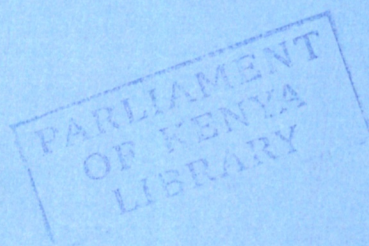


REPUBLIC OF KENYA



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 2017**



OFFICE OF THE AUDITOR GENERAL
ELDORET HUB
23 AUG 2019
RECEIVED
P. O. Box 2774 - 30100, ELDORET

KENYA SEED COMPANY LIMITED

Top quality seed

ISO 9001:2008 CERTIFIED FIRM

Annual Report And Financial Statements For the Year Ended 30th June 2017



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

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

Email: info@kenyaseed.co.ke

www.kenyaseed.com

VISION

The 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 honor 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

Table of Contents

Corporate Information.....	2
Performance at a Glance.....	4
Board of Directors.....	6
Chairman's Statement.....	10
Managing Director's Statement.....	13
Senior Management Team.....	16
Statement of Corporate Governance.....	21
Management Discussions and Analysis.....	28
Corporate Social Responsibility.....	33
Director's Report.....	34
Statement of Directors Responsibility.....	35
Report of the Auditor-General.....	36
Audited Consolidated Financial Statements	
Statement of Profit or loss and other Comprehensive Income.....	44
Statement of Financial Position.....	45
Statement of Changes in Equity.....	47
Statement of Cash Flows.....	49
Statement of Budget Comparison.....	50
Notes to the Financial Statements.....	52
Five Year Performance Trend.....	120
Progress on Follow Up of Audit Recommendations.....	121

Directors

The Directors who served the entity during the year were as follows:

Non-Executive

Mr. Nathan Anaswa	Chairman from 7 th February 2017
Mr. Jack Chebett	Chairman up to 7 th February 2017
Dr. Kamau Thuge	Principal Secretary, The National Treasury
Dr. Richard Lesiyampe	Principal Secretary, State department of Agriculture
Mr. Richard Aiyabei	Managing Director, ADC
Mr. Simon Cherogony	Managing Director, KFA
Mr. Lawrence Njiru	
Mr. William Kundu	
Dr. Nathaniel Tum	Director from 7 th February 2017
Ms. Alice Munke	Director up to 7 th February 2017
Mr. Abraham Koech	Alternate Director to the Principal Secretary, The National Treasury
Dr. Johnson Irungu	Alternate Director to the Principal Secretary, State department of Agriculture

Executive

Mr. Azariah Soi	Managing Director
-----------------	-------------------

Company Secretary

Ms. Wilkister Simiyu, CPS (K)
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 and Principal Auditors

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

CORPORATE INFORMATION

Delegated Auditors	Parker Randal Eastern Africa Certified Public Accountants Symbion House, Karen P.O. Box 25426-00100 GPO Nairobi, Kenya
Principal Lawyers	Kidiavai & Company Advocates, Commissioners for Oaths and Notaries Public 2 nd Floor, Mazop Building P.O. Box 437 – 30200 Kitale, Kenya. Albert Kamunde & Company Advocates, Commissioners for Oaths, Notary Public and Certified Public Secretaries, 4 th 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.

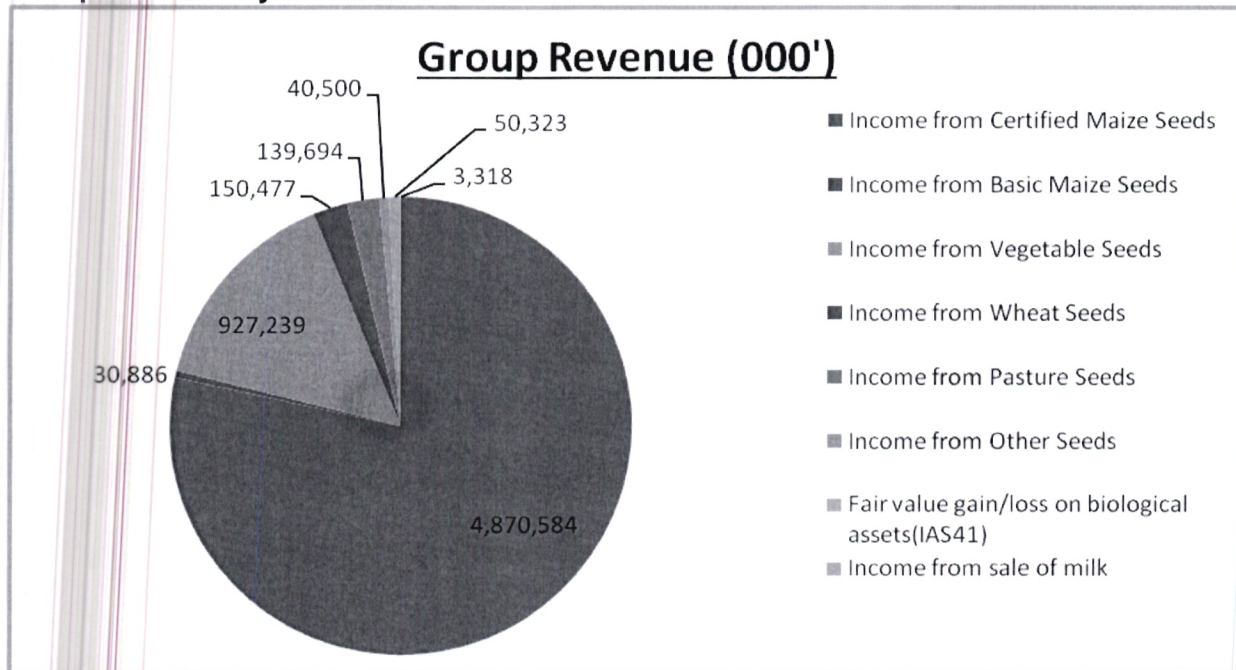
PERFORMANCE AT A GLANCE

Maize Seed Sold in Million Kilos
27.75

Maize Seed Produced in Millions Kilos
26.49

Turnover in Billions
Kshs 6.2

Group Revenue by Products in Kshs '000'



- Where to Find KSC Branches
- Kitale
 - Eldoret
 - Bungoma
 - Kakamega
 - Kapsabet
 - Kericho
 - Kisii
 - Nakuru
 - Ruaraka
 - Narok
 - Simlaw Seeds Company Ltd and her Branches

Turnover of Group Companies in Kenya Shillings (Millions):

- KSC Group Revenue-6,213
- Kenya Seed Company-5,127
- Simlaw Kenya-938
- Kibo Seeds-392
- Simlaw Tanzania-Nil
- Simlaw Uganda-286
- Mt Elgon Uganda-Nil

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

KSC Group -350
KSC-383
Simlaw Kenya-13
Kibo Seeds-(31)
Simlaw Tanzania-(0.002)
Simlaw Uganda-12
Mt Elgon Uganda-Nil

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

KSC Group -10,182
KSC-10,149
Simlaw Kenya-183
Kibo Seeds-(113)
Simlaw Tanzania-24
Simlaw Uganda-(26)
Mt Elgon Uganda-(141)

Balance Sheet Size in Kenya Shillings (Millions):

KSC Group -11,822
KSC Company—11,499
Simlaw Kenya-1,146
Kibo Seeds-423
Simlaw Tanzania-24
Simlaw Uganda-171
Mt Elgon Uganda-59

THE BOARD OF DIRECTORS



DR. KAMAU THUGGE
PS- TREASURY



Mr. Jack Chebett
Chairman up to 07.02.2017



Mr. Nathan Anaswa
Chairman from 07.02.2017



AZARIAH SOI
MANAGING DIRECTOR



Dr. Richard Lesiyampe
PS-Agriculture



Mr. Symon Cherogony
Managing Director -KFA



MR. ABRAHAM KOECH
ALTERNATE DIRECTOR-NATIONAL TREASURY



DR. JOHNSON IRUNGU WAIHAKA
ALTERNATE DIRECTOR-AGRICULTURE



Mr Richard Aiyabei
Managing Director ADC



Dr. Nathaniel K. Tum
Director



Ms. Wilkister Simiyu
Company Secretary



MR. WILLIAM KUNDU
DIRECTOR



Ms. Alice Munke
Director up to 07.02.2017



MR. LAWRENCE NJIRU
DIRECTOR

DIRECTORS PROFILE

Hon. Nathan Sanya Anaswa

Hon. Nathan Anaswa, born in 1942 is the Chairman of the Board of Directors of Kenya Seed Company Limited, having joined the Board on 27th February 2017 and elected to the chairmanship's role on 13th April, 2017. Hon Anaswa served as a Member of Parliament for Malava Constituency (1988-1992). He also served as the Chairman of Malava County Hospital (2014-2016), chairman of Namagara Secondary School (2013-2015) and Chairman of Malava Constituency CDF (2010-2013). Hon. Anaswa had an accomplished career in the teaching profession from 1970 to 1987 which he served with distinction during which he was promoted and served as a principal of Lugali, Musingu, Bungoma and Ingotse High Schools. Hon. Anaswa holds a Diploma from Kenyatta College and a Bachelor of Arts (Education) degree from the University of Nairobi.

Dr Kamau Thugge

Dr. Kamau Thugge is the Principal Secretary at The National Treasury. Dr. Thugge was born in 1965. 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.

Dr. Richard Lesiyampe

Dr. Richard Lesiyampe is the Principal Secretary, State Department of Agriculture at the Ministry of Agriculture, Livestock and Fisheries. Dr. Lesiyampe was born in 1964. Before joining the Ministry, Mr. Lesiyampe was Principal Secretary, State Department of Environment and Natural Resources. Formerly, he was the CEO of Kenyatta National Hospital and previously worked for Kenya Wildlife Service. Dr. Lesiyampe is a holder of a PHD degree from Methodist University and MBA from the University of Nairobi. Dr. Lesiyampe 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. Lesiyampe is the Chairman of Samburu Professionals Association and the patron of the Samburu County University Students.

Azariah Soi

Mr. Azariah Soi is the Managing Director and CEO of Kenya Seed Company from 19th May 2016 and was born in 1960. He is responsible for the operational running of the Company to ensure that the mission is achieved. Mr Soi has wide experience gained as the General Manager of Simlaw Seeds from 2006 until his appointment as the Managing Director of Kenya Seed Company. Mr. Soi is a holder of BSc (Agriculture) from University of East Africa, Baraton as well as MBA from Kenyatta University. Mr Soi started his career in Kenya Seed Company where he joined on 1st August 1986 as field officer in the pasture department. He also served as a Research Officer in R& D department, in marketing department as market research and information officer and later as public relations and communication officer. Mr Soi has made contribution to the seed industry as the Chairman of the Seed Trade Association of Kenya (STAK), a member of the Board of African Seed Trade Association (AFSTA) and in the global body as a Board member of the International Seed Federation (ISF).

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 from Texas A & M University, USA and a diploma in Agricultural Engineering from Egerton University. Mr Cherogony joined Kenya Farmers Association (KFA) in 1988 as a Sales Manager- Machinery where he rose through the ranks in various positions in the organization. In 1994, Mr Cherogony was promoted to the position of General Manager-Machinery, a position he served until 1999. In 1999, Mr Cherogony was promoted to the position of the overall General Manager of the KFA business, a position he occupied until 2007 when he was promoted to the position of the Managing Director of KFA which he has held to date. Mr Cherogony has represented KFA in the Board of Kenya Seed Company from 2009 to date. Mr Cherogony is a seasoned professional who has attended various professional development programs both locally in Kenya and abroad.

Dr. Nathaniel K. Tum

Dr. Nathaniel K. Tum was born in 1948. He joined the Board on 7th February 2017. He has vast experience in both public and private enterprise management having served Kenya Seed Company Limited and other organizations. He joined the Company in 1982 as Personnel Manager and rose to become the General Manager and later the Board appointed him as the Managing Director from 1985 to 2003. He was the Founding Chairman of Kenya Agricultural Research Institute (now KALRO) and Board Member, Chair of Agricultural Society of Kenya, Founding President of the African Seed Trade Association (AFSTA 1999-2002) as well as the Seed Trade Association of Kenya (STAK) and was a Committee Member of FIS. He has also worked as the Trustee and Vice Chairman of United States International University-Africa (USIU 1997-2007) as well as the Chairman of Moi University Council among other organizations. He was the immediate past Chairman of the Kenya National Shipping Lines Limited having been appointed in 2013 and completed his term in 2016. He holds Diploma in Science Education, Bachelor of Law (LL.B) and MSc-Management and MBA-Finance & Marketing both from USIU San Diego. He is a recipient of EBS and CBS Head of State Commendations and was also awarded the Doctor of Letters in 2002 by Egerton University in recognition of his contribution to the development of agriculture and institutional management. He is an Advocate of the High Court of Kenya and a member of Law Society of Kenya, a Governance Auditor and member of the Institute of Certified Public Secretaries of Kenya (ICPSK). He is also a Fellow of the Kenya Institute of Management (FKIM) as well as Board member of Fellows of KIM and a member of the Institute of Management (UK).

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.

Dr. Johnson Irungu Waithaka, Alternate Director to Principal Secretary, Ministry of Agriculture

Dr. Johnson Irungu Waithaka was born in 1960. He holds a PhD degree in Soil Science from the University of Reading (UK) and Msc in Agronomy and Bsc in Agriculture degrees from the University of Nairobi, Kenya. He is currently the Director of Agriculture, Crop Resources, Agribusiness and Market Development Directorate in the Kenya Ministry of Agriculture, Livestock and Fisheries. Dr Irungu worked at KALRO, rising to the position of Principal Research Officer before joining the Catholic Relief Services Kenya Program where he was the Agriculture Program Manager, before joining the Ministry of Agriculture. He has served as Alternate Director, Coffee Development Fund, Tobacco Control Board and KEPHIS Boards of Management. Dr Irungu serves as Alternate Director for Kenya Seed Company Board, representing Principal Secretary, Ministry of Agriculture. Dr Irungu is also serving in the Board of Trustee of African Agricultural Technology Foundation (AATF) and has published widely.

Mr. Abraham Koech, Alternate Director to the Principal Secretary, The National Treasury

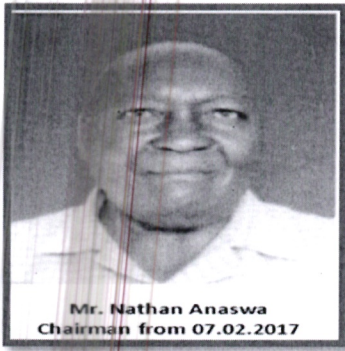
Mr. Abraham Koech was born in 1969. He is currently serving as a Chief Investment Officer at the National Treasury and previously worked at Postbank Kenya rising to the position of Manager, Strategy and Change. Mr Koech holds a BA degree in Economics from the University of Nairobi and an MBA in Strategic Management from Jomo Kenyatta University of Agriculture and Technology. Mr. Koech is also serving as an alternate director to the Principal Secretary, The National Treasury in the Kenya Film Classification Board (KFCB).

Mr. Richard Aiyabei

Mr. Richard Aiyabei, who joined the Board on 18th December 2015 when he became the Managing Director of ADC, was born in 1966. He holds a Masters degree 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 rose through the ranks until December 2015 when he was appointed to the position of the Managing Director.

Ms. Wilkister Simiyu

Ms. Wilkister Simiyu was born on 16th June, 1981 and is the Company Secretary and Head of Legal Services. She has 10 years work experience both as a practicing advocate and an in-house counsel having worked with Kitiwa & Co., Nyaundi, Tuiyot & Co. and Moi University. She holds LLB degree from Moi University and postgraduate diploma in Law (KSL). She is a CPS (K) holder and currently pursuing a Master of Laws. She joined the company in October 2016.



Dear Shareholders,

I am privileged to present to you the annual report and consolidated financial statements of Kenya Seed Company and group for the year ended 30th June 2017.

The company managed to post commendable performance results despite a lot of challenges among them inadequate rainfall, uncertainties occasioned by prolonged general election of 2017 and emergence of diseases and pests such as Maize Lethal Necrotic Disease (MLND) and a devastating Fall Army Worm (FAW) invasion.

Business Environment Overview

The global economy grew by 2.9% in 2016 compared to a growth of 3.1% in 2015 occasioned by constrained global trade and subdued investment. Closer home, The East Africa Community GDP is estimated to have grown by 6.1% compared to 5.8% in 2015. The growth was fuelled by public infrastructure investment, buoyant private consumption and low oil prices.

Kenya's economy experienced a relatively conducive environment for growth during the first three quarters of 2016. However, the last quarter's growth was undermined by a severe drought. Kenya's real GDP expanded at 5.8% in 2016 compared to a revised growth of 5.7% in 2015. Generally, the growth was spread in most sectors but subdued in a few, including the manufacturing sector which recorded a decelerated growth of 3.5% in 2016 from a revised growth of 3.6% in 2015.

The agricultural sector, which continues to be the mainstay of Kenya's economy contributing 24% of the GDP, experienced mixed results with tea and coffee sub sectors recording fair prices in the international market. The seed subsector faced ordinary challenges with increase in prices of commercial maize motivating many farmers to increase their acreage of commercial maize crop therefore increasing the demand for seed.

Financial Review

We are pleased to report that the Company posted an improved performance in the year under review. The Company recorded a 140% growth in profit before tax from Kshs 146 million in 2016 to Kshs 350 million for the year ended 30 June 2017. The parent Company recorded a 110% growth in profit before tax from Kshs 182 million in 2016 to Kshs 383 million for the year ended 30 June 2017.

Both Simlaw Seeds Kenya and Simlaw Seeds Uganda reported marginal profits while Kibo Seeds Tanzania reported a loss.

Seed Supply

The parent company made significant progress in increasing seed acreage under irrigation by enhancing partnership with key growers who have installed irrigation capacity in their farms. As a result, the Company produced adequate seed to shore up its inventory of all the major varieties for all agro-ecological zones sufficient to meet her market demand.

Dividend

In line with the strategic objective to create and manage stakeholder value, the company has continued to pay 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.

The 2001 Share Issue

Discussion on the 2001 share issue was carried out between the various stakeholders under the chairmanship of the Principal Secretary, State Department of Agriculture in the ministry of Agriculture, Livestock and Fisheries. As a result of this meeting, the Principal Secretary pursuant to the AGs advisory to settle the 2001 share issue out of court, appointed a Verification Committee consisting of officers from the ministry of Agriculture, Attorney General's office, Treasury, Capital Markets Authority, Agricultural Development Corporation (ADC), Kenya Seed Company and representatives of the private shareholders. The committee was tasked with the responsibility of verifying the names of individuals who bought the 2001 shares, amounts paid and scrutinize the Share Certificates issued. The committee also verified the bank statements to establish that all the money paid was banked in the Company's bank account. Upon completion of the exercise the committee presented a report to the Principal Secretary for onward submission to the AG for further guidance. The AG has since given his advisory that a Deed of Settlement between Kenya Seed Company and ADC be prepared for his review before it is registered in court to facilitate withdrawal of Nairobi HCCC No. 575 of 2004. This process is now ongoing and once it is completed the 2001 share issue will be settled.

Board Changes

The current Board was elected on 7th February 2017 after the expiry of the term of the previous Board. It is after the constitution of the new Board that I was elected Chairman of the Board. Most of the directors who served in the previous term were elected to serve in the current term, however, Dr. Nathaniel Tum joined the Board on 7th February 2017 while Mr. Jack Chebett and Ms. Alice Munke ceased being directors on 31st January, 2017 when their term as per the gazette Notice expired.

Future Outlook

The future outlook of Kenya Seed Company is bright. The Board is developing more strategies to grow the market and enhance financial management in order to increase profits and reduce wastage.

The Board is also putting in place strategies to expand business in the regional markets like Tanzania, Uganda, Rwanda, Burundi and Democratic Republic of Congo. In addition to expanding the regional market, the Company is also looking at expanding its product portfolio to include vegetable seeds, pasture and sunflower seeds.

The Board of Directors will continually review the various business strategies in place to ensure sustained business profitability and growth.

CHAIRMAN'S STATEMENT

Appreciation

I wish to extend my sincere appreciation to all our shareholders, business partners, esteemed customers, our farmers, the Board of Directors and the Management team for the unwavering support and confidence in the Company and our products.



Hon. Nathan Anaswa
Chairman



I am delighted to present to you the performance of Kenya Seed Company for the year ended 30th June 2017.

During the year ending 30th June 2016, the company made changes in its Board and management. A new chairman was elected while management recruited three new managers to beef up the effectiveness of management team and enhance efficiency and service delivery.

Financial Performance

In the FY2016/17, turnover increased by 14% for both the Group and the Parent Company, with Group Turnover growing from Kshs 5.5 Billion to Kshs 6.2 Billion.

Operating profit of the Group increased by 10% from Kshs 435 Million to Kshs 479 Million while that of the Parent Company increased by 15% from Kshs 427 Million to Kshs 492 Million.

Profit before Tax for the group grew by 140% Kshs 146 million in 2016 to Kshs 350 million in 2017 while that of the Parent Company grew by 110% from Kshs 182 million in 2016 to Kshs 383 in 2017

The closing Cash balance of the Group improved significantly from a net overdraft of Kshs 1.065 Billion in 2016 to a net overdraft position of Kshs 144 Million in 2017, due to improved sales, reduced inventory and stringent financial management. The Company's cash balance increased from a net overdraft position of Kshs 1.034 Billion to a net overdraft position of Kshs 197 Million.

The Balance Sheet reduced slightly by 8% from Kshs 12.9 Billion in 2016 to Kshs 11.9 Billion in 2017 mainly as a result of depreciation of fixed assets and reduction of inventory balances.

Our subsidiaries returned mix performance results. Simlaw Kenya earned a Profit before Tax of Kshs 13 Million, with Simlaw Uganda returning a Pretax Profit of Kshs 12 Million. Kibo Seed Tanzania returned a loss before tax of Kshs 31 Million.

The amounts owed to the parent company by the subsidiaries increased by 10% from Kshs 1.004 Billion to Kshs 1.106 Billion due to the subsidiary company's inability to service their debts thus channeling the proceeds of their sales of seeds into their operations. This development is being addressed with the aim of streamlining financial discipline in the subsidiaries.

Research and Development

In line with our philosophy of ensuring farmers obtain superior varieties that are high yielding and tolerant to pests and diseases, I am pleased to report that we are in the process of commercializing two new maize varieties namely; WE1101 and MZ1202 which are tolerant to Maize Lethal Necrosis Disease (MLND). The department has also improved five commercial maize varieties through defect reduction in H614D, H627, H9401, H6213 and H513 in order to enhance their performance in key aspects such as grain quality, standing ability and bare tips.

The company has continued to make investments in research and this has enabled the release of three maize varieties, and four sorghum varieties which when fully commercialized, shall afford farmers an opportunity to maximize their productivity and diversify into other food crops thus make our nation food secure.

Operations

During the year we have enhanced our collaboration with key growers who have invested in irrigation facilities. This will go a long way in ensuring consistency in the supply of quality seeds.

Timely availability of sufficient fertilizer is critical to efficient and effective seed production activity. To realize this we have continued to partner with the Ministry of Agriculture in accessing the subsidized fertilizers for our growers in an effort to lower the production costs thus increase farmer earnings and maintain competitive prices of seed.

Efforts have been made to harness potential in the external markets by releasing our varieties in countries such as Rwanda, Burundi and DRC with the purpose of expanding the market and increase revenue earnings.

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 goals.

The company's future growth will come from:

- Focus on adequate supply of short to medium season seed varieties whose demand could increase with the changing weather patterns
- Commercialization of MLND tolerant varieties which are high yielding
- Commitment of marketing effort and resources into the vegetable seed market which returns high profit margins
- Turning around external subsidiaries to profitability, thus transforming them into revenue generating units.
- Diversifying to non maize seed product portfolios thus reducing over reliance on maize seed.
- Increasing the supply of pasture seed to meet the demand.
- Enhancing efficiencies from the new AMS/SAP computer software.

Customer focus

We remain focused on achieving unrivalled customer satisfaction levels through effective communication, increasing direct customer contact through our branches across the country and our subsidiaries, delivering quality products on time and revamping our marketing activities.

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 support. My appreciation also goes out to our Shareholders for their patience and commitment to our Strategy, to the Directors of the Board whose unwavering support, leadership and guidance have continued to inspire and challenge us, to our regulators and the government through the ministry of agriculture whose invaluable oversight, assistance and encouragement have been key to our

MANAGING DIRECTOR'S STATEMENT

progress so far, to our stake holders and other business partners and to the communities that we have the privilege of serving.

I also wish to thank my staff 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.

Thank you and God bless you.



Azariah Soi
Managing Director



SENIOR MANAGEMENT TEAM

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 2017 is as set out below:

- Mr. Azariah Soi Managing Director
- Ms Wilkister Simiyu Company Secretary
- CPA Joseph Onyango Acting Internal Audit Manager
- Mr. David Kiplagat General Manager, Simlaw Seeds Limited
- Mr. Francis Mwaura General Manager, Kibo Seeds Limited, Tanzania
- Ms. Sylvia Kyeyune General Manager, Simlaw Seed Company Limited, Uganda
- CPA Patrick Thuo Head of Finance
- Mr. Stephen Malakwen Head of Human Resources
- Mr. Alphonse Laboso Head of Research & Development
- Mr. Sammy Chepsiror Head of Sales & Marketing
- Mr. Hosea Sirma Head of Production-EDF & BSU
- Ms Eunice Ombachi Head of Production-Seed Maize/Pasture
- Mr. Fred Oloibe Head of Strategy & Business Development
- Engineer Erick Nyamburi Head of Processing & Engineering
- Mr. Thomas Mukung Security Manager
- Mr. Erick Tegei Quality Assurance Manager
- Mr. Philip Chemwetich ICT Manager
- Ms Joyce Agufana Nakuru Branch Manager
- Mr. Betwel Chemitei Procurement Manager

SENIOR MANAGEMENT TEAM



Mr. Azariah Soi is the Managing Director and CEO of Kenya Seed Company from 19th May 2016 and was born in 1960. He is responsible for the operational running of the Company to ensure that the mission is achieved. Mr. Soi has wide experience gained as the General Manager of Simlaw Seeds from 2006 until his appointment as the Managing Director of Kenya Seed Company. Mr. Soi is a holder of B.Sc (Agriculture) as well as MBA degrees, from Kenyatta University. Mr. Soi started his career in Kenya Seed Company where he joined on 1st August 1986 as field officer in the pasture department.



Ms. Wilkister Simiyu was born on 16th June, 1981 and is the Company Secretary and Head of Legal Services. She has over 10 years work experience both as a practicing advocate and an in-house counsel having worked with Kitiwa & Co., Nyaundi, Tuiyot & Co. and Moi University. She holds LLB degree from Moi University and postgraduate diploma in Law (KSL). She is a CPS (K) holder and currently pursuing a Master of Laws (UOL). She joined the company in October 2016.



Mr. Joseph Odhiambo Onyango was born in 1975 and is the Acting internal Audit Manager. Mr. Onyango holds Bachelor of Commerce degree (Finance) from Catholic University of Eastern Africa and a MBA (Finance) from Jomo Kenyatta University of Agriculture and Technology. He has fifteen years working experience in various organizations in Auditing and accounting. He previously worked as Internal Auditor at Chemelil Sugar Co., Nzoia Sugar Co. and Kenya Bankers Sacco Society Ltd. He joined the company in November 2009. He is a member of ICPAK, ISACA and ICSK.



Mr. David Kiplagat 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. Mr Kiplagat left resigned from the Board in September 2016 when he was appointed as the General Manager of Simlaw Seeds Company Limited.



Mr. Francis Chege Mwaura was born on 3rd June 1970 and is the General Manager, Kibo Seed Company Tanzania Ltd, a subsidiary of Kenya Seed Company since June 2014. Previously he was the Head of sales and marketing for the Group. He holds Bcom degree in Marketing from University of Nairobi and Msc. in Global Marketing from Liverpool University and a Diploma in Marketing and is a member of MSK and C.I.M. He has been in the company for 11 years and has over 20 years experience in management and marketing.

SENIOR MANAGEMENT TEAM



Mrs. Sylvia Nanteza Kyeyune was born in 1976 and is the General Manager of Simlaw Seeds Company Uganda Ltd, in Uganda, a subsidiary of Kenya Seed Company. She is responsible for coordinating all the activities of the Subsidiary to ensure its smooth operation. Mrs Kyeyune holds a Master of Science degree in Crop Science and a Bachelor of Science degree in Agriculture from Makerere University, Kampala, Uganda. She has over 13 years leadership and managerial experience in the seed sector and is currently serving as the Chairperson, Uganda Seed Trade Association. She joined the company in August 2003.



CPA Patrick Thuo was born on 20th August 1972 and is the Head of Finance. CPA Thuo holds a Bachelor of Commerce and a Masters in Business Administration from the University of Nairobi. CPA Thuo is a member of the Institute of Certified Public Accountants of Kenya (ICPAK), the Kenya Institute of Management (KIM), a graduate of Advanced Management Programme (Strathmore- IESE Business School, Barcelona Spain) and a Certified Public Secretaries (CPS) finalist. He has over 20 years managerial and leadership experience from key sectors of the economy including banking, public and private organizations having worked with Coca-Cola, Citibank and United Bank for Africa (UBA). CPA Thuo is also serving in the management committee of Kitale club and joined Kenya Seed in November 2011.



Mr. Stephen Malakwen was born on 12th July 1966 and is the Head of Human Resources. Mr Malakwen has over 20 years experience in human resource, administration, marketing and finance sectors. He holds a Masters in Human Resource Management from the Open University of Tanzania, Bachelor of Arts degree in Business Administration from Coventry University, United Kingdom and a Higher Diploma in Human Resource Management. He is a member of the Institute of Human Resource Management (IHRM) and a member of the Governing Council of the Institute. He is also a member of the Rural Employers' Association. Mr. Malakwen has been a member of the National Industrial Training Authority (NITA) representing Federation of Kenya Employers. He joined the Company in 2004.



Mr. Alphonse K. Laboso was born on 1st November 1956 and is the Head of Research and Development and joined the Company in 2000 after over 18 years as a Maize Breeder at the former KARI (now KALRO). He joined the company as Pastures and Oil crops breeder, later became the Senior Agronomist before moving to the company's Elgon Downs Farm as the Operations Manager. He is spearheading research in Maize, Pastures and Oil crops sub programs at R&D department. He holds a M.Sc. degree in Plant Breeding from Texas A&M University, B.Sc. from University of Nairobi and Diploma in Maize improvement from the International Centre for Maize and Wheat improvement (CIMMYT), Mexico. He has developed and released several crop varieties of wheat (KS MWAMBA, KS SIMBA, KS FARASI, KS CHUI, KS NDUME); sunflower (H 4038, H 4088); sorghum (KENSORG 2); Barley (KSB 2) and groundnut (KSGNUT-1). He is the founding member of the Plant Breeders' Association of Kenya.

SENIOR MANAGEMENT TEAM



Mr. Chepsiror Kiplagat Sammy was born on 12th December, 1966 and is the Head of Sales and Marketing. Mr. Chepsiror has over 25 years experience in strategic Marketing, Sales, Operations, Banking and Customer Service management. He holds MBA in Strategic Management, Master of Management and Leadership, Bachelor of Commerce (Marketing), Diploma in Management & Development. He is a member of Marketing Society of Kenya (MSK) and Public Relations Society of Kenya (PRSK). He joined the Company in 2006 as Sales and Marketing Manager in Simlaw Seeds Company. He previously worked in banking sector. He is a National Council member of Agricultural Society of Kenya.



Mr. Hosea Sirma was born on 28th August 1962 and is the Head of Production in charge of early generation Seeds. Mr. Hosea Sirma holds a BSC degree from University of Nairobi. Hosea Sirma joined the Company in 1991 and now has 25 years hands on experience in seed Business Management and Quality Management Systems, having worked in Research Department as a Research officer, Basic Seed Unit Seed maize production, Nakuru wheat production and also a Quality Management Systems Auditor. He was the company's management representative from 2008 up to 2011.



Ms. Eunice Ombachi was born on 15th November 1965 and is the Head of Production in charge of maize, sunflower and pasture. Ms Ombachi is a holder of BSc (Hons) Agriculture, from the University of Nairobi. She is currently pursuing Masters in Business Administration. She joined the company in May 1998.



Mr. Fred Oloibe was born on the 18th September 1974 and is the Head of Strategy and Business Development at Kenya Seed Company. He holds masters of Business Administration (MBA) from Jomo Kenyatta University of Agriculture and technology and a Bachelor of Science degree (Mathematics) from the University of Nairobi. He joined Kenya Seed on 1st October 2012 as a Planning and Strategy Manager. He previously worked in the cement industry with experience in Strategy, Performance Management, Corporate Planning and he is a full member of the Kenya Institute of Management (KIM)



Eng. Erick Nyamburi was born on 30th April 1973 and is the Head of Processing and Engineering. Eng. Nyamburi is a holder of B.sc in Engineering (Mechanical), Master of Business administration from the University of Nairobi and training in Program for Management Development at Strathmore Business School joined the Company in 2016. He is a corporate member of the Institution of Engineers of Kenya (IEK) and a Registered Professional Engineer with Engineers Board of Kenya (EBK). Eng. Nyamburi has over 16 years of diverse experience in Engineering projects, Maintenance and Operations management from various companies.

SENIOR MANAGEMENT TEAM



Mr. Thomas Kiptoch Mukung' was born on 8th April 1962 and is the Security Manager. He holds a Diploma in Public Administration from Moi University and a Bachelors Degree in Public Administration from Kisii University. He started his career in 1982 at Kenya post and telecommunications until 1998 when he joined Kenya Seed Company as a Security officer



Mr. Erick Tegei was born on 8th October 1978 and is the Quality Assurance Manager. He holds a Bachelor of Science in Biochemistry from Kenyatta University, Post graduate Diploma in Quality Management from Kenya Institute of Management, and pursuing MBA in strategic Management from JKUAT, MSc. Seed Science and Trade (Ongoing). He is a member of International Seed Testing Association based in Zurich, Switzerland. He joined Kenya Seed Company Ltd in 2010. He has over 14 years experience in Quality Management systems and laboratory testing management. He is currently running a seed storage evaluation project funded by an international organization.



Mr. Philip Chemwetich was born on 2nd August 1969 and is the ICT Manager. He is responsible for the Preparation of strategic and operational plans for the ICT and ensures ICT systems comply with regulatory and legal requirements. He is also in-charge of the implementation and maintenance of technology infrastructure in the company. He holds a Bachelors Science Degree (Maths/Computer Science) from Kenyatta University. He is a Fellow of the Computer Society of Kenya (FSCK) and has over 20 years experience. He joined the company in October 1995 as a Systems Analyst/Programmer.



Mrs. Joyce Aleyo Agufana was born on 25th November 1962. Mrs. Agufana has a diploma in Agriculture from Egerton University and BBA (Marketing) from Kenya Methodist University. She joined the company in 1989 as Computer Operator at Elgon Downs Farm and has held various positions in the company namely Production officer (1992-2006), Deputy Manager Pastures and Sunflower (2006-2010). She is currently the Operations Manager, Nakuru Branch.



Mr. Bethuel Bett Chemitei was born on 24th November 1978 and is the Manager Procurement and supplies. He has over 16 years experience in Procurement and Supplies, Operations, Sales and Marketing having worked in private sector and banking industry and joined the company in 2016. He holds a Master of Science in Procurement and Logistics from JKUAT, Bachelor of commerce (Procurement & Supply Chain management) from University of Nairobi, Diploma in Procurement and Supply Management (CIPS), Diploma in Sales and Marketing from Technical University of Kenya. He is Member of Kenya Institute of Supplies Management (KISM), Chartered Institute of Procurement and Supply (CIPS). He has verse knowledge in procurement & Supply laws.

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.

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.

The composition of board, date of appointment and position held as on 30th June 2017

The Board Composition is highlighted on Page 2 of this booklet.

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.

STATEMENT OF CORPORATE GOVERNANCE

The Board held 7 meetings in the financial year ending 30th June 2017. During their meetings the Board reviews the Companies performance against the planned strategies and also approves issues of strategic nature.

The attendance at the Board meetings during the financial year 2016/17 is as follows:

Member	Meetings Held	Meetings Attended	% attendance
Mr. Richard Aiyabei	7	7	100%
Mr. Lawrence Njiru	7	5	71%
Mr. Jack Chebett	7	6	86%
Ms Alice Munke	7	6	86%
Mr. William Kundu	7	6	86%
Mr. Azariah Soi	7	7	100%
Mr. Abraham Koech	7	4	57%
Dr. Nathaniel Tum	7	3	43%
Hon. Nathan Anaswa	7	3	43%
Mr. Johnson Waithaka	7	5	71%
Mr. Symon Cherogony	7	7	100%

Hon Anaswa and Dr. Tum joined the Board on 7th February 2017 while Mr. Chebett and Ms Munke left the Board on 7th February 2017

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.

STATEMENT OF CORPORATE GOVERNANCE

- The Board of various company's subsidiaries namely Simlaw Kenya, Simlaw Uganda and Kibo Tanzania

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 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 2016/7 is as under:

Member	Meetings Held	Meetings Attended	% attendance
Lawrence Njiru-Chairman	6	6	100%
Dr. Johnson Irungu	6	6	100%
Mr. Abraham Koech	6	6	100%
Mr. Symon Cherogony	6	2	33%
Mr. David Kiplagat	6	2	33%
Mr. William Kundu	6	2	33%
Dr. Nathaniel Tum	6	2	33%

Mr. Symon Cherogony and Mr. David Kiplagat left the Committee in the year while Mr. William Kundu and Dr. Nathaniel Tum joined the committee in the year.

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 2016/17 is as under:

Member	Number of Meetings	Attendance	% of attendance
Mr. William Kundu-Chairman	3	3	100%
Mr. Azariah Soi	3	3	100%
Mr. Jack Chebett	3	1	33%
Dr. Johnson Irungu	3	3	100%
Mr. Richard Aiyabei	3	3	100%
Dr. Nathaniel Tum	3	1	33%
Mr. Symon Cherogony	3	2	67%

Mr. Symon Cherogony left the Committee in the year while Dr. Nathaniel Tum joined the committee in the year.

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 2016/17 is as under:

Member	Number of Meetings	Attendance	% of attendance
Mr. Symon Cherogony-Chairman	2	2	100%
Mr. Azariah Soi	2	2	100%
Mr. William Kundu	2	2	100%
Mr. Abraham Koech	2	1	50%
Mr. Richard Aiyabei	2	2	100%
Mr. Jack Chebett	2	2	100%

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 2016-17 is as under:

Member	Number of Meetings	Attendance	% of attendance
Mr. Lawrence Njiru-Chairman	3	3	100%
Mr. Azariah Soi	3	3	100%
Mr. David Kiplagat	3	3	100%
Mr. Abraham Koech	3	3	100%
Dr. Richard Aiyabei	3	3	100%

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 2016-17 is as under:

Member	Number of Meetings	Attendance	% of attendance
Mr. Jack Chebett-Chairman	1	1	100%
Mr. Azariah Soi	1	1	100%
Mr. Symon Cherogony	1	1	100%
Mr. Abraham Koech	1	1	100%
Mr. Richard Aiyabei	1	1	100%

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 2016-17 is as under:

Member	Number of Meetings	Attendance	% of attendance
Mr. William Kundu-Chairman	3	3	100%
Mr. Azariah Soi	3	3	100%
Mr. Lawrence Njiru	3	3	100%
Dr. Johnson Irungu	3	3	100%
Dr. Richard Aiyabei	3	3	100%

Board Evaluation

The Board undertakes an annual self assessment to improve its members' individual and collective Performance for continuous growth and sustainability of the Company. The evaluation covers the Board as a whole, its committees, individual members, the Chairman, the Managing Director and the Company Secretary.

During the year, the Board carried out a self evaluation exercise assisted by the State Corporations Advisory Committee. An action plan was developed from the evaluation focusing on areas that require improvement.

Directors' Remuneration

During every Board meeting, Directors are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within government set limits for state corporations. The Chairman receives a monthly honorarium. Directors' fees are paid annually upon approval by shareholders during the Annual General Meeting in accordance with Government's guidelines for all state corporations.

Below is a summary of entitlement per Board Member:

Type of payment	Chairman	Member
Honoraria	Kshs 80,000	N/A
Sitting allowance (per sitting)	Kshs 20,000	Kshs 20,000
Telephone – airtime for mobile phone per month	Kshs5,000	N/A

STATEMENT OF CORPORATE GOVERNANCE

Transport allowance/mileage	AA rates	AA rates
Lunch allowance	Kshs 2,000	Kshs 2,000
Director's fees per annum on prorata basis	Kshs 450,000	Kshs 450,000
Accommodation Allowance when travelling for meeting venues in Kenya	Kshs 18,200	Kshs 18,200
Accommodation Allowance when travelling for Board meeting in Uganda	US\$615	US\$615
Accommodation Allowance when travelling for Board meetings in Tanzania	US\$603	US\$603

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 their business interests that 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 stockiest, 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 Court in Nairobi HCCC No. 575 of 2004. The nominal share capital together with the premium on these shares was received and is now classified under trade and other payables which amount to Kshs 124.9 Million and has been used in the company's operations and trading since then.

STATEMENT OF CORPORATE GOVERNANCE

The ten largest shareholders of the company as at 30th June 2017 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
11	Other Shareholders	432,032	4.01
Total		10,781,265	100.00

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

Director's Shareholding

The breakdown of the Directors personal shareholding in the Company as at 30 June 2017 is as follows:


No.	List of Shareholders	No. of Shares	% Shareholding
1	Dr. Tum Nathaniel Kipkorir	419,131	3.89

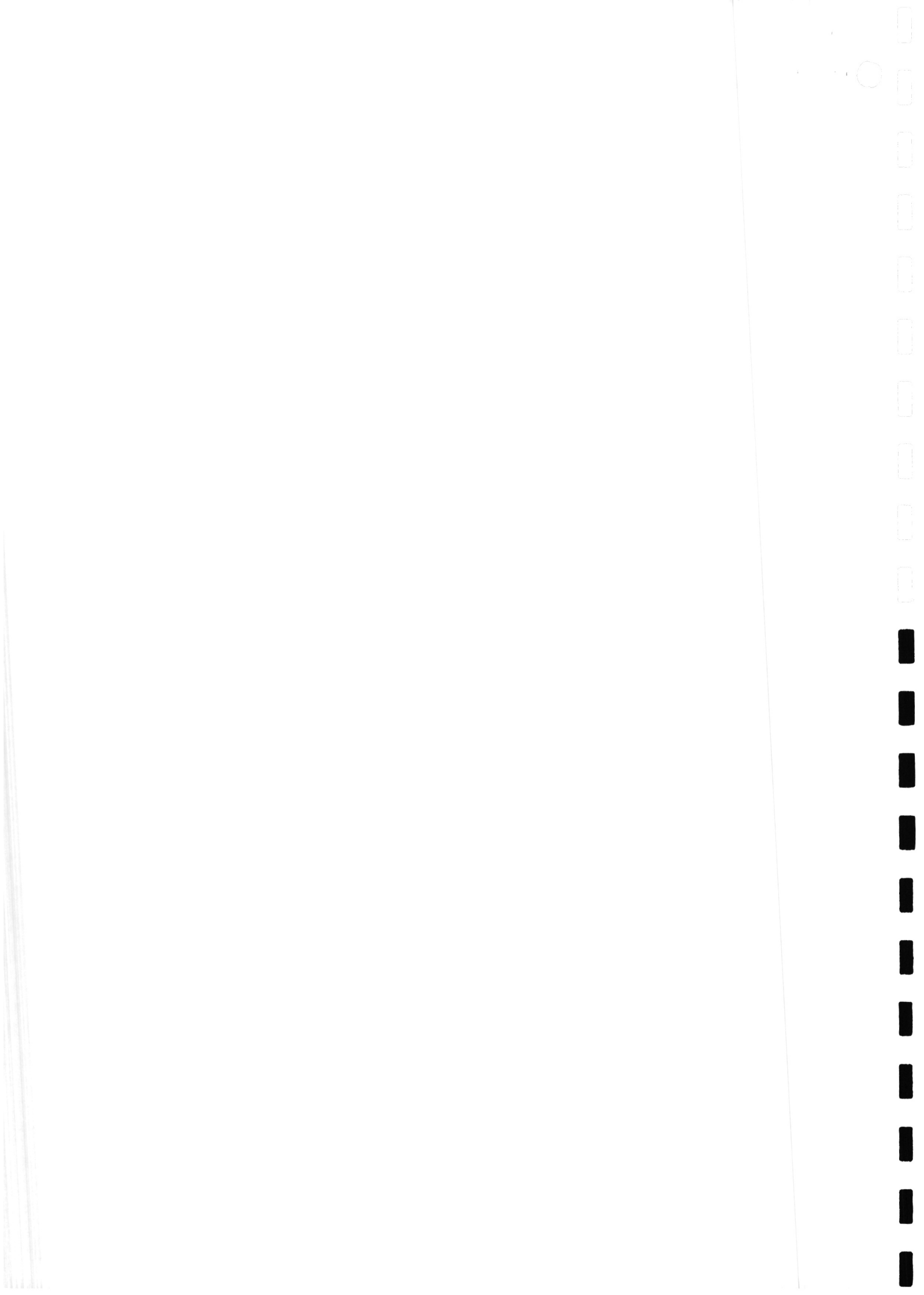
Independence

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.


 Hon. Nathan Anaswa
 Chairman, Board of Directors
 6th February 2018



Background

Kenya Seed Company along with her subsidiaries vision is to be the leading supplier of top quality seed in Africa

In the FY2016/17 the following were the operating entities:

- Kenya Seed Company (the parent company) with headquarters in Kitale Kenya
- Simlaw Seeds Kenya Limited with headquarters at Kijabe Street, Nairobi Kenya
- Simlaw Seeds Uganda Limited located at Kampala Uganda and
- Kibo Seeds Tanzania Limited located in Arusha Tanzania

The following two subsidiaries are dormant;

- Simlaw Seeds Tanzania Limited located in Arusha Tanzania
- Mt Elgon Seeds Uganda Limited located in Kampala Uganda

The parent has issued share capital of 10,781,265 shares of which the Government of Kenya through Agricultural Development Corporation (ADC) owns 5,700,720 shares or 52.88%

Section A: The entity's operational and financial performance**A1: Revenues**

Group Revenues grew by 14% from Kshs 5.7Billions to Kshs 6.2 Billions. The parent Company's Revenue also grew by 14% from Kshs 4.6 Billion to Kshs 5.2 Billion a highlighted in the table below

Product	Group			Company		
	2017	2016	2017/2016	2017	2016	2017/2016
	KShs '000	KShs '000		KShs '000	KShs '000	
Certified Maize Seeds	5,211,486	4,384,609	19%	4,565,695	3,933,634	16%
Basic Maize Seeds	30,886	40,435	-24%	30,886	40,435	-24%
Vegetable Seeds	1,114,433	952,051	17%	196,606	124,345	58%
Wheat Seeds	150,658	207,879	-28%	150,658	207,879	-28%
Pasture Seeds	139,676	113,733	23%	92,413	76,597	21%
Income from Other Seeds	43,650	65,541	-33%	37,624	52,025	-28%
Biological Assets(IAS41)	50,323	(4,835)	1141%	50,285	(4,703)	1169%
Milk	3,318	3,518	-6%	3,318	3,518	-6%
Intra-group purchases	(531,409)	(335,920)	58%	-	-	
Total	6,213,021	5,427,011	14%	5,127,485	4,433,732	14%

The sales increased in Seed Maize, Vegetable seed and pasture seeds. The drop in basic seed sales was as a result of management decision to minimize production acreage while the drop of wheat sales is due to most farmers preferring to grow maize instead of wheat and leverage on high prices of commercial maize. Revenue from seed maize grew by 19% while those of Vegetable seed grew by 17%, with pasture revenues growing by 23%.

Seed maize contributed 84% of group revenue and 89% of the Company Revenues as highlighted in the following table. Vegetable revenues contributed 18% of the group revenue.

Product	Group		Company	
	2017	Product Contribution	2017	Product Contribution
	KShs '000		KShs '000	
Certified Maize Seeds	5,211,486	84%	4,565,695	89%
Basic Maize Seeds	30,886	0%	30,886	1%
Vegetable Seeds	1,114,433	18%	196,606	4%
Wheat Seeds	150,658	2%	150,658	3%
Pasture Seeds	139,676	2%	92,413	2%
Income from Other Seeds	43,650	1%	37,624	1%
Biological Assets(IAS41)	50,323	1%	50,285	1%
Milk	3,318	0%	3,318	0%
Intra-group purchases	(531,409)	-9%	-	0%
Total	6,213,021	100%	5,127,485	100%

Management is exploring diversification strategies to reduce overreliance on seed maize.

A2: Profit before Tax

The Profit before Tax for the Group and the entities in the group are highlighted in the following Table

Group		Company		Simlaw	Kibo	SS Tanzania	SS Uganda
2017	2016	2017	2016	2017	2017	2017	2017
Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
349,671	145,594	383,244	182,115	12,683	(31,054)	(2)	12,060

Group Profits grew by 140% from Kshs 146 Million to Kshs 350 Million while the parent Company's pretax profit grew by 110% from 182 Million to 383 Million during the same period.

Simlaw Kenya returned a pretax profit of Kshs 13 Million with Simlaw Seeds Uganda returning a pretax profit of Kshs 12 Million. Kibo Seeds Tanzania returned a loss of Kshs 31 Million with Simlaw Seeds Tanzania returning a loss of Kshs 2 Million.

A3: Cash and Cash Equivalents

The group and Company closed the year with a net overdraft position of Kshs 144 Million and Kshs 196 Million respectively. This was a great improvement from the closing net overdraft figures in 2016 of Kshs 1.065 Billion and Kshs 1.034 Billion for the group and the Company respectively. The parent company is running her operations from a bank overdraft. This is attributed to need to store carry over inventory and huge receivables. The group closed FY2016/17 with Inventory holdings of Kshs 4.5 Billion, Trade Receivables of Kshs 791 Million and Government receivables of Kshs 928 Million. Additionally, the parent company closed the FY2016/17 with debts from the subsidiaries totaling Kshs 1.106 Billion.

The company will be in overdraft position in the foreseeable future until when the retained profits will grow substantially, or when it will be able to collect the outstanding debts which will take long especially in the subsidiaries.

Section B: Entity's compliance with statutory requirements

The Company has complied and enforced the various constitutional and statutory obligations such as follows:

- (a) Higher Education Loans Board (HELB)
- (b) National Health Insurance Funds (NHIF)
- (c) National Social Security Fund (NSSF)
- (d) Pay As You Earn (PAYE)
- (e) Environmental Management and Coordination Act (EMCA)
- (f) National Industrial Training Authority (NITA)
- (g) Disability Mainstreaming
- (h) Gender Mainstreaming among others

The Company ensured that it obtains the certificates of compliance from KRA, NHIF, NSSF and HELB.

The company also remitted funds owed by staff and deducted from the staff's payslips as per staff's instruction to institutions such as Saccos and financial institutions in accordance with company policy.

Section C: Key projects and investment decisions the entity is planning/implementing

The group did not have major projects in the FY2016/17. The parent company is planning to build additional stores for storage of seed and renewal of the motor vehicles fleet to aid in marketing of her seeds while Simlaw Seeds Kenya are planning to increase the newly acquired building in Kijabe Street by one additional floor.

At the operational level, the company and the group are pursuing various projects under Vision 2030 flagship projects.

(a) Research and Development of New Varieties

Two new seed maize varieties tolerant to Maize Lethal Necrosis Disease (MLND) are at basic seed production stage.

- 1. H12ML1
- 2. WE1101

The company produced breeder's seeds last year. These will be multiplied into Basic Seeds in this Financial Year. The quantities are highlighted in the following table

Variety	Available Breeders Seeds-Kilos	Expected Basic Seed-Kilos
H12ML1	50	600
WE1101	50	600

(b) Seed Quality Improvement

The company will improve five existing maize seed varieties to eliminate the reported defects. The five varieties targeted for improvement will be as follows;

No.	Variety	Defect(s)	Activity
1	H 614 D	Lodging- Less resistance to wind and storm	Reduce lodging by selecting parentals against lodging
2	H624	Giant female cob and deep pink stem colouration	Selecting parentals for good cob size and expanding the descriptor
3	H520	Giant female cob and deep pink stem colouration	Selecting parentals for good cob size and expanding the descriptor
4	H6213	Ear rots, improved flintiness – To harden the grains	Ear rots, improved flintiness by selecting parentals for flint types
5	H513	Lack of synchronization	Improve synchronization by selecting for flowering at the same time for parentals

Section D: Major risks facing the entity

The company'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 company does not enter into derivative transactions. The company has exposure to the following risks from its use of financial instruments and from its operations

	Risk Category	Description	Risk Treatment measures (Mitigations)
1	Political	The risk of losses occurring as a result of political events either destruction of our properties or boycott of our products	(i) Ensuring adherence to the strategic plan of the Company. (ii) Ensuring good co-existence with the stakeholders (iii) Using risk management instruments and remaining neutral in the political scene (iv) Fairness and Diversity in our employment policies
2	Credit Risk	The risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Where customers default on their payment commitment to us, the financial condition, results of operations and cash flows could be materially and adversely affected.	-Rigorous vetting of customers before extending credit. -Regular review of receivables to ensure adherence to payment terms -Enter into factoring arrangements on Government debt especially with those in financial crisis

3	Business interruption/continuity	Business interruptions stemming from network failure, incapacitation of staff, the unavailability of raw materials, information technologies, skilled labor, facilities or other resources, that may threaten the Company's capacity to continue operations over a period of time.	(i) Continuous improvement and maintenance of the network infrastructure. (ii) Full implementation of the Business Continuity Policy.
4	Competition	Competitors may price their products below our prices and this will have an effect on the demand our products and reduced sales volumes especially in those markets that are price sensitive	Continuous investment in research and development to produce seed products that outcompetes the competition and strengthen the distribution network.
5	Adverse Weather & Climate change	This may affect the availability, quality and price of agricultural commodities as well as demand of our products	Breeding early maturing seed varieties especially for those markets with shorter wet seasons
6	Inventory Holding Risk	The Company's inventory risk relates to seed stocks where the stocks are prone to damage/degradation during the stockholding period resulting in Write/ offs stocks resulting in reduced profits	Thorough review of the sales projections to determine appropriate levels of production to avoid over stocking.

Section E: Material arrears in statutory/financial obligations

The company does not have any known material arrears in statutory/financial obligations as at the reporting date

Section F: The entity's financial probity and serious governance issues

There is no reported case of financial impropriety and governance issues reported to any government agency. The External and Internal audit queries raised have been adequately responded to by management.

CORPORATE SOCIAL RESPONSIBILITY (CSR REPORT)

Kenya Seed Company's mandate is to avail sufficient quantities of quality seeds and thus contribute to food security in the country. Our success is attributed to the people and the community in which we operate. It is therefore our duty to give back to the community and the people who serve us and whom we also serve.

The company is committed to improving the working conditions and occupational health and safety of its employees and contributing to improvement of environment by educating farmers to adopt environment friendly agricultural practices.

During the year under review, the company undertook various CSR initiatives. Our CSR Focused on four areas; Education, Environment programs, Health services & sports activities. An investment of 1% annual company's profit before tax is made towards CSR endeavors.

DIRECTORS' REPORT

The Directors submit their audited consolidated financial statements for the year ended 30th June 2017 which show the state of the company and group affairs.

1. Principal Activities

The principal activities of the company and its subsidiaries is to carry on the business of seed growing 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

The results of the company and group for the year ended June 30, 2017 are set out on page 49 to 122. Below is summary of the profit or loss made during the year.

	Group		Company	
	2017	2016	2017	2016
Profit before tax	Kshs '000 349,671	Kshs '000 145,594	Kshs '000 383,244	Kshs '000 182,115
Taxation charge	<u>(215,550)</u>	<u>(64,319)</u>	<u>(212,380)</u>	<u>(82,080)</u>
Profit for the year	<u>134,120</u>	<u>81,275</u>	<u>170,864</u>	<u>100,034</u>

3. Dividends

The group and company's Dividend policy stipulates that dividend paid will be the higher of Kshs 5.25 per share or 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 (2016: Kshs 5.25) per share totaling Kshs 56,601,641 in respect of the year ended 30 June 2017 (2016: Kshs 56,601,641). 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. If approved, the dividend will be paid on or about 14 days after approval to shareholder registered in the books of the Company and group at the close of business on 30th June 2017. The register of members will not be closed to facilitate the preparation of dividend warrants

4. Directors

The members of the Board of Directors who served during the year and to the date of this report are as shown on page 2 and pages 6 to 9 of this booklet

5. Independent Auditors

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly Parker Randall East Africa was appointed to carry out the audit for the year ended 30th June 2017 and report to the auditor general.

BY ORDER OF THE BOARD

Ms. Wilkister Simiyu
Company Secretary
Kitale, Kenya.

M. Simiyu 3/4/2018



STATEMENT OF DIRECTORS' RESPONSIBILITY

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the group and company as at the end of the financial year and of group and company's profit or loss for that year.

The Directors are responsible for ensuring that the group and company keeps proper accounting records that are sufficient to show and explain the transactions of the group and company; disclose with reasonable accuracy at any time the financial position of the group and company; and that enables them to prepare financial statements of the group and company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the group and company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting suitable accounting policies and then apply them consistently; and
- iii) Making judgments and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the Directors have assessed the group and Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Directors to indicate that the group and Company will not remain a going concern for at least the next twelve months from the date of this statement.

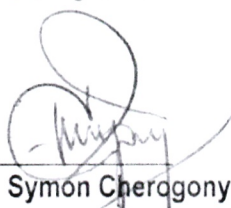
The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approval of the financial statements

The financial statements and the accompanying notes from page 44 were approved by the Board of Directors on 6th February 2018 and were signed on its behalf by:



Mr. Azariah Soi
Managing Director



Mr. Symon Cherogony
Director



Hon Nathan Anaswa
Chairman



REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



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 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Kenya Seed Company Limited and its subsidiaries (the Group) set out on pages 44 to 130, which comprise the statement of financial position as at 30 June 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of budget comparison for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited by Parker Randall Eastern Africa Certified Public Accountants auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of the audit and on the basis of their report, I am satisfied that all information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit were obtained.

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

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Depreciation

Included in the operating expenses figure of Kshs.1,137,051,000 reflected in the statement of profit or loss and other comprehensive income and as reflected in note 16(a) to the financial statements is total depreciation of Kshs.569,369,000 which is at variance with the computed figure of Kshs.495,857,000 resulting to a variance of Kshs.73,512,000 as shown below:

Report of the Auditor-General on the Financial Statements of Kenya Seed Company Limited for the year ended 30 June 2017

Item	Depreciation Rate	Cost/Valuation as at 30 June 2017 (Kshs '000')	Depreciation Figure Reflected in the Financial Statements (Kshs '000')	Computed Depreciation Figure (Kshs '000')	Variance (Kshs '000')
Freehold land	0%	125,664	-	-	-
Residential buildings	5%	2,652,646	159,753	132,632	27,121
Farm works	5%	516,623	24,738	25,831	(1,093)
Plant and machinery	10%	1,463,379	271,414	146,338	125,076
Tractors and forklifts	10%	95,363	11,465	9,536	1,929
Furniture and equipment	20%	274,743	29,379	54,949	(25,570)
Motor vehicles	25%	381,856	60,395	95,464	(35,069)
Computers	33.33%	93,331	12,225	31,107	(18,882)
Work in progress	0%	40,992		-	-
Coffee bushes	0%	96,255		-	-
Total		5,740,852	569,369	495,857	73,512

The variance has of Kshs.73,512,000 has not been reconciled and under the circumstance, the accuracy and completeness of depreciation charge of Kshs.569,369,000 could not be confirmed.

2.0 Administrative Expenses

2.1 Provision for Trade Receivables

Included in the administration expenses figure of Kshs.653,632,000 reflected in the statement of profit or loss and other comprehensive income and as reflected in note 8 to the financial statements is provisions for trade receivables figure of Kshs.192,816,000. However, the policy on provisions for trade receivables has not been disclosed in the financial statements.

Under the circumstance, the validity, accuracy and completeness of provisions for trade receivables of Kshs.192,816,000 could not be confirmed.

2.2 Provision for Obsolete Stocks

Included in the administration expenses figure of Kshs.653,632,000 reflected in the statement of profit or loss and other comprehensive income and as disclosed in note 8 to the financial statements is provisions for obsolete stocks figure of

Kshs.231,626,000. However, the policy on provisions for obsolete stocks has not been disclosed in the financial statements.

Under the circumstance, the validity, accuracy and completeness of provisions for obsolete stocks figure of Kshs.231,626,000 for the year ended 30 June 2017 could not be confirmed.

3.0 Property, Plant and Equipment

3.1 Valuation of land and Buildings

As similarly reported in the previous year 2015/2016, note 16(a) to the group financial statements reflects freehold land and residential buildings totalling Kshs.2,778,310 at cost or valuation. It was further reported that 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 of Kshs.1,372,737,000 on land and buildings. In the circumstances, it has not been possible to ascertain whether the group net property, plant and equipment balance of Kshs.2,982,861,000 as at 30 June 2017 is fairly stated.

3.2 Motor Vehicle

As previously reported, included in the property plant and equipment balance of Kshs.2,982,861,000 reflected in the statement of financial position as disclosed under Note 16 (a) to the financial statement is net motor vehicles figure of Kshs.99,194,000 as at 30 June 2017. However, the logbooks for the following motor vehicles were not provided for audit verification.

No.	Tag Number	Capture Date	Description	Registration Number
1.	3724	05.11.2008	Land Rover	KCC 875
2.	5979	23.07.2009	Isuzu Pick /up 3000CC	KBG 380C
3	5981	23.07.2009	Isuzu single cabin Pick/up 3000CC	KBG 384C

Although the management has indicated that the logbooks got lost and has commenced the process of replacement, no evidence was provided to support this. Under the circumstance, the existence, completeness and ownership of net motor vehicle valued Kshs.99,194,000 could not be confirmed.

3.3 Tractors and Forklifts

The property plant and equipment balance of Kshs.2,982,861,000 reflected in the statement of financial position as disclosed under Note 16 (a) to the financial statement is net tractors and forklifts figure of Kshs.33,280,000 as at 30 June 2017. However, the figure excludes the value of tractors and forklifts with nil book value as

shown below which have not been revalued and whose logbooks were not availed for audit verification.

	Tag No.	Capture Date	Description	Registration Number
1	2255	08.11.2008	Trailer	KAN 369
2	3694	05.11.2008	Trailer	KRY 529
3	3725	05.11.2008	Trailer	KQZ 220

Although the management has indicated that the logbooks got lost and has commenced the process of replacement, no evidence was provided to support this. Under the circumstance, the existence, completeness and ownership of net tractors and forklifts figure of Kshs.33,280,000 could not be confirmed.

4.0 Trade and Other Receivables

4.1 Provision for Bad and Doubtful Debts

The statement of financial position reflects trade receivables figure of Kshs.790,894,000 as disclosed under note 25 to the financial statements which is net of provision for bad and doubtful debts of Kshs.679,857,000. However, debtors with the balances outstanding for more than 365 days totaling Kshs.36,172,713 were not provided for as bad debts contrary to credit policy 11 which requires provision of debts that have been outstanding for more than 12 months. Further, the basis for the of provision for bad and doubtful debts of Kshs.679,857,000 has not been disclosed or supported in the accounting policies.

Under, the circumstances, the validity, accuracy and existence of trade receivables of Kshs.790,894,000 as at 30 June 2017 could not be confirmed.

4.2 Trade Export Accounts Receivable

As reported in the previous year, included in the group statement of financial position under current assets balance of Kshs.6,508,316,000 as disclosed under note 25 to the financial statements is net trade and other receivables figure of Kshs.790,894,000 which include an amount of Kshs.122,940,099 relating to trade export out of which Kshs.65,281,821 was in respect of amounts owed by the Ministry of Agriculture, Rwanda. However, no information was provided to confirm what the debt constituted 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 maintained.

Under the circumstances, the validity, accuracy and existence of trade export accounts receivables of Kshs.65,281,821 as at 30 June 2017 could not be confirmed.

4.3 Staff Receivables

Included in the group statements of financial position as at 30 June 2017 under current assets figure of Kshs.6,508,316,000 as disclosed in note 21 to the financial statements is staff receivables figure of Kshs.25,095,000. As previously reported, information available indicate that Kshs.46,000,000 relate to staff receivables who had already left the organization. Although the management has indicated that a provision of Kshs.105,793,000 has been made and has commenced the process of documentation for write off of the old debt to be forwarded to the board for approval, no explanation has been provided why the staff debtors were not deducted in the period in which it was incurred or upon issuance of final dues to an employee. The management has further not indicated the strategies it has put in place to recover the staff debtors who have since left the organization.

In the circumstances, it has not been possible to confirm the recoverability of Kshs.46,000,000 relating to staff receivables who had already left the organization.

5.0 Bank Loan

The statement of financial position reflect bank loan of Kshs.63,275,000 relating to a Simlaw Seeds Kenya Limited for the purchase of a building at Kijabe street Nairobi as disclosed in note 31 to the financial statement . However, the nature of the loan has not been disclosed and no explanation has been provided for classifying the loan as a current liability.

Under the circumstances, validity, accuracy and completeness of the bank loan of Kshs.63,275,000 as at 30 June 2017 could not be confirmed.

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

Emphasis of Matter

1. Company Ownership

As reported in the previous year, I draw your attention to Note 2 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 pending determination.

2. Contingent Liabilities

As similarly reported in the previous year 2015/2016, 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.5,000,000 litigation claim by a former employee Kshs.786,477,000 litigation claim by former contractor for alleged unlawful termination of contract in which the aggrieved is seeking compensation and claim by supplier of Kshs.6,000,000. Although the client states that, based on the advice by their company's lawyers, the directors are of opinion that no liabilities will crystallize. 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.

3. Accrued Leave Pay Accrual

As reported in the previous year, note 29 to the financial statements reflects trade and other payables figure of Kshs.543,384,000 out of which Kshs.13,238,000 relates to accrued leave pay for the year ended 30 June 2017. Audit review of staff leave accrual records revealed that members of staffs rarely go on leave. No information was available for the anomaly.

4. Going Concern Status of Subsidiary Companies

As disclosed in Note 3 to the financial statements, the company's subsidiary – Kibo Seed Company Limited (Tanzania) has a net current liability of Kshs.204 and accumulated losses of Kshs.87 million; Mount Elgon Seed Company Limited (Uganda) has a net liability of Kshs.141 million and made no profit or loss; Simlaw Seeds Company Uganda Limited has a net liability of Kshs.30 million as at 30 June 2017 and made profit of Kshs.12 million during the year while Simlaw Seeds Company Tanzania has continued to make losses which has accumulated to Kshs.0.866 million as at 30 June 2016.

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

5. Personnel Matters

5.1 Staff Composition not in Compliance with National Cohesion and Integration Act 2008

Audit review of the ethnic composition of the company revealed that the company had a total of 409 employees. The ethnic composition of the company had one community with 47.86% (195 employees) and during year under review the company recruited 17 new employees out of which 10 or 59% were from one community contrary to the Part III Section 7(2) of the National Cohesion and Integration Act No.12 of 2008 which states that no public establishment shall have

more than one third of its staff or 33.3% from the same ethnic community. Consequently, the management is in breach of the law.

5.2 Employees on Payroll Past the End of their Contract Period

A review of staff files revealed that the following employees were still on the payroll despite their contracts having expired as detailed below:

Employee No.	Surname	Forename	Designation	Contract end date	Exit date	Months worked outside contract
1626	Maiyo	Joseph	Driver	30-09-16	31-12-16	3 months
1687	Gideon	Rotich	POS Clerk	30-06-16	31-10-16	4 months
1703	Prisca	Chepkemei	General Worker	30-06-16	31-12-16	6 months
1917	Shadrack	Yego	Machine Minder	31-03-17	30-04-17	1 month
2093	Milka N.	Barasa	Procurement Assistant	30-06-16	31-12-16	6 months
2123	David K.	Sulo	Driver	17-11-16	30-04-17	5 1/2 months
2330	Getrude	Kiplagat	Office Assistant	30-09-16	30-04-17	7 months

Although the management has explained that it is in the process of renewing their contracts, the company is in breach of the law.

Key Audit Matters

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

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

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

In preparing the financial statements, management is responsible for assessing the Company ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless the

management either intends to liquidate the Company's or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I

conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company's to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



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

Nairobi

15 November 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Group		Company	
		2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
Revenue	4	6,213,021	5,427,011	5,127,485	4,433,732
Cost of sales	5	(3,705,879)	(3,370,680)	(3,003,999)	(2,784,204)
Gross profit		2,507,142	2,056,331	2,123,486	1,649,528
Other income	6	107,024	177,650	99,487	157,597
		<u>2,614,166</u>	<u>2,233,981</u>	<u>2,222,972</u>	<u>1,807,126</u>
EXPENSES					
Operating expenses	7	(1,137,051)	(1,104,235)	(895,687)	(864,433)
Administration expenses	8	(653,632)	(359,563)	(602,764)	(273,790)
Selling and distribution expenses	9	(258,193)	(238,736)	(152,954)	(150,493)
Research and development costs	10	(86,130)	(96,152)	(79,821)	(89,965)
		<u>(2,135,007)</u>	<u>(1,798,685)</u>	<u>(1,731,226)</u>	<u>(1,378,681)</u>
Operating Profit	11	479,160	435,295	491,746	428,445
Finance Income	12 (b)	54,165		54,165	
Finance cost	12 (a)	(183,654)	(289,701)	(162,667)	(246,330)
Profit before taxation		349,671	145,594	383,244	182,115
Income Tax expense	13 (a)	(215,550)	(64,319)	(212,380)	(82,080)
Profit for the year		<u>134,120</u>	<u>81,275</u>	<u>170,864</u>	<u>100,034</u>
Profit attributable to:					
Owners of the parent company		<u>134,120</u>	<u>81,275</u>	<u>170,864</u>	<u>100,034</u>
Earnings per share attributable to:					
Basic (Kshs per share)	14	<u>12.44</u>	<u>7.54</u>	<u>15.85</u>	<u>9.28</u>
Other comprehensive income:					
Profit for the year		134,120	81,275	170,864	100,034
Exchange differences on translating foreign operations	33	(2,925)	1,098	-	-
Income tax effect	33	878	(328)	-	-
Fair value gain on Bearer Plants	22(c)	55,461	(18,358)	55,461	(18,358)
Revaluation Surplus		-	3,270,379	-	3,270,379
Total comprehensive income		<u>187,534</u>	<u>3,334,062</u>	<u>226,326</u>	<u>3,352,056</u>
Attributable to:					
Owners of the parent		<u>187,534</u>	<u>3,334,062</u>	<u>226,326</u>	<u>3,352,056</u>

The notes set out from page 52 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	Group		Company	
		2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
ASSETS					
Non-current assets					
Property, plant and equipment	16	2,982,861	3,392,074	2,757,475	3,203,329
Prepaid operating lease rentals	17	2,154,319	2,158,055	2,154,319	2,158,055
Intangible assets	18	102,747	112,255	102,320	112,255
Investment in subsidiaries	19	-	-	55,696	55,696
Deferred tax asset	27(b)	19,538	29,001	-	-
Staff receivables	21	5,407	10,308	5,407	4,861
Bearer biological assets	22(a)	49,451	87,494	49,451	87,494
Loan capital to subsidiaries	23(a)	-	-	194,566	194,566
		<u>5,314,323</u>	<u>5,789,186</u>	<u>5,319,235</u>	<u>5,816,256</u>
Current assets					
Consumable biological assets	22(b)	32,507	32,403	32,414	32,223
Staff receivables	21	25,095	28,855	12,261	18,686
Investment in FDR	32(b)	61,475	58,263	61,475	58,263
Cash and cash equivalents	32(a)	133,461	139,137	17,728	93,410
Inventories	24	4,491,092	4,777,355	3,520,327	3,864,596
Trade and other receivables	25	790,894	1,046,231	494,661	772,595
Amounts due from subsidiaries	23(b)	-	-	1,106,360	1,004,193
Due from Parastatal and other Government controlled organizations	23(c)	928,306	873,263	924,930	858,076
Tax recoverable	13(c)	45,486	123,593	9,940	79,429
		<u>6,508,316</u>	<u>7,079,101</u>	<u>6,180,095</u>	<u>6,781,472</u>
Total assets		<u>11,822,639</u>	<u>12,868,287</u>	<u>11,499,330</u>	<u>12,597,727</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	26	215,625	215,625	215,625	215,625
Share premium	26	281	281	281	281
Revaluation surplus		3,802,243	3,987,991	3,778,445	3,964,193
Translation reserve	33	(33,540)	(31,492)	-	-
Retained earnings		6,198,055	5,691,276	6,154,250	5,610,727
		<u>10,182,665</u>	<u>9,863,682</u>	<u>10,148,602</u>	<u>9,790,826</u>
Non-current liabilities					
Deferred tax liability	27(c)	682,127	853,827	682,127	853,827
Amounts due to directors	23(d)	10,183	11,213	10,183	11,213
		<u>692,310</u>	<u>865,040</u>	<u>692,310</u>	<u>865,040</u>

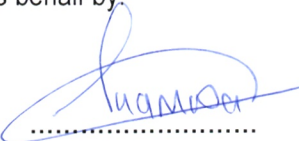
STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	Group		Company	
		2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
Current liabilities					
Bank overdraft	31(a)	275,436	1,186,123	275,436	1,186,123
Bank Loan	31(b)	63,275	76,473	-	-
Amounts due to directors	23(d)	3,771	4,500	3,771	4,500
Due to subsidiaries	20	-	-	2,889	178,308
Due to parastatal and other government controlled organization	23(e)	10,507	137,233	10,507	137,233
Employee benefits obligations	28	41,525	36,945	29,839	26,616
Trade and other payables	29	543,384	688,525	326,209	399,315
Unclaimed dividends	30	9,766	9,766	9,766	9,766
		<u>947,664</u>	<u>2,135,065</u>	<u>658,418</u>	<u>1,941,861</u>
Total equity and liabilities		<u>11,822,639</u>	<u>12,868,287</u>	<u>11,499,330</u>	<u>12,597,727</u>


The financial statements and the notes set out from page 52 were approved by the Board of Directors on 6th February 2018 and signed on its behalf by:



Mr. Azariah Soi
 Managing Director



Mr. Patrick Thuo
 Head of Finance
 ICPAK M/NO: 4045



Hon. Nathan Anaswa
 Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 2016						
As at 1 July 2015	215,625	281	725,993	(32,257)	5,411,720	6,321,362
Total comprehensive income for the year	-	-	-	765	81,275	82,040
Fair value Gain of Bio Assets	-	-	-	-	(18,358)	(18,358)
Transfer of excess depreciation	-	-	3,261,998	-	216,640	3,478,638
As at 30 June 2016	215,625	281	3,987,991	(31,492)	5,691,277	9,863,682
Year ended 30 June 2017						
As at 1 July 2016	215,625	281	3,987,991	(31,492)	5,691,277	9,863,682
Total comprehensive income for the year	-	-	-	(2,048)	189,581	187,533
Fair value Gain of Bio Assets	-	-	-	-	-	-
Transfer of excess depreciation	-	-	(185,747)	-	317,197	131,450
As at 30 June 2017	215,625	281	3,802,244	(33,540)	6,198,055	10,182,665

The notes set out from page 52 form an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs '000	Share premium Kshs '000	Revaluation reserve Kshs '000	Retained earnings Kshs '000	Total Kshs '000
Year ended 30 June 2016					
As at 1 July 2015	215,625	281	693,815	5,314,133	6,223,854
Adjustment on opening balance	-	-	-	100,034	100,034
Total comprehensive income for the year	-	-	-	(18,358)	(18,358)
Transfer of excess depreciation	-	-	3,421,582	-	3,421,582
Deferred tax on the excess depreciation	-	-	(151,204)	216,005	64,801
Final dividend paid for years 2003/2004 to 2010/2011	-	-	-	(1,087)	(1,087)
As at 30 June 2016	215,625	281	3,964,193	5,610,727	9,790,826
Year ended 30 June 2017					
As at 1 July 2016	215,625	281	3,964,193	5,610,727	9,790,826
Total comprehensive income for the year	-	-	-	170,864	170,864
Fair value Gain of Bio Assets	-	-	-	55,461	55,461
Transfer of excess depreciation	-	-	(280,907)	317,197	36,289
Deferred tax on the excess depreciation	-	-	95,159	-	95,159
Final dividend paid/other comp income	-	-	-	-	-
As at 30 June 2017	215,625	281	3,778,445	6,154,250	10,148,602

The notes set out on from page 52 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	Notes	Group		Company	
		2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
CASHFLOWS FROM OPERATING ACTIVITIES:					
Profit before taxation		349,671	145,594	383,244	182,115
Adjustment for:-					
Depreciation and amortization	39	587,296	471,052	572,790	454,500
Gain/Loss on Bearer Plants	22c	55,461	(18,358)	55,461	(18,358)
Gain on disposal of Assets		-	-	-	-
		<u>992,428</u>	<u>598,288</u>	<u>1,011,495</u>	<u>618,257</u>
Changes in working capital:-					
Inventories	24	286,263	(421,460)	344,269	(371,658)
Biological Assets	22	37,939	33,574	37,852	33,604
Trade and other receivables	39	367,200	(411,168)	365,563	(368,957)
Trade and other payables	39	(302,798)	494,649	(241,583)	405,148
Amounts due from/to Parastatals	39	(71,683)	353,776	(59,873)	334,980
Amounts due from/to directors	23h	(1,758)	4,500	(1,758)	4,500
Amounts due from/to related parties		-	(29,388)	(277,585)	(29,388)
Cash flows used in operations		<u>1,307,590</u>	<u>622,772</u>	<u>1,178,380</u>	<u>626,487</u>
Finance costs	12a	(183,654)	(289,701)	(162,667)	(246,330)
Finance income	12b	54,165	-	54,165	-
Tax paid	13c	(184,589)	(337,499)	(183,141)	(300,299)
Net cash flows used in operating activities		<u>993,511</u>	<u>(4,428)</u>	<u>886,737</u>	<u>79,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property, plant and equipment	16	(67,146)	(63,465)	(15,717)	(34,313)
Purchase of prepaid operating lease rentals	17	-	-	-	-
Purchase of intangible assets	18	(5,414)	(120,055)	(4,656)	(119,661)
Interest on FDR		-	(1,501)	-	(1,501)
Disposal proceeds from sale of assets		-	-	-	-
Net cash flows from investing activities		<u>(72,560)</u>	<u>(185,021)</u>	<u>(20,373)</u>	<u>(155,475)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
Dividends paid		-	-	-	-
Loan movement		-	-	-	-
Net cash flows from financing activities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents:					
Movement during the year		920,951	(189,450)	866,363	(75,617)
Effect of movements in exchange rates on cash held		470	(19,960)	(28,146)	(34,879)
As at 1 July		<u>(1,065,196)</u>	<u>(855,786)</u>	<u>(1,034,450)</u>	<u>(923,953)</u>
As at 30 June 2017	32	<u>(143,774)</u>	<u>(1,065,196)</u>	<u>(196,233)</u>	<u>(1,034,450)</u>

The notes set out from page 52 form an integral part of the financial statements.

STATEMENT OF BUDGET COMPARISON

Budget Line	Original & Final Budget	Actual on Comparable basis	Performance Difference	% change
	2016-2017	2016-2017	2016-2017	
Revenue:				
Maize Seeds	4,581,000,000	4,596,581,397	(15,581,397)	
Wheat Seeds	193,965,517	150,658,067	43,307,450	
Pasture Seeds	66,454,240	92,412,960	(25,958,720)	
Vegetable Seeds	142,075,000	196,605,755	(54,530,755)	
Farm produce	4,320,000	3,317,730	1,002,270	
Other Seeds	77,757,993	37,623,607	40,134,386	
Total Revenue	5,065,572,751	5,077,199,516	(11,626,766)	(0.2%)
Cost of Sales	3,131,457,256	3,003,998,836	127,458,421	4.2%
Gross Profit	1,934,115,494	2,073,200,681	(139,085,186)	(6.7%)
Other income (Note 1)	71,200,092	99,486,547	(28,286,456)	(28.4%)
Total Income	2,005,315,586	2,172,687,228	(167,371,642)	
Employment expense (Note 2)	485,773,863	414,221,601	71,552,262	17.3%
Operating expense (Note 3)	425,658,579	481,465,524	(55,806,945)	(11.6%)
Administration expense (Note 4)	219,329,901	602,764,124	(383,434,222)	(63.6%)
Selling & Distribution expense (Note 5)	213,722,852	152,954,262	60,768,589	39.7%
Research & Development expense (Note 6)	56,602,728	79,820,698	(23,217,969)	(29.1%)
Finance Charges	114,464,816	108,502,038	5,962,778	5.5%
Total Expenses	1,515,552,739	1,839,728,247	(324,175,507)	(17.6%)
Profit Before Taxes	489,762,846	332,958,981	156,803,865	47.1%
Tax Charges	146,928,854	212,379,603	(65,450,749)	(30.8%)
Surplus for the Period (Note 7)	342,833,992	120,579,378	222,254,614	

Notes for the variances of more than 10%:**1. Other Income.**

Other incomes increased by 28.4% due to higher than Budgeted proceeds from Coffee Sales, Interest from grower advances and scrap sales during the year

2. Employment expenses.

Employment expenses were below the budgeted expenses by 17% due to staff exits and reduced casual labourers due to low production of seed maize than earlier budgeted. The casuals engaged at the factories reduced as the production of maize seed had reduced from 31 tonnes to 26 tonnes hence reduction in wages.

STATEMENT OF BUDGET COMPARISON

3. Operating expenses

The operating expenses increased by 12% due to increased depreciation of machinery as compared to previous years.

4. Administration expenses

These expenses increased due to majorly unbudgeted provision for bad debts and obsolete stocks that were provided in current year while the amounts provided in the same period last year were minimal. The provision was an advice from the auditors in line with prudent financial management and reporting

5. Selling and distribution expenses

The company used mostly its Lorries to ferry seed to the various stores hence reduction in the transport charges incurred during the year below the budgeted figures

6. Research and development expenses

Expenses relating to testing and inspection at the research plots and laboratory increased during the year than the budgeted figure due to increased research activities carried out during the year than the budgeted activities. .

7. Reconciliation for Surplus for the period

The surplus for the period is different from the profit reported in the statement of financial performance the fair value gain recognized is not cash and is reconciled as follows:

	Amount (Kshs)
Surplus for the period	120,579,378
Fair value gain on biological bearer assets	55,461,407
Fair value on biological consumable assets	50,285,086
Profit as per statement of financial performance	226,325,872

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 2.

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 30th June 2017. 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.

The transactions which result in changes in ownership levels where the group has control of the subsidiary both before and after the transactions 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.

Critical judgments and sources of estimation uncertainty

In preparing the financial statements conformity with International Financial Reporting Standards (IFRS), 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 22;
- 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 16.

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

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.

d) 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.

e) 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, go-downs 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 2016.

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.

iii) 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.

f) 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.

g) 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.

h) 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.

i) 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.

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.

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.

v. 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.

Trade and other receivables (Continued)

Bad debts are written off in the year in which they are identified as irrecoverable. Trade and other receivables fall 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.

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.

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.

m) 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.

n) 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.
- o) 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.

p) 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.

q) 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.

r) Employee benefits

(i) Defined contribution scheme

The Group operated a defined contribution 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. It 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.

(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.

s) 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.

t) 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 e profit will be available against which the temporary differences can be utilised;

Deferred tax

- 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.

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.

v) New Standards, amendments and interpretations effective and adopted during the year
Defined benefits plans- employee contributions (Amendments to IAS 19)

Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for practical experience, a company is permitted (but not required) to recognize them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014. The adoption of these changes did not affect the amounts and disclosures in the Group's financial statements.

w) *New and amended standards and interpretations that are effective in reporting year*

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.

x) **New standards, amendments and interpretations in issue but not yet effective for the year ended 31 June 2016**

New standards and amendments to standards issued but not yet effective are listed below. The Group has not applied the new or amended standards in preparing these consolidated financial statements:

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.

New standard or amendments	Effective for annual periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortization	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 16 Leases	1 January 2019

• *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

The amendments require the full gain to be recognized when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognized. The definition of a business is key to determining the extent of the gain to be recognized. The amendments will be effective from annual periods commencing on or after 1 January 2016. The adoption of these changes is expected to have an impact on the Group's financial statements whenever there is an asset transfer between related entities.

• *Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)*

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41. The new requirements are effective from 1 January 2016, with earlier adoption permitted. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented.

The amendments will be effective from annual periods commencing on or after 1 January 2016. The adoption of these changes is expected to affect the amounts and disclosures of the Group's property, plant and equipment and intangible assets.

• *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)*

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted. The adoption of these changes is not expected to affect the amounts and disclosures of the Group's property, plant and equipment and intangible assets.

• *Equity Method in Separate Financial Statements (Amendments to IAS 27)*

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted. The adoption of these changes is not expected to affect the amounts and disclosures of the Group's interests in other entities.

• *IFRS 14 Regulatory Deferral Accounts*

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorized body. The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption permitted. The adoption of this standard is not expected to have an impact the financial statements of the Group given that it is not a first time adopter of IFRS.

• *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted. The adoption of these changes is not expected to affect the amounts and disclosures of the Group's interests in other entities.

• *Disclosure Initiative (Amendments to IAS 1)*

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendment applies for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of these changes will not affect the Group's financial statements.

• *IFRS 15 Revenue from Contracts with Customers*

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, and IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time.

The standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognizing revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

• *IFRS 9: Financial Instruments (2014)*

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard introduces changes in the measurement bases of the financial assets to amortized cost, fair value through other comprehensive income or fair value through profit or loss.

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different.

In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The Group is assessing the potential impact on its financial statements resulting from these changes.

• *IFRS 16: Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases.

IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognize:

- a. Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognizes the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments.
- b. Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognize assets and liabilities for:

- (a) Short-term leases (i.e. leases of 12 months or less) and;
- (b) Leases of low-value assets.

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The Group is assessing the potential impact on its financial statements resulting from adoption of these changes.

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.
- 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.

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. The effective date was moved to 1st January 2018 with an early application permitted.

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.

2. OWNERSHIP OF KENYA SEED COMPANY LIMITED

Kenya Seed Company Limited was incorporated as a limited liability company under the Companies Act, Chapter 486 of the Laws of Kenya on 2nd July 1956 and its subscribers were private individuals. In 1960, it was converted to a public limited liability company.

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, Nairobi HCCC number 575 of 2004 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 is pending before court and as earlier stated, parties with the help of the AG and the Ministry of Agriculture are negotiating with a view to settling it amicably.

3. GOING CONCERN STATUS OF THE SUBSIDIARY COMPANIES

Kibo Seed Company Limited has a net current liability position of Kshs 204 million as at 30 June 2017 (2016: Kshs 132 million). The company made a loss of Kshs 31 million (2016: 4 million profit) for the year ended 30 June 2017 resulting to accumulated losses of Kshs 87 million as at 30 June 2017 (2016: Kshs 77 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 141 million as at 30 June 2017 (2016: Kshs 143 million). The company made a no profit or loss for the year ended 30 June 2017 (2016: Kshs 101,000). 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 current liability position of Kshs 30 million as at 30 June 2017 (2016: Kshs 43 million). The company made a profit of Kshs 12 million for the year ended 30 June 2017 (2016: profit of Kshs 5.7 million) and is becoming less dependent upon its parent company for financing. However, the parent company has committed to continue providing financial support where 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. Simlaw Seeds Company Tanzania has a net current assets position of Kshs 23.7 Million. Minimal transactions were done during the year ended 30 June 2017. The company has made loss of Kshs 2,000 for the year ended 30 June 2017 (2016: loss of Kshs 4,000) resulting to accumulated losses of Kshs 0.866 million as at 30 June 2017 (2016: Kshs 0.860 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.

	Group		Company	
	2017	2016	2017	2016
4. REVENUE	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Income from Certified Maize Seeds	4,870,584	4,384,609	4,565,695	3,933,634
Income from Basic Maize Seeds	30,886	40,435	30,886	40,435
Income from Vegetable Seeds	927,239	952,051	196,606	124,345
Income from Wheat Seeds	150,477	207,879	150,658	207,879
Income from Pasture Seeds	139,694	113,733	92,413	76,597
Income from Other Seeds	40,500	65,541	37,624	52,025
Income from sale of milk	3,318	3,518	3,318	3,518
Fair-value gain/loss on biological assets	50,323	(4,835)	50,285	(4,703)
Intra-group Sales	-	(335,920)	-	-
	<u>6,213,021</u>	<u>5,427,011</u>	<u>5,127,485</u>	<u>4,433,732</u>

In the year ending 30th June 2017, the income from maize has been separated into certified and basic maize seeds and the same has been reclassified for the year ending 30th June 2016.

	Group		Company	
	2017	2016	2017	2016
5. a) COST OF SALES	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Opening stock	4,777,355	4,355,896	3,864,596	3,492,938
Purchases	3,319,532	3,585,392	2,111,786	2,613,182
Factory overheads	633,087	542,668	547,944	542,679
Less:				
Closing stock	(4,491,092)	(4,777,355)	(3,520,327)	(3,864,596)
Low germinating seed	(1,594)	-	-	-
Intra-group purchases	(531,409)	(335,920)	-	-
Cost of goods sold	<u>3,705,879</u>	<u>3,370,680</u>	<u>3,003,999</u>	<u>2,784,204</u>

NOTES TO THE FINANCIAL STATEMENTS

5. **b) COST OF SALES**

Cost for Certified Maize Seeds	2,780,192	2,521,835	2,570,985	2,269,437
Cost for Basic Maize Seeds	30,886	40,435	30,886	40,435
Cost for Vegetable Seeds	604,379	410,844	175,665	110,325
Cost for Wheat Seeds	123,600	206,339	123,781	191,804
Cost for Pasture Seeds	97,904	74,989	55,881	61,822
Cost for Other Seeds	68,918	44,301	46,800	38,442
Cost for byproducts	-	71,937	-	71,937
Total	<u>3,705,879</u>	<u>3,370,680</u>	<u>3,003,999</u>	<u>2,784,204</u>

The above is a presentation of the cost of sale by Product sold

6. **OTHER INCOME**

Bad debts recovered - trade debtors	18,395	39,949	17,283	30,106
Rental income	5,026	1,558	5,026	1,558
Interest on growers advances and car loans	31,622	24,310	31,621	24,310
By-products	7,211	45,414	7,042	44,027
Scrap items	-	15,807	-	15,807
Coffee sales	17,395	3,999	17,395	3,999
Sale of chemicals and fertilizer	9,307	22,776	4,793	19,359
Sale of gunnies & sundry items	12,875	10,524	12,845	10,515
Miscellaneous	5,194	11,812	3,481	6,415
	<u>107,024</u>	<u>176,149</u>	<u>99,487</u>	<u>156,096</u>

7. OPERATING EXPENSES	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
(a) EMPLOYMENT COSTS				
Salaries and allowances	405,472	421,258	261,662	281,253
Wages	81,110	88,389	72,575	82,159
Staff welfare	65,498	65,416	44,539	45,797
Leave pay accrual	55	-	-	-
Pension scheme contributions	18,628	19,203	11,019	11,781
Staff gratuity accrual	26,448	34,195	23,662	22,651
National Social Security Fund (NSSF)	986	1,170	765	943
	<u>598,195</u>	<u>629,631</u>	<u>414,222</u>	<u>444,584</u>
(b) ESTABLISHMENT COSTS				
Depreciation	127,994	136,416	127,441	134,610
Amortization (Note 18)	13,641	15,466	13,641	15,388
Rent and rates	49,232	48,724	23,392	25,518
Power and light	9,790	9,966	7,630	7,970
Repairs and maintenance-buildings	14,025	7,666	8,169	3,542
Water supply	1,825	1,766	1,155	1,178

NOTES TO THE FINANCIAL STATEMENTS

Other establishment costs	-	577	-	-
	<u>216,507</u>	<u>220,581</u>	<u>181,428</u>	<u>188,206</u>
(c) MACHINERY COSTS				
Depreciation	264,311	199,074	254,369	188,517
Fuel and oil costs	29,082	30,374	24,872	25,455
General repairs	28,048	24,081	19,888	17,177
Weighbridge costs	73	183	73	183
Other workshop costs	836	311	836	311
	<u>322,350</u>	<u>254,023</u>	<u>300,038</u>	<u>231,643</u>
TOTAL OPERATING EXPENSES	<u>1,137,051</u>	<u>1,104,235</u>	<u>895,687</u>	<u>864,433</u>
8. ADMINISTRATION EXPENSES				
Provisions for:				
- Trade receivables	192,816	33,338	190,400	27,802
Provision for obsolete stocks	231,626	25,640	243,898	-
Directors' remuneration - fees	3,771	10,369	3,771	4,500
- other expenses	19,970	22,146	11,945	17,666
Legal and professional fees	9,845	17,742	1,767	12,421
Insurance	20,424	22,289	10,037	16,922
Postage and telecommunications	16,358	19,532	11,515	12,334
Bank charges	6,958	9,661	4,199	7,106
Printing and stationery	7,767	9,990	4,663	6,675
Auditors remuneration	11,964	9,776	6,651	5,626
Office equipment	851	619	-	-
Licenses and trade subscriptions	14,821	13,591	7,015	5,673
AMS/SAP Maintenance	13,609	15,176	13,609	15,176
VAT disallowed expenses	52,637	65,487	52,637	65,487
Security Services	28,713	26,396	22,767	22,561
Fixed Asset loss on revaluation	-	41,025	-	41,025
ISO/Corruption prevention	328	1,154	328	1,154
Fumigation & hygiene maintenance	834	1,314	624	1,256
Tender expenses	913	1,239	913	1,239
Corporate social responsibility	95	785	82	785
Unrealized exchange loss	4,762	-	4,762	-
Loss on exchange	2,224	-	-	-
Other expenses	1,164	3,913	-	-
Farm expenses	11,181	8,380	11,181	8,380
	<u>653,632</u>	<u>359,563</u>	<u>602,764</u>	<u>273,790</u>

VAT disallowed expenses relate to the Amounts for VAT claimable or recoverable from KRA that were disallowed by Tax authorities during the VAT refund Audit.

Simlaw Seeds wrote back inventory which were previously provided for reducing the group provision for obsolete seeds.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
	2017	2016	2017	2016
9. SELLING AND DISTRIBUTION EXPENSES	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Transport and travelling	182,915	178,173	128,259	122,313
Publicity	70,618	55,687	22,147	24,736
Entertainment	-	-	-	-
Demonstrations	4,661	4,926	2,549	3,444
Anti-counterfeit costs	-	-	-	-
	<u>258,193</u>	<u>238,736</u>	<u>152,954</u>	<u>150,493</u>
10. RESEARCH AND DEVELOPMENT EXPENSES				
Research and development	24,534	29,674	19,680	26,140
Laboratory and analysis of sample	61,596	66,478	60,141	63,825
	<u>86,130</u>	<u>96,152</u>	<u>79,821</u>	<u>89,965</u>

11. OPERATING PROFIT	Group		Company	
	2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
The operating profit is arrived at after charging:				
Provision for obsolete inventories	231,626	25,640	243,898	-
Provision for bad and doubtful debts	192,816	33,338	190,400	27,802
Depreciation	568,640	451,928	554,463	435,377
Amortization	3,736	3,736	3,736	3,736
Amortization of intangible assets	14,923	15,388	14,591	15,388
Employment costs (note 7(a))	598,195	629,631	414,222	444,584
Directors' emoluments - fees	3,771	10,369	3,771	4,500
- other expenses	19,970	22,146	11,945	17,666
Auditors' remuneration	11,964	9,776	6,651	5,626
Stocks write down	-	-	-	-
Effects of discounting of staff receivables	3,826	1,582	3,826	1,582
Gain on disposal of property, plant and equipment	-	-	-	-
Operating lease rentals receivable	(5,026)	(1,558)	(5,026)	(1,558)
Bad debts recovered	(18,395)	(39,949)	(17,283)	(30,106)
12. a) FINANCE COSTS				
Interest charged on overdraft	153,667	233,214	153,667	233,214
Bank Loan interest	10,567	11,204	-	-
Loan negotiation fees	9,000	9,434	9,000	9,434
Foreign exchange loss	10,420	35,849	-	3,681
	<u>183,654</u>	<u>289,701</u>	<u>162,667</u>	<u>246,330</u>
b) FINANCE INCOME				
Interest on FDR	(2,212)	(1,501)	(2,212)	(1,501)
Foreign exchange gain	(51,953)	-	(51,953)	-
	<u>(54,165)</u>	<u>(1,501)</u>	<u>(54,165)</u>	<u>(1,501)</u>
13. TAXATION				
- Statement of comprehensive income:-				
(a) Taxation charge				
Charge for the year	250,783	152,959	252,631	152,959
Deferred tax credit	(35,232)	(88,640)	(40,252)	(70,879)
	<u>215,550</u>	<u>64,319</u>	<u>212,380</u>	<u>82,080</u>
(b) Reconciliation of tax based on accounting profit to tax expense:-				
Accounting profit before tax	<u>349,671</u>	<u>127,236</u>	<u>383,244</u>	<u>163,757</u>
Tax at the applicable rate of 30%	104,901	38,171	114,973	49,127

NOTES TO THE FINANCIAL STATEMENTS

Tax effect of expenses not deductible for tax purposes	139,864	26,693	121,155	12,797
Tax effect of revenues that are not taxable	(29,215)	(545)	(23,749)	20,157
Prior year current tax under provision	-	-	-	-
	<u>215,550</u>	<u>64,319</u>	<u>212,380</u>	<u>82,080</u>

	Group		Company	
	2017	2016	2017	2016
13. TAXATION (Continued)	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Statement of financial position:-				
(c) Tax (payable)/recoverable				
As at 1 July	123,593	(60,947)	79,429	(67,911)
Taxation charge	(262,697)	(152,959)	(252,631)	(152,959)
Tax paid	184,589	337,499	183,141	300,299
Prior years understatement	-	-	-	-
As at 30 June	<u>45,486</u>	<u>123,593</u>	<u>9,940</u>	<u>79,429</u>

14. EARNINGS PER SHARE

Earnings per share have been calculated on the after tax profit for the year of Kshs 134 million and Kshs 171 million for the Group and Company respectively (2016: Kshs 81 million and Kshs 100 million 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 2017 or 30 June 2016. Therefore the diluted earnings per share are the same as the basic earnings per share.

15. PROPOSED DIVIDEND

In respect of the current year, the directors propose that a dividend of Kshs 5.25 (2016: Kshs 5.25) per share totaling Kshs 56,601,641 be paid to shareholders (being the higher of 20% of the Profit after Tax and Kshs 5.25 per share). 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.

16. PROPERTY PLANT AND EQUIPMENT

a) Group –Year ended 30 June 2017

	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	Coffee Bushes Kshs '000	Total Kshs '000
Cost or valuation											
As at 1 July 2016	121,929	2,652,646	516,343	1,453,320	95,363	269,416	374,834	80,493	17,278	-	5,581,624
Additions	3,900	-	-	10,212	-	6,429	7,045	12,262	27,298	-	67,146
Revaluation	-	-	-	-	-	-	-	-	-	96,255	96,255
Capitalization	-	-	280	-	-	-	-	-	(280)	-	-
Asset Impairment	-	-	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	(196)	-	-	(196)
Adjustment	(165)	-	-	(154)	-	(1,102)	(23)	771	(3,304)	-	(3,976)
As at 30 June 2017	<u>125,664</u>	<u>2,652,646</u>	<u>516,623</u>	<u>1,463,379</u>	<u>95,363</u>	<u>274,743</u>	<u>381,856</u>	<u>93,331</u>	<u>40,992</u>	<u>96,255</u>	<u>5,740,853</u>
Accumulated Depreciation											
At 1 July 2016	-	647,880	206,214	837,089	50,618	167,244	222,314	58,191	-	-	2,189,550
Charge for the year	-	81,303	9,585	103,022	6,024	18,706	25,344	8,188	-	-	252,171
Increase -											
Revaluation	-	78,450	15,153	168,392	5,441	10,673	35,051	4,037	-	-	317,197
Eliminated on											
Disposal	-	-	-	-	-	-	-	(196)	-	-	(196)
Adjustment	-	-	-	(203)	-	(1,206)	(47)	726	-	-	(730)
As at 30 June 2017	-	807,632	230,951	1,108,300	62,083	195,417	282,662	70,945	-	-	2,757,991
Net carrying amounts											
As at 30 June 2017	<u>125,664</u>	<u>1,845,014</u>	<u>285,672</u>	<u>355,078</u>	<u>33,280</u>	<u>79,326</u>	<u>99,194</u>	<u>22,386</u>	<u>40,992</u>	<u>96,255</u>	<u>2,982,861</u>

16. PROPERTY PLANT AND EQUIPMENT**b) Company – Year ended 30 June 2017**

	Residential building	Farm works	Plant and machinery	Tractors and forklifts	Furniture equipment	Motor vehicles	Computers	Work-in-progress	Coffee Bushes	Total
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost or valuation										
As at 1 July 2016	2,652,356	516,343	1,378,562	95,363	217,130	313,817	63,219	3,642	-	5,240,433
Additions	-	-	-	-	3,922	-	11,795	-	-	15,717
Revaluation	-	-	-	-	-	-	-	-	96,255	96,255
Capitalization	-	280	-	-	-	-	-	(280)	-	-
Asset Impairment to rev.	-	-	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	(196)	-	-	(196)
Adjustment	-	-	-	-	-	-	-	(3,362)	-	(3,362)
As at 30 June 2017	<u>2,652,356</u>	<u>516,623</u>	<u>1,378,562</u>	<u>95,363</u>	<u>221,052</u>	<u>313,817</u>	<u>74,818</u>	<u>-</u>	<u>96,255</u>	<u>5,348,846</u>
Accumulated depreciation										
As at 1 July 2016	647,589	206,214	801,516	50,618	121,397	165,014	44,756	-	-	2,037,104
Charge for the year	81,303	9,585	94,833	6,024	15,181	23,499	6,842	-	-	237,267
Increase -revaluation	78,450	15,153	168,392	5,441	10,673	35,051	4,037	-	-	317,197
Eliminated on disposal	-	-	-	-	-	-	(196)	-	-	(196)
Adjustment to costing	-	-	-	-	-	-	-	-	-	-
Adjustment	-	-	-	-	-	-	-	-	-	-
As at 30 June 2017	<u>807,342</u>	<u>230,951</u>	<u>1,064,741</u>	<u>62,083</u>	<u>147,251</u>	<u>223,564</u>	<u>55,439</u>	<u>-</u>	<u>-</u>	<u>2,591,371</u>
Net carrying amounts										
As at 30 June 2017	<u>1,845,014</u>	<u>285,672</u>	<u>313,821</u>	<u>33,280</u>	<u>73,801</u>	<u>90,253</u>	<u>19,379</u>	<u>-</u>	<u>96,255</u>	<u>2,757,475</u>

16. PROPERTY PLANT AND EQUIPMENT**c) Group – Year ended 30 June 2016**

	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 2015	120,356	1,608,536	320,036	943,516	78,882	202,914	258,497	61,059	123,181	3,716,977
Additions	2,178	-	-	10,397	-	13,468	461	7,467	29,495	63,466
Revaluation	-	1,083,848	196,327	500,372	23,628	52,203	116,868	12,967	-	1,986,212
Capitalization	-	17,274	-	-	-	-	-	-	(135,032)	(117,758)
Asset Impairment to rev	-	(21,977)	-	-	(2,974)	-	(44)	-	-	(24,996)
Asset Impairment to w/off	-	(35,034)	-	-	(4,158)	-	(667)	-	-	(39,859)
Adjustment	(604)	-	(19)	(965)	(15)	831	(279)	(1,000)	(366)	(2,417)
As at 30 June 2016	<u>121,930</u>	<u>2,652,646</u>	<u>516,343</u>	<u>1,453,320</u>	<u>95,363</u>	<u>269,416</u>	<u>374,834</u>	<u>80,493</u>	<u>17,278</u>	<u>5,581,624</u>
Accumulated Depreciation										
At 1 July 2015	-	522,401	184,021	625,084	42,760	141,436	172,286	49,838	-	1,737,826
Charge for the year	-	42,528	16,559	13,639	5,234	18,898	16,881	6,199	-	119,938
Increase -Revaluation	-	66,181	5,607	116,998	4,533	3,126	18,441	1,120	-	216,005
Eliminated on Impaired	-	(21,977)	-	-	(2,974)	-	(44)	-	-	(24,996)
Adjustment to costing	-	38,748	26	81,350	1,085	3,888	14,755	1,129	-	140,981
Adjustment	-	-	2	19	(21)	(105)	(5)	(95)	-	(205)
As at 30 June 2016	<u>-</u>	<u>647,880</u>	<u>206,214</u>	<u>837,089</u>	<u>50,618</u>	<u>167,244</u>	<u>222,314</u>	<u>58,191</u>	<u>-</u>	<u>2,189,550</u>
Net carrying amounts										
As at 30 June 2016	<u>121,930</u>	<u>2,004,766</u>	<u>310,130</u>	<u>616,231</u>	<u>44,745</u>	<u>102,172</u>	<u>152,520</u>	<u>22,302</u>	<u>17,278</u>	<u>3,392,074</u>

16. PROPERTY PLANT AND EQUIPMENT**d) Company –Year ended 30 June 2016**

	Residential building 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 2015	1,608,246	320,036	878,190	78,882	154,851	197,578	46,433	118,350	3,402,565
Additions	-	-	-	-	10,058	-	3,931	20,324	34,313
Revaluation	1,083,848	196,327	500,372	23,628	52,203	116,868	12,967	-	1,986,212
Capitalization	17,274	-	-	-	-	-	-	(135,032)	(117,758)
Asset Impairment to rev.	(21,977)	-	-	(2,974)	-	(44)	-	-	(24,996)
Asset Impairment to w/off	(35,034)	-	-	(4,158)	-	(667)	-	-	(39,859)
Adjustment	-	(19)	-	(15)	18	83	(111)	-	(44)
As at 30 June 2016	<u>2,652,356</u>	<u>516,343</u>	<u>1,378,562</u>	<u>95,363</u>	<u>217,130</u>	<u>313,817</u>	<u>63,219</u>	<u>3,642</u>	<u>5,240,433</u>
Accumulated depreciation									
As at 1 July 2015	522,110	184,021	596,680	42,760	101,239	117,065	38,057	-	1,601,932
Charge for the year	42,528	16,559	6,469	5,234	13,248	14,803	4,546	-	103,387
Increase -revaluation	66,181	5,607	116,998	4,533	3,126	18,441	1,120	-	216,005
Eliminated on Impaired	(21,977)	-	-	(2,974)	-	(44)	-	-	(24,996)
Adjustment to costing	38,748	26	81,350	1,085	3,888	14,755	1,129	-	140,981
Adjustment	-	2	19	(21)	(105)	(5)	(95)	-	(205)
As at 30 June 2016	<u>647,589</u>	<u>206,214</u>	<u>801,516</u>	<u>50,618</u>	<u>121,397</u>	<u>165,014</u>	<u>44,756</u>	<u>-</u>	<u>2,037,104</u>
Net carrying amounts									
As at 30 June 2016	<u>2,004,767</u>	<u>310,130</u>	<u>577,046</u>	<u>44,745</u>	<u>95,733</u>	<u>148,802</u>	<u>18,463</u>	<u>3,642</u>	<u>3,203,329</u>

NOTES TO THE FINANCIAL STATEMENTS

17. PREPAID OPERATING LEASE RENTALS	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost				
As at 1 July	2,389,603	402,981	2,389,603	402,981
Additions/Revaluation	-	1,986,623	-	1,986,623
As at 30 June	<u>2,389,603</u>	<u>2,389,604</u>	<u>2,389,603</u>	<u>2,389,604</u>
Amortization				
As at 1 July	231,549	264,798	231,549	264,798
Charge for the year	3,736	3,736	3,736	3,736
Elimination	-	(36,985)	-	(36,985)
As at 30 June	<u>235,285</u>	<u>231,549</u>	<u>235,285</u>	<u>231,549</u>
Net carrying amount				
As at 30 June	<u>2,154,319</u>	<u>2,158,055</u>	<u>2,154,319</u>	<u>2,158,055</u>

The amount eliminated as amortization in 2016 relates to the Leases which expired long ago but were still in the books of accounts now eliminated to show the correct balances.

18. INTANGIBLE ASSETS	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cost				
As at 1 July	157,290	37,235	146,740	27,079
Additions	5,414	120,055	4,656	119,661
As at 30 June	<u>162,704</u>	<u>157,290</u>	<u>151,396</u>	<u>146,740</u>
Amortization				
As at 1 July	45,035	29,647	34,485	19,097
Charge for the year	14,923	15,388	14,591	15,388
As at 30 June	<u>59,958</u>	<u>45,035</u>	<u>49,076</u>	<u>34,485</u>
Net carrying amount				
As at 30 June	<u>102,747</u>	<u>112,255</u>	<u>102,320</u>	<u>112,255</u>

Intangible assets relate to the accounting software used by the company and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT IN SUBSIDIARIES	Company	
	2017	2016
	Kshs '000	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

20. DUE TO SUBSIDIARIES	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
Simlaw Seeds Kenya Limited	2,889	178,308
	<u>2,889</u>	<u>178,308</u>

The amount due to Subsidiaries relates to the amounts owed to Simlaw Seeds Kenya for vegetables delivered to Kenya Seed company.

NOTES TO THE FINANCIAL STATEMENTS

21. STAFF RECEIVABLES	Group		Company	
	2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
Gross staff receivables	136,176	115,979	121,014	98,036
Provision for bad and doubtful debts	(105,793)	(76,817)	(103,467)	(74,490)
Net receivables	30,502	39,162	17,668	23,547
Within one year (note 25)	(25,095)	(28,855)	(12,261)	(18,686)
Amounts receivable after one year	5,407	10,308	5,407	4,861

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. (2016: 6% p.a.) while other advances are given for varying periods and are interest free.

The company Staff receivables of Kshs 17.7 million at the end of the year are made up of the following:

	2017 Kshs '000
Advances	98,415
Car Loan	8,874
Imprest	10,962
Others	2,846
Impairment	(103,467)
Net receivable	17,668

22. BIOLOGICAL ASSETS	Group and Company	
	2017 Kshs '000	2016 Kshs '000
(a) Bearer biological assets		
Coffee	-	40,793
Livestock	40,467	28,426
Trees	8,984	18,274
	49,451	87,494
<i>i Coffee:</i>		
Fair value as at 1 July	40,793	59,151
Increase in fair value (note 22(c))	55,461	(18,358)
Transferred to note 16 (PPE)	(96,255)	-
Fair value as at 30 June	-	40,793

Coffee was transferred to PPE in line with IFRS policy change

In the estimation of the fair value of the coffee plants, the following significant assumptions were made in 2017:

- (i) The coffee bushes will remain productive for the next 19 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 9.21% p.a.

In the estimation of the fair value of the coffee plants, the following significant assumptions were made in 2016:

- (i) The coffee bushes will remain productive for the next 20 years after year end;
- (ii) The biological transformation rate will remain at 100%;
- (iii) The pretax incremental borrowing rate will remain at 16.33%;
- (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 5.8% p.a.

ii Livestock	Cattle Kshs'000	Sheep Kshs'000	Goats Kshs'000	Total Kshs'000
Year ended 30 June 2017				
Fair value as at 1 July 2016	27,520	797	109	28,426
Decreases due to sales	(4,936)	(310)	(4)	(5,250)
As at 30 June 2017	<u>22,584</u>	<u>487</u>	<u>105</u>	<u>23,176</u>
Gains arising from physical changes	16,396	571	105	17,072
Increases due to newborns	172	36	11	219
Fair value (loss)/gain on livestock (note 22 (c))	<u>16,568</u>	<u>607</u>	<u>116</u>	<u>17,290</u>
Fair value as at 30 June 2017	<u>39,152</u>	<u>1,094</u>	<u>221</u>	<u>40,467</u>
Year ended 30 June 2016				
Fair value as at 1 July 2015	32,938	554	140	33,632
Decreases due to sales	(4,646)	(297)	(19)	(4,962)
As at 30 June 2016	<u>28,292</u>	<u>257</u>	<u>121</u>	<u>28,670</u>
Gains arising from physical changes	(985)	511	(18)	(492)
Increases due to newborns	213	29	6	248
Fair value (loss)/gain on livestock (note 22(c))	<u>(772)</u>	<u>540</u>	<u>(12)</u>	<u>(244)</u>
Fair value as at 30 June 2016	<u>27,520</u>	<u>797</u>	<u>109</u>	<u>28,426</u>

Significant assumptions made in the estimation of the fair value of the livestock in 2017 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 9.21% p.a.;
- (iv) The level of biological transformation for each category of livestock are follows:-

Category	Age	Percentage
Calves I	0 - 6 months	30%
Calves II	6 months - 1 year	16%
Weaners I	1 & half years - 2 years	15%
Weaners II	2 & half years - 3 years	8%
Mature	over 3 years	31%

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 71,286 litres of milk (2016 – 100,518 litres).

Significant assumptions made in the estimation of the fair value of the livestock in 2016 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 5.8% p.a.;
- (iv) The level of biological transformation for each category of livestock are follows:-

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	
	2017	2016
	No.	No.
Cattle	490	467
Goats	97	59
Sheep	366	318
	<u>953</u>	<u>844</u>

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

iii Trees

Significant assumptions made in the estimation of the fair value of the trees in 2017 include:

- (i) The sales and cost prices are expected to escalate at an average rate of 9.21% 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) 20% 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	21,900	4,578
Ordinary Blue Gum	10 years	19,000	4,406
Cyprus Lustanica	30 years	-	-
		<u>40,900</u>	<u>8,984</u>

The 40,900 trees cover 144 acres of land.

Significant assumptions made in the estimation of the fair value of the trees in 2016 include:

- (i) The sales and cost prices are expected to escalate at an average rate of 5.8% 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 16.33% has been used as the discounting factor;
- (iv) Cash inflows and outflows accrue evenly throughout the useful life; and
- (v) 20% 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	30,196	12,545
Ordinary Blue Gum	10 years	19,928	5,122
Cyprus Lustanica	30 years	15,095	608
		<u>65,219</u>	<u>18,274</u>

The 65,219 trees cover 144 acres of land.

Trees	Group and Company	
	2017 Kshs '000	2016 Kshs '000
Fair value as at 1 July	18,274	24,009
Decrease in fair value (note 22(c))	<u>(9,290)</u>	<u>(5,735)</u>
Fair value as at 30 June	<u>8,984</u>	<u>18,274</u>

22. BIOLOGICAL ASSETS

	Maize Kshs '000	Wheat Kshs '000	pasture Kshs '000	Sunflower Kshs '000	Sorghum Kshs '000	Oats Kshs '000	Beans Kshs '000	Vegetables Kshs '000	Total Kshs '000
(b) Consumable biological assets									
Group									
Fair value at 1 July 2016	28,891	1,514	530	-	-	-	1,287	180	32,403
Additional costs for old crop	56,786	25,220	1,877	1,303	9	95	2,493	55	87,837
Gains in fair values due to physical changes - 2015/2016 crop	47,339	(6,416)	1,790	2,322	(9)	1,775	(2,999)	-	43,803
Decrease in fair value due to harvesting	(133,017)	(20,319)	(4,196)	(3,624)	-	(1,870)	(781)	(351)	(164,158)
Increase in fair value due to new planting	15,921	9,105	6,781	198	6	147	1,772	-	33,931
Gain/(loss) in fair value due to physical changes - 2016/2017 crop	6,847	(6,963)	(156)	(164)	-	(91)	(991)	209	(1,309)
Fair value at 30 June 2017	22,768	2,143	6,626	34	6	56	781	93	32,507
Company									
Fair value at 1 July 2016	28,891	1,514	530	-	-	-	1,287	-	32,223
Additional costs for old crop	56,786	25,220	1,877	1,303	9	95	2,493	-	87,782
Gains in fair values due to physical changes - 2015/2016 crop	47,339	(6,416)	1,790	2,322	(9)	1,775	(2,999)	-	43,803
Decrease in fair value due to harvesting	(133,017)	(20,319)	(4,196)	(3,624)	-	(1,870)	(781)	-	(163,807)
Increase in fair value due to new planting	15,921	9,105	6,781	198	6	147	1,772	-	33,931
Gain/(loss) in fair value due to physical changes - 2016/2017 crop	6,847	(6,963)	(156)	(164)	-	(91)	(991)	-	(1,518)
Fair value at 30 June 2017	22,768	2,143	6,626	34	6	56	781	-	32,414

NOTES TO THE FINANCIAL STATEMENTS

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

	Group and Company	
	2017	2016
	Kgs '000	Kgs '000
Maize	994	1,355
Wheat	1,056	412
Sunflower	13	16
Pasture	9	14
Sorghum	-	1
Beans	20	45
Oats	27	15
	<u>2,119</u>	<u>1,859</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	
	2017	2016	2017	2016
(c) Fair value gains/(losses)	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Coffee (IAS 16-Bearer Plants)	<u>55,461</u>	<u>(18,358)</u>	<u>55,461</u>	<u>(18,358)</u>
Livestock	17,290	(243)	17,290	(243)
Trees	(9,290)	(5,735)	(9,290)	(5,735)
Consumable biological assets	<u>42,494</u>	<u>1,143</u>	<u>42,285</u>	<u>1,276</u>
Total as per IAS 41	<u>50,494</u>	<u>(4,835)</u>	<u>50,285</u>	<u>(4,703)</u>

23. 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.

The Government of Kenya through Agricultural Development Corporation (ADC) is the principal shareholder of the Kenya Seed Company, holding 52.88% of the company's equity interest.

Other related parties include:

- i) The Parent Ministry
- ii) County Governments
- iii) Other Government of Kenya Parastatals
- iv) The subsidiary companies
- v) Shareholders
- vi) Key management
- vii) Board of directors

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

	Company	
	2017	2016
(a) Loans capital to subsidiary companies	Kshs '000	Kshs '000
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	-	-
	244,644	244,644
Less provisions for Mt. Elgon Seed Company Limited	(50,078)	(50,078)
	194,566	194,566

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	
	2017	2016
(b) Amounts due from subsidiaries	Kshs '000	Kshs '000
Simlaw Seeds Company Limited	649,277	685,957
Kibo Seed Company Limited	378,068	266,830
Mt Elgon Seed Company Limited	112,381	112,381
Simlaw Seed Company Uganda Limited	79,015	51,406
	1,218,741	1,116,574
Less provisions for Mt. Elgon Seed Company Limited	(112,381)	(112,381)

NOTES TO THE FINANCIAL STATEMENTS

1,106,360 1,004,193

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

Aging Analysis for Amount due from Subsidiaries as at 30th June 2017:

	0-30	31-60	61-90	91-120	over 120	Total
Kibo	-	-	-	15,233	362,835	378,068
Mt. Elgon	-	-	-	-	112,381	112,381
Simlaw Kenya	5,465	4,295	3,870	-	635,647	649,277
Simlaw Uganda	(180)	2,625	5,941	34,201	36,428	79,015
	5,285	6,920	9,811	49,434	1,147,291	1,218,741

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

	Group		Company	
	2017	2016	2017	2016
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Ministry of Agriculture	766,298	784,958	765,315	783,974
Various County Governments	89,011	12,989	87,369	-
Agricultural Development corporation	13,439	-	13,439	-
Kenya Farmers Association (KFA) – net	44,584	45,961	43,834	44,747
National Cereals and Produce Board	14,168	25,081	14,168	25,081
Kenya Agricultural Research Institute	806	4,274	806	4,274
	<u>928,306</u>	<u>873,263</u>	<u>924,930</u>	<u>858,076</u>

Aging Analysis for Government controlled organizations for the Company:

	0-30	31-60	61-90	91-120	over 120	Total
Ministry of Agriculture.	8,318	8,821	5,343	8,176	734,657	765,315
County Governments	935	6,130	6,018	42,859	31,427	87,369
Kenya Farmers Ass	292	6,918	(2,048)	(363)	39,035	43,834
ADC	62,618	87,534	85,113	(102,511)	(119,315)	13,439
NCPB	(765)	(2,784)	(4,882)	(912)	23,511	14,168
KARI	(3,468)	-	-	-	4,274	806
	<u>67,929</u>	<u>106,620</u>	<u>89,543</u>	<u>(52,751)</u>	<u>713,590</u>	<u>924,930</u>

	Group		Company	
	2017	2016	2017	2016
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Kenya Farmers Association (KFA) – net				
Gross receivable amount	53,600	54,979	43,834	44,747
Provision for bad and doubtful debts	<u>(9,017)</u>	<u>(9,018)</u>	<u>-</u>	<u>-</u>
Net receivable amount	<u>44,584</u>	<u>45,961</u>	<u>43,834</u>	<u>44,747</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.

NOTES TO THE FINANCIAL STATEMENTS

	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
(d) Amounts due to directors		
Provision for accrued fees, gratuity, leave	13,954	15,713
Due after one year	(10,183)	11,213
Due within one year	<u>3,771</u>	<u>4,500</u>

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

	Group		Company	
	2017	2016	2017	2016
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Kenya Plant Health Inspectorate (KEPHIS)	7,255	13,370	7,255	13,370
National Cereals and Produce Board	3,252	119,252	3,252	119,252
Kenya Farmers Association	-	95	-	95
Others	-	-	-	-
Agricultural Development Corporation	-	-	-	-
Kenya Agricultural Research Institute	-	4,517	-	4,517
	<u>10,507</u>	<u>137,233</u>	<u>10,507</u>	<u>137,233</u>

	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
(f) Transactions within the Group		
<i>Kenya Seed Company Limited sales to:</i>		
Simlaw Uganda	68,250	63,850
Simlaw Seeds Company Limited	185,281	75,836
Kibo Seed Company Limited	141,431	46,356
	<u>394,962</u>	<u>186,042</u>
<i>Simlaw Seed Company Limited sales to:</i>		
Kenya Seed Company Limited	192,767	146,639
Simlaw Uganda	3,398	609
Kibo Seed Company Limited	5,015	2,630
	<u>201,181</u>	<u>149,878</u>
<i>Payments made by Kenya Seed Company Limited on behalf of:</i>		
Simlaw Seeds Company Limited	-	1,602
Mt Elgon Seed Company Limited	-	-
Kenya Seed Company Uganda Limited	-	-
Kibo Seed Company Limited	-	342
	<u>-</u>	<u>1,944</u>

NOTES TO THE FINANCIAL STATEMENTS

(f) Transactions within the Group

	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
<i>Payments made on behalf of Kenya Seed Company Limited:</i>		
Simlaw Seeds Company Limited	-	1,228
Kibo Seed Company Limited	-	2,144
	<u>-</u>	<u>3,372</u>

(g) Transactions with parastatal organizations

<i>Sales to:</i>		
National Cereals and Produce Board	10,328	-
Kenya Farmers Association	18,401	290,670
Agricultural Development Corporation	13,439	34,964
	<u>42,168</u>	<u>325,634</u>
<i>Purchases from:</i>		
Agricultural Development Corporation	-	315,970
The Kenya Power & Lighting Company Limited	43,991	72,360
Kenya Farmers Association	3,277	2,986
Telkom Kenya	707	1,042
Kenya Agricultural Research Institute	9,864	5,118
Agricultural Society of Kenya	2,060	4,931
National Cereals and Produce Board	61,303	297,708
	<u>121,202</u>	<u>700,114</u>

(h) Transactions with directors

Directors Fees	3,771	4,500
Managing Director's salary and gratuity provision	11,632	-
Salaries and allowances	7,671	11,213
	<u>23,074</u>	<u>15,713</u>

These are allowances and salaries paid and payable to the directors

(i) Key management compensation

Salaries and allowances	<u>104,586</u>	<u>117,275</u>
-------------------------	----------------	----------------

(j) Transactions with the staff retirement benefit scheme

Contributions collected on behalf of the scheme	<u>18,958</u>	<u>17,150</u>
---	---------------	---------------

24	INVENTORIES	Group		Company	
		2017	2016	2017	2016
		Kshs '000	Kshs '000	Kshs '000	Kshs '000
	Certified Maize Seeds	2,600,239	3,137,336	2,447,560	3,003,578
	Basic Maize Seeds	373,940	355,620	373,937	355,620
	Wheat Seeds	186,225	34,783	184,135	34,777
	Pastures	61,506	106,650	48,633	84,132
	Sorghum/Finger millet	199,845	99,499	102,532	99,485
	Vegetables	748,134	791,740	60,885	43,100
	Sunflower	141,320	145,575	140,806	144,274
	Chemicals	147,085	86,041	143,829	83,453
	Fertilizers	27,301	17,498	22,939	16,754
	Packaging materials	91,747	83,875	78,337	64,456
	Fuel and other inventories	67,501	4,466	50,084	4,466
	Miscellaneous & Welfare items	17,779	38,269	10,041	12,401
	Cleanings and rejects	16,877	51,821	16,215	51,821
	Provision for Obsolete stocks	(188,408)	(175,818)	(159,604)	(133,721)
		<u>4,491,092</u>	<u>4,777,355</u>	<u>3,520,327</u>	<u>3,864,596</u>

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
Trade receivables	1,339,615	1,429,663	1,081,942	1,221,082
Staff receivables (note 21)	-	28,855	-	18,686
Other receivables	111,533	157,837	45,226	61,573
Stock quantity differences	19,603	-	19,603	-
Provision for bad & doubtful debts	(679,857)	(541,269)	(652,110)	(510,061)
	<u>790,894</u>	<u>1,075,086</u>	<u>494,661</u>	<u>791,281</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 at the prevailing Overdraft rate 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.

26. SHARE CAPITAL	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
Authorized share capital: 20,000,000 ordinary shares of Kshs 20 each	400,000	400,000
Issued and fully paid: 10,781,265 ordinary shares of Kshs 20 each	215,625	215,625

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 29).

27. DEFERRED TAX	Group		company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Statement of comprehensive income				
(a)				
Deferred liability credit	40,252	70,879	40,252	70,879
Deferred asset credit/(charge)	(9,463)	17,671	-	-
Charge for the year	30,789	88,550	40,252	70,879
(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 for the group is attributable to the following items:

	As at 1 July 2016	Income	As at 30 June 2017
	Kshs '000	Kshs '000	Kshs '000
<i>Deferred tax assets:</i>			
Unrealized foreign exchange losses	(631)	(526)	(1,158)
Leave pay provision	(1,263)	(497)	(1,760)
Tax losses carried forward	(15,247)	10,859	(4,388)
Excess depreciation of tax wear and tear allowances	(1,243)	(480)	(1,722)
Provision of impairment of inventories	-	-	-
Gratuity provision	(1,835)	90	(1,746)
General bad debt provision	(8,782)	17	(8,765)
Fair value gain on biological assets	-	-	-
Net deferred tax asset	(29,001)	9,463	(19,538)

(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		
	As at 1 July 2016	Statement of comprehensive Income	As at 30 June 2017
	Kshs '000	Kshs '000	Kshs '000
Deferred tax liabilities:			
Accelerated capital allowances	93,987	(22,346)	71,641
Revaluation surplus	791,619	(131,448)	660,171
Fair value gain on biological assets	-	-	-
Leave pay provision	1,242	(1,025)	216
	<u>886,848</u>	<u>(154,819)</u>	<u>732,029</u>
Deferred tax assets:			
Gratuity provision	5,318	(7,009)	(1,691)
General bad debts provision	(23,503)	(47,451)	(70,953)
Unrealized foreign exchange losses	(2,039)	1,093	(946)
Leave pay provision	-	-	-
Fair value gain on biological assets	(12,797)	36,487	23,690
	<u>(33,021)</u>	<u>(16,881)</u>	<u>(49,901)</u>
Net deferred tax liability	<u>853,827</u>	<u>(171,700)</u>	<u>682,127</u>

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

28. EMPLOYEE BENEFITS OBLIGATIONS	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Due to the defined benefit scheme's ex-staff	502	502	502	502
Gratuity provision	40,228	35,744	28,542	25,416
Benevolent fund	795	699	795	699
As at 30 June	<u>41,525</u>	<u>36,945</u>	<u>29,839</u>	<u>26,616</u>

NOTES TO THE FINANCIAL STATEMENTS

29. TRADE AND OTHER PAYABLES	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Amounts due to disputed share-holders (note 26)	124,690	124,690	124,690	124,690
Trade payables	320,939	477,052	123,550	193,739
Accrued leave pay	13,238	14,083	13,068	13,789
Stock quantity Difference	-	13,709	-	13,709
Accruals and other payables	84,517	58,992	64,902	53,388
	<u>543,384</u>	<u>688,525</u>	<u>326,209</u>	<u>399,315</u>

The stock quantity differences are in respect of the differences between the actual stock count figures and the system balances. The actual stock count was more than the system balances hence the adjustments.

30. UNCLAIMED DIVIDENDS	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
At beginning of the year	9,766	7,768
Unclaimed during the year	-	1,998
At end of the year	<u>9,766</u>	<u>9,766</u>

These are in respect of dividend that owners cannot be located or dividend uncollected by the owners. They are comprised of dividends that have been declared and paid, but the owners were either not found or they did not bank their payment cheques. The company is in the process of submitting these to UFAA.

31. BANK OVERDRAFT AND BANK LOAN

	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
a) Bank overdraft-KCB	(275,436)	(1,186,123)	(275,436)	(1,186,123)
b) Bank Loan-KCB	<u>(63,275)</u>	<u>(76,473)</u>		

As at 30 June 2017, the parent company had available Kshs 2.0 Billion overdraft facility (2016: Kshs 2.0 Billion) with Kenya Commercial Bank. The company had utilized Kshs 275 million of the facility as at 30 June 2017 (2016: Kshs 1.186 Million).

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

The Security for the overdraft facility by the Kenya Commercial Bank is charged on:

- Legal charge for Kshs. 769.1 million over L.R No. 5337/2 and 12215 in the name of the company.
- Legal charge for Kshs. 230.9 million over title No. Nakuru Municipality/Block 8/16 in the name of the company.
- Debenture for Kshs. 1.4 billion over all the assets of the company.
- Debenture for Kshs. 600 million to make in all a debenture for Kshs. 2.0 billion

· Letter of approval from both the Ministry of Agriculture and the National Treasury approving the overdraft facility of Kshs. 2.0 billion.

As at 30th June 2017, Simlaw Seeds Kenya had an outstanding bank loan of Kshs 63 million (2016 - Kshs 76 million). This is a loan to acquire the current building at Kijabe Street. The security for this loan is the building itself.

32. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cash on Hand	1,037	21,800	(120)	20,641
Barclays Bank-Kenya	37,603	48,650	13,352	43,305
KCB-Rwanda	4,326	27,118	4,326	27,118
KCB-Kenya	13,199	15,156	-	-
NBK-Kenya	56	626	56	626
Equity-Kenya	115	1,721	115	1,721
KCB Tanzania	7,657	3,330	-	-
Standard Chartered Bank - Uganda	59	68	-	-
KCB-Uganda	46,120	10,373	-	-
Centenary Bank Uganda	9,973	-	-	-
National Bank Of Commerce TZ	8,528	3,077	-	-
National Micro Finance Bank TZ	3,136	3,282	-	-
Stanbic Bank Ltd -UG	23	24	-	-
Stanbic Bank Ltd -TZ	1,629	3,913	-	-
Total Cash (Note 32a)	133,461	139,137	17,728	93,410
Fixed Deposits (Note 32b)	61,475	58,263	61,475	58,263
Cash and Cash Equivalent (32a +32b)	194,936	197,400	79,203	151,673
Bank Loan-Simlaw Kenya (Note 31b)	(63,275)	(76,473)	-	-
Bank overdraft-KCB (Note 31a)	(275,436)	(1,186,123)	(275,436)	(1,186,123)
Total Cash and Cash Equivalent as per the Statement of Cash Flows	(143,774)	(1,065,196)	(196,233)	(1,034,450)

Fixed Deposits (Note 32b) is an amount invested as a Fixed Deposit by the company for use by the bank to subsidize staff mortgage interest rates. The interest earned in this account is re-invested/ploughed back into the same account.

NOTES TO THE FINANCIAL STATEMENTS

33. FOREIGN OPERATIONS TRANSLATION RESERVE

Subsidiary	2017 Kshs	Change from 2016 to 2017 Kshs	2016 Kshs
Simlaw UG	8,321,200	1,564,148	6,757,052
Kibo	7,331,724	(374,262)	7,705,986
Simlaw TZ	4,282,234	(103,897)	4,386,131
MESC	13,604,878	961,687	12,643,191
	33,540,035	2,047,675	31,492,360
Exchange differences on translating foreign operations	2,925,251		
Income tax effect at 30%	(877,575)		
	2,047,675		

34 CAPITAL EXPENDITURE COMMITMENTS

These are the budgeted capital expenditure 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	
	2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
Authorised but not contracted for	296,283	260,982	141,934	260,982

35 OPERATING LEASE COMMITMENTS

Minimum lease payments committed under various operating leases:

	Group		Company	
	2017 Kshs '000	2016 Kshs '000	2017 Kshs '000	2016 Kshs '000
Not later than 1 year		-	-	-
Later than 1 year but not later than 5 years	69,109	82,923	-	-
	<u>69,109</u>	<u>82,923</u>	<u>-</u>	<u>-</u>

36. 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.

The policy of the Group is to minimize the negative effect of such risks on cash flow, financial performance and equity

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)*(a) Credit risk*

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation 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 2016 is made up as follows:

	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Net trade receivables	682,235	891,343	449,435	711,022
Net staff receivables	22,221	25,905	12,261	18,686
	<u>704,456</u>	<u>917,249</u>	<u>461,696</u>	<u>729,708</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	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Past due but not impaired:				
- by up to 30 days	65,976	104,841	34,387	14,033
- by 31 to 60 days	32,988	40,036	12,895	8,868
- by 61 to 90 days	46,183	116,883	25,790	34,720
- over 90 days	514,611	1,465,041	356,761	718,142
	<u>659,758</u>	<u>1,726,801</u>	<u>429,832</u>	<u>775,762</u>

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Movement in provisions for doubtful debts:

	Group		Company	
	2017	2016	2017	2016
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
As at 1 July	672,520	672,610	672,520	672,610
Recoveries during the year	(9,216)	(36,942)	(9,064)	(29,465)
Provisions for the year	27,512	34,911	27,416	29,374
Reversal of overprovision	(12,878)	-	(12,878)	-
As at 30 June	<u>677,937</u>	<u>670,580</u>	<u>677,994</u>	<u>672,520</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
2017	-10.00%	18,365	12,856
	10.00%	(18,365)	(12,856)
2016	-10.00%	25,343	17,740
	10.00%	(25,343)	(17,740)

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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

USD	Change in currency rate	Effect on profit Before Tax Kshs '000	Effect on Equity Kshs '000
2017	-10.00%	(293)	(205)
	10.00%	293	205
2016	-10.00%	(9)	(6)
	10.00%	9	6

(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.

At 30 June 2017	Up to 1 month Kshs '000	1 – 3 Months Kshs '000	3 - 12 months Kshs '000	over 1 year Kshs '000	Total Kshs '000
Financial assets					
Trade receivables	263,903	131,952	164,939	98,964	659,758
Other receivables and prepayments	-	-	111,533	-	111,533
Amount due from related parties	-	-	1,300,927	-	1,300,927
Bank balances and cash deposits	194,936	-	-	-	194,936
Total financial assets	458,839	131,952	1,577,399	98,964	2,267,153
Financial liabilities					
Total financial liabilities	(289,807)	(144,903)	4	(108,678)	(543,384)
Net liquidity gap	169,032	(12,952)	1,577,403	(9,714)	1,723,769

NOTES TO THE FINANCIAL STATEMENTS

	Up to 1 month	1 – 3 Months	3 - 12 months	over 1 year	Total
At 30 June 2016					
Financial assets					
Trade receivables	355,357	177,679	222,098	133,259	888,394
Other receivables and prepayments	-	-	157,837	-	157,837
Amount due from related party	-	-	1,198,759	-	1,198,759
Bank balances and cash deposits	197,400	-	-	-	197,400
Total financial assets	552,758	177,679	1,578,695	133,259	2,442,391
Financial liabilities					
Total financial liabilities	(367,216)	(183,608)	5	(137,706)	(688,525)
Net liquidity gap	185,542	(5,929)	1,578,700	(4,447)	1,753,866

(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 behavior. 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.

37. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

	Group	
	2017	2016
	Kshs '000	Kshs '000
Trade and other payables(note 29)	543,384	688,525
Less : Cash and other short term deposits (note 32)	<u>(133,461)</u>	<u>(139,137)</u>
Net debt	409,923	549,388
Total Capital (Equity)	<u>10,182,665</u>	<u>9,863,682</u>
Capital and net debt	<u>10,592,588</u>	<u>10,413,070</u>
Gearing ratio	<u>4%</u>	<u>6.00%</u>

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

38. 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

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

NOTES TO THE FINANCIAL STATEMENTS

	Kenya	Tanzania	Uganda	Eliminated on consolidation	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Statement of comprehensive income					
<i>Year ended 30 June 2017</i>					
Operating income					
External	6,065,952	392,370	286,108	-	6,744,430
Inter-segment	(531,409)	-	-	-	(531,409)
Total operating income	5,534,543	392,370	286,108	-	6,213,021
Segment profit	151,268	(29,207)	12,060	-	134,120
Statement of financial position:-					
Segment total assets	12,645,269	447,459	230,710	(1,500,800)	11,822,639
Segments liabilities	1,631,987	536,534	397,352	(1,608,027)	957,847
Non operating liabilities	682,127	-	-	-	682,127
Total liabilities	2,314,115	536,534	397,352	(1,608,027)	1,639,974
Other information:-					
Additions to property, plant and equipment	21,631	23,338	-	-	44,968
Additions to intangible assets	4,656	-	-	-	4,656
Depreciation of property, plant and equipment	563,094	5,470	2,478	-	571,043
Amortization of prepaid operating leases	3,736	-	552	-	4,288
Amortization of intangible assets	15,388	61	-	-	15,449
Provision for obsolete inventories	230,014	-	1,613	-	231,626
Provision for bad and doubtful debts	190,496	-	2,320	-	192,816
Bad debts recovered	17,436	-	-	-	17,436
Finance cost	182,298	-	-	-	182,298
Finance income	54,165	-	-	-	54,165
Income tax	217,399	(1,849)	-	-	215,550
Effects of discounting of staff receivables	(3,826)	-	-	-	(3,826)
	1,496,486	27,021	6,964	-	1,530,470
Off balance sheet items:					
Capital expenditure commitments	296,283	-	-	-	296,283
Operating lease commitments	58,215	10,894	-	-	69,109
Total	354,498	10,894	-	-	365,392

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

NOTES TO THE FINANCIAL STATEMENTS

	Kenya Kshs'000	Tanzania Kshs'000	Uganda Kshs'000	Eliminated on consolidation Kshs'000	Total Kshs'000
Year ended 30 June 2016					
Operating income					
External	5,176,208	382,261	204,462	-	5,762,931
Inter-segment	(335,920)	-	-	-	(335,920)
Total operating income	4,840,288	382,261	204,462	-	5,427,011
Segment profit	67,047	8,652	5,576	-	81,275
Statement of financial position:-					
Segment total assets	13,731,960	364,953	163,276	(1,391,901)	12,868,287
Segments liabilities	2,902,149	418,519	345,027	(1,514,918)	2,150,778
Non-Operating liabilities	853,827	-	-	-	853,827
Total liabilities	3,755,976	418,519	345,027	(1,514,918)	3,004,605
Other information:-					
Additions to property, plant and equipment					
Additions to intangible assets	40,227	23,239	-	-	63,465
Additions to prepaid operating rentals	119,661	-	-	-	119,661
Depreciation of property, plant and equipment	443,803	5,532	2,520	-	451,855
Amortization of prepaid operating leases	3,736	-	561	-	4,297
Amortization of intangible assets	15,388	62	-	-	15,450
Provision for obsolete inventories	18,400	3,854	-	-	22,255
Provision for bad and doubtful debts	33,338	-	-	-	33,338
Bad debts recovered	37,584	-	-	-	37,584
Finance cost	271,736	17,965	-	-	289,701
Income tax	68,853	(4,534)	-	-	64,319
Effects of discounting of staff receivables	(1,582)	-	-	-	(1,582)
	1,051,144	46,118	3,081	-	1,100,343
Off balance sheet items:					
Capital expenditure commitments	260,982	-	-	-	260,982
Operating lease commitments	82,923	-	-	-	82,923
Total	343,905	-	-	-	343,905

Segmental Income Statement for the year ended June 2017

	KSC 2017 Kshs '000	Simlaw Kenya 2017 Kshs '000	Tanzania 2017 Kshs '000	Uganda 2017 Kshs '000	Group Total 2017 Kshs '000
Revenue	5,127,485	938,467	392,370	286,108	6,744,430
Cost of Sales	(3,003,999)	(733,379)	(253,576)	(219,073)	(4,237,288)
Gross Profit	2,123,486	205,088	138,794	67,034	2,507,142
Other Income	99,487	5,829	1,245	336	106,896
Operating Expenses	(1,731,226)	(178,603)	(169,739)	(55,311)	(2,134,879)
Finance Costs	(162,667)	(10,567)	(1,356)	-	(174,589)
Finance Income	54,165	(9,064)	-	-	45,101
Profit before Tax	383,244	12,683	(31,056)	12,060	349,671
Tax	(212,380)	(5,019)	1,849	-	(215,550)
Profit after Tax	170,864	7,664	(29,207)	12,060	134,120

Segmental Statement of Financial Position as at 30th June 2017

	KSC 2017 Kshs '000	Simlaw Kenya 2017 Kshs '000	Tanzania 2017 Kshs '000	Uganda 2017 Kshs '000	Elimination on Consolidation	Group Total 2017 Kshs '000
Non-Current Assets	5,119,262	132,315	89,182	4,316	(55,696)	5,289,378
Inventories	3,520,327	674,671	220,156	75,937	-	4,491,092
Receivables	2,809,599	281,850	117,064	93,254	(1,445,103)	1,856,663
Cash and Bank	17,728	37,472	21,057	57,204	-	133,461
Other Assets	32,414	19,631	-	-	-	53,507
Total Assets	11,499,330	1,145,939	447,459	230,710	(1,500,800)	11,822,639
Shareholders' Funds	10,148,602	182,553	(89,075)	(166,642)	107,228	10,182,665
Long-Term Liabilities	696,081	-	-	-	-	696,081
Payables	326,209	97,741	61,207	58,227	-	543,384
Other Payables	53,001	802,371	475,328	339,126	(1,608,027)	61,798
Bank loan	-	63,275	-	-	-	63,275
Over-Drafts	275,436	-	-	-	-	275,436
Total Liabilities	11,499,330	1,145,939	447,459	230,710	(1,500,800)	11,822,639

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

NOTES TO THE FINANCIAL STATEMENTS

39. CASH FLOW ITEMS

	Notes	Group Kshs '000	Company Kshs '000
<u>Depreciation & amortization:</u>			
PPE	16	568,637	554,463
Leases	17	3,736	3,736
Intangible	18	14,923	14,591
		587,296	572,790
<u>Inventories:</u>			
Opening Inventory	24	4,777,355	3,864,596
Closing inventory	24	4,491,092	3,520,327
cash Increase/decrease		(286,263)	(344,269)
<u>Biological Assets:</u>			
Opening Biological asset	22	119,897	119,717
Closing Biological asset	22	81,958	81,865
cash Increase/decrease		(37,939)	(37,852)
<u>Receivables:</u>			
Opening Trade receivables	25	1,075,086	791,281
Closing Trade receivables	25	790,894	494,661
		(284,192)	(296,620)
Opening corporation tax	13c	123,593	79,429
Closing corporation tax	13c	45,486	9,940
		(78,108)	(69,490)
opening Staff receivables	21	10,308	4,861
Closing Staff receivables	21	5,407	5,407
		(4,900)	547
cash Increase/decrease		(367,200)	(365,563)
<u>Payables:</u>			
Opening Trade Payables	29	688,525	399,315
Closing Trade Payables	29	543,384	326,209
		(145,141)	(73,105)
Opening unclaimed dividends	30	9,766	9,766
Closing unclaimed dividends	30	9,766	9,766
		-	-
Opening Employee benefits	28	36,945	26,616
Closing Employee benefits	28	41,525	29,839
		4,580	3,222
Cash Increase/decrease		(140,561)	(69,883)
Opening Deferred Tax	27c	853,827	853,827
Closing Deferred Tax	27c	682,127	682,127
		(171,700)	(171,700)
Opening Deferred Tax	27b	29,001	-
Closing Deferred Tax	27b	19,538	-
		9,463	-
Opening Corporation tax	13c	-	-
Closing Corporation tax	13c	-	-
		-	-
Cash Increase/decrease		(302,798)	(241,583)

	notes	Group Kshs '000	Company Kshs '000
<u>Amounts from Parastatals:</u>			
Opening due from parastatals	23	873,263	858,076
Closing due from parastatals	23	928,306	924,930
		55,043	66,853
Opening due to parastatals	23	137,233	137,233
Closing due to parastatals	23	10,507	10,507
		(126,726)	(126,726)
Cash Increase/decrease		(71,683)	(59,873)
<u>Amounts due from/to Directors:</u>			
Opening due to Directors	23	15,713	15,713
Closing due to Directors	23	13,954	13,954
Cash Increase/decrease		(1,758)	(1,758)
<u>Amounts due from/to Related Parties:</u>			
Opening due from Related Parties	23	-	1,004,193
Closing due from Related Parties	23	-	1,106,360
		-	102,167
Opening due to Related Parties	23	-	178,308
Closing due to Related Parties	23	-	2,889
		-	(175,419)
Cash Increase/decrease		-	277,585
<u>Finance Costs:</u>			
Finance Costs paid during the year	12	183,654	162,667
<u>Finance income:</u>			
Finance income during the year	12	(54,165)	(54,165)
<u>Tax Paid:</u>			
Tax paid during the year	13	184,589	183,141
<u>Purchase of property, plant and equipment:</u>			
Additions	16	67,146	15,717
<u>Purchase of intangible assets</u>			
Additions	18	5,414	4,656
<u>Gain/loss on bearer assets</u>			
Gain	22c	55,461	55,461

40. CONTINGENT LIABILITIES	Group and Company	
	2017	2016
	Kshs '000	Kshs '000
Pending litigation claims	53,590	53,590
Claim by a former employee	5,000	5,000
Claim by former contractor	786,477	786,477
Claim by supplier (CHEMRECTIC CO. LTD)	6,000	6,000
	<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 2017. 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.

Claim by a supplier

The supplier, Chemrectic company limited supplied a machine that was not fit for purpose and the company did not pay them for the machine. They filed suit in court demanding payment. The company put in a defence claiming that the machine as supplied did not meet the specifications and in any event was supplied without following due process.

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. The company is a state corporation by virtue of majority shareholding by government through Agricultural Development Corporation (ADC) at 52.88%.

43. CURRENCY

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

NOTES TO THE FINANCIAL STATEMENTS

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.

FIVE YEAR PERFORMANCE TREND

Five Year Performance Trend

Group	2017	2016	2015	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Turnover	6,213,021	5,427,011	5,478,087	5,992,771	5,010,971
Profit before tax	349,671	145,594	386,011	450,836	288,673
Tax charge	(215,550)	(64,319)	(160,935)	(149,301)	(88,082)
Profit for the year transferred to retained earnings	134,120	81,275	225,076	301,535	200,591
Dividends	-	-	56,602	60,265	56,602
Share Capital and shareholders' Funds					
Ordinary Share capital	215,625	215,625	215,625	215,625	215,625
Share holders' funds	10,182,665	9,863,682	6,321,362	6,143,468	6,121,279
Earnings and Dividend per Share					
Earnings per share	12.44	7.54	20.88	27.97	18.43
Dividend per share(Kshs)	5.25	5.25	5.25	5.6	5.25

Company	2017	2016	2015	2014	2013
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Turnover	5,127,485	4,433,732	4,602,233	5,022,982	4,237,733
Profit before tax	383,244	182,115	434,458	443,935	332,118
Tax charge	(212,380)	(82,080)	(143,247)	(154,482)	(80,876)
Profit for the year transferred to retained earnings	170,864	100,034	291,211	289,453	251,242
Dividends	-	-	56,602	60,265	56,602
Share Capital and shareholders' Funds					
Ordinary Share capital	215,625	215,625	215,625	215,625	215,625
Share holders' funds	10,148,602	9,790,827	6,223,855	6,007,428	5,968,640
Earnings and Dividend per Share					
Earnings per share	15.85	9.28	27.01	26.85	23.30
Dividend per share(Kshs)	5.25	5.25	5.25	5.6	5.25
Seed Maize Produced (Kg)	26,490	31,195	33,648	24,480	35,762
Seed Maize Sales (Kg)	27,750	23,922	23,686	25,789	22,283

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	3 Logbooks were missing and were not availed for auditor's verification	Logbooks for KBG 380C and KBG 384C were availed while KCC 875 was removed from the Company's books and thus it is no longer an issue	Stephen Malakwen, Head of HR	Resolved	N/A
1.2	Logbooks for 3 Tractors Trailers were missing and were not availed for auditors verification	The Tractors were disposed from the Company's books and the evidence was submitted to the Auditor	Stephen Malakwen, Head of HR	Resolved	N/A
2.0	Failure to deduct Withholding Tax where the Company requested for KRA's interpretation	Management wrote to KRA and is awaiting the KRA's response to be able to proceed. Management has continuously followed up with KRA for the response	Patrick Thuo; Head of Finance	Unresolved	30 th June 2018
3.0	Management did not explain the Procurement Procedures followed in Procuring hotels used by SAP consultants whose total spend was Kshs 6,840,866	Kenya Seed Company has a prequalified list of service providers in which we procure goods and services. For catering and accommodation, services Ajay Taylor, Iroko and Kitale Club are among the list. During staff meetings and trainings the company	Procurement Manager	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		would seek the services of pre qualified suppliers to provide meals. During the ERP implementation the same procedure was adopted			
4.1	No information was provided for audit review to confirm what constituted the Rwanda debt of Kshs 65,281,821 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 maintained.	This is an active account which had not matured by year end. The Rwanda government has a reputation of always paying in time when the invoices becomes due. The information and all invoices relating to Ministry of agriculture Rwanda including their aging analysis have been availed to the Auditor. The payments which have been received from Rwanda have also been availed to the auditor's review.	Patrick Thuo Head of Finance	Resolved	N/A
4.2	Information available indicates that Kshs 46,000,000 relates to staff receivables who had already left the organization. Although the management has indicated that a provision	This debt relates to stock variances debited to individual staff accounts. The amounts are normally higher than the final dues when the staff are leaving the company.	Patrick Thuo Head of Finance	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>of Kshs 68,092,412 has been made and has started the process of documentation of write-off of the old debt to be forwarded to the board for approval no explanation has been provided why the staff debtors were not deducted in the period it was incurred or upon issuance of final dues to an employee. The management has further not indicated the strategies it has put in place to recover the staff debtors who have since left the organization.</p> <p>In the circumstances it has not been possible to confirm whether the group trade and other receivables balance of Kshs 1,075,086,000 is fairly stated as at 30 June 2016.</p>	<p>The company has written to staffs that have left the organization to repay the company and have started taking legal action to recover the amounts.</p> <p>The process of recovery is well documented and is being implemented to the letter.</p>			
4.3	<p>During the year, the audit review revealed that there was no provision for doubtful debt on the amounts due from Kibo Seed Co. Limited although an amount of Kshs 228,189,836 was over 180 days as at 30 June 2016 while Kshs. 216,556,512 was over 365 days. It was also</p>	<p>Management is of the view that subsidiary companies will revert to profitability and pay their outstanding debts at a point in the future. As a result, no provision is made in relationship to the subsidiary debts. Mt Elgon seeds ceased operation in 2014. At the time of ceasing the</p>	Patrick Thuo Head of Finance	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>observed that there was overprovision for doubtful debts on the amounts due from Mt Elgon Seed Co. In the year under review, amounts due from Mt. Elgon was Kshs 100Million (2015, 100 million) Yet the provision set aside is Kshs 162 million resulting in an overprovision of Kshs 61,587,985. In addition, there was under provision for doubtful debts of Kshs 3,075,646 on the amount due from Simlaw Seeds Co. Limited of Kshs 654,867,009.</p> <p>Consequently, the accuracy and completeness of the provision for bad debts for the amounts due to the subsidiaries for the year ended 30 June 2017 could not be confirmed.</p>	<p>operation, Mt Elgon owed Kenya Seed Company Kshs 162 Million which has been fully provided for. This is made up of Kshs 100.871 Million in note 24(b), Kshs 50.078 Million in note 24(a) and Kshs 11.5 Million which is reported as Simlaw Uganda debt of Kshs 62.916 Million in note 24(b). This amount of Kshs 11.5 Million has been corrected by mobbing it from Simlaw Uganda to Mt Elgon Seed debt in the notes to the Financials The provision of Kshs 3,075,646 for Simlaw Kenya was an oversight which will be corrected in 2017 financials as we do not provide for the subsidiaries</p>			
5.0	<p>Reconciliation of Cash Balances were not availed for audit review and post dated cheques totaling to Kshs 58,155,690 were returned unpaid (bounced)</p>	<p>The Accounts were reconciled and the reconciliation availed to the auditors while the bounced cheques were rebanked or new cheques issued which all cleared and cleared into</p>	<p>Patrick Thuo Head of Finance</p>	<p>Resolved</p>	<p>N/A</p>

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		the company's account.			
6.0	Available information revealed that the Company's ICT Services Policy Guidelines has a section on Disaster Prevention and Recovery. However, it was observed that these guidelines are not detailed enough to enable recovery of critical information systems from a major services disruption. A formal documented IT Disaster Recovery Program for use by IT Staff to initiate orderly recovery of information system resources is not in place. It was also observed that the SAP Hana and AMS Oracle 11i database backups are not stored offsite instead are taken on a back-up server and stored on a hard drive and the primary processing location. In the circumstances the back-up data required for the system restore may be unavailable due to these improper storage practices. It was further observed that preventive maintenance on	The DR plan is now in place and it details the orderly recovery of information	Phillip Chemwetich Head of ICT	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>IT Equipment is not carried out on the IT equipment to prevent or detect malfunctions. The current hardware support maintenance activities in place are focused on corrective actions as opposed to being preventive and detective. In the circumstances the IT equipment are susceptible to malfunction thus causing sub-optimal use</p>				
7.0	<p>Available information revealed that the company has outsourced the oracle database support, air conditioners maintenance and fire extinguishers services to three firms. However observation made revealed that for the oracle database support there was no valid contract since a hard copy of the contract had not been duly filled, signed and it did not also indicated start and end date of the contract. For the air conditioners maintenance and fire extinguishers, no contract agreements were availed for</p>	<p>A valid contract for Oracle database support is available and it is duly signed.</p> <p>A valid contract for Air conditioners is in place and it is duly signed. The servicing is done quarterly.</p> <p>The contract for servicing of fire extinguishers is yet to be put in place and the servicing is done twice a year by placing an order.</p> <p>The validity and the propriety of the outsourced contracts for oracle database and air</p>	<p>Phillip Chemwetich Head of ICT</p>	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>audit review. For the fire extinguishers it was observed that vendor is called every six months to service the extinguishers.</p> <p>In the circumstances, the validity and propriety of the outsourced contracts for oracle database support, air conditioners maintenance and fire extinguishers services could not be confirmed</p>	<p>conditioners can be confirmed</p>			
1.0	<p>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 pending determination</p>	<p>This case had been dismissed at some point but was reinstated and it is awaiting hearing. In the meantime, both Kenya Seed Company and ADC have been negotiating, under the guidance of the Ministry of Agriculture, The National Treasury and The Attorney General's office with a view to reaching an amicable settlement. The matter was last in court on 23rd June, 2017</p>	<p>Company Secretary Wilkister Simiyu</p>	<p>Unresolved</p>	<p>31st December 2018</p>

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p>No Provision has been made for the contingent Liabilities in the Financial statements.</p> <p>Consequently, contingent liabilities figure of KShs.842,067,000 will impact negatively on the financial operation of the company if they crystallize.</p>	<p>As explained in Note 41 of the Financial Statements, "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". These are Contingent Liabilities which the Directors, based on the professional advice are of the opinion that the same will not crystallize</p>	<p>Wilkister Simiyu Company Secretary</p>	Resolved	N/A
3	<p>Payables amounting to Kshs 14,083,000 relates to accrued leave pay for the year ended 30 June 2016. Audit review of staff leave accrual records revealed that members of staff rarely go on leave. No information was availed for the anomaly.</p>	<p>The Board and Management have streamlined the processes to ensure that all staff proceeds on leave as and when their leave is due. Since then the accrued leave has dropped to 14.083 million in the year ended 30th June 2016 from 17 Million in 2015. This figure will continue to reduce as more staff utilize their leave days as and when due</p>	<p>Stephen Malakwen Head of HR</p>	Resolved	N/A

PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4	<p>Kibo Seed Company Limited (Tanzania) has a net current liability of Kshs 132 million and accumulated losses of Kshs 75 million; Mount Elgon Seed Company limited (Uganda) has a net liability of Kshs 143 million and made a loss of Kshs 101 thousand; Simlaw Seeds Company Uganda has a net liability of Kshs 43 million as at 30 June 2016 while Simlaw Seeds Company Tanzania has continued to make losses which has accumulated to Kshs 0.86 million as at 30 June 2016.</p> <p>The continued operation of these subsidiaries as a going concern is thus dependent upon continued support from the parent Company, creditors and their bankers</p>	<p>The parent Company has continued and will continue supporting these subsidiaries.</p> <p>The Board is in the process of turning around these subsidiaries to revert them into profitability</p>	<p>Azariah Soi Managing Director</p>	<p>Unresolved</p>	<p>31st December 2018</p>
5	<p>Management breached Part III section 7(2) of the National Cohesion and Integration Act which states that no public establishment shall have more than one third of its staff from the same ethnic community requirement for</p>	<p>The Company strives to ensure compliance with the 33% ethnic requirement as provided for under the Act. However it is clarified that the current trend in staff composition is attributed to the Company's location</p>	<p>Stephen Malakwen Head of HR</p>	<p>Unresolved</p>	<p>31st December 2018</p>

1000



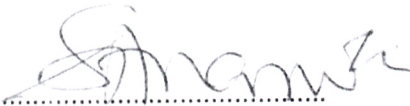
PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	the year ended 30 th June 2016. One community has 47.86%(212 employees) of which had increased from 41.55% from the previous year	which is predominantly occupied by two ethnic groups. The region is a major catchment area for manpower to the Company particularly the lower cadre			



 Mr. Azariah Soi
 Managing Director

6th February 2018



 Hon. Nathan Anaswa
 Chairman of the Board

6th February 2018

NB: Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

