

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



*Paper laid.
By Hon. K.O. Mutho (Majority Party Whip) on Thurs. 19.11.15
Mmm*

REPORT

OF

THE AUDITOR-GENERAL

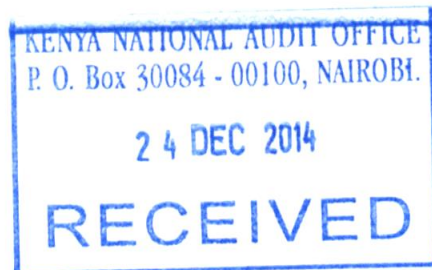
ON

THE FINANCIAL STATEMENTS OF
KENYA SEED COMPANY LIMITED
AND IT'S SUBSIDIARIES

FOR THE YEAR ENDED
30 JUNE 2014



KENYA SEED COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014



KENYA SEED COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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KENYA SEED COMPANY LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2014

Directors	Dr. Andrew Tuimur	–	Acting Chairperson (Managing Director, ADC)
	Mr. Willy Bett	–	Managing Director
	Mr. Lawrence Njiru	–	(Elected on 31 January 2014)
	Mr. Jack Chebett	–	(Elected on 31 January 2014)
	Ms. Alice Munke	–	(Elected on 31 January 2014)
	Mr. William Kundu	–	(Elected on 31 January 2014)
	Mr. David Kiplagat	–	(Elected on 31 January 2014)
	Mr. Peter King'ori	–	(Retired Chairperson on 31 January 2014)
	Mr. Francis Koech	–	(Retired on 31 January 2014)
	Ms. Eunice Wamalwa	–	(Retired on 31 January 2014)
	Director KARI	–	(Retired on 31 January 2014)
	PS, The National Treasury PS, Ministry of Agriculture Managing Director, KFA		
	Ms. Catherine Musakali	–	Immediate former Chairperson (Elected on 31 January 2014 and Resigned on 31 May 2014)

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.

Company Secretary

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

Independent Auditors

Auditor General
P.O. Box 30084 – 00100
Nairobi, Kenya.

KENYA SEED COMPANY LIMITED
CORPORATE INFORMATION (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

Principal Lawyers

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

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

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

Subsidiaries

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

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

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

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

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

KENYA SEED COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2014

The directors submit their audited consolidated financial statements for the year ended 30 June 2014 which show the state of the company and group affairs.

1. PRINCIPAL ACTIVITY

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

2. RESULTS

The results for the year are as set out on page 9.

3. DIVIDEND

The Board of Directors approved a dividend policy where dividend paid will be the higher of KShs 5.25 per share and 20% of the after-tax profit. The Directors propose payment of a first and final dividend of KShs 5.59 (2013: KShs 5.25) per share totaling KShs 60,265,790 in respect of the year ended 30 June 2014 (2013: 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.

4. DIRECTORS

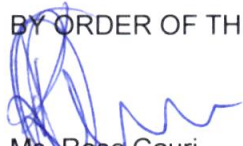
The directors who served during the year and to the date of this report are as shown on page 1.

5. INDEPENDENT AUDITORS

The Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 14 and Section 39(i) of the Public Audit Act, 2003, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Crowe Horwath EA (Certified Public Accountants) who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 30 June 2014.

BY ORDER OF THE BOARD


Ms. Rose Cauri
Company Secretary
Kitale, Kenya.

24.12. 2014

KENYA SEED COMPANY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

GOVERNANCE PRINCIPLES

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

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

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

BOARD COMMITTEES

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

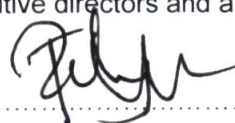
- The Audit Committee, which is responsible for the oversight of the integrity of financial statements, risk management, internal controls, compliance and ethics and effectiveness of internal and external audit activities in the company and its subsidiaries.
- The Finance, Staff and General Purposes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

INDEPENDENCE

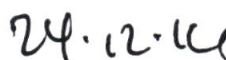
All the non-executive directors on the Board are independent of management and free from any business or other relationships, which could materially interfere with the exercise of their independent judgment.

ACTIVITIES AND ACHIEVEMENTS

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



.....
Chairman



.....
Date

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

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

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

Kibo Seed Company Limited has a net current liability position of KShs 21.37 million as at 30 June 2014 (2013: KShs 18.8 million). The company made a loss of KShs 1.65 million for the year ended 30 June 2014 resulting to accumulated and accumulated losses of KShs 8.5 million as at 30 June 2014 (2013: KShs 6.8 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 156.54 million as at 30 June 2014 (2013: KShs 154.49 million). The company made a loss of KShs 0.16 million for the year ended 30 June 2014 (2013: KShs 0.95 million). This casts doubt about the company's ability to continue as a "going concern." In view of the above circumstances, company directors after considering the advice of management and independent valuers decided to cease trading with effect from 30 June 2012. As stipulated in their resolution ratified on 26 September 2012, the Board of Directors confirmed that they will not commence the winding up process of the company in the foreseeable future and that the company will remain dormant since 30 June 2012. The directors have presented the assets and liabilities at the amounts expected to be realized and settled respectively.

Simlaw Seeds Company Uganda Limited is technically insolvent. It has a net liability position of KShs 37.48 million as at 30 June 2014 (2013: KShs 44.76 million). The company made a loss of KShs 1.68 million for the year ended 30 June 2014 (2013: KShs 26.77 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.

Simlaw Seeds Company Tanzania was incorporated in April 2013. The parent company injected KShs 28.6 million to start operations.

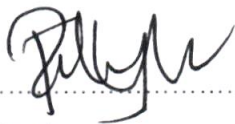
KENYA SEED COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)
ON THE FINANCIAL STATEMENTS

Minimal transactions were done to the year ended 30 June 2014. The company has made losses in the two periods in operation totaling to accumulated losses of KShs 0.57 million as at 30 June 2014 (2013: KShs 0.32 million).

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

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

The financial statements and the notes on pages 9 to 69 were approved by the Board of Directors on 24.12. 2014 and were signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA SEED COMPANY LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Kenya Seed Company Limited and its Subsidiaries (the Group), set out on pages 9 to 69, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Crowe Horwath, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2013 and submit the report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Valuation of Land and Buildings

Note 17 to the Group financial statements as at 30 June 2014 reflects freehold land and buildings totalling Kshs.1,613,321,000 at cost or valuation. Further, records availed for audit review indicated that in 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 based figure of Kshs.1,596,036,000 resulting to undervaluation of Kshs.1,513,454,000 on land and buildings.

In the circumstances, the Group property, plant and equipment net book value of Kshs 1,887,366,000 is understated by the amount of Kshs.1,513,454,000 as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements presents fairly, in all material respects the financial position of the Company and its subsidiaries as at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act, Cap. 486 of the Laws of Kenya.

Emphasis of Matter

1. Company Ownership

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 in court pending determination.

2. 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.21.4

million and accumulated losses of Kshs.9.5million; Mount Elgon Seed Company limited (Uganda) has a net liability of Kshs.154million; Simlaw Seeds Company Uganda Limited has a net liability of Kshs.45.5million as at 30 June 2014 while Simlaw Seeds Company Tanzania has continued to make losses which has accumulated to Kshs.0.5million as at 30 June 2014.

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

3. Contingent Liability

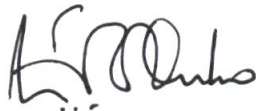
Note 39 to the financial statements indicates that there is a claim pending in arbitration process filed by a former contractor for alleged unlawful termination of contract in which the aggrieved is seeking compensation of Kshs.786million.

The directors, having taken the advice of their legal advisors, are of the opinion that no liabilities will crystalize and therefore no provision has been made for the amount in the financial statements.

My opinion is not qualified in respect of these matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

- As required by the Kenya Companies 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, proper books of account have been kept by the Company and its subsidiaries, so far as appears from examination of those books; and
 - iii. The Company's and its subsidiaries statement of financial position and statement of Comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 March 2015

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	Group		Company	
		2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
Revenue	4	5,992,711	5,010,971	5,022,982	4,237,733
Cost of sales	5	(3,795,710)	(3,047,058)	(3,184,589)	(2,601,987)
Gross profit		2,197,001	1,963,913	1,838,393	1,635,746
Other income	6	231,895	208,114	220,080	193,040
Fair value gain on biological assets	23(c)	20,290	116,893	20,151	116,954
		<u>2,449,186</u>	<u>2,288,920</u>	<u>2,078,624</u>	<u>1,945,740</u>
EXPENSES					
Operating expenses	7	(921,439)	(1,121,860)	(690,899)	(911,692)
Administration expenses	8	(478,389)	(491,854)	(424,937)	(403,029)
Selling and distribution expenses	9	(255,873)	(250,813)	(187,352)	(168,206)
Research and development costs	10	(83,912)	(38,578)	(75,961)	(33,553)
Other costs	11	(108,044)	(142,420)	(108,044)	(142,420)
TOTAL EXPENSES		(1,847,657)	(2,045,525)	(1,487,193)	(1,658,900)
OPERATING PROFIT		601,529	385,815	591,431	429,260
Finance cost	13 (a)	(150,693)	(103,711)	(147,496)	(103,711)
Finance income	13 (b)	-	6,569	-	6,569
Profit before taxation		450,836	288,673	443,935	332,118
Taxation charge	14 (a)	(149,301)	(88,082)	(154,482)	(80,876)
Profit for the year		301,535	200,591	289,453	251,242
Profit attributable to:					
Owners of the parent company		301,535	200,591	289,453	251,242
Earnings per share attributable to:					
Basic (KShs per share)	15	27.97	18.61	26.85	23.30
Profit for the year		301,535	200,591	289,453	251,242
Other comprehensive income:-					
Exchange differences on translating foreign operations		(6,959)	(3,814)	-	-
Income tax effect		2,088	1,144	-	-
Revaluation overprovision		-	1,100	-	-
Income tax effect		-	(330)	-	-
Total comprehensive income		296,664	198,691	289,453	251,242
Attributable to:					
Owners of the parent		296,664	198,691	289,453	251,242

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2014


	Notes	Group		Company	
		2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
ASSETS					
Non-current assets					
Property, plant and equipment	17	1,887,366	2,073,106	1,818,284	1,994,059
Prepaid operating lease rentals	18	135,032	180,939	135,032	180,939
Intangible assets	19	8,297	9,859	5,677	4,260
Investment in subsidiaries	20	-	-	55,696	5,696
Deferred tax asset	28 (b)	19,863	14,464	-	-
Available-for-sale Investments	21	-	2	-	2
Staff receivables	22	-	6,362	-	6,362
Bearer biological assets	23 (a)	115,576	119,499	115,576	119,499
Loan capital to subsidiaries	24 (a)	-	-	194,566	235,363
		<u>2,166,134</u>	<u>2,404,231</u>	<u>2,324,831</u>	<u>2,546,180</u>
Current assets					
Consumable biological assets	23 (b)	130,043	85,430	129,808	85,405
Inventories	25	3,647,917	4,044,857	2,833,470	3,252,709
Trade and other receivables	26	571,444	484,206	393,483	333,668
Amounts due from subsidiaries	24 (b)	-	-	716,041	639,948
Due from parastatal and other government controlled organization	24 (c)	1,408,049	650,338	1,406,933	631,918
Tax recoverable	14 (c)	-	129,819	-	78,886
Investment in FDR	33	53,678	53,894	53,678	53,894
Cash and cash equivalents	33	367,238	85,489	170,844	25,580
		<u>6,178,369</u>	<u>5,534,033</u>	<u>5,704,257</u>	<u>5,102,008</u>
Total assets		<u>8,344,503</u>	<u>7,938,264</u>	<u>8,029,088</u>	<u>7,648,188</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	27	215,625	215,625	215,625	215,625
Share premium	27	281	281	281	281
Revaluation surplus		859,817	987,882	835,248	963,313
Translation reserve		(11,089)	(6,218)	-	-
Retained earnings		5,078,834	4,923,709	4,956,274	4,789,421
		<u>6,143,468</u>	<u>6,121,279</u>	<u>6,007,428</u>	<u>5,968,640</u>
Non-current liabilities					
Deferred tax liability	28 (c)	453,845	492,850	453,845	492,850
Amounts due to directors	24 (d)	1,124	1,124	1,124	1,124
		<u>454,969</u>	<u>493,974</u>	<u>454,969</u>	<u>493,974</u>

NYA SEED COMPANY LIMITED
 CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)
 AS AT 30 JUNE 2014

	Notes	Group		Company	
		2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
Current liabilities					
Amounts due to directors	24 (d)	8,438	6,968	8,438	6,968
Bank overdraft	33	1,222,325	702,936	1,222,275	702,936
Due to parastatal and other government controlled organisation	24 (e)	33,466	54,721	33,466	54,721
Employee benefits obligations	29	33,102	19,852	27,210	13,598
Trade and other payables	30	429,403	535,157	203,416	403,974
Unclaimed dividends	31	3,377	3,377	3,377	3,377
Tax payable	14 (c)	15,955	-	68,509	-
		<u>1,746,066</u>	<u>1,323,011</u>	<u>1,566,691</u>	<u>1,185,574</u>
Total equity and liabilities		<u>8,344,503</u>	<u>7,938,264</u>	<u>8,029,088</u>	<u>7,648,188</u>

The financial statements and the notes on pages 9 to 69 were approved by the Board of Directors on 24.12.2014 and signed on its behalf by:


 Director


 Director



KENYA SEED COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	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 2013						
As at 1 July 2012	215,625	281	1,122,370	(3,548)	4,596,985	5,931,713
Total comprehensive income for the year	-	-	770	(2,670)	200,591	198,691
Transfer of excess depreciation	-	-	(193,226)	-	193,226	-
Deferred tax on the excess depreciation	-	-	57,968	-	(57,968)	-
Interim dividend paid 2012/2013	-	-	-	-	(9,125)	(9,125)
As at 30 June 2013	<u>215,625</u>	<u>281</u>	<u>987,882</u>	<u>(6,218)</u>	<u>4,923,709</u>	<u>6,121,279</u>
Year ended 30 June 2014						
As at 1 July 2013	215,625	281	987,882	(6,218)	4,923,709	6,121,279
Total comprehensive income for the year	-	-	-	(4,871)	301,535	296,664
Prior year adjustment	-	-	-	-	(23,810)	(23,810)
Transfer of excess depreciation	-	-	(182,950)	-	182,950	-
Deferred tax on the excess depreciation	-	-	54,885	-	(54,885)	-
Interim and final dividend paid for year 2003/2004 to 2010/2011	-	-	-	-	(194,063)	(194,063)
Interim dividend proposed - 2012/2013	-	-	-	-	(56,602)	(56,602)
As at 30 June 2014	<u>215,625</u>	<u>281</u>	<u>859,817</u>	<u>(11,089)</u>	<u>5,078,834</u>	<u>6,143,468</u>

KENYA SEED COMPANY LIMITED
 COMPANY STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2014

	Share Capital KShs '000	Share Premium KShs '000	Revaluation Reserve KShs '000	Retained earnings KShs '000	Total KShs '000
Year ended 30 June 2013					
As at 1 July 2012	215,625	281	1,098,571	4,412,046	5,726,523
Total comprehensive income for the year	-	-	-	251,242	251,242
Transfer of excess depreciation	-	-	(193,226)	193,226	-
Deferred tax on the excess depreciation	-	-	57,968	(57,968)	-
Interim dividend paid 2012/2013	-	-	-	(9,125)	(9,125)
As at 30 June 2013	<u>215,625</u>	<u>281</u>	<u>963,313</u>	<u>4,789,421</u>	<u>5,968,640</u>
Year ended 30 June 2014					
As at 1 July 2013	215,625	281	963,313	4,789,421	5,968,640
Total comprehensive income for the year	-	-	-	289,453	289,453
Transfer of excess depreciation	-	-	(182,950)	182,950	-
Deferred tax on the excess depreciation	-	-	54,885	(54,885)	-
Final dividend paid for years 2003/2004 to 2010/2011	-	-	-	(194,063)	(194,063)
Interim and final dividend paid 2011/2012	-	-	-	(56,602)	(56,602)
As at 30 July 2014	<u>215,625</u>	<u>281</u>	<u>835,248</u>	<u>4,956,274</u>	<u>6,007,428</u>

KENYA SEED COMPANY LIMITED
CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	Group		Company	
		2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
OPERATING ACTIVITIES:					
Profit before taxation		450,836	288,673	443,935	332,118
Adjustment for:-					
Depreciation and amortization		299,605	304,326	277,514	279,520
Finance costs		150,693	103,711	147,496	103,711
		901,134	696,710	868,945	715,349
Changes in working capital:-					
Inventories		356,250	(1,048,939)	378,759	(1,151,549)
Trade and other receivables		(87,238)	114,886	(59,815)	115,262
Trade and other payables		(92,504)	196,144	(186,946)	86,817
Amounts due from/to parastatals		(778,966)	(358,561)	(796,270)	(368,602)
Amounts due from/to directors		1,470	(4,001)	1,470	(4,001)
Amounts due from/to related parties		-	-	(35,296)	100,406
Cash flows used in operations		300,146	(403,761)	170,847	(466,318)
Finance costs		(150,693)	(103,711)	(147,496)	(103,711)
Finance income		-	6,569	-	6,569
Tax paid		(47,585)	(302,914)	(46,092)	(243,359)
Net cash flows used in operating activities		101,868	(803,817)	(22,741)	(806,819)
INVESTING ACTIVITIES:					
Purchase of property, plant and equipment		(60,548)	(118,079)	(51,583)	(95,391)
Purchase of prepaid operating lease rentals		(6,930)	(8,381)	(6,930)	(674)
Purchase of intangible assets		(2,314)	(3,073)	(2,132)	(3,073)
Disposal proceeds from sale of assets		5,163	1,054	5,163	1,054
Net cash flows from investing activities		(64,629)	(128,479)	(55,482)	(98,084)
FINANCING ACTIVITIES:					
Dividends paid		(250,665)	(9,125)	(250,665)	(9,125)
Loan movement		9,130	-	-	-
		(241,535)	(9,125)	(250,665)	(9,125)
Cash and cash equivalents:					
Movement during the year		(204,296)	(941,421)	(328,888)	(914,028)
Effect of foreign exchange changes		(33,560)	(28,754)	(45,403)	(7,625)
As at 1 July		(563,553)	406,622	(623,462)	298,191
As at 30 June	33	(801,409)	(563,553)	(997,753)	(623,462)

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Reporting entity

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

b) Presentation of financial statements

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

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

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

These accounting policies are consistent with the previous period.

c) Consolidation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the group and all its subsidiaries which are controlled by the company as at 30 June 2014. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Consolidation (continued)

Basis of consolidation (continued)

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

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

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

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

d) Critical judgments and sources of estimation uncertainty

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

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

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

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



1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Available - for - sale assets

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

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

Taxation

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Revenue recognition

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

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

- Revenue from sale of goods is recognized when the group has transferred to the buyers the significant risks and rewards incidental to the ownership of the goods; and
 - Interest income is recognized on time basis, using the effective interest method. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset to that asset's net carrying amount.
- ii) Other income is recognized on an accrual basis. It mainly relates interest on growers' advances, sale of chemicals, fertilizers, rental income and gain on disposal on assets.

f) Property, plant and equipment

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

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

- ii) Machinery

The valuation analysis took into account the following factors:

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Property, plant and equipment (Continued)

iii) Other assets – based on their fair market values

Increases in the carrying amounts of property, plant and equipment resulting from revaluations are credited to the revaluation surplus, except to the extent that they represent a reversal of a decrease in the value of an asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent the decrease was previously charged. Decreases in carrying amounts of property, plant and equipment are charged to income statement to the extent they exceed the balances, if any, held in the revaluation surplus relating to previous revaluation of the relevant assets.

On subsequent disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation surplus is transferred directly to the retained earnings.

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

Gains or losses arising on disposal of an asset are determined as the difference between the net sales proceeds and the carrying amount of the asset at the time of sale and are recognized in the profit or loss in the year in which the sale occurred.

iv) Depreciation

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

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

Freehold land is not depreciated.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Leases

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

All other leases are classified as operating leases.

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

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

h) Intangible assets

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

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

Research and development costs

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Investment in subsidiaries

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

j) Biological assets

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

The fair value of the biological assets and agricultural produce that have an active market is determined using the quoted price in the market. The fair value of the biological assets that do not have an active market is determined at the present value of the expected net cash flows discounted at the current market determined pre-tax borrowing rate. The fair value of the Group's newly planted crops is estimated by reference to costs incurred on the crops up to the reporting date.

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

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

i) Consumable biological assets

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

ii) Bearer biological assets

Other biological assets are classified as bearer biological assets.

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

j) Inventories

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Impairment of non-financial assets

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

Impairment gains that represent reversal of losses previously recognized in relation to certain assets are captured as income unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in revaluation. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

l) Financial instruments

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

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

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

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

i) Financial instruments at fair value through profit or loss

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

ii) Held-to-maturity investments

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

iii) Loans and receivables

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

iv) Available for sale financial instruments

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

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

iv) Financial liabilities at amortized cost

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

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

Unquoted equity instruments

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

Trade and other receivables

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

Trade and other receivables (Continued)

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

Government securities

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash, treasury bills maturing within three months of the acquisition date and which are subject to an insignificant risk of changes in value, net of any outstanding overdrafts.

Offsetting

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

Accounts payable

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

Gains and losses

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

Impairment and uncollectibility of financial assets

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

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

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

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

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

De-recognition

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Financial instruments (Continued)

De-recognition (Continued)

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

n) Foreign currency transactions

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

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

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

o) Foreign operations

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

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

p) Provisions

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Loan capital to subsidiaries

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

r) Dividends

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

s) Employee benefits

(i) Defined benefits scheme

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

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

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

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

(i) Defined contribution scheme

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Employee benefits (Continued)

(ii) *Accrued leave pay*

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

(iii) *Gratuity*

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

t) Contingent liabilities

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

u) Taxes

Current tax

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

Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Taxes (Continued)

Deferred tax (Continued)

- 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 profit will be available against which the temporary differences can be utilised;
- The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered; and,
- Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

v) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Segmental reporting (Continued)

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

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

w) New Standards and Interpretations

i) New and amended standards and interpretations

The group applied, for the first time, certain standards and amendments in 2014 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, 2013. The Group adopted the standard for the first time in the 2014 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, 2013.

The group adopted the standard for the first time in the 2014 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, 2013. The Group adopted the standard for the first time in the 2014 financial statements. The standard does not have a material impact on the Group's financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

w) New Standards and Interpretations (continued)

ii) Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group has chosen not to early adopt these standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after January 01, 2014 or later periods. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

w) New Standards and Interpretations (Continued)

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

IFRS 9 Financial Instruments (Continued)

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9, *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015.

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

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

These amendments are effective for annual periods beginning on or after 1 January 2014 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 2014. 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 company under the Kenyan Companies Act, Chapter 486 of the Laws of Kenya on 2 July 1956 and its subscribers were private individuals. In 1960, it was converted to a public limited liability company. Until the year 2002, the Company was a 52.88% subsidiary of Agricultural Development Corporation (ADC), which is wholly owned by the Government of Kenya.



2. OWNERSHIP OF KENYA SEED COMPANY LIMITED (Continued)

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

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

In addition, by Kenya Gazette notices No. 976/2003 and 3/2005, the Minister for Agriculture invoked his powers under section 6(1) of the Kenya State Corporations Act and appointed a new management team to take over from the existing management and declared the 3,370,000 shares issued as void.

Both the High court and the court of Appeal have held that Kenya Seed is a state corporation

Subsequently progress has been made in the following areas:

- a. An Annual General Meeting was held on 31st January 2014, the previous one having been held on December 2003;
- b. During the said 2014 AGM, all the Directors were elected by the shareholders
- c. The Board has taken steps to resolve the share issue by giving the Government a proposal on the way forward, which is the recognition of the disputed shares. The feedback from the Government is awaited.

3. GOING CONCERN STATUS OF THE SUBSIDIARY COMPANIES

Kibo Seed Company Limited has a net current liability position of KShs 21.42 million as at 30 June 2014 (2013: KShs 18.8 million) and accumulated losses of KShs 9.5 million as at 30 June 2014 (2013: KShs 6.8 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.

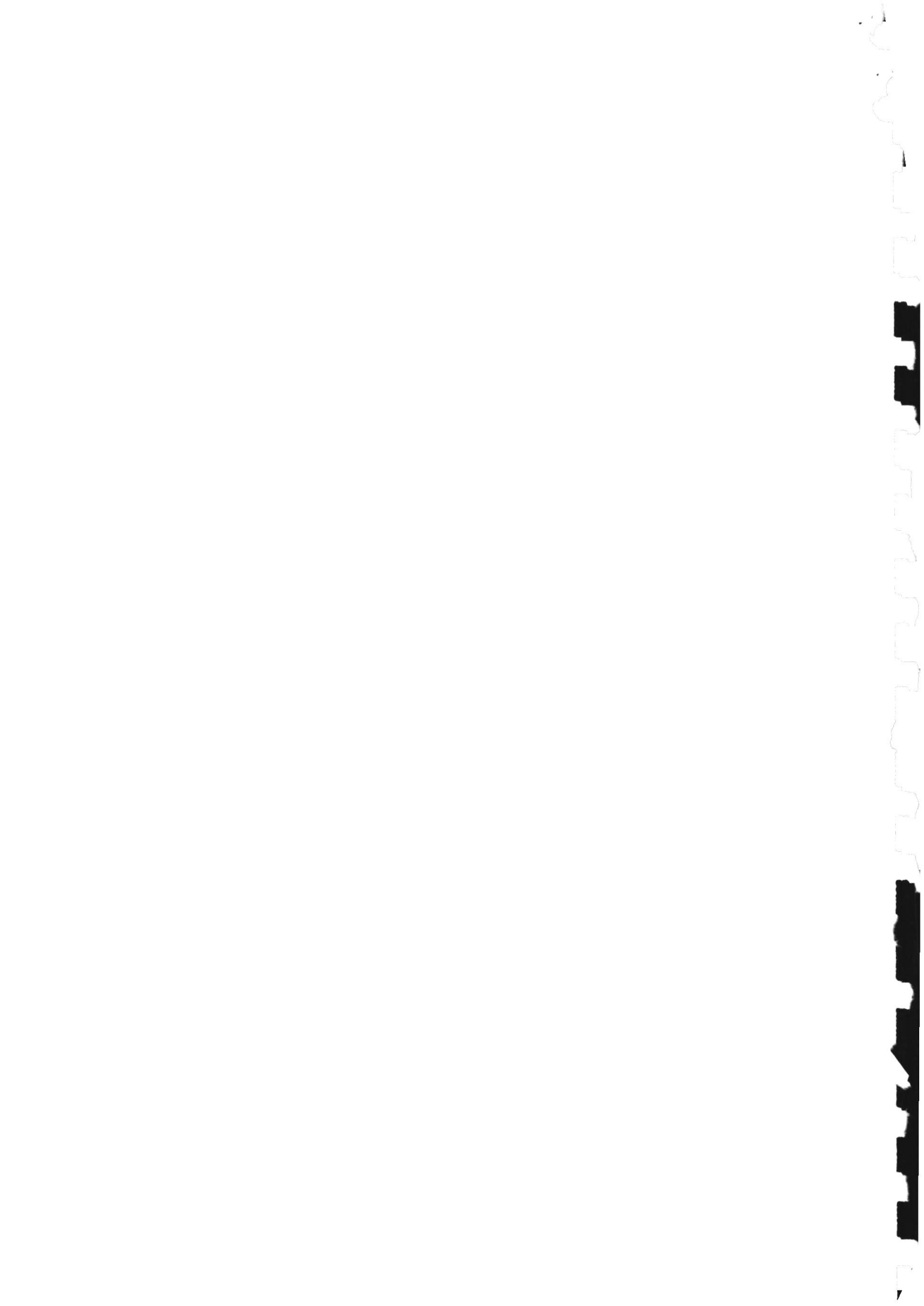
Mount Elgon Seed Company limited is technically insolvent. It has a net liability position of KShs 154 million as at 30 June 2014 (2013: KShs 154 million). The company made a loss of KShs 0.2 million for the year ended 30 June 2014 (2013: KShs 0.9 million). This casts doubt about the company's ability to continue as a "going concern." In view of the above circumstances, company directors after considering the advice of management and independent valuers decided to cease trading with effect from 30 June 2012. As stipulated in their resolution ratified on 26 September 2012, the Board of Directors confirmed that they will not commence the winding up process of the company in the foreseeable future and that the company will remain dormant as of 30 June 2013. The directors have presented the assets and liabilities at the amounts expected to be realized and settled respectively.

3. GOING CONCERN STATUS OF THE SUBSIDIARY COMPANIES (Continued)

Simlaw Seeds Company Uganda Limited is technically insolvent. It has a net liability position of KShs 45.5 million as at 30 June 2014 (2013: KShs 44.5 million). The company made a loss of KShs 1.03 million for the year ended 30 June 2014 (2013: KShs 26.7 million) and is heavily dependent upon its parent company for financing. This casts doubt about the company's ability to continue as a "going concern." However, the parent company has committed to continue providing financial support necessary to ensure that the company meets its financial requirements and they will not call the amount they are owed in the foreseeable future in a manner that will affect the operations of the company.

Simlaw Seeds Company Tanzania was incorporated in April 2013. The parent company injected KShs 28.6 million to start operations. Minimal transactions were done to the year ended 30 June 2014. The company has made losses in the two periods in operation totaling to accumulated losses KShs 0.5 Million as at 30 June 2014 (2013: KShs 0.3 Millions).

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



KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
4. REVENUE				
Income from sale of seeds	5,990,719	5,008,004	5,020,990	4,234,766
Income from sale of milk	1,992	2,967	1,992	2,967
	<u>5,992,711</u>	<u>5,010,971</u>	<u>5,022,982</u>	<u>4,237,733</u>
5. COST OF SALES				
Opening stock	4,044,857	2,969,458	3,252,709	2,074,781
Purchases	3,019,684	3,812,827	2,166,452	3,151,523
Factory overheads	607,930	628,392	598,898	628,392
Less:				
Closing stock	(3,647,917)	(4,044,857)	(2,833,470)	(3,252,709)
Low Germinating Seed	(3,593)	-	-	-
Intra-group purchases	(225,251)	(318,762)	-	-
Cost of goods sold	<u>3,795,710</u>	<u>3,047,058</u>	<u>3,184,589</u>	<u>2,601,987</u>
6. OTHER INCOME				
Bad debts recovered - trade debtors	46,355	13,032	44,267	10,911
Bad debts recovered - related parties	-	9,127	-	9,127
Gain on disposal of property, plant and equipment	1,964	1,054	1,964	1,054
Rental income	1,421	1,330	1,421	1,330
Interest on FDR	8,450	6,569	1,366	(5,332)
Other - interest on growers advances and car loans	22,254	26,684	22,164	25,632
Sale of chemicals and fertilizer	109,909	150,318	109,908	150,318
Miscellaneous	41,542	-	38,990	-
	<u>231,895</u>	<u>208,114</u>	<u>220,080</u>	<u>193,040</u>
7. OPERATING EXPENSES				
(a) EMPLOYMENT COSTS				
Salaries and allowances	428,602	382,194	301,754	297,263
Wages	88,990	179,490	79,731	138,774
Staff welfare	56,542	58,771	40,962	43,217
Leave pay accrual	21,838	21,494	21,443	20,995
Pension scheme contributions	18,203	23,661	12,705	17,457
Staff gratuity accrual	6,396	7,530	2,643	921
National Social Security Fund (NSSF)	1,461	2,838	1,143	996
	<u>622,032</u>	<u>675,978</u>	<u>460,381</u>	<u>519,623</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

7. OPERATING EXPENSES (CONTINUED)	Group		Company	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
(b) ESTABLISHMENT COSTS				
Depreciation	79,020	71,196	71,132	71,196
Amortization (Note 18)	26,023	17,051	24,062	17,051
Rent and rates	53,840	51,118	24,248	21,592
Power and light	9,582	10,163	6,839	6,785
Repairs and maintenance—buildings	6,381	8,686	3,700	3,519
Water supply	1,645	1,243	1,281	724
Other establishment costs	3,490	711	2,852	1,922
	<u>179,981</u>	<u>160,168</u>	<u>134,114</u>	<u>122,789</u>
(c) MACHINERY COSTS				
Depreciation	57,958	74,054	47,887	62,873
Fuel and oil costs	32,829	32,504	28,021	41,772
General repairs	26,279	26,071	18,602	18,892
Weighbridge costs	295	160	295	160
Other workshop costs	2,065	8,872	1,599	1,530
	<u>119,426</u>	<u>141,661</u>	<u>96,404</u>	<u>125,227</u>
TOTAL OPERATING EXPENSES	<u>921,439</u>	<u>1,121,860</u>	<u>690,899</u>	<u>911,692</u>
8. ADMINISTRATION EXPENSES				
Provision for bad and doubtful:				
- Trade receivables	74,473	29,666	73,250	23,129
- Staff receivables	3,593	8,893	3,593	8,893
Provision for obsolete stocks	92,128	30,975	84,391	23,832
Directors' remuneration - fees	4,500	500	4,500	500
- other expenses	19,703	25,993	12,612	14,770
Legal and professional fees	16,737	18,378	14,111	14,530
Insurance	15,571	16,385	12,222	11,498
Postage and telecommunications	17,643	16,506	12,883	11,333
Bank charges	12,221	9,111	8,723	7,526
Printing and stationery	7,412	12,290	3,223	9,018
Auditors remuneration	5,984	10,715	3,014	6,326
Office equipment	376	806	150	402
Licenses and trade subscriptions	8,980	6,909	4,647	4,263
Publications	2,557	926	2,557	926
Corporate social responsibility	886	2,639	886	2,612
Stocks write down	122,354	236,497	122,354	236,497
Other expenses	62,407	64,665	50,957	26,974
Farm expenses	10,864	-	10,864	-
	<u>478,389</u>	<u>491,854</u>	<u>424,937</u>	<u>403,029</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

	Group		Company	
	2014	2013	2014	2013
9. SELLING AND DISTRIBUTION EXPENSES	KShs '000	KShs '000	KShs '000	KShs '000
Transport and travelling	205,230	188,917	150,489	131,596
Publicity	46,318	55,899	35,441	31,291
Entertainment	69	120	-	69
Demonstrations	4,256	5,877	1,422	5,250
	<u>255,873</u>	<u>250,813</u>	<u>187,352</u>	<u>168,206</u>
10. RESEARCH AND DEVELOPMENT EXPENSES				
Research and development	71,665	30,683	65,321	26,505
Laboratory and analysis of sample	12,247	7,895	10,640	7,048
	<u>83,912</u>	<u>38,578</u>	<u>75,961</u>	<u>33,553</u>
11. OTHER COSTS				
Fertilizer and chemicals	<u>108,044</u>	<u>142,420</u>	<u>108,044</u>	<u>142,420</u>

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

12. OPERATING PROFIT

The operating profit is arrived at after charging:

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Provision for obsolete inventories	92,128	30,975	84,391	23,832
Provision for bad and doubtful debts	78,066	38,559	76,843	32,022
Depreciation of property, plant and equipment	242,891	261,575	223,961	237,901
Amortization of prepaid operating rentals	52,838	40,293	52,838	40,293
Amortization of intangible assets	3,876	2,458	715	1,326
Employment costs (note 7(a))	622,032	675,978	460,381	519,623
Directors' emoluments - fees	4,500	500	4,500	500
- other expenses	19,703	25,993	12,612	14,770
Auditors' remuneration	5,984	10,715	3,014	6,326
Stocks write down	122,354	236,497	122,354	236,497
Effects of discounting of staff receivables	<u>830</u>	<u>532</u>	<u>830</u>	<u>532</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

12. OPERATING PROFIT (Continued)	Group		Company	
	2014	2013	2014	2013
And after crediting:	KShs '000	KShs '000	KShs '000	KShs '000
Gain on disposal of property, plant and equipment	(1,964)	(1,054)	(1,964)	(1,054)
Operating lease rentals receivable	(1,421)	(1,330)	(1,421)	(1,330)
Bad debts recovered	(46,355)	(22,159)	(44,267)	(20,038)
13. FINANCE COSTS AND INCOME				
(a) FINANCE COSTS				
Interest charged on overdraft	142,489	101,203	139,251	101,203
Loan negotiation fees	4,047	2,508	4,088	2,508
Foreign exchange loss	4,157	-	4,157	-
	<u>150,693</u>	<u>103,711</u>	<u>147,496</u>	<u>103,711</u>
(b) FINANCE INCOME				
Interest income	<u>-</u>	<u>6,569</u>	<u>-</u>	<u>6,569</u>
14. TAXATION				
- Statement of comprehensive income:-				
(a) Taxation charge				
Charge for the year	193,705	113,933	193,487	111,924
Deferred tax credit	(44,404)	(24,269)	(39,005)	(29,620)
Under provision in previous years	-	(1,582)	-	(1,428)
	<u>149,301</u>	<u>88,082</u>	<u>154,482</u>	<u>80,876</u>
(b) Reconciliation of tax based on accounting profit to tax expense:-				
	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Accounting profit before tax	<u>450,836</u>	<u>288,673</u>	<u>443,935</u>	<u>332,118</u>
Tax at the applicable rate of 30%	135,251	86,602	133,181	99,636
Tax effect of expenses not deductible for tax purposes	40,312	37,592	33,279	17,527
Tax effect of revenues that are not taxable	(26,262)	(34,530)	(11,978)	(34,859)
Prior year current tax under provision	<u>-</u>	<u>(1,582)</u>	<u>-</u>	<u>(1,428)</u>
	<u>149,301</u>	<u>88,082</u>	<u>154,482</u>	<u>80,876</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
14. TAXATION (Continued)				
- Statement of financial position:-				
(c) Tax (payable)/recoverable				
As at 1 July	129,819	(4,035)	78,886	(53,976)
Taxation charge	(193,705)	(113,119)	(193,487)	(111,924)
Exchange rate adjustment	357	(41)	-	-
Tax paid	47,574	245,430	46,092	243,358
Prior years understatement	-	1,584	-	1,428
As at 30 June	<u>(15,955)</u>	<u>129,819</u>	<u>(68,509)</u>	<u>78,886</u>

15. EARNINGS PER SHARE

Earnings per share have been calculated on the after tax profit for the year of KShs 301,535,000 and KShs 289,453,000 for the Group and Company respectively (2013: KShs 200,591,000 and KShs 251,242,000 for the Group and Company respectively), and the 10,781,265 shares in issue at the respective reporting dates.

There were no potentially dilutive shares in issue on either 30 June 2014 or 30 June 2013. Therefore the diluted earnings per share are the same as the basic earnings per share.

16. DIVIDEND PROPOSED

In respect of the current year, the directors propose that a dividend of KShs 5.59 (2013: KShs 5.25) per share totaling KShs 60,265,790 be paid to shareholders (being 20% of the Profit after Tax). This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

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



KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

17. PROPERTY, PLANT AND EQUIPMENT

Group

Year ended 30 June 2014

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

Year ended 30 June 2013

	Freehold Land KShs '000	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 2012	4,223	1,591,534	269,404	911,006	85,150	125,088	149,134	51,872	58,294	3,245,705
Additions	-	9,621	23,786	14,887	3,143	5,663	41,577	10,983	8,419	118,079
Disposals	-	-	-	-	-	-	(2,858)	-	-	(2,858)
Transfers	-	-	32,614	-	-	3,726	(1,100)	-	(36,340)	(1,100)
As at 30 June 2013	<u>4,223</u>	<u>1,601,155</u>	<u>325,804</u>	<u>925,893</u>	<u>88,293</u>	<u>134,477</u>	<u>186,753</u>	<u>62,855</u>	<u>30,373</u>	<u>3,359,826</u>
Depreciation										
As at 1 July 2012	32	284,552	102,301	378,144	32,406	73,450	120,556	37,000	-	1,028,441
Charge for the year	-	81,565	27,657	86,099	6,329	25,216	24,684	10,025	-	261,575
Elimination on disposal	-	-	-	-	-	-	(2,858)	-	-	(2,858)
Exchange adjustment	(438)	-	-	-	-	-	-	-	-	(438)
As at 30 June 2013	<u>(406)</u>	<u>366,117</u>	<u>129,958</u>	<u>464,243</u>	<u>38,735</u>	<u>98,666</u>	<u>142,382</u>	<u>47,025</u>	<u>-</u>	<u>1,286,720</u>
Net carrying amount										
As at 30 June 2013	<u>4,629</u>	<u>1,235,038</u>	<u>195,846</u>	<u>461,650</u>	<u>49,558</u>	<u>35,811</u>	<u>44,371</u>	<u>15,830</u>	<u>30,373</u>	<u>2,073,106</u>

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KENYA SLED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

Year ended 30 June 2014

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

Year ended 30 June 2013

	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 2012	1,579,486	269,405	862,984	85,149	103,464	92,545	32,772	57,277	3,083,082
Additions	9,098	23,786	2,099	3,143	4,953	41,317	5,641	5,354	95,391
Disposals	-	-	-	-	-	(1,758)	-	-	(1,758)
Transfers	-	32,614	-	-	3,726	-	-	(36,340)	-
As at 30 June 2013	<u>1,588,584</u>	<u>325,805</u>	<u>865,083</u>	<u>88,292</u>	<u>112,143</u>	<u>132,104</u>	<u>38,413</u>	<u>26,291</u>	<u>3,176,715</u>
Comprising:									
At Cost	624,605	76,935	255,134	47,952	49,859	69,499	25,698	26,291	1,175,973
At valuation – 2008	<u>963,979</u>	<u>248,870</u>	<u>609,949</u>	<u>40,340</u>	<u>62,284</u>	<u>62,605</u>	<u>12,715</u>	-	<u>2,000,742</u>
	<u>1,588,584</u>	<u>325,805</u>	<u>865,083</u>	<u>88,292</u>	<u>112,143</u>	<u>132,104</u>	<u>38,413</u>	<u>26,291</u>	<u>3,176,715</u>
Depreciation									
As at 1 July 2012	282,499	104,931	360,378	32,404	60,339	81,023	24,939	-	946,513
Charge for the year	80,307	27,657	80,969	6,329	21,874	16,480	4,285	-	237,901
Elimination on disposal	-	-	-	-	-	(1,758)	-	-	(1,758)
As at 30 June 2013	<u>362,806</u>	<u>132,588</u>	<u>441,347</u>	<u>38,733</u>	<u>82,213</u>	<u>95,745</u>	<u>29,224</u>	-	<u>1,182,656</u>
Net carrying amount									
As at 30 June 2013	<u>1,225,778</u>	<u>193,217</u>	<u>423,736</u>	<u>49,559</u>	<u>29,930</u>	<u>36,359</u>	<u>9,189</u>	<u>26,291</u>	<u>1,994,059</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

18. PREPAID OPERATING LEASE RENTALS	Group		Company	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
COST				
As at 1 July	414,814	414,139	414,814	414,139
Additions	6,930	8,381	6,930	8,381
Disposal in the year	(47,806)	(7,706)	(47,806)	(7,706)
As at 30 June	<u>373,937</u>	<u>414,814</u>	<u>373,937</u>	<u>414,814</u>
AMORTISATION				
As at 1 July	231,859	191,566	231,859	191,566
Charge for the year - expense	24,063	17,051	24,063	17,051
Charge to biological assets	28,775	23,242	28,775	23,242
Elimination on disposal	(47,807)	-	(47,807)	-
As at 30 June	<u>236,889</u>	<u>231,859</u>	<u>236,889</u>	<u>231,859</u>
IMPAIRMENT LOSSES				
As at 1 July and 30 June	<u>2,016</u>	<u>2,016</u>	<u>2,016</u>	<u>2,016</u>
NET CARRYING AMOUNT				
As at 30 June	<u>135,032</u>	<u>180,939</u>	<u>135,032</u>	<u>180,939</u>
19. INTANGIBLE ASSETS				
COST				
As at 1 July	29,226	26,153	19,251	16,178
Additions	2,314	3,073	2,132	3,073
As at 30 June	<u>31,540</u>	<u>29,226</u>	<u>21,383</u>	<u>19,251</u>
AMORTISATION				
As at 1 July	19,367	16,909	14,991	13,665
Charge for the year	3,876	2,458	715	1,326
As at 30 June	<u>23,243</u>	<u>19,367</u>	<u>15,706</u>	<u>14,991</u>
NET CARRYING AMOUNT				
As at 30 June	<u>8,297</u>	<u>9,859</u>	<u>5,677</u>	<u>4,260</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

	Company	
	2014	2013
	KShs '000	KShs '000
20. INVESTMENT IN SUBSIDIARIES		
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	4,496
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>5,696</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

	Group and Company	
	2014	2013
	KShs '000	KShs '000
21. AVAILABLE FOR SALE INVESTMENTS-UNQUOTED		
Mt Elgon Hospital Limited – equity shares	200	200
Kenya Farmers Association – equity shares	2	2
Less: Accumulated impairment losses	<u>(202)</u>	<u>(200)</u>
	<u>-</u>	<u>2</u>

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

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
22. STAFF RECEIVABLES				
Gross staff receivables	85,487	67,624	79,547	67,624
Provision for bad and doubtful debts	<u>(54,015)</u>	<u>(49,579)</u>	<u>(54,015)</u>	<u>(49,579)</u>
Net receivables	31,472	18,045	25,532	18,045
Within one year (note 26)	<u>(31,472)</u>	<u>(11,683)</u>	<u>(25,532)</u>	<u>(11,683)</u>
Amounts receivable after one year	<u>-</u>	<u>6,362</u>	<u>-</u>	<u>6,362</u>

The balances represent staff car loans and other advances. Terms and conditions applicable are that the staff car loans are for a period of four years and are charged interest at the rate of 6% p a (2013 6% p a) while other advances are given for varying periods and are interest free.

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS	Group and Company	
	2014	2013
	KShs '000	KShs '000
(a) Bearer biological assets		
Coffee	56,500	43,653
Livestock	33,663	51,666
Trees	25,413	24,180
	<u>115,576</u>	<u>119,499</u>
- Coffee		
Fair value as at 1 July	43,653	46,020
Increase in fair value (note 23(c))	<u>12,847</u>	<u>(2,367)</u>
Fair value as at 30 June	<u>56,500</u>	<u>43,653</u>

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

- (i) The coffee bushes will remain productive for the next 22 years after year end;
- (ii) The biological transformation rate will remain at 100%;
- (iii) The pretax incremental borrowing rate will remain at 13%;
- (iv) The prevailing weather and climatic conditions will not change; and,
- (v) The sales and cost prices are expected to escalate at an average rate of 7.39% p.a.

In the estimation of the fair value of the coffee plants, the following significant assumptions were made in 2013:

- (i) The coffee bushes will remain productive for the next 23 years after year end;
- (ii) The biological transformation rate will remain at 100%;
- (iii) The pretax incremental borrowing rate will remain at 14%;
- (iv) The prevailing weather and climatic conditions will not change; and,
- (v) The sales and cost prices are expected to escalate at an average rate of 4.91% p.a.

- Livestock	Cattle KShs'000	Sheep KShs'000	Goats KShs'000	Total KShs'000
Year ended 30 June 2014				
Fair value as at 1 July 2013	51,026	574	66	51,666
Decreases due to sales	<u>(11,620)</u>	<u>(273)</u>	<u>(8)</u>	<u>(11,901)</u>
As at 30 June 2014	<u>39,406</u>	<u>301</u>	<u>58</u>	<u>39,765</u>
Gains arising from physical changes	(6,361)	105	30	(6,226)
Increases due to newborns	<u>109</u>	<u>13</u>	<u>1</u>	<u>123</u>
Fair value (loss)/gain on livestock (note 23 (c))	<u>(6,252)</u>	<u>118</u>	<u>31</u>	<u>(6,103)</u>
Fair value as at 30 June 2014	<u>33,154</u>	<u>419</u>	<u>89</u>	<u>33,663</u>



KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

	Cattle KShs'000	Sheep KShs'000	Goats KShs'000	Total KShs'000
- Livestock (continued)				
Year ended 30 June 2013				
Fair value as at 1 July 2012	43,993	526	70	44,589
Decreases due to sales	(4,244)	(182)	(18)	(4,444)
As at 30 June 2013	39,749	344	52	40,145
Gains arising from physical changes	11,028	198	7	11,233
Increases due to newborns	247	33	8	288
Fair value (loss)/gain on livestock (note 23(c))	11,275	231	15	11,521
Fair value as at 30 June 2013	51,024	575	67	51,666

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

- (i) The market conditions will remain constant;
- (ii) The prevailing climatic conditions will not change;
- (iii) The sales and cost prices are expected to escalate at an average rate of 7.39% 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.

During the year, the livestock yielded 150,000 litres of milk (2013 – 158,481 litres).

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

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

- Livestock (continued)

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

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

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

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

	Group and Company	
	2014 No.	2013 No.
Cattle	438	596
Goats	65	56
Sheep	188	288
	<u>691</u>	<u>940</u>

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

- Trees

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

- The sales and cost prices are expected to escalate at an average rate of 7.39% p.a.;
- Since the trees are not fully mature, their transformation is based on the current age of tree species;
- Prevailing market lending interest rate of 14% has been used as the discounting factor;
- Cash inflows and outflows accrue evenly throughout the useful life; and
- 10% of the trees planted will not attain maturity due to natural factors.

Trees are categorized as follows:

Category	Maturity	Number of trees	Value KShs '000
Eucalyptus Grandis	10 years	30,709	9,698
Ordinary Blue Gum	10 years	20,003	3,247
Cyprus Lustanica	30 years	17,880	2,522
		<u>68,592</u>	<u>15,467</u>

The 68,592 trees cover 144 acres of land.

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS (Continued)

(a) Bearer biological assets (continued)

- Trees (continued)

Significant assumptions made in the estimation of the fair value of the trees in 2013 include:

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

Tree are categorized as follows:

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

The 68,836 trees cover 144 acres of land

	Group and Company	
	2014 KShs '000	2013 KShs '000
Trees		
Fair value as at 1 July	24,180	23,930
Increase in fair value (note 23(c))	<u>1,233</u>	<u>250</u>
Fair value as at 30 June	<u>25,413</u>	<u>24,180</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS (Continued)

(b) Consumable biological assets	Maize KShs '000	Wheat KShs '000	pasture KShs '000	Sunflower KShs '000	Sorghum KShs '000	Oats KShs '000	Total KShs '000
Group							
Fair value at 1 July 2013	78,814	4,997	677	917	-	25	85,430
Additional costs for old crop	59,772	20,447	3,161	326	-	-	83,706
Gains in fair values due to physical changes - 2011/2012 crop	3,480	3,430	(2,676)	(925)	-	-	3,309
Decrease in fair value due to harvesting	(142,066)	(28,726)	(1,162)	(318)	-	(25)	(172,297)
Increase in fair value due to new planting	111,380	9,411	-	-	4	-	120,796
Gain/(loss) in fair value due to physical changes -2013/2014 crop	<u>14,690</u>	<u>(5,826)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235</u>	<u>9,099</u>
Fair value at 30 June 2014	<u>126,070</u>	<u>3,733</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>235</u>	<u>130,043</u>
Company							
Fair value at 1 July 2013	78,814	4,997	677	917	-	-	85,405
Additional costs for old crop	59,772	20,447	3,161	326	-	-	83,706
Gains in fair values due to physical changes - 2011/2012 crop	3,480	3,430	(2,676)	(925)	-	-	3,309
Decrease in fair value due to harvesting	(142,066)	(28,726)	(1,162)	(318)	-	-	(172,272)
Increase in fair value due to new planting	111,380	9,411	-	-	4	-	120,796
Gain/(loss) in fair value due to physical changes - 2013/2014 crop	<u>14,690</u>	<u>(5,826)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,865</u>
Fair value at 30 June 2014	<u>126,070</u>	<u>3,733</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>129,808</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

23. BIOLOGICAL ASSETS (Continued)

(b) Consumable biological assets (continued)

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

	Group and Company	
	2014	2013
	Kgs '000	Kgs '000
Maize	2,020	2,700
Wheat	820	947
Sunflower	4	40
Pasture	52	70
Oats	-	15
	<u>2,896</u>	<u>3,772</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.

(c) Fair value gains/(losses)	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Coffee	12,847	(2,367)	12,847	(2,367)
Livestock	(6,103)	11,521	(6,103)	11,521
Trees	1,233	250	1,233	250
Consumable biological assets	<u>12,313</u>	<u>107,489</u>	<u>12,174</u>	<u>107,550</u>
	<u>20,290</u>	<u>116,893</u>	<u>20,151</u>	<u>116,954</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

24. RELATED PARTIES TRANSACTIONS AND BALANCES

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

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

	Company	
	2014	2013
(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	28,613
Simlaw Seed Company Uganda Limited	-	41,000
	<u>244,644</u>	<u>285,441</u>
Less provisions for Mt. Elgon Seed Company Limited	<u>(50,078)</u>	<u>(50,078)</u>
	<u>194,566</u>	<u>235,363</u>

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

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

	Company	
	2014	2013
(b) Amounts due from subsidiaries	KShs '000	KShs '000
Simlaw Seeds Company Limited	525,179	451,991
Kibo Seed Company Limited	166,371	164,342
Mt Elgon Seed Company Limited	136,872	112,381
Simlaw Seed Company Uganda Limited	-	23,615
	<u>828,422</u>	<u>752,329</u>
Less provisions for Mt. Elgon Seed Company Limited	<u>(112,381)</u>	<u>(112,381)</u>
	<u>716,041</u>	<u>639,948</u>

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

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

	Group		Company	
	2014	2013	2014	2013
	KShs'000	KShs'000	KShs'000	KShs'000
Ministry of Agriculture	1,163,545	486,703	1,162,546	486,704
Agricultural Development Corporation	231,067	132,575	231,067	132,575
Kenya Farmers Association (KFA) – net	11,957	30,942	11,840	12,521
National Cereals and Produce Board	1,833	-	1,833	-
Kenya Agricultural Research Institute	(353)	118	(353)	118
	<u>1,408,049</u>	<u>650,338</u>	<u>1,406,933</u>	<u>631,918</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

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

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
- Kenya Farmers Association (KFA) – net				
Gross receivable amount	28,963	77,870	12,456	43,059
Provision for bad and doubtful debts	(17,006)	(46,928)	(616)	(30,538)
Net receivable amount	<u>11,957</u>	<u>30,942</u>	<u>11,840</u>	<u>12,521</u>

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

	Group and Company	
	2014 KShs '000	2013 KShs '000
(d) Amounts due to directors		
Gratuity provision	1,124	1,124
Leave pay provision	533	533
Provision for fees	<u>7,905</u>	<u>6,435</u>
	9,562	8,092
Due after one year	<u>(1,124)</u>	<u>(1,124)</u>
Due within one year	<u>8,438</u>	<u>6,968</u>

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

	Group		Company	
	2014 KShs'000	2013 KShs'000	2014 KShs'000	2013 KShs'000
Kenya Plant Health Inspectorate (KEPHIS)	4,692	16,364	4,692	16,364
National Cereals and Produce Board	10,274	14,037	10,274	14,037
Kenya Farmers Association	(1,679)	2,231	(1,679)	2,231
Others	20,337	22,089	20,337	22,089
Agricultural Development Corporation	12	-	12	-
Kenya Agricultural Research Institute	(170)	-	(170)	-
	<u>33,466</u>	<u>54,721</u>	<u>33,466</u>	<u>54,721</u>



KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

	Group and Company	
	2014	2013
	KShs '000	KShs '000
(f) Transactions within the Group		
Kenya Seed Company Limited sales to:		
Simlaw Seeds Company Limited	116,254	172,596
Kibo Seed Company Limited	1,613	7,918
	<u>117,867</u>	<u>180,514</u>
Simlaw Seed Company Limited sales to:		
Kenya Seed Company Limited	106,075	130,725
Kibo Seed Company Limited	1,309	7,523
	<u>107,384</u>	<u>138,248</u>
Payments made by Kenya Seed Company Limited on behalf of:		
Simlaw Seeds Company Limited	30,593	26,037
Mt Elgon Seed Company Limited	11,510	-
Kenya Seed Company Uganda Limited	15,801	4,393
Kibo Seed Company Limited	12,440	31,189
	<u>70,344</u>	<u>61,619</u>
Payments made on behalf of Kenya Seed Company Limited by:		
Simlaw Seeds Company Limited	1,097	4,160
Kibo Seed Company Limited	-	161
	<u>1,097</u>	<u>4,321</u>
(g) Transactions with parastatal organizations		
Receipts from / sales to:		
National Cereals and Produce Board	6,935	-
Kenya Farmers Association	174,484	45,254
Agricultural Development Corporation	11,046	5,681
	<u>192,465</u>	<u>50,935</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

24. RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)

(g) Transactions with parastatal organizations (Continued)

	Group and Company	
	2014	2013
Payments to/Purchases from:	KShs '000	KShs '000
Agricultural Development Corporation	231,067	446,444
The Kenya Power & Lighting Company Limited	45,163	60,122
Kenya Farmers Association	2,241	-
Telkom Kenya	1,493	588
Kenya Agricultural Research Institute	5,000	5,000
Agricultural Society of Kenya	-	1,822
National Cereals and Produce Board	96,731	-
	<u>381,695</u>	<u>513,976</u>

(h) Transactions with directors

Fees	4,500	500
Salaries and allowances	25,993	25,993
	<u>30,493</u>	<u>26,493</u>

(i) Key management compensation

Salaries and allowances	<u>101,946</u>	<u>109,809</u>
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(j) Transactions with the staff retirement benefit scheme

Contributions collected on behalf of the scheme	<u>32,750</u>	<u>23,661</u>
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25. INVENTORIES	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Seeds – net	3,278,855	3,112,461	2,476,029	2,506,031
Chemicals and fertilizers	219,079	682,442	212,154	550,430
Packaging materials – net	81,543	220,922	76,847	172,833
Fuel and other inventories	62,334	5,302	62,334	5,302
Dressing materials	2,601	6,068	2,601	4,894
Cleanings and rejects	3,505	17,662	3,505	13,219
	<u>3,647,917</u>	<u>4,044,857</u>	<u>2,833,470</u>	<u>3,252,709</u>
- Seeds				
Gross amount	3,496,222	3,385,680	2,643,060	2,749,250
Provision for obsolete	<u>(217,367)</u>	<u>(273,219)</u>	<u>(167,031)</u>	<u>(243,219)</u>
Net realizable	<u>3,278,855</u>	<u>3,112,461</u>	<u>2,476,029</u>	<u>2,506,031</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

25. INVENTORIES (Continued)	Group		Company	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
- Packaging materials				
Gross amount	90,488	253,595	85,792	200,506
Provision for obsolete	(8,945)	(32,673)	(8,945)	(27,673)
Net realizable	<u>81,543</u>	<u>220,922</u>	<u>76,847</u>	<u>172,833</u>
26. TRADE AND OTHER RECEIVABLES				
Trade receivables	1,008,542	800,138	851,257	646,048
Staff receivables (Note 22)	31,472	11,683	25,532	11,683
Other receivables	77,819	169,234	32,870	133,529
Provision for bad and doubtful debts	(546,389)	(496,849)	(516,176)	(457,592)
	<u>571,444</u>	<u>484,206</u>	<u>393,483</u>	<u>333,668</u>

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

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

27. SHARE CAPITAL	Group and Company	
	2014 KShs '000	2013 KShs '000
Authorized share capital:		
20,000,000 ordinary shares of KShs 20 each	<u>400,000</u>	<u>400,000</u>
Issued and fully paid:		
10,781,265 ordinary shares of KShs 20 each	<u>215,625</u>	<u>215,625</u>

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

The fully paid up 3,370,000 shares which have been trading in the company are reflected in the shareholders register at the Registrar of Companies.

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

28. DEFERRED TAX	Group		Company	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
(a) Statement of comprehensive income				
Deferred liability credit	39,005	29,620	39,005	29,620
Deferred asset credit/(charge)	5,399	(5,351)	-	-
Charge for the year	<u>44,404</u>	<u>24,269</u>	<u>39,005</u>	<u>29,620</u>

(b) Deferred tax asset

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

The net deferred tax liability is attributable to the following items:

	Group		
	As at 1 July 2013 KShs '000	Statement of comprehensive income KShs '000	As at 30 June 2014 KShs '000
Deferred tax liabilities:			
Revaluation surplus	4,447	(1,302)	3,145
General bad debts provision	1,550	(1,550)	-
Gratuity provision	256	(256)	-
Fair value gain on biological assets	18	(18)	-
Unrealized loss on foreign exchange	-	275	275
	<u>6,271</u>	<u>(2,851)</u>	<u>3,420</u>
Deferred tax assets:			
Unrealized foreign exchange losses	(929)	929	-
Leave pay provision	(108)	(444)	(552)
Tax losses carried forward	(8,102)	(2,404)	(10,506)
Excess depreciation of tax wear and tear allowances	(5,966)	995	(4,971)
Provision of impairment of inventories	(5,630)	5,120	(510)
Gratuity provision	-	(1,222)	(1,222)
General bad debt provision	-	(5,276)	(5,276)
Fair value gain on biological assets	-	(247)	(247)
	<u>(20,735)</u>	<u>(2,548)</u>	<u>(23,283)</u>
Net deferred tax asset	<u>(14,464)</u>	<u>(5,399)</u>	<u>(19,863)</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

28. DEFERRED TAX (Continued)

(c) Deferred tax liability

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

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

	Group and Company		
	As at 1 July 2013	Statement of comprehensive income	As at 30 June 2014
	KShs '000	KShs '000	KShs '000
Deferred tax liabilities:			
Accelerated capital allowances	250,347	(27,302)	223,045
Revaluation surplus	263,584	(5,881)	257,703
Fair value gain on biological assets	-	11,978	11,978
Leave pay provision	720	(720)	-
	<u>514,651</u>	<u>(21,925)</u>	<u>492,726</u>
Deferred tax assets:			
Gratuity provision	(754)	(3,328)	(4,082)
General bad debts provision	(1,099)	(31,910)	(33,009)
Unrealized foreign exchange losses	(1,347)	-	(1,347)
Leave pay provision	-	(443)	(443)
Fair value gain on biological assets	(18,601)	18,601	-
	<u>(21,801)</u>	<u>(17,080)</u>	<u>(38,881)</u>
Net deferred tax liability	<u>492,850</u>	<u>(39,005)</u>	<u>453,845</u>

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

29. EMPLOYEE BENEFITS OBLIGATIONS	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Due to the defined benefit scheme's ex-staff	502	502	502	502
Gratuity provision	32,593	19,349	26,701	13,095
Benevolent fund	7	1	7	1
As at 30 June	<u>33,102</u>	<u>19,852</u>	<u>27,210</u>	<u>13,598</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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	Group		Company	
	2014	2013	2014	2013
30. TRADE AND OTHER PAYABLES	KShs '000	KShs '000	KShs '000	KShs '000
Amounts due to former share-holders (note 27)	124,690	124,690	124,690	124,690
Trade payables	212,041	364,550	32,527	253,732
Accrued leave pay	22,802	21,029	19,420	17,943
Accruals and other payables	69,870	24,888	26,779	7,609
	<u>429,403</u>	<u>535,157</u>	<u>203,416</u>	<u>403,974</u>

	Group and Company	
	2014	2013
31. UNCLAIMED DIVIDENDS	KShs '000	KShs '000
At beginning of the year	3,377	3,368
Unclaimed during the year	-	9
At end of the year	<u>3,377</u>	<u>3,377</u>

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

32. BANK OVERDRAFT

As at 30 June 2014, the company had available KShs 1.4 billion overdraft facility (2013: KShs 1 billion) with Kenya Commercial Bank. The company utilized KShs 1.222 billion of the facility as at 30 June 2014 (2013: KShs 703 Million).

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

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

	Group		Company	
	2014	2013	2014	2013
33. CASH AND CASH EQUIVALENTS	KShs '000	KShs '000	KShs '000	KShs '000
Cash and bank balances	367,238	85,489	170,844	25,580
Fixed deposits maturing beyond three months	53,678	53,894	53,678	53,894
	420,916	139,383	224,522	79,474
Bank overdraft	(1,222,325)	(702,936)	(1,222,275)	(702,936)
	<u>(801,409)</u>	<u>(563,553)</u>	<u>(997,753)</u>	<u>(623,462)</u>

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

34. CAPITAL EXPENDITURE COMMITMENTS

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

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Authorised but not contracted for	<u>650,875</u>	<u>618,437</u>	<u>439,493</u>	<u>421,312</u>

35. OPERATING LEASE COMMITMENTS

Minimum lease payments committed under various operating leases:

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Not later than 1 year	26,045	15,596	4,016	5,343
Later than 1 year but not later than 5 years	42,852	50,005	14,881	14,881
	<u>68,897</u>	<u>65,601</u>	<u>18,897</u>	<u>20,224</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.

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

(a) *Credit risk*

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation 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 recognised 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 2014 is made up as follows:

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

	Group		Company	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Net trade receivables	462,153	303,289	335,081	118,456
Net staff receivables	31,472	18,045	25,532	18,045
	<u>493,625</u>	<u>321,334</u>	<u>360,613</u>	<u>206,501</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	
	2014	2013	2014	2013
	KShs '000	KShs '000	KShs '000	KShs '000
Past due but not impaired:				
- by up to 30 days	49,035	130,034	11,964	103,993
- by 31 to 60 days	50,758	83,235	15,872	61,083
- by 61 to 90 days	40,308	140,345	23,168	105,468
- over 90 days	209,039	131,622	203,170	114,281
	<u>349,140</u>	<u>485,236</u>	<u>254,174</u>	<u>384,825</u>

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) *Credit risk (Continued)*

Movement in provisions for doubtful debts:

	Group		Company	
	2014 KShs '000	2013 KShs '000	2014 KShs '000	2013 KShs '000
As at 1 July	496,849	563,860	457,592	454,242
Recoveries during the year	(46,355)	(13,032)	(44,267)	(10,911)
Provisions for the year	74,473	29,666	73,250	23,128
Reversal of overprovision	21,422	(83,645)	29,601	(8,867)
As at 30 June	<u>546,389</u>	<u>496,849</u>	<u>516,176</u>	<u>457,592</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
2014	-10.00%	13,925	9,748
	10.00%	(13,925)	(9,748)
2013	-10.00%	(9,714)	(6,800)
	10.00%	9,714	6,800

- *Exchange risks*

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

USD	Change in currency rate	Effect on profit Before Tax KShs '000	Effect on Equity KShs '000
2014	-10.00%	(416)	(291)
	10.00%	416	291
2013	-10.00%	657	460
	10.00%	(657)	(460)

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KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) *Liquidity risk*

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

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

	Up to 1 month KShs '000	1 – 3 Months KShs '000	3 - 12 months KShs '000	over 1 year KShs '000	Total KShs '000
At 30 June 2014					
Financial assets					
Trade receivables	403,417	201,708	252,135	151,281	1,008,542
Other receivables and prepayments	-	-	76,909	-	76,909
Amount due from related parties	-	-	1,408,049	-	1,408,049
Bank balances and cash deposits	<u>367,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,238</u>
Total financial assets	<u>770,655</u>	<u>201,708</u>	<u>1,737,093</u>	<u>151,281</u>	<u>2,860,738</u>
Financial liabilities					
Total financial liabilities	<u>(715,410)</u>	<u>(357,705)</u>	<u>(447,131)</u>	<u>(268,279)</u>	<u>(1,788,525)</u>
Net liquidity gap	<u>55,245</u>	<u>(155,997)</u>	<u>1,289,962</u>	<u>(116,998)</u>	<u>1,072,213</u>
At 30 June 2013					
Financial assets					
Trade receivables	320,055	160,028	200,034	120,021	800,138
Other receivables and prepayments	-	-	180,917	-	180,917
Amount due from related party	-	-	650,338	-	650,338
Bank balances and cash deposits	<u>139,383</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,383</u>
Total financial assets	<u>459,438</u>	<u>160,028</u>	<u>1,031,289</u>	<u>120,021</u>	<u>1,770,776</u>
Financial liabilities					
Total financial liabilities	<u>(529,205)</u>	<u>(264,602)</u>	<u>(330,753)</u>	<u>(198,452)</u>	<u>(1,323,012)</u>
Net liquidity gap	<u>(69,767)</u>	<u>(104,574)</u>	<u>700,536</u>	<u>(78,431)</u>	<u>447,764</u>

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2014

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) *Operational risk*

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

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation 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 maximise long-term shareholder value.

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

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

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

37. CAPITAL MANAGEMENT (Continued)

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

	Group	
	2014	2013
	KShs '000	KShs '000
Trade and other payables(note 30)	429,447	535,157
Less : Cash and other short term deposits (note 33)	<u>(367,238)</u>	<u>(85,489)</u>
Net debt	62,209	449,668
Total Capital (Equity)	<u>6,143,468</u>	<u>6,121,279</u>
Capital and net debt	<u>6,205,677</u>	<u>6,570,947</u>
Gearing ratio	<u>1.00%</u>	<u>6.84%</u>

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

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

38. SEGMENTAL INFORMATION (Continued)

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

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Eliminated on consolidation KShs'000	Total KShs'000
Year ended 30 June 2014					
Operating income					
External	5,761,958	225,225	147,889	-	6,135,073
Inter-segment	<u>225,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating income	<u>5,987,210</u>	<u>225,225</u>	<u>147,889</u>	<u>(225,251)</u>	<u>6,135,073</u>
Segment profit	<u>461,346</u>	<u>(2,583)</u>	<u>(1,220)</u>	<u>6,444</u>	<u>463,988</u>
Statement of financial position:-					
Segment total assets	<u>8,029,088</u>	<u>285,908</u>	<u>110,470</u>	<u>(80,963)</u>	<u>8,344,503</u>
Segments liabilities	1,566,691	278,694	303,163	(402,482)	1,746,066
Non operating liabilities	<u>454,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,969</u>
Total liabilities	<u>2,021,660</u>	<u>278,694</u>	<u>303,163</u>	<u>(402,482)</u>	<u>2,201,035</u>
Other information:-					
Additions to property, plant and equipment	56,710	3,307	531	-	60,548
Additions to intangible assets	2,314	-	-	-	2,314
Additions to prepaid operating rentals	6,930	-	-	-	6,930
Depreciation of property, plant and equipment	235,931	3,481	3,479	-	242,891
Amortization of prepaid operating leases	52,837	-	-	-	52,837
Amortization of intangible assets	3,876	-	-	-	3,876
Provision for obsolete inventories	84,391	4,228	3,509	-	92,128
Provision for bad and doubtful debts	76,843	1,224	-	-	78,067
Bad debts recovered	(44,267)	-	-	-	(44,267)
Finance cost	150,693	-	-	-	150,693
Income tax	154,482	(5,181)	-	-	149,301
Effects of discounting of staff receivables	<u>(4,874)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,874)</u>
	<u>723,029</u>	<u>7,059</u>	<u>7,519</u>	<u>-</u>	<u>790,444</u>
Off balance sheet items:					
Capital expenditure commitments	650,875	-	-	-	650,875
Operating lease commitments	<u>54,306</u>	<u>14,590</u>	<u>-</u>	<u>-</u>	<u>68,896</u>
Total	<u>705,181</u>	<u>14,590</u>	<u>-</u>	<u>-</u>	<u>719,771</u>

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

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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38. SEGMENTAL INFORMATION (Continued)

	Kenya KShs'000	Tanzania KShs'000	Uganda KShs'000	Eliminated on consolidation KShs'000	Total KShs'000
Year ended 30 June 2013					
Operating income					
External	4,789,808	221,623	116,433	-	5,127,864
Inter-segment	<u>318,762</u>	-	-	-	-
Total operating income	<u>5,108,570</u>	<u>221,623</u>	<u>114,433</u>	<u>(318,762)</u>	<u>5,127,864</u>
Segment profit	<u>223,116</u>	<u>1,293</u>	<u>(27,321)</u>	<u>2,703</u>	<u>198,691</u>
Statement of financial position:					
Segment total assets	<u>8,569,747</u>	<u>304,305</u>	<u>153,156</u>	<u>(1,087,846)</u>	<u>7,938,264</u>
Segments liabilities	2,387,390	293,912	366,571	(1,723,738)	1,324,135
Non operating liabilities	<u>492,850</u>	-	-	-	<u>492,850</u>
Total liabilities	<u>2,880,240</u>	<u>293,912</u>	<u>366,571</u>	<u>(1,723,738)</u>	<u>1,816,985</u>
Other information:-					
Additions to property, plant and equipment	98,462	802	16,143	-	115,407
Additions to intangible assets	3,073	-	-	-	3,073
Additions to prepaid operating rentals	8,381	-	-	-	8,381
Depreciation of property, plant and equipment	253,768	2,901	4,906	-	261,575
Amortization of prepaid operating leases	40,292	-	-	-	40,292
Amortization of intangible assets	2,458	-	-	-	2,458
Provision for obsolete inventories	26,541	4,434	-	-	30,975
Provision for bad and doubtful debts	34,431	2,685	1,443	-	38,559
Bad debts recovered	(20,038)	-	-	-	(20,038)
Finance income	(1,054)	-	-	-	(1,054)
Finance cost	103,711	-	-	-	103,711
Income tax	86,967	301	-	-	87,268
Effects of discounting of staff receivables	<u>(6,969)</u>	-	-	-	<u>(6,969)</u>
	<u>630,023</u>	<u>11,123</u>	<u>22,492</u>	<u>-</u>	<u>663,638</u>
Off balance sheet items:					
Capital expenditure commitments	618,437	-	-	-	618,437
Operating lease commitments	<u>61,262</u>	<u>4,339</u>	-	-	<u>65,601</u>
Total	<u>679,699</u>	<u>4,339</u>	-	-	<u>684,038</u>

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

KENYA SEED COMPANY LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 30 JUNE 2014

	Group and Company	
	2014	2013
	KShs '000	KShs '000
39. CONTINGENT LIABILITIES		
Pending litigation claims	53,590	2,689
Claim by a former employee	2,000	2,000
Claim by former contractor	786,477	60,000
	<u>842,067</u>	<u>64,689</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 2014. Based on the advice by the Company's lawyers, the directors are of the opinion that no liabilities will crystallize. Therefore, no provision has been made for the amount in these financial statements.

Claims by a former employee

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

Claim by former contractor

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

Tax assessment

The Kenya Revenue Authority (KRA) carried out an audit of the company in 2013 covering corporate tax, employee taxes, withholding tax and VAT for the period from 2006 to 2009. KRA has demanded KShs 71 million as the principal tax and interest. In the opinion of the directors, after taking appropriate tax advice, this amount is not payable and they have appealed to the Commissioner to review the assessment. The directors are of the opinion that the outcome of their appeal will be favourable hence no provision has been made for any tax liability that may arise from this assessment in these financial statements.

40. 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.

41. INCORPORATION AND ULTIMATE HOLDING ENTITY

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

KENYA SEED COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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42. CURRENCY

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

43. 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.

44. EVENTS AFTER THE REPORTING DATE

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