

DUNLOP KENYA LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1996**

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DUNLOP KENYA LIMITED

DIRECTORS AND OFFICIALS

BOARD OF DIRECTORS

J D M Silvester	- Chairman
D M Hale	- Managing
C J Kirubi	
P H Okondo	- (Deceased 16 August 1996)
L G Phillips	- (Resigned 31 July 1996)
M M W Matu	- (Appointed 4 November 1996)
K D McCourt	- (Appointed 4 November 1996)

REGISTRARS

Specialist Corporate Consultants
Comcraft House
P O Box 30633
Nairobi

ADVOCATES

Hamilton Harrison & Mathews
ICEA Building, Kenyatta Avenue
P O Box 30333
Nairobi

AUDITORS

Deloitte & Touche
"Kirungii", Ring Road, Westlands
P O Box 40092
Nairobi

BANKERS

Standard Chartered Bank Kenya Limited
Harambee Avenue
P O Box 20063
Nairobi

REGISTERED OFFICE

Nanyuki Road
Industrial Area
P O Box 78265
Nairobi

DUNLOP KENYA LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the TWENTY SEVENTH ANNUAL GENERAL MEETING of Dunlop Kenya Limited will be held at the "Ball Room A", Inter-Continental Hotel, Nairobi on Thursday 24 April 1997 at 12.00 noon for the following purposes.

- 1 To read the notice convening the meeting.
- 2 To approve the minutes of the twenty sixth Annual General Meeting held on 6 November 1996.
- 3 To receive and consider the financial statements for the year ended 31 December 1996 together with the directors' and auditors' reports thereon.
- 4 To declare a dividend of Sh 17.95 per share on the issued and fully paid capital of the Company, payable on or about 9 May 1997 to shareholders appearing on the register on 23 April 1997.
- 5 To re-elect Mr J D M Silvester, a director retiring by rotation in accordance with Article 17 (1) of the Company's Articles of Association and, being eligible, offers himself for re-election.
- 6 To approve the directors' remuneration.
- 7 To note that the auditors, Deloitte & Touche, will continue in office in accordance with the provisions of section 159 (2) of the Companies Act (Cap. 486), and to authorise the directors to fix their remuneration.
- 8 To transact any other business of which due notice has been given to the Company.

BY ORDER OF THE BOARD

J L G MAONGA

Secretary

P O Box 30029
Nairobi

19 March 1997

Note: A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to vote in his stead. Such proxy need not be a member of the Company. To be valid, proxy forms must be deposited at the registered office of the Company not later than 12.00 noon on 22 April 1997. A proxy form is provided at the end of the report and financial statements.

DUNLOP KENYA LIMITED

CHAIRMAN'S STATEMENT

In 1996 we continued to face the full impact of the liberalisation of the economy attracting cheap imports from low labour cost countries in addition to established manufacturers in Europe who re-entered the market after many years of absence due to import licence and foreign exchange restrictions. The sale of the Dunlop tile plant in South Africa to Marley a major competitor aided by a falling rand further sharpened competition in neighbouring export markets and at home. We also had to bear increased local costs of inputs and services which reduced profit margins. The strength of the shilling throughout 1996 put exports on dollar terms out of reach but did keep imported raw materials costs steady. Considering this ultra competitive environment the trading result was satisfactory.

RESULTS

1996 turnover at Sh 90,302,000 was 11% less than the previous year (Sh 101,877,000) with profits down to Sh 23,945,000 (1995 Sh 29,137,000). Profit after tax decreased to Sh 15,273,000 (1995 Sh 18,522,000).

DIVIDEND

Due to a fall in profitability we have had to make a slight reduction in the dividend and your directors recommend a payment of Sh 17.95 per share (1995 - Sh 20.95).

SHAREHOLDING AND DIRECTORSHIP

BTR, a United Kingdom conglomerate, who owned 60% of the equity of Dunlop Kenya Limited sold 15% of their holding in the latter half of the year.

During 1996 we appointed Mr Michael Matu and Mr Kevin McCourt as directors who succeeded the late Hon. Peter Okondo and Mr Graham Phillips of BTR who retired.

OUTLOOK

Traders are apprehensive of the forthcoming elections. The building and construction industry upon which the company largely depends is still inhibited by the high cost of borrowing particularly in the government and domestic housing sector.

Infrastructural problems persist on roads, telephones, electricity and water. The current famine in various parts of the country and worry if the impending long rains fail combined with factors above is eroding confidence.

Indications are that 1997 will be a tough year with profit margins diluted by flat demand and intense competition. Meanwhile your company is looking to invest in new lines to broaden the product base as a way of continuing to ensure good returns to the shareholders.

J D M SILVESTER

CHAIRMAN

17 March 1997

DUNLOP KENYA LIMITED

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The principal activities of the company are the manufacture and sale of vinylex tiles and adhesives and marketing of various Dunlop sports and consumer goods.

RESULTS

	Sh '000
Profit before taxation	23,945
Taxation	8,672
	<hr/>
Profit after taxation	15,273
Proposed dividend (gross)	7,180
	<hr/>
Retained profit for the year transferred to revenue reserve	<u>8,093</u>

DIVIDEND

The directors recommend payment of a dividend of Sh 17.95 (1995 Sh 20.975) per share.

DIRECTORS

The directors who served during the financial year are shown on page 2.

Mr J D M Silvester retires by rotation in accordance with article I7 (1) of the Articles of Association and, being eligible, offers himself for re-election.

AUDITORS

The auditors, Deloitte & Touche, will continue in office in accordance with the provisions of section 159 (2) of the Companies Act (Cap. 486)

BY ORDER OF THE BOARD

J L G MAONGA

Secretary

Nairobi

17 March 1997

**REPORT OF THE AUDITORS TO THE MEMBERS OF
DUNLOP KENYA LIMITED**

We have audited the financial statements on pages 7 to 14 and have obtained all the information and explanations considered necessary for our audit.

The financial statements are the responsibility of the directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation.

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, comply with the Companies Act and give a true and fair view of the company's state of affairs at 31 December 1996 and of its profit and cash flows for the year ended on that date.

DELOITTE & TOUCHE

18 March 1997

DUNLOP KENYA LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996

	Note	1996 Sh'000	1995 Sh'000
TURNOVER		<u>90,302</u>	<u>101,877</u>
OPERATING PROFIT	2	17,544	25,668
INTEREST RECEIVED		<u>6,401</u>	<u>3,469</u>
PROFIT BEFORE TAXATION		23,945	29,137
TAXATION	3	<u>8,672</u>	<u>10,615</u>
PROFIT AFTER TAXATION		15,273	18,522
PROPOSED DIVIDEND (gross)		<u>7,180</u>	<u>8,390</u>
RETAINED PROFIT	8	<u>8,093</u>	<u>10,132</u>
EARNINGS PER SHARE	4	Sh <u>38.20</u>	Sh <u>46.30</u>

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DUNLOP KENYA LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1996**

	Note	1996 Sh'000	1995 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	10(a)	24,433	22,536
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(2,936)	(5,597)
Interest received		6,401	3,469
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		3,465	(2,128)
TAXATION PAID		(13,245)	(9,130)
INVESTING ACTIVITIES			
Purchase of fixed assets		(1,554)	(440)
Proceeds from disposal of fixed assets		461	60
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,093)	(380)
INCREASE IN CASH AND CASH EQUIVALENTS	10(b)	13,560	10,898

DUNLOP KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared on the historical cost basis of accounting modified to include the revaluation of certain fixed assets.

TURNOVER

Turnover represents the invoiced value of goods supplied excluding value added tax and commission.

FOREIGN CURRENCIES

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year in foreign currencies are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the profit and loss account except for unrealised differences arising from certain group company balances which are taken to reserves.

DEPRECIATION OF FIXED ASSETS

Fixed assets are depreciated to write off the cost or valuation in equal annual instalments at the following rates:

Leasehold land and buildings	Over the unexpired period of lease
Plant and equipment	7.5% - 20% p.a.
Motor vehicles	15% - 25% p.a.

STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost comprises the actual cost of raw materials and an appropriate proportion of labour and overheads in the case of work in progress and finished goods. Provision is made for obsolete and slow moving items.

TAXATION

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is accounted for to the extent that it is probable that timing differences will reverse in the foreseeable future.

DUNLOP KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	1996 Sh'000	1995 Sh'000
2 OPERATING PROFIT		
The operating profit is arrived at after charging:		
Auditors' remuneration		
Current	600	616
Prior year	-	20
Depreciation	1,996	2,016
Directors' emoluments		
Fees	124	124
Other emoluments	3,961	3,706
and after crediting:		
Profit on disposal of fixed assets	263	60
Rent income	394	684
	<u> </u>	<u> </u>
3 TAXATION		
Based on the taxable profit for the year:		
Income tax at 35%	8,768	10,615
Overprovision in previous year	(96)	-
	<u> </u>	<u> </u>
	<u>8,672</u>	<u>10,615</u>
4 EARNINGS PER SHARE		
Earnings per share has been calculated on the profit after taxation of Sh 15,273,000 (1995 - Sh 18,522,000) and 400,000 (1995 - 400,000) ordinary shares.		

DUNLOP KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FIXED ASSETS

	Long leasehold properties Sh'000	Short leasehold properties Sh'000	Plant, equipment and motor vehicles Sh'000	Total Sh'000
COST OR VALUATION				
At 1 January 1996	800	6,564	19,886	27,250
Additions	-	-	1,554	1,554
Disposals	-	-	(643)	(643)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	800	6,564	20,797	28,161
COMPRISING				
Cost	-	5,764	20,797	26,561
Valuation - 1980	800	800	-	1,600
	<hr/>	<hr/>	<hr/>	<hr/>
	800	6,564	20,797	28,161
DEPRECIATION				
At 1 January 1996	107	2,262	12,712	15,081
Charge for the year	13	174	1,809	1,996
Eliminated on disposals	-	-	(445)	(445)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	120	2,436	14,076	16,632
NET BOOK VALUE				
At 31 December 1996	<u>680</u>	<u>4,128</u>	<u>6,721</u>	<u>11,529</u>
At 31 December 1995	<u>693</u>	<u>4,303</u>	<u>7,174</u>	<u>12,170</u>

Fixed assets with a cost of Sh 6,726,894 were fully depreciated at 31 December 1996 (1995 - Sh 6,035,690). The normal annual depreciation charge in respect of these assets would have been Sh 761,776 (1995 - Sh 623,536).

6 STOCKS

	1996 Sh'000	1995 Sh'000
Finished goods	5,746	3,822
Raw materials	9,317	12,853
Consumables	3,665	472
	<hr/>	<hr/>
	<u>18,728</u>	<u>17,147</u>

DUNLOP KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	1996 Sh'000	1995 Sh'000
7 SHARE CAPITAL		
Authorised, issued and fully paid 400,000 ordinary shares of Sh 5 each	2,000	2,000

8 RESERVES	Share premium Sh'000	Fixed assets revaluation Sh'000	Currency revaluation Sh'000	Revenue Sh'000	Total Sh'000
At 1 January 1996	1,916	652	3,801	47,205	53,574
Retained profit	-	-	-	8,093	8,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1996	<u>1,916</u>	<u>652</u>	<u>3,801</u>	<u>55,298</u>	<u>61,667</u>

9 LOAN FROM GROUP COMPANY

The loan is due to Dunlop East Africa Limited, a company incorporated in Uganda. The loan is interest free and there is no fixed date for repayment.

	1996 Sh'000	1995 Sh'000
10 NOTES TO CASH FLOW STATEMENT		
(a) Reconciliation of profit before taxation net cash inflow from operating activities		
Operating profit	17,544	25,668
Depreciation	1,996	2,016
Profit on disposal of fixed assets	(263)	(60)
Increase in stocks	(1,581)	(1,666)
Decrease/(increase) in debtors	1,039	(5,251)
Increase in creditors	5,698	1,805
Increase in amounts due to group company	-	4
Write off of amounts in dividend account	-	20
	<u> </u>	<u> </u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>24,433</u>	<u>22,536</u>

DUNLOP KENYA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 NOTES TO CASH FLOW STATEMENT (Continued)

	1996 Sh'000	1995 Sh'000	Change in the year Sh'000
(b) Analysis of changes in cash and cash equivalents			
Bank balances and cash	36,332	29,585	6,747
Bank overdrafts	-	4,365	4,365
Short term deposit	2,448	-	2,448
	<u> </u>	<u> </u>	<u> </u>
Increase in cash and cash equivalents			<u><u>13,560</u></u>

	1996 Sh'000	1995 Sh'000
11 CONTINGENT LIABILITIES		
Guarantees in respect of immigration bonds	32	32
Customs bond	652	652
	<u> </u>	<u> </u>
	<u><u>684</u></u>	<u><u>684</u></u>

12 CAPITAL COMMITMENTS		
Authorised but not contracted	<u><u>5,356</u></u>	<u><u>6,910</u></u>