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KENYA FLUORSPAR COMPANY LIMITED

ANNUAL REPORT 30 JUNE 1988

INCORPORATED 18th OCTOBER, 1979

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA FLOURSPAR COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE, 1988

CONTENTS

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
Kipkurui Orgut

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

MARTIN AND ASSOCIATES
P.o. Box 46091
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 1988.

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) 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 are awaiting appointment by the Auditor - General (Corporations) of the Authorised Auditors of the Company for the financial year 1988/89.

BY ORDER OF THE BOARD

Secretary

17/11/1988

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

I regret to report that during 1987/88 the Company made the substantial operating loss of Shs 18.9 million. This is the second financial year we have operated at a loss since we started operations in 1979. The loss was about 50% more than we had anticipated in our budgets for the year. As expected, an important reason for the loss was that the actual tonnage of fluorspar we were able to find a market for and export was considerably lower than the volume which was required for the Company to break even at the prices for fluorspar that prevailed during the year. We believe that this problem of the market has been a temporary one while we have been looking for new customers to replace Sojuzpromexport of U.S.S.R. who used to take about 84% of our sales during 1981 - 1985 and whom we lost in 1985. We are progressing well in filling the big gap which Sojuzpromexport left as can easily be seen by comparing this year's sales with last year's. We expect that during next year we will achieve full replacement of the Russians, operate at full capacity, and start making profits again.

SALES

The total tonnage of fluorspar sold during 1987/88 was 66,105 wet metric tonne (WMT) equivalent to 59,956 dry metric tonne (DMT), which constituted 66% of the full production capacity of the Company. This should be compared to last year's turnover of 57,204 WMT (52,280 DMT) which constituted only 57% of the production capacity of the Company. Of the tonnage sold during 1987/88, 770 WMT were sold locally, compared to 7 WMT in the previous year. The sales budget for 1987/88, which had anticipated sales of 67,836 tonne, was thus under-achieved by only 2.56%.

The total value of sales was KShs 69,379,000/= of which the export earnings for the country amounted to US $ 4 million, compared to US $ 3.5 million in the preceeding year.

The average US dollar price per DMT of fluorspar FOB Mombasa which the Company earned during 1987/88 was $ 67.55 compared to $ 68.84 in 1986/87. However this fall in average price was compensated for by the weakening of the Kenya Shilling against the US dollar.

EXPORT COMPENSATION

I regret to say that the processing of the Company's export compensation claims through the Central Bank of Kenya and the Customs & Excise Department continued to take far too long in most cases. As export compensation constitutes 20% of the Company's income, excessive delay in the processing of the claims has serious adverse repercussions on the Company's cash flow and, consequently, on the smooth running of its operations. I can see no reason why export compensation should not be invariably received within three months of the submission of the claim after the full export proceeds have been received. Although there was some improvement during 1987/88 in the average time it took to process claims compared to previous years, we still had by the end of the year several claims for export compensation which had been outstanding for more than twelve months.

CHAIRMAN'S STATEMENT (continued)

PRODUCTION

The Company produced 74,536 WMT (67,351 DMT) of fluorspar at an average production cost of Shs 532/50 per DMT. This should be compared to a production volume of 51,097 WMT (46,568 DMT) at an average production cost of Shs 614/35 per DMT achieved during the previous year. Thus the average cost of production per DMT fell by about 13% chiefly due to the fact that the volume of production increased by 45%.

PROSPECTS

Proven ore reserves as at June 30, 1988 were about 4.7 million tonne. Full capacity operation by the Company requires mining about 300,000 tonne of crude ore a year. This means that there is enough ore to last at least another 15 years.

However, the mining of that ore is what is going to become increasingly costly. Within one year or so problems of waste disposal will begin to emerge, and we estimate that we will require at least three large dump trucks at a cost of about Shs 10.5 million to move the waste. The removal and haulage of new and old waste to another locality away from the area where mining is taking place is going to increase mining production costs very significantly.

It is estimated that the proven ore above the valley floor (about 1,032,107 tonne as at June 30, 1988) will last about 3 years. After that it will be necessary to dig a large pit in order to mine any more ore. Pit mining will take mining costs to a still higher level than ever before, partly because of the need to drain the pit during the rainy seasons, and partly because a much higher volume of waste per tonne of crude ore will have to be removed and hauled away. The deeper the pit develops the more costly mining production will become.

It is also envisaged that several of our most costly earthmoving plant and machinery will require replacement during the coming three years. In fact the cost of the total capital expenditure programme for the 3 years July 1988 to June 1991 has been forecast at Shs 69.5 million. To finance this we will require new equity and/or new loan capital to supplement the Company's internally generated funds. Exactly how much new funds will be required from sources external to the Company will depend on whether or not the Government will be willing either to convert the Treasury Loan of Shs 43 million to the Company into equity or to give the Company a fairly long moratorium in respect of that loan.

With regard to the fluorspar market, some improvement appears to be taking place. Prices and demand have started to rise. We expect that during 1988/89 we will sell 96,000 WMT (about 86,400 DMT) at an average price of US $ 70 per DMT FOB Mombasa. We expect to make a good profit during the year. We also believe that prices will continue to improve above that level, and that we will be able to operate almost at full capacity for at least the next two or three years.

RESERVES

The Board of Directors has not recommended any dividend. This is because of the anticipated heavy capital expenditure mentioned above.

CHAIRMAN'S STATEMENT (continued)

STAFF

There were few important staff charges during 1987/88.

Mr. Okumu Makori joined the Company in March 1988 as Mine Planning Engineer.

Mr. Luka Birir was promoted to Assistant administration Manager in May, 1988.

Mr. T. Mereng took over as Chief Chemist in June 1988.

The number of employees on permanent/contract terms of service dropped from an average of 552 in 1986/87 to an average of 542 in 1987/88.

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, I must extend thanks to the Management and staff of the company for the hard work they put in under difficult circumstances.

CHAIRMAN

17-11-88

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA FLOURSPAR COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE, 1988

The Accounts of Kenya Flourspar Company Limited for the year ended 30th June, 1988 have been examined on my behalf by the Company's authorized auditors in accordance with Section 29 (2) (b) of the Exchequer and Audit Act, (Cap 412). 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.

As for the previous year, the Company's trading performance during the year under review was again poor in that the Company incurred an operating loss of Kshs.18,909,900.00 compared to the loss of Kshs.13,614,000.00 realized in the previous year. As stated in my previous report, the future trading prospects of the Company are not bright particularly due to uncertain markets for flourspar and increasing production cost. The accounts of the Company for 1987/88 have, therefore, been prepared on a going concern basis which assumes that the Company will find market to sell its projected flourspar concentrate sales of 96,000 tonnes in 1988/89 and that negotiations to convert the Treasury loan of Kshs.43,181,732.00 plus accrued interest thereon of Kshs.6,912,720.00 into share capital will succeed even though Treasury has already indicated its unwillingness to accept the conversion of the loan into equity capital.

In my opinion, except for the reservation set out in the preceding paragraph, the accounts of the Company give a true and fair view of the state of affairs of the Company as at 30th June, 1988 and of its loss and source and application of funds for the year then ended.

A. J. OKOTH
AUDITOR-GENERAL (CORPORATIONS)

23rd February, 1989

KENYA FLUORSPAR COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1988

	Note	30 June 1988 Shs'000	30 June 1987 Shs'000
TURNOVER		69,379	56,058
OPERATING(LOSS)/PROFIT	2	(18909)	(13614)
TAXATION	3	479	1361
(LOSS) FOR THE YEAR AFTER TAXATION		(19388)	(14975)

STATEMENT OF RETAINED PROFITS

1ST JULY 1987	27069	42044
(LOSS) FOR THE YEAR	(19388)	(14975)
30TH JUNE 1988	7681	27069

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

BALANCE SHEET - 30TH JUNE 1988

	Note	30 June 1988 Shs'000	30 June 1987 Shs'000
FIXED ASSETS	4	22222	19512
CURRENT ASSETS			
Stocks	5	48144	40238
Debtors		11009	15926
Short term deposits		8955	13840
Bank balances and cash		4487	16741
		72595	86745
CURRENT LIABILITIES			
Creditors		26245	14344
Taxation		2102	1737
		28347	16081
NET CURRENT ASSETS		44248	70664
		66470	90176
Financed by:-			
SHARE CAPITAL	6	20000	20000
RESERVES	7	9765	29153
SHAREHOLDERS' INTEREST		29765	49153
LOAN CAPITAL	8	36705	41023
		66470	90176

.... Director

.... Director

Report of the auditors - page 7
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STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	30 June 1988 Shs'000	30 June 1987 Shs'000
SOURCE OF FUNDS		
Operating Profit	-	-
Adjustments for items not involving the movement of funds:-		
Depreciation	7877	6523
Profit on sale of fixed assets	(77)	(90)
Total generated from operatings	7800	6433
Proceeds of sales:		
Fixed assets	85	90
Reductions in:		
Stocks	-	3456
Debtors	4917	5032
Increase in creditors	11901	5694
Total from all sources	24703	20705
APPLICATION OF FUNDS		
Operating loss	18908	13614
Expenditure:		
Fixed assets	10594	334
Tax paid	115	2343
Decrease in loan capital	4313	2159
Increase in:		
Stocks	7906	-
	41842	18450
	(17139)	2255
INCREASE/(DECREASE) IN LIQUID FUNDS		
Short term fixed deposits	(4885)	(12049)
Bank balances and cash	(12254)	14304
	(17139)	2255

NOTES TO THE ACCOUNTS - 30TH JUNE 1988

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%
Tailings dams	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 1988 (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.

	30 June 1988 Shs 000's	30 June 1987 Shs 000's
2. OPERATING PROFIT		
This is stated after charging:		
Depreciation	7877	6524
Auditors' remuneration	150	204
Abnormal shut-down expenses (Note 10)	1808	2000
Consignment stock costs (Note 10)	-	1846
Interest on Treasury Loan	3456	3456
Interest on Lease Hire	892	-
Directors' emoluments	75	60
and after crediting:		
Interest from fixed deposits	1064	3024
Export compensation	7310	14022

3. TAXATION

	30 June 1988 Shs 000's	30 June 1987 Shs 000's
On the operating profit for the period	479	1361
	479	1361

NOTES TO THE ACCOUNTS - 30TH JUNE 1988

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 1987	13,332	19,224	5,677	2,838	13,094	54,165
Additions	-	9,903	-	389	302	10,594
Disposals	-	-	-	(67)	(20)	(87)
30 June 1988	13,332	29,127	5,677	3,160	13,376	64,672
Depreciation:						
1 July 1987	7,874	14,235	2,571	1,951	8,022	34,653
Charge for the year	1,333	3,192	567	538	2,245	7,875
Disposals	-	-	-	(67)	(11)	(78)
30 June 1988	9,207	17,427	3,138	2,422	10,256	42,450
Net book value 30 June 1988	4,125	11,700	2,539	738	3,120	22,222
30 June 1987	5,458	4,989	3,106	887	5,072	19,512

5. STOCKS

	30 June 1988 Shs'000	30 June 1987 Shs'000
Fluorspar concentrate	24,563	17,613
Flotation plant spares and materials	13,003	13,619
General spares, materials and consumables	8,651	7,930
Laboratory stock	338	436
Goods in transit	1,589	640
	48,144	40,238

NOTES TO THE ACCOUNTS - 30TH JUNE 1988 (continued)

6. SHARE CAPITAL

	30 June 1988 Shs'000	30 June 1987 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 1987	2,084	27,069	29,128
Loss for the year	-	(19,388)	(19,388)
30th June 1988	2,084	7,681	9,765

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 1988 Shs'000	30 June 1987 Shs'000
Unsecured 8% loan	1989/98	36,705	41,023

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

NOTES TO THE ACCOUNTS - 30TH JUNE 1988 (continued)

9. CAPITAL COMMITMENTS

	30 June 1988 Shs 000's	30 June 1988 Shs 000's
Approved by the board of directors but not contracted for	11,783	6,950

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 1987. The costs were incurred in order to meet the conditions of potential buyers.

DETAILED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1988

	30 June 1988 Shs'000	30 June 1987 Shs'000
SALES	69379	56058
COST OF SALES		
Opening stock	17612	20598
Mill operating costs	41375	29407
Carriage, freight and handling expenses	32831	24642
Losing stock	(24563)	(17612)
	67255	57035
GROSS(LOSS)/PROFIT	2124	(977)
ADD:		
Export compensation	7310	14022
Miscellaneous income	3750	4558
	13184	17603
LESS:		
Selling expenses	3497	4332
Administration expenses	9304	8465
Service department expenses	8671	9411
Road maintenance expenses	1427	849
Finance expenses	4891	3702
Amortisation of development expenditure	2495	2458
Abnormal shut-down expenses	1808	2000
	32093	31217
NET OPERATING(LOSS)PROFIT	(18909)	(13614)

MILL OPERATING COSTS

	30 June 1988 Shs'000	30 June 1987 Shs'000
Acid grade mining - production	12517	10125
Diamond Drilling	130	202
Laboratory operating costs	880	820
Production overheads	1246	1265
Crushing and fine ore	4266	4034
Grinding	7307	1543
Boiler house	170	41
Thickening and filtering	1182	501
Flotation	2943	2581
Water supply and treatment	311	337
Pollution and effluent control	715	498
Power supply	8309	6054
Mill maintenance overheads	1399	1405
	41375	29406

CARRIAGE, FREIGHT AND HANDLING EXPENSES

Transport and handling expenses	32831	24642

SELLING EXPENSES

Sales commission	3029	2666
Other expenses	468	1666
	3497	4332

ADMINISTRATION EXPENSES

Audit fees	150	204
Provision for obsolete stocks	-	155
Personnel	1068	1179
Accounts	1196	1060
Stores	1480	1444
Administration overheads	4699	3711
Legal and professional charges	11	22
Nairobi office	700	690
	9304	8465

SERVICE DEPARTMENT EXPENSES

Security	1261	1497
Safety and fire	108	117
Building repairs and maintenance	2564	2210
Medical	1900	2119
General welfare	1698	2528
School	1140	940
	8671	9411

FINANCE EXPENSES

Interest on loan capital	3456	3456
Band charges	543	246
Lease Hire interest	892	-
	4891	3702