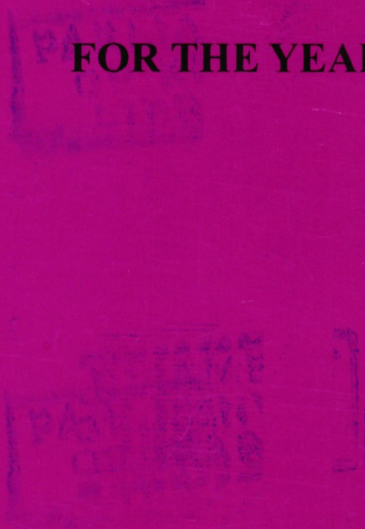


# PYRETHRUM BOARD OF KENYA

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## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004



# **PYRETHRUM BOARD OF KENYA**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**



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

## PYRETHRUM BOARD OF KENYA

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*LABORATORIES* }  
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*AUDITORS*  
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PYRETHRUM BOARD OF KENYA  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004

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# PYRETHRUM BOARD OF KENYA

## BOARD MEMBERS WHO SERVED DURING THE YEAR ENDED 30 JUNE 2004

HENRY N. M'NAROBI	-	Chairman
SAMUEL KURIA KIHU		
SAMUEL KIPKORIR LANG'AT	-	Appointed 24.02.2004
JOSEPH K. MAINEK LANG'AT	-	Appointed 24.02.2004
DYRANE PATRICK THIONGO CHEGE	-	Appointed 24.02.2004
JOEL MBUGUA SAMUEL	-	Appointed 24.02.2004
JAMES MATUNDURA ARAKA	-	Resigned 30.07.2003 and Re-appointed 24.02.2004
JOSEPH K. Arap CHEPKONGA	-	Resigned 30.07.2003
TOM M. KIBISU	-	Resigned 30.07.2003
WILLIAM N. NJUGUNA	-	Resigned 30.07.2003
SAMUEL M. M'IKIARA	-	Resigned 30.07.2003
ANTHONY LUI MZEE		
LIZA CHELULE		
DAVID RUTO CHEBET		
ZABLON RATEMO		
THE PERMANENT SECRETARY, MINISTRY OF AGRICULTURE		
THE DIRECTOR OF AGRICULTURE		
THE COMMISSIONER FOR CO-OPERATIVE DEVELOPMENT		

## SENIOR MANAGEMENT STAFF AS AT 30 JUNE 2004

ENG. MARTIN O. OWITI	-	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 Manager
DR. BEN M. WANJALA	-	Crop Research Manager
PETER N. WAWERU	-	Chief Internal Auditor



# PYRETHRUM BOARD OF KENYA

## SUMMARY OF REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 1. CROP PRODUCTION

**Pool Year  
2003 / 2004**

5,797 (tonnes)

Crop delivered by growers

**Pool Year  
2002 / 2003**

10,953 (tonnes)

### 2. SALES

Kshs. 1,169,794,054	Sales proceeds from flowers/powder/extract	Kshs. 836,663,779
Kshs. <u>34,266,852</u>	Sales proceeds from pyrethrum marc and other by-products	Kshs. <u>23,629,441</u>
<u>1,204,060,906</u>		<u>860,293,220</u>

### 3. COSTS

Kshs. 627,596,798	Total operating costs including depreciation	Kshs. 719,526,824
Kshs. <u>20,880,890</u>	Total distribution costs	Kshs. <u>14,470,070</u>
Kshs. <u>648,477,688</u>		Kshs. <u>733,996,894</u>

### 4. PYRETHRINS CONTENT

<u>1.273%</u>	Average pyrethrins content of flowers delivered	<u>1.343%</u>
---------------	--	---------------

### 5. PAYMENTS TO GROWERS

Kshs. 544,778,176.00	Total pool payments due	Kshs.1,085,501,810.00
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

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THE PERMANENT SECRETARY, MINISTRY OF AGRICULTURE		
THE DIRECTOR OF AGRICULTURE		
THE COMMISSIONER FOR CO-OPERATIVE DEVELOPMENT		

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CHARLES O. ATING'A	-	Ag. Marketing Manager
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ROBERT TIAMPATI	-	Crop Production Manager
DR. BEN M. WANJALA	-	Crop Research Manager
PETER N. WAWERU	-	Chief Internal Auditor



# PYRETHRUM BOARD OF KENYA

## SUMMARY OF REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

### 1. CROP PRODUCTION

**Pool Year  
2003 / 2004**

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Kshs. <u>34,266,852</u>		Kshs. <u>23,629,441</u>
<u>1,204,060,906</u>		<u>860,293,220</u>

### 3. COSTS

	Total operating costs including depreciation	
Kshs. 627,596,798		Kshs. 719,526,824
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Kshs. <u>648,477,688</u>		Kshs. <u>733,996,894</u>

### 4. PYRETHRINS CONTENT

	Average pyrethrins content of flowers delivered	
<u>1.273%</u>		<u>1.343%</u>

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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

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

I am pleased to present the annual report on the financial performance and operations of Pyrethrum Board of Kenya for the financial year ended 30th June 2004.

### **Operating Environment:**

Kenya is the number one producer of pyrethrum in the world producing more than 60% of the world's pyrethrum. Kenya has about 150,000 regular pyrethrum growers countrywide. The crop is grown in 22 districts in four provinces namely Rift Valley, Central, Nyanza and Eastern provinces.

Over 95% of all pyrethrum products from Kenya are exported. The supply of Kenyan pyrethrum in the world market in the past has been varying from surplus to shortages thereby making Kenya unreliable supplier. Pyrethrum production declined steadily from 17,711 MT in 1993 to the lowest level in 1999 when only 3995 MT were produced mainly due to bad weather. This led to the shortage of pyrethrum in the world market. In the event, the customers turned to synthetic pyrethroids to replace pyrethrum.

Other players entered the pyrethrum market and increased competition with Kenya. These include Rwanda, Tanzania, Australia and more recently China. The stiff competition from synthetic pyrethroids led to reduced demand for pyrethrum in the World market. Consequently, there has been a glut in the pyrethrum industry worldwide as a result of depressed world market demand for pyrethrum and increased supply from producers.

Although production picked up in Kenya from 2000 onwards reaching 11,380 tons in 2001/02, sales had drastically dropped resulting in high stocks of pyrethrum products. Consequently, severe cashflow constraints were experienced resulting in huge arrears in payment to farmers. This in turn made many growers to abandon pyrethrum growing for other crops resulting in reduced production in 2003/4 to 5,700 tons.

The new Board inherited arrears to growers of KShs. 1.2 billion, an overdraft from Barclays Bank of KShs. 400 million, liabilities on other suppliers account KShs. 80 million and high stocks of pyrethrum products and a depressed market. Moreover, fire had gutted one of the extraction plants in March 2003 and the available extraction capacity was not adequate to process flowers being received.

### **Operating Results:**

The new Board embarked on aggressive marketing of pyrethrum worldwide and visited traditional customers to reassure them of the Board's ability to sustain supply and the strategies being adopted to ensure continuity of supply. The Board also explained the changes that have taken place in Kenya and the new Government's economic recovery strategy. As a result, some of the former customers of the Pyrethrum Board resumed



# PYRETHRUM BOARD OF KENYA

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2004 - CONTD.

As a result, some of the former customers of the Pyrethrum Board resumed doing business with the Board. The Board also managed to win some new customers. These strategies have yielded positive results as reflected in a profit of Kshs. 116 million after seven years of losses compared to a loss of Kshs. 471 million in 2002/03.

### **The Growers:**

Payment to growers improved from Kshs. 272 million in 2002/03 to Kshs. 415 million in 2003/04. We are now paying growers on monthly basis depending on the cashflow. However, despite this improvement, the growers' arrears are still over one billion shillings. The Board intends to focus its attention to the payment of growers' arrears during the current financial year. Growers are encouraged to tend their crops because sales are improving. This is to ensure that there is continuity of supply of pyrethrum to the world market. Our customers need to be assured of continuity of supply.

### **The Board:**

The Government of Kenya appointed a new Chairman, Managing Director and Directors of Pyrethrum Board of Kenya with effect from June 18, 2003. The new Board of Directors was inaugurated on July 18, 2003. Deputy Managing Director was appointed in July 2003. The Government enacted rules and regulations for election of growers' representatives in the Board in 2003. Elections of the growers' representatives were held in February 2004 and six new Board members representing the growers joined the Board in May 2004.

### **Staff and People:**

People continue to be a key resource to PBK. The improved performance during the year is a tribute to the quality and efforts of our people. During the year PBK undertook rationalization of establishment which resulted into reduction of casual employees and contract staff. This was necessary to reduce operating costs and improve productivity and efficiency.

Significant efforts have been made to improve communication with our staff as a basis of improving employee relations and motivation. One major challenge to PBK is to continue with its staff training and development programs in the face of liquidity problems.

### **Outlook:**

PBK is expected to complete and firmly put in place its strategic plan in November 2004. Judging from this year's performance we are confident that the corporation is on course to achieve its vision and mission. Underlying the vision and mission are the core values the organization has continued to sustain as its guiding principles - the values of superior customer service, high quality, ethical practices and integrity.



# PYRETHRUM BOARD OF KENYA

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2004 - CONTD.

The good results of this organization this year are testimony to the merits of resolutely pursuing this approach. However, we are not yet out of the woods. Although we feel more confident than we did at the beginning of the year that we are on the right path, there is still more work to be done. This is a continuous process.

In the coming year, PBK intends to venture into new markets especially in Asia and Africa together with expansion in the existing market of Europe and America. We will also continue diversifying into end-use products as a means of supplementing our traditional sources of income.

### **Sincere thanks to you all:**

As always, the Board wishes to thank the growers, first. This has been a difficult year, and with your support of the industry and confidence in your Board and management, we have been able to weather the storm. I thank the Directors for the value they have continued to add to the organization. Their wise counsel has added great value to the performance of this organization. I thank the management and staff for implementing organization strategies on a day-to-day basis in a diligent and prudent manner. I also sincerely thank all our most valued customers for their support during these hard times. I wish to thank the Government of Kenya through the Ministry of Agriculture for the continued support on policy matters.

Finally, I wish to assure you that the Board continues to be guided by the principle of good corporate governance. Your Board recognizes its collective responsibility to ensure that you, the growers, achieve above average sustainable returns on your efforts year after year.

God bless you all.

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

**Nakuru**

**September 28, 2004**



# PYRETHRUM BOARD OF KENYA

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2004

The results for the year 2003/2004 show that the revival of the pyrethrum industry has begun and that the Board has the potential to cope with the economic challenges facing the pyrethrum industry. The work we have begun to reorganize the corporation, aggressively market our products, improve efficiency and reduce costs of production is yielding positive results as summarized below.

### Summary of Operating Results

FINANCIAL INDICATORS	2003/04	2002/03	VARIANCE	
	Kshs. Millions	Kshs. Millions	Kshs. Millions	%
Sales Revenue	1,204	860	344	40
Operating expenses	649	889	(240)	(37)
Profit Before Tax	116	(471)	587	506
Payment to Growers	415	272	143	53
Flower Delivery in Metric Tons	5797	10953	(5156)	(47)
Sales Volume in Metric tons equivalent	5102	3758	1344	36

Sales revenue grew by 40% from Kshs.860 million the previous year to Kshs.1.204 billion. Operating expenses reduced by 37% from Kshs.889 million the previous year to Kshs.649 million. As a result, Pyrethrum Board of Kenya realized a net profit of Kshs.116 million. This compares very favourably with a net loss of Kshs.471 million in 2002/03. Payment to growers grew by 53% from Kshs.272 million the previous year to Kshs. 415 million. Considering that Pyrethrum Board of Kenya has been making losses consistently during the last seven consecutive years, the financial year 2003/04 marks the turning point in the operating performance of PBK.

### Strategy:

In order to operate profitably in the tough economic climate experienced during the year, we adopted strategies of aggressive marketing and cost control. These have enabled us to increase our turnover by 40% and reduce operating costs by 37%. Among the marketing strategies that were implemented during the year include:

- Aggressive sales and marketing of our products to traditional customers.
- Extension of sales and marketing effort into new markets especially in Asia and Africa.
- Improved product quality.



# PYRETHRUM BOARD OF KENYA

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2004 - CONTD.

- Diversification into end-use products.
- Improved delivery of products to customers and
- Competitive and stable pricing policy.

On cost control, measures such as reduced number of casual employees, rationalization of establishment and monitoring and controlling other operating costs have yielded positive results.

### **Progress:**

The new management and Board took the initiative to introduce processes, systems and procedures that will enhance culture change and continuous improvement at PBK to World Class standards. The Board developed corporate Vision, Mission and Core Value statements. The new corporate Vision and Mission statements are as follows:

#### **VISION STATEMENT:**

Total customer and supplier satisfaction through World-Class performance in all aspects of our operations.

#### **MISSION STATEMENT:**

To organize and regulate Pyrethrum Industry in Kenya to the satisfaction of all stakeholders and to be the preferred producer of pyrethrum products in the world

Below is a summary of the progress made.

#### **Strategic Planning Processes**

- Top Management team developed corporate Vision, Mission and Values. Got the approval of the Board of Directors and rolled out to all employees.
- Carried out business review and developed strategic direction and the budget for 2004/05 that was approved by the Board.
- We are in the process of developing a Strategic Plan that will cover the next 5 years (2004-2009).

#### **Total Quality and Continuous Improvement Processes**

- Focus on total customer and supplier satisfaction is on-going.
- Production plans are now in line with customer requirements.
- Performance monitoring is started and will be reviewed continuously.
- Customer partnership development is in progress with old customers.
- Activities to be integrated with planning and control system

#### **Planning and Control Processes**

- Introduced Sales and Operations Planning process.
- Introduced Materials Planning and Control process



# PYRETHRUM BOARD OF KENYA

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2004 - CONTD.

### **Crop Production**

Production of pyrethrum flowers was 5,797 tons. The crop production dropped significantly as compared to 10,973 tons in the previous year due to high payment arrears to growers at the end of the previous year that stood at Kshs. 1.2 billion. This was because of lower than expected sales that resulted in severe cash flow constraints in 2002/03.

The crop production performance by regions is as shown below:

### **Crop Production 2003/04 by Regions**

	<b>Jul - Sept</b>	<b>Oct - Dec</b>	<b>Jan - Mar</b>	<b>Apr - Jun</b>	<b>Total</b>
<b>Region</b>	<b>MT</b>	<b>MT</b>	<b>MT</b>	<b>MT</b>	<b>MT</b>
South Rift	1104	1353	550	450	3457
North Rift	286	251	133	75	745
Central/East	317	423	198	242	1180
Nyanza	131	73	99	90	393
Others	7	4	4	7	22
<b>Total</b>	<b>1845</b>	<b>2104</b>	<b>984</b>	<b>864</b>	<b>5797</b>

Although production dropped, stocks of finished product in terms of flower equivalent increased to 15,320 tons equivalent to 2.5 years stock cover in sales. Despite this high stock, we need growers who had abandoned the crop to restart planting and taking care of their crop to avoid shortages in the future. To achieve this, we are now paying growers on monthly basis and have improved our communication with them.



# PYRETHRUM BOARD OF KENYA

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2004 - CONTD

### **Crop Research and Agronomic Services**

Crop Research and Agronomic Services are carried out in support of Crop production by a research team. Their mission is to maximize growers income through provision of high quality and high yielding planting materials and appropriate management technologies. The key research goal is to develop high yielding and high quality pyrethrum cultivars and related technologies suitable for use in all growing agro-ecological zones.

### **Pyrethrum Processing**

Pyrethrum processing was interrupted in the previous year when fire gutted PBK's second extraction plant in March 2003. The remaining old extraction plant is not adequate to process all the flowers delivered. PBK had to send some flowers to Rwanda for the extraction process during the current year. A total of 1,632 tons of flowers were taken to Rwanda with PBK receiving back 51,231 Kgs of Oleo Resin (OR). Extraction of some flowers in Rwanda will continue in the budget year until a total of 4,000 metric tons of flowers are extracted as per the contract. The crude extract has to come back to Kenya for refining process before we export the refined pale extract.

PBK is in the process of investing in a new extraction plant to replace the burnt plant. The plant will be installed and commissioned during the budget year and is expected to be operational in 2005/06.

### **Product Development**

The Board developed and launched new end use products in the local market including crop protection products namely, **PYAGRO** for flowers, fruits and vegetables and **PYDUST** for stored products. The Board also developed and launched public health products, **PYLARVEX** for control of mosquito larvae in breeding water masses, **PYMOS** for young mosquitoes out-doors and in-doors and **PYNET** for treatment of mosquito nets.

### **Way Forward**

1. The Board is determined to continue with aggressive marketing to recover as much as possible the lost market for pyrethrum. PBK is working with its customers in product development to find new uses for pyrethrum and to identify and exploit niche markets.
2. The Board will focus on generating funds to address the growers' payment arrears. Growers will be encouraged to tend their crops to increase production. It is expected that production will increase with increase in sales. The Board plans to maintain strategic stock equivalent to one year sales to ensure continuous supply to its customers in order to sustain its market.
3. PBK will proceed to complete the replacement of the extraction plant and thereafter to carry out phased modernization of the processing plant to world class standards. This is to improve competitiveness of PBK.
4. The Board is prepared to work with stakeholders to liberalize the industry without disrupting the pyrethrum business. Continuity of supply to our customers must be guaranteed.

**ENG. MARTIN O. OWITI.**  
**MANAGING DIRECTOR**  
**NAKURU**  
**September 28, 2004.**



# PYRETHRUM BOARD OF KENYA

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2004

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, 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. 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'NARABI**  
DIRECTOR

Signed: **DYRANE P. T. CHEGE**  
DIRECTOR

Nakuru.....21<sup>st</sup> JULY, .....2005

Nakuru.....21<sup>st</sup> JULY, .....2005



# PYRETHRUM BOARD OF KENYA

## REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PYRETHRUM BOARD OF KENYA FOR THE YEAR ENDED 30 JUNE 2004

I have audited the financial statement of Pyrethrum Board of Kenya for the year ended 30 June 2004 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 independent opinion on the financial statements based on my audit.

### **Basis of Opinion**

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosure 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 my audit provides a reasonable basis for my opinion.

### **1. Property, Plant and Equipment**

The Balance Sheet property, plant and equipment figure of Kshs. 161,786,648 as at 30 June 2004 includes Capital Work in Progress amount of Kshs. 19,060,549 out of which Kshs. 5,270,015 relates to consultancy expenditure on reconstruction of the existing godown Igloo on plot No. Block 6/6m in Nakuru. The information available indicates that the consulting firm was contracted through enquiries and that the contract signed did not specify the contract sum. The award was not open to competitive binding as required by Public Procurement Regulations for such services. Further, the Balance Sheet figure for plant and equipment does not include value for twelve (12) plots allotted to the Board out of which five (5) plots are situated at the Board's estates.

# PYRETHRUM BOARD OF KENYA

## REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PYRETHRUM BOARD OF KENYA FOR THE YEAR ENDED 30 JUNE 2004 - CONTD.

The Board does not hold titles to these plots. This situation is indicative of significant impairment on properties. Consequently, it is not possible to give an opinion on the carrying value of the properties as reflected in the financial statements.

### **2. Trade and other Receivables**

The Trade and other Receivables figure of Kshs. 479,013,483 includes staff car loans and other debtors totalling Kshs. 5,107,128 relating to staff and directors who have left the Board. There was no evidence of efforts made by the Board to recover these debts whose recoverability is doubtful. Also included in the other receivables balance of Kshs. 479,013,483 is an amount of Kshs. 92,819,382 which differs with the supporting documents and the analysis figure of Kshs. 98,908,307.83, resulting in unexplained difference of Kshs. 6,088,925.83. Consequently, I am unable to give an opinion on the accuracy of the carrying value of the debtors as reflected in the financial statements.

### **3. Trade and other Payables**

The trade and other payables figure of Kshs. 1,544,114,062 as at 30 June 2004 includes trade payables and provision items totalling Kshs. 149,315,692 whose source documents were not availed for audit verification. The figure also include an amount due to growers of Kshs. 1,256,342,167 while the schedule supporting the amount totals Kshs. 1,260,196,411.35 resulting in unexplained difference of Kshs. 3,854,244.35. The trade and other payables balance also includes a pension fund balance of Kshs. 2,820,726. However, according to the information available, the Board's pension scheme has not been registered with the Retirement Benefits Authority under Retirement Benefits Act and thus the Board appears to be in breach of the law.

### **OPINION**

Except for the above 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 2004 and of the surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Pyrethrum Act (Cap 340).

**E.N. MWAI**  
**CONTROLLER AND AUDITOR GENERAL**

**NAIROBI**

**3 NOVEMBER 2005**

**PYRETHRUM BOARD OF KENYA**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 JUNE 2004**

	Note	30.06.2004 Kshs.	30.06.2003 Kshs.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2 (a)	161,786,648	170,062,515
Other financial assets	2 (d)	<u>0</u>	<u>40</u>
		<u>161,786,648</u>	<u>170,062,555</u>
<b>Current assets</b>			
Inventories	3 (a)	2,030,352,114	1,929,552,566
Trade and other receivables	3 (b)	479,013,483	315,191,098
Cash in hand and at bank		<u>2,608,642</u>	<u>42,199,694</u>
		<u>2,511,974,239</u>	<u>2,286,943,358</u>
<b>TOTAL ASSETS</b>		<u><u>2,673,760,887</u></u>	<u><u>2,457,005,913</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
P.B.K stock units issued		29,968,840	29,968,840
Levy fund		2,442,211	2,059,591
Accumulated capital fund		133,249,739	133,249,779
General reserve		474,455,975	474,455,975
Growers' account	4	<u>92,482,678</u>	<u>(126,960,019)</u>
		<u><u>732,599,443</u></u>	<u><u>512,774,166</u></u>
<b>Current liabilities</b>			
Trade and other payables	6 (a)	1,544,114,062	1,509,687,270
Short-term borrowings	6 (b)	<u>397,047,382</u>	<u>434,544,477</u>
		<u>1,941,161,444</u>	<u>1,944,231,747</u>
<b>TOTAL EQUITY AND LIABILITES</b>		<u><u>2,673,760,887</u></u>	<u><u>2,457,005,913</u></u>

These financial statements were approved by the Board of Directors on 14 October 2004 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 2004**

	Note	30.06.2004 Kshs.	30.06.2003 Kshs.
Revenue	7	1,204,060,906	860,293,220
Cost of sales	8	<u>(809,611,170)</u>	<u>(925,242,767)</u>
<b>Gross surplus/(deficit)</b>		394,449,736	(64,949,547)
Distribution costs		(20,880,890)	(14,470,070)
Administrative expenses		(139,816,938)	(121,574,590)
Other operating expenses		<u>(66,759,313)</u>	<u>(56,321,451)</u>
Surplus/(deficit) from operations		166,992,595	(257,315,658)
Finance costs	9	<u>(51,113,899)</u>	<u>(58,725,975)</u>
Surplus/(deficit) from ordinary activities		115,878,696	(316,041,633)
Extra-ordinary items	10	<u>0</u>	<u>(155,044,203)</u>
<b>Net surplus/(deficit) for the year</b> <b>(Transferred to Growers' Account- note 4)</b>		<u><u>115,878,696</u></u>	<u><u>(471,085,836)</u></u>

**PYRETHRUM BOARD OF KENYA**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	Note	P.B.K Stock Kshs.	Levy Fund Kshs.	Accumulated Capital Fund Kshs.	General Reserve Kshs.
Balance at 1 July 2003		29,968,840	2,059,591	133,249,779	474,455,975
Adjustments	2 (d)	0	0	(40)	0
		29,968,840	2,059,591	133,249,739	474,455,975
Levy charged for the year		<u>0</u>	<u>382,620</u>	<u>0</u>	<u>0</u>
Balance at 30 June 2004		<u>29,968,840</u>	<u>2,442,211</u>	<u>133,249,739</u>	<u>474,455,975</u>

**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.

**Levy fund**

Under the provisions of the Pyrethrum Act (Cap 340) the Minister of 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.

**Accumulated capital fund**

Comprise mainly capital gains on disposal of fixed assets.

**General reserve**

Relates to a fund provided to finance holding of strategic stocks.

**Redemption of P.B.K stock**

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

**PYRETHRUM BOARD OF KENYA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2004.**

Note	30.06.2004 Kshs.	30.06.2003 Kshs.
<b>Cash flow from operating activities</b>		
Net surplus/(deficit) for the year	115,878,696	(471,085,836)
<i>Adjustments for :</i>		
Depreciation	23,355,664	25,262,271
Levy	382,620	722,913
Prior year adjustments    5	103,564,001	0
Operating surplus/(deficit) before working capital changes	<u>243,180,981</u>	<u>(445,100,652)</u>
(Increase)/decrease in inventories	(100,799,548)	(5,114,029)
(Increase)/decrease in trade and other receivables	(163,822,385)	(640,843,284)
Increase/(decrease) in trade and other payables	34,426,792	890,427,275
Increase/(decrease) in deposits	<u>0</u>	<u>150,000,000</u>
Cash generated from operations	<u>(230,195,141)</u>	<u>394,469,962</u>
	<u>12,985,840</u>	<u>(50,630,690)</u>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets	(15,079,797)	(10,383,572)
Proceeds from sale of fixed assets	0	108,641
	<u>(15,079,797)</u>	<u>(10,274,931)</u>
Net decrease in cash	(2,093,957)	(60,905,621)
Cash and cash equivalents at 1 July	<u>(392,344,782)</u>	<u>(331,439,161)</u>
Cash and cash equivalents at 30 June	<u>(394,438,739)</u>	<u>(392,344,782)</u>

PYRETHRUM BOARD OF KENYA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below:

(a) **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.

(b) **Depreciation**

Depreciation is calculated on the straight line basis at annual rates estimated to write off the cost of fixed assets over their expected useful lives. The annual depreciation rates in use are:

Buildings	2% p.a.
Plant, machinery, equipment & furniture	12.5% p.a.
Motor vehicles	25% p.a.

(c) **Inventories**

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

(d) **Trade and other receivables**

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

(e) **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.

(f) **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.

PYRETHRUM BOARD OF KENYA

NOTES TO THE FINANCIAL STATEMENTS- CONTD.  
FOR THE YEAR ENDED 30 JUNE 2004

(g) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. NON-CURRENT ASSETS

(a) Property, plant, and equipment

	Land and Buildings Kshs.	Plant Machinery Equipment & Furniture Kshs.	Motor Vehicles Kshs,	Capital Work- -In-Progress Kshs.	Total Kshs.
<b>COST</b>					
At 1 July 2003	116,624,497	215,336,409	112,152,463	13,818,034	457,931,403
Additions	<u>0</u>	<u>9,837,282</u>	<u>0</u>	<u>5,242,515</u>	<u>15,079,797</u>
At 30 June 2004	<u>116,624,497</u>	<u>225,173,691</u>	<u>112,152,463</u>	<u>19,060,549</u>	<u>473,011,200</u>
<b>DEPRECIATION</b>					
At 1 July 2003	29,334,060	153,936,127	104,598,701	0	287,868,888
Year's charge	<u>2,244,848</u>	<u>16,972,296</u>	<u>4,138,520</u>	<u>0</u>	<u>23,355,664</u>
At 30 June 2004	<u>31,578,908</u>	<u>170,908,423</u>	<u>108,737,221</u>	<u>0</u>	<u>311,224,552</u>
<b>NET BOOK VALUE</b>					
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>
At 30 June 2003	<u>87,290,437</u>	<u>61,400,282</u>	<u>7,553,762</u>	<u>13,818,034</u>	<u>170,062,515</u>

(b) Capital Work - In - Progress

	30.06.2004 Kshs.	30.06.2003 Kshs.
Pelletizing plant	9,936,831	9,936,831
Igloo godown (consultancy)	5,270,015	400,000
Factory modernization (consultancy)	2,704,804	2,677,304
New extraction plant	345,000	0
Entomology block	561,359	561,359
Prefabricated houses	<u>242,540</u>	<u>242,540</u>
	<u>19,060,549</u>	<u>13,818,034</u>

(c) Destroyed extraction plant III

A fire on 30 March 2003 gutted extraction plant III. An adjustment was made in 2002/03 financial statements for its cost and relative accumulated depreciation.

The Board lodged with the insurers a claim of Kshs 374,444,000 for compensation under its fire policy.



# PYRETHRUM BOARD OF KENYA

## NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2004

(d) Investments	30.06.2004 Kshs.	30.06.2003 Kshs.
170 Shares in KCC Ltd @Ksh.20	0	20
5087 Shares in KFA Ltd @Ksh.20	<u>0</u>	<u>20</u>
	<u>0</u>	<u>40</u>

Kenya Co-operative Creameries Ltd were put under receivership and eventually the Receiver Manager sold its assets. The proceeds thereof fell short of the outstanding liabilities.

Kenya Farmers Association ceased its operations and its assets were being advertised for auction.

The value of the above shares was written down in 1999/2000 and under the circumstances, it was decided to write off the remaining Kshs 40.

### 3 CURRENT ASSETS

#### (a) Inventories

Arising from poor sales, the Board accumulated very high inventory levels which, at year end comprise the following:-

	30.06.2004 Kshs.	30.06.2003 Kshs.
Trade stocks		
Pyrethrum flowers	34,213,773	175,194,129
Pyrethrum grist	254,973,069	144,229,578
Oleo Resin (OR) pyrethrum extract	1,563,329,343	1,396,586,142
Pale pyrethrum extract	47,255,881	82,508,699
Other formulated end use products	<u>3,820,135</u>	<u>0</u>
Sub-total	1,903,592,201	1,798,518,548
Engineering spares and accessories	<u>126,759,913</u>	<u>131,034,018</u>
	<u>2,030,352,114</u>	<u>1,929,552,566</u>

#### (b) Trade and other receivables

	30.06.2004 Kshs.	30.06.2003 Kshs.
Trade debtors	320,879,485	221,672,456
Insurance claim	65,314,616	0
Miscellaneous	<u>92,819,382</u>	<u>93,518,642</u>
	<u>479,013,483</u>	<u>315,191,098</u>

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

Insurance claim relates to the additional costs of processing the Board's pyrethrum flowers in Rwanda.

# PYRETHRUM BOARD OF KENYA

## NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2004

### 4 GROWERS' ACCOUNT

Growers' account comprise prior years' deficits, net surplus for the year and prior year adjustments which have not been transferred to the general reserve as follows: -

	30.06.2004	30.06.2003
	Kshs.	Kshs.
Net surplus/(deficit) at 1 July	(126,960,019)	344,125,817
Prior year adjustments (Note 5 )	<u>103,564,001</u>	<u>0</u>
	(23,396,018)	344,125,817
Net surplus/(deficit) for the year	<u>115,878,696</u>	<u>(471,085,836)</u>
Balance at 30 June	<u>92,482,678</u>	<u>(126,960,019)</u>

### 5 PRIOR YEAR ADJUSTMENTS

Relate to:

- The reversal of the proposed final pool payment for the year 2001/2002 of Kshs 114,401,454
- Provision of Kshs 12,390,000 in respect of restructuring costs of unionisable staff who left Pyrethrum Board of Kenya employment in November 2001.
- Reimbursement of training expenses of Kshs 1,552,547 from Directorate of Industrial Training relating to the year 2002/03.

### 6 CURRENT LIABILITIES

#### (a) Trade and other payables

	30.06.2004	30.06.2003
	Kshs.	Kshs.
Trade payables and provisions	287,771,895	225,651,612
Amount due to growers	<u>1,256,342,167</u>	<u>1,284,035,658</u>
	<u>1,544,114,062</u>	<u>1,509,687,270</u>

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

As a result of severe financial constraints on the Board, arrears of payments to growers as at the year end were Kshs. 1,256,342,167 for 21 months' deliveries.

#### (b) Short-term borrowings

The Board has overdraft facilities with Barclays Bank of Kenya Limited of Kenya Shillings four 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

## NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2004

(d) Investments	30.06.2004 Kshs.	30.06.2003 Kshs.
170 Shares in KCC Ltd @Ksh.20	0	20
5087 Shares in KFA Ltd @Ksh.20	<u>0</u>	<u>20</u>
	<u>0</u>	<u>40</u>

Kenya Co-operative Creameries Ltd were put under receivership and eventually the Receiver Manager sold its assets. The proceeds thereof fell short of the outstanding liabilities.

Kenya Farmers Association ceased its operations and its assets were being advertised for auction.

The value of the above shares was written down in 1999/2000 and under the circumstances, it was decided to write off the remaining Kshs 40.

### 3 CURRENT ASSETS

#### (a) Inventories

Arising from poor sales, the Board accumulated very high inventory levels which, at year end comprise the following:-

	30.06.2004 Kshs.	30.06.2003 Kshs.
Trade stocks		
Pyrethrum flowers	34,213,773	175,194,129
Pyrethrum grist	254,973,069	144,229,578
Oleo Resin (OR) pyrethrum extract	1,563,329,343	1,396,586,142
Pale pyrethrum extract	47,255,881	82,508,699
Other formulated end use products	<u>3,820,135</u>	<u>0</u>
Sub-total	1,903,592,201	1,798,518,548
Engineering spares and accessories	<u>126,759,913</u>	<u>131,034,018</u>
	<u>2,030,352,114</u>	<u>1,929,552,566</u>

#### (b) Trade and other receivables

	30.06.2004 Kshs.	30.06.2003 Kshs.
Trade debtors	320,879,485	221,672,456
Insurance claim	65,314,616	0
Miscellaneous	<u>92,819,382</u>	<u>93,518,642</u>
	<u>479,013,483</u>	<u>315,191,098</u>

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

Insurance claim relates to the additional costs of processing the Board's pyrethrum flowers in Rwanda.

# PYRETHRUM BOARD OF KENYA

## NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2004

### 4 GROWERS' ACCOUNT

Growers' account comprise prior years' deficits, net surplus for the year and prior year adjustments which have not been transferred to the general reserve as follows: -

	30.06.2004 Kshs.	30.06.2003 Kshs.
Net surplus/(deficit) at 1 July	(126,960,019)	344,125,817
Prior year adjustments (Note 5)	<u>103,564,001</u>	<u>0</u>
	(23,396,018)	344,125,817
Net surplus/(deficit) for the year	<u>115,878,696</u>	<u>(471,085,836)</u>
Balance at 30 June	<u>92,482,678</u>	<u>(126,960,019)</u>

### 5 PRIOR YEAR ADJUSTMENTS

Relate to:

- The reversal of the proposed final pool payment for the year 2001/2002 of Kshs 114,401,454
- Provision of Kshs 12,390,000 in respect of restructuring costs of unionisable staff who left Pyrethrum Board of Kenya employment in November 2001.
- Reimbursement of training expenses of Kshs 1,552,547 from Directorate of Industrial Training relating to the year 2002/03.

### 6 CURRENT LIABILITIES

#### (a) Trade and other payables

	30.06.2004 Kshs.	30.06.2003 Kshs.
Trade payables and provisions	287,771,895	225,651,612
Amount due to growers	<u>1,256,342,167</u>	<u>1,284,035,658</u>
	<u>1,544,114,062</u>	<u>1,509,687,270</u>

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

As a result of severe financial constraints on the Board, arrears of payments to growers as at the year end were Kshs. 1,256,342,167 for 21 months' deliveries.

#### (b) Short-term borrowings

The Board has overdraft facilities with Barclays Bank of Kenya Limited of Kenya Shillings four 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

## NOTES TO THE FINANCIAL STATEMENTS - CONTD. FOR THE YEAR ENDED 30 JUNE 2004

<b>7</b>	<b>REVENUE</b>	30.06.2004 Kshs.	30.06.2003 Kshs.
	Sales of pyrethrum products	1,197,815,894	878,399,349
	Trade discounts	11,583,564	(11,894,149)
	Loss on foreign currency translation	<u>(5,338,553)</u>	<u>(6,211,980)</u>
		<u>1,204,060,906</u>	<u>860,293,220</u>
<b>8</b>	<b>COST OF SALES</b>	30.06.2004 Kshs.	30.06.2003 Kshs.
	Purchase of pyrethrins	(544,778,176)	(1,085,501,810)
	Processing and refining costs	(236,912,202)	(286,973,733)
	Crop production costs	(65,634,962)	(74,301,861)
	Scientific services costs	<u>(67,359,484)</u>	<u>(121,629,214)</u>
		<u>(914,684,824)</u>	<u>(1,568,406,618)</u>
	Increase in inventories of finished goods and work in progress	<u>105,073,654</u>	<u>643,163,851</u>
		<u>(809,611,170)</u>	<u>(925,242,767)</u>
<b>9</b>	<b>FINANCE COSTS</b>		
	The finance costs relate to interest charged on overdraft.		
<b>10</b>	<b>EXTRA - ORDINARY ITEMS</b>	30.06.2004 Kshs.	30.06.2003 Kshs.
	Fixed deposit	0	150,000,000
	Restructuring costs	<u>0</u>	<u>5,044,203</u>
		<u>0</u>	<u>155,044,203</u>

### Fixed Deposit

The Board invested Kshs. 150,000,000 in Euro Bank Limited on 17 October 2001. Euro Bank collapsed on 20 February 2003 without significant assets. The Board therefore decided to provide fully for it in 2002/2003.

### Restructuring costs

Relate to gratuity payments to employees whose contracts were terminated.

## 11 TAXATION

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

## 12 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).

## 13 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
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
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
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

} 15 months period  
3,527

} 15 months period  
4,912

} 15 months period  
6,256



# 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

} 21 months period  
6,218



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