the jomo kenyatta foundation

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2007

The Chairman JKF Board, Mr. Micah Cheserem delivers his speech at the launch of The JKF Strategic Plan 2007-2012.

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2007

THE JOMO KENYATTA FOUNDATION

Supporting Your Education

P.O. BOX 30533 – 00100 NAIROBI

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Website: www.jkf.co.ke

TABLE OF CONTENTS

BOARD OF DIRECTORS:

1. Mr. Micah Cheserem
   Chairman

2. Amb. Francis K. Muthaura
   Permanent Secretary, Office of the President, Head of Public Service and Secretary to the Cabinet

3. Mr. Onesmus Kibuna
   Alternate to Permanent Secretary, Office of the President Head of Public Service and Secretary to the Cabinet

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

5. Mrs. Miriam Mwirotsi
   Alternate to Permanent Secretary, Ministry of Education

6. Mr. Joseph Kinyua
   Permanent Secretary, Ministry of Finance

7. Mrs. Teresia N. Gathara
   Alternate to Permanent Secretary, Ministry of Finance

8. Dr. Leah N. Wanjama
   Member

9. Mr. Abdi R. H. Abass
   Member

10. Mr. Harry Njoroge
    Member

11. Mr. Julius Mburugu
    Member

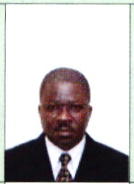
12. Mr. Peter Mutulu
    Member

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

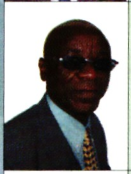
JKF MANAGEMENT:

Mrs. Nancy W. Karimi, MBS
Managing Director

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



Mr. Carylus O. Odiango
Finance Manager



Mr. Fredrick O. Oyuga
Publishing Manager

Mr. Leonard W. Wakhisi
Chief Internal Auditor

Mr. Bethuel Oduor
Sales and Marketing Manager

NOTICE OF ANNUAL GENERAL MEETING:

NOTICE IS HEREBY GIVEN that the 38th ANNUAL GENERAL MEETING of The Jomo Kenyatta Foundation will be held at the offices of the Foundation in Industrial Area, Enterprise Road, Nairobi on Friday 25th April 2008 at 10.00 a.m.

AGENDA:

1. The secretary to read the Notice convening the 38th General Meeting.
2. To receive and confirm the Minutes of the last AGM held on 21st June 2007.
3. To receive and adopt the Chairperson's Report on the Foundation's operations for the year ended 30th June 2007.
4. To receive, discuss and adopt the External Auditor's Report on the Accounts of The Foundation for the year ended 30th June 2007.
5. To receive and adopt the JKF Directors' Report and the Company's Financial statements for the year ended 30th June 2007.
6. To appoint the Company's External Auditors for the year ending 30th June 2008 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 2007 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.

NKarimi

MRS. N. W. KARIMI, MBS

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

It gives me pleasure to present the Annual Report and Financial Statements for The Jomo Kenyatta Foundation for the year ended 30th June 2007.

Performance Review

The Company's turnover increased by 30% from KShs. 477 million in the previous year to KShs. 524 million in the year under review. The turnover, however, fell short of the budget of KShs. 552 million by 5%.

The gross profit of KShs. 230 million was above budget by 7% while operating profits, at KShs. 236 million was 9% above budget. The better performance was because of cost saving occasioned by the restructuring process that saw the laying off of 113 staff members in December 2006.

Overall, the Company recorded a profit of KShs. 31 million. This fell short of the budget of KShs. 40 million but was, however, an improvement from the prior year's loss position of KShs. 36 million, representing a 184% increase.

Performance Framework

The year under review represented the second year of operation of the performance contract signed between the Board and the Government. In the previous financial year, the Company's overall rating in the performance contract evaluation was poor at 3.8339 points. Provisional evaluation results for the year to 30th June 2007 indicated an overall rating of 2.1068 points, which is a very good performance.

The good performance in the evaluation was because of the increased profitability and the strict adherence to the targets set in the performance contract.

Corporate Social Responsibility

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

During the year under review, The Foundation donated books valued at KShs. 33.4 million to various schools in the country. This is in addition to KShs. 34 million spent on school fees for needy secondary school students as part of our scholarship scheme.

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, the Company spent KShs. 2.8 million in sponsoring its staff for training at various professional and skills upgrading institutions during the year under review.

Courses undertaken include Corporate Governance, where 2 senior managers attended. In addition, a number of staff members are still pursuing various professional and higher degree courses in fields related to their work including Accounts, Human Resource Management, Sales, Marketing and Business Management.

Restructuring

In its effort to turn around the Company performance, the Board commissioned a Consultant to examine the Company's Sales and Marketing function and the Production Department.

The Consultants recommended that some Book Distribution Centers be closed and the printing function be outsourced. The Board adopted these recommendations in February 2006.

Two Book Distribution Centres were closed in June 2006 in line with the recommendations. The printing press was closed in December 2006 and the printing services outsourced. This process resulted in the laying off of 113 members of staff. The process cost the Company KShs. 22 million and is expected to lead to an annual saving of KShs. 75 million.

Future Projection

The outlook for the future is bright. The Company made a profit of KShs. 31 million this year and projects profits over the next 5 years.

During the year under review the Company's Strategic Plan was revised leading to the launch, in October 2007, of a five-year Strategic Plan for the period 2007 to 2012.

The new plan has revised the Company's mission, vision and motto and realigned them to the Company's core objective. The new plan has formulated strategies expected to support the two core functions of publishing and scholarships in a sustainable manner.

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 in the year under review.

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

Last but not least, I pay tribute to our teachers and scholars for buying and using our books as well as the authors of the various publications that comprise the Company's core products. 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

I take this opportunity to report on the performance of The Foundation for the twelve months ending 30th June 2007.

Financial Performance

Turnover increased from KShs. 477 million in the year ending June 2006 to KShs. 524 million in the current year representing a 30% rise. Operating profits increased from KShs. 160 million to KShs. 236 million primarily because of cost reduction occasioned by savings resulting from the restructuring exercise which saw 113 members of staff laid off and the printing press closed in December 2006.

Operating expenses increased marginally from KShs. 192 million in the year ending 30 June 2006 to KShs. 198 million in the current year. The net effect of these changes resulted in net profit of KShs. 31 million in the current year compared with a loss position of KShs. 36 million in June 2006.

Operating Environment

The Foundation's principal activity is advancing education and relief of poverty and distress of public. These activities are carried out through the two core functions of publishing and scholarships.

In the publishing sector, the Foundation is a major player in the textbook market. This dominant position is, however, threatened by competition from other players in the market. To counter the competition, the Foundation has adopted a product and market diversification strategy aimed at developing books for the general readers market and improving sales in the regional markets.

Publishing

Over the years, The Foundation has taken pride in publishing books that have become household names. Currently, the Company publishes books and other instructional materials for all levels of formal education in Kenya as well as general readership.

Although there has been substantial growth in the primary school textbook market since the introduction of Free Primary Education in 2003, JKF's market share has declined due to stiff competition. The declining trend is a challenge that can only be overcome by improved customer care, enhanced product quality as well as product and market diversification.

It is against this background that The Foundation has embarked on new subject areas judged to offer excellent economic prospects. Notable among them are the Access Revision Series, Workbooks and tertiary titles focusing on Primary Teacher Education (PTE). This is in addition to filling up gaps particularly in the secondary school subjects where we never had books before. The Access Revision Series covers all examinable subjects in primary and secondary schools and the series continues to register good sales during the lean season. It is expected that the Workbooks and PTE series once completed, will go a long way in complementing our best sellers at the primary school level. These new areas are intended to consolidate our primary, secondary and post-secondary lists as well as achieve product diversification.

JKF Scholarships Scheme

The Jomo Kenyatta Foundation was established in 1966 as a government's initiative in the promotion of education through publishing. The main objectives of The Foundation were the advancement of education and relief of poverty and distress of 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.

Since inception, The Foundation's scholarships scheme has benefited well over 20,000 students many of whom now hold various positions in both public and private sectors.

The number of students that require scholarship will continue to increase. These students will be mainly orphans as a result of the HIV-AIDS pandemic. It is for this reason that The Foundation plans to expand the scholarship scheme by improving our profitability, establishing an Alumni of former scholarship beneficiaries, setting up an endowment fund and seeking to establish a partnership with grant givers in the area of scholarship.

The number of scholarships offered varies from year to year subject to the financial ability of The Foundation. In the year under review, KShs. 34 million was spent in paying school fees for the 900 students currently on the scholarship scheme.

The scholarships are awarded to qualifying students at the beginning of every year. Each district is allocated at least two scholarships for one boy and one girl per district. The ASAL regions are currently allocated 5% more scholarships while the Board of Directors operates another 5% to be awarded to students in special circumstances.

JKF has played a crucial role in educating bright Kenyans, many of whom have completed university education and are involved in nation building in various capacities. 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.

Marketing

In an effort to improve efficiency in our marketing function, we have changed our fleet from Peugeots to Toyotas, which are more user-friendly with a higher resale value. We purchased 5 new Toyota Corolla vehicles for use by the Sales Representatives.

We acquired rights to publish books from an American publisher. Two out of the four titles have since been approved by the Kenya Institute of Education and included in the 2008 Orange Book.

Business prospects in Southern Sudan and Rwanda have not yielded the desired results due to language barriers and the educational policies.

However, the possibility of co-publishing between Kenyan and other authors could be the first step into the regional markets. Meanwhile, a leading distributor has been identified in Uganda to act as a JKF agent in that region.

In the course of the year, JKF participated in three book fairs, the Nairobi International Book Fair, the Uganda Book Fair and the provincial Kakamega Book Fair as an avenue for sales promotion.

Eastern Province was created as a new territory and a Sales Representative appointed to handle the new market. This gave our customers in the region an opportunity to receive our products directly.

The printing press was closed down in December 2006 and printing services outsourced from January 2007. The closure of the press led to 113 staff members being laid off at a cost of KShs. 21 million. The Company is expected to make annual cost savings of KShs. 75 million as a result of the restructuring.

Strategic Plan

In the year under review, The Foundation reviewed its Strategic Plan, leading to the launch in October 2007 of the five-year plan for 2007 to 2012.

In the new Strategic Plan, the mission, vision, motto and core values were revised and aligned with the Memorandum and Articles of Association of The Foundation. These are:

Mission:	To advance education and knowledge through competitive publishing and provision of scholarships
Vision:	To be the top publishing house in Eastern Africa and a leading scholarships provider in Kenya
Motto:	Supporting your education
Core values:	Professionalism, Integrity, Fairness, Innovativeness and Teamwork

Implementation of the Strategic Plan will be anchored on two pillars: development and upholding of core corporate values and institutionalization of a Results Based Management (RBM) system.

The key challenge going forward is to increase profitability to meet the scholarships commitment. We plan to achieve the desired profitability by adopting three key strategies. These are: product and market diversification, improvement of quality of products and services, and capitalize on our current dominant position to increase market share locally and regionally.

The Strategic Plan will also involve developing quantitative and qualitative benchmarks to help assess where JKF stands in the industry, development of the highest professional and management standards for the staff and operations and mid-term review of the plan which we expect to conduct in the year 2010.

Staff Development

The Foundation recognizes the importance of a strong work force in the execution of its plans.

We have, therefore, invested heavily in the training of our staff. In the year under review, the Foundation spent KShs. 2.8 million on staff training. Two heads of departments were sponsored for a course on Corporate Governance and all staff in the Foundation were taken through a pre-redundancy training preceding the restructuring exercise that was conducted in December 2006.

In addition, 96 staff members attended various relevant courses conducted both internally and outside the organization.

To enhance the use of Information and Communication Technology we recruited a manager for this function and enhanced our ICT facilities to enable most members of staff access e-mail addresses. Our management information system, SYSPRO, was rolled out in all upcountry Book Distribution Centres and the branch computerization completed in March 2007. This has enabled real time processing at the branches, resulting in better customer service and more efficient reporting.

Corporate Social Responsibility

The Foundation donates books as part of its Corporate Social Responsibility. During the year under review, The Foundation made book donations valued at KShs. 33.4 million to various schools around the country.

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 towards ensuring that The Foundation continues to prosper even in the face of stiff competition.

May God bless you all.

N.W. Karimi

MRS. N. W. KARIMI, MBS

MANAGING DIRECTOR

CORPORATE GOVERNANCE STATEMENT

The Jomo Kenyatta Foundation's Board of Directors is accountable to the shareholders 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 Board Of Directors

The Jomo Kenyatta Foundation was incorporated under the Companies Act as a company limited by guarantee on 2nd March 1966. The principle activity of The Foundation was to promote the enhancement of knowledge and information. The principal stakeholder, The Government of Kenya, provided the seed capital to establish The Foundation and appoints members to the Board to carry out the mandate.

The Board met 5 times during the financial year under review. Their performance is subject to a performance contract signed with The Ministry of Education that is reviewed every financial year. The Board is entitled to information on the operations of The Foundation, which is normally availed to the Board members in advance of scheduled Board meetings.

The Primary Responsibilities of The Board

The Board's primary responsibility is establishing the long-term goals of The Foundation and providing leadership to ensure that strategic objectives and plans are established to achieve those goals. In this regard, the Board launched a five-year strategic plan for the period 2007 to 2012 on 31st October 2007.

Board Composition

During the year under review, the Board was composed of thirteen members as listed in the Directors' Report. They included 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 3-year period; the Minister for Education appoints the Managing Director upon recommendation by the Board.

The Board delegates some of its responsibilities to standing committees, which operate within defined terms of reference laid down by the Board. During the period under review, the Board had four standing committees as follows:

- Finance and General Purpose Committee
- Audit Committee
- Corporations Tenders Committee
- Staff Welfare 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 attend the meetings on invitation. The Committee met 4 times in the year under review.

Audit Committee

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

Corporations Tenders Committee

The Corporations Tenders Committee of the Board was discontinued with effect from January 2007 in line with the requirements of The Public Procurement and Disposal Regulations 2006. The Committee had met 2 times in the year prior to its dissolution.

The Corporations Tenders Committee was composed of 5 non-executive directors and the Managing Director. 5 Senior Management staff were members of the Committee by virtue of the provisions of The Public Procurement and Disposal Act 2005.

Staff Welfare Committee

The Staff Welfare Committee is composed of 5 non-executive directors, the Managing Director, and 2 Senior Management staff. The Committee met 3 times in the year under review.

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 reports 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 (Cap 486).

Stakeholder Relationships

The Foundation is a company limited by guarantee and has set up a scholarship fund to assist bright and needy students in public secondary schools pay school fees in accordance with its articles and memorandum of association.

The Board recognizes its responsibility to communicate to the stakeholders the performance of The Foundation towards achieving their stated objectives. 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.

JKF Scholarship Programme

The Foundation's core business is the advancement of education and knowledge. 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 set aside KShs. 34 million under its Scholarship Programme for this purpose. This programme has benefited more than 20,000 students since it was started in 1968.

Corporate Social Responsibility

The Foundation donates books as part of its Corporate Social Responsibility. During the year under review, The Foundation made book donations valued at KShs. 33.4 million to various schools around the country.

Compliance With The Law

The Board is satisfied that The Foundation has to the best of their knowledge 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 any activity incompatible with the national laws or any international treaty to which our country is a signatory.

Human Resource Development

The Foundation has a staff establishment of 162 employees as at 30 June 2007 and has continued to support the training and development of staff through sponsorship to various colleges, courses and workshops. In the year under review, 2 management staff have attended a five-day corporate governance course while 96 staff members were trained in varied areas at a total cost of Kshs. 2.6 million.

Future Prospects

The annual report highlights the company's future prospects in pages 20 to 35.

MICAH CHESEREM

CHAIRMAN OF 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	-	Permanent Secretary, Office of the President, Head of Public Service and Secretary to the Cabinet
3. Mr. Onesmus Kibuna	-	Alternate to Permanent Secretary, Office of the President Head of Public Service and Secretary to the Cabinet
4. Prof. Karega Mutahi	-	Permanent Secretary, Ministry of Education
5. Mrs. Miriam Mwirotsi	-	Alternate to Permanent Secretary, Ministry of Education
6. Mr. Joseph Kinyua	-	Permanent Secretary, Ministry of Finance
7. Mrs. Teresia N. Gathara	-	Alternate to Permanent Secretary Ministry of Finance
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, MBS	-	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:

Kinyanjui & Njau Co. Advocates

Mpaka Road, Westlands

P. O. Box 49045 - 00100

NAIROBI

DIRECTORS' REPORT

The Directors submit their report together with the audited accounts for the year ended 30th June 2007.

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 14.

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. 34 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 16.

5. Auditors

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

By order of the Board

NW Karimi

MRS. N. W. KARIMI, MBS

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 FOR THE JOMO KENYATTA FOUNDATION FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of The Jomo Kenyatta Foundation set out on pages 20 to 30 which comprise the balance sheet as at 30 June 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with 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 the audit. The financial statements are in agreement with the books of account.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements which give a true and fair view of The Foundation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and 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 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. 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. I believe the audit provides a reasonable basis for my opinion.

1. Trade and Other Payables

Included in the trade and other payables figures of Kshs. 124,571,000 is an amount of Kshs. 11,093,00 described in note 10 to the financial statements as a suspense account. The suspense account has increased over the years from Kshs. 1,816,000 in 2004/05 to Kshs. 8,393,000 in 2005/2006 and Kshs. 11,093,000 as at 30 June 2007. The analysis seen for this figure of Kshs. 11,093,000 indicates that the suspense account is made up of journal entries into the suspense account which appear to affect other balance sheet accounts. However, the differences which gave rise to the journal entries have not been investigated to determine how they affect other accounts. Consequently, it was not possible to confirm the correctness of the balance sheet trade and other payables figure of Kshs. 124,571,000 or to determine the effects the suspense amount may have on the financial statements.

2. Bank Overdraft and Cash and Cash Equivalents

The bank overdraft figure of Kshs. 21,971,010 as at 30 June 2007 differed by Kshs. 926,024 from the cash book balance of Kshs. 21,044,986. Similarly, the cash and cash equivalents balance of Kshs. 1,208,981 as at 30 June 2007 differed by Kshs. 39,481 from the cash book balance of Kshs. 1,248,462. In the absence of explanations for differences above, the accuracy of the balance sheet bank overdraft and cash and cash equivalents amounts cannot be confirmed.

Opinion

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of The Foundation as at 30 June 2007 and of its profit and cashflows for the year then ended and comply with the Companies Act, Cap 486 of the Laws of Kenya.

P.N. KOMORA

CONTROLLER AND AUDITOR GENERAL

INCOME STATEMENT

	Appendices	2007 Kshs '000	2006 Kshs'000
Turnover	1	523,733	476,592
Cost of Sales	1	(294,092)	(320,095)
Gross Profit		229,641	156,497
Other Operating Income	3	6,681	3,844
Operating Profits		236,323	160,341
Distribution Expenses	3	74,571	85,510
Administrative Expenses	4	110,114	96,496
Other Operating Expenses	5	13,313	9,640
Total Operating Expenses		197,998	191,646
Profit / Loss from Operations		38,325	(31,305)
Finance Costs	5	(7,456)	(5,060)
Net Profit / (Loss)		30,869	(36,365)

BALANCE SHEET

ASSETS	Notes	2007 Kshs '000	2006 Kshs'000
Non-Current Assets	6	185,398	96,868
Current Assets			
Inventories	7	291,815	301,079
Trade and Other Receivables	8	47,213	39,833
Cash and Cash Equivalents	9	1,209	1,739
		340,237	342,651
TOTAL ASSETS		525,635	439,519
LIABILITIES AND CAPITAL			
Capital and Reserves			
Capital Reserve		4,000	4,000
Revaluation Reserves		181,911	70,920
Retained Earnings		195,432	186,052
Scholarship Fund		(2,250)	7,775
		379,093	268,747
Current Liabilities			
Trade and Other Payables	10	124,571	141,860
Bank Overdraft	9	21,971	28,912
		146,542	170,772
TOTAL LIABILITIES & CAPITAL		525,635	439,519

The financial statements and notes thereof were approved by the Directors on 25th September 2007 and were signed on its behalf by:

.... Director

.... Director/Secretary

STATEMENT OF CHANGES IN EQUITY

	Capital Reserve Kshs'000	Revaluation Reserve Kshs'000	Retained Earnings Kshs'000	Scholarships Fund Kshs'000	Total Kshs'000
As at 1st July 2006	4,000	70,920	186,052	7,775	268,747
Prior Year Adjustment					
Net Profit for the Year			30,869		30,869
Scholarships Appropriation			(24,000)	24,000	-
Scholarships Applied				(34,025)	(34,025)
Revaluation of Fixed Assets		110,991	2,511		113,502
As at 30 June 2007	4,000	181,911	195,432	(2,250)	379,093

CASH FLOW STATEMENT

	Notes	2007 Kshs'000	2006 Kshs'000
Operating Activities			
Cash Generated from Operations	11	28,445	13,246
Scholarships Applied		(34,025)	(22,186)
Prior Period Adjustments		-	490
Net Cash from Operating Activities		**(5,580)**	**(8,450)**
Investing Activities			
Purchase of Property, Plant & Equipment	6	(8600)	(6,159)
Proceeds from Sale of Property, Plant & Equip.		20,591	2,392
Net Cash from Investing Activities		**11,991**	**(3,767)**
Financing Activities			-
Net Increase/ (Decrease) in Cash & Cash equivalents		6,411	(12,217)
Cash and Cash Equivalents as at 1st July 2005		(27,173)	(14,956)
Cash and Cash Equivalents as at 30th June 2006	9	**(20,762)**	**(27,173)**

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%

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.

	2007 Kshs'000	2006 Kshs'000
2. Operating Profit:		
The following items have been charged in arriving at operating profit:		
Depreciation on property, Plant & Equipment	16,954	20,775
Staff Costs	138,490	176,469
Auditors' Remuneration	250	250
Directors' Remuneration:		
- Fees	675	450
- Other	2,839	3,441
Repairs & Maintenance	5,135	7,982
(Gain) loss on disposal of non-current assets	(3,973)	(1,109)
Restructuring costs	20,145	
	180,515	208,258
3. Staff Costs:		
Salaries	131,409	168,275
Social Security Costs	384	825
Pension costs - defined contribution plans	6,697	7,369
	138,490	176,469
4. Finance Costs:		
Bank charges & Commissions	3,121	4,474
Loan Interest	846	-
Foreign Exchange loss/gain	(807)	(580)
Bad debts	3,950	1,166
Penalties	346	
	7,456	5,060
5. Capital Reserve:		
Initial Grant to set up the Foundation	4,000	4,000

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 of valuation at 1st July 06	47,215	168,958	38,926	13,930	24,883	293,912
Additions		1,216	4,403	204	2,777	8,600
Transfer		(23)		23		
Revaluation	77,285	(111,575)	(18,857)		(9,470)	(62,617)
Disposals		(21,432)	(405)		(6,808)	(28,645)
As at 30th June 07	124,500	37,144	24,067	14,157	11,382	211,250
Depreciation as at 1st July 06	13,633	129,918	25,196	8,557	19,740	197,044
Revaluation	(13,633)	(127,498)	(24,889)	-	(10,073)	(176,093)
Transfer						
Disposal		(5,183)	(93)	-	(6,778)	(12,053)
Charge for the year	2,953	6,738	5,323	481	1,458	16,954
As at 30th June 07	2,953	3,974	5,537	9,037	4,348	25,852
As at 30th June 07	121,547	33,169	18,530	5,188	7,034	185,398
As at 30th June 06	33,582	39,040	13,730	5,373	5,143	96,858

The property, plant and equipment were revalued by an independent valuer in October 2006. Valuations were made on the basis of open market values. Book values for all asset categories except furniture and fittings have been adjusted in these accounts and revaluation surplus credited to the revaluation reserves. Furniture and fittings were not adjusted in the accounts because items of furniture in the book distribution centres were not revalued.

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 07	26,683	14,167	12,516
At 30.06 06	26,683	13,633	13,050
Plant & Machinery			
At 30.06 07	120,845	120,845	-
At 30.06 06	120,845	120,845	-

7. Inventories:

	2007	2006
	Kshs'000	**Kshs'000**
Finished goods	308,585	341,537
Work-in -Progress	1,575	1,486
Raw materials and consumables	12,843	13,946
	323,003	356,969
Provision for old editions/obsolete stocks	(31,188)	(55,890)
	291,815	301,079

Provision of old edition/obsolete stock represents the cost of old edition stock held at 30 June 2007 and a general provision for obsolescence. Kshs. 8.2 million provision was made on the current financial year and obsolete books worth Kshs. 33.4 million were disposed of by way of donation and charged against the provision account.

8. Trade and Other Receivables:

	2007 Kshs'000	2006 Kshs'000
Trade Receivables	41,715	33,851
Prepayments & Other Receivables	24,323	25,093
	66,038	58,944
Less: Provisions for doubtful debts	(18,825)	(19,111)
	47,213	39,833

Additional bad debts provision of Kshs. 3.9 million was made in the current financial year. Write offs of Kshs. 4.2 million have been made in the current financial year representing medical loans to staff who have left the Foundation through the retrenchment exercise and through death.

9. Cash and Cash Equivalents

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

Cash and bank Balances	1,209	1,739
Bank overdraft	(21,971)	(28,912)
Cash at bank and in hand	(20,762)	(27,173)

The overdraft limit approved by the Board of Directors was Kshs. 40 million (at June 2006). The overdraft is necessary to fund operation during the low sales season that runs from the months of April to September.

10. Trade and Other Payables:

	2007 Kshs'000	2006 Kshs'000
Trade Payables	81,797	103,944
Suspense Account	11,093	8,393
Other Payables	31,681	29,523
	124,571	141,860

Other payables include provision for royalties to authors of Kshs. 20.8 million (2005/2006 - Kshs. 17.7m). 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. Cash Generated from Operations:

Reconciliation of profit before tax to cash generated from operation

Profit / (loss) before tax	30,869	(36,365)
Adjustments for:		
Depreciation (Note 6)	16,954	20,775
Loss/(profit) on sale of property, plant & equip.	(3,973)	(1,109)
Changes in working Capital		
Trade and other receivables	(7,380)	7,927
Inventories	9,264	(22,951)
Trade and other payables	(17,289)	44,969
Cash Generated from Operations	28,445	13,246

12. 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.

13. Currency:

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

Appendix 1

	2007	2006
	Kshs'000	Kshs'000
Turnover:		
Sales of Primary Titles	659,278	579,701
Sales of Sec. Titles	48,138	51,983
Sales of Tertiary Titles	1,695	1,028
Sales of General Titles	10,127	5,391
Obsolete Stock Sales	19	-
Sales of Service Jobs	13,270	20,346
Sales Returns	-	(4)
	-	
Gross Sales	732,526	658,445
Less Discounts	(208,793)	(181,853)
Net Sales	523,733	476,592
Cost Of Sales:		
Cost of sales Primary Titles	211,674	189,502
Cost of sales Secondary Titles	14,402	16,067
Cost of sales Tertiary Titles	400	301
Cost of sales General Titles	2,531	1,633
Cost of sales Adjustment	(112)	(134)
Cost of sales miscellaneous	117	601
Cost of sales Service Job	9,661	12,123
Purchase price variance/adjustments	422	(9,150)
Stock Obsolescence Provision	-	7,197
Add production overheads	54,996	101,955
Cost of Sales	294,092	320,095

Production overheads:

	2007	2006
	Kshs'000	Kshs'000
Staff salaries	21,442	37,099
Staff Housing	12,728	18,988
Staff Medical & Welfare	2,053	2,597
Staff training	250	161
Provident fund contribution	2,144	2,868
Editorial Charges	-	22
Product development expenses	6,988	17,324
Electricity & water	770	2,344
Machinery repairs & maintenance	986	4,654
Insurance	211	1,125
Depreciation plant & machinery	7,424	14,773
	54,996	101,955

Appendix 3

	2007 Kshs'000	2006 Kshs'000
Other Operating Income:		
Interest	259	213
Rental Income	888	908
Gain on sale of Fixed Assets	3,973	1,109
Miscellaneous Income	1,561	1,614
	6,681	3,844
Distribution Expenses:		
Salaries & Wages	20,547	27,641
Staff housing	8,869	11,600
Staff Medical & Welfare	2,466	1,445
Staff Training	144	243
Provident Fund	1,916	1,639
Vehicle running expenses	4,884	5,876
Staff Travelling & Accommodation	1,963	1,323
Marketing & Sales Promotion	4,275	10,478
Rent & Rates	2,221	2,685
Electricity & Water	205	480
Postage & Telephone	2,391	2,594
Packaging Material	959	937
Depreciation	1,053	31
Royalties to Authors	20,613	17,313
General Expenses	93	52
Security	1,572	773
Standard Levy	400	400
	74,571	85,510

Appendix 4

	2007	2006
	Kshs'000	Kshs'000
Administrative Expense:		
Salaries & Wages	37,402	39,980
Staff housing	16,461	19,006
Staff Medical & Welfare	6,676	8,436
Provident fund contribution	3,018	3,687
Staff Training	2,372	1,079
Directors Remuneration	3,514	3,891
Subscriptions	362	536
Printing & Stationery	1,609	2,566
Postage & Telephone Expenses	2,477	4,449
Legal & Professional Fees	2,495	1,878
Library Expenses	134	27
Audit Fees	250	250
Vehicle running expenses	3,703	4,195
Staff Travelling & Accommodation	1,976	2,663
Depreciation	6,728	1,933
General Expenses	792	1,920
Retrenchment costs	20,145	-
	110,114	96,496

Appendix 5

Other operating expenses:	2007 Kshs'000	2006 Kshs'000
Rent & rates	1,003	202
Light & water	807	384
Repairs & maintenance	4,149	3,328
Industrial training levy	140	115
Insurance	5,423	3,844
Security	1,136	1,197
Licenses	655	570
	13,313	9,640

Finance costs:

Bank charges & commissions	3,121	4,474
Loan Interest	846	-
Foreign Exchange loss/gain	(807)	(580)
Bad debts	3,950	1,166
Penalties	346	-
	7,456	5,060

The Chairman JKF Board, Mr. Micah Cheserem and the Managing Director, Mrs. Nancy Karimi during the official launch of The JKF 2007-2012 Strategic Plan.

Some of the JKF Scholarship beneficiaries at the official launch of the Strategic Plan.

The Jomo Kenyatta Foundation