# LONGHORN KENYA LIMITED

## REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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# CORPORATE INFORMATION

| | |
|---|---|
| DIRECTORS | F T Nyammo - Chairman<br>M Muli - Managing Director<br>R Nyamweya<br>J W M Briggs (Mrs)<br>S Omanga (Mrs)<br>J Syekei Nyandieka<br>J K Muriuki - Representing Centum Investment Company Limited |
| SECRETARY | Enid Muriuki<br>Certified Public Secretary (Kenya)<br>Deloitte Place, Waiyaki Way, Muthangari<br>P O Box 30029 – 00100 GPO<br>NAIROBI |
| REGISTERED OFFICE | LR No. 209/5604<br>Funzi Road, Industrial Area<br>P O Box 18033 - 00500<br>NAIROBI |
| AUDITORS | Deloitte & Touche<br>Deloitte Place, Waiyaki Way, Muthangari<br>P O Box 40092 – 00100 GPO<br>NAIROBI |
| LEGAL ADVISERS | Mohammed & Muigai<br>MM Chambers, 4th Floor<br>K-Rep Centre, Wood Avenue, Off Lenana Road<br>Kilimani<br>P O Box 61323 - 00200<br>NAIROBI |
| BANKERS | Standard Chartered Bank Kenya Limited<br>Industrial Area Branch<br>P O Box 20123 - 00500<br>NAIROBI<br><br>NIC Bank Limited<br>NIC House Branch<br>P O Box 44599 – 00100 GPO<br>NAIROBI<br><br>Barclays Bank of Kenya Limited<br>Enterprise Road Branch<br>P O Box 18060 - 00500<br>NAIROBI<br><br>Kenya Commercial Bank Limited<br>Industrial Area - 4003<br>P O Box 18031 - 00500<br>NAIROBI |

# CHAIRMAN'S STATEMENT

Dear Shareholder,

I am delighted to welcome you to this meeting to review the performance of your company for the twelve-month period ended 30 June 2013.

## Operating environment

Overall, the regional economic activity recorded improvement despite a myriad of challenges that include a turbulent global economy, delayed long rains and a weakened shilling in the beginning of the year under review.

Performance at the national level was supported by a stable macroeconomic environment, increased domestic demand and modest growth in credit. There was also notable growth in agriculture, wholesale and retail trade, and transport and communication.

## Industry overview

The year under review was a mixed arena of challenges and opportunities in the publishing industry. The first half of the year was marked by unreliable and poor government funding of instructional materials for schools in Kenya, against a backdrop of high inflation and focus on the government changeover in March 2013. The second half reignited the business momentum spurred by a growing middle class with disposable income and keen on their children's education, donor funding and refreshed cash inflows from the Chinese sub-continent.

## Performance

For the period under review, the company achieved consolidated sales of **Kshs.1.034b** which is **33.26%** of the 2012 turnover of **Kshs 775.943m**. The Longhorn group achieved a consolidated net profit of **Kshs.132.034m**, against the budgeted profit of **Kshs.121.90m** for the year. The positive profit jump is a contrast to the net loss position of **Kshs 11.779m** recorded in 2012. The year's performance was driven by demand created through aggressive marketing strategies leading to accelerated sales in Kenya and exports to Uganda, South Sudan, Tanzania and Rwanda.

## Dividend

The directors have recommended a first and final dividend of **Kshs.0.80** per share, amounting to Kshs 46.8m.

## Future Outlook

We remain optimistic that your company will continue to thrive and ultimately attain its vision to be a market leader in Africa. As part of this success journey, we have begun to implement an ambitious strategic plan for the short to the long term horizon.

Already, we have strengthened our existing cash cows by revamping and releasing the 3rd edition of *Kamusi ya Karne ya 21* and a full set of 16 titles under *Kiswahili Mufti 1-8*, covering pupils' books and teachers' guides.

# CHAIRMAN'S STATEMENT (CONTINUED)

Two unique titles were developed in the year under review, *Kamusi ya Wanafunzi ya Kiingereza-Kiswahili* for Uganda and the *Malawi Primary School Atlas*. The two products are the only ones approved as core materials for use in schools in the respective countries. They have received significant government orders that will be serviced in the current financial year.

Additionally the acquisition of Malkiat Singh's 43 titles, through a transfer of the intellectual property rights vide an author- Publisher agreement, is already generating a fresh interest and sales. Your company has also strategically invested in e.learning and has prepared digitized content for uploading into the Standard One lap tops once the government approves them for this purpose, beginning January 2014.

Nevertheless, we are awake to the risks that are likely to shape economic growth in the immediate future. They include high interest rates which might constraint credit to the productive sector and may also result in loan and debtor defaults. Increase in Government expenditure on account of the implementation of the new constitution and devolution also poses a threat to the sustainability of government funded school programmes. It is also anticipated that there will be an upward pressure piled on inflation leading to a steadily weakening local currency. In July 2013, the inflation rose to 6.02%; signaling an imminent spike for the first half of the financial year 2013/2014.

Books are now subject to VAT as per the new VAT ACT 2013. This has led to price hikes and reduced demand as the purchasing power of the average parent has been significantly eroded.

Our path to fully diversify our range of products and markets is in part meant to mitigate the negative impact of the identified risks. Prudent inventory management will be observed to minimize the risk of high stock obsolescence in the face of a curriculum change. This curriculum change will also open up fresh business opportunities for the company to develop new products.

I am also pleased to report to you that as a result of our adherence to best practice in business processes and continuous improvement, product quality and customer focus, your company was awarded ISO 9001:2008 certification in May 2013, a feat we continue to celebrate and safeguard.

## Changes in Management

As reported in the last AGM, the Board appointed Mr Musyoki Muli the new Managing Director of the company effective January 2013, replacing Mrs Janet Njoroge who opted for early retirement. In the new administrative dispensation, research has been incorporated as a key driver in product innovation and development. I am delighted to report that the changes have led to higher staff motivation and dedication for results.

As I conclude, I wish, on your behalf, to commend the Board, Management and Staff for their continued commitment to the success of your company. I also wish to thank our business partners such as authors, suppliers, bankers and consumers for their support during the year and we look forward to even stronger partnerships going forward.

Thank you.

**Hon. F.T. Nyammo, OGW**
**CHAIRMAN**

**19 September 2013**
**NAIROBI**

# CORPORATE GOVERNANCE STATEMENT

The Board and Management of Longhorn Kenya Limited (Longhorn or the "the Company") aim to comply with established best practice in corporate governance. At the heart of Longhorn's core values is integrity which dictates adherence to a strict ethical code in how we approach our work, business relationships, decisions and actions.

## 1. Principal Activity

Longhorn is a leading book publisher in the East African region with subsidiaries in Uganda and Tanzania, and operations in Rwanda and Malawi. On 30 May 2012, Longhorn shares were listed (by introduction) on the Nairobi Securities Exchange, becoming the first book publisher in the Eastern Africa region to be publicly listed.

## 2. Going Concern

The Directors confirm that they are satisfied that Longhorn has adequate resources to continue in business for the foreseeable future and for this reason continue to adopt the going concern basis when preparing the financial statements.

## 3. Business Conduct

The business of the Company is conducted within a developed control framework underpinned by policy statements, written procedures and control manuals. Key among these is the Company's Board Charter. In addition, the Company merited and was awarded ISO 2008:9001 certification on 7 May 2013. This renewed commitment to quality is expected to raise the Company's profile. The Board has established a management structure that clearly defines roles and responsibilities. Any delegated authority is documented and communicated.

## 4. Internal Controls

The Board is responsible for the Company's risk management and internal controls and the Board's Audit & Risk Committee regularly reviews their effectiveness, and reports to the Board. The Internal Audit & Risk Department assists Management to embed risk management in all business processes, guided by the Company's risk management framework. Risks with a high score (based on their likelihood and impact) are prioritized for mitigation. Internal audit reports are presented regularly to the Audit & Risk Committee of the Board. In addition, the external auditors independently and objectively review the approach of management to financial reporting.

## 5. Statutory Accountability

The Company adheres to the Corporate Governance Guidelines issued by the Capital Markets Authority in Kenya to ensure compliance with the principles of corporate governance. In addition, the Company endeavours to fulfil its legal obligations in relation to its principal activity.

## 6. Preparation of Financial Statements

The Board is responsible for the preparation of the financial statements. The Board confirms that all subsidiaries have been incorporated in the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

## 7. Governance Principles

- **Conflict of Interest**

  The directors and employees have a fiduciary duty to make a full and fair disclosure of all matters that could reasonably be expected to impair the objectivity or interfere with the execution of their duties to the Company.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- **Insider Trading Policy**
  The Company has developed a policy on insider trading and all staff and directors have committed themselves to adhere to its stipulations.

- **Board Composition**
  The current Board of Longhorn includes one Executive Director and six Non-Executive Directors, four of whom are Independent Directors who comprise more than one third of the Board. The Chairman of the Board is a Non-Executive Director. Longhorn has a policy to replicate the Board composition on the subsidiaries with the discretion to invite additional directors to provide the required expertise and also take into account local participation.

## 9. Respective Roles of the Chairman and the Managing Director

The division of the responsibilities between the Chairman and the Managing Director are well defined. The Chairman leads the Board in the determination of the strategy, is responsible for organising the business of the Board including ensuring its effectiveness and has no involvement in the daily business of the Company.

On the other hand, the Managing Director has direct charge of the daily business of the Company and is accountable to the Board for the financial and operational performance. The Managing Director works with the Management Committee comprising the departmental heads to carry out the responsibility of strategy execution.

## 10. Appointment of Directors

All Directors are appointed by ordinary resolution of the shareholders of Longhorn in a general meeting. Where a director is appointed by the Board since the preceding general meeting to fill in a casual vacancy he/she shall also be eligible for re-election at the next General Meeting. Individuals are appointed to the Board after confirming that there is a skills match between them and the needs of the Company.

## 11. Rotation of Directors

The Company's Articles of Association provide that one third of the directors retire by rotation annually and if eligible submit themselves for re-election at the general meeting.

## 12. Director Induction and Development

All new directors are provided with information on their responsibilities to various stakeholders, meetings procedures and corporate governance processes. In addition to the induction information provided, opportunity for training in corporate governance is provided for all directors. The Board has initiated a Board Evaluation programme which appraises the individual directors, Committees and the Board annually.

## 13. Information to the Directors

The non-executive directors receive regular reports and information that enables them to scrutinize the Company's performance on at least a quarterly basis. Directors may also suggest additional items for discussion at meetings as well as call for additional information or a briefing on any topic prior to meetings. All directors are entitled to seek independent professional advice with respect to performance of their duties at the Company's expense.

## 14. Directors' Remuneration

The remuneration for non-executive directors consists of fees for their services in connection with the Board and Committee meetings and is disclosed on note 8 to the financial statements (page 54). The directors' remuneration is tabled for approval at every annual general meeting and this is brought to the attention of the shareholders through the notice convening the Annual

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

General Meeting. The directors are not eligible for pension scheme membership and do not participate in any of the Company's bonus or other incentive schemes. There were no loans advanced to directors at any time during the year.

## 15. Committees of the Board

Though the Board is responsible for strategy formulation, risk identification, senior management selection and compensation, integrity of financial controls and general compliance, the Board has approved and delegated certain authorities to the Board sub-committees. The Committees have specific mandates that are documented in the respective Terms of Reference as well as in the Board Charter to ensure accountability. The minutes of Board Committees are tabled at Board meetings and Committee decisions and recommendations ratified or approved by the Board as may be applicable.

The following are the Board Committees that existed during the year:

- **Audit and Risk Committee**

  Members of the Audit and Risk Committee are non-executive directors, the majority of whom qualify as independent non-executive directors in compliance with the Corporate Governance Guidelines issued by the Capital Markets Authority. The Managing Director, the Finance Manager and the Internal Auditor are in attendance at meetings.

  Members: Raymond Nyamweya Ondieki (Chairman); Jane Wangui Muigai Briggs; Job Kariru Muriuki; John Syekei Nyandieka.

  The role of the Audit and Risk Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparations of accurate financial statements in compliance with all applicable legal requirements and accounting standards.

- **Operations and Strategy Committee**

  Membership of the Operations and Strategy Committee comprises the Managing Director and three non-executive directors while the Finance Manager is in attendance at meetings. The Operations and Strategy Committee has the role of monitoring strategy implementation and overall Company performance. It is also responsible for senior staff selection and recruitment.

  Members: Job Kariru Muriuki (Chairman); James Musyoki Muli (Managing Director); Jane Wangui Muigai Briggs; Susan Nkirote Omanga; Raymond Nyamweya Ondieki.

- **Nomination and Governance Committee**

  The Nomination and Governance Committee (NGC) was set up in June 2012in compliance with Capital Markets Authority requirements. It has four members, three of whom are independent non-executive directors. The Managing Director and the Finance Manager are in attendance at Committee meetings.

  The role of the NGC is to assist the Board to achieve optimum composition in terms of skills of those appointed to sit on the Company's Board. It is also responsible for making recommendations on non-executive Directors' remuneration and to address compliance issues relating to regulatory and legal requirements.

  *Members:* John Syekei Nyandieka (Chairman); Susan Nkirote Omanga; Job Kariru Muriuki; Ray Nyamweya

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## 16. Directors Participation in Meetings

The table below shows the attendance at meetings during the year ended 30 June 2013:

| | NAME | STATUS | BOD | ARC | EC | NGC* |
|---|---|---|---|---|---|---|
| 1. | Francis Thombe Nyammo | Chairman BOD | 4/4 | NM | NM | NM |
| 2. | Janet Wangari Njoroge* | Managing Director | 3/4 | 3/4 | 5/8 | 2/3 |
| 3. | James Musyoki Muli** | Managing Director | 1/4 | 2/4 | 5/8 | 2/3 |
| 4. | Gilbert Paul Oluoch*** | Member | 3/4 | NM | NM | NM |
| 5. | Raymond Nyamweya Ondieki | Chairman of ARC | 4/4 | 4/4 | 8/8 | 2/3 |
| 6. | Jane Wangui Muigai Briggs | Member | 3/4 | 4/4 | 5/8 | NM |
| 7. | Susan Nkirote Omanga | Member | 4/4 | NM | 6/8 | 2/3 |
| 8. | Job Kariru Muriuki**** | Member | 4/4 | 4/4 | 8/8 | 2/3 |
| 9. | John Syekei Nyandieka | Chairman of NDC | 2/4 | NM | NM | 3/3 |

**BOD** – Board of Directors; **ARC** – Audit & Risk Committee; **EC** – Executive Committee; **NGC** – Nomination and Governance Committee. The **EC** was renamed as **OSC** – Operations and Strategy Committee in December 2012.
* Janet Wangari Njoroge resigned from the Board in December 2012 after retiring from the Company's employment
** James Musyoki Muli was appointed as Managing Director Designate in September 2012 and Managing Director in January 2013.
*** Gilbert Paul Oluoch resigned from the Board in November 2012 after attaining the age of 70 years and having not offered himself for re-election at the 2012 Annual General Meeting.
****Job Kariru Muriuki represents Centum Investment Company Limited.

## 17. Capital Structure

- **Share Capital**
  The authorized and issued share capital of Longhorn consists of only ordinary shares as disclosed on note 21 to the financial statements (page 67).

- **Top Ten Shareholders as at 30 June 2013**

| Shareholder | No. of Shares | % |
|---|---|---|
| 1. Centum Investment Company Limited | 20,418,690 | 34.9 |
| 2. Pacific Futures and Options Limited | 14,004,700 | 23.9 |
| 3. Francis Thombe Nyammo | 6,407,200 | 11.0 |
| 4. Mureka Investments Limited | 1,604,940 | 2.7 |
| 5. Kamami Investments Limited | 1,245,620 | 2.1 |
| 6. Text Book Centre Limited | 1,141,780 | 2.0 |
| 7. Samson Kegengo Ongeri | 1,003,400 | 1.7 |
| 8. David Amiani Omuruli | 870,000 | 1.5 |
| 9. Margaret Anguzuzu Mutiso | 861,520 | 1.5 |
| 10. Halifax Capital Corporation Limited | 745,420 | 1.3 |
| Others | 10,196,730 | 17.4 |
| Total Issued Shares | 58,500,000 | 100.0 |

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- **Distribution of Shareholders as at 30 June 2013**

| | No. of Shareholders | No. of Shares | % |
|---|---|---|---|
| Less than 500 | 100 | 23,105 | 0.04 |
| 501 – 5,000 | 47 | 86,300 | 0.15 |
| 5,001 – 10,000 | 9 | 64,670 | 0.11 |
| 10,001 – 100,000 | 28 | 899,455 | 1.54 |
| 100,001 – 1,000,000 | 35 | 11,600,140 | 19.83 |
| Above 1,000,000 | 7 | 45,826,330 | 78.33 |
| Totals | 226 | 58,500,000 | 100.00 |

- **Directors Holding Shares as at 30 June 2013**

| Name | Shareholding | % |
|---|---|---|
| Centum Investment Company Limited | 20,418,690 | 34.90 |
| Francis Thombe Nyammo* | 6,407,200 | 10.95 |
| James Musyoki Muli | 15,000 | 0.03 |
| TOTAL | 26,840,890 | 45.88 |

*Francis Thombe Nyammo has a beneficial interest in Pacific Futures and Options Limited which holds 14,004,700 shares (23.9%) of the Company.

## DIRECTORS

Francis T. Nyammo: Chairman

Musyoki Muli: Managing Director

Susan N. Omanga: Director

Raymond Nyamweya: Director
Chair: Audit & Risk Committee

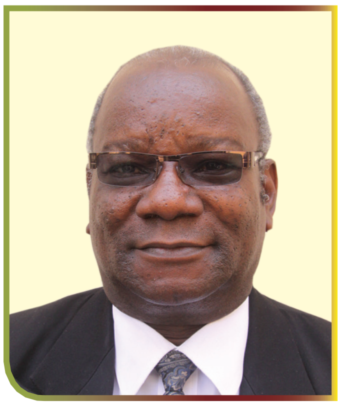
Jane W. M. Briggs: Director
Chair: Pension Scheme

Job Muriuki : Director (representing Centum Investment Company Ltd)
Chair: Operations & Strategy Committee

John Syekei : Director
Chair: Nomination & Governance Committee

## MANAGEMENT TEAM

Musyoki Muli: Managing Director



David Omuruli: Research & Business Development Manager

Beatrice Nugi: Publishing Manager

Peter Gatune: Finance Manager

Emma Kerubo Maina: Chief Human Resources & Admin. Officer

Joseph Kinyua: ICT Services Manager

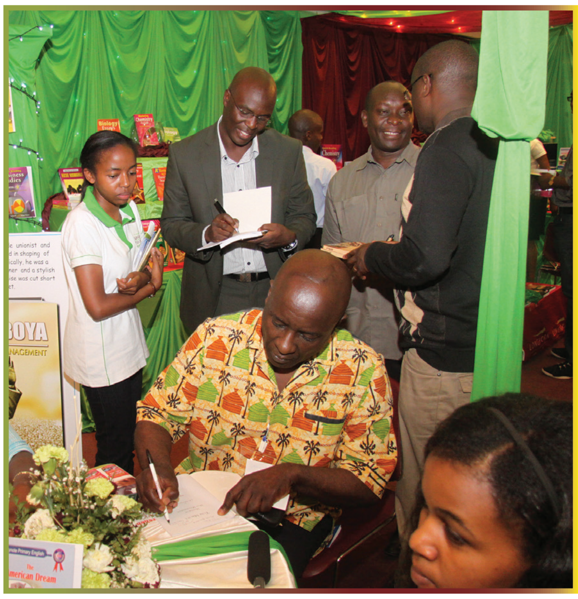
Mathew Boss: Audit and Risk Officer

## COMPANY HIGHLIGHTS


*Chairman F.T. Nyammo receiving the ISO 9001:2008 Certificate as the Managing Director Musyoki Muli looks on.*


*Malkiat Singh, Managing Director Musyoki Muli and Director Job Muriuki during the launch of Improve Workbook series.*

## COMPANY HIGHLIGHTS



*John Sibi Okumu autographing his book as Diane Koki - Assistant Manager - Marketing & Publicity watches keenly. Authors Ken Walibora and Kinyanjui Kombani chat on with the MD.*

*Longhorn SACCO members during their Education - cum -Team building Day.*

*Longhorn staff at the Annual Mater Heart Run 2013*


*Catherine Kiiru - Marketing & Publicity Officer demonstrates to school children how Longhorn's e-learning products work.*

## COMPANY HIGHLIGHTS

*Author Henry Ole Kulet shares the joy of winning the Jomo Kenyatta Prize for Literature with Dr Eddah Gachukia as family and Longhorn staff cheer him on.*

*David Omuruli and Mr Amaey, Longhorn's business partner in Malawi, release trucks transporting company books to Malawi.*


*Kate guides a Centum shareholder to appreciate Longhorn books during the Centum AGM.*

# REPORT OF THE DIRECTORS

The directors present their report together with the financial statements of Longhorn Kenya Limited (the "Company ") and its subsidiaries (together the "Group") for the year ended 30 June 2013, which disclose state of affairs of the Group and of the Company.

## ACTIVITIES

The principal activity of the Company and its subsidiaries continues to be the publishing and selling of high quality educational and general books.

## RESULTS

| | Sh'000 |
|---|---|
| Profit before taxation | 151,327 |
| Taxation charge | (57,409) |
| Profit for the year | 93,918 |

## DIVIDENDS

The directors propose a final dividend of Sh 0.80 (2012 – Sh Nil) per share, equivalent to Sh 46,800,000 (2012 – Sh Nil). This is subject to approval by the shareholders at the next Annual General Meeting.

## DIRECTORS

The current board of directors is shown on page 2.

Dr G P Oluoch resigned from office on 9 November 2012 while Mrs J W Njoroge resigned from office on 31 December 2012. Mr M Muli was appointed the Managing Director with effect from 31 December 2012.

## AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Kenyan Companies Act.

**BY ORDER OF THE BOARD**

**Enid Muriuki**
**Secretary**

19th September 2013

Nairobi

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 the Company at the end of the financial year and of the operating results for that year. It also requires the directors to ensure that the Company and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company. They are also responsible for safeguarding the assets of the Company and its subsidiaries.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements 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 of their operating results. 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.

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

| | |
|---|---|
| **F T NYAMMO** | **M MULI** |
| Chairman | Managing Director |

19th September 2013

Deloitte.

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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONGHORN KENYA LIMITED

## Report on the Financial Statements

We have audited the accompanying financial statements of Longhorn Kenya Limited (the "Company") and its subsidiaries (collectively the "Group"), set out on pages 19 to 72, which comprise the consolidated and company statements of financial position as at 30 June 2013, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 our 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, we considered the internal controls relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion the financial statements give a true and fair view of the state of financial affairs of the Group and of the Company as at 30 June 2013 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

**Report on Other Legal Requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations relating to the Company which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
iii) the Company's statements of profit or loss and financial position are in agreement with the Company's books of account.

Deloitte & Touche

**Certified Public Accountants (Kenya)**
**Rose Mwaura**
**Nairobi, Kenya**

**19 September 2013**

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | 2013<br>Sh'000 | 2012<br>Sh'000 |
|---|---|---|---|
| TURNOVER | | 1,033,295 | 775,943 |
| COST OF SALES | | (562,214) | (438,712) |
| GROSS PROFIT | | 471,081 | 337,231 |
| OTHER OPERATING INCOME | | 6,771 | 9,276 |
| SELLING AND DISTRIBUTION EXPENSES | | (80,810) | (87,499) |
| ADMINISTRATIVE EXPENSES | | (233,992) | (274,004) |
| INTEREST INCOME | | 159 | 471 |
| NET FOREIGN EXCHANGE LOSS | 7 | (11,882) | (11,424) |
| PROFIT/(LOSS) BEFORE TAXATION | 8 | 151,327 | (25,949) |
| TAXATION (CHARGE)/CREDIT | 10 (a) | (57,409) | 3,484 |
| PROFIT/(LOSS) FOR THE YEAR | | 93,918 | (22,465) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | | |
| ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS: | | | |
| Exchange difference on translation of financial operations | | 27,363 | (27,005) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | 121,281 | (49,470) |
| | | ======= | ======= |
| EARNINGS/(LOSS) PER SHARE - BASIC AND DILUTED | 12 | 1.61 | (0.38) |
| | | ======= | ======= |

## COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

| | Notes | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| SALES | | 977,733 | 766,639 |
| COST OF SALES | | (562,734) | (443,618) |
| GROSS PROFIT | | 414,999 | 323,021 |
| OTHER OPERATING INCOME | | 6,646 | 4,193 |
| SELLING AND DISTRIBUTION COSTS | | (68,262) | (83,351) |
| ADMINISTRATIVE EXPENSES | | (208,310) | (255,391) |
| INTEREST INCOME | | 159 | 471 |
| NET FOREIGN EXCHANGE LOSSES | 7 | (225) | (643) |
| PROFIT/(LOSS) BEFORE TAXATION | 8 | 145,007 | (11,700) |
| TAXATION CHARGE | 10(a) | (58,925) | (79) |
| PROFIT/(LOSS) FOR THE YEAR | | 86,082 | (11,779) |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | 86,082 | (11,779) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

| | Notes | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Property and equipment | 14(a) | 169,908 | 174,027 |
| Intangible assets | 15(a) | 9,423 | 12,313 |
| Deferred tax asset | 18 | 21,364 | 31,291 |
| | | 200,695 | 217,631 |
| **Current assets** | | | |
| Inventories | 19 | 142,522 | 275,038 |
| Trade and other receivables | 20 | 215,849 | 156,662 |
| Tax recoverable | 10(c) | 2,100 | 1,014 |
| Cash and bank balances | | 123,853 | 12,344 |
| | | 484,324 | 445,058 |
| **Total assets** | | 685,019 | 662,689 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | 58,500 | 58,500 |
| Share premium | | 5,039 | 5,039 |
| Retained earnings | | 329,917 | 235,999 |
| Translation deficit | | (7,590) | (34,953) |
| | | 385,866 | 264,585 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 259,716 | 376,773 |
| Tax payable | 10(c) | 39,437 | 1,982 |
| Loan payable | 22 | - | 9,600 |
| Bank overdraft | 24(c) | - | 9,749 |
| | | 299,153 | 398,104 |
| **Total equity and liabilities** | | 685,019 | 662,689 |

The financial statements on pages 19 to 72 were approved and authorised for issue by the board of directors on 19th September 2013 and were signed on its behalf by

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F T NYAMMO
Chairman

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M MULI
Managing Director

## COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

| | Notes | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Property and equipment | 14(b) | 166,296 | 171,727 |
| Intangible assets | 15(b) | 4,326 | 5,392 |
| Investment in subsidiaries | 17 | 25,440 | 25,440 |
| Deferred tax asset | 18 | 14,594 | 26,828 |
| | | 210,656 | 229,387 |
| **Current assets** | | | |
| Inventories | 19 | 134,196 | 263,813 |
| Trade and other receivables | 20 | 184,282 | 114,641 |
| Due from subsidary companies | 16(a) | 55,623 | 24,707 |
| Tax recoverable | 10(c) | - | 1,014 |
| Cash and bank balances | | 45,825 | 7,263 |
| | | 419,926 | 411,438 |
| **Total assets** | | 630,582 | 640,825 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | 58,500 | 58,500 |
| Share premium | | 5,039 | 5,039 |
| Retained earnings | | 293,289 | 207,207 |
| | | 356,828 | 270,746 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 211,417 | 345,525 |
| Due to subsidiary companies | 16(b) | 24,030 | 5,205 |
| Tax payable | 10(c) | 38,307 | - |
| Loan payable | 22 | - | 9,600 |
| Bank overdraft | 24(f) | - | 9,749 |
| | | 273,754 | 370,079 |
| **Total equity and liabilities** | | 630,582 | 640,825 |

The financial statements on pages 19 to 72 were approved and authorised for issue by the board of directors on 19th September 2013 and were signed on its behalf by

F T NYAMMO
Chairman

M MULI
Managing Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2013

| | Share capital Sh '000 | Share premium Sh'000 | Retained earnings Sh'000 | Translation deficit Sh'000 | Total Sh'000 |
|---|---|---|---|---|---|
| At 1 July 2011 | 58,500 | 5,039 | 346,214 | (7,948) | 401,805 |
| Loss for the year | - | - | (22,465) | - | (22,465) |
| Other comprehensive loss for the year | - | - | - | (27,005) | (27,005) |
| **Total comprehensive loss for the year** | **-** | **-** | **(22,465)** | **(27,005)** | **(49,470)** |
| 2011 final dividends paid | - | - | (87,750) | - | (87,750) |
| At 30 June 2012 | 58,500 | 5,039 | 235,999 | (34,953) | 264,585 |
| At 1 July 2012 | 58,500 | 5,039 | 235,999 | (34,953) | 264,585 |
| Profit for the year | - | - | 93,918 | - | 93,918 |
| Other comprehensive loss for the year | - | - | - | 27,363 | 27,363 |
| **Total comprehensive income for the year** | **-** | **-** | **93,918** | **27,363** | **121,281** |
| At 30 June 2013 | 58,500 | 5,039 | 329,917 | (7,590) | 385,866 |

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2013

| | Share capital Sh'000 | Share premium Sh'000 | Retained earnings Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| At 1 July 2011 | 58,500 | 5,039 | 306,736 | 370,275 |
| Total comprehensive loss for the year | - | - | (11,779) | (11,779) |
| 2011 final dividends paid | - | - | (87,750) | (87,750) |
| At 30 June 2012 | 58,500 | 5,039 | 207,207 | 270,746 |
| | ====== | ====== | ====== | ======= |
| At 1 July 2012 | 58,500 | 5,039 | 207,207 | 270,746 |
| Total comprehensive income for the year | - | - | 86,082 | 86,082 |
| At 30 June 2013 | 58,500 | 5,039 | 293,289 | 356,828 |
| | ====== | ====== | ====== | ======= |

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 24(a) | 121,814 | 149,006 |
| Taxation paid | 10(c) | (11,037) | (42,246) |
| Net cash generated from operating activities | | 110,777 | 106,760 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 14(a) | (12,561) | (22,060) |
| Purchase of intangible assets | 15(a) | (1,311) | (12,036) |
| Proceeds of disposal of property, and equipment | | 6,560 | 1,937 |
| Net cash used in investing activities | | (7,312) | (32,159) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Bank borrowings repaid | 24(b) | (9,600) | (19,200) |
| Dividends paid | | - | (87,750) |
| Net cash used in financing activities | | (9,600) | (106,950) |
| Increase/ (decrease) in cash and cash equivalents | | 93,865 | (32,349) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 2,595 | 60,458 |
| Exchange adjustment | | 27,393 | (25,514) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 24(c) | 123,853 | 2,595 |

## COMPANY STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 24(d) | 70,358 | 140,788 |
| Taxation paid | 10(c) | (7,370) | (18,991) |
| Net cash generated from operating activities | | 62,988 | 121,797 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | 14(b) | (10,203) | (20,993) |
| Purchase of intangible assets | 15(b) | (1,311) | (4,250) |
| Proceeds of disposal of property, plant and equipment | | 6,437 | 1,937 |
| Net cash used in investing activities | | (5,077) | (23,306) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Bank borrowings repaid | 24(e) | (9,600) | (19,200) |
| Dividends paid | | - | (87,750) |
| Net cash used in financing activities | | (9,600) | (106,950) |
| Increase/(decrease) in cash and cash equivalents | | 48,311 | (8,459) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | (2,486) | 5,973 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 24(f) | 45,825 | (2,486) |

# NOTES TO THE FINANCIAL STATEMENTS

## 1 REPORTING ENTITY

The principal activity of Longhorn Kenya Limited ("Company/Parent") and its subsidiaries (together, "the Group") is the publishing and selling of high quality educational and general books. Longhorn Kenya Limited is incorporated in Kenya under the Kenyan Companies Act as a limited liability company and is domiciled in Kenya. The Company's shares are listed on the Nairobi Securities Exchange (NSE). Longhorn Kenya Limited and its subsidiaries operate in Kenya, Uganda, Tanzania, Malawi and Rwanda.

The address of its registered office is as follows:
LR No. 209/5604
Funzi Road, Industrial Area
P O Box 18033 – 00500
Nairobi

## 2 ACCOUNTING POLICIES

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is equivalent to the statement of profit or loss.

**Application of new and revised International Financial Reporting Standards (IFRSs)**

*(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2013*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

| | |
|---|---|
| Amendments to IFRS 7 Disclosures – Transfers of Financial Assets | The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.<br><br>The application of the amendment had no effect on the Group's financial statements as the Group did not transfer any such financial assets during the year. |

## 2 ACCOUNTING POLICIES (Continued)

### Application of new and revised International Financial Reporting Standards (IFRSs)

*(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2013 (Continued)*

| | |
|---|---|
| Amendments to IAS 12 Deferred Tax, Recovery of Underlying Assets | The amendments to IAS 12 provide an exception to the general principle set out in IAS 12, Income Taxes, that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40, Investment Property, will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.<br><br>The application of the amendment had no impact on the Group's financial statements since they do not have any investment properties. |
| Amendments to IFRS 1 Severe Hyperinflation | The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.<br><br>The amendments had no effect on the Group's financial statements as the Group did not operate in a hyper-inflationary environment. |
| Amendment to IFRS 1: Removal of fixed dates for first time adopters | The amendments regarding the removal of fixed dates provide relief to first time adopters of IFRS's for reconstructing transactions that occurred before the dates of transition to IFRSs.<br><br>The amendment had no effect on the Group as it is not a first time adopter of IFRS. |

## 2 ACCOUNTING POLICIES (Continued)

### Application of new and revised International Financial Reporting Standards (IFRSs)

*(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2013 (Continued)*

| | |
|---|---|
| Amendments to IAS 1 Presentation of Items of Other Comprehensive Income | The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be split into two categories in the other comprehensive income section:<br><br>(a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.<br><br>The above amendments were adopted by the Group effective from 1 July 2012 and have been adopted in these financial statements. |

*(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2013.*

| | Effective for annual periods beginning on or after |
|---|---|
| *New and Amendments to standards* | |
| IFRS 9, Financial Instruments | 1 January 2015 |
| IFRS 10, Consolidated Financial Statements | 1 January 2013 |
| IFRS 11, Joint Arrangements | 1 January 2013 |
| IFRS 12, Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13, Fair Value Measurement | 1 January 2013 |

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

### Application of new and revised International Financial Reporting Standards (IFRSs)

*(ii)* *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2013 (Continued).*

| | Effective for annual periods beginning on or after |
|---|---|
| *New and Amendments to standards* | |
| Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures | 1 January 2015 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | 1 January 2013 |
| IAS 19, Employee Benefits (as revised in 2011) | 1 January 2013 |
| IAS 27, Separate Financial Statements (as revised in 2011) | 1 January 2013 |
| IAS 28, Investments in Associates and Joint Ventures (as revised in 2011) | 1 January 2013 |
| IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities | 1 January 2014 |
| Annual Improvements to IFRSs 2009-2011 Cycle | 1 January 2013 |

*(iii)* *Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013*

- **IFRS 9, Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

## 2 ACCOUNTING POLICIES (Continued)

### Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **IFRS 9, Financial Instruments (Continued)**

  *Key requirements of IFRS 9:*

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

  The directors anticipate that IFRS 9 will be adopted in the Group's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g the Group will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is done.

- **New and revised Standards on consolidation, joint arrangements, associates and disclosures**

  In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). Key requirements of these five Standards are described below.

## 2 ACCOUNTING POLICIES (Continued)

### Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)**

  IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

  IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

  In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

  IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

  In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

  These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group will apply these amendments prospectively.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)**

  The directors anticipate that the application of IFRS 10 and IFRS 11 will have no material impact to the Group's financial statements currently. However, the Group would have to apply this standard to any such arrangements entered in the future. The directors anticipate that the application of IFRS 12 will result in more extensive disclosures in the financial statements.

- **IFRS 13, Fair Value Measurement**

  IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the Group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on 1 July 2013.

- **Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures**

  The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures (Continued)**

  The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

  The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

  The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

- **IAS 19, Employee Benefits**

  The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **IAS 19, Employee Benefits (Continued)**

  Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application.

  The directors anticipate that the amendments to IAS 19 will be adopted in the Group's financial statements for the annual period beginning 1 July 2013, however, the directors are yet to assess the full impact of the amendment.

- **Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012**

  The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

  - amendments to IAS 1 Presentation of Financial Statements;
  - amendments to IAS 16 Property, Plant and Equipment; and
  - amendments to IAS 32 Financial Instruments: Presentation.

  IAS 1 Presentation of Financial Statements

  The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position.

  The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

**Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)**

*(iii) Impact of relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2013 (Continued)*

- **Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012 (Continued)**
  The directors anticipate that the amendments to IAS 1 will result in the Group's presenting a statement of financial position at the beginning of the preceding period (third statement of financial position) only when the restatement or reclassification has a material effect on the information in the financial statements.

  IAS 16 Property, Plant and Equipment
  The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

  The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the Group's financial statements as the Group does not have significant amounts of spare parts, stand-by equipment and servicing equipment.

  IAS 32 Financial Instruments: Presentation
  The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

  The directors anticipate that the amendments to IAS 32 will have no effect on the Group's financial statements as the Group has already adopted this treatment.

*(iv) Early adoption of standards*

The Group did not early-adopt new or amended standards in 2013.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

### Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain assets.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Longhorn Kenya Limited and its subsidiary companies, all of which are made up to 30 June each year.

Subsidiary undertakings are those companies in which the Group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations. All subsidiaries have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated as from the date of disposal. All inter-company transactions and balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated. Subsidiary undertakings are disclosed on note 15.

### Turnover

Income is recognised upon despatch of goods and represents the amounts invoiced net of trade discounts and allowances.

Interest income is accrued on a timely basis when it accrues, by reference to the principal outstanding and the interest rate applicable.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

*(i) Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*(ii) Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

**Taxation (Continued)**

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*(iii)* *Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

**Property and equipment**

Property and equipment are stated at cost or at valuation less accumulated depreciation and any impairment losses.

**Depreciation**

Depreciation is calculated to write off the cost or valuation of property and equipment in equal annual instalments over their expected useful lives.

The annual rates used are:

| | |
|---|---|
| Leasehold property | 2.5% |
| Motor vehicles | 25% |
| Furniture and equipment | 10% - 30% |

# NOTES TO THE FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (Continued)

### Leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by a company within the Group as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made by companies within the Group under operating leases are amortised on the straight-line basis over the term of lease.

Assets acquired under finance leases and hire purchase agreements are capitalised at the dates of inception of the related agreements. The interest element of each instalment is charged to the Statement of comprehensive income at the time each instalment falls due.

### Intangible assets

*Computer software*

Expenditure on acquisition or development of computer software is initially recognised at cost as intangible assets and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives.

*Intellectual property*

Intellectual properties relate to brand names, publishing titles and licences and copyrights acquired. Intellectual properties are initially recognised at cost of acquisition and carried at their cost less any accumulated amortisation and any impairment losses. Amortisation of intellectual properties is calculated on the straight line basis over their estimated useful lives.

### Inventories

Books and publications in progress are stated at the lower of cost and net realisable value. Cost comprises purchase price and related production expenses.
Net realisable value represents the estimated selling price in the ordinary course of business, less selling expenses. Provision is made for obsolete, slow moving and defective inventories.

### Provisions for liabilities and charges

Employee entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting year.

### Retirement benefits

The Group operates a defined contribution pension scheme for its eligible employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the Group.

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 2 ACCOUNTING POLICIES (Continued)

### Retirement benefits (Continued)

The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently at Sh 200 per employee per month in Kenya, 10% of the basic pay per employee per month in Uganda and 20% of the basic pay per employee per month in Tanzania.

The Group's obligations to retirement benefit schemes are recognised in the profit and loss as they fall due.

### Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

*Trade receivables*

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a trade receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

*Term deposits*

Term deposits are classified as held to maturity and are measured at amortised cost.

*Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on the accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

*Trade payables*

Trade payables are stated at their nominal value.

### Foreign currencies

In preparing the financial statements of each individual Company entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 2 ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of the reporting period. Transactions during the year which are expressed in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange resulting from the translation are dealt with in the profit and loss.

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from the bank repayable within three months from the date of advance.

### Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (Continued)

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

*Equipment and intangible assets*

The Group reviews the estimated useful lives of property, equipment and intangible assets at the end of each reporting year. Critical estimates are made by the directors in determining depreciation rates for equipment. The rates used are set out in Note 1 above.

*Impairment*

At the end of each reporting year, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identify, evaluate and hedge financial risks. The board of directors provide guidance on the overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk.

**Market risk**

*Foreign exchange risk*

To manage the foreign exchange risk, the Group negotiates with its bankers to get favourable exchange rates when paying commitments denominated in foreign currencies.

**GROUP**

The Group has no foreign currency denominated financial instruments and thus is not exposed to foreign exchange risks.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Market risk (Continued)**

*Foreign exchange risk (Continued)*

| COMPANY | Longhorn Tanzania Ltd TShs Sh'000 | Longhorn Uganda Ltd Ushs Sh'000 |
|---|---|---|
| **30 June 2013** | | |
| **Assets** | | |
| Due from subsidiary companies | 50,837 | 4,786 |
| | ======= | ======= |
| **Liabilities** | | |
| Due to subsidiary companies | 138 | 23,892 |
| | ======= | ====== |
| **30 June 2012** | | |
| **Assets** | | |
| Due from subsidiary companies | 15,229 | 4,034 |
| | ======= | ====== |
| **Liabilities** | | |
| Due to subsidiary companies | - | 5,205 |
| | ======= | ====== |

At 30 June 2013, if the Shilling had weakened/strengthened by 5% against the foreign currencies with all other variables held constant, the impact on pre tax profit for the year and total capital would have been Shs 1,579,650 (2012: Shs 702,900) lower/higher, mainly as a result of imports and foreign denominated bank balances.

*Price risk*

The Group does not hold price sensitive financial instruments hence does not face price risk.

*Interest rate risk*

The Group is exposed to interest rate risk as it borrows funds and has term deposits both at fixed and floating interest rates. The risk is managed through close management monitoring of the interest rates.

An increase/decrease of 5% in the interest rates, prevailing during the year, on the short term deposits would have resulted in a Sh Nil (2012 – Sh 1,071,000) increase/decrease respectively in profit before taxation.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Market risk (Continued)**

*Foreign exchange risk (Continued)*

An increase/decrease of 5% on average borrowing rates would have resulted in an increase/decrease in profit before taxation of Sh Nil (2012: Sh 171,500).

**Credit risk**

Credit risk arises from the probability that debtors will default on their contractual obligations resulting in financial loss to the Group. The Group has developed an Order Processing and Credit Control policy framework that describes the procedures of appraising and managing credit customers.

There are enhanced system controls within its Enterprise Resources Planning System (ERP) that ensure that customers with outstanding issues are not supplied without the approval of the authorised Finance personnel.

The Group monitors the debtors' accounts and briefing meetings are held every fortnight between the Finance and Operations (Sales and Marketing team) department to report on the debt position for further action. Each sales representative is charged with the responsibility of collecting the debt that he has created.

**GROUP**

The amount that best represents the Group's maximum exposure to credit risk as at 30 June 2013 is made up as follows:

| | **Fully performing** | **Past due** | **Impaired** | **Total** |
|---|---|---|---|---|
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| **30 June 2013** | | | | |
| Trade receivables | 158,961 | 9,600 | 38,810 | 207,371 |
| Bank balances | 122,205 | - | - | 122,205 |
| | 281,166 | 9,600 | 38,810 | 329,576 |
| | ======== | ======== | ======== | ======== |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Credit risk (Continued)**

The amount that best represents the Group's maximum exposure to credit risk as at 30 June 2012 was made up as follows:

| | Fully performing Sh'000 | Past due Sh'000 | Impaired Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **30 June 2012** | | | | |
| Trade receivables | 104,605 | 4,978 | 41,712 | 151,295 |
| Bank balances | 10,911 | - | - | 10,911 |
| | 115,516 | 4,978 | 41,712 | 162,206 |

The analysis of the age of receivables that are past due but not impaired is as shown below;

| Age in Days | 2013 Shs'000 | 2012 Shs'000 |
|---|---|---|
| 120+ days | 9,600 | 4,978 |

**COMPANY**

The amount that best represents the Company's maximum exposure to credit risk as at 30 June 2013 is made up as follows:

| | Fully performing Sh'000 | Past due Sh'000 | Impaired Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **30 June 2013** | | | | |
| Trade receivables | 135,187 | 7,920 | 31,592 | 174,699 |
| Bank balances | 44,309 | - | - | 44,309 |
| | 179,496 | 7,920 | 31,592 | 219,008 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Credit risk (Continued)**

The amount that best represents the Group's maximum exposure to credit risk as at 30 June 2012 was made up as follows:

| | Fully performing | Past due | Impaired | Total |
|---|---|---|---|---|
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| **30 June 2012** | | | | |
| Trade receivables | 50,774 | 27,883 | 38,062 | 116,719 |
| Bank balances | 7,263 | - | - | 7,263 |
| | 58,037 | 27,883 | 38,062 | 123,982 |

Bank balances are held with regulated financial institutions and are fully performing.

The analysis of the age of receivables that are past due but not impaired is as shown below;

| | 2013 | 2012 |
|---|---|---|
| Age in Days | Shs'000 | Shs'000 |
| 120+ days | 7,920 | 27,883 |

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low. The debt that is past due but not impaired continues to be paid. The finance department is actively following this debt. The debt that is impaired has been fully provided for. However, the finance department is pursuing various measures to recover the impaired debt.

**Liquidity risk**

The Group manages liquidity risk by maintaining adequate cash balances in the bank by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Excess cash is invested in call deposits which are readily convertible to liquid cash whenever need arises.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The trade payables balances are due within 12 months hence their carrying amounts are equal to their undiscounted cash flows as the impact of discounting is not significant.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Liquidity risk (Continued)**

**GROUP**

| | Less than 1 month Sh'000 | Between 1 – 3 months Sh'000 | Over 3 months Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **At 30 June 2013** | | | | |
| Financial liabilities | | | | |
| Trade payables | 23,980 | 47,638 | 33,235 | 104,853 |
| | ====== | ====== | ====== | ======= |
| **At 30 June 2012** | | | | |
| Financial liabilities | | | | |
| Trade and payables | 89,087 | 67,054 | 86,432 | 242,573 |
| Borrowings – bank borrowings | - | - | 11,040 | 11,040 |
| | 89,087 | 67,054 | 97,472 | 253,613 |
| | ====== | ====== | ====== | ======= |

**COMPANY**

| | Less than 1 month Sh'000 | Between 1 – 3 months Sh'000 | Over 3 months Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **At 30 June 2013** | | | | |
| Financial liabilities | | | | |
| Trade payables | 23,980 | 47,638 | 33,235 | 104,853 |
| | ====== | ====== | ====== | ======= |
| **At 30 June 2012** | | | | |
| Financial liabilities | | | | |
| Trade and payables | 63,999 | 67,054 | 86,431 | 217,484 |
| Borrowings – bank borrowings | - | - | 11,040 | 11,040 |
| | 89,087 | 67,054 | 97,471 | 228,524 |
| | ====== | ====== | ====== | ======= |

### 5 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity mix.

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 CAPITAL RISK MANAGEMENT (Continued)

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed on page 23.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

The constitution of capital managed by Longhorn Kenya Limited is as shown below:

| | GROUP | |
|---|---|---|
| | 2013 | 2012 |
| | Sh'000 | Sh'000 |
| Share capital | 58,500 | 58,500 |
| Share premium | 5,039 | 5,039 |
| Retained earnings | 329,917 | 224,989 |
| Translation deficit | (7,590) | (34,953) |
| Total equity | 385,866 | 253,575 |
| Cash and cash equivalents | 123,853 | 12,344 |
| Less: Borrowings | - | (9,600) |
| Overdraft | - | (9,749) |
| | 123,853 | (7,005) |
| Gearing ratio | Nil | 3% |

## 6 OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 OPERATING SEGMENTS (Continued)

Following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed.

The Group's operations are within three geographical segments, Kenya, Tanzania and Uganda. The table below contains segmental information provided to the Chief Operating Decision Maker for the year ended 30 June 2013.

| | Kenya | Tanzania | Uganda | Eliminated on consolidation | Total |
|---|---|---|---|---|---|
| Sh'000 | Sh'000 | Sh'000 | Sh'000 | | |
| **30 June 2013** | | | | | |
| Sales & Other income | 984,538 | 66,993 | 43,516 | (54,822) | 1,040,225 |
| Cost of sales and other expenditure | (839,531) | (52,596) | (51,593) | 54,822 | (888,898) |
| Profit before taxation | 145,007 | 14,397 | (8,077) | - | 151,327 |
| Assets | 630,582 | 69,070 | 85,674 | (100,307) | 685,019 |
| Liabilities | 630,582 | 69,070 | 85,674 | (100,307) | 685,019 |
| Capital Expenditure | 11,514 | 18 | 2,340 | - | 13,872 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 OPERATING SEGMENTS (Continued)

| | Kenya | Tanzania | Uganda | Eliminated on consolidation | Total |
|---|---|---|---|---|---|
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 | |
| **30 June 2012** | | | | | |
| Sales & Other income | 771,303 | 17,023 | 18,096 | (20,732) | 785,690 |
| Cost of sales and other expenditure | (783,003) | (19,270) | (30,098) | 20,732 | (811,639) |
| Profit before taxation | (11,700) | (2,247) | (12,002) | - | (25,949) |
| Assets | 640,825 | 24,922 | 52,196 | (56,268) | 661,675 |
| Liabilities | 640,825 | 24,922 | 52,196 | (56,268) | 661,675 |
| Capital Expenditure | 25,243 | 7,972 | 881 | - | 34,096 |

### 7 EXCHANGE LOSSES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| Realised exchange gain/(loss) | 281 | (842) | (37) | (514) |
| Unrealised exchange loss | (12,163) | (10,582) | (188) | (129) |
| | (11,882) | (11,424) | (225) | (643) |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013<br>Sh'000 | 2012<br>Sh'000 | 2013<br>Sh'000 | 2012<br>Sh'000 |
| **8 PROFIT BEFORE TAXATION** | | | | |
| The profit before taxation is arrived at after charging/(crediting): | | | | |
| Depreciation | 12,989 | 10,223 | 12,057 | 9,658 |
| Amortisation of intangible assets | 4,128 | 7,764 | 2,377 | 6,672 |
| Directors' emoluments - fees | 3,590 | 4,274 | 3,082 | 3,796 |
| - other emoluments | - | 5,732 | - | 4,637 |
| Auditors' remuneration | 2,877 | 2,651 | 1,850 | 1,734 |
| Staff costs (Note 9) | 152,989 | 140,904 | 143,251 | 131,468 |
| (Recovery)/provision for bad debts | (2,234) | 26,796 | (5,877) | 26,742 |
| | ====== | ====== | ====== | ====== |
| **9 STAFF COSTS** | | | | |
| Salaries and wages | 108,169 | 114,051 | 100,178 | 106,665 |
| Pension costs | 4,654 | 4,017 | 4,654 | 4,017 |
| Leave pay | 8,183 | 6,408 | 8,314 | 6,408 |
| Staff gratuity | 12,807 | 563 | 12,363 | - |
| Social security costs (NSSF) | 1,010 | 1,121 | 271 | 381 |
| Staff welfare and training expenses | 17,765 | 14,469 | 17,471 | 13,997 |
| Staff medical expenses | 401 | 275 | - | - |
| | 152,989 | 140,904 | 143,251 | 131,468 |
| | ====== | ====== | ====== | ====== |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 TAXATION

| | GROUP 2013 Sh'000 | GROUP 2012 Sh'000 | COMPANY 2013 Sh'000 | COMPANY 2012 Sh'000 |
|---|---|---|---|---|
| (a) Tax charge/(credit) | | | | |
| Current taxation: | | | | |
| Tax based on the taxable profit for the year | | | | |
| -Current year | 47,828 | 15,627 | 46,691 | 13,362 |
| -prior year over provision | (244) | - | - | - |
| Deferred taxation (Note 18): | | | | |
| -current year credit | (9,304) | (19,886) | (3,942) | (13,283) |
| -prior year over provision | 15,936 | - | 16,176 | - |
| -Deferred tax asset not recognised | 3,193 | 775 | - | - |
| | 9,825 | (19,111) | 12,234 | (13,283) |
| | 57,409 | (3,484) | 58,925 | 79 |
| (b) Reconciliation of expected tax based on accounting profit/(loss) to tax charge/(credit) | | | | |
| Accounting profit/(loss) before taxation | 151,327 | (25,949) | 145,007 | (11,700) |
| Tax at the applicable rate | 30,898 | (7,785) | 29,001 | (3,510) |
| Tax effect of expenses not deductible for tax purposes | 13,768 | 3,626 | 13,748 | 3,589 |
| Prior year over provision – deferred tax | 15,936 | - | 16,176 | - |
| Deferred tax asset not recognised | (3,193) | 775 | - | - |
| | 57,409 | (3,384) | 58,925 | 79 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 TAXATION (Continued)

(c) Tax movement

| | GROUP 2013 Sh'000 | GROUP 2012 Sh'000 | COMPANY 2013 Sh'000 | COMPANY 2012 Sh'000 |
|---|---|---|---|---|
| At beginning of the year: | | | | |
| Payable | 1,982 | 27,294 | - | 4,615 |
| Recoverable | (1,014) | - | | (1,014) |
| | - | | | |
| | 968 | 27,294 | (1,014) | 4,615 |
| Taxation charge | 47,828 | 15,627 | 46,691 | 13,362 |
| Taxation paid | (11,037) | (42,246) | (7,370) | (18,991) |
| Prior year overprovision | (244) | - | - | - |
| Exchange adjustment | (178) | 293 | - | - |
| At end of the year<br>Net tax payable/(recoverable) | 37,337 | 968 | 38,307 | (1,014) |
| Comprising: | | | | |
| Payable | 39,437 | 1,982 | 38,307 | - |
| Recoverable | (2,100) | (1,014) | - | (1,014) |
| | 37,337 | 968 | 38,307 | (1,014) |

### 11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A profit after taxation of Sh 86,082,000 (2012 – loss after tax of Sh 11,779,000) has been dealt with in the financial statements of Longhorn Kenya Limited.

### 12 EARNINGS/(LOSS) PER SHARE – BASIC AND DILUTED

| | 2013 | 2012 |
|---|---|---|
| Profit/(loss) attributable to ordinary shareholders (Sh'000) | 93,918 | (22,465) |
| Weighted average number of ordinary shares in issue | 58,500,000 | 58,500,000 |
| Basic and diluted earnings/(loss) per share (Sh) | 1.6 | (0.38) |

### 13 DIVIDENDS PER SHARE

The directors propose a final dividend of Sh 0.80 (2012 – Sh Nil) per share, equivalent to Sh 46,800,000 (2012 – Sh Nil).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 (a) PROPERTY AND EQUIPMENT- GROUP

| | Motor Lease hold property Sh'000 | vehicles, furniture and equipment Sh'000 | Capital work-in-progress Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 July 2011 | 56,953 | 57,125 | 92,008 | 206,086 |
| Additions | 1,522 | 19,228 | 1,310 | 22,060 |
| Disposals | - | (5,126) | - | (5,126) |
| Transfers | 93,318 | - | (93,318) | - |
| Exchange adjustment | (70) | (21) | - | (91) |
| At 30 June 2012 | 151,723 | 71,206 | - | 222,929 |
| At 1 July 2012 | 151,723 | 71,206 | - | 222,929 |
| Additions | 5,852 | 6,709 | - | 12,561 |
| Disposals | (415) | (5,321) | - | (5,736) |
| Exchange adjustment | (56) | (36) | - | (92) |
| At 30 June 2013 | 157,104 | 72,558 | - | 229,662 |
| **DEPRECIATION** | | | | |
| At 1 July 2011 | 5,518 | 38,357 | - | 43,875 |
| Charge for the year | 4,153 | 6,072 | - | 10,225 |
| Eliminated on disposal | - | (5,126) | - | (5,126) |
| Exchange adjustment | - | (72) | - | (72) |
| At 30 June 2012 | 9,671 | 39,231 | - | 48,902 |
| At 1 July 2012 | 9,671 | 39,231 | - | 48,902 |
| Charge for the year | 4,443 | 8,546 | - | 12,989 |
| Eliminated on disposal | (415) | (1,663) | - | (2,078) |
| Exchange adjustment | (34) | (25) | - | (59) |
| At 30 June 2013 | 13,665 | 46,089 | - | 59,754 |
| **NET BOOK VALUE** | | | | |
| At 30 June 2013 | 143,439 | 26,469 | - | 169,908 |
| | ====== | ====== | ======= | ======== |
| At 30 June 2012 | 142,052 | 31,975 | - | 174,027 |
| | ====== | ====== | ======= | ======== |

The exchange adjustment arises from the translation of the values relating to assets held by two subsidiaries, Longhorn Publishers (Uganda) Limited and Longhorn Publishers (Tanzania) Limited.

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 14 (b) PROPERTY AND EQUIPMENT- COMPANY

| | Leasehold property Sh'000 | Motor vehicles, furniture and equipment Sh'000 | Capital work-in-Progress Sh'000 | Total Sh'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 July 2011 | 56,953 | 52,592 | 92,008 | 201,553 |
| Additions | 690 | 18,993 | 1,310 | 20,993 |
| Disposals | - | (5,126) | - | (5,126) |
| Transfers | 93,318 | - | (93,318) | - |
| At 30 June 2012 | 150,961 | 66,459 | - | 217,420 |
| At 1 July 2012 | 150,961 | 66,459 | - | 217,420 |
| Additions | 4,535 | 5,668 | - | 10,203 |
| Disposals | - | (5,157) | - | (5,157) |
| At 30 June 2013 | 155,496 | 66,970 | - | 222,466 |
| DEPRECIATION | | | | |
| At 1 July 2011 | 5,518 | 35,643 | - | 41,161 |
| Charge for the year | 3,781 | 5,877 | - | 9,658 |
| Eliminated on disposal | - | (5,126) | - | (5,126) |
| At 30 June 2012 | 9,299 | 36,394 | - | 45,693 |
| At 1 July 2012 | 9,299 | 36,394 | - | 45,693 |
| Charge for the year | 3,856 | 8,201 | - | 12,057 |
| Eliminated on disposal | - | (1,580) | - | (1,580) |
| At 30 June 2013 | 13,155 | 43,015 | - | 56,170 |
| NETBOOK VALUE | | | | |
| At June 2013 | 142,341 | 23,955 | - | 166,296 |
| At 30 June 2012 | 141,662 | 30,065 | - | 171,727 |

Included in motor vehicles, furniture and equipment are fully depreciated assets with a cost of Sh 30,146,189 (2012 – Sh 30,146,189). The normal annual depreciation charge on these assets would have been Sh 8,516,290 (2012 – Sh 8,516,290).

The historical cost of the leasehold land amounts to Sh 131,033 (2012 - Sh 131,033) and is therefore immaterial. Consequently it has not been reclassified to operating lease prepayments as per the requirements of IAS 17 on leases. The amount is included in the carrying amount of the leasehold property.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 (a) INTANGIBLE ASSETS –GROUP

| | Computer software Sh'000 | Intellectual property Sh'000 | Total Sh'000 |
|---|---|---|---|
| COST | | | |
| At 1 July 2011 | 6,362 | 34,840 | 41,202 |
| Additions | 4,677 | 7,359 | 12,036 |
| Exchange adjustment | (14) | (166) | (180) |
| At 30 June 2012 | 11,025 | 42,033 | 53,058 |
| At 1 July 2012 | 11,025 | 42,033 | 53,058 |
| Additions | 1,311 | - | 1,311 |
| Exchange adjustment | (20) | (79) | (99) |
| At 30 June 2013 | 12,316 | 41,954 | 54,270 |
| AMORTISATION | | | |
| At 1 July 2011 | 4,757 | 28,265 | 33,022 |
| Charge for the year | 970 | 6,794 | 7,764 |
| Exchange adjustment | (11) | (30) | (41) |
| At 30 June 2012 | 5,716 | 35,029 | 40,745 |
| At 1 July 2012 | 5,716 | 35,029 | 40,745 |
| Charge for the year | 2,057 | 2,071 | 4,128 |
| Exchange adjustment | (9) | (17) | (26) |
| At 30 June 2013 | 7,764 | 37,083 | 44,847 |
| NET BOOK VALUE | | | |
| 30 June 2013 | 4,552 | 4,871 | 9,423 |
| 30 June 2012 | 5,309 | 7,004 | 12,313 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 (a) INTANGIBLE ASSETS –GROUP (Continued)

The exchange adjustment arises from the translation of the values relating to assets held by Longhorn Publishers (Uganda) Limited and Longhorn Publishers (Tanzania) Limited.

The intellectual property arose out of acquisition of selected assets of Delah Publishers Limited in Tanzania in December 2011 and Sasa Sema Publications Limited in April 2007. The Company was awarded publishing rights by Delah Publishers Limited for a consideration of Sh 7,359,000 and authors' contracts and related rights for 53 Sasa Sema Publications Limited's titles for a consideration of Sh 22,110,000. The rights acquired in Sasa Sema Publications Limited included co-publishing and distributorship contracts for 16 titles of Readit Publishers of Tanzania for a consideration of Sh 5,890,000. The Company also acquired the Sasa Sema brand name including the company logo at a cost of Sh 3,000,000. Sasa Sema is now a trading name registered under Longhorn Kenya Limited. The management expects the payback period of the Delah Publishers Limited to be five years hence the assets are being amortised over a period of five years commencing in December 2011. Sasa Sema intellectual property has been fully amortised .

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 (b) INTANGIBLE ASSETS –COMPANY

| | Computer software Sh'000 | Intellectual property Sh'000 | Total Sh'000 |
|---|---|---|---|
| COST | | | |
| At 1 July 2011 | 5,814 | 34,840 | 40,654 |
| Additions | 4,250 | - | 4,250 |
| At 30 June 2012 | 10,064 | 34,840 | 44,904 |
| At 1 July 2012 | 10,064 | 34,840 | 44,904 |
| Additions | 1,311 | - | 1,311 |
| At 30 June 2013 | 11,375 | 34,840 | 46,215 |
| AMORTISATION | | | |
| At 1 July 2011 | 4,575 | 28,265 | 32,840 |
| Charge for the year | 737 | 5,935 | 6,672 |
| At 30 June 2012 | 5,312 | 34,200 | 39,512 |
| At 1 July 2012 | 5,312 | 34,200 | 39,512 |
| Charge for the year | 1,737 | 640 | 2,377 |
| At 30 June 2013 | 7,049 | 34,840 | 41,889 |
| NET BOOK VALUE | | | |
| 30 June 2013 | 4,326 | - | 4,326 |
| 30 June 2012 | 4,752 | 640 | 5,392 |

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 15 (b) INTANGIBLE ASSETS – COMPANY (Continued)

The intellectual property arose out of acquisition of selected assets of Sasa Sema Publications Limited concluded in April 2007. The Company was assigned authors' contracts and related rights for 53 Sasa Sema Publications Limited's titles for a consideration of Sh 22,110,000 and co-publishing and distributorship contracts for 16 titles of Readit Publishers of Tanzania for a consideration of Sh 5,890,000. The Company also acquired the Sasa Sema brand name including the company logo at a cost of Sh 3,000,000. Sasa Sema is now a trading name registered under Longhorn Kenya Limited. The payback period of the acquired assets was five years and hence the assets were being amortised over a period of five years commencing in May 2007.

## 16 RELATED PARTY BALANCES AND TRANSACTIONS

| | 2013<br>Sh'000 | 2012<br>Sh'000 |
|---|---|---|
| (a) Due from subsidiaries – Company | | |
| Loans: | | |
| Longhorn Publishers (Tanzania) Limited | - | 5,444 |
| Due on trading account: | | |
| Longhorn Publishers (Uganda) Limited | 4,786 | 4,034 |
| Longhorn Publishers (Tanzania) Limited | 50,837 | 15,229 |
| | 55,623 | 19,263 |
| | 55,623 | 24,707 |
| (b) Due to subsidiaries – Company | | |
| Loans: | | |
| Longhorn (Uganda) Limited | 23,892 | 5,205 |
| Longhorn Publishers (Tanzania) Limited | 138 | - |
| | 24,030 | 5,205 |

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | GROUP 2013 Sh'000 | GROUP 2012 Sh'000 | COMPANY 2013 Sh'000 | COMPANY 2012 Sh'000 |
|---|---|---|---|---|
| Salaries and other benefits | 30,701 | 24,648 | 29,547 | 23,553 |
| Directors' remuneration: | | | | |
| Fees for services as directors | 3,590 | 4,274 | 3,082 | 3,796 |
| Other emoluments (included in key management compensation above) | - | 5,732 | - | 4,637 |
| | 3,590 | 10,006 | 3,082 | 8,433 |

### 17 INVESTMENT IN SUBSIDIARIES - COMPANY

| | | |
|---|---|---|
| Longhorn Publishers (Uganda) Limited – 100% owned | 440 | 440 |
| Longhorn Publishers (Tanzania) Limited –100% owned | 25,010 | 25,010 |
| Impairment loss | (10) | (10) |
| | 25,440 | 25,440 |

The investments in the subsidiaries are stated at cost less accumulated impairment losses. Directors believe that investment in subsidiaries are not impaired.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

The net deferred taxation asset is attributable to the following items:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 Sh'000 | 2012 Sh'000 | 2013 Sh'000 | 2012 Sh'000 |
| **Liabilities** | | | | |
| Accelerated capital allowances | 12,361 | 11,654 | 11,806 | 11,408 |
| **Assets** | | | | |
| Losses available for future tax relief | (851) | - | - | - |
| Unrealised exchange losses | (4,626) | (3,175) | (38) | - |
| Provisions | (31,109) | (40,545) | (26,362) | (38,236) |
| Deferred tax asset not recognised | 2,861 | 775 | - | - |
| | (33,725) | (42,945) | (26,400) | (38,236) |
| Net deferred tax asset | (21,364) | (31,291) | (14,594) | (26,828) |
| The movement on the deferred tax account is as follows: | | | | |
| At 1 July | (31,291) | (12,278) | (26,828) | (13,545) |
| Income statement credit (note 10 (a)) | (9,304) | (19,886) | (3,942) | (13,283) |
| Prior year over provision | 15,936 | - | 16,176 | - |
| Deferred tax asset not recognised | 3,193 | 775 | - | - |
| Exchange adjustment | 102 | 98 | - | - |
| NET LIABILITY ASSET | (21,364) | (31,291) | (14,594) | (26,828) |

A deferred tax asset relating to the subsidiary company, Longhorn Publishers (T) Limited has not been recognised due to uncertainty about the company's ability to generate sufficient taxable profits in the foreseeable future against which the unused tax losses and unused tax credits can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | GROUP 2013 Sh'000 | GROUP 2012 Sh'000 | COMPANY 2013 Sh'000 | COMPANY 2012 Sh'000 |
|---|---|---|---|---|
| **19 INVENTORIES** | | | | |
| Books | 196,976 | 291,837 | 182,157 | 276,588 |
| Publications in progress | 42,763 | 48,677 | 42,763 | 48,677 |
| | 239,739 | 340,514 | 224,920 | 325,265 |
| Provision for obsolete inventory | (97,217) | (65,476) | (90,724) | (61,452) |
| | 142,522 | 275,038 | 134,196 | 263,813 |
| | ====== | ====== | ====== | ======= |
| **20 TRADE AND OTHER RECEIVABLES** | | | | |
| Trade receivables | 207,371 | 151,295 | 174,699 | 116,719 |
| Less; Provision for bad and doubtful receivables | (38,810) | (41,712) | (31,592) | (38,062) |
| | 168,561 | 109,583 | 143,107 | 78,657 |
| Staff receivables | 23,976 | 17,085 | 18,984 | 8,248 |
| VAT recoverable | 13,056 | 18,633 | 13,056 | 18,633 |
| Other receivables | 10,256 | 11,361 | 9,135 | 9,103 |
| | 215,849 | 156,662 | 184,282 | 114,641 |
| | ====== | ====== | ====== | ======= |
| **21 SHARE CAPITAL** | | | | |
| Authorised: 60,000,000 ordinary shares of Sh 1 each (2012: 12,000,000 ordinary shares of Sh 5 each | 60,000 | 60,000 | 60,000 | 60,000 |
| | ======= | ===== | ====== | ======= |
| Issued and fully paid: 58,500,000 ordinary shares of Sh 1 each (2012 - 11,700,000 ordinary shares of Sh 5 each) | 58,500 | 58,500 | 58,500 | 58,500 |
| | ======= | ===== | ====== | ======= |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| **22 LOAN PAYABLE** | | | | |
| The borrowings are repayable as follows: | | | | |
| Payable within one year | - | 9,600 | - | 9,600 |
| Payable after one year | - | - | - | - |
| Total | - | 9,600 | - | 9,600 |

*Details of securities*

The term loan facility, overdraft facility (disclosed under note 23), letters of credit, bonds and guarantee facility with Standard Chartered Bank Limited are secured by a first ranking debenture over personal guarantees of Sh 240,000,000, the Company's assets for Sh 171,400,000 and a first legal charge over property LR No 209/5604 of Sh 125,000,000 over the Company's properties.

The loan was repayable in ten quarterly instalments of Sh 4,800,000 per quarter over a period of 30 months commencing November 2012. Interest was charged at the rate of 15% per annum. The final instalment was paid in December 2012.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | Sh'000 | Sh'000 | Sh'000 | Sh'000 |
| **23 TRADE AND OTHER PAYABLES** | | | | |
| Trade payables | 104,853 | 242,573 | 104,853 | 217,484 |
| Royalty provisions | 71,716 | 86,238 | 71,716 | 86,238 |
| Accruals | 47,620 | 5,944 | 4,263 | 4,292 |
| Leave pay provision | 6,076 | 4,476 | 5,497 | 4,068 |
| Other payables | 24,570 | 32,718 | 21,094 | 29,449 |
| Gratuity provision | 510 | 443 | - | - |
| Staff bonus provision | 4,371 | 4,381 | 3,994 | 3,994 |
| | 259,716 | 376,773 | 211,417 | 345,525 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 NOTES TO THE STATEMENT OF CASH FLOWS

**GROUP**

(a) Reconciliation of profit/(loss) before taxation to cash generated from operations

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Profit/(loss) before tax | 151,327 | (25,949) |
| Depreciation (note 14(a)) | 12,989 | 10,225 |
| Amortisation of intangible assets (note 15(a)) | 4,128 | 7,764 |
| Profit on disposal of equipment | (2,902) | (1,937) |
| *Working capital changes:* | | |
| Decrease/(increase) in inventories | 132,516 | (101,324) |
| (Increase)/ decrease in trade and other receivables | (59,187) | 136,100 |
| (Decrease)/increase in trade and other payables | (117,057) | 124,127 |
| Cash generated from operations | 121,814 | 149,006 |

(b) Borrowings

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Balance as at 1 July | 9,600 | 28,800 |
| Borrowings repaid | (9,600) | (19,200) |
| Balance as at 30 June | - | 9,600 |

(c) Cash and cash equivalents

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Cash and bank balances | 123,853 | 12,344 |
| Overdraft | - | (9,749) |
| | 123,853 | 2,595 |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

**COMPANY**

(d) Reconciliation of profit/(loss)/before taxation to cash generated from operations

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Profit/(loss) before tax | 145,007 | (11,700) |
| Depreciation (note 14(b)) | 12,057 | 9,658 |
| Amortisation of intangible assets (note 15(b)) | 2,377 | 6,672 |
| Profit on disposal of equipment | (2,860) | (1,937) |
| *Working capital changes:* | | |
| Decrease/(increase) in inventories | 129,617 | (95,052) |
| (Increase)/decrease in trade and other receivables | (69,641) | 91,390 |
| (Decrease)/increase in trade and other payables | (134,108) | 120,967 |
| Movement in related party balances | (12,091) | 20,790 |
| | 70,358 | 140,788 |

(e) Borrowings

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Balance as at 1 July | 9,600 | 28,800 |
| Borrowings repaid | (9,600) | (19,200) |
| Balance as at 30 June | - | 9,600 |

(f) Cash and cash equivalents

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Cash and bank balances | 45,825 | 7,263 |
| Bank overdraft | - | (9,749) |
| | 45,825 | (2,486) |

The bank overdraft facility was held with Standard Chartered Bank . The security is disclosed under note 21. The effective interest rate for the year was Nil (2012: 15%).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 25 CAPITAL COMMITMENTS

Capital commitments at the year end for which no provision has been made in these financial statements:

| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| Authorised but not contracted for | 92,097 | - |
| | ======= | ======== |

### 26 CONTINGENT LIABILITIES

There are currently minor claims arising against the Group in the normal course of business. The directors, based on advice received from the Group's lawyers, are of the opinion that no significant liabilities will crystallise.

### 27 RETIREMENT BENEFITS OBLIGATIONS

The Group makes contributions to a defined contribution scheme and to statutory defined contribution schemes, the National Social Security Fund. Contributions to the Group's plan are determined by the rules of the plan and totalled Sh 4,654,000 (2012 - Sh 4,017,000) in the year. Contributions to the statutory schemes are determined by local statutes and are currently at Sh 200 per employee per month in Kenya, 10% of the basic pay per employee per month in Uganda and 20% of the basic pay per employee per month in Tanzania. For the year ended 30 June 2013, the Group contributed Sh 1,010,000 (2012 – Sh 1,121,000) to the statutory schemes.

### 28 INCORPORATION

The Longhorn Kenya Limited is incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya.

### 29 CURRENCY

The financial statements are presented in Kenya Shillings thousands (Sh'000), the Group's functional currency.

## DETAILED COMPANY INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2013

| | 2013<br>Sh | 2012<br>Sh |
|---|---|---|
| SALES | 977,733 | 766,639 |
| COST OF SALES | (562,734) | (443,618) |
| GROSS PROFIT | 414,999 | 323,021 |
| OTHER INCOME (APPENDIX II) | 6,646 | 4,193 |
| SELLING AND DISTRIBUTION COSTS (APPENDIX II) | (68,262) | (83,351) |
| ADMINISTRATIVE EXPENSES (APPENDIX II) | (208,310) | (255,391) |
| INTEREST INCOME | 159 | 471 |
| NET FOREIGN EXCHANGE LOSSES (APPENDIX II) | (225) | (643) |
| PROFIT/(LOSS) BEFORE TAXATION | 145,007 | (11,700) |
| | ======= | ======= |

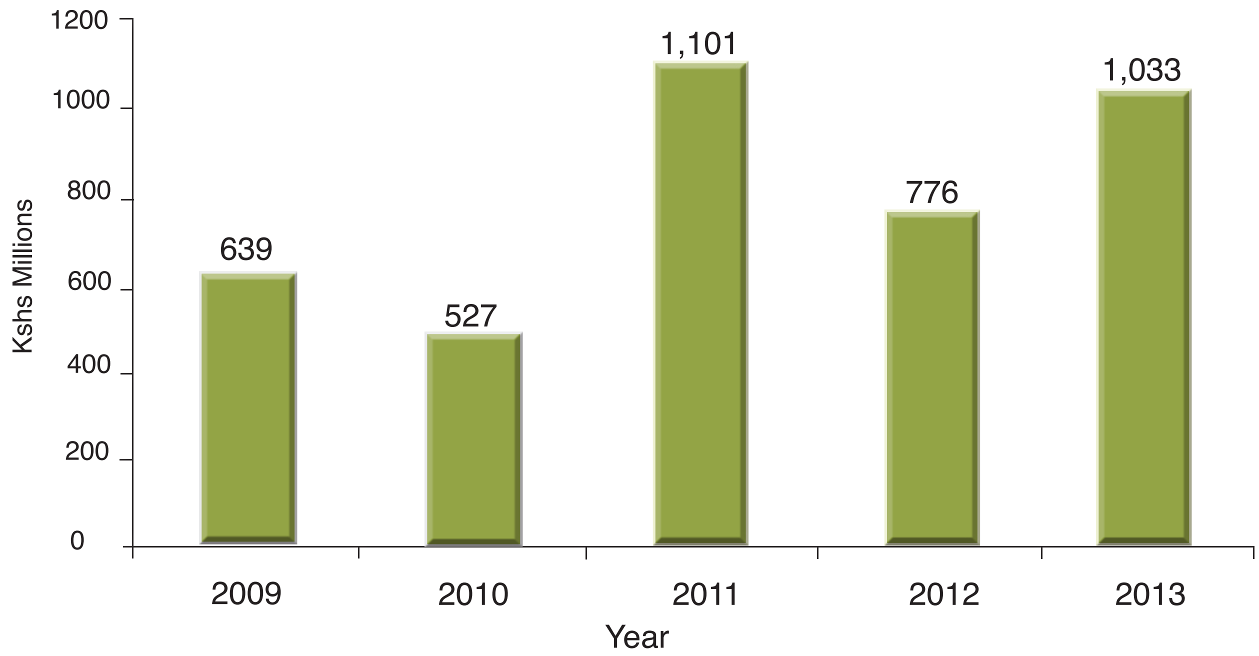
Appendix II

# DETAILED COMPANY INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

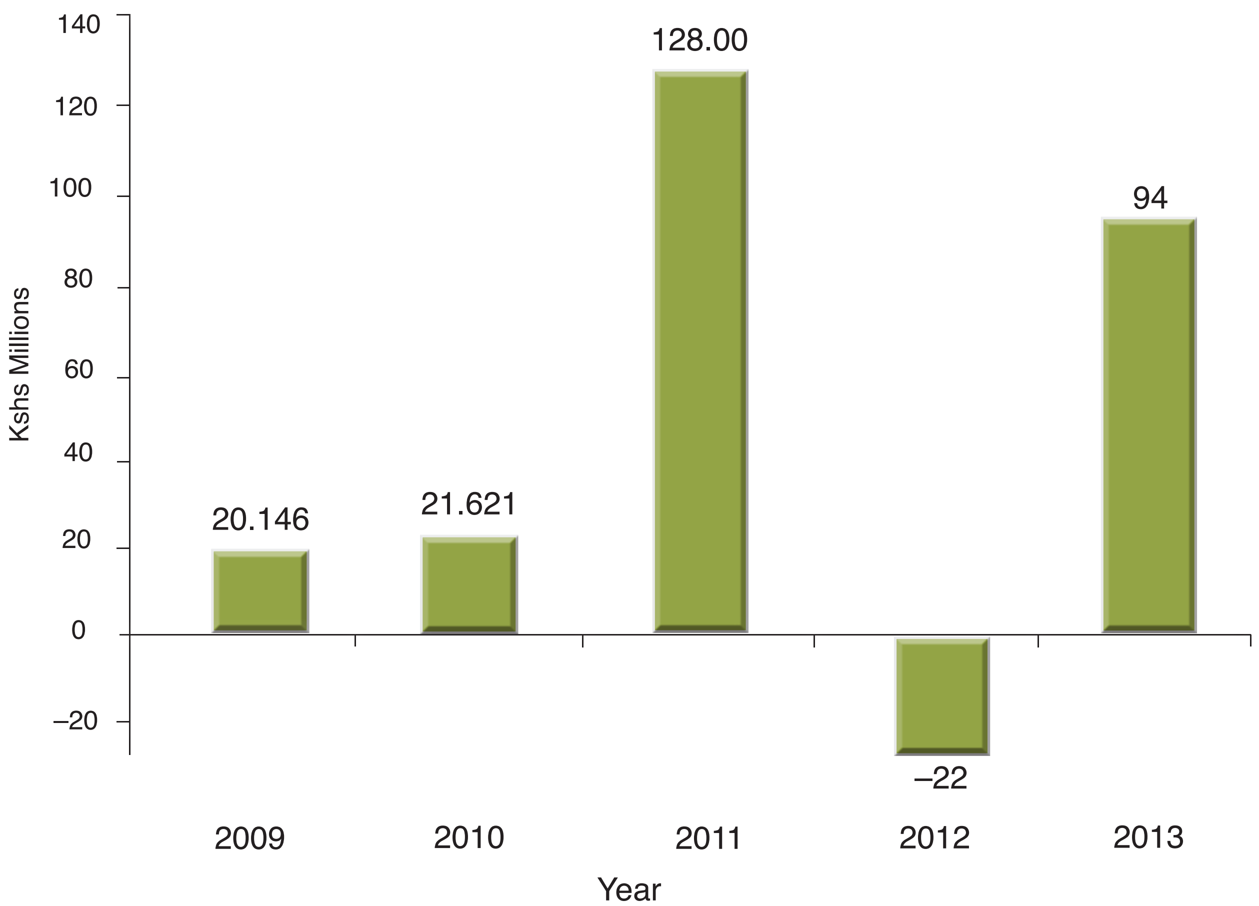
| | 2013 Sh'000 | 2012 Sh'000 |
|---|---|---|
| **OTHER OPERATING INCOME** | | |
| Sundry income | 3,786 | 2,256 |
| Gain on disposal of motor vehicles and equipment | 2,860 | 1,937 |
| | 6,646 | 4,193 |
| **SELLING AND DISTRIBUTION EXPENSES** | | |
| Advertising and sales promotion | 32,954 | 59,861 |
| Freight and postage | 27,032 | 14,696 |
| Travel and entertainment | 8,276 | 8,794 |
| | 68,262 | 83,351 |
| **ADMINISTRATIVE EXPENSES** | | |
| Staff expenses | 143,250 | 131,468 |
| Telephone and stationery | 7,350 | 10,929 |
| Motor vehicle expenses | 6,148 | 6,193 |
| Depreciation | 12,057 | 9,658 |
| Professional fees | 8,692 | 24,544 |
| Insurance | 4,343 | 3,635 |
| Bank charges | 4,549 | 6,264 |
| Amortisation of intangible assets | 2,377 | 6,672 |
| Directors' fees | 3,082 | 3,583 |
| Repairs and maintenance | 4,679 | 3,535 |
| Rates, light and water | 3,397 | 3,316 |
| Auditors remuneration | 1,850 | 1,734 |
| General administration | 11,637 | 12,645 |
| Bad debt write back | (5,877) | 26,742 |
| Donations and subscriptions | 776 | 1,482 |
| Stock write off | - | 2,991 |
| | 208,310 | 255,391 |
| **NET FOREIGN EXCHANGE LOSSES** | | |
| Realised exchange loss | (37) | (514) |
| Unrealised exchange loss | (188) | (129) |
| | (225) | (643) |

# FINANCIAL HIGHLIGHTS

## Turnover

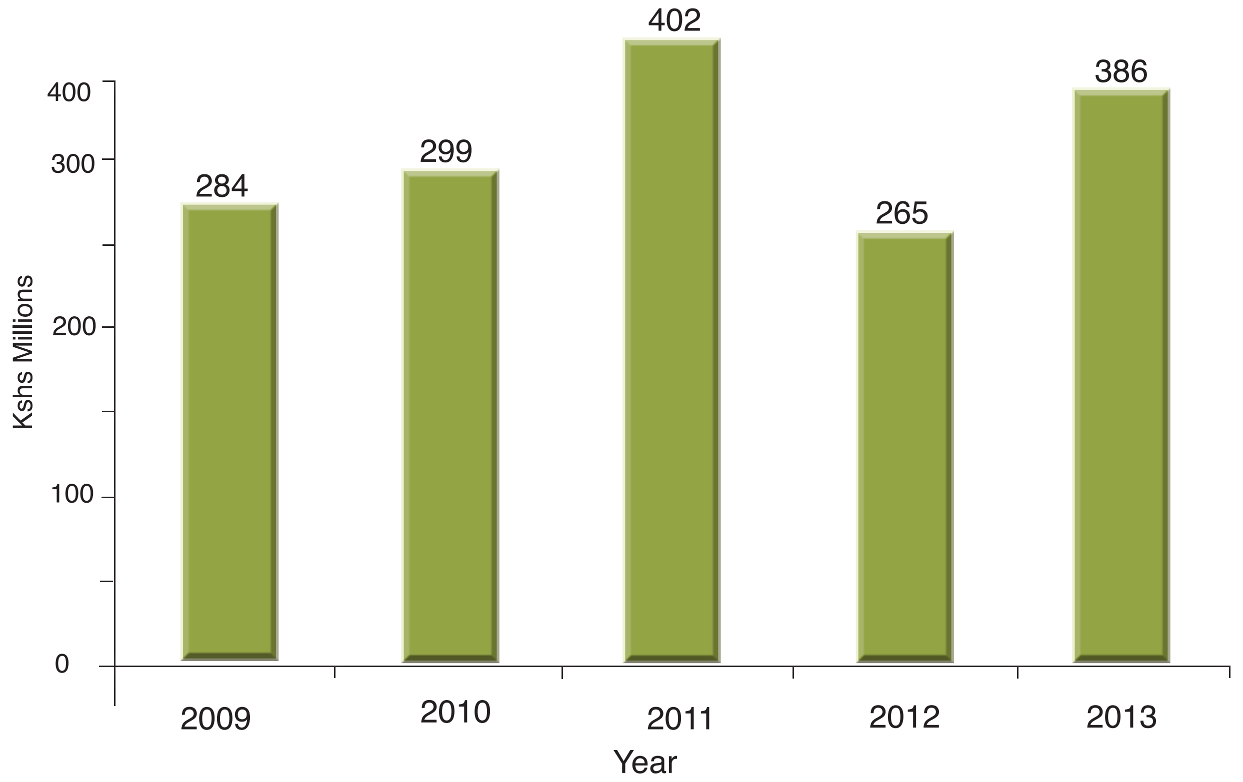



## Profit Attributable to Shareholders

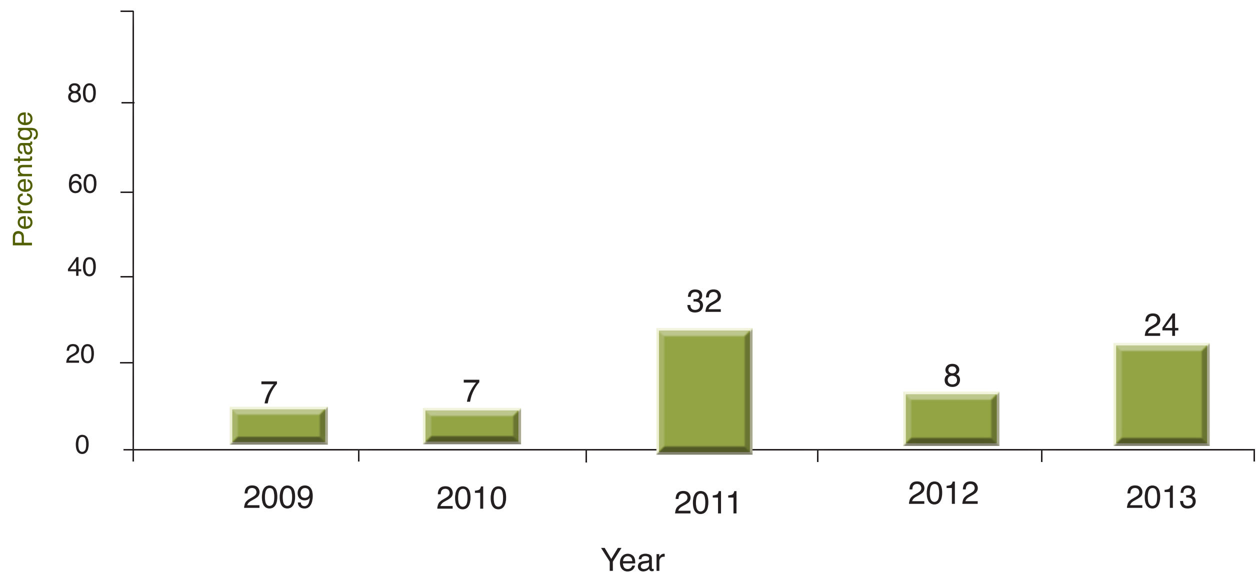


# FINANCIAL HIGHLIGHTS

## Shareholders' Fund

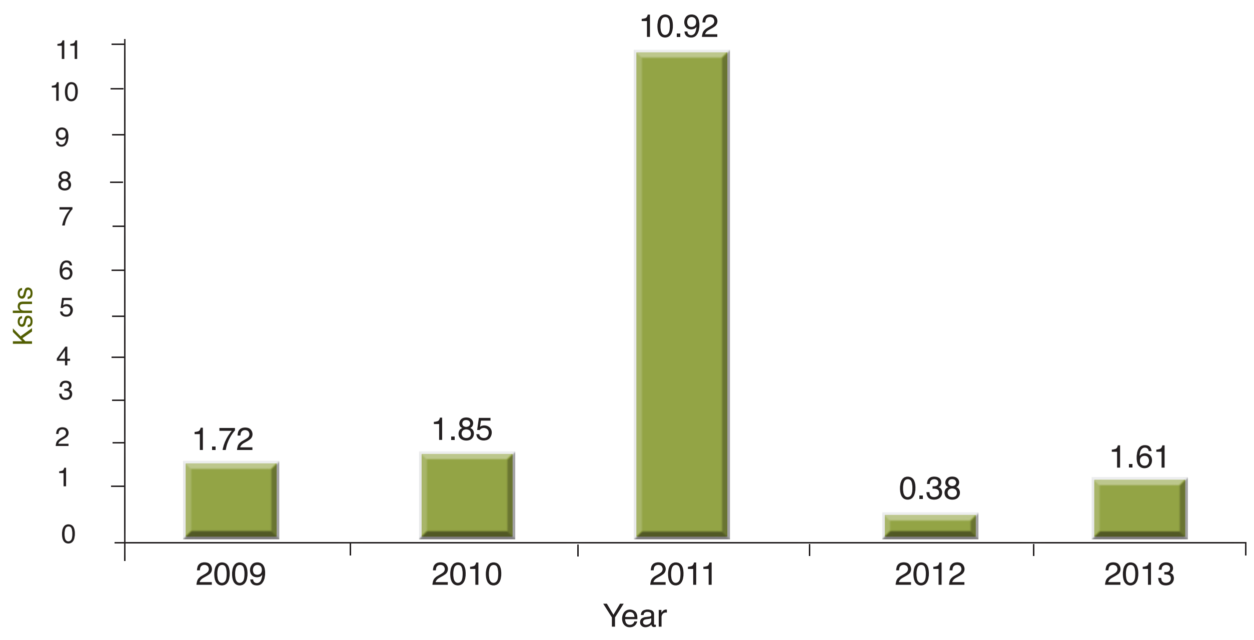



## Return on Shareholders' Funds

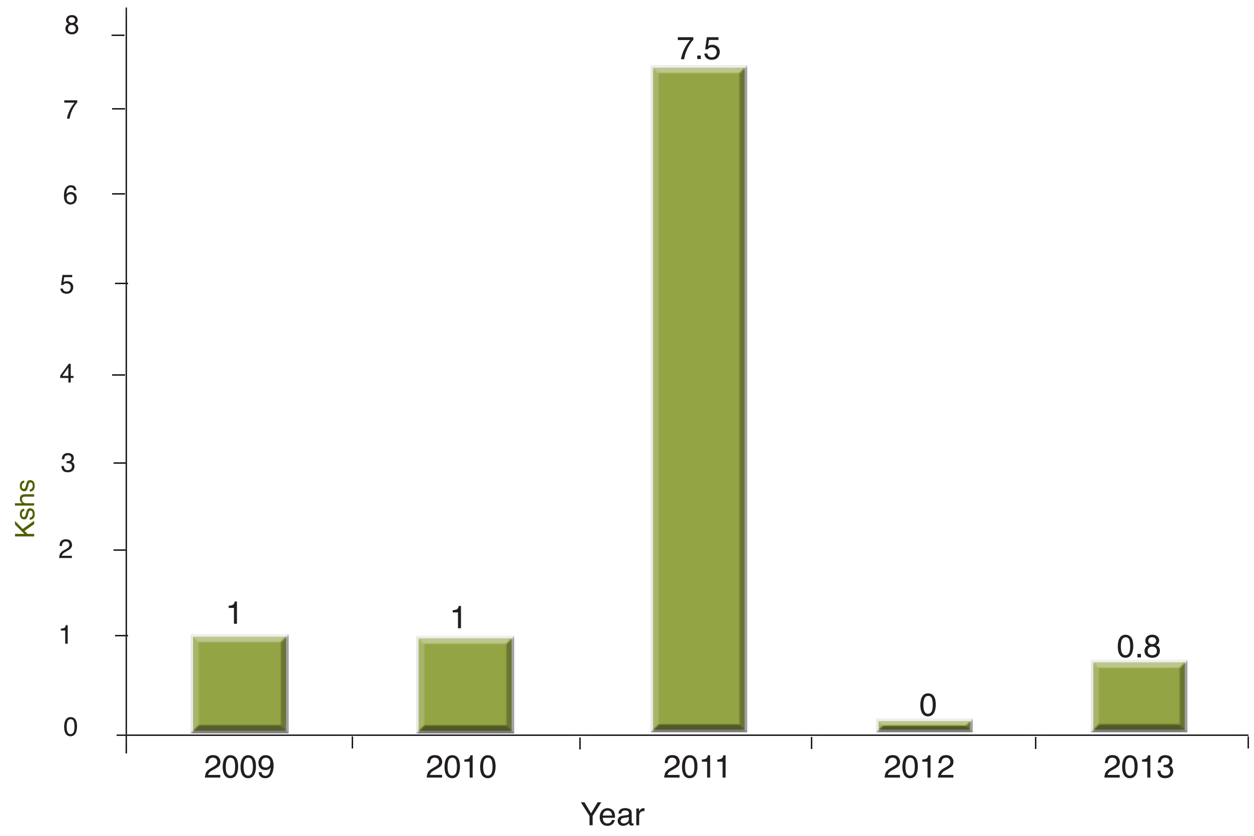


## FINANCIAL HIGHLIGHTS

### Earning Per Share




### Dividend Per Share



# PROXY

I/WE ____________________________________________

OF ____________________________________________

Being a member of the above Company, hereby appoint:

____________________________________________

OF ____________________________________________

Whom failing ____________________________________________

OF ____________________________________________

or failing him, the Chairman of the Meeting, my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 24 February 2012 and at any adjournment thereof.

As witness my/our hand this day of 2013

Signed ____________________

Signed ____________________

**Note:**

1) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the Company.

2) In the case of a member being a limited Company this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.

3) Proxies must be in the hands of the Secretary not later than 48 hours before the time of holding the meeting.