

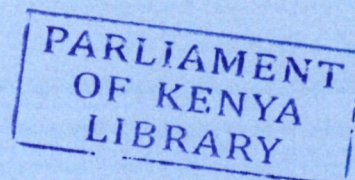
REPUBLIC OF KENYA



*Paper laid by the
Leader of Majority Party
mrf
12/6/2018.*



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

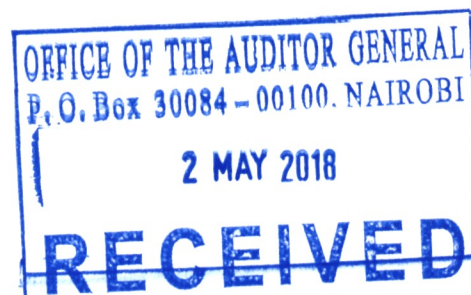
ON

**THE FINANCIAL STATEMENTS OF
KENYA LITERATURE BUREAU**

**FOR THE YEAR ENDED
30 JUNE 2017**



Publishing for **YOU**



KENYA LITERATURE BUREAU

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE, 2017

Prepared in accordance with the Accrual Basis of Accounting Method under the
International Financial Reporting Standards (IFRS)

**Annual Report and Financial Statements
For the year ended 30 June, 2017 (Kshs)**

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I. KEY CORPORATE INFORMATION

BACKGROUND INFORMATION

Kenya Literature Bureau was established by the Kenya Literature Bureau Act of Parliament Cap 209 of 1980 (Revised 2012). Kenya Literature Bureau is represented by the Cabinet Secretary for Education, who is responsible for the general policy and strategic direction of the corporation. Kenya Literature Bureau is domiciled in Kenya and has a Sales and Customer Service Branch on Kijabe Street, Nairobi.

PRINCIPAL ACTIVITIES

The principal activity of the Kenya Literature Bureau is to publish, print and disseminate quality literary, educational, cultural and scientific literature and materials. The Vision, Mission, Strategic objectives and Core values of Kenya Literature Bureau are as follows;

VISION

To be the leading publisher and printer of quality knowledge materials

MISSION

To publish and print quality educational and knowledge materials at affordable prices whilst promoting excellent authorship and creating customer and shareholder value.

STRATEGIC OBJECTIVES

- (i) To be the industry's market leader;
- (ii) To improve on quality of products and services;
- (iii) To upgrade corporate infrastructure;
- (iv) To strengthen institutional capacity;
- (v) To ensure effective corporate governance, controls and sound resource management.

CORE VALUES

- (i) Customer Focus
- (ii) Transparency
- (iii) Accountability
- (iv) Integrity
- (v) Professionalism
- (vi) Innovativeness

Kenya Literature Bureau

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DIRECTORS

The Directors who served the entity during the year/period were as follows:

1. Hon. Amb. Francis S. K. Bayah, EBS - Chairman - Appointed on 18 March 2016
2. Mr. Victor K. Lomaria - Chief Executive Officer – Appointed on 1 October 2016
3. Mrs. Eve A. Obara, MBS - Chief Executive Officer- Term extension on 1 April 2016
- Left on 30 September 2016
4. Mrs. Leah Rotich - Alternate to Dr. Belio Kipsang, Principal Secretary, State Dept. of Education; Ministry of Education, Science and Technology
- Re-appointed on 1 April 2016 to 30 June 2017
5. Ms. Cheryl Majiwa - Alternate to Mr. Henry Rotich, Cabinet Secretary, The National Treasury Technology – Re-appointed on 1 April 2016
6. Mr. Abdalla C. Bii -Alternate to Dr. Moses K. Rugutt, Secretary, National Commission for Science, Technology & Innovation – Appointed 1 April 2016
7. Mr. John K. Kenduiwo - Representative, University of Nairobi – Appointed 1 April 2016
8. Mr. Sammy M. Chepkwony - Director - Appointed on 1 April 2016
9. Mr. Josephine Maangi - Director - Appointed on 1 April 2016
10. Mrs. Elizabeth K. Mwongera - Director - Re-appointed on 1 April 2016
11. Mr. Nicholas Mac'Botongore - Director - Re-appointed on 1 April 2017
12. Mr. Martin M. Mburu - Director - Appointed on 17 December 2015 to 30 April 2017
13. Mr. Moses E. Lerosion - Director - Appointed on 17 December 2015 to 30 April 2017
14. Mrs. Charity Kathambi - Director - Appointed on 17 December 2015 –Left on 5 February 2017

CORPORATE SECRETARY

Mr. Victor Lomaria w.e.f 1 October 2016
Mrs. Eve A. Obara, MBS up to 30 September 2016
P.O. Box 30022 - GPO 00100,
NAIROBI, KENYA.

REGISTERED OFFICE & CORPORATE HEADQUARTER

Kenya Literature Building
Bellevue Area, South C
KLB Road, off Popo Road, off Mombasa Road
P.O. Box 30022 – GPO 00100,
NAIROBI, KENYA

Kenya Literature Bureau

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BRANCH

Sales and Customer Service
KLB Building
Kijabe Street
P.O. Box 30022 – GPO 00100,
NAIROBI, KENYA

CORPORATE CONTACTS

Telephone: (254) 6005595, 020-3541196/7
(254) 0711-318188, 0732-344599
E-mail: info.klb.co.ke
Website: www.klb.co.ke

CORPORATE BANKERS

1. Central Bank of Kenya
Haile Selassie Avenue
P. O. Box 6000
City Square 00200
NAIROBI, KENYA
2. Kenya Commercial Bank Limited
Kencom Building
Moi Avenue
P.O. Box 30081 – GPO 00100
NAIROBI, KENYA
3. National Bank of Kenya Limited
National Bank Building
Harambee Avenue
P. O. Box 41862 – GPO 00100
NAIROBI, KENYA

INDEPENDENT AUDITORS

Auditor General
Anniversary Towers, University Way
P.O. Box 30084 – GPO 00100
NAIROBI, KENYA

PRINCIPAL LEGAL ADVISERS

1. The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
NAIROBI, KENYA

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II. THE BOARD OF MANAGEMENT

DIRECTOR'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
1. Hon. Amb. Francis S. K. Bayah, EBS Chairman 	Hon. Amb. Francis S. K. Bayah, EBS is the Chairman of the Board of Management. He is aged 63 years. He is a holder of Bachelor of Education Science from University of Nairobi, Diploma on United Nations and International Understanding from the Institute of United Nations and UNESCO Studies, New Delhi – India, Post Graduate Certificate in Development Economics from University of Michigan. He is currently pursuing Master of Business Administration (Strategic Management) at Mt. Kenya University. He has extensive knowledge and work experience having worked as an Assistant Minister, Ministry of State for Immigration and Registration of Persons, High Commissioner to India, Permanent Secretary in the Ministry of Lands and Settlement and Ministry of Tourism and Information, Member of Parliament for Ganze Constituency. He also worked as a Provincial Commissioner in the former Coast, Western, Eastern and Rift Valley provinces, in addition to working as a District Commissioner within Nyanza and Rift Valley provinces. Mr. Bayah worked as District Officer in various districts in Kenya. He is a recipient of the Elder of Burning Spear (EBS). He was appointed to the position of Chairman of the Board of Management on 18 March 2016.
2. Victor Lomaria The Managing Director and Secretary to the Board w.e.f. 1 October 2016 	Mr. Victor Lomaria is the current Managing Director appointed on 1 October 2016. He is aged 49 years. She is a holder of Master in Business Administration (Finance), Bachelor of Commerce, both from University of Nairobi. He is a Certified Public Accountant CPA (K). He is a member of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors (IAA). He has attended various courses and seminars in risk management, leadership, corporate governance, ethics and integrity training, credit management, ICPAK annual seminars and risk based Information Technology audit. He has been a former Chairman of Operations Committee of the Association of Higher Education Financing Agencies (AHHEFA) which brought together, 10 African countries. He was appointed as the Managing Director on 1 October 2016.

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3. Mrs. Eve A. Obara, MBS The former Managing Director and Secretary to the Board up to 30 September 2016 	Mrs. Obara is the Managing Director. She is aged 57 years. She is a holder of MSC (Business Administration) from University of Illinois at Urbana – Champaign, USA, Certificate in Personnel Management from Royal Institute of Public Administration, London, UK and B.A. (Sociology and Political Science), University of Nairobi. She has attended various courses and seminars in management, leadership, Corporate governance and strategy among many other both locally and internationally. She is a fellow member of the Institute of Human Resources Management and member of Marketing Society of Kenya. She has served as a member of the Kenya Publishers Association. She is a recipient of the Moran of the Burning Spear (MBS). She was re-appointed as the Managing Director on 1 April 2013. Her term was extended with effect from 1st April 2016 up to 30 September 2016.
4. Mrs. Leah Rotich Alternate Director to Dr. Belio Kipsang 	Mrs. Rotich represents the Ministry of Education, Science & Technology as stipulated under the Kenya Literature Bureau Act. She is the Alternate Director to Dr. Belio Kipsang, Principal Secretary, State Dept. of Education; Ministry of Education, Science and Technology She left on account of retirement on 30 June 2017.
5. Ms. Cheryl A. Majiwa Alternate to Cabinet Secretary Mr. Henry Rotich 	Ms. Majiwa represents the Cabinet Secretary, The National Treasury in KLB's Board of Management as stipulated under the Kenya Literature Bureau Act. She is aged 38 years. She is a holder of Mater in Business Administration (Strategic Management) from the University of Nairobi, Bachelor of Commerce (Accounting and Finance) from Strathmore University, Certified Public Accountant (CPA-K) has attended other short-term courses for Senior Management and Corporate Governance. She currently works as an Investment Officer at the Department of Government Investment and Public Enterprises in the National Treasury. She previously worked as the Head of accounting Unit and administration of an advertising company. She is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Secretariat of the Public Accounting Standards Board (PASB). She is a member of Finance, Human Resources and General Purpose Committee of the Board. She was appointed as an alternate Board member on 1 April 2016.

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6. Mr. Abdalla C. Bii

Alternate to Dr. Moses K. Rugutt



He represents the National Commission for Science, Technology and Innovation in the Board as stipulated under the Kenya Literature Bureau Act.

He is the Alternate to Dr. Moses K. Rugutt, Secretary, National Commission for Science, Technology & Innovation

He is a member of the Finance, Human Resources and General Purpose Committee of the Board. He was appointed as an alternate Board member on 1 April 2016.

7. Mr. John Kenduiwo

Representative, University of Nairobi



Mr. John Kenduiwo represents the University of Nairobi in the Board under the Kenya Literature Bureau Act. He is aged 51 years. He is a holder of Master of Business Administration (MBA) in Operations Management and a Bachelor of Science (BSc) degree in Mechanical Engineering from University of Nairobi. He is currently the Acting Managing Director, University of Nairobi Enterprises and Services (UNES). He has previously worked as Deputy Managing Director and a Senior Lecturer at Department of Management Science. He has lectured in the following areas; Production/Operations Management & Strategy Research and Business Modelling. Mr. Kenduiwo has worked as Dean, School of Business, University of Nairobi and was one of the pioneers of the Module II. He has been the Chairman, Department of Management Science and has various leadership positions in both private and public sector.

He is a member of the Finance, Human Resources and General Purpose Committee of the Board. He was appointed as an alternate Board member on 1 April 2016.

8. Mrs. Josephine Maangi

Independent Director



Mrs. Josephine Maangi is an independent director. She is aged 54 years. She is a holder of Global Executive Masters in Business Administration (MBA) from the United States International University, Bachelor of Laws from University of Nairobi, and Diploma in Laws from Kenya School of law. She is an advocate of the High Court of Kenya, a Commissioner for Oaths and a Notary Public. She is currently a partner in Maangi & Associates Advocates.

She is the Chairman, Technical Committee and member, Audit and risk Management Committee of the Board. She was appointed as an independent Board member on 1 April 2016.

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9. Mr. Sammy M. Chekwony Independent Director 	Mr. Sammy Chekwony is an independent director. He is aged 57 years. He is a holder of Bachelor of Business Management (BBM) in Microenterprise from Moi University and a Diploma in Cooperative Management from Cooperative College of Kenya. He has worked as an Assistant Cooperative Officer under the Ministry of Cooperative Development and as a Field Officer in charge of Informal Sector loans at Kenya Industrial Estates Limited. He has also worked as a District Officer under the Office of the President. He has held several leadership positions in both private and public sector. He is the Chairman of the Audit and Risk Management Committee of the Board. He was appointed as an independent Board member on 1 April 2016.
10. Mrs. Elizabeth K. Mwongera Independent Director 	Mrs Elizabeth Mwongera is an independent director. She is aged 65 years. She is a holder of a Bachelor of Education degree from the University of Nairobi and a Masters of Education Degree from University of Manchester with a bias in English. She has a Certificate in Training from the Institute of Personnel Management, UK, Diploma in Human Resource Management (ABE), MA (Counselling Psychology) at Daystar University, Examiner (KNEC) Team Leader, co-authored English Language series for secondary schools. She has been a graduate teacher, Inspector of Schools and Chief Human Development Officer at Kenyatta National Hospital. She is a member of the Finance, Human Resources and General Purpose Committee of the Board. She was re-appointed as an independent Board member on 1 April 2016.
11. Mrs. Charity Kathambi Chepkwony Independent Director 	Ms Charity K. Chepkwony is an independent director. She is aged 40 years. She is a holder of Bachelor of Business Administration degree from Kenya Methodist University, Certificate in County Governance from Jomo Kenya University of Agriculture and Technology. She also holds a Diploma in Sales & Marketing from University of Nairobi, Diploma in Clearing, Forwarding and Shipping from Kenya Institute of Clearing, Forwarding, Shipping and Documentation. She has worked in Consolidated Bank, Bandari Sacco (KPA) and Signon Freight Limited. She has held various leadership positions in the private sector. She is a member of the Finance, Human Resources and General Purpose Committee of the Board. She was appointed as an independent Board member on 1 April 2016 and left on 5 February 2017.

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12. Mr. Moses Edwin Lerosion
Independent Director



Mr. Moses Lerosion is an independent director. He is aged 39 years.

He is a holder of Bachelor of Arts in Philosophy.

He is a member of the Finance, Human Resources and General Purpose Committee of the Board. He was appointed as an independent Board member on 1 April 2016 and left on 30 April 2017.

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III. THE MANAGEMENT TEAM

MANAGER'S NAME	KEY QUALIFICATIONS AND EXPERIENCE
1. Victor Lomaria The Managing Director and the Secretary to the Board w.e.f. 1 October 2016 	Mr. Victor Lomaria is the current Managing Director appointed on 1 October 2016. He is aged 49 years. He is a holder of Master in Business Administration (Finance), Bachelor of Commerce, both from University of Nairobi. He is a Certified Public Accountant CPA (K). He is a member of Certified Public Accountants of Kenya (ICPAK) and Institute of Internal Auditors (IAA). He has attended various courses and seminars in risk management, leadership, corporate governance, ethics and integrity training, credit management, ICPAK annual seminars and risk based Information Technology audit. He has been a former Chairman of Operations Committee of the Association of Higher Education Financing Agencies (AHHEFA) which brought together, 10 African countries. He was appointed as the Managing Director on 1 October 2016.
2. Mrs. Eve A. Obara, MBS The former Managing Director and the Secretary to the Board up to 30 September 2016 	Mrs. Obara is the Managing Director. She is aged 57 years. She is a holder of MSC (Business Administration) from University of Illinois at Urbana – Champaign, USA, Certificate in Personnel Management from Royal Institute of Public Administration, London, UK and B.A. (Sociology and Political Science), University of Nairobi. She has attended various courses and seminars in management, leadership, Corporate governance and strategy among many other both locally and internationally. She is a fellow member of the Institute of Human Resources Management and member of Marketing Society of Kenya. She has served as a member of the Kenya Publishers Association. She is a recipient of the Moran of the Burning Spear (MBS). She was re-appointed as the Managing Director on 1 April 2013. Her term was extended with effect from 1 April 2016 up to 30 September 2016.

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3. Mrs. Mary N. Khasiani, MBS
Publishing Manager



Mrs. Mary N. Khasiani is aged 60 years. She is a holder of Masters in Publishing Studies, University of Stirling, UK, Bachelor of Education, and University of Nairobi. She has attended several workshops and seminars in Management, Copyright Law, Financial Aspects of Publishing, and Publishing Law among several others. Mrs. Khasiani has over 30 years' experience in various capacities in the publishing field. She previously worked as a secondary school teacher for English and Religious Studies, at Kerugoya Boys Secondary School and as Ag. Chief Editor Jomo Kenyatta Foundation (1991 – 1992). She has worked with the Bureau as a Senior Editor and Chief Editor. She is a member of Kenya Institute of Curriculum Development, Textbooks Technical Committee, Early Childhood Education Course Panel, Member, Council for Promotion of Children's Science Publication in Africa, Member African Association of Science Editors among others. She is a recipient of the Moran of the Burning Spear (MBS). She is the chairperson of Kenya Literature Bureau Pension Scheme. She was appointed as the Publishing Manager on 1 July 2002 until retirement on 22 July 2016.

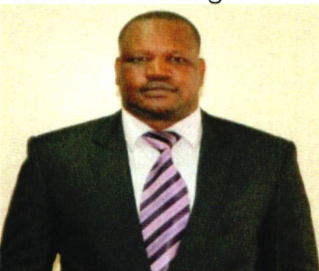
4. Mr. Francis M. Mutunga
Finance Manager



Mr. Francis Mutunga is aged 42 years. He is a holder of Bachelor of Commerce (Accounting), First Class Honours from Kenyatta University, Certified Public Accountant CPA (K), Certified Investment and Financial Analyst (CIFA-K), Diploma in Monitoring and Evaluation from Kenyatta University and Diploma in Marketing Management from Kenya Institute of Management. He is a member of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Investments and Financial Analysts (ICIFA) and a Certified Pension Trustee from College of Insurance/Retirement Benefits Authority and is a Certified ISO Auditor by Kenya Bureau of Standards.

He is also the Performance Contract Co-ordinator. He is currently pursuing Master of Business Administration (Finance) at Kenyatta University. He was appointed to the position of Finance Manager on 1 May 2014.

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5. Mr. Bernard O. Obura Sales & Marketing Manager 	Mr. Bernard Obura is aged 43 years. He is a holder of an Executive MBA from Jomo Kenyatta University of Agriculture and Technology, Bachelor of Arts Degree from the University of Nairobi, Diploma in Marketing (MSK - Kenya). He is a Council Member of the Marketing Society of Kenya. He was appointed to the position of Sales and Marketing Manager on 1 August 2009.
6. Mr. Evans T. Nyachieng'a Corporate Affairs Manager (Business development) 	Mr. Nyachieng'a aged 51 years. He holds a Bachelor of Arts Degree from University of Nairobi and a Masters of Business Administration (Strategic Management) from Kenyatta University and a Higher Diploma in Human Resources Management (KNEC) from Railway Training Institute. He is a member of Institute of Human Resources Management. He was appointed to the position of Corporate Affairs Manager on 1 August 2014.
7. Mr. Job M. Idaki Corporate Services Manager 	Mr. Job Idaki, aged 51 years. He is a holder of a Bachelor of Education (Language and Literature) from Kenyatta University, Higher Diploma in Human Resources Management (KNEC) from Railway Training Institute. He is a certified ISO 9001:2008 series Lead Auditor. He was appointed to the position of Corporate Services Manager on 1 August 2014.
8. Mr. Joseph A. Emojong Production Manager 	He is 44 years. He is a holder of Bsc (Hons) Degree in Graphic Media Studies (GMS) – Hertfordshire University UK and Diploma in Printing Technology – The Kenya Polytechnic (currently Technical university of Kenya). He was appointed to the position of Production Manager on 17 December 2015.

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9. Mrs. Roselyn W. Mugavana
Human Resources Manager



Mrs. Roselyn Mugavana is aged 46 years. She is a holder of Master of Business Administration (Human Resource Management) from Nairobi University, Bachelor of Education (English and Literature) from Egerton University and Diploma in Business management (Human Resource Management) from Kenya Institute of Management. She was appointed to the position of the Human Resources manager on 17 December 2015.

10. Mr. Julius K. Aritho
Internal Audit Manager



Mr. Julius Aritho is aged 51 years. He is a holder of Master of Business Administration (MBA) Accounting Option from University of Nairobi, Bachelor of Commerce (Accounting Option) from University of Nairobi. He is a Certified Public Accountant (CPA (K)) and a member of the Institute of Certified Public Accountants of Kenya. He is the Quality Management Representative at Kenya Literature Bureau in charge of ISO. He was appointed to the position of Internal Audit Manager on 1 August 2013.

11. Isaac K. Korir
Customer Service Manager



Mr. Korir is aged 57 years. He is a holder of a Bachelor of Education (Science) University of Nairobi. He was appointed to the position of Customer Service Manager on 1 February 2014.

IV. CHAIRMAN'S STATEMENT

On behalf of the Board of Management, am pleased to present to you, the Annual Report and Financial Statements for the year ended 30 June 2017. During this period, the Bureau registered major milestone in turnover and profitability growth. The Bureau continued to implement its strategic plan with increased focus on future sustainability of business, despite various challenges experienced within the national and world economy. The Bureau was therefore able to return a favourable financial performance and maintain a solid financial position.

It during this period that the Bureau undertook a smooth change of leadership, both at the Board and management level. The current Board of Management was appointed on 1 April 2016, after the expiry of the term of the previous Board. The current managing Director Mr. Victor Lomaria also took over the reins of leadership from the former Managing Director, Mrs. Eve Obara on 30th September 2017 after expiry of her contract.

KEY BUSINESS ACTIVITIES

During the period under review, the Bureau continued to implement key business activities, desired to improve and sustain performance. The Bureau was awarded the ISO 9001:2015 Quality Management System certification after transiting from the ISO 9001:2008, which it was awarded in 2007.

The Bureau continued with the establishment of footprints in the East Africa Community (EAC) region, with the latest being the consolidation of the successes made in Rwanda, where the Bureau has distributed books purchased by the Government of Rwanda, directly to schools in the last two (2) years. The Bureau established distributorship agreements in Uganda in order to re-position itself in that market. The Bureau designed a new logo for use in the foreign markets, with a view to establishing a distinct corporate identity. In order to ensure that the Bureau lived within its mission of providing knowledge materials at affordable prices, the company opened a Distribution Centre in Kigali in partnership with M/s Mastep General Supplies Ltd (Rwanda). Through this distribution centre, booksellers and distributors in Rwanda will be

Kenya Literature Bureau

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capable of obtaining books published by the Bureau within a short duration and at reduced costs.

In order to consolidate the gains made and steer the Bureau into a strong strategic direction, the Board of Management reviewed the Human Resources policies and manual and organization structure, which were subsequently approved by the State Corporations Advisory Committee (SCAC). The Board also commenced the review of the Strategic Plan 2016 – 2020, with a view to charting a way forward for moving the Bureau from Good to Great (G2G) and taking into account the changed education sub-sector dynamics.

OPERATING ENVIRONMENT

As per the Economic Survey 2017, during the year under review, the World real Gross Domestic Product (GDP) growth decelerated to 2.9% in 2016 as compared to the revised growth of 3.1% in 2015. The growth in advanced economies expanded by 2.1% in 2016 compared to 1.9% in 2015. The Sub-Saharan Africa's real gross domestic product was estimated to have grown by 1.5% in 2016 compared to 3.8% growth registered in 2015. Kenya's Gross Domestic Product (GDP) grew by 5.8% in 2016 as compared to revised growth of 5.7% in 2015. The expansion was as a result of significant growth in key sectors among them accommodation and food services; information and communication; real estate; and transport and storage. Growth in construction; mining and quarrying; and financial and insurance activities decelerated in 2016. The persistent drought hampered growth in the fourth quarter of 2016.

The global inflation was estimated at 2.9% as compared to 2.8% recorded in 2015. Key macroeconomic indicators in Kenya, remained relatively stable during the period, with the overall inflation easing from 6.3% in 2016 as compared to 6.6% in 2015 mainly due to decline in prices of transportation; housing and utilities; and communication. The shilling strengthened against the major currencies in Africa, while it weakened against US Dollar, Euro and the Yen in 2016. The capping of the interest rates to a maximum of 4% above Central Bank Rate (CBR) resulted in a significant decline in interest rates during the month September to 13.84% compared to 16.75% in the same period in 2015. Domestic credit slowed down from 20.8% in 2015 to 6.4% in 2016 mainly due to the decline in credit to the private sector. The current

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account deficit as a percentage of GDP narrowed from 9.9% in 2016/17 as compared to 8.6% in 2015/2016.

The manufacturing sector's real output grew by 3.5% in 2016 compared to the revised growth of 3.6% in 2015. This was attributed to the reduced production costs and increased volume output. The Producer price Index (PPI) increased marginally by 0.2% in 2016, mainly due to the stability of prices of imported raw materials and reduced electricity costs.

The publishing industry continue to face challenges including book piracy and the introduction of Value Added Tax (VAT) on books which has continued to negatively affect the purchasing power of consumers. The impending curriculum review continues to contribute to the slowdown in sales as book sellers' work towards reducing the risk of dead stock. Further, proposed one textbook per subject and centralised purchases of textbooks policies, will have a major impact on the sub-sector.

STRATEGIC POSITIONING

The Bureau commenced to implement the third cycle Strategic Plan 2016 – 2020, which commenced implementation in 2016/2017. The Bureau continued to double its efforts and focus on new areas of the strategic plan. Our diversification strategy into the digital content development, offering printing solutions for institutions and more so the County Governments has continued to yield favourable results. The Bureau has been printing for government ministries, departments and agencies; and private institutions and individuals. Our key strength remains in the state of art technology with the continued and sustained modernization of the printing press, competent personnel who strive to meet and exceed stakeholder expectations. The Bureau continues to grow the existing and new mutual partnerships with various stakeholders such as World Reader/ Amazon, Mapstudio South Africa, e-Kitabu, Kytabu for sale and distribution of various educational products continue to achieve the projected objectives.



Kenya Literature Bureau

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OVERVIEW OF FINANCIAL RESULTS

The profit before taxation was Kshs. 327.52 million in 2017 compared to Kshs. 222.62 million in 2015 representing an increase of 47.12%. Gross revenue grew by a massive 17.72% to reach to Kshs. 2.417 billion up from Kshs. 2.053 billion in 2015. The gross turnover growth was driven by increased book sales demand in the primary and secondary segment due to increased funding on free education (capitation) by the Government and massive increase in the printing sales. The Bureau continues to grow the e-book content titles, taking advantage of the digital revolution and the increased demand of the digital literacy materials.

FORWARD LOOKING

The World economy is projected to grow at 3.5% in 2017 and 3.6% in 2018, with a gradual pick up in advanced economies and accelerated growth in emerging market and developing economies. Futures markets are currently suggesting only modest increases in prices in 2017 and 2018.

Africa's economic growth rate is expected to average at 2.7% in 2017 and 3.5% in 2018 hinged on the strengthening of the world economy and a gradual recovery in commodity prices.

Kenya's economy is expected to grow at 6.1% in 2017 and 6.5% in 2018, with expansion expected from construction, manufacturing, finance and insurance, information, communications and technology, and wholesale and retail trade. The major infrastructural projects such as the construction of the Standard gauge railway which was completed and commissioned on 31st May 2017, additional electricity generation projects, food security irrigation projects, improvement of security infrastructure, roads construction, and expansion of airports among others being rolled out are expected to boost the expansion in Gross Domestic Product (GDP). The Consumer Price Index (CPI) is expected to remain with the single target digit. We therefore envisage a conducive operating environment even though the uncertainty related to the Curriculum review and its implementation may lead to slowed down sales.

During the financial year, the Bureau embarked on the implementation of the third cycle Strategic Plan 2016 – 2020 whose main focus is on growth and sustainability. It targets to attain

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For the year ended 30 June, 2017 (Kshs)**

the balance score card objectives of financial performance, customer focus, learning and growth and internal business processes.

The Bureau continues to strategize for the proposed one text book per subject per child policy by the Ministry of Education, which is set to be implemented in January 2018. Similarly, the rollout of the new competency based curriculum in January 2018, require top-notch strategic thinking and planning, for which the Bureau has taken bold steps to craft a plan.

DIVIDENDS

The Bureau, being a commercial state corporation continues to prove to be a worthy investment for the Government whose return on investment has averaged over 10% for several years. The Bureau has continued to pay increased dividends to the Government of Kenya since the 2006/07 financial year. The dividends are declared based on the policy of ten (10) percent of the after tax net profits. KLB paid dividends amounting to Kshs. 15.16 million for the year ended 30th June 2016 up from Kshs. 13.42 million for the year ended 30th June 2015. In the period under review, KLB has made provisions for dividend pay-out of Kshs. 22.013 million for the year ended 30th June 2017, representing a 50.1% growth from the previous year.

BOARD CHANGES

During the year the two (2) board members resigned to pursue other interest, while the former Managing Director exited after the expiry of the contract with effect from 30th September 2017.

APPRECIATION

I sincerely wish to appreciate the Government of Kenya, through our parent ministry, the Ministry of Education, development and business partners for their support and contribution to our business growth and success. I take this opportunity to appreciate and congratulate my fellow directors, the management, staff for the exemplary performance during the year under review.



Hon. Amb. Francis S. K. Bayah
CHAIRMAN

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

INTRODUCTION

The Bureau has continued to register remarkable growth trajectory in turnover, profitability and sustainability. The Bureau has maintained a strong drive for results across all the segments of the market. The two previous strategic plans have laid a solid foundation for growth and sustainability in future. The prospects for increased turnover and market share are being realised.

The Bureau continues to improve the staff competence, motivation, attraction and retention through investment in human capital development, besides improvement of the terms and conditions for employees. This is evidenced by the continued high staff morale and commitment towards excellent performance and increased productivity.

PERFORMANCE REVIEW

The Bureau has proved to be on a sustainable business growth path with strong financial performance and financial position. The implementation of the third cycle Strategic Plan 2016 -2020 has taken off well and provided potential for increased growth.

The profit before taxation was Kshs. 327.52 million in 2017 compared to Kshs. 222.62 million in 2016 representing an increase of 47.12%. Gross revenue grew by a massive 17.72% to reach to Kshs. 2.417 billion up from Kshs. 2.053 billion in 2016. The gross turnover growth was driven by increased book sales demand in the primary and secondary segment due to increased funding on free education (capitation) by the Government and massive increase in the printing sales. The Bureau continues to grow the e-book content titles, taking advantage of the digital revolution and the increased demand of the digital literacy materials.

Total operating expenses grew by 8.2% to Kshs. 1.202 billion from Kshs. 1.11 billion, driven mainly by the following:

- Administration costs due to increased level of production activity.
- Selling and distribution costs increased due to the increased trade discount allowed based on the sales volume and also the marketing costs to push additional sales demand.
- Staff costs increased due to increased investment in talent and compensation improvement to promote business sustainability.

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The Bureau's financial position has continued to be strong with favourable liquidity ratios. The Bureau finances all its operations and capital investments from internally generated finances and has no borrowings. These results further demonstrate the sound financial leadership, prudence and effective strategies that the Bureau utilizes to stay economically viable and contribute to the country's economic growth.

STRATEGIC PLAN 2016-2020 IMPLEMENTATION

During the financial year 2016/2017, the Bureau continued to implement the Strategic Plan 2016 – 2020 based on the following strategic objectives and strategies;

1. **To be the Industry's Market leader** – The gross turnover for the year reached Kshs. 2.417 billion as compared to Kshs. 2.053 billion in 2016. This was a 85% achievement. This was achieved through the aggressive marketing strategies and development of new markets with new product offering while servicing the current markets with improved products and services. The challenges of the uncertainty surrounding the textbook distribution model to be implemented played part in leading to lower sales as bookshops withheld their purchase plans. Further, the impending curriculum review led to fears of dead stock within the industry and which resulted to slowed down sales. The Bureau continues to engage with the booksellers to dispel the fears and clear the uncertainties in addition to working with the Ministry of Education on the same. The contract for supply of textbooks to Rwanda Education Board ((REB) was executed in February 2017. Printing is targeted for fourth quarter when the distribution lists will be released REB.
2. **To improve on quality of products and services** - This was achieved by continually determining the needs, tastes and preferences of the consumers and used the feedback to develop improved products and services. The continued compliance with the International Standardization Organization (ISO) 9001:2008 Quality Management System provides an assurance system for the quality of our products and services for our customers. The Bureau has completed the implementation of the transition from the ISO 9001: 2008 to ISO 9001: 2015 in 2016/2017. The Bureau has since been issued with the ISO 9001: 2015 Certification.
3. **To upgrade Corporate Infrastructure** – The Bureau continues with increasing capital investment aimed at improving the publishing and printing systems. Acquisition of plant and machinery, ICT equipment, motor vehicles and the full implementation of the automated systems such as Accpac financial system and the Human Resources

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Management Information System has led to improvement of the Bureau's technology infrastructure.

4. **To strengthening institutional capacity** – The Bureau achieved much progress geared to enhance the institutional capacity to serve the increased needs and demands of our valued customers. The Bureau continues to invest in human capital investment to ensure that we attract and retain competent and skilled employees. This has resulted in improved productivity levels.

The Bureau continued to develop and implement effective human resources plans and policies. The Bureau has continued to enjoy cordial relations with the Union organization (non-management staff) and commenced the implementation of the Phase Two of the Collective Bargaining Agreement 2015 – 2017. This has ensured that the Bureau has highly motivated staff and harmonious industrial relations. The Bureau has a plan of improving the terms and conditions of service for the staff through the implementation of government circulars. The Bureau working together with Salaries and Remuneration Commission has carried out the job evaluation and the results have been released but the report awaited.

5. **To ensure effective corporate governance, controls and sound resource management** – The Bureau undertakes a review of risk factors and develops mitigation plan on a periodical basis. The Bureau ensured continued compliance with the legal and regulatory framework established by the Government as the shareholder in order to promote sustainable business practices. The Board usually meets for a minimum of four (4) quarterly meeting in a year. The Board of Management works through committees that include the Audit and Risk Management, Finance, Human Resources and General Purpose and Technical committee.

BUSINESS REVIEW

The Bureau being a commercial state corporation continues to compete with private publishers in the liberalised publishing industry. For it to remain viable, the Bureau must develop and implement strategies and measures that will provide a competitive edge and comparative advantage. The Bureau continued to grow its product portfolio in different segments. The publishing and printing of books for the Rwandan market during the year under review was a major step in growing market share in region. The purchase of the books by the Rwanda Education Board (REB) gives credence to the low risk foreign market entry. Efforts continue to be stepped up in the Uganda market.

A wide range of products has been developed for the Early Childhood Development Education, Mother tongue titles, primary, secondary, tertiary and general books segment. The

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publishing of books for the ECDE Diploma colleges underlines focus of the Bureau to fulfil customers' needs. The digital content titles developed for Standard one add to the growing list of e-books that the Bureau has developed.

As one of the leading publisher and printer in the East Africa Community region, the Bureau has embarked on the aggressive marketing of the printing services to both public and private institutions. A major achievement has been the soliciting of printing orders for County Governments. The Bureau has also been actively printing for other public institutions and agencies.

The Bureau continued to implement the Government policy to award 30% tenders to youth, women and persons with disabilities, in addition to enhancing gender and disability mainstreaming.

PERFORMANCE CONTRACT AND ISO CERTIFICATION

KLB implemented the negotiated performance contract for 2016/2017 (13th cycle) and is awaiting evaluation. The Bureau has maintained favourable performance by achieving all the set targets for the year under review. This was as a result of the commitment of KLB's Board, Management and staff to continually improve performance and increase productivity. The Bureau has continued to embrace the best practices by committing to the ISO 9001:2015 Quality Management System which it has transitioned to which has assisted in improving processes and systems.

DIVIDENDS

The Bureau, being a commercial state corporation continues to prove to be a worthy investment for the Government whose return on investment has averaged over 10% for several years. The Bureau has continued to pay increased dividends to the Government of Kenya since the 2006/07 financial year. The dividends are declared based on the policy of ten (10) percent of the after tax net profits. KLB paid dividends amounting to Kshs. 15.16 million for the year ended 30th June 2016 up from Kshs. 13.42 million for the year ended 30th June 2015. In the period under review, KLB has made provisions for dividend pay-out of Kshs. 22.013 million for the year ended 30th June 2017, representing a 50.1% growth from the previous year.

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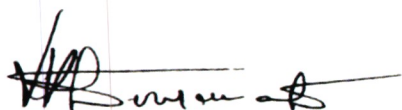
FOCUS ON THE FUTURE

As at the close of the financial year 2017/2018, the Bureau continued to strategize for the proposed one text book per subject per child directive by the Ministry of Education. This directive has since been implemented and the Bureau awarded eighteen (18) titles for printing and distribution in Phase I. Similarly, the rollout of the New Competency Based Curriculum which was expected in January 2018 was placed under pilot scheme countrywide and the full rollout is expected to be in January 2019. The Bureau obtained favourable approvals for the new Curriculum Books require top-n for Pre-primary 1 & 2 and Grade 1 to

APPRECIATION

I take this opportunity to express our gratitude to the Government of Kenya, through our parent ministry, the Ministry of Education, whose valued support have seen us rise to the top; the current and former Board of Management who have continuously provided the much needed strategic direction and leadership; the management and staff whose commitment has resulted in the impressive performance and our stakeholder and business partners including our customers for their continuous support and contribution to business growth. The concerted efforts and commitment have heralded a legacy of sustainable growth and profitability which is commendable.

Thank You and God Bless You All.



Mr. Victor K. Lomaria
MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

The Bureau continues to implement corporate governance guidelines that are released by the Government and best practises. The Board of management acknowledges that adherence to good corporate governance practises is key to sustainable growth and management of an organization and in generating shareholder value and stakeholder satisfaction. The Board commits and implements effective governance through processes and policies intertwined with the core values and ethics as espoused in the Code of Ethics which was revised based on the Leadership and Integrity Act 2012.

Corporate governance has served as a key element contributing to Kenya Literature Bureau's sustainable business success and is highly regarded at the Bureau. The Mwongozo Code of Governance, now the corporate governance blue print for State Corporations is in the process of being implemented. The Bureau has been implementing these governance principles on continuous basis.

THE BOARD OF MANAGEMENT

During the financial year under review the Bureau the new Board of Management served the Bureau after the expiry of the contract for the former Board as at 30th March 2016. The new Board was appointed with effect from 1st April 2016 while two (2) members were appointed with effect from 17th December 2015 to replace those whose terms had already ended.

The Board of Management is responsible for providing overall leadership through oversight, review and guidance in addition to setting the strategic and policy direction. It is the primary decision making organ for all policy matters of the Bureau. The Board is endowed with the appropriate mix of skills, knowledge and experience to perform its duties effectively.

CURRENT BOARD OF MANAGEMENT

The areas of expertise of the directors, who served during the financial year are as follow:

Name	Area of expertise
1. Hon. Amb. Francis S. K. Baya, EBS	- Administration and Education
2. Mr. Victor Lomaria (w.e.f 1.09.16)	- Accounting, Investment and Financial Management
3. Mrs. Eve A. Obara, MBS*	- Human Resource Management and Business Admin.
4. Mrs. Leah Rotich*	- Administration and Education
5. Ms. Cheryl Majiwa	- Accounting, Investment and Financial Management

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- | | |
|--------------------------------|--|
| 6. Mr. Abdalla C. Bii | - Legal Practitioner |
| 7. Mr. John K. Kenduiwo | - Academia, Mechanical engineering, Strategic and Operations Management |
| 8. Mr. Sammy M. Chepkwony | - Business Administration, Entrepreneurship, Co-operative Management and Administration |
| 9. Mr. Josephine Maangi | - Legal Practitioner, Business Administration |
| 10. Mr. Nicholas Mac'Botongore | - Education and Administration |
| 11. Martin M. Mburu | - Business Administration |
| 12. Mrs. Elizabeth K. Mwongera | - Education and Human Resources Management |
| 13. Mr. Moses E. Lerosion* | - Administration and Management |
| 14. Mrs. Charity Kathambi* | - Business Management, Sales and Marketing, Clearing and Forwarding and County Government Administration |

Mrs. Eve A. Obara, MBS* - Left on 30th September 2016 after the expiry of contract.

Mrs. Leah Rotich* - Left as at 30th June 2017 on retirement in the Ministry of Education

Mr. Moses E. Lerosion* - Left on 5th February 2017 after resignation.

Mrs. Charity Kathambi* - Left on 30th April 2017 after resignation.

The Board continues to offer oversight and review matters related to their duties including the Bureau's strategy, financial performance, corporate governance, ensuring the maintenance of sound internal control system and risk management framework, delegation and monitoring of the authority for expenditure and commitments.

BOARD COMPOSITION

The current comprises twelve (11) members; the Chairman, five (5) independent directors and four (4) directors representing various governmental agencies as per the Kenya Literature Bureau Act Cap 209 of 1980 (Revised 2012) and the Managing Director. One additional director representing the Ministry of Labour and Social Security was appointed mid during the financial year. The gender parity status between the female and male was 50% to 50%, which is well above the 30% gender equity threshold.

ROLE OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The separate roles of the Chairman and the Chief Executive Officer are clearly defined in the Mwongozo Code of Governance for State Parastatals and the Board Charter which was approved by the Board. Except for the strategic direction and general policy guidance, the Board has delegated the conduct of the day-to-day business to the Chief Executive Officer.

SUCCESSION PLANNING

The Bureau has an established succession plan geared to ensuring continuation of business operations at all levels of the Board and Management. The terms of the members of the Board of Management are scheduled to end at different times.

BOARD EVALUATION AND PERFORMANCE

The Board conducts an annual evaluation to assess its effectiveness in discharging its mandate. The process entails a self-evaluation for each director, evaluation of the Chairman to the Board on the overall Board interactions and conduct of business meetings and evaluation of the Chief Executive Officer. The Bureau has an e-Board automated platform for conducting Board meetings and also Board evaluations where results are reported and analysed on a real-time basis.

BOARD MEETINGS AND ATTENDANCE

The Board meets on a quarterly basis and has a formal schedule of matters to be discussed. The directors receive appropriate and timely reports to facilitate informed deliberations and decision making. The Board promotes an environment of innovative thinking, consultation, cordial relations, information sharing, and openness in communication. The Board has an opportunity to meet with all the staff in December annually.

BOARD COMMITTEES

The Board Committees were re-organized in January 2017 to align them with good governance practises and ensure full coverage of the mandate of the Bureau. The Board has three standing committees with specific delegated authorities and terms of reference. These are Board Audit and Risk Management Committee; the Board Finance, Human Resources and General Purpose Committee and Board Technical Committee. The Board Committees meet at least on quarterly basis. The respective Committee Chairmen present their reports to the Board at the quarterly meetings. The

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details of these committees and membership for the former Board of Management are highlighted below:

1.0 BOARD AUDIT AND RISK MANAGEMENT COMMITTEE

1.1 MEMBERSHIP

NO.	NAME	POSITION
1.	Mr. Sammy Chepkwony	Chairman
2.	Mrs. Cheryl Majiwa	Member
3.	Mrs. Josephine Maangi	Member
4.	Mr. Martin Mburu	Member
5.	Mr. Victor K. Lomaria*	Managing Director & Secretary to the Board
6.	Mr. Julius K. Aritho*	Internal Audit Manager & Secretary to the Committee

*In-attendance

ROLE AND FUNCTION

The Audit and Risk Management Committee is responsible for continually evaluating the effectiveness of the internal control system and receives reports from the Internal Audit function on a quarterly basis. It reviews aspects relevant to governance, internal control procedures, risk management and internal audit. It also reviews external auditor's reports and management responses. The Internal Audit function reports directly to the full Board through the Audit and Risk Management Committee.

1.2 ATTENDANCE

Number of meetings scheduled for 2016/2017 **4**

NO.	NAME	POSITION	MEETINGS
1.	Mr. Sammy Chepkwony	Chairman	4/4
2.	Mrs. Cheryl Majiwa	Member	4/4
3.	Mrs. Josephine Maangi	Member	4/4
4.	Mr. Martin Mburu	Member	4/4
5.	Mr. Victor K. Lomaria*	Managing Director & Secretary to the Board	4/4
6.	Mr. Julius K. Aritho*	Internal Audit Manager & Secretary to the Committee	4/4

2.0 BOARD FINANCE, HUMAN RESOURCES AND GENERAL PURPOSE COMMITTEE

2.1 MEMBERSHIP

NO.	NAME	POSITION
1.	Mrs. Elizabeth Mwongera	Chairman
2.	Mr. John Kenduiwo	Member
3.	Ms. Cheryl Majiwa	Member
4.	Mr. Abdalla Bii	Member
5.	Mr. Victor K. Lomaria	Managing Director & Secretary to the Board
6.	Mr. Francis M. Mutunga*	Finance Manager & Secretary to the Committee
7.	Mrs. Roselyn Mugavana*	Human Resources Manager

*In-attendance

ROLE AND FUNCTION

The Finance, Human Resources and General Purpose Committee plays a vital role in assuring the integrity of the financial statements before they are reviewed and approved by the full Board. It reviews and recommends for approval the quarterly and annual accounts. It also undertakes the monitoring and evaluation of the implementation of strategies, policies, management performance criteria and business plans on a regular basis; ensuring that adequate resources are employed to realize the goals and objectives of the Bureau. It is also charged with the role of considering the Bureau's annual and supplementary budgets and recommending them to the Board for approval. The committee assesses the adequacy and effectiveness of the internal controls and financial management procedures and overall compliance with financial regulations.

The committee is also responsible for matters concerning the human capital that includes, consideration of terms and conditions of service, organizational structure, employee remuneration, appointment of employee at management level and above, handling management staff disciplinary cases, preparing the employees in the Bureau for the desired changes in working styles, attitudes and ethics among others.

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2.2 ATTENDANCE

Number of meetings scheduled for 2016/2017 4

NO.	NAME	POSITION	MEETINGS
1.	Mrs. Elizabeth Mwongera	Chairman	4/4
2.	Mr. John Kenduiwo	Member	4/4
3.	Ms. Cheryl Majiwa	Member	4/4
4.	Mr. Abdalla Bii	Member	4/4
5.	Mr. Victor K. Lomaria	Managing Director & Secretary to the Board	4/4
6.	Mr. Francis M. Mutunga*	Finance Manager & Secretary to the Committee	4/4
7.	Mrs. Roselyn Mugavana*	Human Resources Manager	4/4

*In-attendance

3.0 BOARD TECHNICAL COMMITTEE

3.1 MEMBERSHIP

NO.	NAME	POSITION
1.	Mrs. Josephine Maangi	Chairman
2.	Mr. John Kenduiwo	Member
3.	Mr. Abdalla Bii	Member
4.	Mr. Sammy Chepkwony	Member
5.	Mr. Martin Mburu	Member
6.	Mr. Victor K. Lomaria	Managing Director & Secretary to the Board
7.	Mr. Evans Nyachieng'a*	Business Development Manager, Secretary to the Committee
8.	Mr. Bernard Obura*	Sales & Marketing Manager

*In-attendance

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ROLE AND FUNCTION

The mandate of the Technical Committee is to assist the Board of Management in the implementation of the core business of the Bureau and its strategic objectives as spelt out in the KLB strategic plan 2016-2020. The committee is charged with advising the Board on KLB's core business as well as new developments and Technologies in printing and publishing industry.

The Committee is specifically charged with the setting the strategic tone for the Bureau; formulate policies for sound management of the Publishing and Printing functions as per the mandate of the Bureau under KLB Act Cap 209; formulate and recommend for approval the criteria to be used in investment in Publishing and Production functions; submit to the Board quarterly reports on the activities of the Bureau with regard to Publishing and Printing performance; review the Publishing and Printing policies on a regular basis; hold meetings on a quarterly basis or as need demands; and monitor the Book Production to assess the performance of KLB's press.

2.2 ATTENDANCE

Number of meetings scheduled for 2016/2017 **2**

NO.	NAME	POSITION	MEETINGS
1.	Mrs. Josephine Maangi	Chairman	2/2
2.	Mr. John Kenduiwo	Member	2/2
3.	Mr. Abdalla Bii	Member	2/2
4.	Mr. Sammy Chepkwony	Member	2/2
5.	Mr. Martin Mburu	Member	2/2
6.	Mr. Victor K. Lomaria	Managing Director & Secretary to the Board	2/2
7.	Mr. Evans Nyachieng'a*	Business Development Manager, Secretary to the Committee	2/2
8.	Mr. Bernard Obura*	Sales & Marketing Manager	2/2

*In-attendance

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BOARD MEETING ATTENDANCE

Number of meetings scheduled for 2016/2017

6

NO.	NAME	POSITION	MEETINGS
1.	Hon. Amb. Francis S. K. Bayah	Chairman	6/6
2.	Leah Rotich	Member	6/6
3.	Cheryl Majiwa	Member	6/6
4.	Abdallah Bii	Member	5/6
5.	Josephine Maangi	Member	6/6
6.	Sammy M. Chepkwony	Member	6/6
7.	John Kenduiwo	Member	6/6
8.	Charity K. Chepkwony	Member	5/6
9.	Elizabeth Mwongera	Member	5/6
10.	Moses Lerosion	Member	5/6
11.	Victor Lomaria	Current Managing Director & Secretary to the Board	5/6
12.	Eve A. Obara	Former Managing Director – contract expired on 30 September 2016	1/1

DIRECTORS' REMUNERATION

The Bureau pays members of the Board such taxable sitting allowance as may be approved by the Cabinet Secretary for Education, Science and Technology, following guidelines from the State Corporations Advisory Committee and Salaries and Remuneration Commission. The sitting allowance is payable when a member attends meetings of the Board or Committees and when on official duty in and outside the country. The Chairman of the Board is paid a honoraria as approved by the Government from time to time. The payment of sitting, travelling and lunch allowance is also based on the approved rates by the Government of Kenya. The Bureau does not grant personal loans, guarantees to directors.

STAFF REMUNERATION

Staff remuneration is based on the sustained performance by the employees and is subject to the approval of the Board and the Salaries and Remuneration Commission and based on the budget. Year-end rewards and benefits are tied to the overall performance for the Bureau in monetary terms. The Bureau undertakes a comprehensive annual staff appraisal against their pre-agreed targets and objects and this informs the individual performance and contribution to the company performance and achievement of the overall goals.

CONFLICT OF INTEREST

All Directors are required to inform the Board of any conflicts or potential conflicts of interest they may have in relation to particular items of business; and they are required to absent themselves from discussion or decisions on those matters, unless resolved otherwise by the remaining members of the Board;

INTERNAL CONTROLS

The Board is committed to establishing and monitoring a risk management framework and to controlling its business and financial activities with a view to maximising profitable business opportunities and ensuring compliance with legal and regulatory requirements. The Board assesses the effectiveness of the Bureau's internal control systems on a quarterly basis.

CODE OF CONDUCT AND MWONGOZO CODE OF GOVERNANCE

The Bureau has commenced implementation of Mwongozo Code of Governance for State Corporations, which was issued by the Presidency. The Bureau has revised its Code of Conduct in line with the leadership and Integrity Act 2012 for which all the directors, management and employees are required to observe and which is also reinforced by the core values and principles of governance.

GOING CONCERN

The Board confirms that the company has adequate resources to continue in business in the foreseeable future. Based on this reason, the Board continues to adopt the going concern basis when preparing the financial statements.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The entity's operational and financial performance

During the financial year 2016/2017, the Bureau continued to implement the Strategic Plan 2016 – 2020 based on the following strategic objectives and strategies;

1. **To be the Industry's Market leader** – The gross turnover for the year reached Kshs. 2.417 billion as compared to Kshs. 2.053 billion in 2016. This was a 85% achievement. This was achieved through the aggressive marketing strategies and development of new markets with new product offering while servicing the current markets with improved products and services. The challenges of the uncertainty surrounding the textbook distribution model to be implemented played part in leading to lower sales as bookshops withheld their purchase plans. Further, the impending curriculum review led to fears of dead stock within the industry and which resulted to slowed down sales. The Bureau continues to engage with the booksellers to dispel the fears and clear the uncertainties in addition to working with the Ministry of Education on the same. The contract for supply of textbooks to Rwanda Education Board ((REB) was executed in February 2017. Printing is targeted for fourth quarter when the distribution lists will be released REB.
2. **To improve on quality of products and services** - This was achieved by continually determining the needs, tastes and preferences of the consumers and used the feedback to develop improved products and services. The continued compliance with the International Standardization Organization (ISO) 9001:2008 Quality Management System provides an assurance system for the quality of our products and services for our customers. The Bureau has completed the implementation of the transition from the ISO 9001: 2008 to ISO 9001: 2015 in 2016/2017. The Bureau has since been issued with the ISO 9001: 2015 Certification.
3. **To upgrade Corporate Infrastructure** – The Bureau continues with increasing capital investment aimed at improving the publishing and printing systems. Acquisition of plant and machinery, ICT equipment, motor vehicles and the full implementation of the automated systems such as Accpac financial system and the Human Resources Management Information System has led to improvement of the Bureau's technology infrastructure.
4. **To strengthening institutional capacity** – The Bureau achieved much progress geared to enhance the institutional capacity to serve the increased needs and demands of our valued customers. The Bureau continues to invest in human capital investment to ensure that we attract and retain competent and skilled employees. This has resulted in improved productivity

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levels.

The Bureau continued to develop and implement effective human resources plans and policies. The Bureau has continued to enjoy cordial relations with the Union organization (non-management staff) and commenced the implementation of the Phase Two of the Collective Bargaining Agreement 2015 – 2017. This has ensured that the Bureau has highly motivated staff and harmonious industrial relations. The Bureau has a plan of improving the terms and conditions of service for the staff through the implementation of government circulars. The Bureau working together with Salaries and Remuneration Commission has carried out the job evaluation and the results have been released but the report is awaited.

5. **To ensure effective corporate governance, controls and sound resource management** – The Bureau undertakes a review of risk factors and develops mitigation plan on a periodical basis. The Bureau ensured continued compliance with the legal and regulatory framework established by the Government as the shareholder in order to promote sustainable business practices. The Board usually meets for a minimum of four (4) quarterly meeting in a year. The Board of Management works through committees that include the Audit and Risk Management, Finance, Human Resources and General Purpose and Technical committee.

SECTION B

Entity's compliance with statutory requirements

The Bureau has been compliant on regulatory and statutory requirements except for the following historical issues that are under discussion with the concerned governmental agencies;

(i) NSSF CONTRIBUTIONS- PENALTY AND INTEREST KSHS. 27,650,838/=

A contingent liability exists from a demand notice issued by National Social Security Fund for penalties and interest on contributions arrears dating back to 1993 amounting to Kshs 27,650,838/= which is still in dispute. The Bureau has engaged in fruitful discussions, which are at an advanced stage for waiver of the said penalties and interest. Further, NSSF have agreed to halt any further demand notice and accumulation of the amounts. The amount, which may be settled in future, cannot be measured with sufficient reliability. The directors estimate that no material liability will arise on the assessment and have made no provision.

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(ii) KRA PRINCIPAL TAX DEMAND KSHS. 125,560,306/=

A contingent liability exists from a demand notice based on the tax audit conducted by Kenya Revenue Authority (KRA) for the years 2007 to 2010 amounting to Kshs 125,560,306 (being principal amount) for which a waiver for penalties and interest was approved by then Minister for Finance in April 2013. The Bureau has held successful negotiations with the officials of Kenya Revenue Authority and the National Treasury, with a view to abandoning the principal tax as had been earlier agreed. During the discussions, KRA agreed to stay the demand notice pending the outcome of the matter. The amount payable, which may be settled in future, cannot be measured with sufficient reliability. The current tax obligations have been liquidated as per Income Tax Act, and there are no outstanding liabilities. The directors estimate that no material liability will arise on the assessment and have made no provision.

SECTION C

Key projects and investment decisions the entity is planning/implementing

The main project for the Bureau is the modernisation of the printing press slated for 2016 – 2018. This will contribute to the National Strategic Objectives as follows;

- a) To Increase on our Internal Production capacity in order to run efficiently and enhance competitiveness of our products
 - b) To modernize the Printing Press as per our Strategic Plan of improving on the printing technology and to reduce the operational costs of machines
- The purchase of the machine is entirely financed by internally generated resources saved over the years.

SECTION D

Major risks facing the entity

1. Financial risk management objectives and policies

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

Risk management is carried out by the Senior Management under policies approved by the

Board of Directors. The Board provides principles for overall risk management.

i) Credit risk

Credit risk is the risk of financial loss to the company of a customer to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables with customers.

Bank balances are held with credible financial institutions and are fully performing. Trade receivables are due from customers with good credit rating. Treasury bills are held with the Government of Kenya and have zero credit risk.

ii) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company implements prudent liquidity risk management that include maintaining sufficient cash to meet company obligations. The company manages this risk by maintaining adequate cash balances in the bank, maintaining short-term deposits and treasury bills and by continuously monitoring forecast and actual cash flows.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of the changes in market price and comprises three types of risks: currency risk, interest rate risk, and other price risk.

Currency risk

Currency risk arises on financial instruments denominated in foreign currency. The company has cash equivalents denominated in foreign currency to the tune of United States Dollars 111,010.71 as at 31st March 2017. However, the currency risk arising from them is minimal since the amount held in relation to the total cash and cash equivalents is the least.

Interest rate risk

The corporation does not have any borrowings as at 31st March 2017 and hence not exposed to cash flow interest rate risk resulting from changes in market interest rates.

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Other price risk

Other price risk arises on financial statements because of changes in the price of a financial instrument. The corporation is not exposed to other price risk since the prices of its financial instrument remain stable. In addition, the corporation does not have investments in quoted shares.

SECTION E

Material arrears in statutory/financial obligations

The Bureau has no overdue pending bills, no loans default (has no borrowings), no outstanding staff/pension obligations, no non-payment of dividends and loan redemptions. However, there exists an actuarial deficit of Kshs. 32.83 million for the non-active defined benefits pension scheme which is continuously being liquated at the rate of Kshs. 1.563 million per month from 1st April 2011 for seventy two (72) months.

SECTION F

The entity's financial probity and serious governance issues

The Bureau does not have any major financial improbity as reported by internal audit/Board audit committee, external auditors, or other National Government Agencies providing oversight; there are no serious governance issues among the Board or member of the Board and top management including conflict of interest.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

SOCIAL RESPONSIBILITY

The Bureau recognises the power of the citizenry and the communities within which it operates and takes deliberate measures to serve and uplift their standard of living.

The Bureau remains committed to our social, economic, environmental and ethical obligations by maintaining interaction with all the stakeholders. There are several initiatives implemented continuously and which are geared towards promoting social responsibility. These include;

- The book donation project, *Imarisha Kimasomo* has continued to make remarkable and valuable contribution in ensuring access to educational materials and improving quality for the disadvantaged schools in all corners of the country. The policy of providing donation books to employees for at least one primary and one secondary school was a major achievement in an attempt to give back to the society. Books donated are used to stock the libraries and hence uplifting the reading culture.
- Remarkably the book donations have been extended to Members of Parliament and Senators to aid the schools in the areas to stock their libraries with reading materials. This has had a tremendous impact in all counties.
- The Bureau recognizes that staff are a key component of any business success story as come and has therefore come up with internal social responsibility programmes aimed at promoting the development of the employees through provision of educational loans.
- The Bureau provides life skills by mentoring students to exploit their potential, by sponsoring school subject contests, publishing books on life skills and participating in leadership and mentoring talks to students.

Kenya Literature Bureau

Annual Report and Financial Statements For the year ended 30 June, 2017 (Kshs)

- Bookshops have benefited from the social responsibility programmes where the Bureau organizes for training of Bookshops attendants on customer service.

ENVIRONMENTAL SUSTAINABILITY

The Bureau has made a commitment to environmental sustainability by developing programmes that promote environmental conservation and creation of awareness in partnership with schools and other stakeholders. The Bureau conducted an Energy Audit and is continuously implementing the recommendations of the audit. The energy champions have been trained.

The Bureau planted over 5,000 trees in various counties in partnership with schools. Environmental awareness programmes such as the environment clean-up days, participation and sponsorship of the World environmental Day and the World Wetlands day were some of the initiatives to promote environmental sustainability.

The Bureau continues to invest in corporate social responsibility programmes that up lift the well-being of the society and in turn provide a continuous flow of customers and consumers.

Kenya Literature Bureau

Annual Report and Financial Statements For the year ended 30 June, 2017 (Kshs)

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June, 2017 which show the state of Kenya Literature Bureau's affairs.

Principal activities

The principal activities of the Bureau continue to be; to publish, print and disseminate literary, educational, cultural and scientific literature and materials, at affordable prices, whilst promoting excellent authorship and creating shareholder value.

Results

The results of the Bureau for the year ended 30 June, 2017 are set out on pages 1 to 41.

Dividends

Kenya Literature Bureau being whole owned by the Government of Kenya, the Board of Management proposes dividend for the year ended 30 June, 2017 amounting to Kshs. 22.013 million which is payable through the National Treasury based on the audited financial statements. The dividend will be paid in the fourth quarter of 2017/2018 financial year.

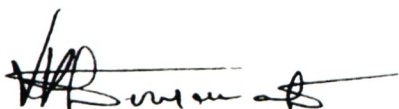
Directors

The members of the Board of Management who served during the year are shown on page 2 and 3.

Auditors

The Auditor General is responsible for the statutory audit of the Kenya Literature Bureau in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Mr. Victor K. Lomaria

Secretary to the Board

NAIROBI

Date: 27 July 2017

Kenya Literature Bureau

Annual Report and Financial Statements For the year ended 30 June, 2017 (Kshs)

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Bureau, which give a true and fair view of the state of affairs of the Bureau at the end of the financial year and the operating results of the Bureau for that year. The Directors are also required to ensure that the Bureau keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bureau. The Directors are also responsible for safeguarding the assets of the Bureau.

The Directors are responsible for the preparation and presentation of the Bureau's financial statements, which give a true and fair view of the state of affairs of the Bureau for and as at the end of the financial year ended on 30 June, 2017. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bureau;
- (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) safeguarding the assets of the Bureau;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Bureau's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the Public Financial Management Act, 2012 and section 14 of the State Corporations Act. The Directors are of the opinion that the Bureau's financial statements give a true and fair view of the state of Bureau's transactions during the financial year ended 30 June, 2017, and of the Bureau's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Bureau, which have been relied upon in the preparation of the Bureau's financial statements as well as the adequacy of the systems of internal financial control.

Kenya Literature Bureau

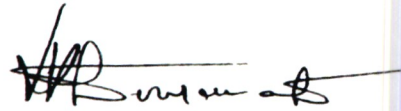
**Annual Report and Financial Statements
For the year ended 30 June, 2017 (Kshs)**

Approval of the financial statements

The Bureau's financial statements were approved by the Board on July 27, 2017 and signed on its behalf by:



Hon. Amb. Francis S. K. Bayah
Director



Mr. Victor K. Lomaria
Director

REPUBLIC OF KENYA

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Fax: +254-20-311482
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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA LITERATURE BUREAU FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Literature Bureau set out on pages 1 to 41, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in capital fund and reserves, statement of cashflows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, the financial statement present fairly, in all material respects, the financial position of Kenya Literature Bureau as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Literature Bureau Act, Cap 209 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Literature Bureau in accordance with ISSAI 30 on code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Contingent Liabilities

As disclosed in note 24 (i) to the financial statement a contingent liability exists from a demand notice issued by National Social Security Fund (NSSF) for penalties and interest on contributions arrears dating back to 1993 amounting to Kshs.27,650,838

Report of the Auditor-General on the Financial Statements of Kenya Literature Bureau for the year ended 30 June 2017

which is still in dispute. The Bureau has explained that, they have engaged the Fund in fruitful discussions which are at advanced stage for waiver of the said penalties and interest, and that NSSF have agreed to halt any further demand notice and accumulation of the amounts.

Further as disclosed in note 24 (ii) a contingent liability also exists from a demand notice based on tax audit conducted by Kenya Revenue Authority for the years 2007 to 2010 amounting to Kshs.125,560,306 being principal amount for which a waiver for penalties and interest was approved by the Ministry of Finance in April, 2013. The Bureau has also explained that, discussions are ongoing with Kenya Revenue Authority with a view of having the liabilities waived. However, should such negotiations between the two parties fail to materialize, the Bureau will suffer financial loss to the tune of over Kshs.153,121,144.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Emphasis of Matter Section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bureau's ability in continuing as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Bureau or cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of section 47 of the Public Audit Act.2015.

Those charged with governance are responsible for overseeing the Bureau's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the

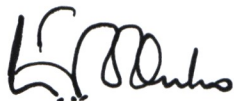
provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Bureau's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bureau's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bureau to cease to continue as a going concern or to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bureau's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 April 2018

KENYA LITERATURE BUREAU
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017

XII. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE, 2017

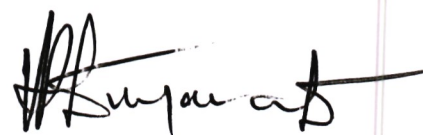
	Note	2017 Kshs	2016 Kshs
REVENUES			
Turnover	1 (a)	2,417,312,032	2,053,443,913
Cost of Sales	1 (b)	(939,228,297)	(769,053,309)
Gross Profit		1,478,083,735	1,284,390,604
Gross Income from investments	7 (a)	49,330,914	43,361,961
Gain/(Loss) on Disposal of Non-financial Assets	2	(68,350)	(793,901)
Other Income	3	1,725,673	5,863,383
OTHER REVENUES		50,988,237	48,431,443
TOTAL REVENUES		2,468,300,269	2,101,875,356
Administration Costs	4 (a)	361,373,446	347,617,484
Selling and Distribution Costs	5	801,106,745	726,413,860
Depreciation - Property, Plant and equipment	10 (b)	39,077,500	36,175,284
OPERATING EXPENSES		1,201,557,691	1,110,206,628
TOTAL COSTS		2,140,785,988	1,879,259,937
OPERATING PROFIT FOR THE YEAR BEFORE TAX		327,514,281	222,615,419
Other Comprehensive Income		-	-
INCOME TAX EXPENSE	8(a)	107,383,519	71,019,864
TOTAL COMPREHENSIVE INCOME AFTER TAX		220,130,762	151,595,555



Hon. Amb. Francis S. K. Bayah

Chairman

27 July, 2017



Mr. Victor K. Lomaria

Managing Director

27 July, 2017

KENYA LITERATURE BUREAU
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017

XIII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2017

ASSETS	Note	2017	2016
Non - Current Assets		Kshs	Kshs
Property, Plant and Equipment	10 (a)	<u>1,203,660,059</u>	<u>1,227,422,133</u>
Current Assets			
Inventories	12	316,233,528	421,175,243
Trade and Other Receivables	13(a)	568,090,750	417,743,543
Short-term Investments	14	811,820,572	536,433,493
Cash and Bank Balances	15	<u>108,221,409</u>	<u>143,435,900</u>
		<u>1,804,366,259</u>	<u>1,518,788,179</u>
TOTAL ASSETS		<u>3,008,026,318</u>	<u>2,746,210,312</u>
RESERVES, FUND AND LIABILITIES			
Capital Fund	16	1,000,000,000	1,000,000,000
Revaluation Reserves	17	580,120,938	580,120,938
Revenue Reserves	18	<u>1,100,348,946</u>	<u>902,231,260</u>
Shareholder funds		<u>2,680,469,884</u>	<u>2,482,352,198</u>
CURRENT LIABILITIES			
Trade & Other Payables	19	<u>327,556,434</u>	<u>263,858,114</u>
		<u>327,556,434</u>	<u>263,858,114</u>
TOTAL RESERVES, FUND AND LIABILITIES		<u>3,008,026,318</u>	<u>2,746,210,312</u>

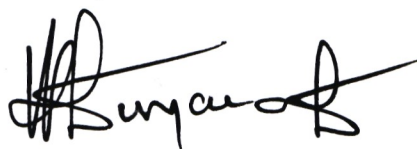
The financial statements were approved by the Board of Management on July 27, 2017
and were signed on its behalf by:



Hon. Amb. Francis S. K. Bayah

Chairman

27 July, 2017



Mr. Victor K. Lomaria

Managing Director

27 July, 2017

The notes set out on pages 6 to 41 form part of these financial statements.

KENYA LITERATURE BUREAU
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017

XIV. STATEMENT OF CHANGES IN CAPITAL FUND AND RESERVES FOR THE YEAR ENDED 30 JUNE, 2017

	Capital Fund	Revaluation Reserves	Revenue Reserves	Total Reserves
	Kshs	Kshs	Kshs	Kshs
At 1st July 2015	1,000,000,000	580,120,938	765,795,260	2,345,916,198
Net Profit for the year	-	-	222,615,419	222,615,419
Prov. For Corporation Tax - 2015/16	-	-	(71,019,864)	(71,019,864)
Dividends Payable - 2015/16	-	-	(15,159,556)	(15,159,556)
At 30 June 2016	1,000,000,000	580,120,938	902,231,261	2,482,352,199
At 1st July 2017	1,000,000,000	580,120,938	902,231,261	2,482,352,199
Net Profit for the year	-	-	327,514,281	327,514,281
Prov. For Corporation Tax - 2016/17	-	-	(107,383,519)	(107,383,519)
Dividends Payable - 2016/17	-	-	(22,013,076)	(22,013,076)
At 30 June 2017	1,000,000,000	580,120,938	1,100,348,946	2,680,469,884

KENYA LITERATURE BUREAU
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2017

		2017	2016
OPERATING ACTIVITIES	Notes	Kshs	Kshs
Operating profit for the year	6	327,514,281	222,615,419
Adjustments for:			
Depreciation Expenses	10 (a)	53,944,932	50,370,168
(Decrease)/Increase in Prov. for Slow Moving Stock	4(a)	4,209,328	255,943
Provision for Doubtful Debts	4(a)	6,408,181	939,571
Interest Income	7 (c)	(49,330,914)	(43,361,961)
Foreign Exchange (Gain) / Loss		563,188	-
(Profit)/Loss on disposal of Assets	2	68,350	793,901
Operating profit before Working Capital Changes		343,377,346	231,613,041
Increase/Decrease in Inventories	12	100,732,387	65,700,008
Realised Foreign Exchange Gain/Loss		(563,188)	-
Increase/Decrease in Receivables	13(a)	(149,346,120)	(70,363,992)
Increase/Decrease in payables	19	71,517,273	(55,534,374)
Cash generated from operations		365,717,697	171,414,683
Dividends Paid	9	(15,159,556)	(13,419,470)
Corporation Tax Paid	8(b)	(122,055,994)	(25,652,431)
Net Cashflows from Operating Activities		228,502,148	132,342,782
INVESTING ACTIVITIES			
Purchase of property, plant & equipment	10	(31,190,741)	(44,359,673)
Disposal of property, plant & equipment	10	939,533	628,316
Interest income received from Investments	7(b)	41,921,646	43,660,568
Net Cashflows from Investing Activities		11,670,438	(70,790)
(Decrease)/ Increase in Cash & Cash Equivalents		240,172,586	132,271,993
Cash & Cash Equivalents at the			
- Start of the year (1st July 2015)		679,869,395	547,597,402
- End of the year (30th June 2016)	21(b)	920,041,981	679,869,395

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2017

		Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	% Change	Remarks
	Note	2016 - 2017 Kshs	2016 - 2017 Kshs	2016 - 2017 Kshs	2016 - 2017 Kshs	2016 - 2017 Kshs		
Revenue								
Turnover	(1a)	2,055,602,190	310,151,541	2,365,753,731	2,417,312,032	51,558,301	2%	Increase attributed to aggressive marketing strategies and availability of stock (minimal stockouts) and growth in printing services
Direct Expenditure	(1b)	791,240,876	155,060,617	946,301,493	939,228,297	7,073,196	1%	Decrease as a result of costs containment measures
Gross Profit		1,264,361,314		1,419,452,238	1,478,083,735			
Other Income	(3)	59,305,000	(2,105,000)	57,200,000	50,988,237	(6,211,763)	-12%	The difference results from drop in Investment income as a result of Deposit withdrawals and also drop in interest rates
Total Income		1,323,666,314		1,476,652,238	1,529,071,972			
Staff Costs	(4b)	285,449,000	16,227,000	301,676,000	274,358,239	27,317,761	10%	Decrease as a result of reduction in staff allowances eg leave pay and also conclusion of payment for actuarial deficit in respect of staff pension.
Administration Costs	(4a)	91,440,000	870,000	92,310,000	87,015,207	5,294,793	6%	Decrease in costs due to stringent control measures on expenditure
Selling & Distribution Costs	(5)	702,241,416	88,379,235	790,620,651	801,106,745	(10,486,094)	-1%	Increase in costs due to increase in sales volume
Depreciation - Property/Plant	(10b)	41,002,251	(392,046)	40,610,205	39,077,500	1,532,705	4%	Written down values of many assets has been exhausted to nil
Total Expenditure		1,120,132,667		1,225,216,856	1,201,557,692			
Surplus for the period		203,533,647		251,435,382	327,514,281		0%	All the above factors have a bearing to overall increase in net profit
Tax Expense	(8a)	50,883,412		75,430,615	107,383,519			
Surplus After Tax		152,650,235		176,004,767	220,130,762			

PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSAB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Literature Bureau is established by and derives its authority and accountability from Kenya Literature Bureau Act Cap 209. The Bureau is wholly owned by the Government of Kenya and is domiciled in Kenya. The Bureau's principal activity is to publish, print and disseminate quality literary, educational, cultural and scientific literature and materials. For reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actually determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Bureau's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Bureau.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Kenya Literature Bureau Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Annual Report and Financial Statements
For the year ended 30 June, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts</i> (issued in January 2014)	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures. The Bureau does not have regulatory deferral balances and the directors do not anticipate application of the standard to have had any impact on disclosures and financial statements.
Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations</i> (issued in May 2014)	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not re-measured). The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (issued in May 2014)	1 st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally

Annual Report and Financial Statements
For the year ended 30 June, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard/Amendment to a standard	Effective date	Impact
		presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants</i> (issued in June 2014)	1 st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements</i> (issued in August 2014)	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle</i> , issued in	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard/Amendment to a standard	Effective date	Impact
September 2014)		to be paid. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014)	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception</i> (issued in December 2014)	1 st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Amendments to IAS 1 titled <i>Disclosure Initiative</i> (issued in	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard/Amendment to a standard	Effective date	Impact
December 2014)		of accounting policies. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12	1 st Jan 2017	The amendments clarify that: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.
Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)	1 st Jan 2017	The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard/Amendment to a standard	Effective date	Impact
		disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The directors do anticipate the application of the amendment to the standard to have had impact on disclosures and financial statements and the same has been incorporated in the Statement of Cashflows.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 Disclosure of interests in other entities</i>	1 st Jan 2017	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The directors do not anticipate the application of the amendment to the standard to have had any impact on disclosures and financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 <i>Revenue from Contracts with Customers</i> (issued in May 2014)	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and

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For the year ended 30 June, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Effective Date	Impact
		capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. The directors do not anticipate the application of the amendment to the standard to have any impact on disclosures and financial statements.
IFRS 9 <i>Financial Instruments</i> (issued in July 2014)	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for

Annual Report and Financial Statements
For the year ended 30 June, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Effective Date	Impact
		expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. - The derecognition provisions are carried over almost unchanged from IAS 39. The directors of the Bureau anticipate that the application of IFRS 9 in the future may not have a significant impact on amounts reported in respect of the Bureau's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The directors do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the financial statements and

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Effective Date	Impact
		disclosures.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to Kenya Literature Bureau and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of Kenya Literature Bureau activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of Kenya Literature Bureau activities as described below.

i) **Revenue from the sale of goods and services** is recognised in the year in which the Bureau delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Discounts are recognised at the same time as the revenue to which they relate and are charged to profit and loss account.

As per International Accounting Standards 21 on the Effects of changes in Foreign Exchange Rates, revenue realised in foreign currency is initially recognised in the functional, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period foreign currency monetary items are

**Annual Report and Financial Statements
For the year ended 30 June, 2017**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

translated using the closing rate.

- ii) **Revenue from printing services** is recognized when the printing order is placed, confirmed by the customer, printing done, delivered and invoiced.
- iii) **Grants from National Government** are recognised in the year in which the Bureau actually receives such grants.
- iv) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- v) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- vi) **Rental income** is recognised in the income statement as it accrues using the effective lease/rental agreements.
- vii) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the Bureau in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Bureau includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The portion of the building used for rental purposes has not been disclosed separately under the Investment Property due to its insignificance.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

The cost of property, plant and equipment comprises

- (i) Its purchase price, including import duties and non-refundable purchase taxes such as Value Added Tax (VAT), after deducting trade discounts and rebates, where applicable;
- (ii) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	4%
Plant and machinery (printing press)	5%
Motor vehicles, including motor cycles	25%
Computers and related equipment	30%
Office equipment, furniture and fittings	12.5%

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount. Plant and Machinery mainly comprise of specialized printing machines whose useful life extends to over 20 years. They are depreciated at the rate of 5% or 20 years of useful life.

Depreciation is apportioned between the Production overheads and the Administrative overheads at the rate of 20% and 80% respectively for buildings, furniture and fittings; and at 80% and 20% respectively for Plant and machinery.

e) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Bureau, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement. The part of the Bureau's building under rentals has not been segregated as an investment property due to its insignificance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the Bureau are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises production cost or purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

k) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

I) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Bureau operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various approved commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

n) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

o) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the Bureau or not, less any payments made to the suppliers.

p) Retirement benefit obligations

(a) Defined Contribution Scheme

The Bureau operates a defined contribution scheme for the full time employees from 1st April 2011. The scheme is administered by an in-house Board of Trustees and is funded by contributions from both the Bureau and its employees.

(b) Defined Benefits Scheme

The Bureau operates a defined benefit scheme which remains a closed fund for employees that were aged above 45 years as at 1st April 2011. The scheme does not admit new members. All permanent staff joining the Bureau are registered for the defined contribution scheme after probation. The year end of the two schemes is 31st December.

(c) National Social Security Fund

The Bureau contributes to the statutory National Social Security Fund (NSSF). This is defined contribution scheme registered under the National Social Security Act 2013. The Bureau's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at a graduated scale per employee per month based on the gross pay.

q) Provision for staff leave pay

Employee's entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

r) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Bureau operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

s) Budget information

The original budget for FY 2016-2017 was approved by the National Treasury on March 6, 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs. 227.5 million on the 2016-2017 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

statement of financial performance has been presented under section XVI of these financial statements.

t) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation, where necessary.

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Bureau's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made: e.g.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bureau based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Bureau. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Bureau;
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- The nature of the processes in which the asset is deployed;
- Availability of funding to replace the assets;
- Changes in the market in relation to the asset.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 12, 13 and 19.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Some of the provisions applicable to the Bureau include:

(i) Provision for Slow moving stocks

A provision for slow moving stocks is made at the rate 10% of the slow moving titles determined at the end of the financial year based on the annual title sales, nature/category of the title and the state of the market.

(ii) Provision for Bad and doubtful debts

A provision for bad and doubtful debts is made at 5% of the book and printing debts outstanding after ninety (90) days as at the end of the financial year.

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XVII. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
1. (a) TURNOVER	Kshs	Kshs
Sale of books	2,220,092,075	2,033,416,294
Printing sales	197,219,957	20,027,619
	<u>2,417,312,032</u>	<u>2,053,443,913</u>

Turnover comprises gross amount invoiced for sale of books and printing services.

1. (b) COST OF SALES

Opening inventories		
Printed books	393,228,551	458,581,843
Raw materials	12,181,620	13,606,811
Work in progress	13,284,404	13,306,772
	<u>418,694,574</u>	<u>485,495,425</u>
Production Costs		
Direct Expenses	128,566,904	132,992,020
Raw Materials	86,743,876	81,535,164
Direct Labour	75,058,189	74,426,575
Overheads	149,753,996	162,616,695
Contracted Works	399,254,613	250,682,003
	<u>839,377,578</u>	<u>702,252,458</u>
Closing inventories		
Printed books	290,033,394	393,228,551
Raw materials	13,491,894	12,181,620
Work in progress	15,318,567	13,284,404
	<u>318,843,856</u>	<u>418,694,574</u>
COST OF SALES	<u>939,228,297</u>	<u>769,053,308</u>

The summary relates to the direct expenditure (cost of sales) for the year

2. GAIN ON DISPOSAL OF NON FINANCIAL ASSETS

Gain on disposal of non-current assets	<u>(68,350)</u>	<u>(793,901)</u>
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This relates to the sale of non-current assets, which had been fully depreciated

3. OTHER INCOME

Rental Income	929,541	595,216
Waste Paper Income	363,103	319,540
Interest on advances	131,699	94,834
Foreign exchange gain/(loss)	-	349,512
Miscellaneous income	301,330	4,504,281
	<u>1,725,673</u>	<u>5,863,383</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
4 (a). ADMINISTRATION COSTS		
Staff Costs 4 (b)	274,358,239	277,321,278
Management board expenses 4 (c)	14,294,023	11,860,946
Foreign exchange loss	563,188	-
Transport operating expenses	10,341,162	8,584,601
Traveling and accomodation	8,744,482	5,436,087
Postal and telegram expenses	104,315	133,391
Telephone expenses	2,224,771	1,901,080
Electricity, Water and Conservancy	3,011,843	2,417,098
Purchase of uniforms	155,906	127,915
Purchase of stationery	5,584,027	4,954,308
Rent & Rates Expenses	504,883	111,936
Computer expenses	6,559,334	9,288,795
Hire of casuals	2,012,315	1,371,813
Insurance costs	2,040,225	2,764,433
Audit fees	812,000	812,000
Consultancy Expenses	174,000	235,000
Slow moving stocks provision expenses	4,209,328	255,943
Provision for Bad & Doubtful Debts	6,408,181	939,571
Maintenance of plant and machinery	2,708,968	3,243,110
Maintenance of office equipment	313,455	423,862
Maintenance of buildings	7,850,256	7,567,266
Security expenses	3,890,763	4,020,027
Library Expenses	119,285	129,118
Subscription	653,350	264,905
Donation	460,000	370,000
Bank charges	1,244,685	1,314,051
Legal charges	2,030,462	1,768,949
Total Administration Costs	361,373,446	347,617,484
4 (b). STAFF COSTS		
Basic Salaries	155,578,755	151,016,252
Gratuity and pension	28,323,816	34,211,942
House allowance	38,671,600	39,896,300
Other personal allowances	14,279,484	13,325,565
Leave pay and provisions	1,223,401	9,593,726
Medical expenses	12,698,715	9,807,780
Overtime costs	9,746,732	7,648,157
Staff training expenses	8,543,509	7,717,941
Staff welfare	5,292,227	4,103,615
Total Staff Costs	274,358,239	277,321,278
4 (c). MANAGEMENT BOARD EXPENSES		
Sitting and Lunch Allowances	5,187,333	6,078,708
Travelling Allowances	3,541,001	1,514,316
Chairman's Honoraria	1,044,000	996,290
Accomodation Allowances	3,421,600	913,400
Performance Bonus	-	625,404
Board Medical Expenses	58,107	138,508
Other Meeting expenses	1,041,982	1,594,320
Total Board Expenses	14,294,023	11,860,946
5. SELLING AND DISTRIBUTION COSTS		
Sales discounts allowed	710,138,860	656,564,517
Promotional Samples costs	1,713,637	1,591,786
Advertising, Research and Promotions	52,652,840	42,563,307
Corporate Affairs expenses	11,060,719	9,628,752
Business Development Costs	1,051,293	-
Packaging, carriage and handling	24,489,396	16,065,499
Total Selling Costs	801,106,745	726,413,860
Total Costs	1,162,480,191	1,074,031,344

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
6. OPERATING PROFIT / (LOSS)		
The operating profit is arrived at after charging / (crediting):		
GROSS TURNOVER	2,417,312,032	2,053,443,913
COST OF SALES	939,228,297	769,053,308
GROSS TRADING PROFIT	1,478,083,735	1,284,390,605
Income from investments	49,330,914	43,361,961
Gain on Disposal of Non-financial Assets	(68,350)	(793,901)
Other Income (note 3)	1,725,673	5,863,383
TOTAL REVENUES	2,468,300,268	2,101,875,356
Admin. , Staff, Selling & Distribution Costs (Note 4 & 5)	1,162,480,191	1,074,031,344
Depreciation of property, Plant and equipment	39,077,500	36,175,284
TOTAL COSTS	2,140,785,986	1,879,259,936
Net operating Profit for the year	327,514,282	222,615,420
7(a). GROSS INCOME FROM INVESTMENTS		
Interest Income on Government securities	22,072,479	9,347,261
Interest Income on short-term deposits	27,258,435	34,014,700
	49,330,914	43,361,961
7(b). INTEREST INCOME RECEIVED FROM INVESTMENTS		
Interest receivable at beginning of period	4,669,571	4,968,178
Under provision of prior year	-	-
Current years'	49,330,914	43,361,961
	54,000,485	48,330,139
Less: Closing balance for the period	(12,078,839)	(4,669,571)
Interest received at close of period	41,921,646	43,660,568
7(c). NET INTEREST INCOME		
Gross interest income	49,330,914	43,361,961
Less: Tax on Interest Received	(7,399,637)	(6,504,294)
	41,931,277	36,857,667
8. INCOME TAX		
8(a). CURRENT TAXATION		
-Charge for the year based on adjusted profit for the year at 30%	107,383,519	71,019,864
- Less Advance/paid at source	-	-
INCOME TAX EXPENSE	107,383,519	71,019,864
8(b). TAX LIABILITY /(RECOVERABLE)		
Tax (credit) at beginning of period	22,951,446	(22,415,987)
Income Tax Charge based on adjusted profits for the period	107,383,519	71,019,864
	130,334,965	48,603,877
Income Tax paid	(122,055,994)	(25,652,431)
Tax liability / (credit) at the end of period	8,278,971	22,951,446
9. DIVIDENDS PAYABLE		
The proposed dividend are accounted for as a separate component of equity are not based on number of ordinary shares since the Government of Kenya is the sole shareholder and the Capital Fund is not divided into any class of shares. The Board of Management of and the Capital Fund is not divided into any class of shares. The Board of Management of Kenya Literature Bureau declares and pays a dividend of 10% of the after tax Net profit for the year to the Government. The proposed dividend is payable after audit of the Financial statements.		
Opening balance as at 1st July	15,159,556	13,419,470
Proposed Dividend for the year	22,013,076	15,159,556
Dividend Paid during the year	(15,159,556)	(13,419,470)
Closing balance as at 30th June	22,013,076	15,159,556

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (a). PROPERTY, PLANT AND EQUIPMENT

2017	Land	Buildings & Civil Works	Plant and Machinery	Office Equipment	Motor Vehicles	Computers & Related Equipment	Application Systems	Office Furniture and Fittings	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<u>COST OR VALUATION</u>									
At July 1, 2016	493,350,000	429,479,611	269,647,738	4,646,690	46,375,187	15,581,169	18,945,999	13,898,757	1,291,925
Reclassification of Assets	-	-	-	-	-	-	-	-	-
Additions	-	-	8,069,912	2,261,473	13,000,000	5,044,341	828,530	1,986,484	31,190
Disposals	-	-	-	-	(1,845,800)	(229,040)	-	-	(2,074)
At June 30, 2017	493,350,000	429,479,611	277,717,650	6,908,164	57,529,387	20,396,470	19,774,529	15,885,242	1,321,041

DEPRECIATION

At June 30, 2016	-	18,584,316	14,110,085	461,152	10,938,463	5,345,744	13,366,913	1,696,344	64,503
Adjust for depre. on disposal	-	-	-	-	(884,446)	(182,511)	-	-	(1,066)
Adjust for depre. On Reclassification	-	-	-	-	-	-	-	-	-
Charge for the Year	-	17,179,184	13,818,633	723,296	12,329,388	5,457,541	2,553,446	1,883,444	53,944
At June 30, 2017	-	35,763,501	27,928,718	1,184,448	22,383,405	10,620,774	15,920,359	3,579,788	117,380

NET BOOK VALUE

At June 30, 2017	493,350,000	393,716,110	249,788,932	5,723,716	35,145,982	9,775,696	3,854,169	12,305,454	1,203,660
At June 30, 2016	493,350,000	410,895,295	255,537,652	4,185,538	35,436,724	10,235,425	5,579,086	12,202,413	1,227,422

DISPOSAL OF PROPERTY, PLANT & EQUIPMENT

Disposals Proceeds	-	-	-	-	871,000	68,533	-	-	939
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Property, plant and equipment include the following items that are fully depreciated:

	Cost or Valuation	Normal annual depreciation charge
Computer and related equipment	40,170,999	26,541,133
Motor Vehicles	57,529,387	22,383,405
	<u>97,700,386</u>	<u>48,924,539</u>

10 (b). ALLOCATION OF DEPRECIATION EXPENSES FOR PROPERTY, PLANT & EQUIPMENT

	2017	2016
Cost of Sales (Production Overheads)	14,867,432	14,194,884
Administrative Expenses	<u>39,077,500</u>	<u>36,175,284</u>
Total Depreciation expenses	<u>53,944,932</u>	<u>50,370,168</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (a). PROPERTY, PLANT AND EQUIPMENT

2016	Land Kshs	Buildings & Civil Works Kshs	Plant and Machinery Kshs	Office Equipment Kshs	Motor Vehicles Kshs	Computers & Related Equipment Kshs	Application Systems Kshs	Office Furniture and Fittings Kshs	Total Kshs
COST OR VALUATION			Re-stated						
At July 1, 2015	493,350,000	428,150,000	252,647,738	1,547,561	36,189,587	12,694,704	14,718,469	10,427,500	1,249,725
Reclassification of Assets	-	-	-	366,500	-	(366,500)	-	-	-
Additions	-	1,329,611	17,000,000	2,732,629	11,977,600	3,621,046	4,227,530	3,471,257	44,359
Disposals	-	-	-	-	(1,792,000)	(368,080)	-	-	(2,160)
At June 30, 2016	493,350,000	429,479,611	269,647,738	4,646,690	46,375,187	15,581,169	18,945,999	13,898,757	1,291,925
DEPRECIATION									
At June 30, 2015	-	1,427,167	1,052,699	16,120	753,950	1,188,677	10,323,482	108,620	14,870
Adjust for depre. on disposal	-	-	-	-	(448,000)	(289,863)	-	-	(737)
Adjust for depre. On Reclassification	-	-	-	9,164	-	(9,164)	-	-	-
Charge for the Year	-	17,157,150	13,057,387	435,868	10,632,513	4,456,094	3,043,431	1,587,725	50,370
	-	18,584,316	14,110,085	461,152	10,938,463	5,345,744	13,366,913	1,696,344	64,503
NET BOOK VALUE									
At June 30, 2016	493,350,000	410,895,295	255,537,652	4,185,538	35,436,724	10,235,425	5,579,086	12,202,413	1,227,422
At June 30, 2015	493,350,000	426,722,833	251,595,039	1,531,441	35,435,637	11,506,027	4,394,987	10,318,880	1,234,854

DISPOSAL OF PROPERTY, PLANT & EQUIPMENT

Disposals Proceeds	-	-	-	-	547,500	80,816	-	-	628
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Property, plant and equipment include the following items that are fully depreciated:

	Cost or Valuation	Normal annual depreciation charge
Computer and related equipment	34,527,168	18,712,657
Motor Vehicles	46,375,187	10,938,463
	<u>80,902,355</u>	<u>29,651,120</u>

10 (b) ALLOCATION OF DEPRECIATION EXPENSES FOR PROPERTY, PLANT & EQUIPMENT

	2016	2015
Cost of Sales (Production Overheads)	Appendix I 14,194,884	18,166,910
Administrative Expenses	<u>36,175,284</u>	<u>33,510,085</u>
Total Depreciation expenses	<u>50,370,168</u>	<u>51,676,995</u>

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	2017 Kshs	2016 Kshs
11. INTANGIBLE ASSETS		
COST		
At July 1	18,945,999	14,718,469
Additions	828,530	4,227,530
Disposals	-	-
At June 30	19,774,529	18,945,999
AMORTISATION		
At July 1	13,366,913	10,323,482
Charge for the year	2,553,446	3,043,431
Impairment Loss	-	-
At June 30	15,920,359	13,366,913
NET BOOK VALUE		
At June 30	3,854,169	5,579,086
12. INVENTORIES		
Printed Books	290,033,394	393,228,551
Provision for Slow Moving Stock	(6,869,812)	(2,660,484)
Raw Materials	13,491,894	12,181,620
Stationery & Other Consumables	2,691,137	3,705,092
Library Books	1,568,348	1,436,060
Work in Progress	15,318,567	13,284,404
	316,233,528	421,175,243
13 (a) TRADE AND OTHER RECEIVABLES		
Trade Receivables - Books	385,874,878	368,769,332
Provision for Bad & Doubtful debts - Books	(11,069,366)	(6,472,506)
Trade Receivables - Printing	172,201,902	38,600,250
Provision for Bad & Doubtful debts - Printing	(3,234,710)	(1,423,389)
VAT Receivable	-	-
Corporation Tax Receivable	-	-
Royalty Advance	-	20,822
Accrued Interest Income	12,078,839	4,669,571
Other Receivables (inclusive of staff receivables Note 13 (c))	4,465,888	5,468,134
Deposits and Prepayments	7,773,319	8,111,327
	568,090,750	417,743,543
13 (b) TRADE RECEIVABLES		
Gross trade receivables	558,076,780	407,369,582
Provision for doubtful receivables	(14,304,076)	(7,895,894)
	543,772,704	399,473,688
At 30th June, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	195,006,398	157,694,387
Between 30 and 60 days	79,875,443	61,072,974
Between 61 and 90 days	39,125,339	31,194,958
Over 90 days	241,800,529	157,407,263
	555,807,709	407,369,582
13 (c) STAFF RECEIVABLES		
Gross staff loans and advances	3,384,655	3,974,466
Less: Amounts due within one year	(2,048,045)	(2,596,698)
Amounts due after one year	1,336,610	1,377,768

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
14. SHORT-TERM INVESTMENTS		
Short Term Deposits with Kenya Commercial Bank	152,913,782	411,095,020
Treasury Bills with Central Bank of Kenya	658,906,790	125,338,473
	811,820,572	536,433,493

The weighted average effective interest rate on shortterm bank deposits at the year-end was 9.20 %, while the for investments in Treasury bills was 9.023%.

15. CASH AND BANK BALANCES

Cash on Hand	200,000	200,000
Cash at Bank	108,021,409	143,235,900
	108,221,409	143,435,900

The bulk of the cash at bank was held Kenya Commercial Bank and National Bank of Kenya, the Bureau's main bankers.

16. CAPITAL FUND

The amount of Kshs. 1,000,000,000 being GOK injection is comprised of Kshs. 300,000,000 which the Government invested when establishing Kenya Literature Bureau through an Act of Parliament Cap. 209 No. 4 of 1980, while Kshs. 400,000,000 were transfers from Revenue Reserves of Ksh 200,000,000 each during financial years 1996/1997 and 2007/2008. A further Kshs 300,000,000 was transferred from the Revenue Reserves during the financial year 2012/2013.

Capital Fund	1,000,000,000	1,000,000,000
	1,000,000,000	1,000,000,000

17. REVALUATION RESERVES

Revaluation reserves relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax on retained earnings. Revaluation surpluses are not distributable. Revaluation of assets was done in 2014/2015 for the assets in the books as at May 31, 2015.

Revaluation Reserves	580,120,938	580,120,938
	580,120,938	580,120,938

18. REVENUE RESERVES

The retained earnings represent amounts available for distribution to the Government of Kenya. Undistributed retained earnings are utilised to finance the Bureau's business activities.

Retained Earnings	1,100,348,946	902,231,260
	1,100,348,946	902,231,260

19. TRADE AND OTHER PAYABLES

Trade Payables	137,400,875	88,830,216
Dividend Payable	22,013,076	15,159,555
Accrued Royalties	80,337,428	64,426,554
VAT Payable	25,463,575	23,066,819
Audit Fees Provision	812,000	812,000
Other Payables	13,051,994	23,983,282
Corporation Tax Payable	8,278,971	22,951,446
Accrued Expenses	3,470,125	4,152,198
Withholding Tax Due	3,926,845	2,815,281
Inventory Clearing Accounts	32,801,545	17,660,763
	327,556,434	263,858,115

20. RETIREMENT BENEFIT OBLIGATIONS

The Bureau operates a defined contribution scheme for the full time employees from 1st April 2011. The scheme is administered by an in-house Board of Trustees and is funded by contributions from both the Bureau and its employees. Further, the Bureau operates a defined benefit scheme which remains a closed fund for employees that were aged above 45 years as at 1st April 2011. The scheme does not admit new members. All permanent staff joining the Bureau are registered for the defined contribution scheme after probation. The year end of the two schemes is 31st December. The Bureau also contributes to the statutory National Social Security Fund (NSSF). This is defined contribution scheme registered under the National Social Security Act. The Bureau's obligation under the scheme is limited to specific contributions legislated from time to time and is currently dependent on the earnings per employee per month.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs Re-stated
21. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of operating profit/(loss) to cash generated from /(used in) operations		
Operating profit for the year	327,514,281	222,615,419
Adjustments for:		
Depreciation Expenses	53,944,932	50,370,168
(Decrease)/Increase in Prov. for Slow Moving Stock	4,209,328	255,943
Provision for Doubtful Debts	6,408,181	939,571
Foreign Exchange (Gain)/ Loss	563,188	-
Net Interest Income	(49,330,914)	(43,361,961)
(Profit)/Loss on disposal of Assets	68,350	793,901
Operating profit before Working Capital Changes	343,377,346	231,613,041
(Increase)/Decrease in Inventories	100,732,387	65,700,008
(Increase)/Decrease in Receivables	(149,346,120)	(70,363,992)
(Increase)/Decrease in Payables	71,517,273	(55,534,374)
Cash generated from operations	365,717,697	171,414,683
(b) Analysis of cash and cash equivalents		
Short Term Deposits with Kenya Commercial Bank	152,913,782	411,095,020
Treasury Bills with Central Bank of Kenya	658,906,790	125,338,473
Cash at bank	108,021,409	143,235,900
Cash at hand	200,000	200,000
	920,041,981	679,869,393
(c) Analysis of dividend paid		
2013 Dividends paid	10,001,069	
2014 Dividends paid	10,679,315	
2015 Dividends paid	13,419,470	
2016 Dividends paid	13,419,470	
	47,519,324	

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Kshs	Kshs
22. RELATED PARTY DISCLOSURES		
(a) Government of Kenya		
The Government of Kenya is the principal shareholder of Kenya Literature Bureau, holding 100% of the Bureau's equity interest.		
There were no other Bureau's transactions involving the Government of Kenya.		
(b) Employees		
The Bureau provides certain qualifying employees with car loans in a funded arrangement with Kenya Commercial Bank Ltd, on terms more favourable than available in the market. The benefit obtained by the staff is subjected to income tax as required under the Kenya Income Tax Act. The cars are registered in joint names of the Bank and the employees for the car loan. The short-term deposits with principal amount of Kshs. 10 million are held for the purpose and earn a lower interest rate than the market rate. The Bureau is only liable when the employment contract with the employee is in force.		
(c) Directors' remuneration and related costs		
Allowances and other emoluments and costs for directors	14,294,023	11,860,946
The rise in directors' remuneration resulted from the exit of the former Board and appointment of new Board and related costs of induction.		
(d) Key management compensation		
Salaries and other employment benefits	52,486,787	57,807,989
Managing Director's Gratuity benefits	1,041,600	4,396,953
	<u>53,528,387</u>	<u>62,204,942</u>
The Bureau has a defined benefits and contribution plan whose benefits are payable by the Fund Manager or the annuity service provider and which are independently accounted for by the respective companies.		
23. CAPITAL COMMITMENTS		
Amounts authorised and contracted for includes;		
Plant & Equipment	6,333,966	9,600,000
Furniture & Fittings	197,754	-
Computer Equipment	2,042,237	-
Office Equipment	148,832	-
	<u>8,722,789</u>	<u>9,600,000</u>
24. CONTINGENCIES		
(i) A contingent liability exists from a demand notice issued by National Social Security Fund for penalties and interest on contributions arrears dating back to 1993 amounting to Kshs 27,650,838/= which is still in dispute. The Bureau has engaged in fruitful discussions, which are at an advanced stage for waiver of the said penalties and interest. Further, NSSF have agreed to halt any further demand notice and accumulation of the amounts. The amount, which may be settled in future, cannot be measured with sufficient reliability. The directors estimate that no material liability will arise on the assessment and have made no provision.		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. CONTINGENCIES (Continued)

- (ii) A contingent liability exists from a demand notice based on the tax audit conducted by Kenya Revenue Authority (KRA) for the years 2007 to 2010 amounting to Kshs 125,560,306 (being principal amount) for which a waiver for penalties and interest was approved by then Minister for Finance in April 2013. The Bureau has held successful negotiations with the officials of Kenya Revenue Authority and the National Treasury, with a view to abandoning the principal tax as had been earlier agreed. During the discussions, KRA agreed to stay the demand notice pending the outcome of the matter. The amount payable, which may be settled in future, cannot be measured with sufficient reliability. The current tax obligations have been liquidated as per Income Tax Act, and there are no outstanding liabilities. The directors estimate that no material liability will arise on the assessment and have made no provision.
- (iii) A contingent liability exists from supply of 30 KVA Un-interrupted Power Supply (UPS) which was delivered without batteries and yet to be installed and commissioned. The case is in court and had initially been ruled in Bureau's favour based on confirmation by the suppliers that they required time to obtain the batteries. The directors estimate that no material liability will arise on the assessment and have made no provision.

25. FINANCIAL RISK MANAGEMENT

The Bureau's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. FINANCIAL RISK MANAGEMENT (Continued)

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Bureau's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2017				
Receivables from exchange transactions	555,807,709	555,807,709	241,800,529	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	108,021,409	108,021,409	-	-
Total	663,829,118	663,829,118	241,800,529	-
At 30 June 2016				
Receivables from exchange transactions	407,369,582	407,369,582	157,407,263	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	143,235,900	143,235,900	-	-
Total	550,605,482	550,605,482	157,407,263	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Bureau has significant concentration of credit risk on amounts due for over ninety (90) days Kshs. 241.8 million.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

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ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Bureau's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The Bureau manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1-3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Trade payables	153,563,027	2,493,415	60,956,886	217,013,328
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	153,563,027	2,493,415	60,956,886	217,013,328
At 30 June 2016				
Trade payables	122,605,416	5,637,200	25,014,154	153,256,770
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	122,605,416	5,637,200	25,014,154	153,256,770

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value

NOTES TO THE FINANCIAL STATEMENTS (Continued)

of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Foreign currency risk

The Bureau has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the Bureau's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Financial assets(investments, cash ,debtors)	1,475,160,059	12,972,672	1,488,132,731
Liabilities			
Trade and other payables	(320,896,762)	-	(320,896,762)
Borrowings	-	-	-
Net foreign currency asset/(liability)	1,154,263,297	12,972,672	1,167,235,969

The Bureau manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2016			
Financial assets(investments, cash ,debtors)	1,097,612,936	-	1,097,612,936
Liabilities			
Trade and other payables	(263,858,114)	-	(263,858,114)
Borrowings	-	-	-
Net foreign currency asset/(liability)	833,754,822	-	833,754,822

NOTES TO THE FINANCIAL STATEMENTS (Continued)**Financial Risk Management (Continued)****(iii) Market risk (Continued)****Foreign currency sensitivity analysis**

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	%	Kshs	Kshs
2017			
Rwandan Francs	10%	Insignificant	Insignificant
USD	10%	Insignificant	Insignificant
2016			
Rwandan Francs	10%	Insignificant	Insignificant
USD	10%	Insignificant	Insignificant

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Bureau analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs Nil (2016: KShs Nil). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs Nil (2016 – KShs Nil)

iv) Capital Risk Management

The objective of the Bureau's capital risk management is to safeguard the Board's ability to continue as a going concern. The Bureau capital structure comprises of the following funds:

	2016-2017	2015-2016
	Kshs	Kshs
Revaluation reserve	580,120,938	580,120,938
Retained earnings	1,107,008,620	902,231,260
Capital reserve	1,000,000,000	1,000,000,000
Total funds	2,687,129,557	2,482,352,198
Total borrowings (Nil)	-	-
Less: cash and bank balances	(108,221,409)	(143,435,900)
Net debt/(excess cash and cash equivalents)	N/A	N/A
Gearing	0%	0%

26 INCORPORATION

Kenya Literature Bureau is incorporated in Kenya under the Act of Parliament Cap. 209 of 1980 (Revised 2012) and is domiciled in Kenya.

27 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

28 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

APPENDIX I

DETAILS OF PRODUCTION OVERHEADS

	2017	2016
	Kshs	Kshs
Basic Salaries	34,134,616	41,763,931
House Allowance	9,363,000	11,377,000
Other Personal Allowance	3,785,993	4,147,622
Leave Allowance	60,687	2,730,448
Gratuity & Pensions	18,882,544	22,807,962
Transport Operating Expenses	1,824,911	1,514,930
Telephone Expenses	741,590	633,693
Electricity, Water & Conservancy	9,035,528	7,251,294
Purchase of Uniform & Clothing	155,906	127,915
Stationery Expense	620,447	550,479
Hire of Casuals	8,049,260	5,487,254
Staff Training & Recruitment Expenses	5,695,673	5,145,294
Staff Welfare Expenses	3,528,151	2,735,744
Medical Expenses	8,465,810	6,538,520
Insurances Expenses	1,360,150	1,842,955
Maintenance of Plant & Machinery	24,380,712	29,187,989
Maintenance of Office Equipment	34,828	47,096
Maintenance of Buildings	2,616,752	2,522,422
Depreciation Expenses	14,867,432	14,194,884
Security Expenses	1,296,921	1,340,009
Overtime Allowances	853,085	669,256
	149,753,996	162,616,695

