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# TEA RESEARCH FOUNDATION OF KENYA



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## FINAL ACCOUNTS

## FOR THE YEAR

## ENDED 30<sup>TH</sup> JUNE 2006

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

**REPORT  
OF  
THE CONTROLLER  
AND AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF TEA  
RESEARCH FOUNDATION OF KENYA  
FOR THE YEAR ENDED 30 JUNE 2006**

# TEA RESEARCH FOUNDATION OF KENYA

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# TEA RESEARCH FOUNDATION OF KENYA

*(A COMPANY LIMITED BY GUARANTEE)*

## REPORT OF THE DIRECTORS

The Board of Directors is responsible for the preparation and presentation of the financial statements for the Foundation, and have presented their report together with the Accounts for the twelve months ended 31 June 2006.

## PRINCIPAL ACTIVITIES

The Foundation's mandate is "to promote research and investigate problems related to tea and such other matters and systems of husbandry as are associated with tea throughout Kenya including the productivity (yield), quality and suitability of land in relation to tea planting; and matters ancillary thereto".

## GENERAL

The Tea Research Foundation of Kenya (TRFK) was established in 1980 to replace the former Tea Research Institute of East Africa (TRIEA). Research focuses therefore on development of improved varieties, appropriate technologies for improvement of yield (quantity of green tea leaf and made tea per hectare) and quality. This is done through development of appropriate practices for tea production including breeding, variety selection, correct plant nutrition, optimal crop husbandry methods, crop physiological studies, control of major pests and diseases, manufacture, marketing and utilization of the finished product.

TRFK is incorporated as a Company limited by guarantee under the Companies Act (Cap 486) of the Republic of Kenya. The Foundation is a state corporation (parastatal) as per the State Corporations Act (Cap 446 section 2b(v)). The Foundation's activities are funded mainly (61.5%) by the Tea Board of Kenya through a cess levied on the basis of tea growing area and amount of made tea produced annually. The remaining (38.5%) of the expenditure is internally generated by the Foundation from its own tea estate, sale of planting material, advisory analytical services, sale of publications and other services.

The Research Director is the Chief Executive as provided by the Foundation's Memorandum and Articles of Association (1980) and the State Corporations Act (Cap 446). The Foundation has five departments namely Botany, Chemistry, Crop Environment, Plant Protection, and Field Advisory Services. It operates from its headquarters at Timbilil Estate in Kericho district and has a sub-station at Gaita in Kirinyaga district.

## TRFK VISION

The vision statement of the Foundation is "**improved and sustainable livelihoods and incomes for farmers in the tea industry through innovative research**"

## MISSION STATEMENT

The mission of the Foundation is to "**generate and disseminate, technologies and knowledge through innovative research, for improved production, processing, value adding and marketing of Kenyan tea while conserving the environment**"

## SUMMARY OF FINANCE RESULTS

Deficit for the period: Ksh.15,709,421.00

The Directors have transferred the deficit for the year to the Accumulated Fund in accordance with powers conferred on them by the Memorandum of Association.

### DIRECTORATE

In accordance with article 30, the Board of Directors consist of:-

- (a) **Chairman, Tea Board of Kenya**  
Mr. Nicholas Ng'ang'a

**Chief Executive/Managing Director, Tea Board of Kenya**  
Mr. Stephen. Nkanata Up to November 2005  
Mrs. Phrasiah Mwangi December 2005-June 2006

**Chairman, Kenya Tea Development Agency (KTDA)**  
Mr. Stephen M. M'Imanyara

**Managing Director, Kenya Tea Development Agency (KTDA)**  
Mr. Lerionka Tiampati

**The Permanent Secretary, Ministry of Agriculture**  
Mr. James Ongwae up to November 2005 alternate Mrs. Emily Gatuguta  
Dr. Romano M. Kiome from December 2005

**The Director of Land and Crop Development, Ministry of Agriculture**  
Mr. John K. A. Cheluget alternate Mrs. Emily Gatuguta

**Director, Kenya Agricultural Research Institute**  
Dr. Romano M. Kiome up to November 2005 alternate Mrs. Mary N. Wabule  
Dr. E. Mukhisira from December 2005

**The Director of Research, Tea Research Foundation of Kenya**  
Dr. Wilson K. Ronno

**Secretary to the Board**  
Dr. Wilson K. Ronno

- (b) **Three persons nominated by the Minister for Agriculture**  
Mr. Samuel Langat (Chairman of the Board)  
Mr. Sammy Chepkwony  
Mr. Jacton Inzai Kasavuli

**Nominated by the Kenya Tea Growers' Association (KTGA)**  
Mr. Solomon C. Koech alternate Mr. Titus K. Korir

The Directors listed under (a) are liable to retire by rotation but those listed under (b) shall retire at end of 3-year term after the year of their appointments, but shall be eligible for re-nomination.

BY ORDER OF THE BOARD

  
DR. W.K. RONNO  
DIRECTOR  
KERICHO.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES AND REPORT FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2006**

The State Corporations Act and the Kenya Companies Act requires the Directors to prepare financial statements each financial year, which give a true and fair view of the affairs of the Foundation and its surplus or deficit for the year. They also require the Directors to ensure the Foundation maintains proper accounting records, which discloses, with reasonable accuracy the financial position of the Foundation.

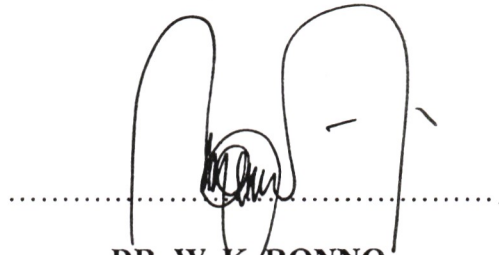
The Directors accept the responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of affairs of the Foundation as at 30<sup>th</sup> June 2006 and of its deficit for the year ended. The Directors further confirms the accuracy and completeness of the accounting records maintained by the Foundation, which have been relied upon in the preparation of the financial statements, as well as on the adequacy of systems of internal financial controls.

Nothing has come to the attention of the Directors to indicate that the Foundation will not remain a going concern for at least Twelve Months from the date of this statement.

This statement is approved by the Board and is signed on its behalf by:



**MR. S. K. CHEPKWONY**  
**CHAIRMAN – TRFK**



**DR. W. K. RONNO**  
**DIRECTOR - TRFK**



## **KENYA NATIONAL AUDIT OFFICE**

### **REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF TEA RESEARCH FOUNDATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2006**

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

#### **Respective Responsibilities of the Directors and the Controller and Auditor General**

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

#### **Basis of Opinion**

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

#### **1. Financial Performance**

As disclosed in note 8 to the financial statements the Foundation incurred a deficit of Kshs.15,709,421 during the year compared with previous year's deficit of Kshs.6,589,639 which mainly brought the accumulated Fund to a deficit balance of Kshs.1,144,776. In addition, the Foundation recorded negative working capital amounting to Kshs.10,399,877 down from a positive balance of Kshs.15,534,902 the previous year. The poor financial performance during the year was mainly attributed to reduced tea farm income and increased administrative and research expenses. Unless the trend is reversed, the Foundation will be unable to fulfil its mandate and to meet its financial obligations as and when they fall due.

## 2. Property Plant & Equipment

As pointed out previously, Property, Plant and Equipment balance exclude 20 acres of unvalued land at Kangaita Research Station for which the Foundation has not obtained title documents. The land is in a gazetted forest and cannot be owned or title issued in the name of the Foundation. In the absence of ownership documents for Kangaita Research Station, with investments in tea and buildings thereon valued at over Kshs.13,379,600, it is not possible to confirm the carrying value of the properties as reflected in the financial statements as at 30 June 2006.

### 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 affairs of the Foundation as at 30 June, 2006 and of its deficit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act (Cap 486 of the laws of Kenya).

  
**P. N. KOMORA**  
**CONTROLLER & AUDITOR GENERAL**

Nairobi

09 January 2007

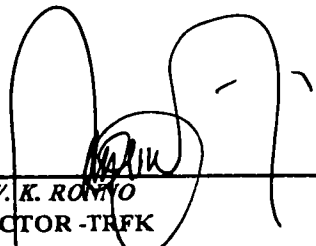


**THE TEA RESEARCH FOUNDATION OF KENYA**  
*(A COMPANY LIMITED BY GUARANTEE)*

**BALANCE SHEET AS AT 30TH JUNE 2006**

	Notes	2005/2006	2004/2005
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment	2	486,828,614	265,099,245
Investment Pension Fund	3	<u>864,569</u>	<u>864,569</u>
		<u>487,693,183</u>	<u>265,963,814</u>
 <b>CURRENT ASSETS</b>			
Inventories	4	1,293,019	1,455,073
Receivables & Prepayments	5	6,073,330	7,804,819
Bank & Cash balance	6	<u>3,961,634</u>	<u>16,724,197</u>
		<u>11,327,983</u>	<u>25,984,089</u>
 <b>CURRENT LIABILITIES</b>			
Payables & Accruals	7	21,727,860	10,449,187
		21,727,860	10,449,187
 <b>NET CURRENT ASSETS</b>			
		(10,399,877)	15,534,902
 <b>TOTAL NET ASSETS</b>			
		<u>477,293,306</u>	<u>281,498,716</u>
 <b>EQUITY:</b>			
Accumulated Fund	8	(1,144,776)	12,279,525
Revaluation Reserve	9	477,573,513	268,354,623
Pension Fund	10	<u>864,569</u>	<u>864,569</u>
		<u>477,293,306</u>	<u>281,498,717</u>

  
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**MR. S. CHEPKWONY**  
CHAIRMAN TRFK

  
\_\_\_\_\_  
**DR. W. K. ROTTO**  
DIRECTOR -TRFK

**THE TEA RESEARCH FOUNDATION OF KENYA**  
**(A COMPANY LIMITED BY GUARANTEE)**

**INCOME STATEMENT FOR THE YEAR ENDED 30TH JUNE 2006.**

INCOME	Notes	2005/2006	2004/2005
Contribution from TBK		82,781,925	67,033,949
Tea Farm Income	11	31,508,788	50,830,276
Other Operating Income	12	2,789,421	3,372,365
	<b>TOTAL</b>	<b>117,080,134</b>	<b>121,236,590</b>
<b>EXPENDITURE</b>			
Administrative expenses	13	54,668,605	44,723,458
Research and Development expenses	14	31,197,775	20,358,245
Tea Farm expenses	15	33,011,158	41,450,209
Other Operating expenses	16	13,443,698	10,009,113
	<b>TOTAL</b>	<b>132,321,236</b>	<b>116,541,025</b>
Depreciation of Fixed Assets	17	468,319	11,285,204
Grand Total		132,789,555	127,826,229
<b>SURPLUS (DEFICIT)</b>	18	<b>(15,709,421)</b>	<b>(6,589,639)</b>
<b>TRANSFERRED TO ACCUMULATED FUND</b>		<b>(15,709,421)</b>	<b>(6,589,639)</b>

**THE TEA RESEARCH FOUNDATION OF KENYA**  
**(A COMPANY LIMITED BY GUARANTEE)**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2006**

	Share Capital	Revaluation Reserves	Revenue Reserves	Total
	Ksh	Ksh	Ksh	Ksh
Balance as at 1st July 2004	-	270,657,757	16,795,690	287,453,447
Prior year adjustments	-	-	(229,655)	(229,655)
Revaluation on Disposed assets		(2,303,134)	2,303,134	-
Transfers to Reserves	-	-	(6,941,973)	(6,941,973)
<b>Balance as at 30th June 2005</b>	<b>-</b>	<b>268,354,623</b>	<b>11,927,191</b>	<b>280,281,814</b>
Balance as at 1st July 2005	-	268,354,623	11,927,191	280,281,814
Prior year adjustments			337,454	337,454
Revaluation of assets		208,010,976	-	208,010,976
Revaluation on Disposed assets		(2,300,000)	2,300,000	-
Transfers to Reserves	-	-	(15,709,421)	(15,424,066)
<b>Balance as at 30th June 2006</b>	<b>-</b>	<b>474,065,599</b>	<b>(1,144,776)</b>	<b>473,206,178</b>

The Foundation being a company Limited by gurantee by the Government of Kenya (GoK) does not have equity shares.

**THE TEA RESEARCH FOUNDATION OF KENYA**  
*(A COMPANY LIMITED BY GUARANTEE)*

**CASHFLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE 2006**

CASH FLOW FROM OPERATING ACTIVITIES:	2005/2006	2004/2005
	KSHS	
SURPLUS (DEFICT)	<u>(15,709,421)</u>	(6,589,639)
Adjustments for;		
Depreciation	-	
Gain on sale of fixed assets	(417,777)	
Prior year adjustment	-	
Investment income	(167,788)	
interest expense	-	9,634,161
<b>Operating surplus before working capital changes.</b>	<u>(16,294,986)</u>	<u>3,044,522</u>
(Increase)decrease in stocks	162,054	
(Increase)decrease in receivables	2,529,035	
Increase(decrease) in payables	8,370,949	(1,675,880)
<b>Cash generated from operations.</b>	<u>(5,232,948)</u>	<u>1,368,642</u>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		
Interest received	167,788	
Interest on bank overdraft	-	
Purchase of fixed assets	(8,400,534)	
Proceeds from sale of F/assets	417,777	
<b>Net cash used in investing activities</b>	<u>(7,814,969)</u>	<u>(1,553,840)</u>
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>		
Net increase(Decrease) in cash and cash equivalents	(13,047,917)	(185,198)
Cash and cash equivalents at the beginning of the period	16,724,197	16,909,395
Cash and cash equivalents at the end of the period	<u>3,961,634</u>	<u>16,724,197</u>
	<u>(12,762,563)</u>	<u>(185,198)</u>

**THE TEA RESEARCH FOUNDATION OF KENYA**  
(A COMPANY LIMITED BY GUARANTEE)

**NOTES TO THE ACCOUNTS**

**1. Accounting Policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below,

**a) Basis of preparation**

The financial statements are prepared under the historical cost convention as modified to include revaluation of assets

**b) Revenue Recognition**

Income is recognised on the accrual basis of accounting

**c) Retirement benefits**

The Foundation maintains a non-contributory pension scheme at 27.5% by the employer for the non-unionisable staff and a contributory scheme at 10% for the unionisable staff.

The Foundation contributes to a defined benefit scheme for the non-unionisable staff and a provident fund for the unionisable staff.

**d) Inventories valuation**

Inventories are valued at actual cost or net realisable value whichever is lower.

**e) Cash flow statement**

The cash flow statement is prepared to report cash flow during the period in accordance with the requirements of IAS 7.

**f) Investments**

The Foundation takes cognizance of the fact that currently it does not legally own the land that the investments in Kangaita are in. It therefore did not recognise the value of the land as part of its assets.

**g) Comparatives**

Comparative figures have been provided to conform to the changes in presentation as required by the International Accounting Standards.

**2. PROPERTY, PLANT & EQUIPMENT.**

Property, plant & equipment are stated at the cost/valuation less accumulated depreciation.

Depreciation is calculated on straight-line basis to write-off the cost in equal instalments over the anticipated useful life of the assets. Depreciation was not provided for in the year since assets were revalued at the end of the year.

The depreciation rates currently in use are as follows;

Buildings	2.5%
Furniture & Equipment	10%
Motor Vehicles	25%

	<u>Freehold Land and Buildings</u> <u>Kshs.</u>	<u>Machinery and Equipment</u> <u>Kshs.</u>	<u>Motor Vehicles</u> <u>Kshs.</u>	<u>Total</u> <u>Kshs.</u>
<b>COST/VALUATION</b>				
1st July 2005	299,554,708	80,367,987	21,852,464	402,610,350
Additions	-	8,805,524	1,873,273	10,678,797
Disposal			(2,300,000)	(2,300,000)
Revaluation	195,482,615	9,720,572	9,450,898	211,518,890
Disposal	(43,824,834)	(74,646,228)	(19,040,043)	(137,511,105)
As at 30th June 2005	<u>451,212,489</u>	<u>24,247,855</u>	<u>11,836,592</u>	<u>487,296,936</u>

<b>DEPRECIATION</b>				
1st July 2005	43,824,834	74,646,228	19,040,043	137,511,105
Disposal	(43,824,834)	(74,646,228)	(19,040,043)	(137,511,105)
Charge for the year	-	-	468,319	468,319
As at 30 June 2005	<u>-</u>	<u>-</u>	<u>468,319</u>	<u>468,319</u>

**NET BOOK VALUE**

30th June 2006	<u>451,212,489</u>	<u>24,247,855</u>	<u>11,368,273</u>	<u>486,828,617</u>
30th June 2005	<u>255,729,874</u>	<u>5,721,759</u>	<u>2,812,421</u>	<u>265,099,245</u>

### 3. INVESTMENT PENSION FUND

The Investment in Pension, ksh.864,569 is being held by Kenya National Assurance company currently under receivership. As at 30th June 2004 the total amount was ksh.5,180,336.

It is anticipated that the balance ksh.864,569 will be paid in due course. Before the company went under it was the Foundation's fund manager for its staff retirement fund currently managed by ICEA.

This is in line with RBA's requirement on management of Retirement Pension Fund.

### 4 INVENTORIES

The composition of Stock is as follows:

	2005/2006	2004/2005
-Printing & Stationery	77,427.89	92,487.01
-Estate Fuel Stock	352,204.53	260,801.00
-Estate Adm Stock	250,953.36	542,839.91
-Timbilil Estate Stock	612,433.62	558,945.00
	<u>1,293,019.40</u>	<u>1,455,072.92</u>

### 5 Receivables and prepayments in the year is made up as follows:

	2005/2006	2004/2005
- Staff and Trade receivables	4,220,529.30	5,962,796.00
- Other Receivables	2,124,510.60	1,842,022.00
-Provision for doubtful debts	(271,710.00)	
<b>Total</b>	<u>6,073,329.90</u>	<u>7,804,818.00</u>

A provision for bad and doubtful debts of 4% has been provided.

### 6 BANK & CASH BALANCES

The Foundation maintains Bank accounts both in Kericho (HQs) and Kerugoya (Kangaita Sub-station).

#### BANK & CASH BALANCE-KERICHO

	A/C NO.	2005/2006	2004/2005
BANK			
CO-OP.	-Capital Account	01130778100	-
CO-OP.	-Current Account (Main)	0113677810000	1,200,049.80
CO-OP.	-Timbilil Co-op A/C	0113677810001	1,874,459.85
KCB	- Wachirab Project	237-782-813	7,983.50
KCB	-Wotro Project	237-793-098	166,050.20
KCB	Current A/C	237-780-646	-
	-Consolidated Bank	0130060013600	294,540.50
	-Estate Petty cash		18,500.00
	-Petty cash - (Research)		515.00
	-M.C.B Cash control		211,091.80
			27,860.70
	<b>SUB -TOTAL</b>	<u>3,773,190.65</u>	<u>16,428,657.10</u>

#### BANK & CASH BALANCE-KANGAITA

	A/C NO.	2005/2006	2004/2005
BANK			
CO-OP	-Current Account	0113677810002	186,037.90
	-Petty Cash		1,545.50
	-Cash Control		860.00
			120.00
	<b>SUB -TOTAL</b>	<u>188,443.40</u>	<u>295,539.65</u>
	<b>GRAND TOTAL</b>	<u>3,961,634.05</u>	<u>16,724,196.75</u>

### 7 PAYABLES & ACCRUALS

Payables & Accruals for the year is made up as follows:

	2005/2006	2004/2005
- Trade creditors	17,720,976.97	8,070,424.48
- Other payables	4,006,883.34	2,378,762.60
<b>Total</b>	<u>21,727,860</u>	<u>10,449,187.08</u>

**8 ACCUMULATED FUND**

	2005/2006	2004/2005
1st July 2005	11,927,191	16,795,690
Transfer from revaluation reserve.	2,300,000	2,303,129
Surplus/Deficit from Revenue account	(15,709,421)	(6,589,639)
Prior year adjustments	337,454	(229,655)
	<u>(1,144,776)</u>	<u>12,279,525</u>

**9 REVALUATION RESERVES**

The assets of the Foundation were revalued in the year yielding a revaluation reserve of Ksh.474,065,599 .

**10 PENSION FUND**

Pension Fund Ksh. 864,569 is part of the accumulated reserve invested to meet future pension liabilities. The amount is held by the defunct Kenya National Assurance Company.

	2005/2006	2004/2005
<b>11 <u>Tea Farm Income</u></b>		
Sale of Green leaf	30,795,882	45,696,581
Sale of Planting Materials	169,896	3,802,355
Kangaita revenue	543,010	1,331,340
	<u>31,508,788</u>	<u>50,830,276</u>
<b>12 <u>Other operating Income</u></b>		
Sale of Publications	92,536	132,509
Laboratory Tests	797,310	887,490
Interest receivable	167,788	134,909
Miscellaneous Income	1,314,010	930,979
Disposal of assets	417,777	1,286,479
	<u>2,789,421</u>	<u>3,372,365</u>
<b>13 <u>Administrative expenses</u></b>		
Administration	9,701,203	7,687,342
Emoluments- Senior Staff	17,366,000	14,144,278
Emoluments- Junior Staff	13,664,986	12,003,471
Retirement Benefits (SS)	4,851,298	3,881,410
Retirement Benefits (JS)	1,171,888	1,141,941
House Allowance	158,400	158,400
Passagespaid-Local Leave	574,693	538,664
Medical	2,657,626	2,736,773
Board Expenses	4,522,511	2,431,180
	<u>54,668,605</u>	<u>44,723,458</u>

**14 Research & Development expenses**

Travelling (Duty)	6,898,224	5,367,536
Travelling - Acc/Subsistence	4,437,561	1,770,809
Training and Conference	3,597,654	2,512,416
Experiments	16,264,336	10,707,483
	<u>31,197,775</u>	<u>20,358,245</u>

**15 Estate expenses**

Estate Expenditure	33,011,158	38,387,929
	<u>33,011,158</u>	<u>38,387,929</u>

**16 Other Operating expenses**

Property upkeep	8,272,194	5,870,082
Elect. Water & Conservancy	3,282,536	2,909,113
Library	222,855	120,756
Publication	125,517	217,488
Primary School	327,384	312,691
Insurance	1,213,212	578,983
	<u>13,443,698</u>	<u>10,009,113</u>
<b>GRAND TOTAL</b>	<u>132,321,236</u>	<u>116,851,110</u>

**18 OPERATING SURPLUS BEFORE TAXATION**

The operating Surplus/deficit is arrived at after charging;	<b>2005/2006</b>	<b>2004/2005</b>
Audit Fees	250,000	250,000
Director's Remuneration	480,000	120,000
Depreciation of property, plant & equipment	468,319	11,285,204
And after crediting;		
Interest receivable	216,390	134,909

**19 TAXATION**

The Foundation is only liable to income Tax on dividends and interest receivable. These items are usually taxed at source.