Library

KENYA FLUORSPAR COMPANY LIMITED

R E P O R T

FOR THE AUDITOR-GENERAL (CORPORATIONS)
ON THE ACCOUNTS OF
KENYA FLUORSPAR COMPANY LIMITED
FOR THE YEAR ENDING
30TH JUNE, 1989

INCORPORATED 18th OCTOBER, 1979

CONTENTS

BOARD OF DIRECTORS

J.K. Sambu (Chairman)
Executive Chairman 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

P. Muthiga

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
NARIOBI

REPORT OF THE DIRECTORS

The directors present the audited accounts for the year ended 30th June 1989.

RESULTS

The results for the year are set out in the profit and loss account on page 9.

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 1988/89. The Auditor-General (Corporations) will directly conduct the audit of the Company for the financial year 1989/90.

BY ORDER OF THE BOARD

Secretary

Date. 13 . 2 . 1990 .....

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

I am pleased to report that during the year 1988/89, the Company made a remarkable profit of Shs 8.135 million. This is a significant improvement compared to a loss of Shs 18.9 million suffered in the previous year. The commendable performance this year, breaks the loss-making trend which started three years ago.

The main factors which contributed to the good performance are, improved sales in volume and price, the depreciation of the Kenya Shilling against the US dollar, improved processing of export compensation which forms a substantial part of the Company's income and enhanced production efficiency in the Mine and the Mill operations.

As you may recall, KFC faced a serious marketing problem from 1985 when Sojuzpromexport of USSR terminated the 5 years contract and declined to buy any more Fluorspar from KFC. In the event KFC abruptly lost 84% of its market. It was a challenging task thereon, for KFC to try and replace the Russian market, a mission today well accomplished. Alternative customers have been established in the west Europe, USA, Japan and the far east. It is with this new clientele that KFC has managed to improve the volume of sales and also negotiate better prices. Besides, the demand of Fluorspar in the world market has been slowly rising for the last two years and the trend is likely to continue for the next few years. Consequent to the slow but steady rise in demand, world market prices continue to gradually rise.

During the year under review, KFC sold 104,068 wet metric tonne (WMT) of Fluorspar, equivalent to 93509 dry metric tonne (DMT). This compares favourably to 66105 WMT (59956 DMT) sold in the preceding year. Based on DMT, this is a solid 56% improvement. The 1988/89 sales budget of 96,000 WMT (86,400 DMT) was also over-achieved by 9%. The local sales of 1403 WMT contributed 1.3% of the sales volume and 2% in value.

From the total sales turnover of Shs 123.625 million, the country earned foreign exchange amounting to over US $ 6.4 million compared to US $ 4 million earned in the previous year.

The average US dollar price per DMT of Fluorspar FOB Mombasa which the Company earned during 1988/89 was $ 70.57, compared to $ 67.55 earned in the previous year. This is a 4.5% improvement.

As indicated above, KFC sales are priced in dollars. Therefore, as a result of the continuing depreciation of the Kenya Shilling against the US dollar, KFC has realised an exchange gain of Shs 2.7 million in 1988/89 which is a significant part of the total income.

I am pleased to note that there has been improvement in processing of export compensation through the Central Bank of Kenya and the Customs and Excise Department. In absolute terms, in 1988/89 KFC received a total of Shs 21.13 million compared to Shs 7.31 million received in previous year. It should be noted that the increase is not only a reflection of higher turnover achieved in 1989, but also the result of improvement in processing the compensation claims.

CHAIRMAN'S STATEMENT (continued)

As I pointed out last year, the export compensation constitutes 20% of the Company's income and excessive delay in processing the claims has serious adverse repercussions on the Company's cash flow and consequently on the smooth running of its operations.

Recently, the government made several staff changes in Customs and Excise Department and we can only hope that these changes will bring more efficiency in the Department which will finally quicken among other things, the processing of the export compensation claims.

During the year, the Company produced 108592 WMT (95181 DMT) of Fluorspar at an average production cost of Shs 573.85 per DMT. This compares with the production volume of 74,536 WMT (67351 DMT) and an average production cost of Shs 614.30 per DMT achieved in the previous year. The cost of inputs increased by an average of 15%, but the effect of the increase on the cost of production per tonne was more than offset by results of the higher economies of scale achieved during the year by increasing the production volume by 30% over that of previous year.

PROSPECTS

For the last two years the Fluorspar market in the world has been buoyant and characterised by a slow but steady rising demand and price. This market trend is expected to continue for the coming year, after which a period of uncertainty is envisaged until the effects of the removal of the trade restrictions within the E.E.C. in 1992 are understood.

Having obtained a sizeable market and also taking into account the encouraging world market conditions, KFC wants to adopt a marketing strategy of selling to the customers in advantageous locations. In other words, other factors being equal, KFC will benefit greatly by selling its product to customers within the closest locations thereby reducing the freight and other shipping costs. Consequently the market in India, Sri Lanka, United Arab Emirates, Australia and other far east countries have to be exploited in full.

In the wake of examining future marketing strategy, KFC cannot forget the great lesson learnt in 1985 when it abruptly lost the Russian market which used to absorb 84% of KFC's sales. To ensure that this hopeless situation where one customer dominates KFC market will never recur, KFC has adopted a policy that in future no one single customer will be allowed to take more than 25% to 30% of KFC's product.

As you will remember, the phosphorous impurity in our product limits the scope of our market. It is pleasing to note that at times of an improved worldwide market, our customers are prepared to accept the higher level of phosphorous in our product, provided we do not demand the same price as phosphorous-free material. Moreover, the Company has managed to locate several new customers whose processes are not so sensitive to our high levels of phosphorous.

In my report last year, I pointed out that the proven and probable ore reserve would last the Company 15 years. Whether or not the life of Company can be extended to 15 years depends on whether it would be feasible and economical to mine this ore.

CHAIRMAN'S STATEMENT (continued)

It is evident that cost of mining is rising fast. Firstly, the mine has reached a stage where new and old waste have to be hauled away from the mine. Three dump trucks and a face shovel which will cost the Company Shs 30 million will be required to remove the waste overburden and allow the formation of an open-pit. Besides this capital expenditure other equipment running costs will be incurred. Secondly, it is estimated that in two years time the ore above the ground level will be exhausted and thereafter the Company has to extract the ore under the ground by digging a large pit. Due to complex nature of pit mining the cost of extracting the ore would move even higher. Our future therefore depends on the price of fluorspar rising at the same or greater rate than our costs.

RESERVES

The Board of Directors do not recommend any dividend. This is because within the next three years the Company has a heavy capital expenditure programme to meet.

STAFF

There were several important staff changes during the year 1988/89.

Mr. Norman Wilson joined the Company in July 1988 as the Metallurgical Superintendent, in prepartion for taking over the post of Resident Manager at the mine site.

Mr. Bhupa Patel, Materials Engineer, resigned from the Company in February 1989. He was replaced by Mr. Mark Willets in May 1989.

Mr. Edward Mpagi, Financial Controller, resigned from the Company in March 1989. He was replaced by Mr. Peter Muthiga.

Mr. Hesbon Ojwang joined the Company in April 1989 as the Assistant Chief Accountant.

Mr. John Kamau was promoted to the position of Concentrator Plant Engineer in September 1988.

Mr. Joseph Lekake was promoted to the position of Assistant Concentrator Superintendent in November 1988.

The number of employees on permanent/contract terms of service dropped from an average of 542 in 1987/88 to an average of 533 in 1988/89.

The Company continued to have an excellent working relationship with Kenya Quarry and Mine 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.

CHAIRMAN'S STATEMENT (continued)

Finally, on behalf of the Board, I would like to thank the Management and the entire staff of the Company for their excellent and devoted performance which has resulted a return to a profitable and successful year of operation in 1988/89.

CHAIRMAN

DATE ...13-2.90......

REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF KENYA FLOURSPAR COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 1989

The accounts of Kenya Flourspar Company Limited for the year ended 30 June, 1989 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 reported to me the results of the 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 and the accounts which have been prepared under the historical cost convention are in agreement therewith and comply with the Companies Act.

In my opinion, the accounts, when read together with the notes thereon, present a true and fair view of the state of affairs of the Company as at 30 June, 1989 and of its profit and source and application of funds for the year then ended.

A. J. OKOTH
AUDITOR-GENERAL (CORPORATIONS)

20th March, 1990

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30TH 1989

	Note	30 June 1989 Shs'000	30 June 1988 Shs'000
TURNOVER		123625	69379
OPERATING PROFIT/(LOSS)	2	8135	(18909)
TAXATION	3	-	479
PROFIT(LOSS) FOR THE YEAR AFTER TAXATION		8135	(19388)

STATEMENT OF RETAINED PROFITS

1ST JULY 1988	7681	27069
PROFIT/(LOSS) FOR THE YEAR	8135	(19388)
30TH JUNE 1989	15816	7681

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Statement of source and application of funds - page 11
The notes on pages 12 to 16 form part of these accounts

BALANCE SHEET - 30TH JUNE 1989

	Note	30 June 1989 Shs'000	30 June 1988 Shs'000
FIXED ASSETS	4	23813	22222
CURRENT ASSETS			
Stocks	5	52936	48144
Debtors		19823	11009
Short term deposits		11908	8955
Bank balances and cash		6476	4487
		91143	72595
CURRENT LIABILITIES			
Creditors		42707	26245
Taxation		1962	2102
		44669	28347
NET CURRENT ASSETS		46474	44248
		70287	66470
Financed by:-			
SHARE CAPITAL	6	20000	20000
RESERVES	7	17900	9765
SHAREHOLDERS' INTEREST		37900	29765
LOAN CAPITAL	8	32387	36705
		70287	66470

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STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	30 June 1989 Shs'000	30 June 1988 Shs'000
SOURCE OF FUNDS		
Operating Profit	8135	-
Adjustments for items not involving the movement of funds:-		
Depreciation	8435	7877
Profit on sale of fixed assets	(116)	(77)
Total generated from operations	16454	7800
Proceeds of sales of fixed assets	123	85
Reduction in debtors	-	4917
Increase in creditors	16462	11901
Total from all sources	33039	24703
APPLICATION OF FUNDS		
Operating loss	-	18908
Expenditure:		
Fixed assets	10033	10594
Tax paid	140	115
Decrease in loan capital	4318	4318
Increase in:		
Stocks	4792	7906
Debtors	8814	-
	28097	41842
	4942	(17139)
INCREASE/(DECREASE) IN LIQUID FUNDS		
Short term fixed deposits	2953	(4885)
Bank balances and cash	1989	(12254)
	4942	(17139)

Report of the auditors - page 8
The notes on pages 12 to 16 form part of these accounts.

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS - 30TH JUNE 1989

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 1989 (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 1989 Shs'000	30 June 1988 Shs'000
2. OPERATING PROFIT		
This is stated after charging:		
Depreciation	8435	7877
Auditors' remuneration	187	150
Abnormal shut-down expenses (Note 10)	-	1808
Interest on Treasury Loan	3434	3456
Interest on Lease Hire	-	892
Directors' emoluments	69	75
and after crediting:		
Interest from fixed deposits	1361	1064
Export Compensation	21127	7310

3. TAXATION

On the operating profit for the period	-	479
	-	479

NOTES TO THE ACCOUNTS - 30TH JUNE 1989

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 1988	13332	29127	5677	3160	13376	64672
Additions	-	7307	-	345	2381	10033
Disposals	-	-	-	(170)	(64)	(234)
30 June 1989	13332	36434	5677	3335	15693	74471
Depreciation:						
1 July 1988	9207	17427	3138	2422	10256	42450
Charge for the year	1333	4188	568	445	1901	8435
Disposals	-	-	-	(170)	(57)	(227)
30 June 1989	10540	21615	3706	2697	12100	50658
Net book value 30 June 1989	2792	14819	1971	638	3593	23813
30 June 1988	4125	11700	2539	738	3120	22222

5. STOCKS

	30 June 1989 Shs'000	30 June 1988 Shs'000
Fluorspar Concentrate	22552	24563
Flotation Plant spares and materials	14608	13003
General spares, materials and consumables	11481	8651
Laboratory stock	418	338
Goods in transit	3877	1589
	52936	48144

NOTES TO THE ACCOUNTS - 30TH JUNE 1989 (continued)

6. SHARE CAPITAL

	30 June 1989 Shs'000	30 June 1988 Shs'000
Ordinary shares of Shs 20 each: Authorised - 1,000,000 shares	20000	20000
Issued and fully paid	20000	20000

7. RESERVES

	Capital Shs'000	Retained Profits Shs'000	TOTAL Shs'000
1st July 1988	2084	7681	9765
Profit for the year		8135	8135
30th June 1989	2084	15816	17900

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

		30 June 1989 Shs'000	30 June 1988 Shs'000
Unsecured 8% loan	repayable 1990/98	32387	36705

The Government finance amounting to Shs 43.182 million was converted into 8% loan capital on 1st January 1986. The principal is repayable in 20 equal half yearly intalments starting from 30th June 1988. Instalments which have fallen due and payable in the year 1989/90 amounting to Shs 10.795 million, are included in creditors under current liabilities

NOTES TO THE ACCOUNTS - 30TH JUNE 1989 (continued)

9. CAPITAL COMMITMENTS

	30 June 1989 Shs'000	30 June 1988 Shs'000
Approved by the Board of directors but not contracted for	5569	11783

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.

DETAILED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE 1989

	30 June 1989 Shs'000	30 June 1988 Shs'000
SALES	123625	69379
COST OF SALES		
Opening stock	24563	17612
Mill Operating costs	54619	41375
Carriage, freight and handling	50027	32831
Closing stock	(22552)	(24563)
	106657	67255
GROSS PROFIT	16968	2124
ADD:		
Export Compensation	21127	7310
Miscellaneous Income	4417	3750
	42512	13184
LESS:-		
Selling expenses	3703	3497
Administration expenses	11106	9304
Service department expenses	12291	8671
Road maintenance expenses	1317	1427
Finance Expenses	3889	4891
Amortisation of development Costs	2071	2495
Abnormal shut-down expenses	-	1808
	34377	32093
NET OPERATING PROFIT/(LOSS)	8135	(18909)

MILL OPERATING COSTS

	30 June 1989 Shs'000	30 June 1988 Shs'000
Acid grade mining - Production	20704	12517
Diamond Drilling	606	130
Laboratory operating costs	1585	880
Production overheads	2325	1246
Crushing and fine ore	6012	4266
Grinding	3858	7307
Boiler house	49	170
Thickening and filtering	662	1182
Flotation	4367	2943
Water supply and treatment	604	311
Pollution and effluent control	1781	715
Power supply	9910	8309
Mill maintenance overheads	2156	1399
	54619	41375

CARRIAGE, FREIGHT AND HANDLING EXPENSES

Transport and handling expenses	50027	32831

SELLING EXPENSES

Sales commission	2938	3029
Other expenses	765	468
	3703	3497

ADMINISTRATION EXPENSES

Audit fees	187	150
Personnel	1537	1068
Accounts	1259	1196
Stores	1697	1480
Administration overheads	5405	4699
Legal and professional charges	(4)	11
Nairobi office	1025	700
	11106	9304

SERVICE DEPARTMENT EXPENSES

Security	1463	1261
Safety and fire	172	108
Building repairs and maintenance	3719	2564
Medical	3785	1900
General welfare	1715	1698
School	1437	1140
	12291	8671

FINANCE EXPENSES

Interest on loan capital	3434	3456
Bank charges	455	543
Lease hire interest	-	892
	3889	4891