ANNUAL REPORT & FINANCIAL STATEMENTS 2016

LONGHORN
PUBLISHERS LIMITED
expanding minds

BUSINESS OVERVIEW
REPORTS AND FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
STATEMENT OF DIRECTORS' RESPONSIBILITIES
REPORT OF THE INDEPENDENT AUDITOR
FINANCIAL STATEMENTS

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Chapter 01

Business Overview

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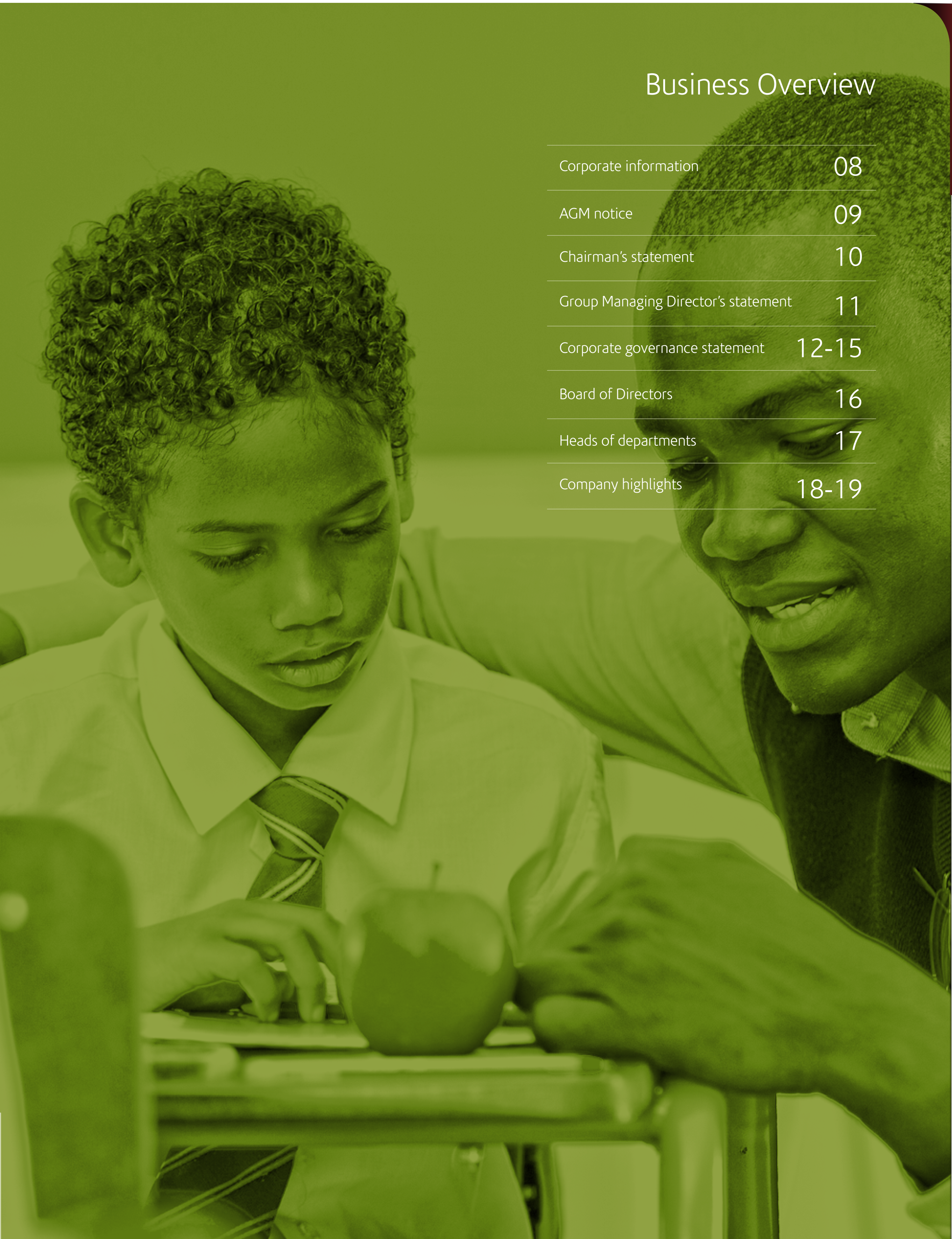


CORPORATE INFORMATION

DIRECTORS	F.T. Nyammo (Mr) - *Chairman* S Ngigi (Mr) - *Group Managing Director* R Nyamweya (Mr) S J Ruto (Dr) T Kwaka-Sumba (Mrs) S Omanga (Mrs) A H Kassim (Mr) M Githu (Mr) Centum Investment Company Limited – represented by J K Muriuki
SECRETARY	Enid Muriuki NewDay Consulting Certified Public Secretary (Kenya) 6th Floor Wing A, West End Towers Waiyaki Way P.O. Box 49382-00100 NAIROBI
REGISTERED OFFICE	LR No. 209/5604 Funzi Road, Industrial Area P.O. Box 18033 - 00500 NAIROBI
AUDITORS	PricewaterhouseCoopers PwC Tower, Waiyaki Way/Chiromo Road, P.O. Box 43963-00100 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 20143 - 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 Sidian Bank Head Offices K-Rep Centre, Wood Avenue, Kilimani, P.O. Box 25363-00603 NAIROBI

TO ALL SHAREHOLDERS

NOTICE is hereby given that the year 2016 Annual General Meeting of the Company will be held at the Hilton Hotel, Mama Ngina Street, Nairobi on Friday 28th October 2016 at 11.00 am 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 21st December 2015.

4. To receive, consider and adopt the Financial Statements for the financial year ended 30th June 2016 together with the Chairman's Statement, and the Directors' and Auditors' reports thereon.
5. To approve the payment of a first and final dividend of Kshs 0.35 per share in respect of the financial year ended 30th June 2016 as recommended by the Directors.
   The dividend will be payable on or before 27th January 2017 to the shareholders on the Register of Members as at the close of business on 30th September 2016.

6. To re-elect Directors:

   6.1 Hon. Francis Thombe Nyammo retires by rotation at this meeting in accordance with the provisions of Article 96 of the Company's Articles of Association, and further pursuant to Clause 2.5 of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015. Notice has been received of the intention to propose the following Resolution as an Ordinary Resolution at the Annual General meeting:
   "That Hon. Francis Thombe Nyammo, being over 70 years, be and is hereby re-elected a Director of the Company."

   6.2 Mr Ali Hussein Kassim retires by rotation at this meeting in accordance with the provisions of Article 96 of the Company's Articles of Association and, being eligible, offers himself for re-election.

   6.3 Centum Investment Company Limited retires at this meeting in accordance with the provisions of Article 96 of the Company's Articles of Association and, being eligible, offers itself for re-election.

7. To re-appoint Messrs PricewaterhouseCoopers as auditors by virtue of Section 721 (2) of the Companies Act, 2015 and to authorise the Directors to fix the auditor's remuneration for the ensuing financial year.

SPECIAL BUSINESS

8. Acquisition of 92% shareholding in LawAfrica Publishing Limited.
   To consider and, if thought appropriate, to pass the following resolution as a Special Resolution:-

   "That subject to the fulfilment of several conditions, including receipt of all the required regulatory approvals, the acquisition of 92% shareholding in LawAfrica Publishing Limited be and is hereby approved."

9. Sale of property.
   To consider and, if thought appropriate, to pass the following resolutions as special resolutions:-

   9.1 "THAT subject to the company complying with all relevant laws and regulations, the shareholders of the company do hereby approve and authorise the sale, on the terms and conditions to be set out in an agreement for sale, the proposed sale of all that property known as LR 209/5604 and belonging to the company."

   9.2 "THAT the directors of the company are hereby authorised and directed to procure the drawing of, execute and deliver the aforementioned agreement, and to take all such steps and do all such things as may be necessary to effect the above resolution."

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

BY ORDER OF THE BOARD

ENID MURIUKI (MRS)
COMPANY SECRETARY

Date: 5th October 2016

NOTES:

(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. A form of proxy may be obtained from the Company's website www.longhornpublishers.com, or from the Share Registrars, Livingstone Registrars Limited, Deloitte Place, Waiyaki Way, Nairobi.

(ii). To be valid, a form of proxy must be duly completed by the member and must be lodged with Livingstone Registrars Limited, Deloitte Place, Waiyaki Way, P.O. Box 30029, 00100 Nairobi or at the offices of Longhorn Publishers Limited, Funzi Road, Industrial Area, P.O. Box 18033, 00500 Nairobi, not later than forty eight hours before the time of holding the meeting.

(iii). Pursuant to the provisions of Article 136 of the Company's Articles of Association, a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website (www.longhornpublishers.com) or from the Registered Office of the Company i.e. Longhorn Publishers Limited, Funzi Road, Industrial Area, Nairobi.

(iv). A Circular to the Shareholders in relation to Agenda Item No.8 may be viewed on and obtained from the Company's website (www.longhornpublishers.com) or from the Registered Office of the Company i.e. Longhorn Publishers Limited, Funzi Road, Industrial Area, Nairobi.

Hon. Francis Thombe Nyammo
Chairman (Non-executive, Non-independent)

> **"group sales have increased to more than Kshs 1.5 billion, an increase of 77 per cent compared to the 2014-2015 financial year. Pre-tax profit has also increased by 43 per cent to Kshs 139 million."**

Dear Members,

I am pleased to present to you the annual report and financial statements for the year ended 30th June 2016. This period saw Longhorn Publishers Limited continue transition to a fully-fledged, pan-African provider of innovative learning solutions. This has seen the business expand its operations, either through agency or distributor agreements, to the Democratic Republic of Congo, Ethiopia and Senegal. This makes your company uniquely placed to balance challenging market conditions in one region, with improvements in another.

Our expansion has been made possible by the successful Rights Issue, which was completed in April 2016. It saw Centum Investment Company take a majority stake in the business. Centum now owns 60.2 per cent of the business.

INDUSTRY OVERVIEW

The Kenyan publishing industry continues to experience some challenges, primarily because of piracy and taxation.

Kenya remains one of the few countries in the world that levies value added tax on books. This is putting a tax on education, which severely hampers the country's efforts of boosting the skills and education levels of its citizens. We, along with the Kenya Publishers Association, continue to lobby the government to reverse this decision.

Moreover, intellectual property theft continues to be a crime where the punishment does not fit the gravity of the offence. Regardless of the amount of work stolen, a pirate is only liable for a fine not exceeding Kshs 800,000. This is not a deterrent since a criminal must only have enough for the maximum fine and legal fees and they can continue their illicit activity without worry. More must be done to ensure piracy is treated with the seriousness it deserves.

The industry must also contend with future issues, such as the changes to the national curriculum, amendments to the purchase and distribution of books and other government policies.

FINANCIAL PERFORMANCE

Despite these challenges, group sales have increased to more than Kshs 1.5 billion, an increase of 77 per cent compared to the 2014-2015 financial year. Pre-tax profit has also increased by 43 per cent to Kshs 139 million.

This performance is attributed to growing export sales, improved local performance and uptake of school reference materials.

DIVIDEND

Subject to your approval, the Board of Directors is happy to recommend a dividend of Kshs 0.35 per share, totalling Kshs 95,354,000

FUTURE OUTLOOK

As we expand, we will continue serving the Kenyan market. This has been characterised by the unveiling of our digital products. This is a long-term strategic investment to safeguard our leadership position in the wider publishing industry. While the local digital market is still in its infancy, it continues to grow and we are working to be a significant part of that growth.

The company also continues to make strategic investments with like-minded businesses that increase our profitability. This year, we are planning to acquire a majority stake in LawAfrica Publishing Limited, the leading in legal publisher in the region. This will give us a stronger tertiary offering and dominant position in a growing market.

In conclusion, I would like to thank the Board of Directors, management and staff for continuing to work hard to grow Longhorn Publishers Limited and expand our reach. We are moving into this new financial year with optimism and vigour.

We thank you all.

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

Mr. Simon Ngigi
(Group Managing Director)

"we plan on taking a controlling interest in LawAfrica Publishing Limited, which will give us an automatic leadership position"

Dear Shareholders

The just concluded financial year has been interesting for Longhorn Publishers Limited and has epitomised our dynamic nature.

We have grown our footprint and have an established presence in Kenya, Uganda, Tanzania, Rwanda, Zambia, Malawi, Zimbabwe, the Democratic Republic of Congo, Ethiopia and Senegal. This expansion has been led by your management team analysing trends and understanding the nuances of all those markets. It has been made possible by Centum, our new majority shareholder.

Balancing our risk is the primary benefit of this pan-African approach. Downturns in some markets are balanced by improved sales in another region. This strategy has already been validated by the improved financial results announced as at 30th June 2016. Our long-term aim is to have an equal balance between local and export sales. We will therefore continue this expansion, in pursuit of our vision to be the number one provider of innovative learning solutions in Africa.

We are still active in Kenya. It remains our primary market and we have been refining our product offering to increase our market share. This includes unveiling our suite of digital learning products: we now have two Android applications, Kamusi Kuu ya Kiswahili and Kamusi Kuu ya Karne 21, available for download from the Google Play store, and have released the Longhorn eLearning and eBook Store platforms. We are boosting our efforts in this space to ensure we offer our customers the products they want, in the format they require and whenever they want to use them.

Furthermore, we plan on taking a controlling interest in LawAfrica Publishing Limited, which will give us an automatic leadership position in the regional legal market.

These investments are synergistic to the company because we can use them to scale up in different markets. For example, the infrastructure behind the digital products can be tailored to fit content sold in our Francophone and other Anglophone markets with little further investments required. Similarly, LawAfrica's unique intellectual property can be extended into our other markets with a high likelihood of success given our knowledge and resources already on ground.

We have also built relationships with county governments and signed memorandums of understanding that allow us to train and equip ECDE and VTC (formerly known as polytechnics) instructors. To this end, we recently launched the Meru County Comprehensive Social Studies book for Standard 4 pupils, and graduated 900 ECDE teachers, and 500 VTC managers and instructors from the county. This event was an illustration of our commitment to improving the education standards of all Kenyans and we will continue signing these agreements with county governments.

I therefore extend my deepest gratitude to our customers for continuing to entrust us to provide them with high quality products to aid their learning. To our shareholders, I thank you for your support and endorsement of our strategic direction. To our staff, I remain grateful for your continued support and hard work. We remain committed to championing education and delivering results to our stakeholders.

Kind regards.

Mr. Simon Ngigi
Group Managing Director

1. Overview

Committed to the highest standard of corporate governance, the Board and Management of Longhorn Publishers Limited ("Longhorn" or "the Company") complies with all requirements of a publicly listed company, including clarity of financial reporting and shareholder accountability. At the heart of Longhorn's core values is integrity that dictates adherence to a strict Code of Ethics in how we approach our work, business relationships, decisions and actions.

2. Communication with shareholders

Longhorn Publishers Limited is committed to ensuring that shareholders, investors and the financial markets are provided with full and timely information about its performance. This is achieved through the release of its half-year and annual results in the local press, distribution of annual reports and holding of investor briefings as appropriate. The Annual General Meeting provides a useful opportunity for shareholder engagement and, in particular, for the Chairman and the Group Managing Director to explain the Company's progress and receive and answer questions from investors.

3. Principal activity

Longhorn is a leading provider of innovative learning materials and solutions in the East and Central Africa region. The Company has subsidiaries in Uganda, Tanzania and Rwanda, and operations in Malawi, Zambia, Ethiopia, the Democratic Republic of Congo and Senegal. Longhorn Publishers Ltd's shares are listed on the Nairobi Securities Exchange.

4. 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.

5. 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 7th 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.

6. Composition of the Board

The Board of Longhorn is comprised of nine Directors who include one executive Director and eight 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. The Company has a policy to replicate a similar composition in the Boards of its subsidiaries with the discretion to invite additional directors to provide the required expertise and also take into account local participation.

7. Role of the Board

The responsibility of the Board is to hold the Company's long-term vision, set broad goals, plans and organisational decisions and actions of management. It ensures compliance with auditing and accounting standards, and is also tasked with the management of risk, through overseeing the implementation of adequate control systems. The Board provides the leadership necessary to meet its business objectives within the framework of its internal controls, while also discharging the Company's obligations to its shareholders.

8. Division of responsibilities

The division of the responsibilities between the Chairman and the Group Managing Director is 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 Group 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 Group Managing Director works with the Management Committee comprising the Departmental Heads to carry out the responsibility of strategy execution.

The roles of the Chairman and Group Managing Director are clearly separated, to ensure true accountability of management to shareholders through the Board, in parallel with equally clearly defined autonomy and authority of management in the day-to-day operation of the Company. Directors are kept fully informed of all company activities through both regular and special event reports.

9. Appointment of Directors

All Directors are appointed in accordance with the provisions of the Articles of Association of the Company. Where a director is appointed by the Board to fill 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.

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 8 of the financial statements (page 39). The directors' remuneration is tabled for approval at every 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:

14.1.1. 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 Group Managing Director, the Head of Finance and Strategy and the Internal Auditor are usually in attendance at meetings.

Members: Raymond Nyamweya Ondieki (Chairman); Job Kariru Muriuki (representing Centum); 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

14.1.1.1. Internal controls

The Board is responsible for the Company's risk management and internal controls and the Board's Audit and 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 and Risk Committee of the Board. In addition, the External Auditors independently and objectively review the approach of management to financial reporting.

14.1.2. Operations and Strategy Committee

Membership of the Operations and Strategy Committee comprises the Group Managing Director and three non-executive directors while the Heads of Finance and Strategy, Sales Operations, Marketing and 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); Susan Nkirote Omanga; Raymond Nyamweya Ondieki; Ali Hussein Kassim; Sara Jerop Ruto; Muigai Githu.

14.1.3. Nomination, Governance and Human Resource Committee

Nomination, Governance and Human Resource Committee (NGHRC) has four members, three of whom are independent non-executive directors. The Group Managing Director and the Head of Finance and Strategy are usually in attendance at Committee meetings. The role of the NGHRC 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. The committee also reviews and monitors the Company's Human Resources Management strategy to determine if its plans and initiatives will enable the Company achieve its strategic objectives.

Members: Truphosa A Kwaka-Sumba (Chairperson); Job Kariru Muriuki; Susan Nkirote Omanga; Raymond Nyamweya Ondieki; Muigai Githu.

15. Statutory accountability

The Company is striving to ensure compliance with the Code of Corporate Governance Practices for Issuers of Securities to the Public (2015), issued by the Capital Markets Authority in Kenya. In addition, the Company endeavors to fulfill its legal obligations in relation to its principal activity.

16. 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).

17. Directors participation in meetings

The table below shows the attendance at meetings during the year ended 30th June 2016:

	NAME	STATUS	BOD	ARC	OSC	NGHRC
1	Francis Thombe Nyammo	Chairman BOD	6/6	N/A	N/A	N/A
2	Simon Ngigi Gachomo	Group Managing Director	6/6	5/5	4/4	4/4
3	Raymond Nyamweya Ondieki	Director and Chairman of ARC	6/6	5/5	4/4	4/4
4	Truphosa Kwaka Sumba [1]	Director and Chairperson NHR & GC	5/6	N/A	1/4	4/4
5	Dr. Sara Ruto	Director	6/6	N/A	3/4	N/A
6	Susan Nkirote Omanga	Director	6/6	N/A	4/4	4/4
7	Centum Investment Co. Ltd	Director and chairman OCS	6/6	4/5	4/4	4/4
8	Ali Hussein Kassim	Director	5/6	4/5	4/4	N/A
9	Muigai Githu [2]	Director	5/6	2/5	N/A	1/4

NOTES

BOD – Board of Directors;

ARC – Audit and Risk Committee;

NGHRC – Nomination, Governance and Human Resource Committee.

OSC – Operations and Strategy Committee

N/A – Not a member of the Committee

1 - Truphosa Kwaka Sumba was appointed to the OSC with effect from January 2016

2 - Muigai Githu was appointed to the Audit and Risk Committee, and the Nomination, Governance and Human Resource Committee with effect from December 2016

18. Capital Structure

(a). Share Capital

The issued and fully paid up share capital of Longhorn Publishers Limited is KES 272,440,473/- made up of 272,440,473 Ordinary Shares of KES 1/- each.

(b). Top Ten Shareholders as at 30 June 2016

Rank	Name and address of shareholder	No. of shares	Percentage of total issued
1	Centum Investment Company Limited P.O. Box 10518, 00100 Nairobi	164,014,078	60.20%
2	Pacific Futures and Options Limited P.O. Box 45531, 00100 Nairobi	35,011,750	12.85%
3	Francis Thombe Nyammo P.O. Box 45531, 00100 Nairobi	16,018,000	5.88%
4	Halifax Capital Corporation Limited P.O. Box 61323, 00200 Nairobi	8,871,034	3.26%

5	Kamami Investments Limited P.O. Box 67920, 00100 Nairobi	3,114,050	1.14%
6	Text Book Centre Limited P.O. Box 47540 , 00100 Nairobi	2,854,450	1.05%
7	Mrs Jane Kaari Mugiri (Deceased) P.O. Box 55112, 00200 Nairobi	1,513,600	0.56%
8	The Estate of The Late Ephantus M'Mwiandi Mugiri c/o Mrs Jane Kaari Mugiri P.O. Box 55112, 00200, Nairobi	1,477,600	0.54%
9	Kahuho Holdings Limited P.O. Box 43392, 00100 Nairobi	1,446,150	0.53%
10	Kanaiyalal Mansukhlal & Shah Lalitaben Kanaiyalal Shah P.O. Box 41805, 00100 Nairobi	1,408,970	0.52%
11	Others	36,710,791	13.47%
Total issued shares		**272,440,473**	**100.00%**

- **Directors holding shares as at 30th June 2016**

Name of Director	**No. of shares held**	**% of total issued**
Centum Investment Company Limited	164,014,078	60.20%
Francis Thombe Nyammo	16,018,000	5.88%
TOTAL	**180,032,078**	**66.08%**

Francis Thombe Nyammo has a beneficial interest in Pacific Futures and Options Limited which holds 35,011,750 shares (12.85%) of the Company.

- **Distribution of shareholders as at 30th June 2016**

		No. of Investors	**No of Shares**	**% Holding**
1.	Less than 500	597	144,563	0.05%
2.	Between 501 to 5,000	999	2,135,485	0.78%
3.	Between 5,001 and 10,000	289	2,150,047	0.79%
4.	Between 10,001 and 100,000	351	10,385,151	3.81%
5.	Between 100,001 and 1,000,000	46	13,611,414	5.00%
6.	Above 1,000,000	18	244,013,813	89.57%
	Totals	**2,300**	**272,440,473**	**100.00%**

F.T. NYAMMO
Chairman

S NGIGI
Group Managing Director

Hon. Francis Thombe Nyammo

Chairman (Non-executive)

Simon Ngigi

Group Manging Director (Executive)

Raymond Nyamweya Ondieki

Director (Non-executive, independent)

Susan Omanga

Director (Non-executive, independent)

Ali Hussein Kassim

Director (Non-executive, independent)

Truphosa Kwaka Sumba

Director (Non-executive, independent)

Job Kariru Muriuki

Director
(Representing Centum Investment Limited)

Muigai Githu

Director (Non-executive)

Sara Ruto

Director (Non-executive, independent)

HEADS OF DEPARTMENTS

Simon Ngigi

Group Managing Director

Nicholas Oloo

Head of Finance and Strategy

Geoffrey Gichuki

Head of Sales Operations

Beatrice Nugi

HOD Publishing

Joseph Gogo

HOD ICT Services

Japheth Rotich

Chief Audit and Risk Officer

Loreen Muhando

Head of HR and Administration

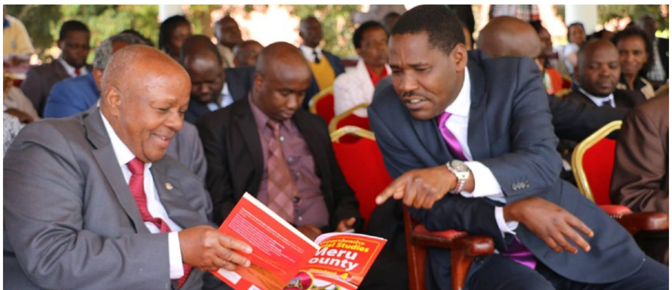
Evans Rotich

Chief Digital Officer

HIGH LIGHTS

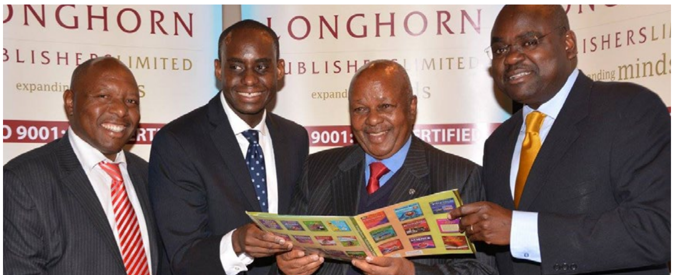
Catholic Diocese of Kitui Bishop Muheria, Chairman Longhorn Publishers Hon F.T. Nyammo, Group MD Longhorn Publishers Ltd Simon Ngigi, during the signing of the Catholic Diocese of Kitui MOU. Held on 5th July 2016 at the Catholic Dioces of Kitui Offices - Thome wa Akilisto.

H.E. The Govenor of Embu County Martin Wambora and Chairman Longhorn Publishers Hon F.T. Nyammo during the signing of the Embu County MOU. Held on 30th August 2016 at the Embu County Government offices. Looking on are Longhorn Publishers Ltd and Embu County Government members of staff.



Chairman Longhorn Publishers Hon F.T. Nyammo and H.E. The Governor of Meru County Peter Munya inspect the Meru County Social Studies book for class 4 pupils during the 1st Meru Education Day held at the Graduation Grounds, Kenya Methodist University on the 24th August 2016.

Chairman Longhorn Publishers Hon F.T. Nyammo, Chairperson of the Public Service Commission Prof. Margaret Kobia, Hon. Kenneth Marende and Joseph Ole Lenku at the launch of Dr. Wale Akinyemi's motivational books



Group MD Longhorn Publishers Ltd Simon Ngigi, Deputy Director Centum Capital Brian Kiai, Chairman Longhorn Publishers Hon. F.T. Nyammo and Director Longhorn Publishers Raymond Nyamweya at the announcement of the company's financial results on 19th August 2016 at the Hilton Hotel

Communication and Liaison Officer Longhorn Publishers Ltd Dianne Mutua during a book donation drive in Korogocho

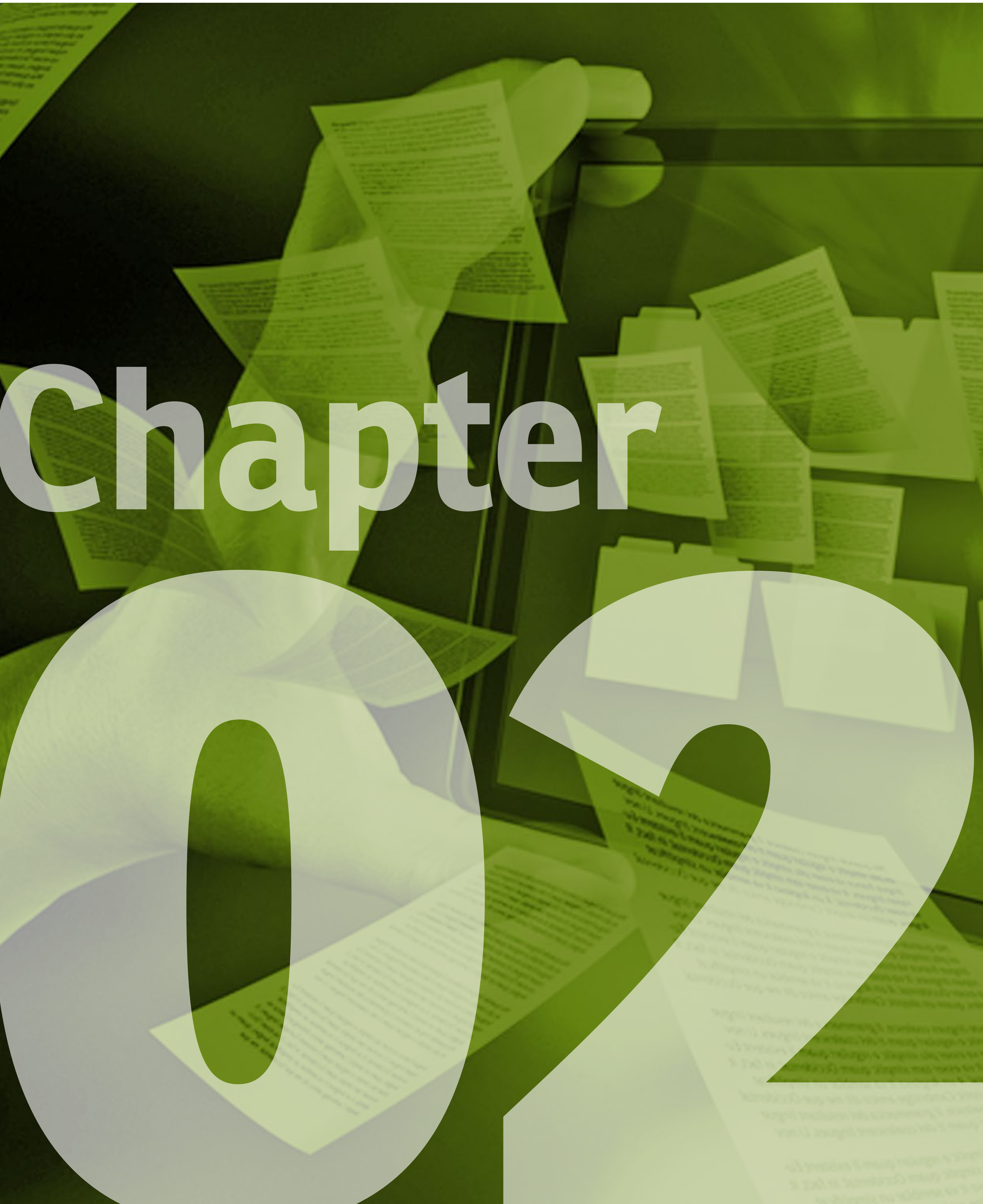
CEO Standard Chartered Bank Lamin Manjang, Communication Officer Longhorn Publishers Ltd Catherine Kiiru and the Headteacher of Zawadi Primary School during a Soma Caravan book donation in Eastleigh on 22nd July 201 6

Chairman Longhorn Publishers Hon. F.T. Nyammo, Group MD Longhorn Publishers Ltd Simon Ngigi and PLO Lumumba at the launch of the Integrity Series at Nairobi Primary School

The marketing team Longhorn Publishers Ltd with students from Gatoto Primary School during a Soma Caravan book donation at the company's offices on 15th July 2016

CEO Nairobi Securities Exchange Geoffrey Odundo, Principal Secretary MOEST Dr. Belio Kipsang, Group MD Longhorn Publishers Ltd Simon Ngigi, CEO Centum Investment Company Ltd James Mworia at the official trading of Longhorn Publishers Rights Issue held on 31st May 2016 at the Nairobi Securities Exchange

Presentation of books donated to Gatoto Primary School. On hand are Longhorn Publishers Ltd staff (from left to right), Dianne Mutua, Catherine Kiiru, Emily Mwangi, Linda Kenelwa, Japheth Rotich and Amos Muhanji. The presentation was done on 15th July 2016



Chapter 02

Reports and Financial Statements

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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June 2016, which disclose the state of affairs of Longhorn Publishers Limited (the "Company") and its subsidiaries (together "the Group"). The annual report and financial statements have been prepared in accordance with sections 147 to 163 of the repealed Companies Act - Cap 486, which remain in force under the transition rules contained in the Sixth Schedule, the Transitional and Saving Provisions of the Companies Act 2015.

PRINCIPAL 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 AND DIVIDEND

The net profit for the year of Kshs 104,063,000 (2015: Kshs 71,726,000) has been added to retained earnings. The Directors recommend the approval of a final dividend of Kshs 95,354,000 (2015: Kshs 117,000,000).

DIRECTORS

The Directors who held office during the year and to the date of this report were:

F T. Nyammo - Chairman

S Gachomo - Group Managing Director

R Nyamweya

S J. Ruto (Dr)

T Kwaka - Sumba (Mrs)

S Omanga (Mrs)

A H. Kassim

M Githu

Centum Investment Company Limited – represented by J K Muriuki

AUDITOR

At the 2015 Annual General Meeting held on 21st December 2015, PricewaterhouseCoopers was appointed as the Group's auditor and has indicated its willingness to continue in office in accordance with Section 159 (2) of the repealed Companies Act - Cap 486.

By order of the Board

SECRETARY
18th August 2016

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the company and its subsidiaries maintain proper accounting records that disclose, with reasonable accuracy, the financial position of the group. The Directors are also responsible for safeguarding the assets of the group.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

i) designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii) selecting and applying appropriate accounting policies;

iii) making accounting estimates and judgements that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and of the company as at 30th June 2016 and of the group financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the Board of Directors on 18th August 2016 and signed on its behalf by:

Chairman

Group Managing Director

We have audited the accompanying consolidated financial statements of Longhorn Publishers Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 60. These financial statements comprise the consolidated statement of financial position as at 30th June 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and a consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 30th June 2016, the statement of comprehensive income, statement of cash flows and statement of changes in equity of the Company 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act and for such internal control, as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Group's and of the Company's financial position as at 30th June 2016 and of its financial performance and cash-flows for the year then ended in accordance with International Financial Reporting Standards and 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 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 statement of financial positions and statement of comprehensive income are in agreement with the books of account.

The engagement leader responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – Practicing Certificate No. P/1652.

PricewaterhouseCoopers

Certified Public Accountants (Kenya)
Nairobi, Kenya
22nd Sep 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 30TH JUNE 2016

	Notes	2016 Kshs '000	2015 Kshs '000
Revenue		1,503,512	848,377
Cost of sales		(748,082)	(373,729)
Gross profit		755,430	474,648
Other income		3,259	2,662
Distribution costs		(194,314)	(92,357)
Administrative expenses		(400,096)	(279,634)
Operating profit		164,279	105,319
Finance costs	6	(25,002)	(8,403)
Profit before income tax	7	139,277	96,916
Income tax expense	9	(35,214)	(25,190)
Profit for the year		104,063	71,726
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:		-	
Exchange difference on translation of foreign operations		(3,256)	(8,668)
Total comprehensive income for the year		100,807	63,058
Earnings per share			
Basic and diluted earnings per share	11	0.66	0.7

The notes on pages 36 to 60 are an integral part of these financial statements.

Reports and Financial Statements

	Notes	2016 Kshs '000	2015 Kshs '000
Revenue		1,421,176	832,624
Cost of sales		(714,294)	(375,699)
Gross profit		706,882	456,925
Other income		3,609	80
Distribution costs		(172,734)	(85,829)
Administrative expenses		(341,847)	(250,742)
Operating profit		195,910	120,434
Finance costs	6	(24,503)	(1,149)
Profit before income tax	7	171,407	119,285
Income tax expense	9	(39,502)	(28,694)
Profit for the year		131,905	90,591
Other comprehensive income		-	-
Total comprehensive income for the year		131,905	90,591

The notes on pages 36 to 60are an integral part of these financial statements.

	Notes	2016 Kshs '000	2015 Kshs '000
ASSETS			
Non-current assets			
Property and equipment	13	230,355	182,428
Intangible assets	14	7,942	22,985
Other investments	15	100,565	-
Deferred tax asset	16	15,164	20,431
		354,026	225,844
Current assets			
Inventories	17	506,324	134,203
Trade and other receivables	18	789,707	305,721
Current income tax		-	11,644
Cash and bank balances	19	216,887	11,908
		1,512,918	463,476
TOTAL ASSETS		1,866,944	689,320
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	20	272,440	146,250
Share premium		368,289	5,039
Retained earnings		326,031	245,026
Translation reserve		(19,193)	(15,937)
Total equity		947,567	380,378
Liabilities			
Current liabilities			
Trade and other payables	21	425,779	255,114
Current income tax liability		4,032	1,068
Borrowings	22	476,728	41,677
Bank overdraft	19	12,838	11,083
Total liabilities		919,377	308,942
TOTAL EQUITY AND LIABILITIES		1,866,944	689,320

The financial statements on pages 25 to 60 were approved for issue by the board of directors on 18th August 2016 and signed on its behalf by:

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CHAIRMAN **GROUP MANAGING DIRECTOR**

The notes on pages 36 to 60 are an integral part of these financial statements

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2016 Kshs '000	2015 Kshs '000
ASSETS			
Non-current assets			
Property and equipment	13	183,342	151,179
Intangible assets	14	7,424	4,694
Investment in subsidiaries	15	42,128	25,440
Other investments	15	100,565	-
Deferred tax asset	16	4,728	14,474
		338,187	195,787
Current assets			
Inventories	17	434,954	112,792
Trade and other receivables	18	819,622	351,451
Current income tax		-	10,415
Cash and bank balances	19	212,886	7,768
		1,467,462	482,426
TOTAL ASSETS		1,805,649	678,213
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	20	272,440	146,250
Share premium		368,289	5,039
Retained earnings		308,416	199,569
Total equity		949,145	350,858
Liabilities			
Current liabilities			
Trade and other payables	21	364,494	274,595
Borrowings	22	476,728	41,677
Bank overdraft	19	12,237	11,083
Current income tax		3,045	-
Total liabilities		856,504	327,355
TOTAL EQUITY AND LIABILITIES		1,805,649	678,213

The financial statements on pages 25 to 60 were approved for issue by the board of directors on 18th August 2016 and signed on its behalf by:

CHAIRMAN

GROUP MANAGING DIRECTOR

The notes on pages 36 to 60 are an integral part of these financial statements

	Notes	Share capital Kshs '000	Share premium Kshs '000	Retained earnings Kshs '000	Translation reserve Kshs '000	Total Kshs '000
Year ended 30th June 2015						
As start of year		58,500	5,039	378,050	(7,269)	434,320
Profit for the year		-	-	71,726	-	71,726
Other comprehensive loss for the year						
Exchange difference on transaction of foreign operations		-	-	-	(8,668)	(8,668)
Transactions with owners						
Dividends:						
- 2014 dividends paid	12	-	-	(117,000)	-	(117,000)
- issue of bonus shares		87,750	-	(87,750)	-	-
Balance at 30th June 2015		146,250	5,039	245,026	(15,937)	380,378
Year ended 30th June 2016						
As start of year		146,250	5,039	245,026	(15,937)	380,378
Profit for the year		-	-	104,063	-	104,063
Other comprehensive loss for the year						
Exchange difference on transaction of foreign operations		-	-	-	(3,256)	(3,256)
Transactions with owners						
Dividends:						
- dividends paid		-	-	(23,058)	-	(23,058)
- issue of ordinary shares		126,190	-	-	-	126,190
- share premium		-	363,250	-	-	363,250
Balance at 30th June 2016		272,440	368,289	326,031	(19,193)	947,567

The notes on pages 36 to 60 are an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	Share capital Kshs '000	Share premium Kshs '000	Retained earnings Kshs '000	Total equity Kshs '000
At start of the year		58,500	5,039	313,728	377,267
Profit for the year		-	-	90,591	90,591
Other comprehensive income		-	-	-	-
Transactions with owner:					
Issue of bonus shares		87,750	-	(87,750)	-
Dividend paid – 2014	12	-	-	(117,000)	(117,000)
Balance at 30th June 2015		146,250	5,039	199,569	350,858
Year ended 30th June 2016					
As at start of the year		146,250	5,039	199,569	350,858
Total comprehensive income for the year		-	-	131,905	131,905
Dividends paid					
Transactions with owner:					
Rights issue of shares		126,190	403,810	-	530,000
Rights issue expenses paid		-	(40,560)	-	(40,560)
Dividends paid – 2015		-	-	(23,058)	(23,058)
Balance at 30th June 2016		272,440	368,289	308,416	949,145

The notes on pages 36 to 60 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2016 Kshs '000	2015 Kshs '000
Cash flows from operating activities			
Cash (absorbed in) / generated from operations	23	(521,637)	29,689
Net exchange gain / (loss)		7,478	(7,789)
Income tax paid		(16,296)	(16,711)
Net cash (used in) / generated from operating activities		(530,455)	5,189
Cash flows from investing activities			
Purchase of property and equipment	13	(75,908)	(35,838)
Proceeds from disposal of property and equipment		796	703
Purchase of intangible assets		(6,828)	(19,714)
Other Investments		(100,565)	-
Net cash used in investing activities		(182,505)	(54,849)
Cash flows from financing activities			
Bank borrowings received	22	435,051	41,677
Dividends paid to shareholders		(23,058)	(117,000)
Proceeds from issuance of shares		489,441	-
Net cash generated from / (used in) financing activities		901,434	(75,323)
Net increase / (decrease) in cash and cash equivalents		188,474	(124,983)
Cash and cash equivalents at beginning of year		826	130,104
Translation differences on cash and cash equivalents		14,750	(4,296)
Cash and cash equivalents at end of year	19	204,049	825

The notes on pages 36 to 60 are an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2016

	Notes	2016 Kshs '000	2015 Kshs '000
Cash flows from operating activities			
Cash absorbed in operations	23	(500,696)	(8,782)
Net exchange loss		(7,977)	(535)
Income tax paid		(16,296)	(13,969)
Net cash used in operating activities		(524,969)	(23,286)
Cash flows from investing activities			
Purchase of property and equipment	13	(53,937)	(3,152)
Proceeds from disposal of property and equipment		5,518	704
Purchase of intangible assets		(6,828)	(3,090)
Other investments		(117,253)	-
Net cash used in investing activities		(172,500)	(5,538)
Cash flows from financing activities			
Bank borrowings received	22	435,051	41,677
Dividends paid to shareholders		(23,058)	(117,000)
Proceeds from issuance of shares		489,440	-
Net cash generated from / (used in) financing activities		901,433	(75,323)
Net increase / (decrease) in cash and cash equivalents		203,964	(104,147)
Cash and cash equivalents at beginning of year		(3,315)	100,832
Cash and cash equivalents at end of year	19	200,649	(3,315)

The notes on pages 36 to 60 are an integral part of these financial statements.

Chapter 03

Notes to the Financial Statements

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1. GENERAL INFORMATION

Longhorn Publishers Limited is a limited liability company incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The consolidated financial statements of the group as at and for the year ended 30th June 2016 comprise the company and its subsidiaries (which together are referred to as the "Group"). The address of its registered office is:

LR No. 209/5604
Funzi Road, Industrial Area
P.O. Box 18033 – 00500
Nairobi

For Kenyan Companies Act reporting purposes. The balance sheet is represented by the statement of financial position and the profit and loss amount by the Income statement, in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below and relate to both the company's and the group's activities. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the Kenyan Companies Act. The measurement basis applied is the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the company

The following standards and amendments have been applied by the company for the first time for the financial year beginning 1st July 2015:
Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1st January 2016, clarify:

- IFRS 2 – clarifies the definition of "vesting condition" and now distinguishes between "performance condition" and "service condition"
- IIFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

Amendments to IAS 19, "Defined benefit plans: Employee contributions", effective 1st July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of the improvements made in the 2012-2012 cycle has required additional disclosures in the segment note. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st January 2017, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below.

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.
IFRS 15, "Revenue from contracts with customers", deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue", IAS 11 "Construction contracts", and related interpretations. The standard is effective for annual periods beginning on or after 1st January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 15.

IFRS 16, "Leases", sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. In the new standard, lessees will be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. Exceptions have been provided for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). A lessee will be required to measure lease liabilities at the present value of future lease payments and recognise an equivalent lease assets including costs directly related to entering into the lease. Lease assets will be amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. Lessor accounting has not substantially changed in the new standard. IFRS 16 supersedes IAS 17 ("Leases"), IFRIC 4 ("Determining whether an arrangement contains a lease"), SIC 15 ("Operating leases – incentives") and SIC 27 ("Evaluating the substance of transactions involving the legal form of a lease"). The standard is effective for annual periods beginning on or after 1st January 2019 and earlier application is permitted. The group is assessing the impact of IFRS 16.

Amendments to IAS 1, "Presentation of financial statements", are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1st January 2016.
Annual improvements 2014. These set of amendments, effective from 1st January 2016, impacts four standards:

- IFRS 5, "Non-current assets held for sale and discontinued operations", regarding methods of disposal;
- IFRS 7, "Financial instruments: Disclosures", (with consequential amendments to IFRS 1) regarding servicing contracts;
- IAS 19, "Employee benefits", regarding discount rates;
- IAS 34, "Interim financial reporting", regarding disclosure of information.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(B) CONSOLIDATION PRINCIPLES

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provides evidence of an impairment of the transferred asset.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Separate financial statements

In the separate financial statements, investments in subsidiaries and associates are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Dividend income is recognised when the right to receive payment is established.

(C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of value-added tax (VAT), returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of these activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

- sales of goods are recognised in the period in which the Group has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery does not occur until the products have been accepted by the customer;

- accumulated experience is used to estimate and provide for discounts and returns. The volume discounts are assessed based on anticipated annual purchases.

(D) CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

a) Current income tax

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(E) PROPERTY, PLANT AND EQUIPMENT

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold property	2.5%
Motor vehicles	25%
Furniture	10%
Computers	30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

(F) 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 profit or loss at the time each instalment falls due.

(G) 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 of three years.

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 of five years.

Impairment

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the 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.

(H) 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.

(I) DIVIDENDS DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which they are declared. Dividends are declared upon approval at the annual general meeting. Proposed dividends are disclosed separately within equity until declared.

(J) EMPLOYEE BENEFITS

(i) Group's defined contribution retirement benefits scheme

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 contributions to the defined contribution plan are charged to profit or loss in the year to which they relate.

(ii) Statutory defined contribution pension scheme

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 Kshs 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.

(iii) Other employee entitlement

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.

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

(K) FINANCIAL INSTRUMENTS

(i) Recognition

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The Group recognises loans and receivables on the date when they are originated. These assets are initially recognised at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(ii) Classification and measurement

The Group classifies its financial assets into loans and receivables while financial liabilities are classified into other financial liabilities.

Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial assets are appropriately classified.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short-term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables comprise loans and advances to customers, term deposits, other receivables, cash and bank balances and balances due from group companies. These are measured at amortised cost using the effective interest method, less any impairment losses.

Held to maturity financial assets

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

Other financial liabilities

Other financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities include trade payables and bank borrowings.

(iii) De-recognition

A financial asset is de-recognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is de-recognised when it is extinguished, cancelled or expires.

(iv) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(v) Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(L) FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Kenya Shillings in thousands (Kshs) which is the Group's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within "finance income or cost". All other foreign exchange gains and losses are presented in profit or loss within "other income or expenses".

(M) 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.

(N) 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.

(O) SHARE CAPITAL

Ordinary shares are classified as "share capital" in equity. Any premium received over and above the par value of the shares is classified as "share premium" in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

(P) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method.

(Q) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(R) PROVISIONS

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

(S) BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(T) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Managing Director who makes strategic decisions.

(U) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Depreciation rates

The Group depreciates its assets over their estimated useful lives, as more fully described in the accounting policy for property, plant and equipment. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

Taxation

Judgment is required in determining the provision for income taxes due to complexity of legislation.

There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

(ii) Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, directors have made judgements in determining:

- whether financial and non-financial assets are impaired;
- determination of net realisable value of inventories.

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

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Management's policy to manage foreign exchange risk is to hold foreign currency bank accounts to hedge against any foreign currency denominated amounts payable.

Group and Company

At 30th June 2016, if the currency had weakened/strengthened by 5% (2015: 5%) against the US Dollar with all other variables held constant, post-tax profit for the year and equity would have been Kshs 1,197,236 (2015: Kshs 1,952,350) higher/lower, mainly as a result of US dollar denominated trade payables and bank balances.

Company

30th June 2016	**2016 Kshs '000**	**2015 Kshs '000**
Assets		
Due from subsidiary companies	100,216	75,542
Liabilities		
Due to subsidiary companies	10,379	36,495

At 30th June 2016, if the Kenya 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 Kshs 1,197,236 (2015: Shs1,952,350) lower/higher, mainly as a result of imports and foreign denominated bank balances.

(ii) Price risk

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

(iii) Interest rate risk

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

An increase/decrease of 5% on average borrowing rates would have resulted in an increase/decrease in profit before taxation of Kshs 1,660,335 (2015: Kshs 521,517).

Credit risk

Credit risk arises from cash and cash equivalents and 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) departments, to report on the debt position for further action. Each sales representative is charged with the responsibility of collecting the debt they have created.

	Fully performing Kshs '000	Past due Kshs '000	Impaired Kshs '000	Total Kshs '000
30th June 2016				
Trade receivables	373,313	203,889	54,604	631,806
Bank balances	203,448	-	-	203,448
	576,761	203,889	54,604	835,254

	Fully performing Kshs '000	Past due Kshs '000	Impaired Kshs '000	Total Kshs '000
30th June 2015				
Trade receivables	32,383	141,332	53,450	227,165
Bank balances	11,908	-	-	11,908
	44,291	141,332	53,450	239,073

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

	2016 Kshs '000	2015 Kshs '000
Age in Days		
120+ days	203,889	136,336

Company

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

	Fully performing Kshs '000	Past due but not impaired Kshs '000	Impaired Kshs '000	Total Kshs '000
30th June 2016				
Trade receivables	326,744	207,285	29,288	563,317
Bank balances	212,886	-	-	212,886
Due from subsidiaries	100,266	-	-	100,266
	639,896	207,285	29,288	876,469

	Fully performing Kshs '000	Past due but not impaired Kshs '000	Impaired Kshs '000	Total Kshs '000
30th June 2015				
Trade receivables	35,678	102,247	38,242	176,167
Bank balances	(3,315)	-	-	(3,315)
Due from subsidiaries	89,780	-	-	89,780
	122,143	102,247	38,242	262,632

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;

	2016 Kshs '000	2015 Kshs '000
Age in Days		
120+ days	236,574	102,247

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 than 1 month**	**Between 1-3 months**	**Over 3 months**	**Total**
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs '000**
At 30th June 2016				
Trade and other payables	-	-	425,779	425,779
Borrowings	-	-	476,728	476,728
	-	-	902,507	902,507
At 30th June 2015				
Trade and other payables	-	-	255,114	255,114
Borrowings	-	-	41,677	41,677
	-	-	296,791	296,791

Company				
At 30th June 2016				
Trade and other payables	-	-	354,115	354,115
Due to subsidiary companies	-	-	10,379	10,379
Borrowings			476,728	476,728
	-	-	841,222	841,222
At 30th June 2015				
Financial liabilities	-	-	46,770	46,770
Trade and other payables	-	-	27,825	27,825
Due to subsidiary companies	-	-	41,677	41,677
	-	-	116,272	116,272

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 shareholders through the optimisation of the debt and equity mix.
The capital structure of the group consists of debt, which includes the borrowings less cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed on note 20.

During 2016, the group's strategy, which was unchanged from 2015, was to maintain a gearing ratio below 40%. The gearing ratios at 30th June 2016 and 2015 is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs '000**
Share capital	272,440	146,250	272,440	146,250
Share premium	368,289	5,039	368,289	5,039
Retained earnings	326,031	245,026	308,416	199,569
Translation deficit	(19,193)	(15,838)	-	-
Equity	947,567	380,477	949,145	350,858
Borrowings	476,728	41,677	476,728	41,677
Less: cash and cash equivalents	(204,049)	(825)	(200,649)	3,315
	272,679	40,852	276,079	44,992
Gearing ratio:	29%	11%	29%	13%

5. 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. The Chief Operating Decision Maker is the Group Managing Director.

Only geography applies as products are homogenous.

The Group's operations are within four geographical segments, Kenya, Tanzania, Uganda and Rwanda. The table below contains segmental information provided to the Chief Operating Decision Maker for the year ended 30th June 2016.

	Kenya Kshs '000	Tanzania Kshs '000	Uganda Kshs '000	Rwanda Kshs '000	Eliminated on consolidation Kshs '000	Total Kshs '000
30th June 2016						
Sales and other income	1,424,785	33,829	42,312	5,844	-	1,506,770
Cost of sales and other expenditure	(1,253,376)	(46,054)	(57,701)	(10,362)	-	(1,367,493)
Profit / (loss) before taxation	171,409	(12,225)	(15,389)	(4,518)	-	139,277
Assets	1,842,108	62,597	113,344	29,017	(180,122)	1,866,944
Liabilities	853,460	89,935	57,972	35,097	(117,087)	919,377
Capital expenditure	53,937	3,699	6,707	1,372	-	65,715

	Kenya Kshs '000	Tanzania Kshs '000	Uganda Kshs '000	Eliminated on consolidation Kshs '000	Total Kshs '000
30th June 2015					
Sales and other income	832,090	30,817	12,322	(24,804)	850,425
Cost of sales and other expenditure	(712,805)	(37,929)	(27,779)	24,804	(753,509)
Profit / (loss) before taxation	119,285	(7,112)	(15,257)	-	96,916
Assets	686,883	45,849	94,220	(137,632)	689,320
Liabilities	336,025	62,464	22,645	(112,192)	308,942
Capital expenditure	6,242	2,332	30,354	-	38,928

6. FINANCE COSTS

	Group		Company	
	2016 Kshs '000	2015 Kshs '000	2016 Kshs '000	2015 Kshs '000
Interest expense	(32,480)	(614)	(32,480)	(614)
Exchange gains/ (losses)	7,478	(7,789)	7,977	(535)
	(25,002)	(8,403)	(24,503)	(1,149)

7. PROFIT BEFORE TAXATION

The profit before taxation is arrived at after charging / (crediting)

	Group		Company	
	2016 Kshs '000	2015 Kshs '000	2016 Kshs '000	2015 Kshs '000
Depreciation (note 13)	24,748	14,164	19,849	12,276
Amortisation of intangible assets (note 14)	5,341	3,481	4,098	2,040
Directors' emoluments	6,031	4,788	4,889	4,359
Auditors' remuneration	6,328	3,388	3,231	2,239
Staff costs (Note 8)	252,236	192,289	225,624	179,443
(Recovery) of bad debts	(3,395)	(3,005)	(3,718)	(1,207)
Gain on disposal of property and equipment	(192)	(357)	(192)	(357)

8. STAFF COSTS

	Group		Company	
	2016 Kshs '000	2015 Kshs '000	2016 Kshs '000	2015 Kshs '000
Salaries and wages	187,726	143,569	167,706	133,533
Pension costs	8,697	4,761	8,697	4,761
Leave pay	13,196	6,519	12,947	6,464
Staff gratuity	4,050	2,868	2,586	1,654
Social security costs (NSSF)	2,225	1,133	432	352
Staff welfare and training expenses	21,233	27,669	20,024	27,369
Staff medical expenses	13,273	5,770	13,232	5,310
Directors emoluments	1,836	-	-	
	252,236	192,289	225,624	179,443

9. TAXATION

(a) Taxation charge

	Group		Company	
Current taxation:	**2016 Kshs '000**	**2015 Kshs '000**	**2016 Kshs '000**	**2015 Kshs '000**
Tax based on the taxable profit for the year:				
- current year	29,756	19,753	29,756	19,753
- prior year under provision	248	-	-	-
	30,004	19,753	29,756	19,753
Deferred taxation (Note 16):				
- current year credit	6,110	4,422	10,646	8,941
- prior year over provision	(900)	1,015	(900)	-
- deferred tax asset not recognised	-	-	-	-
	5,210	5,437	9,746	8941
Taxation charge	35,214	25,190	39,502	28,694

(b) Reconciliation of expected tax based on accounting profit to tax charge

	2016 Kshs '000	**2015 Kshs '000**	**2016 Kshs '000**	**2015 Kshs '000**
Profit before taxation	139,277	96,916	171,407	119,285
Tax at the applicable rate	27,855	17,147	34,281	23,857
Income not subject to tax				
Tax effect of expenses not deductible for tax purposes	6,198	(397)	6,121	4,837
Prior year over provision				
- deferred tax	(900)	1,015	(900)	-
Deferred tax asset not recognised	247	7,425	-	-
Taxation charge	35,214	25,190	39,502	28,694

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

A profit after taxation of Kshs 131,905,000 (2015: Kshs 90,591,000) has been dealt with in the financial statements of Longhorn Publishers Limited (formerly Longhorn Kenya Limited).

11. EARNINGS PER SHARE-BASIC AND DILUTED

	2016	2015
Profit attributable to ordinary shareholders (Kshs 000)	104,063	71,726
Weighted average number of ordinary shares in issue	156,766,000	102,375,000
Basic and diluted earnings per share (Kshs)	0.66	0.70

12. DIVIDENDS PER SHARE

The directors recommend a dividend payment of Kshs 0.35 per share, equivalent to Kshs 95,354,000, for the year ended 30th June 2016 (2015: Kshs 0.15 per share, equivalent to Kshs 117,000,000).

13. PROPERTY AND EQUIPMENT – GROUP

	Land and buildings Kshs'000	Motor vehicles Kshs'000	Furniture and equipment Kshs'000	Total Kshs'000
At 1st July 2014				
Cost	157,104	28,477	45,485	231,066
Accumulated depreciation	(17,549)	(16,349)	(32,083)	(65,981)
Net book value	139,555	12,126	13,404	165,085
Year ended 30th June 2015				
Opening net book value	139,555	12,126	13,404	165,085
Additions	30,321	3,010	2,507	35,838
Disposals	-	(1,151)	(305)	(1,456)
Depreciation charge	(3,903)	(5,673)	(4,588)	(14,164)
Depreciation on disposals	-	956	153	1,109
Exchange adjustment	(3,649)	(335)	(3,984)	
Closing net book value	162,324	8,934	11,170	182,428
At 30th June 2015				
Cost	183,776	30,001	47,687	261,464
Accumulated depreciation	(21,452)	(21,066)	(36,518)	(79,036)
Net book value	162,324	8,934	11,170	182,428
Year ended 30th June 2016				
Opening net book value	162,324	8,934	11,170	182,428
Additions	9,469	57,303	9,136	75,908
Disposals	-	(13,593)	(66)	(13,659)
Depreciation charge	(4,874)	(15,158)	(4,717)	(24,749)
Depreciation on disposals	-	11,017	(71)	10,946
Exchange adjustment	(1,396)	877	(519)	
Closing net book value	165,523	49,379	15,453	230,355
At 30th June 2016				
Cost	191,849	74,589	56,756	323,194
Accumulated depreciation	(26,326)	(25,208)	(41,305)	(92,839)
Net book value	165,523	49,379	15,453	230,355

13. PROPERTY AND EQUIPMENT – COMPANY

	Land and buildings Kshs'000	Motor vehicles Kshs'000	Furniture and equipment Kshs'000	Total Kshs'000
At 1st July 2014				
Cost	155,496	25,245	42,439	223,180
Accumulated depreciation	(17,039)	(14,939)	(30,552)	(62,530)
Net book value	138,457	10,306	11,887	160,650
Year ended 30th June 2015				
Opening net book value	138,457	10,306	11,887	160,650
Additions	-	1,220	1,932	3,152
Disposals	-	(1,151)	(305)	(1,456)
Depreciation charge	(3,903)	(4,380)	(3,993)	(12,276)
Depreciation on disposals	-	944	165	1,109
Closing net book value	134,554	6,939	9,686	151,179
At 30th June 2015				
Cost	155,496	25,314	44,066	224,876
Accumulated depreciation	(20,942)	(18,375)	(34,380)	(73,697)
Net book value	134,554	6,939	9,686	151,179
Year ended 30th June 2016				
Opening net book value	134,554	6,939	9,686	151,179
Additions	-	47,103	6,834	53,937
Disposals	-	(12,500)	(76)	(12,576)
Depreciation charge	(3,904)	(11,688)	(4,257)	(19,849)
Depreciation on disposals	-	10,651	-	10,651
Closing net book value	130,650	40,505	12,187	183,342
At 30th June 2016				
Cost	155,496	59,917	50,824	266,237
Accumulated depreciation	(24,846)	(19,412)	(38,637)	(82,895)
Net book value	130,650	40,505	12,187	183,342

14. INTANGIBLE ASSETS – GROUP

	Software Kshs '000	Property Kshs '000	Total Kshs '000
At 1st July 2015			
Cost	17,108	57,960	75,068
Accumulated amortisation	(12,421)	(39,662)	(52,083)
Net book value	4,687	18,298	22,985
Year ended 30th June 2016			
Opening net book value	4,687	18,298	22,985
Additions	6,828	-	6,828
Amortisation charge	(4,098)	(1,243)	(5,341)
Depreciation on disposals			
Exchange adjustment	7	(16537)	(16,530)
Closing net book value	7,424	518	7,942
At 30th June 2016			
Cost	23,943	41,423	65,366
Accumulated amortisation	(16,519)	(40,905)	(57,424)
Net book value	7,424	518	7,942

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 of 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 Kshs 7,359,000 and authors' contracts and related rights for 53 Sasa Sema Publications Limited's titles for a consideration of Kshs 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 Kshs 5,890,000. The company also acquired the Sasa Sema brand name, including the company logo, at a cost of Kshs 3,000,000. Sasa Sema is now a trading name registered under Longhorn Publishers Limited (formerly Longhorn Kenya Limited). The management expects the payback period of the Delah Publishers Limited purchase to be five years, hence the assets are being amortised over a period of five years commencing in December 2011. The intellectual property of Sasa Sema Publications Limited has been fully amortised.

14. INTANGIBLE ASSETS – COMPANY

	Computer software Kshs '000	Intellectual property Kshs '000	Total Kshs '000
At 1st July 2015			
Cost	16,176	34,840	51,016
Accumulated amortisation	(11,482)	(34,840)	(46,322)
Net book value	4,694	-	4,694
Year ended 31st December 2016			
Opening net book value	4,694	-	4,694
Additions	6,828	-	6,828
Amortisation charge	(4,098)	-	(4,098)
Closing net book value	7,424	-	7,424
At 31st December 2016			
Cost	23,004	34,840	57,844
Accumulated amortisation	(15,580)	(34,840)	(50,420)
Net book value	7,424	-	7,424

The intellectual property arose out of the acquisition of selected assets of Sasa Sema Publications Limited. The deal was 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 Kshs 22,110,000 and co-publishing and distributorship contracts for 16 titles of Readit Publishers of Tanzania for a consideration of Kshs 5,890,000.

The company also acquired the Sasa Sema brand name, including the company logo, at a cost of Kshs 3,000,000. Sasa Sema is now a trading name registered under Longhorn Publishers Limited (formerly Longhorn Kenya Limited). The payback period of the acquired assets was five years and hence the assets were being amortised over that period, commencing in May 2007. This has now been fully amortised.

15. INVESTMENT IN SUBSIDIARIES – COMPANY

	Country of incorporation	Interest held	2016 Kshs '000	2015 Kshs '000
Longhorn Publishers (Uganda) Limited	Uganda	100%	440	440
Longhorn Publishers (Tanzania) Limited	Tanzania	100%	41,698	25,010
Impairment loss			(10)	(10)
			42,128	25,440
Other Investments – LawAfrica Publishing Limited			100,565	-

The investments in the subsidiaries are stated at cost less accumulated impairment losses.

16. 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	
	2016	**2015**	**2016**	**2015**
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs '000**
Liabilities				
Accelerated capital allowances	16,721	14,609	16,306	13,997
Assets				
Losses available for future tax relief	(9,119)	(3,543)	-	-
Unrealised exchange losses	(1,243)	(1,973)	(5)	(14)
Provisions	(8,635)	(36,949)	(8,141)	(28,457)
Deferred tax asset not recognised	(12,888)	7,425	(12,888)	-
	(31,885)	(35,040)	(21,034)	(28,471)
Net deferred tax asset	(15,164)	(20,431)	(4,728)	(14,474)
The movement on the deferred tax account is as follows:				
At the beginning of year	(20,431)	(26,457)	(14,474)	(23,415)
Income statement credit note (note 9(a))	6,110	4,422	10,646	8,941
Prior year over provision	(900)	1,015	(900)	-
Exchange adjustment	57	589	-	-
	(15,164)	(20,431)	(4,728)	(14,474)

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.

17. INVENTORIES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	Kshs '000	**Kshs '000**	**Kshs '000**	**Kshs '000**
Books	572,921	237,628	499,391	209,195
Provision for obsolete inventories	(66,597)	(103,425)	(64,437)	(96,403)
	506,324	134,203	434,954	112,792

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Trade receivables	631,806	227,165	563,317	176,167
Less: Provision for bad and doubtful receivables	(54,604)	(53,450)	(29,288)	(33,246)
	577,202	173,715	534,029	142,921
Staff receivables	26,992	12,238	7,982	6,188
Other receivables	33,480	24,094	31,657	8,870
Prepayments	147,885	95,674	145,688	95,674
Withholding tax recoverable	4,148	-	-	-
	789,707	305,721	719,356	253,653

Movements on the provision for bad and doubtful receivables are as follows:

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
At start of year	53,450	57,981	33,246	39,808
Provision in the year	1,154	-	-	-
Unused amounts reversed	-	(4,531)	(3,958)	(6,562)
At end of year	54,604	53,450	29,288	33,246

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cash at bank and in hand	216,887	11,908	212,886	7,768

For purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Cash at bank and in hand	216,887	11,908	212,886	7,768
Bank overdrafts	(12,838)	(11,083)	(12,237)	(11,083)
	204,049	825	200,649	(3,315)

20. SHARE CAPITAL

Group and Company

	2016 Kshs '000	2015 Kshs '000
Authorised		
785,526,315 (2015:146,250,000) ordinary shares of Kshs 1 each	785,126	146,250
Issued and fully paid		
272,440,000 (2015: 146,250,000) ordinary shares of Kshs 1 each	272,440	146,250

At the 2015 Annual General Meeting held on 21st December 2015, the shareholders approved the increase in its authorised capital from Kshs 146,250,000 to Kshs 785,526,315. The company issued 126,190,000 additional shares of Kshs 1 each, through a Rights Issue, increasing the share capital from Kshs 146,250,000 to Kshs 272,440,000.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 Kshs '000	2015 Kshs '000	2016 Kshs '000	2015 Kshs '000
Trade payables	55,703	71,317	48,221	71,317
Related party payable (Note 26)	-	-	10,379	27,825
Royalty provisions	74,536	102,745	74,536	102,464
Accruals	13,096	7,238	13,096	6,200
Leave pay provisions	4,661	4,457	3,974	4,079
Other payables	264,109	59,170	200,852	53,087
Gratuity provision	7,649	8,395	7,411	7,831
VAT payable	6,025	1,792	6,025	1,792
	425,779	255,114	364,494	74,595

22. BORROWINGS

Group and Company

	2016 Kshs '000	2015 Kshs '000
At start of the year	41,677	-
Borrowings received	435,051	41,677
	476,728	41,677

The borrowing for 2016 relates mostly to asset financing.
No financial covenants have been breached in the year.

23. NOTES TO THE STATEMENT OF CASH FLOW

	Group		Company	
	2016	2015	2016	2015
	Kshs '000	Kshs '000	Kshs '000	Kshs '000
Reconciliation of profit before taxation to cash generated from operations				
Profit before taxation	139,277	96,916	171,407	119,285
Depreciation (note 13)	24,749	14,164	19,894	12,276
Amortisation of intangible assets (note 14)	5,341	3,481	4,098	2,040
Profit on disposal of equipment	1,916	(357)	(3,593)	(357)
Net exchange loss (note 6)	(7,478)	7,789	7,977	535
Working capital changes:				
Increase in inventories	(372,121)	(29,323)	(322,162)	(17,289)
Increase in trade and other receivables	(483,986)	(3,056)	(468,171)	(59,403)
(Decrease) / increase in trade and other payables	170,665	(59,925)	(89,899)	(43,283)
Cash generated from operations	(521,637)	29,689	(500,696)	(8,782)

24. CAPITAL COMMITMENTS

There were no capital commitments as at 30th June 2016 (2015: Nil)

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 eventuate.

26. RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Longhorn Publishers Limited, incorporated in Kenya. There are other companies that are related to Longhorn Publishers Limited through common shareholdings or common directorships.

A related party for the purposes of these financial statements is a company which, directly or indirectly, has common ownership with Longhorn Kenya Limited. The amounts due from and due to related parties are in respect of transactions arising in the normal course of business.

	2016 Kshs '000	2015 Kshs '000
(a) Due from subsidiaries – Company		
Longhorn Publishers (Uganda) Limited	37,743	15,352
Longhorn Publishers (Tanzania) Limited	21,207	68,208
Longhorn Publishers (Rwanda) Limited	41,316	14,238
	100,266	97,798
(b) Due to subsidiaries – Company		
Longhorn Publishers (Uganda) Limited	1,372	17,772
Longhorn Publishers (Tanzania) Limited	6,126	10,053
Longhorn Publishers (Rwanda) Limited	2,881	-
	10,379	27,825

(c) Key management compensation

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

	Group		Company	
	2016 Kshs '000	2015 Kshs '000	2016 Kshs '000	2015 Kshs '000
Salaries and other benefits	41,412	37,606	41,412	34,200
Fees for services as Directors	6,031	4,788	4,889	4,359

27. SUBSEQUENT EVENTS

Subsequent to the year end, the Company acquired 67% of the shares of LawAfrica Publishing Limited. The Company had paid Kshs 100,565,000 as at 30th June 2016, but was yet to receive regulatory approval for the acquisition.
The amount is thus classified as "other investment" in these financial statements.

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 28th October 2016 and at any adjournment thereof.

As witness my/our hand this day of 2016

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.

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