

897608

Anglo Pacific Resources PLC

CONTENTS

	<i>Page</i>
Directors and advisers	2
Chairman's review	3
Notice of meeting	4
Summary of activities	5-7
Report of the directors	8-11
Statement of directors' responsibilities	12
Reports of the auditors	12-13
Consolidated profit and loss account	14
Balance sheets	15-16
Consolidated cash flow statement	17-18
Notes to the accounts	19-35



Anglo Pacific Resources PLC

DIRECTORS

G.N.KENNEDY, *cvo (Chairman)*

O.L.GRIFFITHS (*Managing Director*)

D. D. DE BEER

THE EARL OF DUNDONALD

PROFESSOR D. MILTZ

P.B.MACKENZIE ROSS

G.J.ROBBERTZE

W.M. RUSHBROOKE

R.A.D.WILSON

SECRETARY

D.MURDOCH

HEAD OFFICE

6 RANDOLPH CRESCENT, EDINBURGH EH3 7TH
Tel: 0131-220 6484 Fax: 0131-220 1706

REGISTERED OFFICE

33 DAVIES STREET, LONDON W1Y 1FN
Registered in England No. 897608

AUDITORS

PRICE WATERHOUSE
Albany House, 58 Albany Street, Edinburgh EH1 3QR

BANKERS

THE ROYAL BANK OF
SCOTLAND plc
52/54 East Port,
Dunfermline KY12 7HB

REGISTRARS

THE ROYAL BANK OF
SCOTLAND plc
P.O. Box 435,
Owen House
8 Bankhead Crossway North
Edinburgh EH11 0XG

STOCKBROKERS

S.G.WARBURG SECURITIES LTD
1 Finsbury Avenue
London EC2M 2PA

Anglo Pacific Resources PLC

Annual Report 1995

CHAIRMAN'S REVIEW

The year under review proved difficult and your board has deemed it necessary to reassess the Group's operations. The board has also taken the opportunity to adopt more appropriate accounting policies and my review and the accompanying accounts should be read in this context.

A gross loss of £0.4 million was incurred during the year, with the major contributory factor being the trading performance at Ledmore Marble Limited. Administrative expenses and exploration and development costs totalled £1.4 million, offsetting royalty and other income of £1.5 million. A charge of £3.5 million for the accelerated depreciation of operating assets at Fife Silica Sands was made following the results of an independent valuation, resulting in an operating loss of £3.8 million.

The board has conducted a fundamental review of the Group's operations. There will be a much stronger focus in the future on adding shareholder value through operational profitability and the generation of free cash flow. This will involve greater emphasis on the coal royalties from Australia, profit improvement at Fife Silica Sands, the rationalisation of activities at Ledmore Marble to get as close to break-even point as possible and finally, a major downsizing of the head office overhead structure. Projects which require additional funding will be offered to prospective interested parties for joint venture participation, farm-ins or sale.

Consequently a charge of £1.8 million has been made for fundamental restructuring in the 1995 accounts. After charging net interest payable of £0.4 million, the result was a pre-tax loss on ordinary activities of £6 million to which has been added a £0.7 million tax charge relating to current and prior year royalty income.

The decision to revalue the Group's tangible and intangible assets at 31st December, 1994 has been reversed in consultation with the Group's new auditors, Price Waterhouse. Tangible assets will now be included at the lower of cost to the Group or valuation, while the principal components of intangible assets, exploration and development expenditure, are now expensed to the profit and loss account. As a result of these changes in accounting policy, the net assets of the Group disclosed in the consolidated accounts at 31st December, 1994 have been reduced by £22.2 million to £9.5 million. The loss for the year of £6.7 million has been deducted from this restated amount, resulting in net assets of £2.8 million at 31st December, 1995.

An independent valuation of the Group's core source of income, the Gordonstone and Crinum coal royalty, was made at 31st December, 1995. The Group's net assets would have been approximately £15.9 million (20 pence per ordinary share) had this valuation been taken into account.

Your board has also reviewed the Group's financial structure, and will make a number of proposals affecting both its share capital and the funding of its future operations at an Extraordinary General Meeting. These proposals will be sent to shareholders in a separate circular, and will involve, firstly, a reduction in share capital to eliminate the deficit on the Profit and Loss Account of both the Group and the Parent Company. Secondly, the company has discussed with the Anglovaal Group the terms and conditions applying to its holding of £3.5 million Convertible Unsecured Loan Stock. This stock is redeemable on 30th June, 1996 and Anglovaal has made proposals for its extension on terms which are satisfactory to the board and which will be put to shareholders for their approval. Information on the proposed extension is disclosed in note 19 to the accounts. In addition, Anglovaal would also guarantee a working capital facility of up to £1 million.

It remains our intention to make application to move up to the Official List of the London Stock Exchange subsequent to the Annual General Meeting.

After taking these steps, the directors consider that the Group will be well placed to enhance shareholder value by pursuing a focussed strategy which will enable the company to expand its asset base.

G. N. KENNEDY
Chairman

Anglo Pacific Resources PLC

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at 6 Randolph Crescent, Edinburgh EH3 7TH on Friday, 7th June, 1996 at 10.00 am for the following purposes:—

As ordinary business:

1. To receive the Accounts for the year ended 31st December, 1995 together with the Directors' and Auditors' Reports thereon.
2. To re-elect W.M. Rushbrooke, who having been appointed during the year retires in accordance with the Company's Articles of Association.
3. To re-elect The Earl of Dundonald, who having been appointed during the year retires in accordance with the Company's Articles of Association.
4. To re-elect D. D. De Beer, who having been appointed during the year retires in accordance with the Company's Articles of Association.
5. To re-elect Professor D. Miltz, who having been appointed during the year retires in accordance with the Company's Articles of Association.
6. To re-elect G.J. Robbertze, who retires by rotation in accordance with the Company's Articles of Association.
7. To re-appoint Price Waterhouse as Auditors of the company and to authorise the directors to fix their remuneration.

As special business:

To consider and, if thought fit, approve the following Resolutions which are to be proposed in the case of Resolution 8 as an Ordinary Resolution and in the case of Resolution 9 as a Special Resolution of the company:—

8. That, the directors be and are hereby authorised in accordance with, and subject to, the terms of Article 7 of the Articles of Association of the company to allot relevant securities up to an aggregate nominal amount of £2,593,189.
9. That, the directors be and are hereby authorised in accordance with, and subject to, the terms of Article 8 of the Articles of Association of the company to allot equity securities for cash and for the purposes of sub-paragraph 3 of the Article up to an aggregate nominal amount of £388,978.

By Order of the Board,
D. Murdoch
D. Murdoch,
Company secretary

Registered Office:
33 Davies Street,
London W1Y 1FN

Dated: 13th May, 1996

Notes:

A member entitled to attend and vote at the above meeting may appoint one or more persons to attend and, on a poll, vote instead of him. A proxy need not be a member of the company. A form of proxy is inserted with this report. Completion and return of this form of proxy will not prevent a member from attending the meeting and voting if he so wishes. A member personally present shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.

In order to be valid, forms of proxy for the meeting must be received, not later than 48 hours before the time fixed for the meeting, at the offices of the company's Registrars, The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG.

The directors' service contracts and register of directors' interests will be available for inspection during usual business hours at 33 Davies Street, London W1Y 1FN until the date of the meeting and will be available for inspection at 6 Randolph Crescent, Edinburgh EH3 7TH 15 minutes prior to the meeting and will remain open during the continuance of the meeting.

Anglo Pacific Resources PLC

SUMMARY OF ACTIVITIES

Gordon Resources Ltd

The following information has been provided by the Group's coal consultants, Barlow Jonker Pty Limited of Sydney, Australia, based on information that is available in the public domain.

The Gordonstone Mine

The Gordonstone Mine is a modern underground mine in Queensland's Bowen basin, managed by Gordonstone Coal Management Pty Limited, a wholly owned subsidiary of ARCO Coal Australia Inc. The mine completed its construction phase at the end of 1992 at a capital cost in excess of A\$500 million and in the second quarter of 1993, commenced operating its first longwall mining unit. By the end of 1994 the mine reached initial full production and in 1995 increased output by optimising production from two longwalls.

The planned production capacity of the mine with both longwall units operating was initially reported to be in excess of 5 mtpa of raw coal with the mine's expectations now exceeding 6 mtpa, yielding more than 4.2 mtpa of product coal.

Crinum

The Crinum project is an underground operation mining the deeper coal reserves adjacent to the existing Gregory open cut mine, managed by BHP Australia Coal Limited. Crinum will share the same management and will be able to use the existing infrastructure of the Gregory Mine.

The construction of Crinum commenced in early 1993 and first development coal was produced in 1994. Commercial production of coal with longwall extraction is estimated to commence in the middle of 1996. At capacity, coal production is expected to exceed 3.5 mtpa run of mine coal.

Royalty Structure

Gordon Resources Ltd holds a 50% share of the 4% coal royalty attaching to the private coal underlying the mining lease areas of both the Gordonstone and Crinum Mines. Current projections indicate that private coal will continue to be mined until 2020 and 2013 respectively.

A royalty return accompanied by payment is lodged quarterly with the Department of Minerals and Energy in Brisbane, due within one month following the quarter concerned. The free on rail value of coal is arrived at by calculation allowing certain costs as a deduction from free on board prices.

Risks

The risks associated with the ongoing receipt of the royalty flow from both mines are perceived as being relatively low in view of the following factors:

- (i) The royalties arise regardless of mine profitability, being calculated on the Free on rail value of coal sold.
- (ii) The mines are owned by ARCO and BHP, both blue chip companies.
- (iii) Both mines are situated in an area of the Bowen Basin where good operating results have been and are being achieved in nearby underground longwall mines. These operators mine the same seam as Gordonstone and Crinum.
- (iv) Both mines sell a hard coking coal for which competition in export markets is limited. The technological risk of a change-over to non-coke consuming steel making processes is also considered to be small in the next two decades. The Asian mills are the main consumers of this type of coal, and growth in blast furnace capacity is forecast in Korea, Taiwan and India.

Royalty income for the year totalled £1,442,000 against the previous year's figure of £1,298,000. As noted in the interim statement the amount received in the first quarter was lower than forecast, due to the inclusion of a retrospective rail capital deduction, agreed with the Department of Mineral Resources in Brisbane. This was a once and for all catch up of the permissible ten year write-off of capital spent on the rail loop and loading facility at the Gordonstone Mine. A minimal contribution from BHP's Crinum Mine was received in respect of the last two quarters in 1995.

Anglo Pacific Resources PLC

SUMMARY OF ACTIVITIES

Royalty receipts are currently forecast to increase by some 20%, in Australian dollar terms over the 1996 year as a whole, in comparison to the 1995 total, given that the production build up at Crinum is forecast to take place in the latter part of the year. Shareholders should note that the Group has no control over the level of royalties received. Despite the generally low relative level of risk associated with the receipt of the royalty stream over the long term, the achievement of this forecast is subject to the normal short term mining and geological problems associated with the establishment of a new underground mine.

An independent valuation of the royalty assets at 31st December, 1995, undertaken by Barlow Jonker Pty. Ltd., on a post tax discounted cash flow basis, incorporating various coal price and production scenarios provides a valuation range of A\$25.7 million—A\$40.0 million, with a most likely valuation of A\$32.5 million (£15.6 million).

Fife Silica Sands Ltd.

Quarry development work has continued during the year as part of the ongoing programme to improve plant feed homogeneity and reserve utilisation. A number of modifications to the plant and procedural changes have improved glass sand recovery.

Quality Assurance Accreditation (ISO 9002) was granted to the company during the year.

The Group Laboratory was moved to the Burrowine Moor Quarry site in February 1995 so as to integrate this facility with day to day quarry operations.

A plan to transplant a small area of rare wet heathland has overcome objections raised to an application of planning permission on the remainder of the reserve area west of the existing pit. As part of its Environmental Policy, the company has been working closely with the Planning Authority and, once this area is restored, it will be incorporated into their proposed Linear Country Park.

Construction of a sand drying and screening facility at the quarry was completed by the end of the year. This allows the company to take advantage of the particular properties of its sand to offer a range of closely sized screened sands and dried-only sands to added value markets in water filtration, leisure, construction and other industries.

An independent valuation, undertaken by the Minerals and Environmental Services Department of Grimleys, Property Advisers, as at 31st December, 1995, provides a valuation on an open market existing use basis of £6.25 million for this asset.

Ledmore Marble Ltd

Development of the dimension stone quarry was hampered in the first half of the year by the unexpected hardness of an intrusive dyke which had to be removed before the planned eight metre working face could be developed. Once this obstacle had been overcome the area available for extraction expanded rapidly and the quarry is now able to produce marble blocks quickly and effectively to meet any foreseeable demand.

In February a Pellegrini fixed wire saw was installed. This permits accurate trimming of large blocks (up to 16 tonnes) to optimise block colour and minimise transport of material which would be discarded as waste at its destination. As a by-product of block trimming on this saw a number of slabs and shaped pieces have been produced which have been sold as memorial stones, plaques, paving and for sculpture.

The Group is currently reviewing its cost structure relative to available markets.

Antrim Perlite Ltd.

The second stage pilot plant expansion trials are in progress. The results of these trials will determine the future of this project.

Shetland Talc Ltd.

During the year trials were carried out in the United States using new beneficiation technology. The results have been satisfactory. Approaches by potential purchasers are under evaluation.

Anglo Pacific Resources PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 1995

Executive Director

The director's service contract is in accordance with the requirements of the Code. The directors' emoluments are disclosed in note 6 to the accounts.

The Remuneration Committee consists of the Chairman and two non-executive directors.

Reporting

The directors explain their responsibility for preparing the accounts on page 12. The Auditors' Report on Corporate Governance matters is also on page 12.

Internal Control

The directors are responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of financial information used internally and externally. Any system of internal control can only provide reasonable, but not absolute assurance, against misstatement or loss. During the year the Group's internal financial control and monitoring procedures included:

—clear responsibilities on the part of operating and financial management for the maintenance of financial controls and the production of accurate and timely financial information;

—the control of key financial risks through clear authorisation levels and proper segregation of duties and

—detailed monthly budgeting and reporting results, balance sheets and cash flows, with regular review by management of variances from budgets.

The directors confirm that they have reviewed the effectiveness of the system of internal financial control in place during the year.

Going concern

As set out in note 1 and note 19 to the accounts, the company has received formal proposals from the Anglovaal Group, its largest single shareholder, to extend the maturity of £3.5 million convertible debt due in June 1996 to June 1998. Anglovaal would also guarantee a working capital facility of up to £1 million. These proposals will be placed before the shareholders for approval at an Extraordinary General Meeting. Subject to the approval of these proposals and the renewal of the company's bank overdraft facility in June 1996 at the same level as is currently available, the directors, having made enquiries, have a reasonable expectation that the company and the Group have adequate resources to continue in operation at the level outlined in the Chairman's Statement for the foreseeable future, and consider that it is therefore appropriate to continue to adopt the going concern basis in preparing the accounts.

In the event that these funding proposals were not to be approved by shareholders, the directors would be required to seek alternative sources of finance, or failing that, consider the realisation of assets. The consolidated accounts have been prepared on the assumption that long term finance will continue to be available and do not include any adjustments that would result from the funding described above not being available.

Substantial interests

The company has been notified of the following interests of 3% or more in the Share Capital of the company at 11th April, 1996:—

	Ordinary Shares of 10p each	Representing
Mineral and Allied Resources Ltd.	23,226,520	29.85%
Latitude Investments Limited	3,301,598	4.24%
Ransomes Dock Limited	3,197,100	4.11%
IKEA Finance S.A.	3,040,000	3.91%

Anglo Pacific Resources PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 1995

P.B. Mackenzie Ross, who was appointed to the board in February 1993, retires at the Annual General Meeting and has decided not to offer himself for re-election.

G.J. Robbertze was appointed to the board in April 1992. He is the Chief Consultant (Mines) of Anglovaal Ltd and is also a director of several South African mining companies.

R.A.D. Wilson was appointed in March 1989. He is an executive director of Anglovaal Ltd and is responsible for Anglovaal's Mining Division.

W.M. Rushbrooke was appointed to the board on 6th September, 1995 as a non-executive director. He is the managing director of Rushbrooke Investissements S.A. Neuchatel, Switzerland.

The beneficial interests of the directors as at 31st December, 1995 in the share capital of the company are as follows:—

Director	Number of Ordinary Shares	
	31st December, 1995	31st December, 1994
G.N. Kennedy	100,000	100,000

No other director had any interest in the issued share capital of the company at the end of the year and at the date of this report.

Share Option Schemes

The following director holds options to subscribe for Ordinary Shares in the company, under the NS & GO Approved Option Scheme:—

	No. of Shares		Exercisable	Exercise price
	1995	1994		
O.L. Griffiths	125,000	125,000	8.4.97-7.4.2004	32p

North Sea and General Oil plc ('NS&GO') was the name of the company when the scheme was set up.

There was no difference in the market price and the exercise price when the share options were granted.

The market price of the shares at 31st December, 1995 was 24p and the range during the year was 21p to 32p.

Corporate Governance

The Board confirms that the company complies with the Cadbury Code of Best Practice other than in the following aspects:

—The current non-executive directors do not have specific terms of appointment but, under the terms of the company's Memorandum and Articles of Association, all directors retire by rotation on the basis of one-third of their number each year, and have to be re-appointed by the shareholders at an Annual General Meeting.

—The company has two non-executive directors constituting the audit committee as opposed to the three recommended; however, the directors believe it is neither practicable nor desirable for more than two given the size of Anglo Pacific Resources PLC. The audit committee's terms of reference are consistent with those recommended by the Cadbury Committee.

The Board of Directors

The Board currently comprises a non-executive Chairman, seven non-executive directors and one executive director (Managing Director). The Board meets at least three times a year on a planned basis. Directors are able to take independent professional advice in furtherance of their duties at the company's expense.

Anglo Pacific Resources PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 1995

The directors present their report together with audited consolidated accounts of the Group for the year ended 31st December, 1995.

The activities of the Group, conducted mainly through its subsidiary undertakings, are dealt with in the Summary of Activities.

Group results for the year

The consolidated profit and loss account is set out on page 14 of the accounts.

The loss for the year of £6,688,000 was added to the deficit on the profit and loss account brought forward.

Dividends

The directors recommend that no dividend be proposed this year.

Directors and their interests

The names of the directors who held office during the year under review are shown below:—

G.N. Kennedy (*Chairman*)

O.L. Griffiths (*Managing Director*)

D. D. De Beer (appointed 1st May, 1996)

The Earl of Dundonald (appointed 1st May, 1996)

P.B. Mackenzie Ross

Professor D. Miltz (appointed 1st May, 1996)

G.J. Robbertze

W.M. Rushbrooke (appointed 6th September, 1995)

R.A.D. Wilson

W.M. Rushbrooke and G.J. Robbertze both retire in accordance with the company's Articles of Association. Both directors, being eligible, offer themselves for re-election.

The company maintains insurance for its directors and officers against certain liabilities in relation to the company.

G.N. Kennedy, CVO, non-executive Chairman, joined the board in February 1990. He was a director of James Capel & Co. and was a Council and Board member of The London Stock Exchange from 1980 to 1992. He is also Chairman of Dwyer Plc, a director of Ockham Holdings plc and M & G Charifund.

The Earl of Dundonald was appointed to the board on 1st May, 1996 as a non-executive director. He has spent all his working life running the family investment company, which has full control or active involvement in commercial property, leisure and computer technology, together with investments in the Stock markets. He has had an active investment interest in the mining sector for some years. In addition he is the honorary consul for Chile in Scotland, and is a council member of the Parliamentary Information Technology Committee, in which he is an active member.

D. D. De Beer is a Chartered Accountant (S.A.) and was appointed to the board on 1st May, 1996 as a non-executive director. He is the director of Finance and Administration of 'Avmin' the Mining Division of Anglovaal Ltd.

Professor D. Miltz was also appointed to the board on 1st May, 1996 as a non-executive director. He is a Tenured Professor in the Department of Applied Economics, Katholieke Universiteit, Leuven, Belgium. He is a senior consultant to IBM, CPC International, Heineken N.V. and Petrofina S.A., and is involved in the European privatisation programme in Eastern Europe and Russia.

Anglo Pacific Resources PLC

SUMMARY OF ACTIVITIES

APR—Geocesa Joint Venture

Process development work on mineral from the joint venture's Picobello andalusite project continued throughout the year. A viable process route has been developed and semi-commercial samples produced for evaluation by the refractory industry.

Consideration is currently being given by the joint venture partners to the best means of optimising the value of this asset.

The Environment

The Group remains committed to its Environmental Policy and collaborates fully with Statutory Authorities, local communities and special interest groups to minimise negative effects of its activities on the natural and human environment associated with its operations.

Anglo Pacific Resources PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER, 1995

Movements on fixed assets

The movements on tangible fixed assets and fixed asset investments of the Group and the company are set out in notes 12 and 13 to the accounts. As explained in note 1 to the accounts, the Group no longer capitalises exploration and development costs as intangible assets. Additionally, tangible fixed assets are stated at depreciated historical cost rather than at a revalued amount. The effects of these changes in accounting policies are set out in note 2.

Contributions for charitable purposes

Donations to charities totalling £450 were made during the year.

Authority to allot securities

At the Annual General Meeting, shareholders will be asked to renew, as in previous years, the directors' authority to allot unissued authorised share capital up to an aggregate nominal amount of £2,593,189 (Resolution 8) and to allot equity securities for cash up to an aggregate nominal amount of £388,978 (Resolution 9).

Income and Corporation Taxes Act 1988

So far as the directors are aware, the company is not, and was not at the end of the financial year, a close company in terms of the Income and Corporation Taxes Act 1988.

CREST

The directors are required to give notice, in accordance with the Uncertificated Securities Regulations 1995 (the "Regulations") that, on 14th March, 1996, the company resolved that title to its ordinary shares of 10p each, in issue or to be issued, may be transferred by means of a computer-based system which enables shares to be held and transferred without a written instrument. The resolution of the directors became effective immediately.

The directors' resolution will enable the company's ordinary shares to join the computer based system—known as CREST—in due course. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution; the permission of the operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. We expect this to occur on or around 3rd June, 1996.

The effect of the directors' resolution is to disapply, in relation to the ordinary shares, those provisions of the company's articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.


Shareholders should also note that, under the Regulations, they have the right by ordinary resolution to resolve that the company should not participate in the CREST system.

Auditors

Coopers & Lybrand resigned as auditors on 22nd December, 1995 and the directors appointed Price Waterhouse.

A resolution to re-appoint Price Waterhouse as the company's auditors will be proposed at the Annual General Meeting.

Registered Office:
33 Davies Street,
London W1Y 1FN
Dated 13th May, 1996


By Order of the Board
D. Murdoch
Company secretary

Anglo Pacific Resources PLC

REPORT BY THE AUDITORS TO THE DIRECTORS OF ANGLO PACIFIC RESOURCES PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed your statements on pages 9 and 10 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 9 and 10 and on going concern on page 10, have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related Guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 9 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse *Price Waterhouse*

Chartered Accountants

Edinburgh

13th May, 1996

DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31st December, 1995. The directors also confirm that applicable accounting standards have been followed and the accounts have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

D. Murdoch

Company secretary

13th May, 1996

D. Murdoch

Anglo Pacific Resources PLC

REPORT OF THE AUDITORS TO THE MEMBERS OF ANGLO PACIFIC RESOURCES PLC

We have audited the accounts on pages 14 to 35 which have been prepared under the historical cost convention and the accounting policies set out on pages 19 and 20.

Respective responsibilities of directors and auditors

As described on page 12 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Future funding

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the proposed extension of the £3.5 million convertible debt which matures in June 1996, the availability of a working capital facility of up to £1 million and the renewal of the company's overdraft facility. Such funding is necessary to support the operations of the company and the Group and the accounts do not include any adjustments which would result from the absence of funding.

Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the Group at 31st December, 1995 and of the loss and cash flow of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants and Registered Auditors

Edinburgh

13th May, 1996

Anglo Pacific Resources PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1995

	Notes	1995	1994 restated (note 2)
		£000's	£000's
Turnover	3	3,294	4,064
Cost of sales		(3,664)	(4,152)
Gross loss		(370)	(88)
Administrative expenses		(1,245)	(1,148)
Exploration and development costs		(210)	(431)
Accelerated depreciation	12	(3,489)	(181)
Royalty income		1,442	1,298
Other income		62	71
Operating loss	4	(3,810)	(479)
Provisions for fundamental restructuring	5	(1,793)	—
Interest receivable		19	68
Interest payable	8	(447)	(445)
Loss on ordinary activities before tax		(6,031)	(856)
Taxation on loss on ordinary activities	9	(657)	(377)
Loss for the financial year		<u>(6,688)</u>	<u>(1,233)</u>
Loss per ordinary share	10	(8.60)p	(1.59)p

No operations have been terminated or sold although certain activities of the Group have been scaled down, the financial impact being reflected in the profit and loss account.

	Notes	1995	1994 restated (note 2)
		£000's	£000's
STATEMENT OF CONSOLIDATED RETAINED PROFITS			
At 1st January		(6,197)	(7,072)
Transfer from capital reduction reserve	22	5,482	—
Transfer from capital reserve	23	733	335
Transfer from merger reserve		—	1,773
Loss for the financial year		(6,688)	(1,233)
Accumulated retained deficit at 31st December, 1995		<u>(6,670)</u>	<u>(6,197)</u>

	Notes	1995	1994 restated (note 2)
		£000's	£000's
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Loss for the financial year		(6,688)	(1,233)
Currency translation losses on foreign currency investments	24	(20)	(20)
Total recognised gains and losses relating to the year		<u>(6,708)</u>	<u>(1,253)</u>
Prior period adjustments	2	(22,182)	
Total gains and losses recognised since last annual report		<u>(28,890)</u>	

The notes on pages 19 to 35 form an integral part of these accounts.

Anglo Pacific Resources PLC

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1995

	Notes	1995		1994	
		£000's	£000's	restated (note 2) £000's	£000's
Fixed assets					
Tangible assets	12		5,607		9,681
Investments	13		2,513		2,516
			<u>8,120</u>		<u>12,197</u>
Current assets					
Stocks	14	121		317	
Debtors	15	1,774		1,739	
Investments	16	105		167	
Cash at bank and in hand		100		367	
		<u>2,100</u>		<u>2,590</u>	
Current liabilities					
Creditors—amounts falling due within one year	17	(2,876)		(1,601)	
Net current (liabilities)/assets			(776)		989
Total assets less current liabilities			<u>7,344</u>		<u>13,186</u>
Long term liabilities					
Creditors—amounts falling due after more than one year	18		(843)		(33)
Convertible debt	19		(3,500)		(3,500)
Provisions for liabilities and charges	20		(178)		(136)
			<u>2,823</u>		<u>9,517</u>
Capital and reserves					
Called up share capital	21		7,780		7,770
Share premium account			1,641		1,637
Capital reduction reserve	22		—		5,482
Capital reserve	23		—		733
Foreign currency translation reserve	24		72		92
Profit and loss account	25		(6,670)		(6,197)
Equity shareholders' funds	26		<u>2,823</u>		<u>9,517</u>

Approved at a Board Meeting held on 10th May, 1996

The notes on pages 19 to 35 form an integral part of these accounts.

Anglo Pacific Resources PLC

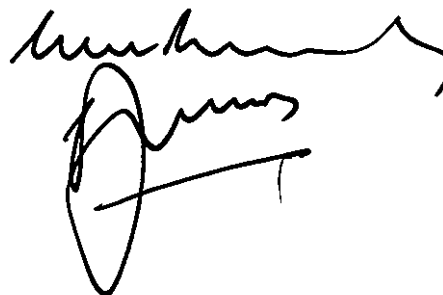
BALANCE SHEET AT 31st DECEMBER, 1995

	Notes	1995		1994	
		£000's	£000's	restated (note 2)	
				£000's	£000's
Fixed assets					
Tangible assets	12		98		18
Investment in subsidiary undertakings	13		8,205		18,259
			<u>8,303</u>		<u>18,277</u>
Current assets					
Debtors	15	132		146	
Current liabilities					
Creditors—amount falling due within one year	17	<u>(1,628)</u>		<u>(628)</u>	
Net current liabilities			<u>(1,496)</u>		<u>(482)</u>
Total assets less current liabilities			<u>6,807</u>		<u>17,795</u>
Long term liabilities					
Creditors—amounts falling due after more than one year	18		(484)		—
Convertible debt	19		(3,500)		(3,500)
			<u>2,823</u>		<u>14,295</u>
Capital and reserves					
Called up share capital	21		7,780		7,770
Share premium account			1,641		1,637
Capital reduction reserve	22		—		5,482
Profit and loss account	25		(6,598)		(594)
Equity shareholders' funds			<u>2,823</u>		<u>14,295</u>

Approved at a Board Meeting held on 10th May, 1996

G.N. Kennedy
O.L. Griffiths

Directors



The notes on pages 19 to 35 form an integral part of these accounts.

Anglo Pacific Resources PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 1995

	1995		1994	
	£000's	£000's	£000's	restated (note 2) £000's
Net cash inflow from operating activities		328		430
Return on investments and servicing of finance				
Interest received	19		68	
Interest paid	(438)		(436)	
Interest paid on finance leases	(9)		(9)	
	<u> </u>		<u> </u>	
Net cash outflow from returns on investments and servicing of finance		(428)		(377)
Taxation				
Overseas tax paid		(560)		—
Investment activities				
Payments to acquire tangible fixed assets	(542)		(218)	
Receipts from sales of tangible fixed assets	53		9	
Payments to acquire investments	—		(27)	
	<u> </u>		<u> </u>	
Net cash outflow from investment activities		(489)		(236)
Net cash outflow before financing		(1,149)		(183)
Financing				
Receipts from issue of share capital	14		2	
Capital element of finance lease repayments	(78)		(70)	
	<u> </u>		<u> </u>	
Net cash outflow from financing		(64)		(68)
Decrease in cash and cash equivalents		<u><u>(1,213)</u></u>		<u><u>(251)</u></u>

The notes to the Consolidated Cash Flow Statement are on page 18.

The notes on pages 19 to 35 form an integral part of these accounts.

Anglo Pacific Resources PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 1995

1. Reconciliation of operating loss to net cash inflow from operating activities

	1995	1994
	£000's	restated (note 2) £000's
Operating loss	(3,810)	(479)
Depreciation charges	578	577
Accelerated depreciation charges	3,489	181
Loss/(gain) on sale of tangible fixed assets	4	(5)
Provision against current asset investment	74	68
Foreign exchange adjustments on fixed asset investments	—	(5)
Foreign exchange adjustments on current asset investments	(9)	(11)
Foreign exchange adjustment (note 24)	(20)	(20)
Increase in stocks	(4)	(77)
Increase in debtors	(35)	(42)
Increase in creditors	61	243
Net cash inflow from operating activities	328	430

2. Cash and cash equivalents

	1995	Change in Year	1994	Change in Year	1993
	£000's	£000's	£000's	£000's	£000's
Cash at bank and in hand	100	(267)	367	(307)	674
Bank overdrafts	(1,120)	(946)	(174)	56	(230)
At 31st December	(1,020)	(1,213)	193	(251)	444

3. Analysis of changes in financing during the year

	1995				1994			
	Share Capital £000's	Share Premium £000's	Loan Stock £000's	Finance Leases £000's	Share Capital £000's	Share Premium £000's	Loan Stock £000's	Finance Leases £000's
At 1st January	7,770	1,637	3,500	93	7,768	1,637	3,500	148
Issue of share capital	10	4	—	—	2	—	—	—
Inception of finance leases	—	—	—	31	—	—	—	15
Capital element of finance lease repayments	—	—	—	(78)	—	—	—	(70)
At 31st December	7,780	1,641	3,500	46	7,770	1,637	3,500	93

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

1. Accounting policies and convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

A summary of significant accounting policies is set out below. There have been changes to the accounting policies for exploration and development expenditure and tangible and intangible assets, which are described below. The impact of these changes on the 1994 accounts is set out in note 2.

Going concern

The company has received formal proposals from the Anglovaal Group, its largest single shareholder, to extend the maturity of £3.5 million convertible debt due in June 1996 to June 1998. Anglovaal would also guarantee a working capital facility of up to £1 million. These proposals will be placed before the shareholders for approval at an Extraordinary General Meeting. Subject to the approval of these proposals and the renewal of the company's bank overdraft facility in June 1996 at the same level as is currently available, the directors, having made enquiries, have a reasonable expectation that the company and the Group have adequate resources to continue in operation at the level outlined in the Chairman's Statement for the foreseeable future, and consider that it is therefore appropriate to continue to adopt the going concern basis in preparing the accounts.

In the event that these funding proposals were not to be approved by shareholders, the directors would be required to seek alternative sources of finance, or failing that, consider the realisation of assets. The consolidated accounts have been prepared on the assumption that long term finance will continue to be available and do not include any adjustments that would result from the funding described above not being available.

Exploration and development expenditure

Costs of exploration and development are expensed to the Profit and Loss Account up to the stage where a project has received planning and other consents and is considered viable. Costs incurred subsequent to this stage in the development of production facilities are capitalised as tangible fixed assets and depreciated on a unit of production basis.

Previously, exploration and development costs (including related finance charges) were capitalised and disclosed as intangible assets. Furthermore the projects to which these costs related were then revalued by the directors using discounted cash flows and these valuations included in the consolidated balance sheet. If at any stage a project was not considered viable, revalued amounts would be written off. When a project commenced, these valuations would be reclassified as tangible fixed assets, added to expenditure on production facilities and depreciated on a unit of production basis.

The impact of this change in accounting policy is set out in note 2 to the accounts.

Intangible assets

The accounting policy for intangible assets has changed significantly, as described above. Consequently the Group no longer includes assets categorised as intangible in its consolidated balance sheet.

Fixed asset investments

Investments disclosed as fixed assets in the consolidated balance sheet of the Group comprise interests in producing assets held by a Group company. These were previously classified as intangible assets and included at valuation.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

1. Accounting policies and convention (continued)

Fixed asset investments (continued)

Investments in subsidiary companies are classified as fixed assets and included in the balance sheet of the company.

Both categories of investment are included at cost unless permanently impaired, where they will be included at valuation.

Advances to subsidiary undertakings are added to fixed asset investments. Previously these amounts were included in net current assets and the parent company balance sheet comparative figures have been restated.

Tangible fixed assets

Tangible fixed assets are included at cost except that producing assets are included at valuation where this is lower than cost. Assets are depreciated over their estimated useful economic lives. Depreciation rates and methods are set out below:

Producing assets, including land and the development of production facilities	Unit of production
Fixtures and fittings	5 to 10 years straight line
Plant and machinery	4 to 10 years straight line

Where a producing asset is written down the related charge is classified as accelerated depreciation.

Previously all producing assets were included at directors' valuation using discounted cash flows. The impact of this change in accounting policy is set out in note 2 to the accounts.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes direct materials, overheads and labour costs.

Current asset investments

Quoted investments are valued at the lower of cost and market value.

Taxation

The charge for corporation tax is based on the profit for the year adjusted for disallowable items and timing differences to the extent that they are unlikely to result in an actual tax liability in the foreseeable future. Timing differences arise from the recognition for tax purposes of certain items of income and expenditure in a different accounting period from that in which they are recognised in the accounts. The corporation tax effect of timing differences as reduced by the tax benefit of any accumulated losses is treated as a deferred corporation tax liability.

Foreign currency

Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions during the year are translated at exchange rates ruling at the date of transaction. Exchange movements arising from the retranslation of the opening net investment in foreign subsidiaries at the year end rate are taken directly to a foreign currency translation reserve.

Leased assets

Fixed assets acquired under finance leases are capitalised and the relating leasing obligations included in creditors.

Rentals under operating leases are charged against income on a straight-line basis over the term of the lease.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

2. Prior period adjustments

As explained in note 1, the directors have made significant changes to the accounting policies of the Group and an error in the calculation of depreciation was discovered. The effect of these changes on the principal components of the accounts for the year ended 31st December, 1994 is set out below:

Profit and loss account	1994
	Group
	£000's
<i>Cost of sales</i>	
As originally reported	3,978
Correction of error	174
Restated	<u>4,152</u>

During the year ended 31st December, 1995, the directors identified an error in the calculation of depreciation relating to certain producing assets. Its impact on the accumulated depreciation at 31st December 1994 was £965,000, of which £174,000 arose in the year then ended.

	1994
	Group
	£000's
<i>Exceptional cost of sales</i>	
As originally reported	12,776
Change in accounting policy	(12,164)
Reclassified as exploration and development expenses	(431)
Reclassified as accelerated depreciation	(181)
Restated	<u>—</u>

The reversal of £12,164,000 reflects the impact of the decisions to carry tangible assets at the lower of depreciated historical cost or valuation, and to write off intangible assets and exploration and development costs. Provisions made on revalued amounts are no longer required.

	1994
	Group
	£000's
<i>Interest payable</i>	
As originally reported	440
Effect of change in accounting policy	5
Restated	<u>445</u>

Interest attributable to exploration and development expenditure was previously capitalised as an intangible asset. Following the change in accounting policy, all interest is charged to the profit and loss account in the year in which it is incurred.

	1994
	Group
	£000's
<i>Taxation</i>	
As originally reported	6,558
Effect of change in accounting policy	(6,935)
Restated	<u>(377)</u>

The deferred tax liability arose on the capitalisation of exploration and development costs and would not have been required under the revised accounting policy.

It has not been practicable to disclose the effect of these changes in accounting policies on the current year's results because to do so it would have required an assessment of

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

2. Prior period adjustments (continued)

Profit and loss account (continued)

the value of the intangible fixed assets at 31st December 1995, an exercise which the directors did not consider worthwhile.

Balance sheet

	1994 Group	1994 Company
	£000's	£000's
<i>Intangible fixed assets</i>		
As originally reported	20,773	311
Transferred to fixed asset investments	(59)	—
Changes in accounting policies	<u>(20,714)</u>	<u>(311)</u>
Restated	<u>—</u>	<u>—</u>

Included in the change in accounting policy is an amount of £18,876,000 which reverses the effect of revaluation of certain intangible fixed assets at 31st December, 1994. A further amount of £1,838,000 (Group) and £311,000 (company) relates to writing off exploration and development costs which had previously been capitalised.

	1994 Group
	£000's
<i>Tangible fixed assets</i>	
As originally reported	14,496
Changes in accounting policies	(3,625)
Correction of error	(965)
Transferred to debtors—prepayments	<u>(225)</u>
Restated	<u>9,681</u>

£2,401,000 of the changes in accounting policies is the reversal of exploration and development costs in years prior to 1994. The remaining £1,224,000 is the reversal of a revaluation of producing assets at 31st December, 1994.

An error was discovered in the calculation of depreciation relating to certain producing assets.

	1994 Group
	£000's
<i>Fixed asset investments</i>	
As originally reported	—
Transferred from intangible fixed assets	59
Reinstatement of investment	<u>2,457</u>
Restated	<u>2,516</u>

The cost to the Group of the Gordonstone and Crinum coal royalty has been reinstated having been written off in years prior to 1994. The coal royalty was previously reported as an intangible fixed asset at a revalued amount.

	1994 Company
	£000's
<i>Investment in subsidiary undertakings</i>	
As originally reported	15,355
Change in accounting policy	(2,055)
Transferred from debtors	6,594
Transferred from creditors	<u>(1,635)</u>
Restated	<u>18,259</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

2. Prior period adjustments (continued)

Balance sheet (continued)

The change in accounting policy for exploration and development costs has the effect of increasing the accumulated losses of subsidiaries and therefore the carrying value of the company's investment in subsidiary undertakings was reduced at 31st December, 1994. Advances to and from subsidiary undertakings have been transferred from debtors and creditors.

	1994 Group £000's	1994 Company £000's
<i>Debtors</i>		
As originally reported	1,514	6,740
Transferred from tangible fixed assets	225	—
Transferred to investment in subsidiary undertakings	—	(6,594)
Restated	<u>1,739</u>	<u>146</u>

The amount of £225,000 transferred to debtors represents prepaid topsoil removal costs at Fife Silica Sands which were previously presented as a part of tangible fixed assets.

	1994 Company £000's
<i>Creditors</i>	
As originally reported	2,263
Transferred to investment in subsidiary undertakings	(1,635)
Restated	<u>628</u>

	1994 Group £000's
<i>Minority interest</i>	
As originally reported	665
Effect of change in accounting policies	(665)
Restated	<u>—</u>

The minority interest was calculated based on the carrying value of intangible assets in a subsidiary undertaking; £479,000 relates to the 1994 revaluation and £186,000 to prior years' capitalisation of exploration and development costs.

	1994 Group £000's	1994 Company £000's
<i>Profit and loss account</i>		
As originally reported	(3,636)	1,772
Correction of error	(965)	—
Reinstatement of investment	2,457	—
Effect of prior period adjustments— increase in losses of subsidiaries	—	(2,055)
Effect of change in accounting policy— exploration and development costs	(4,053)	(311)
Restated	<u>(6,197)</u>	<u>(594)</u>

Statement of total recognised gains and losses

Prior period adjustments

	Group £000's
Reversal of prior year revaluation of mineral deposits	19,621
Net impact of changes to the profit and loss account	2,561
	<u>22,182</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

3. Turnover

The directors consider that the Group's only activity is the exploration, mining and development of industrial minerals. Accordingly all the turnover and the loss before taxation are attributable to this activity.

Geographical Analysis	1995		1994 restated	
	Turnover £000's	Loss before tax £000's	Turnover £000's	Loss before tax £000's
United Kingdom	3,294	(7,385)	4,064	(1,968)
Australia	—	1,354	—	1,112
	<u>3,294</u>	<u>(6,031)</u>	<u>4,064</u>	<u>(856)</u>
Net assets	1995		1994	
	£000's		restated £000's	
United Kingdom	269		6,766	
Australia	2,554		2,751	
	<u>2,823</u>		<u>9,517</u>	

4. Operating loss

	1995	1994 restated (note 2)
The operating loss is stated after crediting:—	£000's	£000's
Rent receivable	12	17
Profit on disposal of tangible fixed assets	—	5
	<u>—</u>	<u>5</u>
And after charging:—		
Depreciation charge for the year:—		
Tangible owned fixed assets	530	500
Tangible fixed assets held under finance leases and hire purchase contracts	48	77
Accelerated depreciation on tangible owned fixed assets (note 12)	3,489	181
Loss on disposal of tangible fixed assets	4	—
Provision against current asset investment	74	68
Charges in respect of assets held under finance leases	9	9
Hire of plant and equipment	57	44
Other operating leases	84	84
Auditors' remuneration—audit fees	62	50
—non-audit services	26	57
	<u>—</u>	<u>—</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

5. Provision for fundamental restructuring

The directors have conducted a fundamental review of the Group's financial and operational structure. As a result of this review, activities at the Ledmore quarry will be significantly reduced as will the head office function. Additionally the carrying value of the fixed and current assets of the quarry have been written down to their estimated realisable values. The restructuring charge comprises:—

	1995 £000's
Ledmore quarry (including accelerated depreciation of £523,000—note 12)	1,064
Head office	729
	<u>1,793</u>

6. Directors' remuneration

The remuneration of the directors is as follows:—

	1995 £	1994 £
Other emoluments	69,977	70,441
Fees	20,000	25,000
	<u>89,977</u>	<u>95,441</u>

The company did not make pension contributions on behalf of any director.

The directors' remuneration includes:—

	1995 £	1994 £
Chairman	£6,000	£6,000
Highest paid director	£69,977	£64,768

The number of directors (including the chairman and the highest paid director) who receive fees and other emoluments within the following range was:—

	1995 Number	1994 Number
Nil	1	—
£1—£5,000	2	5
£5,001—£10,000	2	3
£60,001—£65,000	—	1
£65,001—£70,000	1	—

The Group paid Anglovaal Ltd £8,000 for the services of Mr R. A. D. Wilson and Mr G. J. Robbertze, which is included in the fees disclosed above.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

7. Staff

	1995	1994
	£000's	£000's
Wages and salaries	779	656
Social security costs	72	69
	<u>851</u>	<u>725</u>

The average number of persons (including executive directors) employed by the Group during the year was:—

	1995	1994
	Number	Number
Production	17	9
Marketing	3	3
Technical	8	14
Administration	10	10
	<u>38</u>	<u>36</u>

Pensions

The Group operates a defined contribution pension scheme for certain UK-based employees of the Group. The assets of the scheme are held separately from those of the company in an independently administered fund. The Group does not make any pension contributions to the scheme.

8. Interest payable

	1995	1994
	£000's	restated (note 2) £000's
Interest on convertible loan stock	404	413
On bank overdrafts and loans:—		
Repayable within five years, not by instalments	34	20
Repayable within five years, by instalments	—	3
On finance leases and hire purchase contracts	9	9
	<u>447</u>	<u>445</u>

9. Taxation on loss on ordinary activities

	1995	1994
	£000's	restated (note 2) £000's
Overseas corporation tax for the year	482	339
Overseas deferred taxation	42	38
Overseas income tax withheld—prior year	133	—
	<u>657</u>	<u>377</u>

No tax is payable in the United Kingdom (1994—£nil) due to losses incurred in the current and prior years.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

10. Loss per ordinary share

The loss per ordinary share is calculated on the Group's loss after tax and minority interests of £6,688,000 (1994 £1,233,000) and the weighted average number of shares in issue during the year of 77,795,671 (1994 77,695,671).

11. Results of Anglo Pacific Resources PLC

Included in the consolidated loss attributable to the shareholders of Anglo Pacific Resources PLC are losses of £11,486,283 (1994 losses £10,078,856, restated—note 2) which have been dealt with in the accounts of the holding company. Anglo Pacific Resources PLC has taken advantage of the Companies Act dispensation allowing it not to publish a separate profit and loss account.

12. Tangible assets

The Group

	Producing assets £000's	Fixtures and fittings £000's	Plant and machinery £000's	Total £000's
Cost				
At 1st January, 1995 (restated—note 2)	19,763	215	357	20,335
Expenditure during the year	460	14	99	573
Disposals during the year	(27)	(21)	(70)	(118)
At 31st December, 1995	<u>20,196</u>	<u>208</u>	<u>386</u>	<u>20,790</u>
Depreciation				
At 1st January, 1995 (restated—note 2)	10,252	125	277	10,654
Charge for the year	523	27	28	578
Eliminated on disposals	(18)	(17)	(26)	(61)
Accelerated depreciation				
—Fife Silica Sands	3,489	—	—	3,489
—Ledmore Quarry (note 5)	523	—	—	523
At 31st December, 1995	<u>14,769</u>	<u>135</u>	<u>279</u>	<u>15,183</u>
Net book value at 31st December, 1995	<u>5,427</u>	<u>73</u>	<u>107</u>	<u>5,607</u>
Net book value at 31st December, 1994 (restated—note 2)	<u>9,511</u>	<u>90</u>	<u>80</u>	<u>9,681</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

12. Tangible assets (continued)

Producing assets includes land and buildings with a cost of £2,210,000 and accumulated depreciation of £1,064,483.

The net book value of plant and machinery includes an amount of £110,039 (1994 £140,415) in respect of assets held under finance leases.

Following the change in accounting policy described in note 1, all of the Group's tangible fixed assets are carried at cost less depreciation with the exception of the producing assets at Fife Silica Sands Limited. The operations at Fife Silica Sands Limited were valued by Grimley, Property Advisers, as at 31st December, 1995 on an open market existing use basis at £6.25 million. Net current assets of Fife Silica Sands Limited at 31st December 1995 of £0.77 million have been deducted from the valuation and £5.48 million attributed to tangible assets, lower than the depreciated historical cost of £8.97 million. This valuation has been incorporated in the accounts and accelerated depreciation of £3,489,000 charged to the profit and loss account.

At 31st December 1994 the assets of Fife Silica Sands Limited were valued by the directors, using discounted cash flows. Had an open market existing use basis been adopted at 31st December 1994, the directors believe that the valuation of these producing assets would have been broadly similar to the 31st December, 1995 valuation. Accordingly, the directors believe that the accelerated depreciation charge relates largely to 1994 and prior years.

The Company

	Fixtures and fittings £000's	Plant and machinery £000's	Total £000's
Cost:—			
At 1st January, 1995	74	—	74
Additions	14	99	113
Disposals	—	(14)	(14)
At 31st December, 1995	<u>88</u>	<u>85</u>	<u>173</u>
Depreciation:—			
At 1st January, 1995	56	—	56
Charge for the year	11	11	22
Eliminated on disposals	—	(3)	(3)
At 31st December, 1995	<u>67</u>	<u>8</u>	<u>75</u>
Net book value at 31st December, 1995	<u>21</u>	<u>77</u>	<u>98</u>
Net book value at 31st December, 1994	<u>18</u>	<u>—</u>	<u>18</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

13. Fixed asset investments

The Group

	£000's
Cost:—	
At 1st January, 1995 (restated—note 2)	2,516
Exchange rate adjustment	(3)
	<u>2,513</u>
At 31st December, 1995	<u>2,513</u>

This fixed asset investment comprises the Gordonstone and Crinum coal royalty, stated at cost to the Group.

As disclosed in the Chairman's review the company commissioned a valuation of the coal royalty at 31st December, 1995 on a discounted cash flow basis which produced a valuation of £15.6 million (A\$32.5 million), a surplus of £13.1 million over its book amount. Were the coal royalty to be realised at the revalued amount there would be potential taxation liabilities, which have not been quantified, on both the capital gain and on any funds remitted to the parent company.

Neither the revalued amount nor the related potential tax liabilities are incorporated in the accounts.

Parent company investment in subsidiary undertakings

	Shares in subsidiary undertakings £000's	Net advances to subsidiary undertakings £000's	Total £000's
Cost:—			
At 1st January, 1995 (restated—note 2)	21,055	9,243	30,298
Repayment of loan	—	(4,284)	(4,284)
Loans made during the year	—	1,589	1,589
	<u>21,055</u>	<u>6,548</u>	<u>27,603</u>
At 31st December, 1995	<u>21,055</u>	<u>6,548</u>	<u>27,603</u>
Provisions:—			
At 1st January, 1995 (restated—note 2)	8,991	3,048	12,039
Repayment of loan	—	(3,048)	(3,048)
Provisions made during the year	7,391	3,016	10,407
	<u>16,382</u>	<u>3,016</u>	<u>19,398</u>
At 31st December, 1995	<u>16,382</u>	<u>3,016</u>	<u>19,398</u>
Net book value:—			
At 31st December, 1995	<u>4,673</u>	<u>3,532</u>	<u>8,205</u>
At 31st December, 1994 (restated—note 2)	<u>12,064</u>	<u>6,195</u>	<u>18,259</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

13. Fixed asset investments (continued)

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the operations of the Group:—

	(a) Country of registration and (b) Principal Country of operation	Principal activity	Description of shares held	Proportion of shares held at 31st December, 1995
Starmont Holdings Pty Ltd	Australia	Intermediate holding co	Ordinary shares of AS1.00	100%
Gordon Resources Ltd	Australia	Owner of coal royalty	Ordinary shares of AS0.80	100%*
Anglo European Minerals Ltd	England	Intermediate holding co	Ordinary shares of 10p	100%
Fife Silica Sands Ltd	Scotland	Extraction and processing of high grade silica sand	Ordinary shares of £1	100%*
Antrim Perlite Ltd	Northern Ireland	Mineral exploration	Ordinary shares of £1	67.8%*
Ledmore Marble Ltd	(a) England (b) Scotland	Mineral exploration and development	Ordinary shares of £1	100%*
Shetland Talc Ltd	Scotland	Mineral exploration	Ordinary shares of £1	100%†

* Denotes held by subsidiary company.

† The shares are held jointly by parent and subsidiary company.

14. Stocks

	1995 £000's	1994 £000's
Raw materials and consumables	42	58
Work in progress	—	99
Finished goods	79	160
	<u>121</u>	<u>317</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

15. Debtors

	1995		1994	
	The Group	The Company	The Group restated (note 2)	The Company restated (note 2)
	£000's	£000's	£000's	£000's
Trade debtors	824	—	908	—
Other debtors	601	42	486	59
Prepayments	349	90	345	87
	<u>1,774</u>	<u>132</u>	<u>1,739</u>	<u>146</u>

Included in other debtors are loans of £16,932 to two senior officials of the company.

16. Current asset investments

The Group

	1995	1994
	£000's	£000's
Overseas investments	<u>105</u>	<u>167</u>

The market value of the investment was £105,321 at 31st December, 1995. The investment is listed on the Australian Stock Exchange.

17. Creditors—amounts falling due within one year

	1995		1994	
	The Group	The Company	The Group	The Company restated (note 2)
	£000's	£000's	£000's	£000's
Bank overdraft	1,120	1,039	174	130
Leasing and hire purchase	36	7	65	—
Trade creditors	281	—	311	—
Other taxation and social security payable	462	65	442	7
Other creditors	98	78	290	282
Accruals and deferred income	369	244	319	209
Provision for fundamental restructuring (note 5)	510	195	—	—
	<u>2,876</u>	<u>1,628</u>	<u>1,601</u>	<u>628</u>

The Bank overdraft is secured by a full Mortgage Debenture over all the assets of Anglo Pacific Resources PLC.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

18. Creditors—amounts falling due after more than one year

	1995		1994	
	The Group £000's	The Company £000's	The Group £000's	The Company £000's
Other creditors	215	—	—	—
Obligations under finance leases and hire purchase contracts	10	10	28	—
Provision for restoration	58	—	5	—
Provision for fundamental restructuring (note 5)	560	474	—	—
	<u>843</u>	<u>484</u>	<u>33</u>	<u>—</u>

The obligations under finance leases and hire purchase contracts shown above are repayable between one and five years.

19. Convertible debt

The Group and the Company

	£000's
11.5% Unsecured Convertible Loan Stock, at 31st December, 1994 and 1995	<u>3,500</u>

The principal terms of the loan stock are as follows:—

- 1) The loan stock may be converted at any time up to 30th May, 1996 and may be redeemed at the option of the holder at 30th June, 1996.
- 2) The interest rate payable on the loan stock is 11.5% per annum.
- 3) The loan stock is convertible on the basis of five APR shares for every £2 of loan stock.

The Company has received proposals from the holders of the loan stock for its extension for a two year period to 30 June 1998. The terms would be varied as follows:—

- 1) The interest rate payable would be 9.5% per annum.
- 2) The basis of conversion would be the average market price of the shares over the three month period prior to conversion plus a premium of 20%. There would be a minimum conversion price of 25p and a maximum of 35p. Conversion rights will not apply before 30th June 1997.

The Directors have assumed that these proposals will be approved and have classified the debt as due after more than one year in the accounts.

20. Provision for liabilities and charges

The Group

	£000's
Deferred taxation	
At 1st January, 1995	136
Transferred from the profit and loss account	42
At 31st December, 1995	<u>178</u>

This provision represents the full potential liability to deferred taxation.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

20. Provision for liabilities and charges (continued)

The Group has tax losses in the region of £1.5 million available for carry forward and offset against future taxable profits. The Group also has capital tax losses in the region of £2.7 million available for offset against capital gains.

The Company

The company has no potential liability to deferred tax.

21. Called up share capital

	1995	1994
	£000's	£000's
Ordinary Shares of 10p each		
Authorised	11,000	11,000
110,000,000 (1994 110,000,000) shares of 10p each	<u>11,000</u>	<u>11,000</u>
Allotted, called up and fully paid		
77,795,671 (1994 77,695,671) shares of 10p each	<u>7,780</u>	<u>7,770</u>

On 8th June, 1995 100,000 ordinary shares of 10p each were issued in connection with the NS&GO Approved Share Option Scheme. The consideration received by the company was £14,000 comprising share capital of £10,000 and share premium of £4,000.

Share option schemes

During the year no options were granted under the terms of the NS&GO Approved Share Option Scheme. The following shares are under option at the year end;

Period of option	Number of shares subject to option		Price per share
	1995	1994	
1996-2003	15,000	115,000	14p
1997-2004	382,500	382,500	32p

22. Capital reduction reserve

The Group and the Company

	£000's
At 1st January, 1995	5,482
Released to profit and loss account	<u>(5,482)</u>
At 31st December, 1995	<u>—</u>

The capital reduction reserve was created following a reduction in the company's share capital some years ago. The reserve was released to the profit and loss account during the year ended 31st December, 1995 as the directors are satisfied that all creditors and debts of the company at the date of the reduction have been settled.

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

23. Capital reserve

The Group

	£000's
At 1st January, 1995	733
Released to profit and loss account	(733)
At 31st December, 1995	<u>—</u>

The capital reserve related to an excess of the fair value of the assets of Fife Silica Sands Limited over its costs to the Group. The tangible fixed assets of Fife Silica Sands Ltd have been written down as described in note 12 and the reserve is therefore redundant.

24. Foreign currency translation reserve

	Group
	£000's
At 1st January, 1995	92
Arising from retranslation of opening investment in foreign subsidiaries	(20)
At 31st December, 1995	<u>72</u>

25. Profit and loss account

	Group	Company
	£000's	£000's
At 1st January, 1995 (restated—note 2)	(6,197)	(594)
Transfer from capital reduction reserve (note 22)	5,482	5,482
Transfer from capital reserve (note 23)	733	—
Loss for the financial year	(6,688)	(11,486)
At 31st December, 1995	<u>(6,670)</u>	<u>(6,598)</u>

26. Reconciliation of movements in shareholders' funds

	1995	1994
		restated
		(note 2)
	£000's	£000's
Loss for the financial year	(6,688)	(1,233)
Movement in foreign exchange reserve	(20)	(20)
Increase in share capital	10	2
Increase in share premium	4	—
Net reduction of shareholders' funds	(6,694)	(1,251)
At 1st January	9,517	10,768
At 31st December	<u>2,823</u>	<u>9,517</u>

Anglo Pacific Resources PLC

NOTES TO THE ACCOUNTS

27. Financial commitments

The net lease obligations to which the Group is committed are:—

	1995 £000's	1994 £000's
In one year or less	36	65
Between one and two years	10	28
	<u>46</u>	<u>93</u>

Subsidiary undertakings have commitments as detailed below:—

Fife Silica Sands Limited

A bond was granted to Dunfermline District Council for £200,000 in August 1988 relating to the extraction of minerals and the restoration to agricultural use of part of Burrowine Moor, Culross, Fife.

A bond was granted to the Forestry commission for £20,000 in December 1990, in respect of re-instating the site at Burrowine Moor Quarry, Bogside Wood, Devilla.

Antrim Perlite Limited

The company has provided a guarantee to the Department of Economic Development to the value of £10,000.

Ledmore Marble Limited

A bond was granted to the Secretary of State for Scotland for £50,000 in May 1988. The bond is in respect of a prospecting and option agreement to explore and search for minerals at Ledmore Forest, Sutherland.

Shetland Talc Limited

A bond was granted to Shetland Islands Council for £100,000 in September 1990 in respect of the installation of a Talc processing plant at Broonies Taing Sandwick, and the extraction of talc magnesite rock at Catpund, Cunningsburgh.

28. Shareholder statistics

a) Size of Holding (at 11th April, 1996)

Category	Number of Shareholders	%	Number of Shares	%
1- 1,000	719	40.88	457,121	0.59
1,001- 5,000	644	36.61	1,579,292	2.03
5,001-10,000	118	6.71	1,008,992	1.30
10,001-and over	278	15.80	74,750,266	96.08
	<u>1,759</u>	<u>100.00</u>	<u>77,795,671</u>	<u>100.00</u>

b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 11th April, 1996—68.27%.

