KENYA FLUORSPAR COMPANY LIMITED

ANNUAL REPORT
30 JUNE 1987

INCORPORATED 18th OCTOBER, 1979

CONTENTS

CONTENTS	Page

BOARD OF DIRECTORS

J.K. Sambu (Chairman)
Managing Director, Kenya Railways
Permanent Secretary to the Treasury
Permanent Secretary to the Ministry of Industry
Permanent Secretary to the Ministry of Environment and Natural Resources
Industrial and Commercial Development Corporation

SECRETARY

E. Mpagi

REGISTERED OFFICE

International Life House
P.O. Box 59889
NAIROBI

BANKERS

National Bank of Kenya Limited
Harambee Avenue Branch
P.O. Box 41862
NAIROBI

Kenya Commercial Bank Limited
P.O. Box 560
ELDORET

AUDITORS

Coopers & Lybrand
P.O. Box 30158
NAIROBI

ADVOCATES

Kaplan & Stratton
Queensway House
P.O. Box 40111
NAIROBI

REPORT OF THE DIRECTORS

The directors present the audited accounts for the year ended 30th June 1987.

RESULTS

The results for the year are set out in the profit and loss account on page 8.

DIVIDENDS

The directors do not recommend the declaration of a dividend.

DIRECTORS

The names of the directors are set out on page 2.

AUDITORS

The Auditor - General (Corporations) has appointed M/s. Martin & Associates under Section 29 (2) (b) of the Exchequer and Audit (Amendment) Act, 1985 (Cap.412) to be the Authorised Auditors of the company for the financial year 1987/88.

The Directors take this opportunity to thank the out-going auditors, M/s. Coopers & Lybrand, for the excellent job they have done and the co-operation and assistance they have given to the company for the last 8 years.

BY ORDER OF THE BOARD

Secretary

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FINANCIAL RESULTS

I regret to report that during the company's past financial year 1986/87 the company made an operating loss of Shs.13.6 million. This time the combination of falling fluorspar prices, rising operating costs and a weak market proved too much for the company, and it made an operating loss in respect of a financial year for the first time since its incorporation in 1979.

SALES

The total tonnage of fluorspar sold during 1986/87 was 57,204 wet metric tonne (WMT) equivalent to 52,280 dry metric tonne (DMT), which constituted only 57% of the full production capacity of the company. Of this tonnage only 7 WMT were sold locally. The sales budget for 1986/87, which had anticipated sales of 75,000 tonne, was thus under-achieved by 24%.

The total value of sales was Shs.56,058,000 of which the net export earnings for the country amounted to US$3.5 million.

The average US dollar price per DMT of fluorspar FOB Mombasa which the company earned during the 1986/87 was $68.84 compared to $82.02 in 1985/86. There was thus a fall of 16%. Between January 1, 1983 and June 30, 1986 the adverse effects of the falling dollar price for fluorspar were not experienced by the company in their full severity because the fall in the dollar price for fluorspar was to some extent compensated by the increase in the value of US dollar in terms of Kenya shillings. For 1986/87, however, the average rate of exchange between the US dollar and the Kenya shilling which was applied on the company's exports was about the same as that for 1985/86. Consequently the company suffered the full severity of the 16% fall in the average price per DMT FOB Mombasa.

PRODUCTION

The company produced 51,097 WMT (46,568 DMT) of fluorspar at an average production cost of Shs.631.50 per DMT compared to Shs.559.95 per DMT in 1985/86. Thus the average cost of production per DMT rose by 13%. One of the important elements in this rise was the cost of electricity which was increased by 30% on January 1, 1987. Production cost per DMT had been budgeted at Shs.530, and something near this should have been achieved if the expected rate of output by the Concentrator had been maintained. The attempts to reduce phosphorus in our final product by the metallurgical techniques at our disposal, unfortunately, also reduced the recovery of the fluorspar concentrate from crude ore and consequently the rate of output. These attempts to reduce phosphorus (and thereby, hopefully, improve the marketability of our product) were carried on throughout 1986/87, with the result that the rate of output throughout the year was low. It took 10 months to produce the tonnage of fluorspar which should otherwise have been produced in 6 months, and it is doubtful that the results as far as the marketability of our product was concerned justified the additional costs which we incurred.

PROSPECTS

Given the level to which fluorspar prices have fallen (over 40% below 1982 prices), the chances of survival for the company will depend on the extent to which we will succeed in increasing the volume of sales and production and at the same time reduce overheads. A lot of effort is being made on these two fronts, and it is hoped that this will begin to bear fruit from 1988.

The company expects to sell 67,836 tonne of fluorspar during 1987/88, which is only 68% of the full production capacity of the company. What is required at this time, and what we are aiming at, is to produce and sell 100,000 tonne of fluorspar a year. Therefore, considerable work remains to be done on the sales front.

With regard to cost reduction, several measures have been taken, and others are in the process of being taken, during 1987/88 and it is expected that if these measures are all successfully implemented, the effect will be to reduce production costs and overheads by at least Shs.5 million a year below their 1986/87 level. I will mention the most important of these.

(1) It has been decided to abandon the costly process to reduce P2 05 in our product. This will make it possible for the rate of the concentrator's output to increase to 9,000 WMT of fluorspar per month and the averge production costs per DMT to be reduced from Shs.631.50 to about Shs.450. Simultaneously, we will concentrate our marketing efforts on potential customers who can accept fluorspar material with relatively high P2 05 content.

(2) The company has requested the Government that the Treasury loan of Shs.43 million be converted into share capital. This request is receiving consideration. If the conversion of the loan into equity is approved, this will save the company the cost of debt servicing averaging Shs.6.8 million a year for the next 10 years, including interest charges averaging Shs.2.5 million per year.

(3) Various measures have been introduced to reduce total wages and salaries by at least Shs.2 million (14%) a year below their 1986/87 level. If the fluorspar market and prices do not improve, the survival of the company may eventually necessitate more drastic action to reduce the payroll bill even further, including changes in terms of service.

RESERVES

The Board of Directors has not recommended any dividend out of the reserves. This is because the company expects to make another operating loss during 1987/88 and has to replace a bulldozer and traxcavator.

STAFF

There were several important staff changes during the 1986/87. In April 1987, the General Manager, Mr. Goeffrey Jones resigned to take up another appointment in Australia. For the following three months while we were looking for another General Manager, the company was run by a management committee consisting of the Heads of Department and myself.

CHAIRMAN'S STATEMENT (continued)

Mr. Benon Tamusange, Mining Manager, resigned in May 1987. He was replaced as Mining Manager by Mr. Michael Kabugu.

Mr. William Cheptoo was promoted to the post of Administration Manager.

Mr. Peter Muthiga was promoted to the post of Chief Accountant.

The number of employees on permanent terms of service went up by 33% during the year from an average of 416 in 1985/86 to an average of 552 because of the labour law requirement to confirm casual employees who have worked for long periods.

The company continued to have an excellent working relationship with Kenya Quarry and Miners Workers Union, to follow its policy of good relations at work, and to concern itself with the well-being and progress of all its employees.

Although we did not operate profitably as in the past years, I must extended thanks to the Management and staff of the company for the hard work they put in under very difficult circumstances.

CHAIRMAN

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REPORT OF THE AUDITOR-GENERAL (CORPORATIONS ON THE ACCOUNTS OF KENYA FLUORSPAR COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE, 1987

The Accounts of Kenya Fluorspar Company Limited for the year ended 30th June, 1987 have been examined on my behalf by the Company's authorized auditors in accordance with Section 29 (2) (b) of the Exchequer and Audit (Amendment) Act, 1985. The authorized auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations required for the purpose of the audit were obtained. Proper books of account have been kept by the Company and the accounts are in agreement therewith.

The Company's trading performance during the year 1986/87 was poor. It incurred an operating loss of Kshs.13,614,000.00 compared to a profit of Kshs.757,000.00 realized in the previous year. The future trading prospects of the Company are stated to be not bright particularly due to falling prices for fluorspar and increasing production costs. The accounts of the company for 1986/87 have, therefore, been prepared on a going concern basis which assumes that the Company will find markets to sell its projected fluorspar concentrate sales of 67,836 tonne in 1987/88 and that negotiations to convert the Treasury loan of Kshs.41,023,000.00 plus interest accrued and outstanding thereon of Kshs.2,158,712.50 into share capital will succeed.

In my opinion and subject to the above reservation, the accounts of the Company give a true and fair view of the state of affairs of the Company as at 30th June, 1987 and of its loss and source and application of funds for the year then ended.

A.J. OKOTH
AUDITOR-GENERAL (CORPORATIONS)

8th June, 1988

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1987

	Note	12 months to 30.6.1987 Shs'000	18 months to 30.6.1986 Shs'000
TURNOVER		56,058	99,870
OPERATING(LOSS)/PROFIT	2	(13,614)	757
TAXATION	3	1,361	2,441
(LOSS) FOR THE YEAR AFTER TAXATION		(14,975)	(1,684)

STATEMENT OF RETAINED PROFITS

1ST JULY 1986		42,044	63,728
CAPITALISATION OF RETAINED PROFITS	7	-	(20,000)
(LOSS) FOR THE YEAR		(14,975)	(1,684)
30TH JUNE 1987		27,069	42,044

Report of the auditors - page 7
Statement of source and application of funds - page 10
The notes on pages 11 to 15 form part of these accounts.

KENYA FLUORSPAR COMPANY LIMITED

BALANCE SHEET - 30TH JUNE 1987

	Note	30 June 1987 Shs'000	30 June 1986 Shs'000
FIXED ASSETS	4	19,512	25,702
CURRENT ASSETS			
Stocks	5	40,238	43,694
Debtors		15,926	20,958
Short term deposits		13,840	25,889
Bank balances and cash		16,741	2,436
		86,745	92,977
CURRENT LIABILITIES			
Creditors		14,344	8,650
Taxation		1,737	2,719
		16,081	11,369
NET CURRENT ASSETS		70,664	81,608
		90,176	107,310

Financed by:-

	Note	30 June 1987 Shs'000	30 June 1986 Shs'000
SHARE CAPITAL	6	20,000	20,000
RESERVES	7	29,153	44,128
SHAREHOLDERS' INTERESTS		49,153	64,128
LOAN CAPITAL	8	41,023	43,182
		90,176	107,310

....Director

....Director

Report of the auditors - page 7
Statement of source and application of funds - page 10
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STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	30 June 1987 Shs'000	30 June 1986 Shs'000
SOURCE OF FUNDS		
Operating profit	-	757
Adjustments for items not involving the movement of funds:-		
Depreciation	6,523	10,085
Profit on sale of fixed assets	(90)	(829)
Total generated from operations	6,433	10,013
Proceeds of sales:		
Fixed assets	90	908
Reductions in:		
Stocks	3,456	2,137
Debtors	5,032	-
Increase in creditors	5,694	4,742
Total from all sources	20,705	17,800
APPLICATION OF FUNDS		
Operating loss	13,614	-
Expenditure:		
Fixed assets	334	6,883
Tax paid	2,343	666
Decrease in loan capital	2,159	-
Increase in:		
Debtors	-	10,046
	18,450	17,595
	2,255	205
INCREASE/(DECREASE) IN LIQUID FUNDS		
Short term fixed deposits	(12,049)	7,809
Bank balances and cash	14,304	(7,604)
	2,255	205

Report of the auditors - page 7
The notes on pages 11 to 15 form part of these accounts.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The accounts are prepared in accordance with the historical cost convention. The following is a summary of the more important accounting policies used.

(a) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The annual rates used for this purpose are:-

Mining and exploration equipment	Actual hours worked
Loading, weighing and despatch equipment	5.0%
Plant, machinery and project development	10.0%
Communication equipment, furniture and fittings	12.5%
Lighting plant and generators, laboratory and building equipment	20.0%
Motor vehicles, earth moving equipment for roads, implements and tools	25.0%

(b) Stocks

Stocks are stated at the lower of cost and net realisable value. In general cost is determined on a first in, first out basis and includes transport and handling costs; in the case of manufactured products costs include all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation. Provision is made for obsolete, slow moving and defective stocks. Reagents and grinding media are written off at the time of purchase.

(c) Foreign currencies

Assets and liabilities expressed in foreign currencies, are translated to Kenya Shillings at the rates of exchange ruling at the year end.

(d) Export compensation

Export compensation income is accounted for on a receipts basis.

(e) Bad and doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

(f) Deferred taxation

Provision is made at the rate ruling at the year end for deferred taxation except in respect of taxation which can reasonably be expected to continue to be deferred for the foreseeable future.

NOTES TO THE ACCOUNTS - 30TH JUNE 1987 (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Sales

A sale is deemed to have been made once a loaded ship has sailed from Mbaraki Wharf, Mombasa.

(h) Turnover

Turnover of the company, which excludes sales tax and export rebates is the aggregate invoice value of goods and services and the sales value of deliveries made on contracts, estimated by reference to the total sales value of each contract.

2. OPERATING PROFIT

	30 June 1987 Shs'000	30 June 1986 Shs'000
This is stated after charging:		
Depreciation	6,524	10,085
Auditors' remuneration	204	214
Abnormal shut-down expenses (Note 10)	2,000	4,557
Consignment stock costs (Note 10)	1,846	-
and after crediting:		
Interest from fixed deposits	3,024	4,877
Export compensation	14,022	13,053

3. TAXATION

	30 June 1987 Shs'000	30 June 1986 Shs'000
On the operating profit for the period	1,361	2,441
	1,361	2,441

4. FIXED ASSETS

	Flotation Plant Shs'000	Earth Moving & Drilling Equipment Shs'000	Staff Houses and other Buildings Shs'000	Company Motor Vehicles Shs'000	Other Assets Shs'000	TOTAL Shs'000
Cost:						
1 July 1986	10,762	22,095	5,315	2,838	12,821	53,831
Additions	164	-	122	-	48	334
Transfers	2,406	(2,871)	240	-	225	-
30 June 1987	13,332	19,224	5,677	2,838	13,094	54,165
Depreciation:						
1 July 1986	6,798	13,303	2,040	1,355	4,633	28,129
Charge for the year	1,076	2,066	531	596	2,255	6,524
Transfers	-	(1,134)	-	-	1,134	-
30 June 1987	7,874	14,235	2,571	1,951	8,022	34,653
Net book value 30 June 1987	5,458	4,989	3,106	887	5,072	19,512
30 June 1986	3,964	8,792	3,275	1,483	8,188	25,702

5. STOCKS

	30 June 1987 Shs'000	30 June 1986 Shs'000
Fluorspar concentrate	17,613	20,598
Flotation plant spares and materials	13,619	13,386
General spares, materials and consumables	7,930	8,916
Laboratory stock	436	450
Goods in transit	640	344
	40,238	43,694

6. SHARE CAPITAL

	30 June 1987 Shs'000	30 June 1986 Shs'000
Ordinary shares of Shs.20 each:		
Authorised - 1,000,000 shares	20,000	20,000
Issued and fully paid	20,000	20,000

7. RESERVES

	Capital Shs'000	Retained Profits Shs'000	TOTAL Shs'000
1st July 1986	2,084	42,044	44,128
Loss for the year	-	(14,975)	(14,975)
30th June 1987	2,084	27,069	29,153

The capital reserve represents the excess of the book value of assets acquired from the receivers and managers of Fluorspar Company of Kenya Limited over the amount paid.

8. LOAN CAPITAL

	Repayable	30 June 1987 Shs'000	30 June 1986 Shs'000
Unsecured 8% loan	1988/98	41,023	43,182

The Government finance was converted into 8% loan capital from 1st January 1986. The principal is repayable in 20 equal half yearly instalments from 30th June 1988.

NOTES TO THE ACCOUNTS - 30TH JUNE 1987 (continued)

9. CAPITAL COMMITMENTS

	30 June 1987 Shs'000	30 June 1986 Shs'000
Approved by the board of directors but not contracted for	6,950	7,900

10. EXCEPTIONAL ITEMS

Abnormal shut-down expenses relate to the production overheads which are incurred while the mining and/or the concentrator production operations are closed for lack of sales.

The consignment stock costs relate to goods held on consignment at 1 July 1986. The costs were incurred in order to meet the conditions of potential buyers.

11. DIRECTORS' EMOLUMENTS

	30 June 1987 Shs'000	30 June 1986 Shs'000
As directors	60	215

Report of the auditors - page 7.

DETAILED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1987

	12 months to 30.6.1987 Shs'000	18 months to 30.6.1986 Shs'000
SALES	56,058	99,870
COST OF SALES		
Opening stock	20,598	20,332
Mill operating costs	29,407	41,253
Carriage, freight and handling expenses	24,642	34,321
Closing stock	(17,612)	(20,598)
	57,035	75,308
GROSS(LOSS)/PROFIT	(977)	24,562
ADD:		
Export compensation	14,022	13,053
Miscellaneous income	4,558	6,563
	17,603	44,178
LESS:		
Selling expenses	4,332	4,900
Administration expenses	8,465	13,040
Service department expenses	9,411	13,532
Road maintenance expenses	849	1,978
Finance expenses	3,702	2,066
Amortisation of development expenditure	2,458	3,311
Abnormal shut-down expenses	2,000	4,557
Undistributed workshop costs	-	37
	31,217	43,421
NET OPERATING(LOSS)/PROFIT	(13,614)	757

MILL OPERATING COSTS

	12 months to 30.6.1987 Shs'000	18 months to 30.6.1986 Shs'000
Acid grade mining - production	10,125	11,040
Diamond Drilling	202	-
Laboratory operating costs	820	2,018
Production overheads	1,265	2,100
Crushing and fine ore	4,034	5,463
Grinding	1,543	4,694
Boiler house	41	53
Thickening and filtering	501	645
Flotation	2,581	5,052
Water supply and treatment	337	860
Pollution and effluent control	498	683
Power supply	6,054	7,212
Mill maintenance overheads	1,405	1,433
	29,406	41,253

CARRIAGE, FREIGHT AND HANDLING EXPENSES

Transport and handling expenses	24,642	34,321

SELLING EXPENSES

Sales commission	4,332	4,900
	4,332	4,900

ADMINISTRATION EXPENSES

Audit fees	204	214
Provision for obsolete stocks	155	1,270
Personnel	1,179	1,220
Accounts	1,060	1,738
Stores	1,444	2,300
Administration overheads	3,711	5,326
Legal and professional charges	22	20
Nairobi office	690	952
	8,465	13,040

SERVICE DEPARTMENT EXPENSES

Security	1,497	2,056
Safety and fire	117	221
Building repairs and maintenance	2,210	4,532
Medical	2,119	2,870
General welfare	2,528	2,601
Schools	940	1,252
	9,411	13,532

FINANCE EXPENSES

Interest on loan capital	3,456	1,728
Bank charges	246	338
	3,702	2,066