THE JOMO KENYATTA FOUNDATION

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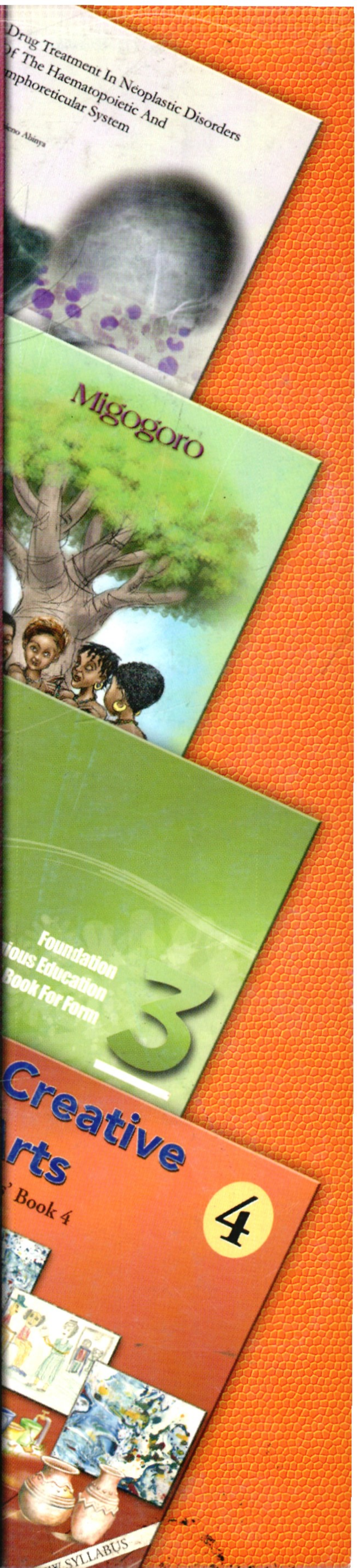
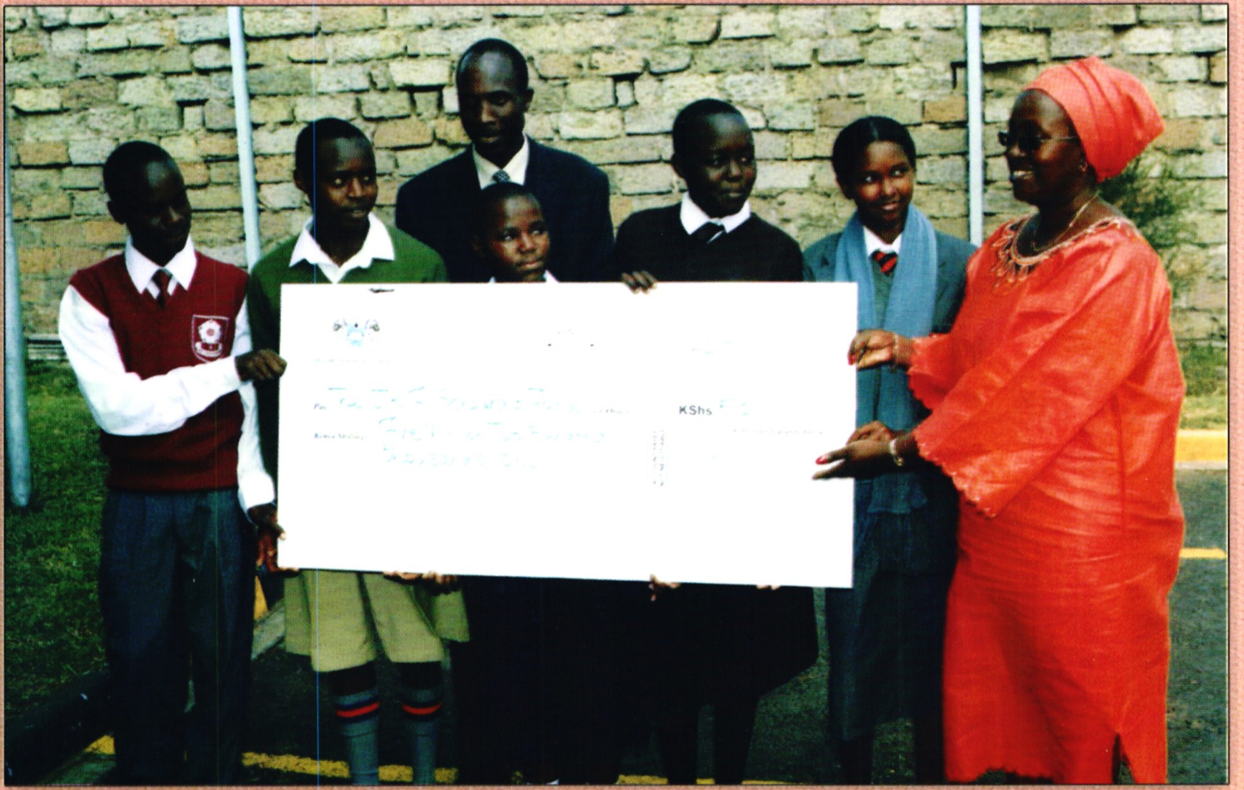


The Jomo Kenyatta Foundation
Annual Report and Financial Statements
For the Year Ended 30th June, 2006

Beneficiaries sign the visitor's book at JKF headquarters.



JKF Managing Director, Nancy Karimi (Mrs.) with the Company Secretary pose for a group photograph with scholarship beneficiaries as they display a giant dummy cheque

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2006

THE JOMO KENYATTA FOUNDATION

THE JOMO KENYATTA FOUNDATION
(Educational Publishers & Printers)
P O BOX 30533 – 00100 NAIROBI
Tel: 557222/531965/536200/1/2, Mobile: 0723-286993, 0723-969793, 0735-339135
Fax: 531966, Email: sales@jomokenyattaf.com, publish@jomokenyattaf.com
Website: www.jkf.co.ke

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BOARD OF DIRECTORS

Mr. Micah Cheserem Chairman

Amb. Francis Muthaura, E. G. H.
Permanent Secretary, Office of the President & Head of the Public Service

Mr. Stephen Kirogo, Alt. to PS, Office of the President & Head of Public Service

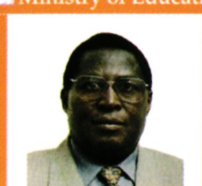
Mrs. Teresia Gathara
Alt. to PS, Treasury

Prof. Karega Mutahi, CBS Permanent Secretary, Ministry of Education

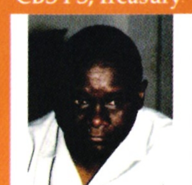
Mrs. Miriam Mwirotsi, Alt. to PS, Ministry of Education

Mr. Joseph Kinyua
CBS PS, Treasury

Dr. Leah N. Wanjama



Mr. Harry Njoroge



Mr. Peter Mutulu

Mr. Julius M. Mburugu

Mr. Abdi Abass

Mrs. Nancy W. Karimi Managing Director/Secretary to the Board

JKF MANAGEMENT:

Mrs. Nancy W. Karimi Managing Director

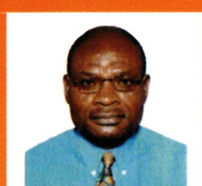
Mr. Stephen P. M. Aming'a
Company Secretary

Mr. Carylus O. Odiango Finance Manager

Mr. Bethuel O. Oduo Sales &
Marketing Manager

Mr. Fredrick O. Oyuga Publishing Manager

Mr. Leonard W. Wakhisi Chief Internal Auditor



Mr. John O. Sudhe Human Resource
& Administration Manager

NOTICE OF ANNUAL GENERAL MEETING:

NOTICE IS HEREBY GIVEN that the 37th ANNUAL GENERAL MEETING (AGM) of the Jomo Kenyatta Foundation will be held at the offices of the Foundation in Industrial Area, Enterprise Road, Nairobi on 21st June 2007 at 10.00am.

AGENDA:

1. The secretary to read the Notice convening the 37th Annual General Meeting.
2. To receive and confirm the Minutes of the last AGM held on 24th May 2006
3. To receive and adopt the Chairperson's Report on the Foundation's operations for the year ended 30th June 2006.
4. To receive, discuss and adopt the External Auditor's Report on the Accounts of the Foundation for the year ended 30th June 2006
5. To receive and adopt the Directors' Report and the Company's Financial statements for the year ended 30th June 2006
6. To appoint the Company's External Auditor for the year ending 30th June 2007 and authorize the Directors to fix the Auditor's remuneration.
7. To fix Directors fees, allowances and other remuneration for the year ended 30th June 2006 and authorize management to seek Government approval for their payment.
8. To transact any other ordinary business of the Company.

By order of the Board.

Kkarimi

N. W. KARIMI (MRS.)

MANAGING DIRECTOR/SECRETARY TO THE BOARD

NB: In accordance with section 136(2) of the Companies Act (Cap 486), every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy needs to be a member. A form is enclosed and should be returned to the Secretary, P. O. Box 30533 – 00100, Nairobi to arrive not later than 48 hours before the meeting or any adjournment thereof.

THE CHAIRMAN'S REPORT

Once again, it gives me pleasure to present the Annual Report and Financial Statements for The Jomo Kenyatta Foundation for the year ended 30th June 2006.

PERFORMANCE REVIEW

The year under review was a difficult one as the Company's turnover of KShs. 477 million fell short of the budget by 40%.

Similarly, gross profit of KShs. 156 million was off target by 43% while operating profits at KShs. 159 million fell short of the budget by 43%. Profits from operations recorded a 125% drop with a loss of KShs. 31 million against a budgeted profit of KShs. 127 million. Finance costs exceeded the budget by 17% due to poor cash flow occasioned by low sales.

Cumulatively, the Company suffered a loss of KShs. 36 million in net profits against a budgeted net profit of KShs. 123 million.

Despite the hard times brought about by the sharp drop in demand for the Company's products and the hostile industry situation, the Company recorded savings of 31% in respect of the cost of sales. The total operating expenses of KShs. 191 Million resulted in a budget saving of 5%.

Other operating income including rent from the Company's premises along Kijabe Street recorded 6% growth.

PERFORMANCE FRAMEWORK

The year under review marked the beginning of a new operational framework under which the Company's Board entered into a Performance Contract with the Government. In the same way, the Board and the Managing Director concluded a performance contract.

Both contracts had clear statements of the objectives, obligations and responsibilities of the respective parties as well as performance targets, evaluation criteria and criteria for determining rewards and sanctions relative to performance. From the Accounts, it is clear the Company did not attain its financial targets due to a hostile operating climate that affected the entire publishing industry.

It is, however, envisaged that due to new operational strategies and restructuring adopted by the Board, the Company will record a marked financial and general improvement in the coming year.

CORPORATE SOCIAL RESPONSIBILITY

The Jomo Kenyatta Foundation subscribes to the principle and practice of responsible corporate citizenship.

In this regard, the Company Directors and staff took part in several activities including donation of food worth KShs.

200,000 towards the national famine relief kitty. In addition, the Company provided attachment for university and polytechnic students, donated books worth KShs. 15.7 million to various public schools and organizations and paid secondary school scholarships amounting KShs. 22 million.

STAFF DEVELOPMENT

In line with the Company's commitment to staff development and in a bid to improve service delivery and the quality of the Company's products, during the year under review, the Company spent KShs. 1.5 million in sponsoring its staff for training at various professional and skills upgrading institutions.

Courses undertaken include Corporate Governance, Human Resource Management, Management of the HIV/AIDS pandemic at the work place, and Health and Safety at the work place.

In addition, a number of staff members are pursuing various professional and higher degree courses in fields related to their work including accounts, human resource management, sales, marketing and business management.

In the coming year, the Company plans to ensure 40% of its staff undergo relevant training especially in Information Technology and Health and Safety.

RESTRUCTURING

In order to turn around the Company's performance, the Board commissioned a consultant to examine the Company's Sales & Marketing systems/functions as well as those of the Production department in the light of the prevailing industry situation.

The Board resolved to restructure the Company to ensure its continued survival and return to profitable trading. Once the restructuring is fully implemented, the Company expects to make annual cost savings of KShs. 75 million. The planned restructuring is estimated to cost the Company KShs. 22 million.

FUTURE PROJECTION

In order to increase the Company's competitiveness, the Board has set in motion new strategies including product and market diversification, enhanced staff training, computerization of operations of the Company's Book Distribution Centres and networking of the Book Distribution Centres with head office.

In a bid to diversify the markets, the Company is already conducting a book market survey in Southern Sudan. A preliminary survey has been done in Rwanda.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank our customers, suppliers, the Government and staff of The Jomo Kenyatta Foundation for their efforts that enabled the Company to successfully carry out its business for the year under review.

My special thanks go to the Directors for providing diligent policy guidance and direction for the prudent management of the Company's affairs.

Last but not least, I pay tribute to the end users of our products – schools and parents -for choosing to buy and use our books. Our authors of the various publications that comprise the Company's core product are invaluable to us. Above all, I thank God for seeing us through the difficult year and look forward to a better year.

Thank you and God bless.

MICAH CHESEREM

CHAIRMAN

THE CHIEF EXECUTIVE'S REPORT

The year ended 30th June 2006 was of specific importance to the education sector in Kenya. The year marked the completion of the revision of the curriculum, which was implemented in four phases and took place over a period of four years. The Foundation's performance in the phase IV submission improved to 55% from 35% in phase III. A number of the books that were not approved in phase IV and previous phases were resubmitted and subsequently approved. This has helped in increasing our market share of the approved titles. The overall success for JKF books was 73.3%.

Financial Performance:

Turnover declined from KShs. 505 million in the year ending June 2005 to KShs.477 million, representing a 6% drop. However, with prudent financial management and cost reduction, the loss reduced from KShs.52 million in previous year to KShs.36 million in the year ending June 2006.

With the ongoing restructuring of the organization, the Foundation will certainly report improved performance in the year ending June 2007 and beyond.

Operating Environment:

The Foundation is a major player in publishing industry and controls about 30% of the market. There is, however, great competition from other players in the market. Over the years, the Company has relied heavily on the sale of primary school textbooks as its core revenue base. Sale of primary school titles comprises 95% of the annual turnover. With the liberalization of the book industry, the competition has heightened. The Foundation has had to improve on products and strategies. As we endeavor to consolidate the 30% share, there is a greater need to raise this percentage in the current market along with venturing into frontier markets.

Management Strategy:

With the above in mind, the Foundation is working hard to penetrate in Southern Sudan, Rwanda, and revive the stalled Tanzania project. As for the local market, Foundation has undertaken several measures to improve on our sales. Some of these measures include the employment of additional sales representatives and the purchase of new and more effective fleet of sales vehicles. This will enable us to penetrate areas that hitherto had not been reached.

Through the approval of the Board, the Foundation also commissioned some research on our production and distribution structures. Following this research, Karatina and Kakamega book distribution centers were closed down as they were not cost effective.

With the completion of the curriculum change, the Foundation has embarked on releasing other non-curriculum yet equally important titles. The Access Revision Series is an excellent supplementary work, which will help students and pupils in revision. The Foundation hopes to complete the remaining titles on this series in the year 2006/2007. Along with this, a re-branding and re-launch of older titles, which are still relevant for the market, is scheduled in the new financial year.

Staff:

The Foundation realizes that the backbone of any organization is a strong, competent and disciplined work force. Staff empowerment through training is a priority. In this regard, staff in accounts, sales and stores sections underwent in-house training on Syspro accounts software in an effort to increase capacity utilization. Other members of staff have also been undergoing various courses relevant to their duties.

Four heads of department were sponsored for a course in Corporate Governance that is very key in achieving our objectives especially in this era of performance contracting.

To enhance the use of Information and Communication Technology, we are in the process of recruiting a manager in this section after the former systems administrator left for another organization.

JKF Scholarships Programme:

Jomo Kenyatta Foundation was established in 1966 as a government's initiative in the promotion of education through publishing. The main objects of the Foundation were the advancement of education and/or for the purposes of the relief of poverty or distress of the public. To achieve these objectives, the Foundation set up a scholarships scheme in 1968, which was aimed at assisting bright, but needy students in acquiring secondary education.

The Foundation records indicate that more than KShs.150 million has been utilized in the provision of this much-needed service to the society. Currently, more than nine hundred students are in the scheme with the Foundation spending more than KShs. 20 million per year solely from her profits to put them through from form one to form four.

Over the years, the method of disbursing these finances to the schools has been the traditional cheque writing. Recently, the Foundation in collaboration with our bankers, has introduced an easier way where funds are credited electronically to the schools accounts. Beneficiaries and their schools are urged to always respond upon receipt of these monies to ensure effectiveness of the scheme.

In order to benefit every part of the nation, a very clear and fair criteria is applied in selecting the would be beneficiaries. An advertisement is placed in the leading dailies with ample time given to the prospective applicants. As expected, the response is usually overwhelming. A thorough and detailed analysis of the applications is carried out to ensure that only deserving cases are short-listed. Due to financial limitations, about 200 students are picked every year with utmost care taken to ensure fair and equitable distribution of the scholarships to reach every district in the country.

Priority is however, given to the ASAL districts where more slots are allocated and lower marks considered. The Foundation is also exploring more ways of announcing the scheme to reach people who have no access to the newspapers yet have very deserving cases.

At the Foundation, we realize the great importance of maintaining lasting relationships with those who have benefited or are benefiting through this scheme. To this end, JKF creates opportunities and forums such as workshops, random visits to schools and even familiarization cocktails to interact with these beneficiaries. We are also exploring ways in which beneficiaries can participate in whatever capacity in ensuring that the scheme continues to flourish. On the same note, we wish to sensitise the general public that every time they buy a Foundation book, they help in educating a poor student who would otherwise not access this treasured resource.

The JKF Board of Directors, Management and entire staff take exceptional pride in this scholarships scheme. We are committed to ensuring that this objective for which the Foundation was instituted, continues to register exemplary success.

I wish to thank the Board for giving Management their full support and for their much-valued advice, which has helped in reshaping the organization. The groundwork has been laid and we look forward to recapturing our place as the market leader. I also thank the entire Management and staff for their contribution in ensuring that the Foundation remained steadfast even in the face of stiff competition.

May God bless you all.

Nkarimi

MRS. N. W. KARIMI

MANAGING DIRECTOR

COMPANY OVERVIEW

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a Company Limited by guarantee and having no share capital on 2nd March 1966.

The main objective of the Company was and still remains advancement of education and relief of poverty hence the Company's concentration on publishing and provision of scholarships as the core business. The core objective and business aforesaid are captured in the Company vision of being the premier publisher in the region (East Africa) through the provision of quality competitively:- priced educational materials.

The principal stakeholder, the government of Kenya, provided the seed capital to establish The Foundation. For this reason, the government appoints the Board of Directors to carry out the Company's mandate and in line with current government policy on service delivery in the public sector, Board performance is subject to performance contract signed with The Ministry of Education.

In order for the Board to carry out its mandate effectively, Management is obliged to provide the Board with adequate and relevant information on the operations of The Foundation. Management normally avails to the Board members in advance of scheduled Board meetings, the requisite information. During the year under review, the Board met five (5) times.

The Primary Responsibilities of The Board

The Board's primary responsibility is establishing the long-term goals of The Foundation and providing policy guidance and leadership to ensure strategic objectives and plans are set and achieved. In this regard, the Board followed its five -year strategic plan for the period 2001 to 2006. A strategic plan for the next five years to 2012 is scheduled to be formulated and adopted in the year 2007.

Board Composition:

During the year under review, the Board was composed of thirteen members as listed in the Directors' Report. They include The Chairman, The Managing Director and 3 alternate directors representing permanent secretaries from The Office of the President, The Ministry of Finance and The Ministry of Education. The Managing Director, who is also the secretary to the Board, is the only Executive Director.

The Chairman of the Board is appointed by The President of The Republic Of Kenya and serves for a period of 5 years, the non-executive directors are appointed by The Minister for Education and serve a period of 3 years. The Managing Director is appointed on a three year contract by the Minister for Education on recommendation of the Board.

The Board delegates some of its responsibilities especially those of a technical and specialised nature to Standing Committees including the statutory one dealing with procurement and disposal matters.

The Committees are follows:

- Finance and General Purpose Committee
- Audit Committee
- Corporation Tenders Committee
- Staff Committee

Finance and General Purpose Committee:

The Finance and General Purpose Committee is composed of 6 non-executive directors and The Managing Director. 3 Senior Management staff and a representative of Inspector General Corporations attend the meetings on invitation.

Audit Committee:

The Audit Committee is composed of 4 non-executive directors, The Managing Director and The Chief Internal Auditor. 2 Senior Management staff and a representative of Inspector General Corporations attend the meetings on invitation.

Corporate Tenders Committee:

The Corporate Tenders committee is composed of 5 non-executive directors and The Managing Director. 5 Senior Management staff are members of the committee by virtue of the provisions of The Public Procurement and Disposal Regulations 2001 and a representative of Inspector General Corporations attend the meetings on invitation.

Staff Committee:

The Staff Committee is composed of 5 non-executive directors and The Managing Director. 2 Senior Management staff and a representative of Inspector General Corporations attend the meetings on invitation.

Accountability And Audit:

The Board usually presents a balanced and understandable assessment of The Foundation's financial position and prospects. The assessment is provided in the Chairman's statement and in the audited financial statements attached to this report.

The financial report produced comply with the financial reporting standards recommended by the Institute of Certified Public Accountants of Kenya and also comply with the Kenya Companies Act (Chapter 486, Laws of Kenya).

Stakeholder Relationships:

The Foundation which is a Company limited by guarantee has set up a scholarship fund to assist bright and needy students in public secondary schools pay school fees in accordance with its one object of advancing education and relief of poverty.

The Board recognizes its responsibility to communicate to the stakeholders the performance of The Foundation stated. This is done through the publication of its annual reports and financial statements, which are circulated to parliament and filed with the registrar of Companies in addition to being displayed prominently in our sales outlets.

Corporate Social Responsibility:

The Foundations core business is the advancement of education and relief of poverty. As part of its responsibility to the society, the Foundation has been setting aside part of its income to pay school fees for bright needy students in public secondary schools selected from all districts in Kenya. During the year under review, The Foundation spent Kshs. 24 million for this purpose. This programme has benefited more than 20,000 students since its inception in 1968.

The year 2006 was characterized by famine in most parts of the country. The Board, staff and The Foundation donated food worth Kshs 0.2M, which was handed over to The Kenya Red Cross Society for distribution to the affected areas.

As apart of its Corporate Social Responsibility, during the year under review The Foundation made book donations valued at Kshs 15.7 million to The Kenya Prison Services and Kshs 2 million to the Government of South Sudan amongst other book donations.

Compliance With The Law:

The Board is satisfied that to the best of their knowledge, The Foundation has complied with all applicable laws and conducted its affairs in accordance with the Companies Act. The Foundation has not to the knowledge of the Board, been involved in, or been used as conduit for money laundering or any other activity incompatible with the national laws or any international treaty to which our country is a signatory.

Human Resource Development:

The Foundation employs a total of 280 employees and has continued to support the training and development of staff through sponsorship to various colleges, courses and workshops. In the year under review 4 management staff attended a five-day corporate governance course and 32 staff of various cadres from various departments attended an in house training on the operations of our Information Management System.

The Board is happy to report that in its efforts to promote HIV/AIDS awareness, The Foundation has formulated an HIV/AIDS workplace policy and created an HIV control unit at the work place to sensitize staff on the AIDS pandemic.

Corporate Governance Statement

The Jomo Kenyatta Foundation's Board of Directors is accountable to the Government of Kenya and the public for ensuring that The Foundation complies with the law, the highest standards of Corporate governance and business ethics. During the year under review, The Foundation has complied with the law and the principles of best practice for corporate governance in Kenya.

The principles which the Company practices include accountability, integrity, transparency and responsible corporate citizenship.

Future Prospects:

The annual report highlights the Company's future prospects in pages 18 to 28.

MICAH CHESEREM

CHAIRMAN TO THE BOARD

CORPORATE INFORMATION

INCORPORATION

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a Company Limited by guarantee on 2nd March 1966.

DIRECTORS:

1.	Mr. Micah Cheserem	–	Chairman
2.	Amb. Francis K. Muthaura	–	PS OP: Head of Public Service
3.	Mr. Stephen K. Kirogo	–	Alternate to PS OP: Head of Public Service
4.	Prof. Karega Mutahi	–	PS, Ministry of Education
5.	Mrs. Miriam Mwirotsi	–	Alternate to PS, Ministry of Education
6.	Mr. Joseph Kinyua	–	PS, Treasury
7.	Mrs. Teresia N. Gathara	–	Alternate to PS Treasury
8.	Dr. Leah N. Wanjama	–	Member
9.	Mr. Abdi R. H. Abass	–	Member
10.	Mr. Harry Njoroge	–	Member
11.	Mr. Julius Mburugu	–	Member
12.	Mr. Peter Mutulu	–	Member
13.	Mrs. Nancy W. Karimi	–	Managing Director/Secretary to the Board

SECRETARY:

Mrs. Nancy W. Karimi

Managing Director and Secretary to the Board

P. O. Box 30533 - 00100

Nairobi.

REGISTERED OFFICE:

The Jomo Kenyatta Foundation
Headquarter and Principal Offices
Enterprise Road, Industrial Area
P. O. Box 30533 - 00100
Nairobi.

AUDITORS:

Controller and Auditor General
Kenya National Audit Office
P. O. Box 30084 - 00100
Nairobi.

PRINCIPAL BANKERS:

Kenya Commercial Bank Limited
Moi Avenue Branch
P. O. Box 30081 - 00100
Nairobi.

LAWYERS/ADVOCATES:

Kinyanjui & Njau Co. Advocates
Mpaka Road, Westlands
P. O. Box 49045 - 00100
Nairobi.

INSPECTION:

Inspector General, State Corporations
P. O. Box 30510- 00100
Nairobi.

DIRECTORS' REPORT

The Directors submit their report together with the audited accounts for the year ended 30th June 2006.

1. The Principal Activities:

The Foundation publishes and prints school textbooks and other educational materials

2. Results:

The results for the year are as shown on page 17.

3. Appropriation of Profits:

The Foundation is a company limited by guarantee and in accordance with its memorandum and articles of association has set up a scholarship fund to assist in meeting the school fees needs of bright but needy students. During the year, Kshs.22 million was utilized for this purpose.

4. Directors:

The Directors who served during the year are as listed in the Corporate Information Section of this report page iii.

5. Auditors:

The Controller & Auditor General continues in office in accordance with the Audit and Exchequer Act.

By order of the Board

Nkarimi

N. W. KARIMI (MRS.)

SECRETARY TO THE BOARD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year that gives a true and fair view of the state of the Company as at the end of the financial year and of its operating results. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

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

Director: ______________________

Managing Director: ______________________

REPUBLIC OF KENYA

HARAMBEE

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF JOMO KENYATTA FOUNDATION FOR THE YEAR ENDED 30 JUNE 2006

I have audited the financial statements of Jomo Kenyatta Foundation for the year ended 30 June 2006 in accordance with the provisions of section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the controller and Auditor General

The directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Foundation and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial presentation off the financial statements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the Foundation as at 30 June 2006 and of its loss and cash flows for the year then ended and comply with the Kenya Companies Act, (Cap 486).

P. N. Komora

CONTROLLER AND AUDITOR GENERAL

The Jomo Kenyatta Foundation MD, Nancy Karimi(Mrs.), giving a word of advice to a group of JKF scholarship beneficiaries

INCOME STATEMENT

	Appendices	2006 Kshs'000	2005 Kshs'000
Turnover	1	476,592	505,667
Cost of Sales	1	(320,095)	(360,572)
Gross Profit		156,497	145,095
Other Operating Income	3	2,735	2,653
Operating Profits		159,232	147,748
Distribution Expenses	3	85,510	82,259
Administrative Expenses	4	96,496	99,299
Other Operating Expenses	5	8,531	9,922
Total Operating Expenses		190,537	191,480
Profit / Loss from Operations		(31,305)	(43,730)
Finance Costs	5	(5,060)	(7,878)
Net Profit / (Loss)		(36,365)	(51,608)

BALANCE SHEET

	NOTES	2006	2005
ASSETS		Kshs'000	Kshs'000
Non-Current Assets	6	96,868	112,768
Current Assets			
Inventories	7	301,079	278,128
Trade and other Receivables	8	39,833	47,760
Cash and Cash equivalents	9	1,739	4,512
		342,651	330,400
TOTAL ASSETS		439,519	443,168
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Reserve	5	4,000	4,000
Revaluation Reserves		70,920	70,920
Retained Earnings		186,052	244,927
Scholarship Fund		7,775	6,962
		268,747	326,809
Current Liabilities			
Trade and other payables	10	141,860	96,891
Bank Overdraft	9	28,912	19,468
		170,772	116,359
TOTAL EQUITY & LIABILITIES		439,519	443,168

The financial statements and notes thereof were approved by the Directors on 21st September, 2006 and were signed on its behalf by:

.... Director

.... Director/Secretary

STATEMENT OF CHANGES IN EQUITY

	Capital Reserve	Revaluation Reserve	Retained Earnings	Scholarships Fund	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
As at 1st July 2005	4,000	70,920	244,927	6,961	326,808
Prior year adjustment	-	-	490	-	490
Net Profit for the Year	-	-	(36,365)	-	(36,365)
Scholarships Appropriation	-	-	(23,000)	23,000	-
Scholarships Applied	-	-	-	(22,186)	(22,186)
As at 30th June, 2006	4,000	70,920	186,052	7,775	268,747

CASH FLOW STATEMENT

	NOTES	2006	2005
		Kshs'000	Kshs'000
Operating Activities			
Cash Generated from operations	12	13,246	(77,061)
Scholarships Applied		(22,186)	(20,942)
Prior period adjustments		490	
Net cash from operating activities		(8,450)	(98,004)
Investing Activities			
Purchase of property, plant & equipment	6	(6,159)	(10,970)
Proceeds from sale of property, Plant& Equipment		2,392	488
Net cash from Investing Activities		(3,767)	(10,483)
Financing Activities			-
Net increase/ (Decrease) in cash & Cash equivalents		(12,217)	(108,487)
Cash and cash equivalents as at 1st July 2005		(14,956)	93,531
Cash and cash equivalents as at 30th June 2006	9	(27,173)	(14,956)

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial Statements are set out below:

(a) Basis of Preparation

The financial statements are prepared under the historical cost convention (as modified by the revaluation of certain property plant and equipment) and are in compliance with International Financial Reporting Standards.

(b) Revenue Recognition

i. Sales are recognized upon delivery of goods and customer acceptance of the same, net of VAT and discounts.

ii. Interest is accounted for on receipt basis.

(c) Property Plant and Equipment

All property, plant and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value, based on valuations by external independent valuers less subsequent depreciation. All other property, plant and equipment is stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve, all other decreases are charged to the profit and loss account.

Depreciation is calculated to write down the cost of each asset, or the revalued amount over its estimated useful life using the following basis and annual rates.

	Method	Rate
Leasehold land	straight-line	lease period
Buildings	straight line	2%
Motor vehicles	reducing balance	25%
Computers	straight line	25%
Office furniture fittings & equipment	straight line	15%
Printing machines	straight line	12.5%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining their operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to the retained earnings.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted-average-cost basis. The cost of finished goods and work-in- progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(e) Taxation

The Foundation is exempted from income tax on all income through the income tax act (cap.470) section 13 and first schedule part 1. Its profits are applied for the payment of scholarships and /or retained to solidify the financial base.

(f) Pension Obligations

The company operates a defined contribution pension scheme for its permanent and pensionable employees. Jubilee Insurance Company Ltd. administers the scheme. The company's contributions to the defined contribution pension scheme are charged to the income statement in the year in which they relate.

(g) Trade Receivables

Trade receivables are carried at original invoiced amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year-end. Bad debts are written off in the year in which they are identified.

(h) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, and investments in Money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included as borrowings in current liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2006	2005
		Kshs'000	Kshs'000
2.	**Operating Profit:**		
	The following items have been charged in arriving at operating profit:		
	Depreciation on property, Plant & Equipment	20,775	22,865
	Staff Costs	176,469	148,230
	Auditors' Remuneration	250	250
	Directors' Remuneration:		
	- Fees	450	450
	- Other	3,441	3,222
	Repairs & Maintenance	7,982	6,454
	Gain (loss) on disposal of non-current assets	(1,109)	(112)
		208,258	181,359
3.	**Staff Costs:**		
	Salaries	168,275	142,475
	Social Security Costs	825	617
	Pension costs - defined contribution plans	7,369	5,138
		176,469	148,230
4.	**Finance Costs:**		
	Bank charges & Commissions	4,474	2,878
	Foreign Exchange loss/gain	(580)	-
	Bad debts	1,166	5,000
		5,060	7,878
5.	**Capital Reserve:**		
	Initial Grant to set up the Foundation	4,000	4,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Property, Plant & Equipment:

	Leasehold Lands & Buildings	Plant & Machinery	Motor Vehicles	Furniture Fittings & Office Equip.	Computers & Peripherals	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
Cost or valuation						
1st July 05	47,215	168,674	48,115	12,800	24,429	301,233
Additions		284	3,001	1,211	1,663	6,159
Disposals	-	-	(12,190)	(81)	(1,209)	(13,480)
At 30th June'06	47,215	168,958	38,926	13,930	24,883	293,912
Depreciation at 1st July'05	12,679	115,732	32,342	8,151	19,561	188,466
On disposals			(11,184)	(81)	(932)	(12,197)
Charge for the year	954	14,185	4,038	487	1,111	20,775
At 30th June'06	13,633	129,917	25,196	8,557	19,740	197,044
Net book Value at 30th June'06	33,582	39,040	13,730	5,373	5,143	96,868
At 30th June'05	34,536	52,942	15,773	4,648	4,868	112,768

External independent valuers last revalued Leasehold Land and buildings, plant and machinery in 1993. However, land and building located at Kijabe Street was not revalued at that time. Valuations were made on the basis of open market value. The book values of the property, plant and machinery were adjusted to the revaluation and the resultant surplus was credited to the revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

If the leasehold land and buildings and plant & machinery were stated on historical cost basis, the amounts would be as follows:-

	Cost	Accumulated Depreciation	Net Book Value
	Kshs'000	Kshs'000	Kshs'000
Leasehold Land &Buildings			
At 30.06 06	26,683	13,633	13,050
At 30.06 05	26,683	12,679	14,004
Plant & Machinery			
At 30.06 06	120,845	120,845	-
At 30.06 05	117,979	83,831	34,143

7. Inventories:

	2006	2005
	Kshs'000	Kshs'000
Finished goods	341,537	324,958
Work-in -Progress	1,486	5,127
Raw materials and consumables	13,946	12,479
	356,969	342,564
Provision for old editions/obsolete stocks	(55,890)	(64,436)
	301,079	278,128

Provision for old edition/obsolete stock represents cost of old edition stock where the stock held at 30 June 2006 is more than three years worth of sales based on average sales over the three years to 30 June 2006. Provision made in the current financial year was Kshs.7.2 million. Obsolete stock valued at Kshs.15.7 million was donated during the year and charged against the provision

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Trade and other Receivables:

	2006	2005
	Kshs'000	Kshs' 000
Trade Receivables	33,851	38,485
Prepayments & Other Receivables	25,093	28,110
	58,944	66,595
Less: Provisions for doubtful debts	(19,111)	(18,835)
	39,833	47,760

Trade receivables amounting to Kshs.6.2m were identified for provision as doubtful during the year. This amount is inclusive of Kshs 5 million in the previous year, which was a general provision. An extra provision of Kshs.1.2m has been made in the current financial year statement.

9. Cash and Cash Equivalents

For the purpose of the cash flow statement, the year - end cash and cash equivalents comprise the following: -

	2006	2005
Cash and bank Balances	1,739	4,512
Bank overdraft	(28,912)	(19,468)
Cash at bank and in hand	(27,173)	(14,956)

The overdraft limit approved by the Board of Directors was Kshs. 40 million (Kshs.20 million at June 2005). The overdraft is necessary to fund operation during the low sales season that runs from the months of April to September.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Trade and other payables:

	2006	2005
	Kshs'000	Kshs'000
Trade Payables	103,944	59,629
Suspense Account	8,393	1,816
Other Payables	29,523	35,446
	141,860	96,891

Other payables include provision for royalties to authors of Kshs.17.7m (2004/2005 - Kshs. 23.2m). The provision is calculated as a percentage of sales for titles that are subject to royalty and are payable during the following financial year.

11. Contingent Liability

There are books that were printed in excess of the order by one of our printers in May 2005 and delivered to the Foundation with a value of Kshs.3,056,084. These books have not been paid for and are excluded from the year-end stock balances.

12. Cash Generated from Operations:

Reconciliation of profit before tax to cash generated from operation

Profit/(loss) before tax	(36,365)	(51,608)
Adjustments for:		
Depreciation (Note 6)	20,775	22,865
Loss/(profit) on sale of property, plant & equipment	(1,109)	(112)
Changes in working Capital		
Trade and other receivables	7,927	8,898
Inventories	(22,951)	(72,702)
Trade and other payables	44,969	15,598
Cash Generated from Operations	13,246	(77,061)

13. Corporate status:

The Foundation is a company limited by guarantee and does not have a share capital. The capital reserve represents the initial grant to set up the Foundation.

14. Currency:

These financial statements are presented in Kenya shillings thousands (Kshs'000)

Appendix 1

	2006 Kshs'000	2005 Kshs'000
Turnover:		
Sales of Primary Titles	579,701	616,660
Sales of Sec. Titles	51,983	62,172
Sales of Tertiary Titles	1,028	852
Sales of General Titles	5,391	6,229
Obsolete Stock Sales	-	-
Sales of Service Jobs	20,346	12,131
Sales Returns	(4)	(19)
Gross Sales	658,445	698,025
Less Discounts	(181,853)	(192,358)
Net Sales	476,592	505,667
Cost Of Sales:		
Cost sales Primary Titles	189,502	156,735
Cost of sales Secondary Titles	16,067	17,485
Cost of sales Tertiary Titles	301	269
Cost of Sales General Titles	1,633	2,104
Cost of sales Adjustment	(134)	4,688
Cost of sales miscellaneous	601	391
Cost of Sales Service Job	12,123	8,554
Purchase price variance/adjustments	(9,150)	2,337
Provision for obsolete stock	7,197	52,500
Add production overheads	101,955	115,509
Cost of Sales	320,095	360,572

Appendix 2

Production overheads:

	2006	2005
	Kshs'000	Kshs'000
Staff salaries	37,099	29,204
Staff Housing	18,988	18,998
Staff Medical & Welfare	2,597	4,681
Provident fund contribution	2,868	2,014
Staff training	161	509
Editorial Charges	22	1,863
Product development expenses	17,324	34,937
Electricity & water	2,344	2,241
Machinery repairs & maintenance	4,654	4,614
Insurance	1,125	688
Depreciation plant & machinery	14,773	15,760
	101,955	115,509

Appendix 3

SCHEDULE OF OTHER OPERATING INCOME AND EXPENDITURE

	2006	2005
	Kshs'000	Kshs'000
Other Operating Income:		
Interest	213	350
Rental Income	908	857
Miscellaneous (Obsolete, waste paper & Tender documents).	1,614	1,446
	2,735	2,653
Distribution Expenses:		
Salaries & Wages	27,641	22,842
Staff housing	11,600	10,519
Staff Medical & Welfare	1,445	2,421
Provident Fund	1,639	1,151
Staff Training	243	422
Vehicle running expenses	5,876	4,996
Staff Travelling & Accommodation	1,323	693
Marketing & Sales Promotion	10,478	9,468
Rent & Rates	2,685	2,084
Electricity & Water	480	190
Postage & Telephone	2,594	1,689
Packaging Material	937	1,247
Depreciation	31	38
Royalties to Authors	17,313	23,064
General Expenses	52	71
Security	773	563
Standard Levy	400	800
	85,510	82,258

Appendix 4

	2006	2005
	Kshs'000	Kshs'000
Administrative Expense:		
Salaries & Wages	39,980	41,271
Staff housing	19,006	19,641
Provident fund contribution	3,687	2,590
Staff Medical & Welfare	8,436	8,195
Staff Training	1,079	1,732
Directors Remuneration	3,891	3,672
Subscriptions	536	520
Library Expenses	27	44
Printing & Stationery	2,566	304
Postage & Telephone Expenses	4,449	3,935
Legal & Professional Fees	1,878	858
Audit Fees	250	250
Vehicle running expenses	4,195	8,378
Staff Travelling & Accommodation	2,663	4,517
Depreciation	1,933	2,193
General Expenses	1,920	1,199
	96,496	99,299

Appendix 5

	2006	2005
Other operating expenses:	Kshs'000	Kshs'000
Rent & rates	202	215
Light & water	384	395
Repairs & maintenance	3,328	2,121
Industrial training levy	115	136
Insurance	3,844	6,193
Security	1,197	502
Gain (Loss) on disposal of non-current Assets	(1,109)	(112)
Licenses	570	472
	8,531	9,922

Finance costs:

Bank charges & commissions	4,474	2,878
Foreign Exchange loss/gain	(580)	-
Bad debts Provision	1,166	5,000
	5,060	7,878

Delegation from Southern Sudan during a familiarization visit at The Jomo Kenyatta Foundation's head office

The Jomo Kenyatta Foundation MD, Nancy Karimi(Mrs.) donating relief food to a representative of the Kenya Red Cross as part of the company's corporate social responsibility

The Jomo Kenyatta Foundation MD, Nancy Karimi(Mrs.) and the Commissioner of Prisons, Gilbert Omondi, when JKF donated books towards promotion of literacy amongst inmates countrywide

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