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CORPORATE INFORMATION

DIRECTORS	F T Nyammo - Chairman M Muli - Managing Director R Nyamweya J W M Briggs (Mrs) S Omanga (Mrs) J Syekei J K Muriuki - Representing Centum Investment Company Limited Ali Hussein Kassim (Appointed with effect from 1 March 2014)
SECRETARY	Enid Muriuki Certified Public Secretary (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 30029 - 00100 GPO NAIROBI
REGISTERED OFFICE	LR No. 209/5604 Funzi Road, Industrial Area P O Box 18033 - 00500 NAIROBI
AUDITORS	Deloitte & Touche Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO NAIROBI
LEGAL ADVISERS	Mohammed & Muigai MM Chambers, 4th Floor K-Rep Centre, Wood Avenue, Off Lenana Road Kilimani P O Box 61323 - 00200 NAIROBI
BANKERS	Standard Chartered Bank Kenya Limited Industrial Area Branch P O Box 20133 - 00500 NAIROBI NIC Bank Limited NIC House Branch P O Box 44599 - 00100 GPO NAIROBI Barclays Bank of Kenya Limited Enterprise Road Branch P O Box 18060 - 00500 NAIROBI Kenya Commercial Bank Limited Industrial Area - 4003 P O Box 18031 - 00500 NAIROBI

NOTICE TO SHAREHOLDERS

LONGHORN KENYA LIMITED

NOTICE is hereby given that the year 2014 Annual General Meeting of the Company will be held at the Nairobi Club, Ngong Road, Nairobi on Friday, 21 November 2014 at 11.00 a.m. to transact the following business:-

ORDINARY BUSINESS

1. To table the proxies and confirm the presence of a quorum.

2. To read the notice convening the meeting.

3. To approve the minutes of the Annual General Meeting held on 15 November 2013.

4. To receive, consider and adopt the Financial Statements for the financial year ended 30 June 2014 together with the Chairman's Statement, and the Directors' and Auditors' reports thereon.

5. Dividend:-

   a. To note that an interim dividend of Kshs 0.80 per share in respect of the financial year ended 30 June 2014 was paid during the year.

   b. To approve the payment of a final dividend of Kshs 1.20 per share in respect of the financial year ended 30 June 2014 as recommended by the Directors.

The dividend will be payable on or before 20 February 2015 to the shareholders on the

Register of Members as at the close of business on Friday, 21 November 2014.

6. To re-elect Directors:-

   6.1 In accordance with the provisions of Article 96 of the Company's Articles of Association:-

   a. Mrs Jane W M Briggs retires by rotation at this meeting and does not offer herself for re-election.

   b. Centum Investment Company Limited retires by rotation at this meeting and, being eligible, offers itself for re-election.

   6.2 In accordance with Article 98(a) of the Company's Articles of Association, Mr Ali Hussein Kassim retires at this meeting and, being eligible, offers himself for re-election.

7. To approve the remuneration of the Directors as indicated in the Financial Statements for the financial year ended 30 June 2014.

8. To note that Messrs Deloitte and Touche, having expressed their willingness, continue in office in accordance with the provisions of Section 159(2) of the Companies Act (Cap. 486) and to authorise the Directors to fix their remuneration for the ensuing year.

SPECIAL BUSINESS

9. To consider and, if thought fit, to pass the following resolutions which will be proposed as Ordinary Resolutions:-

   9.1 Increase in Share Capital

   "That the Nominal Share Capital of the Company be increased from Kshs 60,000,000/- (Kenya Shillings Sixty Million) divided into 60,000,000 (Sixty Million) ordinary shares of Kshs 1/- each to Kshs 146,250,000/- (Kenya Shillings One Hundred Forty Six Million, Two Hundred and Fifty Thousand) by the creation of an additional 86,250,000 (Eighty Six Million Two Hundred and

Fifty Thousand) ordinary shares of Kshs 1/- to rank "pari passu" in all respects with the existing ordinary shares in the capital of the Company."

9.2 Bonus Issue

That subject to the passing of the resolution to increase its share capital, and subject to the Company receiving all regulatory approvals, it is desirable pursuant to Article 137 of the Company's Articles of Association to capitalize the sum of Kshs 87,750,000 (Kenya Shillings Eighty Seven Million Seven Hundred and Fifty Thousand) being part of the amount standing to the credit of the revenue reserves of the Company as at 30 June 2014, and accordingly that such sums be capitalized and that the Directors be and are hereby authorized and directed to appropriate such sum to the holders of ordinary shares registered at the close of business on a day to be fixed by Directors after receipt by the Company of the necessary consent from the relevant regulatory authorities, in proportion to the number of ordinary shares held by them respectively on such date and to apply such sum on behalf of such holders in paying up in full at par 87,750,000 (Eighty Seven Million Seven Hundred and Fifty Thousand) of the unissued ordinary shares in the capital of the Company, such shares be allotted, distributed and credited as fully paid up to and amongst such holders in the proportion of three new ordinary shares for every two ordinary shares then held, and that such new ordinary shares shall rank "pari passu" in all respects with the existing ordinary shares in the capital of the Company but shall not qualify for the final dividend payable in respect of the financial year ended 30 June 2014, and that the Directors be and are hereby authorized to generally do and effect all things required to give effect to this Resolution subject to the always to Company's Articles of Association."

9.3 Listing of Bonus Shares

"That subject to the Company receiving all regulatory approvals, an additional 87,750,000 (Eighty Seven Million Seven Hundred and Fifty Thousand) ordinary shares be and are hereby approved for listing at the Nairobi Securities Exchange."

10. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:-

    Change of the name of the Company

    "That the name of the Company be changed from "Longhorn Kenya Limited" to "Longhorn Publishers Limited."

11. Any other business of which due notice has been given.

BY ORDER OF THE BOARD

ENID MURIUKI (MRS)

COMPANY SECRETARY

Date: 15 October 2014

NOTE:

i. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company.
ii. To be valid, a form of proxy, which is provided with this report, must be duly completed by the member and must be lodged with the Company Secretary, P O Box 30029, 00100 Nairobi not later than forty eight hours before the time of holding the meeting.

CHAIRMAN'S STATEMENT

Dear shareholders,

It is with great pleasure that I present to you the highlights of the performance review of your company for the year ended 30 June 2014 and the future outlook. The period under review has been a year of significant progress for Longhorn based on our relentless pursuit for growth; the Company continued to deliver a strong performance, both operationally and financially.

The Business Environment

Africa remains an attractive market to foreign direct investment despite the challenging socio-political landscape affecting many nations in the continent. Insecurity, low purchasing power and reduced donor funding continued to negatively impact on specific sectors of the economies. Nevertheless, African governments continued to show commitment in funding education, with this sector receiving the highest allocation on average, across the national budgets in 2013/14.

Industry Overview

The publishing industry has undergone tremendous realignment in the region. Most multinationals have consolidated their operations and established regional offices in light of growing competition from local publishing firms. Others have closed their offices in Africa, leaving their business interests in the hands of distribution agencies.

The success of the Kenya Government debut Euro Bond for **Kshs 132 billion** (USD 1.5 billion) has provided a diversified source of investment finance away from traditional aid and concessional loans. This is also expected to ease pressure on domestic borrowing and lower interest rates. This will have a positive impact as the Company gears itself to utilize debt to finance its growth ventures in the short to medium range.

In the Eastern Africa bloc, e-learning, including laptops for children, building capacity of teachers and rolling out computer laboratories for pupils is redefining access to the book as has been traditionally known. Digital content remains the future of publishing and your Company has taken deliberate strides to avail such content in tablets, on the Amazon platform and other eBook stores through respectable partnerships. With over 250 titles readily converted and available in e.format, your Company remains the foremost leader on the digital content front, yet continually evolving to secure her future in the global arena.

Performance

The full year sales revenue results for the year ended 30 June 2014 are the highest ever for the Company at **Kshs. 1.396b** compared to the previous year's revenue of **Kshs. 1.033b**. This 35% growth was fueled by export sales to Malawi, Rwanda, Tanzania and Uganda on top of the local sales. Export sales stood at **Kshs. 457.906m**, or **36.5%** of the total revenue.

The Company recorded a consolidated operating profit of **Kshs. 94.9m**, making a marginal percent improvement compared to the previous year's profit of **Kshs. 93.9m**. This is attributable to heavy distribution costs borne by the Company in the export market, as well as a rise in printing costs. In mitigation, the Company has embarked on a grand strategy to grow volume in sales in the export market by providing quality and differentiated materials at all educational levels. We have boldly increased our product range in the subsidiaries to consolidate our brand positioning as well as grow parental buying to spread out our risks. The benefit of these ventures is expected to positively impact on sales growth and profitability.

Dividend

Subject to approval by shareholders, the Directors are glad to recommend a final dividend of **Kshs. 1.20** per share from the results of the year ended 30 June 2014, amounting to **Kshs. 70.2m**. The interim dividend paid during the year was **Kshs. 0.8**, amounting to **Kshs. 46.8m**. This totals to **Kshs. 2.00** per share, being the total dividend paid for the year amounting to **Kshs. 117m**, which is 150% of the dividend of **Kshs. 0.8** per share **(Kshs. 46.8m)** paid in the previous year ended June 2013.

The Directors further recommend a bonus issue of **three shares** for every two shares held subject to the receipt of the necessary shareholders and regulatory approvals. This will create extra new shares for trading at the NSE and will improve share availability.

Future Outlook

The Company has diversified into provision of both printed and digitally powered examinations to augment our offerings in revision content. Other key diversification projects are being rolled out to ensure sustainability of our growth agenda. The Company will continue with its regional expansion and business firm-up through acquisitions, diversification and organic growth avenues in order to achieve its vision of becoming the leading provider of learning materials in the African continent. To this end, our recent entry into the Zambian market bore fruit with approvals for all titles that were submitted in the government tender. We are also progressively developing instructional materials for Malawi as the new curriculum in this country is being implemented in phases.

We developed and launched *Uganda Certificate of Education (UCE)* revision books to free the Company from over-reliance on funds from the Government by growing parental buying. We have employed a similar strategy in Tanzania where we have released the Fundamental Series, a well-received course covering all secondary school subject areas for this territory. The Company has also recently acquired intellectual property rights from the author and proprietor of Apex Publications in its bid to enter the English medium schools market in Tanzania.

We are set to acquire a building in Kampala to serve as a permanent office block. We also plan to enhance our performance in Rwanda by establishing a subsidiary to oversee our business operations in that territory. We have revitalized the Boards in Uganda and Tanzania to ensure a regular oversight role to grow the subsidiaries' performance; with a strategy to cross-list for growth, brand localization and ownership. To this end, we will be seeking to register our business and trade name as Longhorn Publishers, rather than Longhorn Kenya Limited, for better regional appeal.

In the local market, we have continued to strengthen our revision series and released *Smart Score Encyclopedia* to satiate the demand for this category of products. We also revised the *Comprehensive Primary Schools Atlas* to refresh its appeal and update content to ensure that it remains the leading Atlas in the market.

The Directors are optimistic that the Company will continue in its growth momentum as strategy implementation ventures are rolled out within this and the coming financial year.

Join me also in congratulating Mr Ali Hussein Kassim, the Managing Director of 3Mice, who joined the Longhorn Board mid year, bringing with him immense strategic, marketing and IT acumen and experience.

We are indeed poised for greater heights in performance.

In conclusion, I wish on your behalf to appreciate the great contribution and commitment from the Board of Directors, Management and staff in ensuring that Longhorn remains a great and successful brand.

Our suppliers, authors, bankers, partners and all the other stakeholders also deserve commendation for their support, loyalty and for being the Company's brand ambassadors in their different spheres of influence and networks.

Thank you.

Hon. F.T.Nyammo, OGW, MBS — 25 September 2014

CHAIRMAN — NAIROBI

CORPORATE GOVERNANCE STATEMENT

The Board and Management of Longhorn Kenya Limited ("Longhorn" or "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 Code of Ethics in how we approach our work, business relationships, decisions and actions.

1. Principal Activity

Longhorn is a leading provider of learning materials in the Eastern Africa region with subsidiaries in Uganda and Tanzania, and operations in Rwanda, Malawi and Zambia. Longhorn's shares are listed on the Nairobi Securities Exchange.

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 internal 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 has continued 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 the effectiveness of the controls, and reports to the Board. The Internal Audit and 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 the results of 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.

- **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 Board of Longhorn is comprised of eight directors who include one Executive Director and seven Non-Executive Directors. Five of the Non-executive Directors are Independent Directors and they comprise more than one third of the Board as required under the Corporate Governance Guidelines.

  The Chairman of the Board is a Non-Executive Director. Longhorn has a policy to replicate a similar composition in the Board's of the subsidiaries with the discretion to invite additional directors to provide the required expertise and also take into account local participation.

8. 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.

9. 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 to fill in a casual vacancy during the year, he/she is presented to the shareholders at the next General Meeting following their appointment for re-election. Individuals are appointed to the Board after going through a thorough process to confirm that their skills set match the needs of the Company.

10. 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.

11. Directors Induction and Development

Upon appointment, directors are provided with information regarding their roles and responsibilities to various stakeholders, all pertinent information about the Company and its operations, as well as information on their statutory obligations particularly in view of the fact that the Company is a public listed entity . In addition to the induction information provided, opportunity for training in corporate governance as well as emerging trends that have an impact on the business of the Company is provided for all directors. The Board has initiated a Board Evaluation programme which appraises the individual directors, Committees and the Board as a whole annually.

12. Provision of Information to the Directors

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

13. Directors' Remuneration

The non-executive directors are remunerated for their services to the Board and Board Committee and the remuneration is disclosed under Note No. 8 to the financial statements (page 42). 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 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.

14. 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 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 are independent non-executive directors as required under the Corporate Governance Guidelines issued by the Capital Markets Authority. The Managing Director, the Finance Manager and the Internal Auditor are usually in attendance at meetings.

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

  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 Heads of Finance Manager, Heads of Sales Operations, Marketing & Communication and Publishing are 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); Musyoki Muli (Managing Director); Jane Wangui Muigai Briggs; Susan Nkirote Omanga; Raymond Nyamweya Ondieki; Ali Hussein Kassim.

- **Nomination and Governance Committee**

  The Nomination and Governance Committee (NGC) has four members, three of whom are independent non-executive directors. The Managing Director and the Finance Manager are usually 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; Raymond Nyamweya.

15. Directors Participation in Meetings

The table below shows the attendance at meetings during the year ended 30 June 2014:

	NAME	STATUS	BOD	ARC	OSC	NGC
1.	Francis Thombe Nyammo	Chairman BOD	3/4	N/A	N/A	N/A
2.	James Musyoki Muli	Managing Director	4/4	4/4	6/6	3/3
3.	Raymond Nyamweya Ondieki	Director and Chairman of ARC	4/4	4/4	5/6	2/3
4.	Jane Wangui Muigai Briggs	Director	3/4	2/4	5/6	0/3
5.	Susan Nkirote Omanga	Director	4/4	2/4	5/6	3/3
6.	Centum Investment Company Ltd.*	Director	4/4	4/4	6/6	2/3
7.	John Syekei	Director and Chairman of NGC	3/4	1/4	0/6	3/3
8.	Ali Hussein Kassim**	Director	1/4	-	2/6	-

BOD – Board of Directors; **ARC** – Audit and Risk Committee; **EC** – Executive Committee; **NGC** – Nomination and Governance Committee. **OSC** – Operations and Strategy Committee

*Job Kariru Muriuki - represents Centum Investment Company Limited (Chairman OSC).

** Ali Hussein Kassim was appointed with effect from 1st March 2014.

16. 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 52).

- **Top Ten Shareholders as at 30 June 2014**

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. Margaret Anguzuzu Mutiso	772,620	1.3
8. Halifax Capital Corporation Limited	745,420	1.3
9. Janet Wangare Njoroge	649,770	1.1
10. The Estate of The Late Ephantus M'mwiandi Mugiri	591,040	1.0
Others	10,918,220	18.7
Total Issued Shares	58,500,000	100
	=========	====

- **Distribution of Shareholders as at 30 June 2014**

	No. of Shareholders	No. of Shares	%
Less than 500	185	45,040	0.08
501 – 5,000	144	249,560	0.43
5,001 – 10,000	28	205,210	0.35
10,001 – 100,000	42	1,457,170	2.49
100,001 – 1,000,000	33	11,720,090	20.03
Above 1,000,000	6	44,822,930	76.62
Totals	438	58,500,000	100

- **Directors Holding Shares as at 30 June 2014**

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

Raymond Nyamweya
Director and Chair: Audit and Risk Committee

Susan N. Omanga
Director

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

John Syekei
Director and Chair:
Nomination & Governance

Job Muriuki
Director and Chair: Operations and Strategy:
(Representing Centum Investment Company Ltd)

Ali Hussein
Director

MANAGEMENT TEAM

Musyoki Muli
Managing Director

Beatrice Nugi
Head of Publishing

Emma Kerubo
Chief Human Resource & Admin. Officer

Joseph Gogo Nangah
Head of ICT Services

Geoffrey Gichuki
Head of Sales Operations

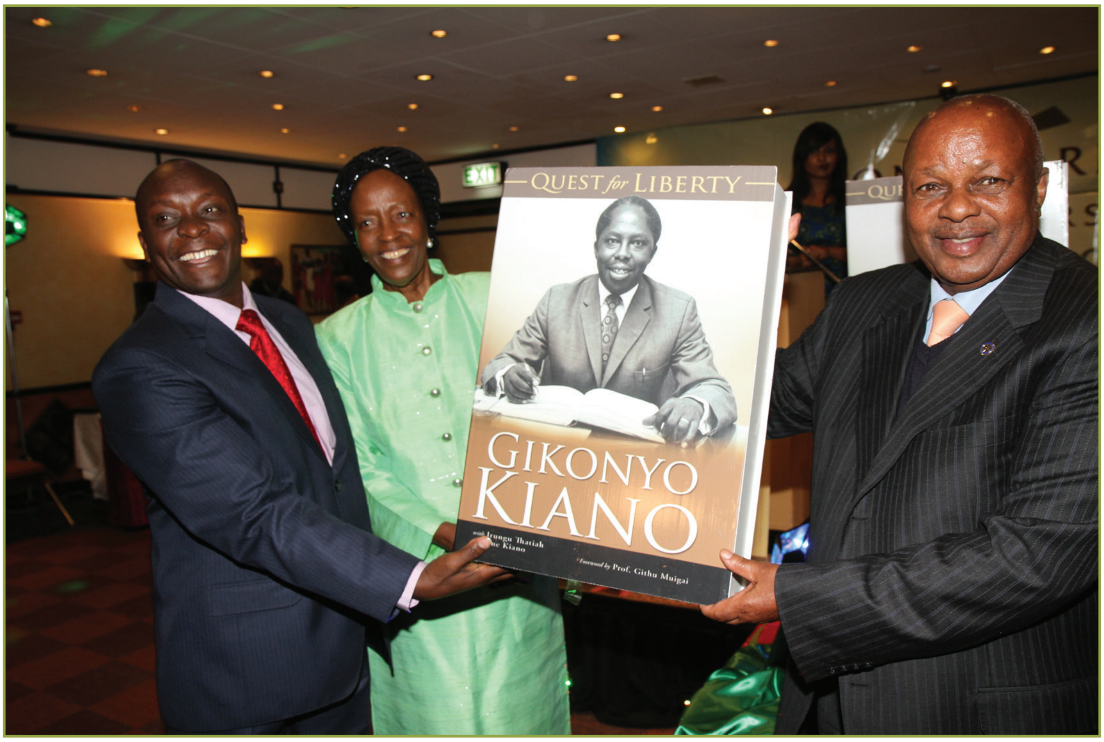
Daisy Rono
Head of Marketing & Communication

Nicholas Oloo:
Head of Finance & Strategy

Japheth Rotich
Chief Audit and Risk Officer

COMPANY HIGHLIGHTS

Chairman, Hon. F.T. Nyammo thanks Mr. Tonny Lusambu Mukasa - Assistant Commissioner for Education and Sports Uganda during the launch of the **UCE Revision Series** held in Kampala. Looking on is Musyoki Muli, Managing Director Longhorn Publishers.



Chairman Hon. F.T. Nyammo, Managing Director Musyoki Muli and author Mrs. Jane Kiano during the launch of **Quest for Liberty**, at the Nairobi Serena Hotel.

COMPANY HIGHLIGHTS

Longhorn staff at the annual Mater Heart Run 2014.

Managing Director Musyoki Muli answers questions from the press, during the release of financial results for the year 2013/2014.

Left to Right: MD Musyoki Muli, Chairman FT Nyammo, Saleh Shamsudin and Director Ali during the acquisition of Apex, Tanzania.

Longhorn staff Wonder Awuor with Makini School students during the 17th NIBF.

Ellymater Kahoya - Snr Deputy Principal Sec MOE, at the Longhorn stand during the 17th NIBF.

Longhorn sales team during the 2014 KESSHA conference held in Mombasa.

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 2014, which disclose state of financial 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	147,226
Taxation charge	(52,293)
Profit for the year	94,933

DIVIDENDS

An interim dividend of Ksh 0.80 per share, equivalent to Ksh 46,800,000 was paid in July 2014. The directors propose a final dividend of Sh1.20 per share (2013 – Sh 0.80) per share, equivalent to Sh 70,200,000 (2013 – Sh 46,800,000). This is subject to approval by the shareholders at the next Annual General Meeting (21st November 2014). Further, directors recommend a bonus issue of three shares for every two shares held subject to the receipt of the necessary shareholders and regulatory approvals.

DIRECTORS

The current board of directors is shown on page 11.

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

Secretary

Nairobi

25 September 2014

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.

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F T NYAMMO	M MULI
Chairman	Managing Director

25 September 2014

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 57, which comprise the consolidated and company statements of financial position as at 30 June 2014, 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 accompanying 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 2014 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 financial position (balance sheet) and the statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the Company's books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is Fredrick Okwiri – P/No 1699.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

25 September 2014

FINANCIAL STATEMENTS:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	2014	2013
		Sh'000	Sh'000
Turnover		1,396,834	1,033,295
Cost of sales		(717,561)	(562,214)
		________	________
Gross profit		679,273	471,081
Other operating income		5,539	6,771
Selling and distribution expenses		(209,580)	(80,810)
Administrative expenses		(307,685)	(233,992)
Interest income		776	159
Net foreign exchange losses	7	(21,097)	(11,882)
		________	________
Profit before taxation	8	147,226	151,327
Taxation charge	10(a)	(52,293)	(57,409)
		________	________
Profit for the year		94,933	93,918
		________	________
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial operations		321	27,363
		________	________
Total comprehensive income for the year		95,254	121,281
Earnings per share - basic and diluted	12	=======	=======
		1.62	1.61
		=======	=======

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
	NOTES	Sh'000	Sh'000
Sales		1,252,071	977,733
Cost of sales		(722,659)	(562,734)
Gross profit		529,412	414,999
Other operating income		5,315	6,646
Selling and distribution expenses		(157,807)	(68,262)
Administrative expenses		(272,108)	(208,310)
Interest income		776	159
Net foreign exchange losses	7	(12,029)	(225)
Profit before taxation	8	93,559	145,007
Taxation charge	10(a)	(26,320)	(58,925)
Profit for the year		67,239	86,082
Total comprehensive income for the year		67,239	86,082
		=======	=======

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	NOTES	2014 Sh'000	2013 Sh'000
ASSETS			
Non current assets	14(a)	165,085	169,908
Property and equipment	15(a)	7,169	9,423
Intangible assets	18	26,457	21,364
Deferred tax asset			
		198,711	200,695
Current assets			
Inventories	19	168,763	142,522
Trade and other receivables	20	233,754	215,849
Tax recoverable	10(c)	16,199	2,100
Cash and bank balances		130,104	123,853
		548,820	484,324
Total assets		747,531	685,019
		=======	=======
EQUITY AND LIABILITIES	21		
Capital and reserves			
Share capital		58,500	58,500
Share premium		5,039	5,039
Retained earnings		378,050	329,917
Translation deficit		(7,269)	(7,590)
Equity attributable to owners of the company		434,320	385,866
Current liabilities			
Trade and other payables	22	310,011	259,716
Tax payable	10(c)	3,200	39,437
		313,211	299,153
Total equity and liabilities		747,531	685,019
		=======	=======

The financial statements on pages 19 to 57 were approved and authorised for issue by the board of directors on 25 September 2014 and were signed on its behalf by

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F T NYAMMO M MULI

Chairman Managing Director

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	NOTES	2014 Sh'000	2013 Sh'000
ASSETS			
Non current assets			
Property and equipment	14(b)	160,650	166,296
Intangible assets	15(b)	3,644	4,326
Investment in subsidiaries	17	25,440	25,440
Deferred tax asset	18	23,415	14,594
		213,149	210,656
Current assets			
Inventories	19	154,089	134,196
Trade and other receivables	20	167,454	184,282
Due from subsidiary companies	16(a)	66,383	55,623
Tax recoverable	10(c)	16,199	
Cash and bank balances		100,832	45,825
		504,957	419,926
Total assets		718,106	630,582
EQUITY AND LIABILITIES		=======	=======
Capital and reserves			
Share capital	21	58,500	58,500
Share premium		5,039	5,039
Retained earnings		313,728	293,289
Shareholders' funds		377,267	356,828
Current liabilities			
Trade and other payables	22	301,146	211,417
Due to subsidiary companies	16(b)	39,693	24,030
Tax payable	10(c)		38,307
		340,839	273,754
Total equity and liabilities		718,106	630,582
		=======	=======

The financial statements on pages 19 to 57 were approved and authorised for issue by the board of directors on 25 September 2014 and were signed on its behalf by

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F T NYAMMO
Chairman

M MULI
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Share capital Sh '000	Share premium Sh '000	Retained earnings Sh '000	Translation deficit	Total Sh'000
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
	======	======	======	======	======
At 1 July 2013	58,500	5,039	329,917	(7,590)	385,866
Profit for the year	-	-	94,933	-	94,933
Other comprehensive loss for the year	-	-	-	321	321
Total comprehensive income for the year	-	-	94,933	321	95,254
2013 Dividends paid	-	-	(46,800)	-	(46,800)
At 30 June 2014	58,500	5,039	378,050	(7,269)	434,320
	======	======	======	======	======

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

	Share capital Sh '000	Share premium Sh '000	Retained earnings Sh '000	Total Sh'000
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
	======	======	======	======
At 1 July 2013	58,500	5,039	293,289	356,828
Total comprehensive income for the year	-	-	67,239	67,239
2013 Dividends paid	-	-	(46,800)	(46,800)
At 30 June 2014	58,500	5,039	313,728	377,267
	======	======	======	=======

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	2014 Sh'000	2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23(a)	168,166	121,814
Taxation paid	10(c)	(99,189)	(11,037)
Net cash generated from operating activities		68,977	110,777
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14(a)	(9,383)	(12,561)
Purchase of intangible assets	15(a)	(1,711)	(1,311)
Proceeds of disposal of property, and equipment		2,437	6,560
Net cash used in investing activities		(8,657)	(7,312)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings repaid	23(b)	-	(9,600)
Dividends paid	-	(46,800)	
Net cash used in financing activities		(46,800)	(9,600)
INCREASE IN CASH AND CASH EQUIVALENTS		13,520	93,865
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		123,853	2,595
Exchange adjustments		(7,269)	27,393
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23(c)	130,104	123,853

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

		NOTES	2014 Sh'000	2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations		23(d)	198,314	70,358
Taxation paid		10(c)	(89,647)	(7,370)
Net cash generated from operating activities			108,667	62,988
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment		14(b)	(7,293)	(10,203)
Purchase of intangible assets		15(b)	(1,711)	(1,311)
Proceeds of disposal of property, plant and equipment			2,144	6,437
Net cash used in investing activities			(6,860)	(5,077)
CASH FLOWS FROM FINANCING ACTIVITIES				
Bank borrowings repaid	-	23(e)	-	(9,600)
Dividends paid	-		(46,800)	-
Net cash used in financing activities			(46,800)	(9,600)
INCREASE IN CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			55,007	48,311
		23(f)	45,825	(2,486)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			100,832	45,825
			=======	=======

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. The parent company is domiciled in Kenya and is incorporated under the Kenyan Companies Act as a limited liability company. The Company's shares are listed on the Nairobi Securities Exchange (NSE). The company 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 and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2014

Annual improvements to IFRS

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

IFRS 13 Fair Value Measurement	IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes additional disclosure requirements IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the group has not made any new disclosures required by IFRS 13 for the 2012 comparative period The application of IFRS 13 has not had any impact on the amounts recognised in the financial statements as the Group does not have assets and liabilities at fair value

IFRS 13 Fair Value Measurement	The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)	The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. This amendment did not have any impact on the Group's financial statements as the Group did not restate its prior period financial statements

ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2014*

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 9 (2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 19 Defined Benefit Plans :Employee Contributions	1 July 2014
Annual Improvements 2010-2012 Cycle	1 July 2014
Annual Improvements 2011-2013 Cycle	1 July 2014
Amendments to IFRS 11.Accounting for Acquisitions of Interests in Joint Operations	1 January 2014
Amendments to IAS 16 and IAS 38.Clarification of Acceptable Methods of Depreciation and Amortisation	1January 2016
Amendments to IAS 16 and IAS 41 Agriculture :Bearer Plants	1 January 2016

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014*

- **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.

  Key requirements of IFRS 9:

  All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required 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. 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 is presented in profit or loss.

The directors of the Group anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

- **IFRS 14, Regulatory Deferral Accounts**

  IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

  Note: Entities which are eligible to apply IFRS 14 are not required to do so, and so can chose to apply only the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards when first applying IFRSs. However, an entity that elects to apply IFRS 14 in its first IFRS financial statements must continue to apply it in subsequent financial statements. IFRS 14 cannot be applied by entities that have already adopted IFRSs.

  The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements

(iv) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)

- **IFRS 15, Revenue from Contracts with Customers**

  IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

  The five steps in the model are as follows:

  - Identify the contract with the customer
  - Identify the performance obligations in the contract
  - Determine the transaction price
  - Allocate the transaction price to the performance obligations in the contracts
  - Recognise revenue when (or as) the entity satisfies a performance obligation.

  Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

  The directors of the Group do not anticipate that the application of the standard will have a significant impact on the Group's financial statements

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

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

  The directors of the Group do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's financial statements as the Group does not have any significant financial assets and financial liabilities that qualify for the offset.

- **Recoverable Amount Disclosures for Non-Financial Assets**

  (Amendments to IAS 36)

  Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

  The directors of the group do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Group's financial statements as the Group does not have any significant financial assets and financial liabilities that qualify for the offset.

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)

- **Novation of Derivatives and Continuation of Hedge Accounting**

  (Amendments to IAS 39)

  Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

  The directors of the Group do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the group's financial statements

- **Annual Improvements 2010-2012 Cycle**

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

- **Annual Improvements 2011-2013 Cycle**

  Makes amendments to the following standards:

  - *IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).*
  - *IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.*
  - *IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.*
  - *IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.*

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2014 (Continued)

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the Group do not anticipate that the application of these improvements to IFRSs will have a significant impact on the Group's financial statements

(iv) Early adoption of standards

The Group did not early-adopt new or amended standards in 2014.

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. 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%

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.

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 Group 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 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.

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.

COMPANY	Longhorn Tanzania Ltd TShs Sh'000	Longhorn Uganda Ltd Ushs Sh'000
30 June 2014		
Assets	54,481	-
Due from subsidiary companies	=======	=======
Liabilities		
Due to subsidiary companies	8,950	18,841
	=======	=======
30 June 2013		
Assets		
Due from subsidiary companies	50,837	4,786
	======	======
Liabilities		
Due to subsidiary companies	138	23,892

At 30 June 2014, 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 1,432,750 (2013: Shs 1,579,650) 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 (2013 – Sh Nil) increase/decrease respectively in profit before taxation.

An increase/decrease of 5% on average borrowing rates would have resulted in an increase/decrease in profit before taxation of Sh Nil (2013: Sh Nil).

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 2014 is made up as follows:

	Fully performing Sh'000	**Past due** Sh'000	**Impaired** Sh'000	**Total** Sh'000
30 June 2014				
Trade receivables	95,021	119,828	57,981	272,830
Bank balances	127,332	-	-	127,332
	222,353	119,828	57,981	400,162
	=======	=======	=======	=======

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

	Fully performing Sh'000	**Past due** Sh'000	**Impaired** Sh'000	**Total** 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
	=======	=======	=======	=======

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

Age in Days	2014 Shs'000	2013 Shs'000
120+ days	119,828	9,600
	======	======

COMPANY

The amount that best represents the Company's maximum exposure to credit risk as at 30 June 2014 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
30 June 2014				
Trade receivables	86,129	68,887	39,808	194,824
Bank balances	98,065	-	-	98,065
	184,194	68,887	39,808	292,889
	=======	=======	=======	=======

The amount that best represents the Group's maximum exposure to credit risk as at 30 June 2013 was 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
	=======	=======	=======	=======

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;

	2014	2013
Age in Days	Shs'000	Shs'000
120+ days	68,887	7,920
	======	======

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.

GROUP	Less than1 month Sh'000	Between 1 – 3 months Sh'000	Over 3 months Sh'000	Total Sh'000
At 30 June 2014				
Financial liabilities				
Trade payables	100,747	105,927	103,337	310,011
	======	======	======	======
At 30 June 2013				
Financial liabilities				
Trade payables	23,980	47,638	33,235	104,853
	======	======	======	======

COMPANY	Less than1 month Sh'000	Between 1 – 3 months Sh'000	Over 3 months Sh'000	Total Sh'000
At 30 June 2014				
Financial liabilities				
Trade payables	81,651	23,732	26,620	132,003
	======	======	======	======
At 30 June 2013				
Financial liabilities				
Trade payables	23,980	47,638	33,235	104,853
	======	======	======	======

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.

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 17.

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	
	2014	2013
	Sh'000	Sh'000
Share capital	58,500	58,500
Share premium	5,039	5,039
Retained earnings	378,050	329,917
Translation deficit	(7,269)	(7,590)
Total equity	434,320	385,866
Cash and cash equivalents	130,104	123,853
Less: Borrowings	-	-
	130,104	123,853
Gearing ratio	Nil	Nil

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. 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 2014.

	Kenya	Tanzania	Uganda	Eliminated on consolidation	Total
Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
30 June 2014					
Sales & Other income	1,258,162	71,314	233,710	(160,037)	1,403,149
Cost of sales and other expenditure	(1,164,603)	(95,197)	(156,160)	160,037	(1,255,923)
Profit before taxation	93,559	(23,883)	77,550	-	147,226
Assets	718,106	48,320	100,719	(119,614)	747,531
Liabilities	340,839	58,503	8,043	(94,174)	313,211
Capital Expenditure	9,004	621	1,469	-	11,094

	Kenya	Tanzania	Uganda	Eliminated on consolidation	Total
Sh'000	Sh'000	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	273,754	55,547	44,719	(74,867)	299,153
Capital Expenditure	11,514	18	2,340	-	13,872

7 NET FOREIGN EXCHANGE LOSSES

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Realised exchange (loss)/gain	(5,257)	281	82	(37)
Unrealised exchange loss	(15,840)	(12,163)	(12,111)	(188)
	(21,097)	(11,882)	(12,029)	(225)
	=======	=======	=======	=======

8 PROFIT BEFORE TAXATION

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
The profit before taxation is arrived at after charging/(crediting):				
Depreciation	14,011	12,989	12,773	12,057
Amortisation of intangible assets	3,984	4,128	2,393	2,377
Directors' emoluments - fees	3,681	3,590	2,886	3,082
Auditors' remuneration	3,120	2,877	2,035	1,850
Staff costs (Note 9)	197,449	152,989	184,226	143,251
Provision/(recovery) for bad debts	19,033	(2,234)	8,036	(5,877)
Gain/(loss) on disposal of property and equipment	(2,194)	(2,803)	(1,978)	(2,860)
	=======	=======	=======	=======

9 STAFF COSTS

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Salaries and wages	131,140	108,169	120,981	100,178
Pension costs	4,843	4,654	4,843	4,654
Leave pay	3,432	8,183	3,422	8,314
Staff gratuity	29,910	12,807	28,689	12,363
Social security costs (NSSF)	1,365	1,010	348	271
Staff welfare and training expenses	26,509	17,765	25,943	17,471
Staff medical expenses	250	401	-	-
	197,449	152,989	184,226	143,251
	=======	======	======	======

10 TAXATION

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
(a) Taxation charge				
Current taxation:				
Tax based on the taxable profit for the year				
-current year	57,218	47,828	35,141	46,691
-prior year over provision	-	(244)	-	-
Deferred taxation (Note 18):				
-current year credit	(14,027)	(9,304)	(8,821)	(3,942)
-prior year over provision	2,682	15,936	-	16,176
-Deferred tax asset not recognised	6,420	3,193	-	-
	(4,925)	9,825	(8,821)	12,234
Taxation charge	52,293	57,409	26,320	58,925
	======	======	======	======

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
(b) Reconciliation of expected tax based on profit before taxation to tax charge				
Accounting profit before taxation	147,226	151,327	93,559	145,007
	======	======	======	======
Tax at the applicable rate	34,812	30,898	18,712	29,001
Tax effect of expenses not deductible for tax purposes	8,379	7,382	7,608	13,748
Prior year over provision – deferred tax	2,682	15,936	-	16,176
Deferred tax asset not recognised	6,420	3,193	-	-
Taxation charge	52,293	57,409	26,320	58,925
	======	======	======	======

	GROUP		COMPANY	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
(c) Tax movement				
At beginning of the year:				
Payable	39,437	1,982	38,307	-
Recoverable	(2,100)	(1,014)	-	(1,014)
	37,337	968	38,307	(1,014)
Taxation charge	57,218	47,828	35,141	46,691
Taxation paid	(99,189)	(11,037)	(89,647)	(7,370)
Prior year overprovision	-	(244)	-	-
Exchange adjustment	(85)	(178)	-	-
Withholding tax paid	(8,280)	-	-	-
At end of the year				
Net tax payable/(recoverable)	(12,999)	37,337	(16,199)	38,307
	=======	=======	=======	=======
Comprising:				
Payable	3,200	39,437	-	38,307
Recoverable	(16,199)	(2,100)	(16,199)	-
	(12,999)	37,337	(16,199)	38,307
	=======	=======	=======	=======

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A profit after taxation of Sh 67,239, 000 (2013 –Sh 86,082,000) has been dealt with in the financial statements of Longhorn Kenya Limited.

12 EARNINGS PER SHARE – BASIC AND DILUTED

	2014	2013
Profit/(loss) attributable to ordinary shareholders (Sh'000)	94,933	93,918
	========	========
Weighted average number of ordinary shares in issue (Note 21)	58,500,000	58,500,000
	========	========
Basic and diluted earnings per share (Sh)	1.62	1.61
	========	========

13 DIVIDENDS PER SHARE

The directors propose a final dividend of Sh 1.20 (2013 – Sh 0.80) per share, equivalent to Sh 70,200,000 (2013 – Sh 46,800,000).

14 (A) PROPERTY AND EQUIPMENT- GROUP

	Motor Leasehold property Sh'000	vehicles, furniture and equipment Sh'000	Total Sh'000
COST			
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
At 1 July 2013	157,104	72,558	229,662
Additions	-	9,383	9,383
Disposals	-	(8,085)	(8,085)
Exchange adjustment	-	106	106
At 30 June 2014	157,104	73,962	231,066
DEPRECIATION			
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
At 1 July 2013	13,665	46,089	59,754
Charge for the year	3,884	10,127	14,011
Eliminated on disposal	-	(7,842)	(7,842)
Exchange adjustment	-	58	58
At 30 June 2014	17,549	48,432	65,981
NET BOOK VALUE			
At 30 June 2014	139,555	25,530	165,085
	======	======	======
At 30 June 2013	143,439	26,469	169,908
	======	======	======

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.

14 (B) PROPERTY AND EQUIPMENT- COMPANY

	Motor Leasehold property Sh'000	vehicles, furniture and equipment Sh'000	Total Sh'000
COST			
At 1 July 2013	150,961	66,459	217,420
Additions	4,535	5,668	10,203
Disposals	-	(5,157)	(5,157)
At 30 June 2014	155,496	66,970	222,466
At 1 July 2013	155,496	66,970	222,466
Additions	-	7,293	7,293
Disposals	-	(6,579)	(6,579)
At 30 June 2014	155,496	67,684	223,180
DEPRECIATION			
At 1 July 2011	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
At 1 July 2013	13,155	43,015	56,170
Charge for the year	3,884	8,889	12,773
Eliminated on disposal	-	(6,413)	(6,413)
At 30 June 2014	17,039	45,491	62,530
NETBOOK VALUE			
At June 2014	138,457	22,193	160,650
	======	======	======
At 30 June 2013	142,341	23,955	166,296
	======	======	======

Included in motor vehicles, furniture and equipment are fully depreciated assets with a cost of Sh 26,195,806 (2013 – Sh 30,146,189). The normal annual depreciation charge on these assets would have been Sh 6,757,161 (2013 – Sh 8,516,290).

The historical cost of the leasehold land amounts to 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.

15 (A) INTANGIBLE ASSETS –GROUP

	Computer software Sh'000	Intellectual property Sh'000	Total Sh'000
COST			
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
At 1 July 2013	12,316	41,954	54,270
Additions	1,711	-	1,711
Exchange adjustment	14	24	38
At 30 June 2014	14,041	41,978	56,019
AMORTISATION			
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
At 1 July 2013	7,764	37,083	44,847
Charge for the year	2,550	1,434	3,984
Exchange adjustment	11	8	19
At 30 June 2014	10,325	38,525	48,850
NET BOOK VALUE			
30 June 2014	3,716	3,453	7,169
30 June 2013	4,552	4,871	9,423

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.

15 (B) INTANGIBLE ASSETS –COMPANY

	Computer software Sh'000	Intellectual property Sh'000	Total Sh'000
COST			
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
At 1 July 2013	11,375	34,840	46,215
Additions	1,711	-	1,711
At 30 June 2014	13,086	34,840	47,926
AMORTISATION			
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
At 1 July 2013	7,049	34,840	41,889
Charge for the year	2,393	-	2,393
At 30 June 2014	9,442	34,840	44,282
NET BOOK VALUE			
30 June 2014	3,644	-	3,644
30 June 2013	4,326	-	4,326

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.

	2014	2013
	Sh'000	Sh'000

16 RELATED PARTY BALANCES AND TRANSACTIONS

(a) Due from subsidiaries – Company

	2014 Sh'000	2013 Sh'000
Due on trading account:		
Longhorn Publishers (Uganda) Limited	11,902	4,786
Longhorn Publishers (Tanzania) Limited	54,481	50,837
	66,383	55,623
	=======	=======

(b) Due to subsidiaries – Company

	2014 Sh'000	2013 Sh'000
Longhorn (Uganda) Limited	30,743	23,892
Longhorn Publishers (Tanzania) Limited	8,950	138
	39,693	24,030
	=======	=======

(c) Compensation of key management personnel

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Salaries and other benefits	37,337	30,701	34,200	29,547
	======	======	======	======
Directors' remuneration:				
Fees for services as directors	3,681	3,590	2,886	3,082
	3,681	3,590	2,886	3,082
	=======	=======	=======	=======

17 INVESTMENT IN SUBSIDIARIES - COMPANY

	2014	2013
	Sh'000	Sh'000
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.

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	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Liabilities				
Accelerated capital allowances	13,324	12,361	12,618	11,806
Assets				
Losses available for future tax relief	(103)	(851)	-	-
Unrealised exchange losses	(4,864)	(4,626)	(2,422)	(38)
Provisions	(41,234)	(31,109)	-	(26,362)
Deferred tax asset not recognised	6,420	2,861	(33,611)	-
	(39,781)	(33,725)	(36,033)	(26,400)
Net deferred tax asset	(26,457)	(21,364)	(23,415)	(14,594)
The movement on the deferred tax account is as follows:				
At beginning of year	(21,364)	(31,291)	(14,594)	(26,828)
Income statement credit (note 10 (a))	(14,027)	(9,304)	(8,821)	(3,942)
Prior year over provision	2,682	15,936	-	16,176
Deferred tax asset not recognised	6,420	3,193	-	-
Exchange adjustment	(168)	102	-	-
NET DEFERRED TAX ASSET	(26,457)	(21,364)	(23,415)	(14,594)

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.

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000

19 INVENTORIES

Books	213,426	196,976	192,422	182,157
Publications in progress	63,883	42,763	63,883	42,763
	277,309	239,739	256,305	224,920
Provision for obsolete inventories	(108,546)	(97,217)	(102,216)	(90,724)
	168,763	142,522	154,089	134,196
	=======	=======	=======	======

20 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Trade receivables	272,830	207,371	194,824	174,699
Less; Provision for bad and doubtful receivables	(57,981)	(38,810)	(39,808)	(31,592)
	214,849	168,561	155,016	143,107
Staff receivables	9,888	23,976	7,593	18,984
VAT (payable)/ recoverable	(5,028)	13,056	(5,027)	13,056
Other receivables	11,658	10,256	9,872	9,135
Withholding tax receivable	2,387	-	-	-
	233,754	215,849	167,454	184,282
	=======	=======	=======	=======

21 SHARE CAPITAL

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Authorised:				
60,000,000 ordinary shares of Sh 1 each (2013: 60,000,000 ordinary shares of Sh 1 each	60,000	60,000	60,000	60,000
	======	======	======	======
Issued and fully paid:				
58,500,000 ordinary shares of Sh 1 each	58,500	58,500	58,500	58,500
	======	======	======	======

22 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Trade payables	132,004	104,853	132,004	104,853
Royalty provisions	95,778	71,716	95,778	71,716
Accruals	11,028	47,620	5,830	4,263
Leave pay provision	3,818	6,076	3,458	5,497
Other payables	44,837	24,570	42,027	21,094
Gratuity provision	22,546	510	22,049	-
Staff bonus provision	-	4,371	-	3,994
	310,011	259,716	301,146	211,417
	=======	=======	=======	=======

23 NOTES TO THE STATEMENT OF CASH FLOWS

	2014	2013
	Sh'000	Sh'000
GROUP		
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	147,226	151,327
Depreciation (note 14(a))	14,011	12,989
Amortisation of intangible assets (note 15(a))	3,984	4,128
Profit on disposal of equipment	(2,194)	(2,902)
Net exchange loss	21,097	-
Provisions	(22,107)	-
Working capital changes:		
(Increase) /decrease in inventories	(26,241)	132,516
Increase in trade and other receivables	(17,905)	(59,187)
Increase/(decrease) in trade and other payables	50,295	(117,057)
Cash generated from operations	168,166	121,814
	=======	=======
(b) Borrowings	-	9,600
Balance as at beginning of year	-	(9,600)
Borrowings repaid		
Balance as at end of year	-	-
	========	========
(c) Cash and cash equivalents		
Cash and bank balances	130,104	123,853
	=======	=======
COMPANY		
(d) Reconciliation of profit/ before taxation to cash generated from operations		
Profit before taxation	93,559	145,007
Depreciation (note 14(b))	12,773	12,057
Amortisation of intangible assets (note 15(b))	2,393	2,377

	2014	2013
	Sh'000	Sh'000
Profit on disposal of equipment	1,978	(2,860)
Net exchange loss	12,111	-
Provisions	48,915	-
Working capital changes:		
(Increase)/decrease in inventories	(19,893)	129,617
Increase in trade and other receivables	(16,828)	(69,641)
Increase/ (decrease) in trade and other payables	89,729	(134,108)
Movement in related party balances	(26,423)	(12,091)
Cash generated from operations	198,314	70,358
	=======	=======
(e) Borrowings		
Balance as at beginning of year	-	9,600
Borrowings repaid	-	(9,600)
Balance as at end of year		
	=======	=======
(f) Cash and cash equivalents		
Cash and bank balances	100,832	45,825
	=======	=======

24 CAPITAL COMMITMENTS

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

	2014	2013
	Sh'000	Sh'000
Authorised but not contracted for	-	92,097
	=======	=======

25 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.

26 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 4,843,000 (2013 - Sh 4,654,000) 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 2014, the Group contributed Sh 1,365,000 (2013 – Sh 1,010,000) to the statutory schemes.

27 INCORPORATION

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

28 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 2014

	2014	2013
	Sh	Sh
Sales	1,252,071	977,733
Cost of sales	(722,659)	(562,734)
	______	______
Gross profit	529,412	414,999
	=======	=======
Other operating income (appendix ii)	5,315	6,646
Selling and distribution costs (appendix ii)	(157,807)	(68,262)
Administrative expenses (appendix ii)	(272,108)	(208,310)
Interest income	776	159
Net foreign exchange losses (appendix ii)	(12,029)	(225)
	______	______
Profit before taxation	93,559	145,007
	=======	=======
OTHER OPERATING INCOME		
Sundry income	3,337	3,786
Gain on disposal of motor vehicles and equipment	1,978	2,860
	______	______
	5,315	6,646
	=======	=======
SELLING AND DISTRIBUTION EXPENSES		
Advertising and sales promotion	60,449	32,954
Freight and postage	81,893	27,032
Travel and entertainment	15,465	8,276
	______	______
	157,807	68,262
	=======	=======

	2014	2013
	Sh'000	Sh'000
ADMINISTRATIVE EXPENSES		
Staff expenses	184,226	143,251
Telephone and stationery	10,185	7,350
Motor vehicle expenses	8,650	6,148
Depreciation	12,773	12,057
Professional fees	6,276	8,692
Insurance	4,527	4,343
Bank charges	9,772	4,549
Amortisation of intangible assets	2,393	2,377
Directors' fees	2,886	3,082
Repairs and maintenance	3,538	4,679
Rates, light and water	3,633	3,397
Auditors remuneration	2,035	1,850
General administration	12,143	11,636
Bad debt provision/write back	8,036	(5,877)
Donations and subscriptions	1,035	776
	272,108	208,310
	=======	=======
NET FOREIGN EXCHANGE LOSSES		
Realised exchange losses	82	(37)
Unrealised exchange losses	(12,111)	(188)
	(12,029)	(225)
	=======	=======

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, as 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, 21 November 2014 and at any adjournment thereof.

As witness my/our hand this day of 2014

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.