



Nigerian-German Chemicals PLC

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Accounts

2000

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Financial Highlights

Year ended December, 2000

	2000	1999
	N'000	N'000
Major balance sheet items:		
Total Assets	1,692,070	1,734,533
Current liabilities	629,847	673,596
Long term liabilities	51,337	63,000
Provisions for liabilities and charges	27,279	27,279
Shareholder's funds	983,607	970,658
Major profit and loss account items:		
Turnover	1,032,409	1,156,861
(Loss)/Profit before taxation	29,406	17,374
Taxation	8,548	8,593
(Loss)/Profit after taxation	20,858	8,781
Dividend (gross)	7,909	-
Information per 50k ordinary share based on 131,816,00 (1998- 61,250,000) ordinary shares:		
Earnings per share	15.82k	6.66k
Stock Exchange quotation as at 31st December	N 7.99	N 5.00
Dividend per share	6.00k	-
Dividend cover (times)	2.64	-
Net assets per share (actual)	N 7.46	N 7.36
Number of employees	114	170

Chairman's Statement

From the 37th Annual General Meeting - 24th July, 2001

Distinguished Shareholders, Ladies and Gentlemen,

I am pleased to welcome you all to the 37th Annual General Meeting of our Company, and to present to you the Annual Report and Accounts for the year ended 31st December, 2000. In order to appreciate the results, I shall dwell briefly on the business and political environment under which we operated.

The Business and Political Environment

During the year 2000, Nigerians took advantage of freedom associated with democracy and respect for human rights, to test the boundaries of freedom of expression. Consequently, the political environment was catagorised by tense relations between the executive arm of government and the legislature.

There were also tense relations between the federal government and state governments, over issues, significant examples of which include Sharia law, the battle for resource control and state police systems.

Ethnic militancy increased during the year reflecting growing feelings of alienation and grass roots discontent arising largely from the impact of the poor economy.

The government's efforts to create a liberal market-oriented economy, driven by the private sector met with limited success. One major successful exercise recorded by the government however, was in its programme of privatising some of its assets. The exercise was remarkable transparent, with considerable enthusiasm for the programme expressed by several consortia made up of local and foreign investors.

On the other hand, efforts to increase the size and activity of the non-oil, especially the agricultural and manufacturing sectors, have not been as successful. To achieve this, the government needs to address the myriad difficulties arresting the development of the enfeebled private sector, and also needs to tackle the problems of collapsing infrastructure and lost confidence in the system.

Outside of telecom and oil sectors, and some multinational firms, the anticipated increase in foreign investment did not materialise, partly because investors are yet to be convinced of the country's economic turnaround and also adequate security.

The trade union movement, strengthened by their regained independence, under constitutional rule and the rule of law, staged several major protests and strikes against government policy. The most prominent of such actions was the strike forcing the government to back down on its plans to deregulate the petroleum sector.

2000 Performance

Our performance during the 2000 financial year reflects the extent to which we were able to perform, in spite of significant challenges posed by the operating environment.

Overall, we continued to battle with the costs of providing alternative infrastructure to run our operations, most notable of which was the very poor electricity supply situation. Our budget, as well as the cost of maintaining our overworked generating sets.

In the Industrial Chemical Division, the low production levels of our client companies in the textile, paint and soap industries meant that we could not meet our sales. Fierce competition from local and imported producers and suppliers, kept margins at an all time low. Despite rising costs, including the Naira devaluation, we were unable to effect price increases. Indeed, we had to sell some products at losses, to liquidate stocks.

Overall, slim margins compounded by the lengthy working capital cycle for funding inventory as well as receivables, led to a loss on the operations year. In the prevailing environment, our future activities in the chemical business have come up for review, as it has had a significant and adverse impact on our performance.

On the other hand, the Pharma Division recorded significant performance improvement. Divisional sales improved considerably over the previous year. While we effected no price increase during the year, we were able to focus resources more productively, to drive sales and profits by rationalising unprofitable product lines, and rationalising our distribution system.

Increased operating costs and distribution expenses were offset by continued gains from internal operational efficiencies, which reduced our administrative expenses significantly. By reducing our exposure to the banks, and taking advantage of the liquidity situation in the banking industry, we were able to reduce our interest expenses.

Because of all the foregoing, despite a reduced turnover in 2000 to N1,032m compared to N1,156m in 1999, we are pleased to have achieved a profit before tax of N29.4m for the year. This figure, though modest, reflects a 69% increase on the 1999 financial year result of N17.4m, and comes after a provision for depreciation of N88.4m.

The major area that remains a concern for us is our high depreciation provision arising from our reinvestment in plant and equipment, which continues to affect our results. The only way to combat this effectively is through increased capacity utilisation. We will continue to seek ways to effect this, while optimising our net working capital employed.

Lastly, at the end of the year, our association with the successor in title to the Hoechst Group, Aventis formally ended. Sufficient notice of this was received during the year, and adequate preparations made to minimise its impact on our operations. We retain close marketing and technical ties to the largest pharmaceutical group in the world, Pfizer, the licensor, following its merger with Warner Lambert, of our strong selling brands, Benylin and Sloans Liniment amongst others. Strategically, we have commenced investment in building our own brands, to reduce business risk arising from losing rights to brands we do not own.

Outlook for 2001 and Beyond

The Federal Government budget for the Year 2001 contained several initiatives to alleviate poverty and to reflate the economy. It also included adjustments to import tariffs, intended to assist local manufacturers improve their fortunes. Unfortunately, in reality, the Year 2001 is turning out to be the most challenging in recent times, for the manufacturing sector.

The difference in duty rates between some of our chemical raw materials and their finished equivalents are insufficient to create any comparative advantage, when taken against our higher operating and financial costs.

Of more concern has been the heavy government spending. We have already witnessed its impact in high inflation and a sharply devalued currency. Recent efforts by the Central Bank of Nigeria to protect the value of the Naira, has led to sharply increased interest rates, as a result of withdrawing liquidity from the system.

The foregoing, in addition to other high operating costs will put further pressure on our operating margins during the year. There is little room to pass on these costs to an impoverished populace through increased prices. We can only continue to seek avenues to reduce costs through additional internal costs rationalisation programmes.

We will also focus on programmes to increase capacity utilization at our Pharma plant in Otta. This will be achieved through investing in increased profitable product ranges and brand extensions as well as expanding strategic manufacturing alliances with third party companies.

Management will continue to focus on reducing working capital employed, through effective supply chain management as well as funds and expense management initiatives.

Management will build on recent successes in the Pharma business, investing in strengthening its distribution systems, customer relationship management and brand building.

In order to achieve these objectives, we continue to focus on significantly improving staff caliber, and linking rewards to performance.

Management intends to take advantage of opportunities arising, despite the inclement operating environment, to provide steady growth within the company. We are aided by modern Pharmaceutical production facilities, an increasingly invaluable IT enabled database, and a focused group of high caliber committed staff.

Dividend and Bonus Issue

Following two years of not declaring a dividend, it is proposed that a modest dividend be declared this year, of 6Kobo per share. The board has also recommended a bonus of one new share for every six shares owned by shareholders as at 27 June, 2001.

Because the company continues to require retention of cash, to substitute borrowed funds, to safeguard long-term growth, we believe that our policy provides the best balance with expectations of shareholders at this time. This gesture is in order to compensate our patient shareholders. We also hope that we can steadily grow the dividend payout in future years, from this base.

Changes to the Board

During the year, Alhaji Adamu Fika resigned from the board, due to the pressing

demands of his national assignment, and in order to provide opportunity for others to contribute to growing the business. I am sure you have no objection to my thanking Alhaji Fika on your behalf, for his years of invaluable contributions to building NGC, and to wish him every success in his future endeavours.

After the end of the financial year, Mr. E.C. Ndiokwere also retired from the company following 28 years of dedicated and loyal service. In recognition of his contribution, he is remaining as a non-executive director, to enable the company continue to benefit from his wisdom and experience.

During the year, we invited two gentlemen to join the board, for which we will seek your approval by ratification.

Mr. T. Lindsay, a British national, resident in the UK, was a former employee of Roussel, part of the Hoechst Group, and what is now known as Aventis. He has been instrumental in obtaining new and additional licensing collaborations with global pharmaceutical companies such as Pfizer/Warner Lambert, and Solvay. His organisation has provided invaluable technical and marketing support to NGC since 1995.

Alhaji (Dr) Abba Aji is the Managing Director of NSITF. Early in 2001, NSITF took an interest in NGC, based on its sound fundamentals, and decided to increase its equity stake as an institutional investor. This stake presently is more than 10%. We are very excited to have such an institutional investor within NGC. We believe that Alhaji Aji will lend both his as well as NSITF's rich experience to building the fortunes of NGC.

Management and Staff Matters

Because of declining fortunes within the Industrial Chemical Division, and the need to rationalise administrative staff to reduce expenses, staff strength declined during the year. Despite the foregoing, and the strains of operations during the year, employee relations remained cordial throughout the year, continuing an eight-year tradition. The management and staff of the Company deserve commendation for their efforts in this difficult year.

I am confident that they fully appreciate the enormity of the challenges they face, going into the future, and are even better prepared to address these challenges now and in the future.

Conclusion

In conclusion, let me express my gratitude to all the shareholders for their continued support. The Company remains fundamentally sound, with a very strong asset base, essential to safeguard sustained long-term growth and development. I am confident that long term shareholder value and returns are assured.

Thank you for your attention.

Abali Muhammadu – Emir of Fika
Chairman

Profit and Loss Account

Year ended December 31, 2000

	2000	1999
	N'000	N'000
TURNOVER	1,032,409	1,156,861
Cost of sales	(529,645)	(600,011)
GROSS PROFIT	502,764	556,850
Distribution expenses	(70,747)	(68,092)
Administrative and establishment costs	(277,209)	(307,584)
Other income	14,837	16,895
OPERATING PROFIT	169,645	198,069
Interest and similar charges	(140,239)	(180,695)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	29,406	17,374
Tax on profit on ordinary activities	(8,548)	(8,593)
RETAINED PROFIT FOR THE YEAR	20,858	8,781
APPROPRIATIONS		
PROPOSED DIVIDEND	7,909	-
RESERVE FOR BONUS ISSUE	10,985	-
RETAINED PROFIT TRANSFERRED TO GENERAL RESERVE	1,964	8,781
PER SHARE DATA (KOBO)		
Earnings per share	15.82K	6.66k
Dividend per share	6.00K	Nil
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Balance Sheet

At December 31, 2000

	2000	1999
	N'000	N'000
FIXED ASSETS	558,954	635,358
INVESTMENT	163,987	161,962
RESEARCH AND DEVELOPMENT	13,104	17,420
CURRENT ASSETS	736,045	814,740
Stocks	724,244	584,580
Debtors	222,453	320,926
Cash and bank balances	9,328	14,287

	956,025	919,793
CREDITORS:		
Amount falling due within one year:	(629,847)	(673,596)
NET CURRENT ASSETS/(LIABILITIES)	326,178	246,197
TOTAL ASSETS LESS CURRENT LIABILITIES	1,062,223	1,060,937
CREDITORS:		
Amounts falling due after more than one year	(51,337)	(63,000)
PROVISIONS FOR LIABILITIES AND CHARGES:		
Deferred Taxation	(27,279)	(27,279)
NET ASSETS	983,607	970,658
CAPITAL AND RESERVES:		
Called-up Share Capital	65,908	65,908
Share Premium	377,339	377,339
Revaluation Reserve	256,850	256,850
Reserve for Bonus Issue	10,985	-
General Reserve	272,525	270,561
	983,607	970,658

Cash Flow Statement

Year ended December 31, 2000

	2000	1999
	N'000	N'000
Cash flows from Operating activities:		
Cash receipt from customers	1,144,945	1,120,531
Payment to suppliers and employees	(956,471)	(902,957)
	188,474	217,574
Income Tax Paid	(5,938)	(5,460)
Net Cash Flow From Operating Activities	182,536	212,114
Cash flows from Investing activities:		
Proceeds from rights issue	-	210,078
Purchase of fixed assets	(12,842)	(64,256)
Proceeds from sale of fixed assets	1,524	5,349
Purchase of investment	(2,025)	(15,383)
Research and Development	4,316	1,325
Net Cash Flow From Investing Activities	(9,027)	137,113
Cash flows from Financing activities:		

Loan received	9,610	25,000
Interest paid	(140,239)	(180,695)
Net Cash Flow From Financing Activities	(130,629)	(155,695)
Net Increase in Cash	42,880	193,532
Cash and cash equivalents, beginning of the year	(459,032)	(652,564)
Cash and cash equivalents, end of the year	(416,152)	(459,032)
Represented by		
Cash in hand and at bank	9,328	14,287
Bank overdraft	(425,480)	(473,319)
	<u>(416,152)</u>	<u>(459,032)</u>
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Five-Year Financial Summary

Year ended December 31,

	2000	1999	1998	1997	1996
	N'000	N'000	N'000	N'000	N'000
TURNOVER AND PROFIT					
Turnover	1,032,409	1,156,861	972,311	1,086,324	928,927
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Profit before taxation	29,406	17,374	4,855	80,900	131,017
Taxation	(8,548)	(8,593)	(10,438)	(7,886)	(28,045)
	<u>20,858</u>	<u>8,781</u>	<u>(5,583)</u>	<u>73,014</u>	<u>102,972</u>
(Loss)/Profit after taxation	20,858	8,781	(5,583)	73,014	102,972
Dividend	7,909	-	-	(30,625)	(30,625)
Debenture redemption reserve	-	-	-	(4,000)	(12,000)
	<u>1,964</u>	<u>8,781</u>	<u>(5,583)</u>	<u>38,389</u>	<u>60,347</u>
Profit/(Loss) retained	1,964	8,781	(5,583)	38,389	60,347
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Earnings per share	15.82k	6.66K	(9.12k)	119.21k	168.12k
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Dividend per share	6.00k	-	-	50.00k	50.00k
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ASSETS EMPLOYED					
Fixed assets	558,954	635,358	652,682	534,986	395,485
Investment	163,987	161,962	146,579	19,692	-
Research and Development	13,104	17,420	18,745	-	-
Net current assets	326,178	246,197	13,989	252,273	411,697
	<u>1,062,223</u>	<u>1,060,937</u>	<u>831,995</u>	<u>806,951</u>	<u>807,182</u>
Provision for liabilities and charges	(78,616)	(90,279)	(80,196)	(49,569)	(92,189)
	<u>983,607</u>	<u>970,658</u>	<u>751,799</u>	<u>757,382</u>	<u>714,993</u>

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FINANCED BY					
Share capital	65,908	65,908	30,625	30,625	30,625
Reserves	917,699	904,750	721,174	726,757	684,368
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Shareholders' funds	983,607	970,658	751,799	757,382	714,993
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Last Updated - August 13, 3901