

PYRETHRUM BOARD OF KENYA

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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**



P.O. Box 420 - 20100 • NAKURU • Kenya • Telephone: (051) 2211567

PYRETHRUM BOARD OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005



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PYRETHRUM BOARD OF KENYA

HEAD OFFICE }
FACTORY }
LABORATORIES }

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Nakuru Industrial Area
P.O. Box 420 - 20100
NAKURU
Telephone: 051 - 2211567
Cables: "PYBOARD"
Fax: 051 - 2210466 / 2214201
E-mail: pbk@pyrethrum.co.ke
Website: <http://www.kenya-pyrethrum.com>

BANKERS

Barclays Bank of Kenya Ltd
Nakuru Branch
P.O. Box 66
NAKURU

AUDITORS

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

OVERSEAS LIAISON OFFICES

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Georgenberg 395
A-5431 Kuchl
AUSTRIA
Telephone: +(43) 6244 30080 - 0
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**PYRETHRUM BOARD OF KENYA
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2005**

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PYRETHRUM BOARD OF KENYA

BOARD MEMBERS WHO SERVED DURING THE YEAR ENDED 30 JUNE 2005

HENRY N. M'NAROB I - Chairman
SAMUEL KURIA KIHU
SAMUEL KIPKORIR LANG'AT
JOSEPH K. MAINEK LANG'AT
DYRANE PATRICK THIONGO CHEGE
JOEL MBUGUA SAMUEL
JAMES MATUNDURA ARAKA
STEPHEN K. KIBUNJA - Appointed 19.06.2005
ANTHONY LUI MZEE
LIZA CHELULE

THE PERMANENT SECRETARY, MINISTRY OF AGRICULTURE
THE DIRECTOR OF AGRICULTURE
THE COMMISSIONER FOR CO-OPERATIVE DEVELOPMENT
INSPECTOR OF STATE CORPORATIONS
PERMANENT SECRETARY - The Treasury

SENIOR MANAGEMENT STAFF AS AT 30 JUNE 2005

ENG. MARTIN O. OWITI - Managing Director
POLYNE SEGO - Deputy Managing Director
CHARLES O. ATING'A - Ag. Marketing Manager
JAMES A. O. GICHANA - Factory Manager
JAMES N. KURIA - Product Development Manager
KEVIN I. MPAKA - Corporate Secretary/ Legal Officer
CLEOPHAS D. OCHIENG - Logistics Manager
ONGIRI OSINDE - Finance Manager
ROBERT TIAMPATI - Crop Production & Research Manager
PETER N. WAWERU - Chief Internal Auditor



PYRETHRUM BOARD OF KENYA
SUMMARY OF REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. CROP PRODUCTION

Pool Year
2004 / 2005

2,207 (tonnes)

Pool Year
2003 / 2004

5,797 (tonnes)

Crop delivered by growers

2. SALES

Sales proceeds from
flowers/powder/extract/
end use products

Kshs. 1,158,579,674

Kshs. 1,169,794,054

Sales proceeds from marc
and other by-products

Kshs. 25,486,642

Kshs. 34,266,852

1,158,579,674

1,204,060,906

3. COSTS

Total operating costs including
depreciation

Kshs. 737,545,284

Kshs. 627,596,798

Total distribution costs

Kshs. 19,095,564

Kshs. 20,880,890

Kshs. 756,640,848

Kshs. 648,477,688

4. PYRETHRINS CONTENT

Average pyrethrins content
of flowers delivered

1.282%

1.273%

5. PAYMENT TO GROWERS

Kshs. 208,803,507

Value of flower Deliveries

Kshs. 544,778,176.00

Kshs. 7,373.00

Per Kilo of pyrethrins

Kshs. 7,373.00

Kshs. 110.60

Per Kilo of 1.5% flowers

Kshs. 110.60

Kshs. 95.85

Per Kilo of 1.3% flowers

Kshs. 95.85

Kshs. 73.73

Per Kilo of 1.0% flowers

Kshs. 73.73



PYRETHRUM BOARD OF KENYA
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2005

The Pyrethrum Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Pyrethrum Board of Kenya as at the end of the financial year and of the Board's surplus or deficit for that period. It also requires the directors to ensure the Board keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The directors accept responsibility for the annual financial statements for the year ended 30 June 2005 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Pyrethrum Act Cap 340. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its surplus/deficit. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed: **HENRY N. M'NAROB**
CHAIRMAN

Signed: **SAMUEL KURIA KIHU**
DIRECTOR

Nakuru.....24TH OCTOBER,.....2005

Nakuru.....24TH OCTOBER,.....2005

PYRETHRUM BOARD OF KENYA

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF PYRETHRUM BOARD OF KENYA FOR THE YEAR ENDED 30 JUNE 2005

I have audited the financial statement of Pyrethrum Board of Kenya for the year ended 30 June 2005 in accordance with the provisions of section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

As set out in the statement of directors' responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the Board's state of affairs and its operating results. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

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

1. Financial Position

A review of the Board's financial position for the last three financial years revealed that the board recorded operational deficits of Kshs. 471,085,836 in 2002/2003, a surplus of Kshs. 115,878,696 in 2003/2004 and a deficit of Kshs. 405,902,152 in 2004/2005. As discussed in note 11(a) to the financial statements, the balance sheet reflects an amount of Kshs. 1,141,406,866 being arrears of payment due to growers representing 25 months flower deliveries. The Board does not appear to have exercised adequate control over its expenditure and debt collection. The expenditure increased by Kshs. 63,728,491 during the year under review. Further the Board was unable to collect, on timely basis, its debts which were long over-due amounting to Kshs. 30,920,890 as well as other debtors totalling Kshs. 31,822,218.40 as at 30 June 2005. This resulted in severe financial constraints which contributed to the growers' payments falling into arrears, 87% of which relate to the years from 2002 to 2004. Without improved regular and prompt payments to growers for delivered pyrethrum flowers, the future of the board is in jeopardy.

PYRETHRUM BOARD OF KENYA

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF PYRETHRUM BOARD OF KENYA - CONTD. FOR THE YEAR ENDED 30 JUNE 2005.

2. Budgetary Control

During the year 2004/2005 the Board overspent its approved budget of Kshs. 613,869,816 by Kshs. 38,641,804.52 in some 12 expenditure items. Although a revised budget in which the over-expenditure was factored in was prepared, it was rejected by Treasury who observed that the Board had budgeted for increases unrelated to performance improvement and sales generation and had introduced new cost items some of which were unnecessary. In the absence of Treasury's approval, the Board was in breach of the law.

3. Property, Plant and Equipment

The property, plant and equipment figure of Kshs. 1,710,048,612 as at 30 June 2005 includes Kshs. 236,954,359 in respect of work in progress which, in turn, includes an amount of Kshs. 242,540 in respect of four (4) prefabricated houses which the Board purchased from the Forestry Industrial Training Centre (FITC) and paid for in full in 1992. However, as at the time of audit, these houses had not been delivered to the Board fifteen (15) years after being purchased. No satisfactory explanation has been given for the non-delivery of these prefabricated houses.

4. Capital Procurement

As previously reported, Capital Work in progress as at 30 June 2005 includes Kshs. 5,284,205 in respect of consultancy expenditure incurred on reconstruction of existing godown Igloo in Nakuru. The consulting firm was contracted through enquiries instead of open competitive bidding and the contract signed did not specify the contract sum. In the absence of competitive bidding, it was not possible to confirm that consultancy fee paid was the most competitive in the market and that the Board obtained value for its money.

5. Contingent Liability

As disclosed in Note 19 to the financial statements a claim of Kshs. 612,869,819 has been made by retrenched Board's employees for refund of taxes, payment of pension dues under retrenchment clause and wages arrears under - Collective Bargaining Agreement (CBA) for union members who had not been paid prior to leaving the organisation. Although a case has been filed in the High Court, the Board's management is of the view that the claim is unlikely to succeed and management has therefore not made any provision in these financial statements to cater for the likely loss in the event court rules against the Board. The Board has only disclosed the claim as a contingent liability.

PYRETHRUM BOARD OF KENYA

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF PYRETHRUM BOARD OF KENYA - CONTD. FOR THE YEAR ENDED 30 JUNE 2005

6. Trade and other Receivables

As disclosed in Note 4(b) to the financial statements, trade and other receivables balance of Kshs. 492,075,004 includes Kshs. 7,179,950 for an ASK show stand previously treated as a fixed asset. The ASK show stand was purportedly acquired by the Board after an offer by the General Manager ASK. The stand was paid for by the Board through the Society's lawyers, but transfer of the title was never changed to the Board. The purchase which had not been approved by the Board was later on ratified. However, the Board realized much later that the property had after all never been available for sale. Attempts by the Board to recover the Kshs. 7,179,950 failed leading to arraignment in Court of the then Managing Director, Chairman, the lawyers and an official of ASK. No recoveries have been made to date, and the outcome of the court case is uncertain.

OPINION

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Board as at 30 June 2005 and of its deficit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with Pyrethrum Act. (Cap 340 of the laws of Kenya).

P.N. KOMORA
CONTROLLER AND AUDITOR GENERAL

NAIROBI

03 OCTOBER 2006

PYRETHRUM BOARD OF KENYA
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

	Note	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
ASSETS			
Non-current assets			
Property, plant and equipment	2 (a)	1,710,048,612	161,786,648
Investment - Fixed deposit in Euro Bank Ltd.	3	<u>150,000,000</u>	<u>0</u>
		<u>1,860,048,612</u>	<u>161,786,648</u>
Current assets			
Inventories	4(a)	1,379,725,203	2,030,352,114
Trade and other receivables	4(b)	492,075,004	479,013,483
Cash in hand and at bank	4(c)	5,200,751	2,608,642
		<u>1,877,000,958</u>	<u>2,511,974,239</u>
TOTAL ASSETS		<u>3,737,049,570</u>	<u>2,673,760,887</u>
EQUITY AND LIABILITIES			
Capital and reserves			
P.B.K stock units issued	5	29,968,840	29,968,840
Levy fund	6	2,587,923	2,442,211
Accumulated capital fund	7	334,144,743	133,249,739
General reserve	8	161,036,501	474,455,975
Revaluation reserve	9	1,405,082,643	0
Growers' account	10	0	92,482,678
		<u>1,932,820,650</u>	<u>732,599,443</u>
Non-current liabilities			
Long-term provision	3	<u>150,000,000</u>	<u>0</u>
Current liabilities			
Trade and other payables	11(a)	1,472,964,958	1,544,114,062
Short term borrowings	11(b)	<u>181,263,961</u>	<u>397,047,382</u>
		<u>1,654,228,919</u>	<u>1,941,161,444</u>
TOTAL EQUITY AND LIABILITIES		<u>3,737,049,570</u>	<u>2,673,760,887</u>

These financial statements were approved by Board members on 24 October 2005 and were signed on its behalf by:

Signed H. N. M'Narobi
Chairman

Signed P.J. Sego (Mrs.)
Managing Director

PYRETHRUM BOARD OF KENYA
 INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Revenue	12	1,158,579,674	1,204,060,906
Cost of sales	13	<u>(1,280,477,773)</u>	<u>(809,611,170)</u>
Gross surplus/ (deficit)		(121,898,099)	394,449,736
Other income	14	47,728,666	0
		(74,169,434)	394,449,736
Distribution costs	15	(19,095,564)	(20,880,890)
Administrative expenses	16	(208,945,511)	(139,816,938)
Other operating expenses	17	(69,321,869)	(66,759,313)
Surplus/ (deficit) from operations		(371,532,378)	166,,992,595
Finance costs	18	<u>(34,369,774)</u>	<u>(51,113,899)</u>
Net surplus/(deficit) for the year (Transferred to (from) growers' account)	10	(405,902,152)	115,878,696

STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2005

	<u>P.B.K Stock Kshs.</u>	<u>Levy Fund Kshs.</u>	<u>Accumulated Capital Fund Kshs.</u>	<u>General Reserve Kshs.</u>	<u>Revaluation Reserve Kshs.</u>
Balance as at 1 July 2004	29,968,840	2,442,211	133,249,739	474,455,975	0
Adjustments	0	0	200,895,004	(313,419,474)	0
Revaluation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	1,405,082,643
	29,968,840	2,442,211	334,144,743	161,036,501	1,405,082,643
Levy charged for the year	<u>0</u>	<u>145,712</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance as at 30 June 2005	<u>29,968,840</u>	<u>2,587,923</u>	<u>334,144,743</u>	<u>161,036,501</u>	<u>1,405,082,643</u>

PYRETHRUM BOARD OF KENYA
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2005

	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Cash flow from operating activities		
Net surplus/(deficit) for the year	(405,902,152)	115,878,696
<i>Adjustments for :</i>		
Depreciation	66,610,443	23,355,664
Impairment of fixed assets	1,835,091	0
Reclassification of a fixed asset	6,749,153	0
Levy	145,712	382,620
Prior year adjustments	<u>0</u>	<u>103,564,001</u>
Net cash from operating activities	<u>(330,561,753)</u>	<u>243,180,981</u>
(Increase)/decrease in inventories	650,626,911	(100,799,548)
(Increase)/decrease in trade and other receivables	(13,061,521)	(163,822,385)
Increase/(decrease) in trade and other payables	(102,880,144)	34,426,792
	<u>534,685,246</u>	<u>(230,195,141)</u>
Cash generated from operations	<u>204,123,493</u>	<u>12,985,840</u>
Cash flow from investing activities		
Purchase of fixed assets	(218,374,127)	(15,079,797)
Proceeds from insurance claim	230,050,064	0
Proceeds from disposal of fixed assets	<u>2,576,100</u>	<u>0</u>
	<u>14,252,037</u>	<u>15,079,797</u>
Net Increase/ (decrease) in cash	218,375,530	(2,093,957)
Cash and cash equivalents as at 1 st July	<u>(394,438,739)</u>	<u>(392,344,782)</u>
Cash and cash equivalents as at 30 th June	<u>(176,063,210)</u>	<u>(394,438,739)</u>

PYRETHRUM BOARD OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2005

1. ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards.

The financial statements are prepared in Kenya Shillings (Kshs) on the historical basis of accounting as modified by the revaluation of certain property and equipment.

(b) Basis of consolidation

The Board's wholly owned subsidiary company, The Pyrethrum Processing Company of Kenya Limited does not trade. The financial statements consolidate the assets and reserves of the subsidiary as modified by the revaluation of certain of its property.

(c) Property and Equipment

Land, buildings, plant and machinery are stated at historical cost or valuation, less depreciation. All other assets are stated at historical cost less depreciation.

(d) Depreciation

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual installments over their estimated useful lives. The annual depreciation rates in use are:

Long leasehold properties and buildings on freehold property	2%
Short leasehold property	Over the unexpired period of lease
Plant, machinery, equipment & furniture	12.5%
Motor vehicles	25%

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of dry pyrethrum flowers, grist, extracts and end use products comprise direct materials cost and where applicable, direct labour cost and those overheads and other costs that have been incurred in bringing the inventories to their present location and condition. Cost of engineering spares and accessories are calculated using weighted average method. Net realisable value represents the estimated selling price less all estimated cost of disposal.

PYRETHRUM BOARD OF KENYA

NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2005

In the last financial year, the overhead costs were allocated equally to Oleo resin pyrethrum extract and Pale Pyrethrum extract production. However, for the current year the costs have been spread over the entire production process from receipt of dry pyrethrum flowers to Pale production such that they are absorbed proportionate to their applicability at each stage of production. Units transferred from one stage of production to the other were valued based on the respective previous year's costs and current costs such that the end per-unit costs are weighted. If last year's overhead costs were spread over the entire production process, the net effect would have been a further decrease of Kshs. 6,338,053 in stock value.

(f) Trade and other receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(g) Retirement benefits obligations

The Board contributes to a defined benefits staff superannuation scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Board. In determining the contributions to be made the recommendations of independent qualified actuaries are taken into account. The actuary carries out full valuation of the scheme every three years to establish actuarial position and funding levels.

The Board also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200 per employee per month.

The Board's contributions to the above schemes are charged to the income statement as they fall due.

h) Revenue Recognition

Revenue is recognised on an accrual basis. Sales of pyrethrum products are recognised as revenue after deduction of trade discounts, commissions payable and after adjustments for gains or losses on translation of foreign currencies.

PYRETHRUM BOARD OF KENYA

NOTES TO THE FINANCIAL STATEMENTS - CONTD.
FOR THE YEAR ENDED 30 JUNE 2005

(i) Foreign currency translation

Transactions in currencies other than the Kenya shilling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the mean rates prevailing at the balance sheet date. Gains and losses arising on translation and conversion are included as an adjustment to the revenue.

2. NON CURRENT ASSETS

(a) Property, plant and equipment

	Land and Buildings	Plant Machinery Equipment & Furniture	Motor Vehicles	Capital Work- - in-Progress	Total
	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>	<u>Kshs.</u>
<u>COST/REVALUATION</u>					
Cost as at 1 July 2004	116,624,497	225,173,691	112,152,463	19,060,549	473,011,200
Adjustment	(6,749,153)	0	0	0	(6,749,153)
Restated balance	109,875,344	225,173,691	112,152,463	19,060,549	466,262,047
Additions	0	480,317	0	217,893,810	218,374,127
Disposal	0	0	(6,645,309)	0	(6,645,309)
Valuation	523,202,204	879,948,571	1,931,868	0	1,405,082,643
Impairment loss	(986,654)	(848,437)	0	0	(1,835,091)
As at 30 June 2005	<u>632,090,894</u>	<u>1,104,754,142</u>	<u>107,439,022</u>	<u>236,954,359</u>	<u>2,081,238,417</u>
<u>DEPRECIATION</u>					
As at 1 July 2004	31,578,908	170,908,423	108,737,221	0	311,224,552
Year's charge	5,305,832	58,571,943	2,732,668	0	66,610,443
Eliminated on disposal	0	0	(6,645,189)	0	(6,645,189)
As at 30 June 2005	<u>36,884,740</u>	<u>229,480,366</u>	<u>104,824,700</u>	<u>0</u>	<u>371,189,806</u>
<u>NET BOOK VALUE</u>					
As 30 June 2005	<u>595,206,154</u>	<u>875,273,776</u>	<u>2,614,322</u>	<u>236,954,359</u>	<u>1,710,048,612</u>
As at 30 June 2004	<u>85,045,589</u>	<u>54,265,268</u>	<u>3,415,242</u>	<u>19,060,549</u>	<u>161,786,648</u>

The fixed assets have been adjusted by Kshs. 7,179,950.00 which relates to reclassification of a fixed asset (show stand at Nairobi Agricultural Society of Kenya ground) to current asset. Depreciation has been charged on the carrying amounts of the fixed assets.

PYRETHRUM BOARD OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS - CONTD.
 FOR THE YEAR ENDED 30 JUNE 2005

(b) Capital Work - In - Progress

	2005	2004
	<u>Kshs.</u>	<u>Kshs.</u>
Pelletizing plant	45,379,192	9,936,831
Igloo godown (consultancy)	5,284,205	5,270,015
Factory modernization (consultancy)	2,704,804	2,704,804
New extraction plant	182,782,259	345,000
Entomology block	561,359	561,359
Prefabricated houses	<u>242,540</u>	<u>242,540</u>
	<u>236,954,359</u>	<u>19,060,549</u>

(c) Destroyed extraction plant III

A fire on 30 March 2003 gutted extraction plant III which represented two thirds of the Board's extraction capacity. Consequently the Board obtained requisite approvals to process part of the piled flower stocks in Rwanda so as to mitigate further losses.

An adjustment for the destroyed plant was made in 2002/03 financial statements for its cost and accumulated depreciation.

In April 2003 the Board lodged with the insurers, Insurance Company of East Africa Limited, a claim for material damage under its fire policy, which was settled at Kshs. 230,050,064.00 in November 2004.

After conclusion of the material damage claim, the Board lodged a claim for compensation under Business Interruption (Fire Loss) policy which is yet to be concluded.

PYRETHRUM BOARD OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS - CONTD.
 FOR THE YEAR ENDED 30 JUNE 2005

3 INVESTMENT

The Board invested Kshs. 150,000,000 in Euro Bank Limited on 17th October 2001. Euro Bank collapsed on 20th February 2003 without significant assets. The Board therefore provided fully for it in financial year 2002/2003. This was however, erroneously omitted in the balance sheet of the year 2002/2003 and the subsequent year. The investment is now shown in balance sheet as well as the relative provision.

4. CURRENT ASSETS

(a) Inventories

These comprised the following:-

	2005	2004
	<u>Kshs.</u>	<u>Kshs.</u>
Trade Stocks		
Dry Pyrethrum flowers	12,989,535	34,213,773
Pyrethrum grist & powder	4,664,786	254,973,069
Crude pyrethrum extract (OR)	1,166,796,710	1,563,329,343
Pale pyrethrum extract	68,997,669	47,255,881
Other formulated end-use pyrethrum products	<u>3,377,363</u>	<u>3,820,135</u>
Sub Total	1,256,826,063	1,903,592,201
Engineering spares and accessories	<u>122,899,140</u>	<u>126,759,913</u>
	<u>1,379,725,203</u>	<u>2,030,352,114</u>

(b) Trade and other receivables

	2005	2004
	<u>Kshs.</u>	<u>Kshs.</u>
Trade debtors	347,811,180	320,879,485
Insurance claim	0	65,314,616
Miscellaneous	<u>144,263,824</u>	<u>92,819,382</u>
	<u>492,075,004</u>	<u>479,013,483</u>

Trade debtors mainly relate to overseas supplies and are within the agreed credit terms.

Insurance claim related to the additional costs of processing the Board's pyrethrum flowers in Rwanda. These costs have been expensed in the current year.

Included in miscellaneous is reclassification of Nairobi ASK show stand of Kshs. 7,179,950 initially treated as a fixed asset and now as a current asset.

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(c) **Cash in hand and at bank**

Cash in hand relates to Kshs. 228,722 held for the purposes of meeting immediate cash commitments whereas the balance of Kshs. 4,972,029 relates to foreign currencies held in six bank accounts.

5. **P.B.K. Stock units issued**

In return for levy paid by pyrethrum growers the Board issues one unit of stock to each licensed grower for every amount of twenty shillings paid to it by way of levy.

It is intended that the stock held by non-growers should be redeemed and the holders accordingly refunded their contributions totaling Kshs. 8,187,100

6. **Levy fund**

Under the provisions of the Pyrethrum Act (Cap 340) the Minister for Agriculture imposed a levy on all pyrethrum grown or cultivated in Kenya. The levy is at the rate of 6.6 cents per kilogram of dry pyrethrum flowers delivered to the Board. The levy is held as a fund pending issuance of P.B.K stock units thereof.

7. **Accumulated capital fund**

Comprise of mainly capital gains on disposal of fixed assets.

8. **General reserve**

Relates to a fund provided to finance holding of strategic stocks. The net deficit in the growers account is offset against this account.

9. **Revaluation Reserve**

This comprises of incremental value of Board's properties following revaluation. The Board's properties were revalued as at 31st January 2005 by Bageine Karanja Mbuu Limited, Registered Valuers & Estate Agents. Buildings were revalued on their depreciated replacement cost basis depending on the state of repairs and decoration. Land, plant and machinery were valued based on open market values. The carrying amount of the assets that would have been recognised had the assets been carried under the cost model have been stated in the fixed assets movement schedule (note 2a). The resulting surplus was credited to a revaluation reserve account and the impairment charged to income statement.

PYRETHRUM BOARD OF KENYA
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10. GROWERS' ACCOUNT

Grower's account comprise net deficit for the year and prior years' surpluses/deficits which have not been transferred to the general reserve as follows:-

	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Net surplus/(deficit) as at 1 July	92,482,678	(126,960,019)
Prior year adjustmets	0	103,564,001
	92,482,678	(23,396,018)
Net surplus/(deficit) for the year	<u>(405,902,152)</u>	<u>115,878,696</u>
Amount transferred to general reserve account	<u>(313,419,474)</u>	92,482,678
Balance at 30 June	<u>313,419,474</u>	<u>0</u>
	<u>(0)</u>	<u>92,482,678</u>

11. CURRENT LIABILITIES

(a) Trade and other payables

	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Trade payables and provisions	331,558,092	287,771,895
Amount due to growers	1,141,406,866	1,256,342,167
	<u>1,472,964,958</u>	<u>1,544,114,062</u>

The trade payables represent amounts due to suppliers of processing inputs, other consumables and services.

Included in trade payables and provisions is an amount of Kshs. 31,731,040.00 being provision for VAT payable on proceeds from insurance claim of Kshs. 230,050,064.00

As a result of severe financial constraints, arrears of payments to growers as at the year end were Kshs. 1,141,406,866.00 representing 25 months flower deliveries.

(b) Short-term borrowings

The Board has overdraft facilities with Barclays Bank of Kenya Limited of Kenya Shillings two hundred million only, secured by a fixed and floating debenture over the Board's assets and legal mortgages over Nakuru Municipality / Block 3/98 and Nakuru Municipality Block 6 / 1 to 6 (old NO. 451/1991)

PYRETHRUM BOARD OF KENYA
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12. REVENUE

	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Sale of pyrethrum products	1,176,256,528	1,197,815,894
Trade discounts	(4,367,737)	(5,338,553)
Gain / (loss) on foreign currency translation	<u>(13,309,117)</u>	<u>11,583,564</u>
	<u>1,158,579,674</u>	<u>1,204,060,906</u>

13. COST OF SALES

	2005 <u>Kshs.</u>	2004 <u>Kshs.</u>
Opening inventories	<u>1,903,592,201</u>	<u>1,798,518,548</u>
Add. Purchase/manufacturing costs:		
Purchase of pyrethrins	208,803,507	544,778,176
Processing and refining costs	230,401,668	236,912,202
Processing costs in Rwanda	98,359,227	0
Crop production & flower reception costs	78,813,165	65,634,962
Scientific services costs	<u>17,334,070</u>	<u>67,359,484</u>
Total Purchase/manufacturing costs	633,711,637	914,684,824
Less: Closing inventories	<u>(1,256,826,063)</u>	<u>(1,903,592,201)</u>
Cost of sales	<u>1,280,477,773</u>	<u>809,611,170</u>

Purchase of pyrethrins is the cost of procuring flowers from growers. A rate of Kshs. 7,373.00 has been used in both years.

Processing and refining costs comprise of Factory department expenses in the year 2003/04 and 2004/05 respectively.

Crop production and flower reception costs are Crop department and Flower reception expenses in both years.

Scientific services costs in 2003/2004 comprised of Crop research and agronomic services, Quality control, Entomology and Quality assurance expenses. In the current year only Quality control expenses were used.

Arising from the reduction of its extraction capacity by two thirds, the Board experienced huge losses due to the degradation of the pyrethrins in the stored ground flowers (grist) because of the delayed processing. This forms the major part of the cost of sales.

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14 OTHER INCOME

	2005	2004
	<u>Kshs.</u>	<u>Kshs.</u>
Bad debt recovery	3,268,246	0
Interest on recovered bad debt	3,104,833	0
VAT refunds	36,734,339	0
Miscellaneous	<u>4,621,247</u>	<u>0</u>
	<u>47,728,666</u>	<u>0</u>

Bad debt recovery and interest on recovered bad debt relate to a case filled against the Kenya Commercial Bank Ltd which had previously been fully provided for. In an out-of-court settlement, the Board was paid the principal amount together with the interest thereon.

Value Addet Tax (VAT) refunds are input VAT for previous years which had earlier been expensed and subsequently refunded by Kenya Revenue Authority.

15 DISTRIBUTION COSTS

These relate to costs incurred in moving finished products from the factory to the airfreight and shipment point.

16. ADMINISTRATIVE EXPENSES

These relates to all staff costs and other expenses of the support departments which includes General administration, Logistics, Finance, Internal audit, Crop research and Product development.

17. OTHER OPERATING EXPENSES

This relates to marketing expenses.

18. FINANCE COSTS

The finance costs relate to interest charged on overdraft.

**PYRETHRUM BOARD OF KENYA
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FOR THE YEAR ENDED 30 JUNE 2005**

19. CONTINGENT LIABILITIES

- (a) A claim of Kshs. 612,869,819 in respect of tax deducted from terminal benefits and pension dues of employees who voluntarily left Board's employment in November 2001 was filed in court against the Board. The case HCCC NO. 108 of 2004 is pending in Nakuru High Court. No provision has been made in the financial statements for this amount except to the extent of court fees only, as the directors are of the view that the claim is unlikely to succeed.
- (b) Inter-Arch Consultants filed a case against the Board for an amount of Kshs. 4,870,015.00 allegedly due to them on account of consultancy services rendered in respect of drawings for modernisation of the factory. The dispute is pending in High Court Nakuru. However, the full amount has been provided for in the financial statements.

20. TAXATION

The Income Tax Act (Cap 470) exempts the income of the Pyrethrum Board of Kenya from Income tax.

21. ENABLING LEGISLATION

Pyrethrum Board of Kenya is established under the Pyrethrum Act (Cap 340) and is mandated to regulate and control the growing, processing and marketing of pyrethrum for scientific and agronomic research and for connected purposes. It is also subject to the provisions of the State Corporations Act (Cap 446).

22. COMPARATIVE FIGURES

Where applicable, the 2003/2004 figures have been revised to conform with classification applicable to 2004/2005 financial year.

23. CURRENCY

These financial statements are prepared in Kenya Shillings (Kshs.).

PYRETHRUM BOARD OF KENYA
 DRY PYRETHRUM FLOWER DELIVERIES

FINANCIAL YEAR		TONNES	
	1935	327	
	1936	1,095	
	1937	1,005	
	1938	1,894	
	1939	2,915	
	1940	5,954	
	1941	5,856	
	1942	5,557	
	1943	4,173	
	1944	6,652	
	1945	7,528	
	1946	6,848	
	1947	3,970	
	1948	1,582	
	1949	1,541	
	1950	2,211	
	1951	2,266	
	1952	2,781	
	1953	2,356	
	1954	2,591	} 15 months period
January/March	1955	936	
April 1955/March	1956	3,477	
April 1956/March	1957	3,933	
April 1957/March	1958	4,596	
April 1958/March	1959	4,140	} 15 months period
April 1959/June	1959	772	
July 1959/June	1960	6,604	
July 1960/June	1961	9,312	
July 1961/June	1962	10,931	
July 1962/June	1963	8,511	
July 1963/June	1964	5,296	
July 1964/June	1965	4,511	} 15 months period
July 1965/September	1965	1,745	
October 1965/September	1966	7,876	
October 1966/September	1967	10,698	
October 1967/September	1968	11,237	
October 1968/September	1969	7,423	
October 1969/September	1970	6,005	
October 1970/September	1971	9,748	
October 1971/September	1972	14,414	
October 1972/September	1973	10,698	
October 1973/September	1974	13,722	
October 1974/September	1975	15,035	



PYRETHRUM BOARD OF KENYA

DRY PYRETHRUM FLOWER DELIVERIES *(continued)*

FINANCIAL YEAR	TONNES
October 1975/September 1976	14,267
October 1976/September 1977	11,429
October 1977/September 1978	8,441
October 1978/September 1979	7,950
October 1979/September 1980	10,424
October 1980/September 1981	15,704
October 1981/September 1982	18,720
October 1982/September 1983	8,974
October 1983/September 1984	3,156
October 1984/September 1985	3,101
October 1985/June 1986	3,117
July 1986/June 1987	6,407
July 1987/June 1988	6,689
July 1988/June 1989	7,538
July 1989/June 1990	8,988
July 1990/June 1991	9,943
July 1991/June 1992	12,452
July 1992/June 1993	17,711
July 1993/June 1994	11,979
July 1994/June 1995	10,551
July 1995/June 1996	7,490
July 1996/June 1997	6,220
July 1997/June 1998	7,161
July 1998/June 1999	3,995
July 1999/June 2000	4,724
July 2000/June 2001	7,964
July 2001/June 2002	11,386
July 2002/June 2003	10,953
July 2003/June 2004	5,797
July 2004/June 2005	2,207

} 21 months period
6,218



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