)	(3,278)	(189)	(189)	-	(12,181)
Elimination on disposal	-	-	(91)	(196)	(1,216)	(247)	(7,669)	(204)	-	(9,622)
At 30 June 2015	<u>(406)</u>	<u>525,542</u>	<u>183,982</u>	<u>631,066</u>	<u>42,761</u>	<u>129,300</u>	<u>171,966</u>	<u>61,868</u>	<u>-</u>	<u>1,746,077</u>
Net carrying amount										
At 30 June 2015	<u>116,342</u>	<u>1,095,275</u>	<u>136,052</u>	<u>319,881</u>	<u>36,122</u>	<u>55,096</u>	<u>85,471</u>	<u>11,680</u>	<u>123,468</u>	<u>1,979,249</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

Year ended 30 June 2014

	Freehold Land KShs '000	Residential buildings KShs '000	Farm works KShs '000	Plant and machinery KShs '000	Tractors and forklifts KShs '000	Furniture equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work-in- progress KShs '000	Total KShs '000
Cost or valuation										
As at 1 July 2013	4,223	1,601,155	325,804	925,893	88,293	134,477	186,753	62,855	30,373	3,359,826
Additions	491	7,452	-	5,473	-	8,456	24,357	7,457	6,862	60,548
Disposals	-	-	(5,510)	(31)	(7,660)	(2,222)	(2,350)	(1,239)	-	(19,012)
Transfers	-	-	-	-	-	-	-	-	-	-
As at 30 June 2014	<u>4,714</u>	<u>1,608,607</u>	<u>320,294</u>	<u>931,335</u>	<u>80,633</u>	<u>140,711</u>	<u>208,760</u>	<u>69,073</u>	<u>37,235</u>	<u>3,401,362</u>
Depreciation										
As at 1 July 2013	(406)	366,117	129,958	464,243	38,735	98,666	142,382	47,025	-	1,286,720
Charge for the year	-	79,745	28,344	87,193	6,341	12,308	19,691	9,269	-	242,891
Elimination on disposal	-	-	(2,490)	(31)	(7,560)	(2,025)	(2,350)	(1,159)	-	(15,615)
Exchange adjustment	-	-	-	-	-	-	-	-	-	-
As at 30 June 2014	<u>(406)</u>	<u>445,862</u>	<u>155,812</u>	<u>551,405</u>	<u>37,516</u>	<u>108,949</u>	<u>159,723</u>	<u>55,135</u>	<u>-</u>	<u>1,513,996</u>
Net carrying amount										
As at 30 June 2014	<u>5,120</u>	<u>1,162,745</u>	<u>164,482</u>	<u>379,930</u>	<u>43,117</u>	<u>31,762</u>	<u>49,037</u>	<u>13,938</u>	<u>37,235</u>	<u>1,887,366</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

Year ended 30 June 2015

	Residential buildings KShs '000	Farm works KShs '000	Plant and machinery KShs '000	Tractors and forklifts KShs '000	Furniture equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work-in- progress KShs '000	Total KShs '000
Cost or valuation									
As at 1 July 2014	1,596,035	320,296	865,099	80,632	117,266	153,881	42,925	33,152	3,209,287
Additions	12,210	-	13,371	-	37,832	51,647	3,773	98,610	217,432
Capitalization	-	-	-	-	-	-	-	(12,210)	(12,210)
Disposals	-	(260)	(280)	(1,750)	(247)	(7,950)	(265)	(1,202)	(11,954)
As at 30 June 2015	<u>1,608,246</u>	<u>320,036</u>	<u>878,190</u>	<u>78,882</u>	<u>154,851</u>	<u>197,578</u>	<u>46,433</u>	<u>118,350</u>	<u>3,402,565</u>
Comprising:									
At Cost	644,267	71,166	268,241	38,542	92,567	134,973	33,718	118,350	1,401,823
At valuation – 2008	<u>963,979</u>	<u>248,870</u>	<u>609,949</u>	<u>40,340</u>	<u>62,284</u>	<u>62,605</u>	<u>12,715</u>	-	<u>2,000,742</u>
	<u>1,608,246</u>	<u>320,036</u>	<u>878,190</u>	<u>78,882</u>	<u>154,851</u>	<u>197,578</u>	<u>46,433</u>	<u>118,350</u>	<u>3,402,565</u>
Depreciation									
As at 1 July 2014	442,463	155,850	525,284	37,515	88,535	108,251	33,152	-	1,391,051
Charge for the year	79,927	28,293	81,835	6,460	12,957	19,092	5,297	-	233,861
Adjustment	(280)	(32)	(10,242)	(6)	(3,278)	(3,278)	(189)	-	(14,027)
Elimination on disposal	-	(91)	(196)	(1,216)	(247)	(7,000)	(204)	-	(8,953)
As at 30 June 2015	<u>522,110</u>	<u>184,021</u>	<u>596,680</u>	<u>42,760</u>	<u>101,239</u>	<u>117,065</u>	<u>38,057</u>	-	<u>1,601,932</u>
Net carrying amount									
As at 30 June 2015	<u>1,086,136</u>	<u>136,015</u>	<u>281,510</u>	<u>36,122</u>	<u>53,612</u>	<u>80,513</u>	<u>8,376</u>	<u>118,350</u>	<u>1,800,633</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

Year ended 30 June 2014

	Residential buildings KShs '000	Farm works KShs '000	Plant and machinery KShs '000	Tractors and forklifts KShs '000	Furniture equipment KShs '000	Motor vehicles KShs '000	Computers KShs '000	Work-in- progress KShs '000	Total KShs '000
Cost or valuation									
As at 1 July 2013	1,588,584	325,805	865,083	88,292	112,143	132,104	38,413	26,291	3,176,715
Additions	7,452	-	47	-	7,345	24,127	5,750	6,862	51,583
Disposals	-	(5,510)	(31)	(7,660)	(2,222)	(2,350)	(1,239)	-	(19,012)
Transfers									
As at 30 June 2014	<u>1,596,036</u>	<u>320,295</u>	<u>865,099</u>	<u>80,632</u>	<u>117,266</u>	<u>153,881</u>	<u>42,924</u>	<u>33,153</u>	<u>3,209,286</u>
Comprising:									
At Cost	632,057	71,425	255,150	40,292	54,982	91,276	30,209	33,153	1,208,544
At valuation – 2008	<u>963,979</u>	<u>248,870</u>	<u>609,949</u>	<u>40,340</u>	<u>62,284</u>	<u>62,605</u>	<u>12,715</u>	-	<u>2,000,742</u>
	<u>1,596,036</u>	<u>320,295</u>	<u>865,099</u>	<u>80,632</u>	<u>117,266</u>	<u>153,881</u>	<u>42,924</u>	<u>33,153</u>	<u>3,209,286</u>
Depreciation									
As at 1 July 2013	362,806	132,588	441,347	38,733	82,213	95,745	29,224	-	1,182,656
Charge for the year	79,706	28,344	81,140	6,341	8,743	14,858	4,829	-	223,961
Elimination on disposal	-	(2,490)	(31)	(7,560)	(2,025)	(2,350)	(1,159)	-	(15,615)
As at 30 June 2014	<u>442,512</u>	<u>158,442</u>	<u>522,456</u>	<u>37,514</u>	<u>88,931</u>	<u>108,253</u>	<u>32,894</u>	-	<u>1,391,002</u>
Net carrying amount									
As at 30 June 2014	<u>1,153,524</u>	<u>161,853</u>	<u>342,643</u>	<u>43,118</u>	<u>28,335</u>	<u>45,628</u>	<u>10,030</u>	<u>33,153</u>	<u>1,818,284</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

18. PREPAID OPERATING LEASE RENTALS	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
COST				
As at 1 July	373,937	414,814	373,937	414,814
Additions	975	6,930	975	6,930
Prior year adjustment	28,069	-	28,069	-
Disposal in the year	-	(47,806)	-	(47,806)
As at 30 June	402,981	373,938	402,981	373,938
AMORTISATION				
As at 1 July	238,905	231,859	238,905	231,859
Charge for the year - expense	25,893	24,063	25,893	24,063
Charge to biological assets	-	28,775	-	28,775
Elimination on disposal	-	(47,807)	-	(47,807)
As at 30 June	264,798	236,890	264,798	236,890
IMPAIRMENT LOSSES				
As at 1 July and 30 June	-	2,016	-	2,016
NET CARRYING AMOUNT				
As at 30 June	138,183	135,032	138,183	135,032
19. INTANGIBLE ASSETS	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
COST				
As at 1 July	31,540	29,226	21,383	19,251
Additions	5,695	2,314	5,695	2,132
As at 30 June	37,235	31,540	27,079	21,383
AMORTISATION				
As at 1 July	23,243	19,367	15,706	14,991
Charge for the year	6,404	3,876	3,391	715
As at 30 June	29,647	23,243	19,097	15,706
NET CARRYING AMOUNT				
As at 30 June	7,588	8,297	7,982	5,677

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

20. INVESTMENT IN SUBSIDIARIES	Company	
	2015 KShs '000	2014 KShs '000
Unquoted investments at historical cost in wholly owned subsidiaries are as follows:		
Simlaw Seeds Company Uganda Limited (327,000 shares of UShs 5,000 each)	54,496	54,496
Kibo Seed Company Limited (10,000 shares of TShs 1,000 each)	1,000	1,000
Simlaw Seeds Company Limited (5,000 shares of KShs 40 each)	200	200
	<u>55,696</u>	<u>55,696</u>

The principal activities of the subsidiaries are importing and selling various types of plant seeds. The details of the above subsidiary companies are as follows:

Company	Percentage Holding	Country of Incorporation
Kibo Seed Company Limited	100%	Tanzania
Simlaw Seeds Company Limited	100%	Kenya
Mt Elgon Seed Company Limited	100%	Uganda
Simlaw Seed Uganda Limited	100%	Uganda
Simlaw Seed Company (TZ) Limited	100%	Tanzania

21. AVAILABLE FOR SALE INVESTMENTS-UNQUOTED	Group and Company	
	2015 KShs '000	2014 KShs '000
Mt Elgon Hospital Limited – equity shares	200	200
Kenya Farmers Association – equity shares	2	2
Less: Accumulated impairment losses	<u>(202)</u>	<u>(202)</u>
	<u>-</u>	<u>-</u>

The investments included above represent investments in equity instruments that offer the Group the opportunity for return through dividend income and fair value gains. The carrying amounts are based on the assessment of the realisability of the securities.

22. STAFF RECEIVABLES	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
Gross staff receivables	110,610	85,487	101,897	79,547
Provision for bad and doubtful debts	<u>(70,135)</u>	<u>(54,015)</u>	<u>(67,808)</u>	<u>(54,015)</u>
Net receivables	46,167	31,472	34,088	25,532
Within one year (note 26)	<u>(36,434)</u>	<u>(34,472)</u>	<u>(27,192)</u>	<u>(25,532)</u>
Amounts receivable after one year	<u>9,733</u>	<u>-</u>	<u>6,896</u>	<u>-</u>

The balances represent staff car loans and other advances. Terms and conditions applicable are that the staff car loans and staff laptop loans are for a period of four years and two years respectively and are charged interest at the rate of 6% p.a. (2014: 6% p.a.) while other advances are given for varying periods and are interest free.

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

		Group and Company	
		2015	2014
		KShs '000	KShs '000
23. BIOLOGICAL ASSETS			
(a) Bearer biological assets			
Coffee		59,152	56,500
Livestock		33,632	33,663
Trees		24,009	25,413
		<u>116,793</u>	<u>115,576</u>
- Coffee			
Fair value as at 1 July		56,500	43,653
Increase in fair value (note 23(c))		<u>2,652</u>	<u>12,847</u>
Fair value as at 30 June		<u>59,152</u>	<u>56,500</u>

In the estimation of the fair value of the coffee plants, the following significant assumptions were made in 2015:

- (i) The coffee bushes will remain productive for the next 21 years after year end;
- (ii) The biological transformation rate will remain at 100%;
- (iii) The pretax incremental borrowing rate will remain at 13%;
- (iv) The prevailing weather and climatic conditions will not change; and,
- (v) The sales and cost prices are expected to escalate at an average rate of 7.03% p.a.

In the estimation of the fair value of the coffee plants, the following significant assumptions were made in 2014:

- (i) The coffee bushes will remain productive for the next 22 years after year end;
- (ii) The biological transformation rate will remain at 100%;
- (iii) The pretax incremental borrowing rate will remain at 14%;
- (iv) The prevailing weather and climatic conditions will not change; and,
- (v) The sales and cost prices are expected to escalate at an average rate of 4.91% p.a.

	Cattle KShs'000	Sheep KShs'000	Goats KShs'000	Total KShs'000
- Livestock				
Year ended 30 June 2015				
Fair value as at 1 July 2014	33,153	420	90	33,663
Decreases due to sales	<u>(4,960)</u>	<u>(311)</u>	<u>(32)</u>	<u>(5,302)</u>
As at 30 June 2015	<u>28,193</u>	<u>109</u>	<u>58</u>	<u>28,361</u>
Gains arising from physical changes	4,605	420	78	5,103
Increases due to newborns	<u>140</u>	<u>24</u>	<u>4</u>	<u>168</u>
Fair value (loss)/gain on livestock (note 23 (c))	<u>4,745</u>	<u>445</u>	<u>82</u>	<u>5,271</u>
Fair value as at 30 June 2015	<u>32,938</u>	<u>554</u>	<u>140</u>	<u>33,632</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

	Cattle KShs'000	Sheep KShs'000	Goats KShs'000	Total KShs'000
- Livestock (continued)				
Year ended 30 June 2014				
Fair value as at 1 July 2012	51,025	574	67	51,666
Decreases due to sales	(11,620)	(273)	(8)	(11,901)
As at 30 June 2014	39,406	301	59	39,765
Gains arising from physical changes	(6,361)	105	30	(6,226)
Increases due to newborns	109	14	1	124
Fair value (loss)/gain on livestock (note 23(c))	(6,252)	119	31	(6,102)
Fair value as at 30 June 2014	33,153	420	90	33,663

Significant assumptions made in the estimation of the fair value of the livestock in 2015 include:

- (i) The market conditions will remain constant;
- (ii) The prevailing climatic conditions will not change;
- (iii) The sales and cost prices are expected to escalate at an average rate of 7.03% p.a.;
- (iv) The level of biological transformation for each category of livestock are follows:-

Category	Age	Percentage
Calves I	0 - 6 months	20%
Calves II	6 months - 1 year	12%
Weaners I	1 & half years - 2 years	17%
Weaners II	2 & half years - 3 years	27%
Mature	over 3 years	22%

For purposes of valuation, the livestock have been grouped as above.

- (v) The livestock will attain their full maturity at the age of 36 months.

During the year, the livestock yielded 110,456 litres of milk (2014 – 150,000 litres).

Significant assumptions made in the estimation of the fair value of the livestock in 2015 include:

- (i) The market conditions will remain constant;
- (ii) The prevailing climatic conditions will not change;
- (iii) The sales and cost prices are expected to escalate at an average rate of 6.09% p.a.;
- (iv) The level of biological transformation for each category of livestock are follows:-

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2015

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

- Livestock (continued)

Category	Age	Percentage
Calves I	0 - 6 months	10%
Calves II	6 months - 1 year	15%
Weaners I	1 & half years - 2 years	12%
Weaners II	2 & half years - 3 years	19%
Mature	over 3 years	44%

For purposes of valuation, the livestock have been grouped as above.

(v) The livestock will attain their full maturity at the age of 36 months.

The livestock count at the end of the year is as summarized as below:

	Group and Company	
	2015 No.	2014 No.
Cattle	431	438
Goats	83	65
Sheep	234	188
	<u>748</u>	<u>691</u>

The company intends to keep the livestock for milk and meat production. Accordingly, the livestock classified as bearer biological assets.

- Trees

Significant assumptions made in the estimation of the fair value of the trees in 2015 include:

- (i) The sales and cost prices are expected to escalate at an average rate of 7.03% p.a.;
- (ii) Since the trees are not fully mature, their transformation is based on the current age of tree species;
- (iii) Prevailing market lending interest rate of 14% has been used as the discounting factor;
- (iv) Cash inflows and outflows accrue evenly throughout the useful life; and
- (v) 10% of the trees planted will not attain maturity due to natural factors.

Trees are categorized as follows:

Category	Maturity	Number of trees	Value KShs '000
Eucalyptus Grandis	10 years	30,616	15,812
Ordinary Blue Gum	10 years	19,970	6,364
Cyprus Lustanica	30 years	15,955	1,833
		<u>66,541</u>	<u>24,009</u>

The 66,541 trees cover 144 acres of land.

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

- Trees (continued)

Significant assumptions made in the estimation of the fair value of the trees in 2014 include:

- (i) The sales and cost prices are expected to escalate at an average rate of 4.91% p.a.;
- (ii) Since the trees are not fully mature, their transformation is based on the current age of tree species;
- (iii) Prevailing market lending interest rate of 14% has been used as the discounting factor;
- (iv) Cash inflows and outflows accrue evenly throughout the useful life; and
- (v) 10% of the trees planted will not attain maturity due to natural factors.

Tree are categorized as follows:

Category	Maturity	Number of trees	Value KShs '000
Eucalyptus Grandis	10 years	30,748	14,720
Ordinary Blue Gum	10 years	20,013	6,058
Cyprus Lustanica	30 years	18,075	3,152
		<u>68,836</u>	<u>23,930</u>

The 68,836 trees cover 144 acres of land.

	Group and Company	
	2015 KShs '000	2014 KShs '000
Trees		
Fair value as at 1 July	25,413	24,180
Decrease in fair value (note 23(c))	<u>(1,404)</u>	<u>1,233</u>
Fair value as at 30 June	<u>24,009</u>	<u>25,413</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

23. BIOLOGICAL ASSETS (Continued)

(b) Consumable biological assets	Maize KShs '000	Wheat KShs '000	pasture KShs '000	Sunflower KShs '000	Sorghum KShs '000	Oats KShs '000	Vegetables KShs '000	Total KShs '000
Group								
Fair value at 1 July 2014	126,070	3,733	-	-	4	-	235	130,043
Additional costs for old crop	85,863	17,625	2,578	269	-	-	-	106,335
Gains in fair values due to physical changes - 2013/2014 crop	52,504	(2,983)	151	197	-	-	-	49,869
Decrease in fair value due to harvesting	(264,437)	(18,376)	(2,729)	(466)	-	-	(235)	(286,243)
Increase in fair value due to new planting	69,999	12,085	1,999	90	2	32	217	84,423
Gain/(loss) in fair value due to physical changes - 2014/2015 crop	<u>(35,216)</u>	<u>(10,788)</u>	<u>(1,678)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67)</u>	<u>(47,749)</u>
Fair value at 30 June 2015	<u>34,784</u>	<u>1,297</u>	<u>320</u>	<u>90</u>	<u>6</u>	<u>32</u>	<u>150</u>	<u>36,678</u>
Company								
Fair value at 1 July 2014	126,070	3,733	-	-	4	-	-	129,808
Additional costs for old crop	85,863	17,625	2,578	269	-	-	-	106,335
Gains in fair values due to physical changes - 2013/2014 crop	52,504	(2,983)	151	197	-	-	-	49,869
Decrease in fair value due to harvesting	(264,437)	(18,376)	(2,729)	(466)	-	-	-	(286,008)
Increase in fair value due to new planting	69,999	12,085	1,999	90	2	32	-	84,206
Gain/(loss) in fair value due to physical changes - 2014/2015 crop	<u>(35,216)</u>	<u>(10,788)</u>	<u>(1,678)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,682)</u>
Fair value at 30 June 2015	<u>34,784</u>	<u>1,297</u>	<u>320</u>	<u>90</u>	<u>6</u>	<u>32</u>	<u>-</u>	<u>36,528</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

23. BIOLOGICAL ASSETS (Continued)

(b) Consumable biological assets (continued)

The seed output from the company's biological assets were as follows:

	Group and Company	
	2015	2014
	Kgs '000	Kgs '000
Maize	3,763	2,020
Wheat	530	820
Sunflower	1	4
Pasture	127	52
Oats	-	-
	<u>4,421</u>	<u>2,896</u>

In valuation of crops, the following key assumptions have been made:

- (i) That the crops mature after within four to nine months and biological transformation takes place uniformly over the life cycle of the crops;
- (ii) That the market conditions will remain unchanged; and,
- (iii) That climatic and weather condition will not change.

The financial risk management strategies formulated by the Group to reduce various financial risk exposures relating to its biological assets are disclosed in note 36.

	Group		Company	
	2015	2014	2015	2014
(c) Fair value gains/(losses)	KShs'000	KShs'000	KShs'000	KShs'000
Coffee	2,652	12,847	2,652	12,847
Livestock	5,271	(6,103)	5,271	(6,103)
Trees	(1,404)	1,233	(1,404)	1,233
Consumable biological assets	<u>2,119</u>	<u>12,313</u>	<u>2,187</u>	<u>12,174</u>
	<u>8,638</u>	<u>20,290</u>	<u>8,706</u>	<u>20,151</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

24. RELATED PARTIES TRANSACTIONS AND BALANCES

In the normal course of business, trading occurs among the related parties at terms and conditions similar to those offered to other clients.

Details of related party balances and transactions are as follows:-

	Company	
	2015	2014
	KShs '000	KShs '000
(a) Loans capital to subsidiary companies		
Simlaw Seeds Company Limited	144,298	144,298
Mt Elgon Seed Company Limited	50,078	50,078
Kibo Seed Company Limited	21,452	21,452
Simlaw Seeds Company Tanzania Limited	28,816	28,816
Simlaw Seed Company Uganda Limited	-	-
	<u>244,644</u>	<u>244,644</u>
Less provisions for Mt. Elgon Seed Company Limited	<u>(50,078)</u>	<u>(50,078)</u>
	<u>194,566</u>	<u>194,566</u>

The loan capital relates to amounts advanced to the subsidiaries to help start operations.

The directors resolved that the loans should be treated as loan capital as they will be used to increase the share capital of the parent Company in the subsidiaries in future. This is non-interest bearing and there are no fixed repayment terms.

	Company	
	2015	2014
	KShs '000	KShs '000
(b) Amounts due from subsidiaries		
Simlaw Seeds Company Limited	522,694	525,179
Kibo Seed Company Limited	230,595	166,371
Mt Elgon Seed Company Limited	123,463	136,872
Simlaw Seed Company Uganda Limited	<u>32,126</u>	<u>-</u>
	<u>908,878</u>	<u>828,422</u>
Less provisions for Mt. Elgon Seed Company Limited	<u>(112,381)</u>	<u>(112,381)</u>
	<u>796,497</u>	<u>716,041</u>

This relates to purchases by subsidiary from the parent company that has accumulated over time. The current credit period is 30 days. This category of receivables are non-interest bearing.

(c) Amounts due from parastatal and other government controlled organizations

	Group		Company	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Ministry of Agriculture	856,119	1,163,545	822,136	1,162,546
Agricultural Development Corporation	207,024	231,067	207,024	231,067
Kenya Farmers Association (KFA) – net	20,749	11,957	20,749	11,840
National Cereals and Produce Board	5,579	1,833	5,579	1,833
Kenya Agricultural Research Institute	<u>17,997</u>	<u>(353)</u>	<u>17,997</u>	<u>(353)</u>
	<u>1,107,468</u>	<u>1,408,049</u>	<u>1,073,484</u>	<u>1,406,933</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

(c) Amounts due from parastatal and other government controlled organizations (Continued)

	Group		Company	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
- Kenya Farmers Association (KFA) – net				
Gross receivable amount	20,821	28,963	20,821	12,456
Provision for bad and doubtful debts	(72)	(17,006)	(72)	(616)
Net receivable amount	<u>20,749</u>	<u>11,957</u>	<u>20,749</u>	<u>11,840</u>

Related parties are non-interest bearing and credit amount is limited to KShs 100 million or a credit period of 60 days whichever comes earlier.

	Group and Company	
	2015	2014
	KShs '000	KShs '000
(d) Amounts due to directors		
Gratuity provision	-	1,124
Leave pay provision	-	533
Provision for fees	<u>11,213</u>	<u>7,905</u>
	11,213	9,562
Due after one year	<u>-</u>	<u>(1,124)</u>
Due within one year	<u>11,213</u>	<u>8,438</u>

(e) Amounts due to parastatal and other government controlled organizations

	Group		Company	
	2015	2014	2015	2014
	KShs'000	KShs'000	KShs'000	KShs'000
Kenya Plant Health Inspectorate (KEPHIS)	6,469	4,692	6,469	4,692
National Cereals and Produce Board	1,800	10,274	1,800	10,274
Kenya Farmers Association	-	(1,679)	-	(1,679)
Others	9,392	20,337	9,392	20,337
Agricultural Development Corporation	-	12	-	12
Kenya Agricultural Research Institute	<u>-</u>	<u>(170)</u>	<u>-</u>	<u>(170)</u>
	<u>17,661</u>	<u>33,466</u>	<u>17,661</u>	<u>33,466</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

	Group and Company	
	2015	2014
(f) Transactions within the Group	KShs '000	KShs '000
Kenya Seed Company Limited sales to:		
Mt Elgon Seed Company Limited	20,199	-
Simlaw Seeds Company Limited	126,288	116,254
Kibo Seed Company Limited	83,659	1,613
	<u>230,146</u>	<u>117,867</u>
Simlaw Seed Company Limited sales to:		
Kenya Seed Company Limited	140,512	106,075
Kibo Seed Company Limited	-	1,309
	<u>140,512</u>	<u>107,384</u>
Payments made by Kenya Seed Company Limited on behalf of:		
Simlaw Seeds Company Limited	4,961	30,593
Mt Elgon Seed Company Limited	1,598	11,510
Kenya Seed Company Uganda Limited	4,771	15,801
Kibo Seed Company Limited	-	12,440
	<u>11,330</u>	<u>70,344</u>
Payments made on behalf of Kenya Seed Company Limited by:		
Simlaw Seeds Company Limited	3,270	1,097
Kibo Seed Company Limited	3,385	-
	<u>6,655</u>	<u>1,097</u>
(g) Transactions with parastatal organizations		
Receipts from / sales to:		
National Cereals and Produce Board	17,102	6,935
Kenya Farmers Association	158,023	174,484
Agricultural Development Corporation	11,046	11,046
	<u>186,171</u>	<u>192,465</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

(g) Transactions with parastatal organizations (Continued)

Group and Company

	2015	2014
	KShs '000	KShs '000
Payments to/Purchases from:		
Agricultural Development Corporation	207,024	231,067
The Kenya Power & Lighting Company Limited	49,674	45,163
Kenya Farmers Association	686	2,241
Telkom Kenya	1,350	1,493
Kenya Agricultural Research Institute	5,053	5,000
Agricultural Society of Kenya	-	-
National Cereals and Produce Board	108,017	96,731
	<u>371,804</u>	<u>381,695</u>
(h) Transactions with directors		
Fees	4,950	4,500
Salaries and allowances	10,281	25,993
	<u>15,231</u>	<u>30,493</u>
(i) Key management compensation		
Salaries and allowances	<u>109,809</u>	<u>101,946</u>
(j) Transactions with the staff retirement benefit scheme		
Contributions collected on behalf of the scheme	<u>12,868</u>	<u>32,750</u>

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
25. INVENTORIES				
Maize Seeds	2,923,680	1,981,830	2,729,592	1,835,124
Wheat Seeds	96,865	283,153	96,625	283,015
Pastures	100,512	229,185	79,629	199,175
Sorghum/Fingermillet	148,539	92,637	148,539	92,637
Vegetables	717,602	709,190	59,150	54,321
Sunflower	160,248	174,875	159,233	171,543
Chemicals	288,656	219,889	279,644	214,755
Fertilizers	16,741	17,855	16,084	17,395
Packaging materials – net	101,630	135,839	76,278	119,987
Fuel and other inventories	1,568	828	1,568	828
Miscellaneous & Welfare items	23,556	16,368	4,417	8,045
Cleanings and rejects	731	3,676	731	3,676
Provision for Obsolete stocks	<u>(224,433)</u>	<u>(217,408)</u>	<u>(158,552)</u>	<u>(167,031)</u>
	<u>4,355,896</u>	<u>3,647,917</u>	<u>3,492,938</u>	<u>2,833,470</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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26. TRADE AND OTHER RECEIVABLES

Trade receivables	1,247,428	1,008,542	1,042,322	851,257
Staff receivables (note 22)	37,004	31,472	27,192	25,532
Other receivables	99,947	77,819	24,958	32,870
Provision for bad and doubtful debts	(719,887)	(546,389)	(674,183)	(516,176)
	<u>664,492</u>	<u>571,444</u>	<u>420,289</u>	<u>393,483</u>

For trade receivables in respect of contracted seed growers, credit amount is limited to the deliveries of seeds expected from the growers. The credit would be in form of the cost of farm inputs and supplies taken by the grower to facilitate farm operations during a seed growing season in a year. However, the seed grower is charged interest of 1% per month on the inputs for the period of the credit.

The other trade receivables are non-interest bearing and credit amount is limited to the amount of bank guarantee and for a credit period of 30 days. Customer orders are accompanied by 30 days post dated cheques that are within the customer's bank guarantee.

	Group and Company	
	2015	2014
	KShs '000	KShs '000
27. SHARE CAPITAL		
Authorized share capital:		
20,000,000 ordinary shares of KShs 20 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:		
10,781,265 ordinary shares of KShs 20 each	<u>215,625</u>	<u>215,625</u>

The issued and fully paid share capital excludes 3,370,000 ordinary shares worth KShs 67,400,000 that were issued in the year ended 30 June 2002, which were revoked after the High Court of Kenya ruling on 6 April 2006. These shares are currently a subject matter before the Kenyan Court of Appeal (Note 2). The nominal share capital together with the premium on these shares is now classified under trade and other payables (Note 30).

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

28. DEFERRED TAX	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
(a) Statement of comprehensive income				
Deferred liability credit	60,201	39,005	60,201	39,005
Deferred asset credit/(charge)	(8,533)	5,399	-	-
Charge for the year	<u>51,668</u>	<u>44,404</u>	<u>60,201</u>	<u>39,005</u>
(b) Deferred tax asset				
Deferred taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 30%.				
The net deferred tax liability is attributable to the following items:				
	As at 1 July 2014 KShs '000	Group Statement of comprehensive income KShs '000	As at 30 June 2015 KShs '000	
Deferred tax liabilities:				
Revaluation surplus	3,146	(3,146)	-	-
General bad debts provision	-	-	-	-
Gratuity provision	-	-	-	-
Fair value gain on biological assets	-	-	-	-
Unrealized loss on foreign exchange	275	(275)	-	-
	<u>3,421</u>	<u>(3,421)</u>	-	-
Deferred tax assets:				
Unrealized foreign exchange losses	-	(1,028)	(1,028)	-
Leave pay provision	(552)	552	-	-
Tax losses carried forward	(10,506)	10,506	-	-
Excess depreciation of tax wear and tear allowances	(4,971)	4,508	(463)	-
Provision of impairment of inventories	(510)	510	-	-
Gratuity provision	(1,222)	747	(475)	-
General bad debt provision	(5,276)	(4,088)	(9,364)	-
Fair value gain on biological assets	(247)	247	-	-
	<u>(23,284)</u>	<u>11,954</u>	<u>(11,330)</u>	-
Net deferred tax asset	<u>(19,863)</u>	<u>8,533</u>	<u>(11,330)</u>	-

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

28. DEFERRED TAX (Continued)

(c) Deferred tax liability

Deferred taxation is calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

The net deferred taxation liability movement is attributable to the following items:

	Group and Company Statement of comprehensive		
	As at 1 July 2014	income	As at 30 June 2015
	KShs '000	KShs '000	KShs '000
Deferred tax liabilities:			
Accelerated capital allowances	223,045	(57,824)	165,221
Revaluation surplus	257,703	2,854	260,557
Fair value gain on biological assets	11,978	(11,978)	-
Leave pay provision	-	447	447
	<u>492,726</u>	<u>(66,500)</u>	<u>426,226</u>
Deferred tax assets:			
Gratuity provision	(4,082)	763	(3,319)
General bad debts provision	(33,009)	15,728	(17,281)
Unrealized foreign exchange losses	(1,347)	(679)	(2,206)
Leave pay provision	(443)	443	-
Fair value gain on biological assets	-	(9,956)	(9,956)
	<u>(38,881)</u>	<u>6,299</u>	<u>(32,582)</u>
Net deferred tax liability	<u>453,845</u>	<u>(60,201)</u>	<u>393,644</u>

Deferred tax assets and deferred tax liabilities are not offset due to legal jurisdiction of the entities.

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
29. EMPLOYEE BENEFITS OBLIGATIONS				
Due to the defined benefit scheme's ex-staff	502	502	502	502
Gratuity provision	43,601	32,593	42,018	26,701
Benevolent fund	588	7	588	7
	<u>44,691</u>	<u>33,102</u>	<u>43,108</u>	<u>27,210</u>
As at 30 June				

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

	Group		Company	
	2015	2014	2015	2014
30. TRADE AND OTHER PAYABLES	KShs '000	KShs '000	KShs '000	KShs '000
Amounts due to disputed share-holders (note 27)	124,690	124,690	124,690	124,690
Trade payables	368,008	212,041	139,844	32,527
Accrued leave pay	103,866	22,802	17,929	19,420
Accruals and other payables	168,912	69,870	168,912	26,779
	<u>765,476</u>	<u>429,403</u>	<u>451,374</u>	<u>203,416</u>

	Group and Company	
	2015	2014
31. UNCLAIMED DIVIDENDS	KShs '000	KShs '000
At beginning of the year	3,377	3,377
Unclaimed during the year	<u>4,391</u>	<u>-</u>
At end of the year	<u>7,768</u>	<u>3,377</u>

These are in respect of dividend that owners cannot be located or dividend uncollected by the owners.

32. BANK OVERDRAFT

As at 30 June 2015, the company had available KShs 1.07 billion overdraft facility (2014: KShs 1.22 billion) with Kenya Commercial Bank. The company utilized KShs 1.07 billion of the facility as at 30 June 2015 (2014: KShs 1.22 billion).

Security for overdraft by Kenya commercial Bank to the company is on:

- (i) Legal charge for KShs 769.1 Million over:
 - L.R. No. 5337/2 Kitale; and
 - L.R. No. 12215 Kitale.
- (ii) Legal charge for KShs 230.9 Million over:
 - Nakuru Municipal Block 8/16.
- (iii) Fixed and Floating Debenture for KShs 1.4 Billion over the company's
 - Inventory;
 - Trade receivables

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33. CASH AND CASH EQUIVALENTS	Group		Company	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
Cash on Hand	5,458	3,588	1,219	402
Barclays Bank-Kenya	64,498	272,988	55,693	164,561
KCB-Rwanda	27,458	-	27,458	-
KCB-Kenya	34,960	69,782	-	-
NBK-Kenya	13,061	-	13,061	-
Equity-Kenya	998	5,881	998	5,881
KCB Tanzania	656	5	-	-
Standard Chartered Bank – Uganda	8	5,234	-	-
KCB-Uganda	27,161	9,092	-	-
National Bank Of Commerce TZ	1,720	3	-	-
National Micro Finance Bank TZ	1,161	615	-	-
Stanbic Bank Ltd –TZ	3,748	-	-	-
Fixed deposits maturing beyond three months	<u>56,762</u>	<u>53,678</u>	<u>56,762</u>	<u>53,678</u>
	237,649	420,866	155,191	224,522
Bank overdraft-KCB	<u>(1,079,144)</u>	<u>(1,222,275)</u>	<u>(1,079,144)</u>	<u>(1,222,275)</u>
Total Cash and Cash Equivalent	<u>(841,495)</u>	<u>(801,409)</u>	<u>(923,953)</u>	<u>(997,753)</u>

For the purposes of the statement of cash flows, cash and cash equivalents comprise of the above.

34. Foreign operations Translation reserve

Subsidiary	2015	Change from 2014-2015	2014
	Kshs	Kshs	Kshs
Simlaw UG	14,158,542	13,682,705	475,837
Kibo	3,581,743	(1,914,123)	5,495,866
Simlaw TZ	2,383,994	1,583,575	800,420
MESC	<u>12,133,004</u>	<u>7,815,826</u>	<u>4,317,179</u>
Totals	<u>32,257,284</u>	<u>21,167,982</u>	<u>11,089,301</u>
Exchange differences on translating foreign operations	30,239,975		
Income tax effect at 30%	<u>(9,071,992)</u>		
	<u>21,167,982</u>		

35. Capital Expenditure Commitments

The capital expenditure commitments made by the Group and company to purchase assets in future for which no provisions have been made in these financial statements include:

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Authorised but not contracted for	<u>399,118</u>	<u>650,875</u>	<u>399,118</u>	<u>439,493</u>

36. Operating Lease Commitments

Minimum lease payments committed under various operating leases:

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Not later than 1 year	-	26,045	-	4,016
Later than 1 year but not later than 5 years	<u>82,923</u>	<u>42,852</u>	<u>-</u>	<u>14,881</u>
	<u>82,923</u>	<u>68,897</u>	<u>-</u>	<u>18,897</u>

37. Financial Risk Management Objectives And Policies

The Group's principal financial instruments comprise cash and cash equivalents, trade receivables, trade payables and amounts due from related parties. These instruments arise directly from its operations.

The Group does not enter into derivative transactions.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

37. Financial Risk Management Objectives And Policies (Continued)

The directors have adopted various measures to minimize losses that may arise from these exposures. These are explained as follows:

(a) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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and cause the Group to incur a financial loss.

The largest concentrations of credit exposure within the Group relate to cash and cash equivalents held with banks, trade receivables and amounts due from related parties. The maximum exposures for credit risk is therefore in regards to the carrying amount of cash and cash equivalents, trade receivables and amount due from related parties net of any impairment losses. The Group only places significant amounts of funds with recognized financial institutions with strong credit ratings and does not consider the credit risk exposure to be low. Amounts due from related parties do not expose the Group to significant credit risk.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer risk assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by valid contracts. For the growers the credit risk arises when there is a crop failure due adverse weather conditions.

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2015 is made up as follows:

The Group's and Company's trade and other receivables were as follows:

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Net trade receivables	419,147	462,153	269,791	335,081
Net staff receivables	36,435	31,472	27,192	25,532
	<u>455,582</u>	<u>493,625</u>	<u>296,984</u>	<u>360,613</u>

Collateral is held in form of bank guarantees for trade receivables. No collateral is held for the other assets. All trade receivables that are neither past due nor impaired are within their approved credit limit, and no receivables have had their terms renegotiated.

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

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
Past due but not impaired:				
- by up to 30 days	49,035	49,035	9,329	11,964
- by 31 to 60 days	50,758	50,758	(2,065)	15,872
- by 61 to 90 days	40,308	40,308	(2,400)	23,168
- over 90 days	209,039	209,039	277,193	203,170
	<u>349,140</u>	<u>349,140</u>	<u>282,057</u>	<u>254,174</u>

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37. Financial Risk Management Objectives And Policies (Continued)

(a) Credit risk (Continued)

Movement in provisions for doubtful debts:

	Group		Company	
	2015	2014	2015	2014
	KShs '000	KShs '000	KShs '000	KShs '000
As at 1 July	546,389	496,849	516,176	457,592
Recoveries during the year	(19,435)	(46,355)	(19,374)	(44,267)
Provisions for the year	40,423	74,473	32,438	73,250
Reversal of overprovision	-	21,422	-	29,601
As at 30 June	<u>567,377</u>	<u>546,389</u>	<u>529,240</u>	<u>516,176</u>

(b) Market risk

Market risk is the risk that the fair value or future value of instruments will fluctuate due to changes in market valuables such as interest rates and foreign exchange rates. The objective of market risk management policy is to protect and enhance the statement of financial position and income statement by managing and controlling market risk expenses within acceptable parameters and to optimize the funding of business operations and facilitate capital expansions.

- *Interest rate risk*

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Group has not formulated any practical measures to minimize the exposure.

	Change in Interest rate	Effect on profit Before Tax KShs '000	Effect on Equity KShs '000
2015	-10.00%	13,925	9,748
	10.00%	(13,925)	(9,748)
2014	-10.00%	(9,714)	(6,800)
	10.00%	9,714	6,800

- *Exchange risks*

The Group operates in Kenya, Tanzania and Uganda. The operations in Tanzania and Uganda are significantly autonomous from those in Kenya and most of the transactions are carried out in the local currencies. Other transactions in the foreign currency are carried out in the relatively stable US Dollars.

USD	Change in currency rate	Effect on profit Before Tax KShs '000	Effect on Equity KShs '000
2015	-10.00%	(416)	(291)
	10.00%	416	291
2014	-10.00%	657	460
	10.00%	(657)	(460)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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37. Financial Risk Management Objectives And Policies (Continued)

(c) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table analyses the company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Up to 1 month KShs '000	1 – 3 Months KShs '000	3 - 12 months KShs '000	over 1 year KShs '000	Total KShs '000
At 30 June 2015					
Financial assets					
Trade receivables	494,924	247,462	309,327	185,596	1,237,310
Other receivables and prepayments	-	-	90,423	-	90,423
Amount due from related parties	-	-	1,081,628	-	1,081,628
Bank balances and cash deposits	<u>146,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,451</u>
Total financial assets	<u>641,375</u>	<u>247,462</u>	<u>1,481,378</u>	<u>185,596</u>	<u>2,555,811</u>
Financial liabilities					
Total financial liabilities	<u>(270,890)</u>	<u>(135,445)</u>	<u>(169,306)</u>	<u>(101,584)</u>	<u>(677,225)</u>
Net liquidity gap	<u>370,484</u>	<u>112,017</u>	<u>1,312,072</u>	<u>84,013</u>	<u>1,878,586</u>
At 30 June 2014					
Financial assets					
Trade receivables	403,417	201,708	252,135	151,281	1,008,542
Other receivables and prepayments	-	-	76,909	-	76,909
Amount due from related party	-	-	1,408,049	-	1,408,049
Bank balances and cash deposits	<u>367,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,238</u>
Total financial assets	<u>770,655</u>	<u>201,708</u>	<u>1,737,093</u>	<u>151,281</u>	<u>2,860,738</u>
Financial liabilities					
Total financial liabilities	<u>(715,410)</u>	<u>(357,705)</u>	<u>(447,131)</u>	<u>(268,279)</u>	<u>(1,788,525)</u>
Net liquidity gap	<u>55,245</u>	<u>(155,997)</u>	<u>1,289,962</u>	<u>(116,998)</u>	<u>1,072,213</u>

37. Financial Risk Management Objectives And Policies (Continued)

(d) *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and legal requirements;
- documentation of controls and procedures;
- requirements for the yearly assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and,
- risk mitigation, including insurance where this is effective.

Operational risk is managed by a programme of regular reviews undertaken by the Internal Audit and the results of the reviews are discussed with the management, with summaries submitted to the Audit Committee and senior management of the Group.

38. Capital Management

The Group defines capital as the total equity of the Company. The Group's long-term objective for managing capital is to deliver sustainable returns to maximize long-term shareholder value.

The Group is not subject to any externally imposed capital requirements.

The major items that impact the equity of the Group include the following:

- revenue received from seed sales (which is a function of price and sales volume);
- seed purchase cost;
- cost of operating the business;
- cost of expanding the business to ensure that capacity growth is in line with seed sales demand;
- taxation; and,
- dividends.

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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38. Capital Management (Continued)

In the short to medium term, profits are distributed via dividends, and extra profits retained in the Group are used to self-fund investing and operating activities. The Group does not have any long term debt. The Group aims to maintain capital discipline in relation to investing activities. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 10% and 25%. The Group includes within net debt, interest bearing loans and borrowing, trade and other payables, less cash and cash equivalent.

	Group	
	2015	2014
	KShs '000	KShs '000
Trade and other payables(note 30)	765,476	429,447
Less : Cash and other short term deposits (note 33)	(180,886)	(367,238)
Net debt	584,589	62,209
Total Capital (Equity)	6,321,362	6,143,468
Capital and net debt	6,905,951	6,205,677
Gearing ratio	9.00%	1.00%

Though the company's gearing ratio is below its' lower end, the directors considers this to be favourable.

39. Segmental Information

Business segments

The Group carries on the business of seed growers and seed merchants. It operates a seed maize shelling and drying plant and a small cereals drying plant. The Group also imports, produces and distributes vegetable seeds under the brand name of "Simlaw" seeds. Over 99% of the business of the Group involves production and sale of seeds hence segment analysis based on business lines is not deemed useful in these financial statements.

Geographical segments

The Group is organized on a regional basis into three main geographical segments:

- Kenya
- Tanzania
- Uganda

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

39. Segmental Information (Continued)

The analysis below is the summary of the Group's results, assets and liabilities by geographical segments:

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Eliminated on consolidation KShs'000	Total KShs'000
Statement of comprehensive income					
Year ended 30 June 2015					
Operating income					
External	5,377,192	266,200	144,833	-	5,788,224
Inter-segment	(318,762)	-	-	-	(318,762)
Total operating income	<u>5,058,430</u>	<u>266,200</u>	<u>144,833</u>	=	<u>5,469,462</u>
Segment profit	<u>319,985</u>	<u>(78,879)</u>	<u>(13,379)</u>	=	<u>227,727</u>
Statement of financial position:-					
Segment total assets	<u>9,447,670</u>	<u>334,618</u>	<u>178,116</u>	<u>(1,319,447)</u>	<u>8,640,957</u>
Segments liabilities	2,612,028	398,174	375,815	(1,460,066)	1,925,952
Non operating liabilities	<u>393,644</u>	-	-	-	<u>393,644</u>
Total liabilities	<u>3,005,672</u>	<u>398,174</u>	<u>375,815</u>	<u>(1,460,066)</u>	<u>2,319,595</u>
Other information:-					
Additions to property, plant and equipment	318,695	16,903	-	-	335,598
Additions to intangible assets	5,695	-	-	-	5,695
Additions to prepaid operating rentals	975	-	-	-	975
Depreciation of property, plant and equipment	247,415	4,547	2,740	-	254,702
Amortization of prepaid operating leases	25,893	-	613	-	26,506
Amortization of intangible assets	3,391	67	-	-	3,457
Provision for obsolete inventories	109,103	19,082	-	-	128,185
Provision for bad and doubtful debts	17,922	11,900	1,454	-	31,276
Bad debts recovered	29,990	-	-	-	29,990
Finance cost	175,493	29,392	15,300	-	220,185
Income tax	154,917	6,018	-	-	160,935
Effects of discounting of staff receivables	<u>(1,319)</u>	-	-	-	<u>(1,319)</u>
	<u>1,088,170</u>	<u>87,908</u>	<u>20,107</u>	=	<u>1,196,185</u>
Off balance sheet items:					
Capital expenditure commitments	399,118	-	-	-	399,118
Operating lease commitments	<u>82,923</u>	=	-	-	<u>82,923</u>
Total	<u>482,041</u>	=	-	=	<u>482,041</u>

Inter-segment revenues are eliminated upon consolidation and reflected in the 'Eliminated on consolidation'

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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39. Segmental Information (Continued)

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Eliminated on consolidation KShs'000	Total KShs'000
Year ended 30 June 2014					
Operating income					
External	5,761,958	225,225	147,889	-	6,135,072
Inter-segment	<u>225,251</u>	<u>-</u>	<u>-</u>	<u>(225,251)</u>	<u>-</u>
Total operating income	<u>5,987,209</u>	<u>225,225</u>	<u>147,889</u>	<u>(225,251)</u>	<u>6,135,072</u>
Segment profit	<u>461,346</u>	<u>(2,583)</u>	<u>(1,220)</u>	<u>6,444</u>	<u>463,988</u>
Statement of financial position:					
Segment total assets	<u>8,029,088</u>	<u>285,908</u>	<u>110,470</u>	<u>(80,963)</u>	<u>8,344,503</u>
Segments liabilities	1,566,691	278,694	303,163	(402,482)	1,746,066
Non operating liabilities	<u>454,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,969</u>
Total liabilities	<u>2,021,660</u>	<u>278,694</u>	<u>303,163</u>	<u>(402,482)</u>	<u>2,201,035</u>
Other information:-					
Additions to property, plant and equipment	56,710	3,307	531	-	60,548
Additions to intangible assets	2,314	-	-	-	2,314
Additions to prepaid operating rentals	6,930	-	-	-	6,930
Depreciation of property, plant and equipment	235,931	3,481	3,479	-	242,891
Amortization of prepaid operating leases	52,837	-	-	-	52,837
Amortization of intangible assets	3,876	-	-	-	3,876
Provision for obsolete inventories	84,391	4,228	3,509	-	92,128
Provision for bad and doubtful debts	76,843	1,224	-	-	78,067
Bad debts recovered	(44,267)	-	-	-	(44,267)
Finance income	150,693	-	-	-	150,693
Finance cost	154,482	(5,181)	-	-	149,301
Income tax	<u>(4,874)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,874)</u>
Effects of discounting of staff receivables	<u>775,866</u>	<u>7,059</u>	<u>7,519</u>	<u>-</u>	<u>790,444</u>
	650,875	-	-	-	650,875
Off balance sheet items:	<u>54,306</u>	<u>14,590</u>	<u>-</u>	<u>-</u>	<u>68,896</u>
Capital expenditure commitments					
Operating lease commitments	<u>705,181</u>	<u>14,590</u>	<u>-</u>	<u>-</u>	<u>719,771</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2015

39. Segmental Information (Continued)

Segmental Income Statement for the year ended June 2015

	KSC 2015 Kshs '000	Simlaw Kenya 2015 Kshs '000	Tanzania 2015 Kshs '000	Uganda 2015 Kshs '000	Group Total 2015 Kshs '000
Revenue	4,610,939	777,530	266,200	144,833	5,799,501
Cost of Sales	(2,944,680)	(559,874)	(161,667)	(96,401)	(3,762,622)
Gross Profit	1,666,258	217,656	104,533	48,431	2,036,879
Other Income	116,771	16,277	686	1,098	134,831
Operating Expenses	(1,173,089)	(193,478)	(148,688)	(47,608)	(1,562,862)
Finance Costs	(175,483)	-	(29,392)	(15,300)	(220,174)
Finance Income	-	(11)	-	-	(11)
Profit before Tax	434,458	40,444	(72,861)	(13,379)	388,662
Tax	(143,246)	(11,671)	(6,018)	-	(160,935)
Profit after Tax	291,211	28,774	(78,879)	(13,379)	227,727

Segmental Statement of Financial Position as at 30th June 2015

	KSC 2015 Kshs '000	Simlaw Ke 2015 Kshs '000	Tanzania 2015 Kshs '000	Uganda 2015 Kshs '000	Elimination on Consolidation	Group Total 2015 Kshs '000
Non-Current Assets	2,002,494	136,266	34,728	7,229	(55,696)	2,125,020
Inventories	3,492,938	595,300	195,280	72,379	-	4,355,896
Receivables	2,548,495	256,107	89,749	70,187	(1,126,084)	1,838,454
Cash and Bank	98,428	46,808	7,328	28,322	-	180,886
Other Assets	153,321	11,480	-	-	-	164,801
Total Assets	8,295,677	1,045,961	327,084	178,116	(1,181,780)	8,665,057
Shareholders' Funds	6,223,855	218,143	(63,556)	(197,699)	140,619	6,321,362
Long-Term Liabilities	393,644	-	-	-	-	393,644
Payables	451,374	194,770	67,030	52,301	-	765,476
Other Payables	147,660	633,047	323,610	323,514	(1,322,399)	105,433
Over-Drafts	1,079,144	-	-	-	-	1,079,144
Total Liabilities	8,295,677	1,045,961	327,084	178,116	(1,181,780)	8,665,057

Inter-segment revenues are eliminated upon consolidation and reflected in the 'Eliminated on consolidation' column.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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	Group and Company	
	2015	2014
40. Contingent Liabilities	KShs '000	KShs '000
Pending litigation claims	53,590	53,590
Claim by a former employee	2,000	2,000
Claim by former contractor	786,477	786,477
	<u>842,067</u>	<u>842,067</u>

Pending litigation claims

The pending litigation claims relate to cases instituted by third parties against the Company. Judgment in respect of these cases had not been determined as at 30 June 2015. Based on the advice by the Company's lawyers, the directors are of the opinion that no liabilities will crystallize. Therefore, no provision has been made for the amount in these financial statements.

Claims by a former employee

The claims by a former employee are in respect of a claim for wrongful dismissal. In the opinion of the directors, the claim may not crystallize since the employee was dismissed by the Minister for Agriculture who was exercising his powers under Section 6 of the State Corporations Act and not the Company. The final outcome is subject to court decision.

Claim by former contractor

There is a claim pending against the company by Kitek (K) Limited for unlawful termination of contract before arbitration in which the company is seeking KShs 786 million arising from a building contract. Based on the advice by the Company's lawyers, the directors are of the opinion that no liabilities will crystallize. Therefore, no provision has been made for the amount in these financial statements.

Tax assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company in 2014 covering corporate tax, employee taxes, withholding tax and VAT for the period from 2006 to 2009. KRA has demanded KShs 71 million as the principal tax and interest. In the opinion of the directors, after taking appropriate tax advice, this amount is not payable and they have appealed to the Commissioner to review the assessment. The directors are of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

41. Fair Values

In the opinion of the directors, the carrying value of the Group's financial assets and liabilities on the statement of financial position approximate their fair values. The loans to related party are interest free and have no specific repayment period. Therefore, their fair value cannot be measured reliably.

42. Incorporation And Ultimate Holding Entity

The Company is domiciled and incorporated in The Republic of Kenya under the Companies Act, Cap 486, Laws of Kenya. Kenya Seed Company Limited 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.

43. Currency

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

44. Comparative Information

Where necessary, prior year comparative figures have been adjusted/extended to conform to changes in presentation in the current year. These changes did not have impact on results for the year, or on the net asset position of the Group and the Company.

45. Events After The Reporting Date

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

Trend of key Performance Indicators

	2015	2014	2013	2012	2011
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Turnover	5,472,101	5,992,771	5,010,971	4,987,223	3,560,698
Profit before tax	388,662	450,836	288,673	406,583	128,981
Tax charge	-160,935	-149,301	-88,082	-123,855	-17,307
Profit for the year transferred to retained earnings	227,727	301,535	200,591	282,728	111,674
Dividends	56,602	60,265	56,602	56,605	56,605
Share Capital and shareholders' Funds					
Ordinary Share capital	215,625	215,625	215,625	215,625	215,625
Share holders' funds	6,321,362	6,143,468	6,121,279	5,931,713	5,463,563
Earnings and Dividend per Share					
Earnings per share	21.12	27.97	18.43	26.22	10.38
Dividend per share(Kshs)	5.25	5.6	5.25	5.25	5.25
Seed Maize Produced (Kg)	33,648	24,480	35,762	34,750	21,201
Seed Maize Sales (Kg)	23,686	25,789	22,283	28,047	20,492

