



Contents

- 3** Directors and Officials
- 4** Board of Directors
- 5** Notice of the Annual General Meeting
- 6** Chairman's Statement
- 7** Directors' Report
- 8** Report of the Auditors
- 9** Profit and Loss Account
- 10** Balance Sheet
- 11** Cash Flow Statement
- 12** Notes to the Financial Statements

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Directors and Officials

BOARD OF DIRECTORS	Dr C W Obura - Chairman M M W Matu - Managing K D McCourt P N Ndetei S A Lakhani
REGISTRARS	Barclays Advisory & Registrar Services Limited Barclays Plaza, Loita Street P O Box 30120 Nairobi
SECRETARY	J L G Maonga P O Box 30029 Nairobi
REGISTERED OFFICE	Kijabe Street Nairobi
ADVOCATES	Hamilton Harrison & Mathews ICEA Building, Kenyatta Avenue P O Box 30333 Nairobi Daly & Figgis Lonrho House P O Box 40034 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 Commercial Bank of Africa Limited Kijabe Street P O Box 30437 Nairobi



Board of Directors



Dr C W Obura - Chairman

Dr Obura, a Dentist by training and now retired. He is the Chairman of Lion of Kenya Insurance, Howse and McGeorge, Mitchell Cotts, Rhone Poulenc and Avon Rubber Company (K). He is also a Director of Kenya Airways, Express Kenya and McCann Ericksson.



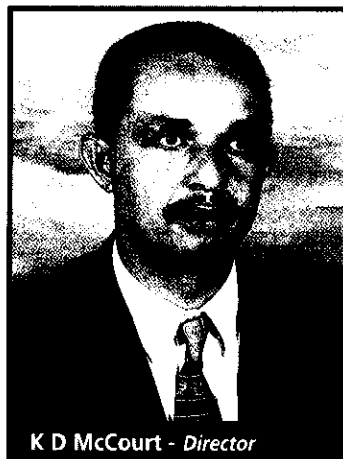
M M Matu - Chief Executive

Mr Matu holds a BA in Management and Economics, a Graduate Diploma in Applied Management and a Masters of Business Administration. He serves as a non executive Director of Mountain Lodges and Zimele Asset Management Company.



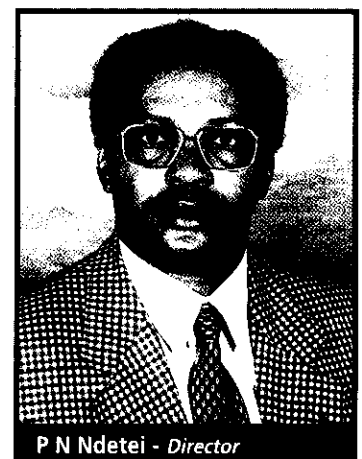
S Lakhani - Director

Mr Lakhani holds a Law Degree from the London School of Economics and a Masters Degree from the Cornell Business School. He is a businessman by profession and also a Director of Kenya Marble Quarries and Mineral Mining Corporation (1965).



K D McCourt - Director

Mr McCourt, a Lawyer by Profession, he is a partner in Kairu and McCourt Advocates in Nairobi.



P N Ndetei - Director

Mr Ndetei holds a Bachelor of Commerce degree in Accounting. He is a Certified Public Accountant and Chartered Public Secretary. He is currently the Group Finance Director of Cooper Kenya group of Companies.



Notice of the Annual General Meeting

Notice is hereby given that the twenty-ninth Annual General Meeting of the Company will be held at the Grand Regency Hotel, Loita Street, Nairobi on Thursday 26th August, 1999 at 12:00 noon for the following purposes:-

ORDINARY BUSINESS

1. To receive and consider the financial statements for the year ended 31st December, 1998 and the Directors' and Auditors' reports thereon.
2. To consider and approve the payment of a final dividend of 8% or Sh 0.40 for each share of Kenya Shillings five (Sh 5.00) on the Ordinary Share Capital in respect of the Financial year ended 31st December, 1998, payable to those shareholders registered in the books of the company on 18th July, 1999.
3. To re-elect retiring Directors:
 - (i) Mr P N Ndetei, a director retiring by rotation, in accordance with Article 99 of the Company and being eligible, offers himself for re-election.

- (ii) Mr Suresh Lakhani, a director retiring under Article 106 of the Company and, being eligible, offers himself for re-election.

4. To note that Deloitte & Touche, Certified Public Accountants, will continue in office as Auditors in accordance with Section 159 (2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

5. To consider the following resolution which will be proposed as an ordinary resolution.
"That the Directors' fees shall be sh 477,000 for the financial year ended 31st December, 1998."

By order of the Board

J L G Maonga
Company Secretary
Dunlop Kenya Limited

5th July, 1999



Chairman's Statement

The year under review was a very difficult year not only for your company but others as well. The business sector in which we are principally involved was adversely affected through out the year. The building and construction industry suffered stagnation that led to a decline in demand for our Vinylex Floor tiles and Adhesives. Shareholders will note that although the company operated in a very difficult economic environment the company experienced a marginal decline of only 9% in turnover year on year in 1998. Which, in comparison to other companies in the sector is quite reasonable.

OVERVIEW OF 1998:

As predicted in the last annual general meeting of Dunlop Kenya in July 1998, the company continued to operate in very difficult economic climate. The economy was adversely affected by the El Nino rains, which destroyed infrastructure and the August 7 bomb blast. The economy operated under a high interest regime and on the back of heavy public debt. The High interest rates were a growth constraint for many sectors of the economy including the Manufacturing and Building Industries. Your company continued to feel the full impact of liberalization as cheap imports and dumping continued. On the whole the Manufacturing sector remained subdued due to an inability to cope with low priced imports into the local market, depressed local demand and a combination of infrastructural constraints. Manufacturing remained depressed with growth in its output estimated to have fallen to 1.5% in the twelve months to November 1998 from 3.7% and 1.9% in 1996 and 1997 respectively. The depressed performance was mainly caused by the inability of the sector to compete with cheaper import substitutes.

RESULTS:

In 1998 the total sales figure for the company fell 9% short of the previous year. This difference was largely due to decreased sales of Vinylex floor tiles and Glues. During the year efforts were made to target the major construction sites as a way of improving sales of our traditional business lines. However, the building and construction industry continued in unsatisfactory performance, due to a general slowdown experienced in the domestic economy. Despite major control of expenses, the company incurred expenses of Sh 6.369 million in exceptional items that can be attributed to staff retrenchment costs (65%) and Stamp Duty Costs (30%) arising from an increase in Share Capital.

DIVIDEND:

The directors recommend a dividend payment of 8% or Sh 0.40 per share, shareholders will be pleased to note that this maintains the dividend payout of 1997 on diluted earnings.

THE GROWTH STRATEGY:

As a result of the difficult economic times faced by Dunlop Kenya the board has decided to adopt a cautious and realistic guide towards growth of the company. As you are well aware Dunlop Kenya Limited has conventionally been a manufacturer of PVC tiles and various glue products. Due to the competitive nature of its current business, the company has set out to diversify its investments with the aim of achieving above average returns to the shareholders.

In October 1998 your company in line with the new growth strategy approved at the AGM held in July 1998 made an Investment in Mountain Lodges Limited. Dunlop Kenya acquired 50,750 shares of Par Value Sh 20 each in Mountain Lodges Limited. The total Investment made by your company represents 10% shareholding in the company. The Lodge, which is situated in the Mount Kenya Forest area is considered to be one of the best lodges in Kenya. The Lodge is under management by Serena Hotels who, have also invested in an equity stake. We are very optimistic about the prospects for term return from this equity investment. Although we make no attempt to predict how the Tourism Industry will behave; we however, feel that this particular equity investment, will in the longer run be worth considerably more money than we paid, and that investment gains will add significantly to the operating returns of the company.

BOARD:

Mr. Chris Kirubi, one of our long time serving directors left us towards the end of the year and has been replaced by Mr. Suresh Lakhani. I would like to take this opportunity to thank Mr. Kirubi for the time he has served on our board and his invaluable contribution. I also take this opportunity to welcome Mr. Lakhani. Mr. Lakhani is a graduate of the Cornell Business School, a businessman by profession and is also a Director of Kenya Marble Quarries Limited and Mineral Mining Corporation (1965) Limited.

Finally, I would like to thank the Management and Staff for their hard work and diligence in the past year. In view of the Growth Task that is ahead of us it is our aim to build up management and staff equal to the task who together with the Chief Executive will lead a unified and motivated effort towards a more profitable and dynamic company. As company continues to manage the changes in its business environment as well as expand its operations and meet its commitment of growth and profitability to shareholders, we look forward to increased profits in the 1999 financial year.

Dr. C W Obura
Chairman

5th July, 1999



Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31st December, 1998.

PRINCIPAL ACTIVITIES

The principal activities of the company are the manufacture and sale of vinylex tiles and adhesives and sale of tyre shop equipment.

RESULTS

	Sh '000
Profit before taxation	9,588
Taxation	(3,541)
	<hr/>
Profit after taxation	6,047
Proposed dividend (gross)	(4,000)
	<hr/>
Retained profit for the year transferred to revenue reserve	<u>2,047</u>

DIVIDEND

The directors recommend payment of a dividend of Sh 0.40 (1997 Sh 0.40) per share.

DIRECTORS

The current directors are shown on page 3.

Mr. C J Kirubi resigned on 1 August, 1998. Mr S A Lakhani was appointed on 15th December, 1998.

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
Company Secretary
Dunlop Kenya Limited



Report of the Auditors

to the members of Dunlop Kenya Limited

We have audited the financial statements on pages 9 to 16 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 31st December, 1998 and of its profit and cash flows for the year ended on that date.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi

22nd June, 1999



Profit and Loss Account

for the year ended 31 December 1998

	Note	1998 Sh'000	1997 Sh'000
TURNOVER		78,698	86,387
PROFIT BEFORE EXCEPTIONAL ITEMS		15,957	10,562
EXCEPTIONAL ITEMS	2	6,369	-
PROFIT BEFORE TAXATION	3	9,588	10,562
TAXATION	4	3,541	1,851
PROFIT AFTER TAXATION		6,047	8,711
PROPOSED DIVIDEND (gross)		4,000	4,000
RETAINED PROFIT	14	2,047	4,711
EARNING PER SHARE	5	Sh 0.60	Sh 0.87

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Balance Sheet

31 December 1998

	Note	1998 Sh'000	1997 Sh'000
FIXED ASSETS	6	44,800	46,120
INVESTMENT	7	6,851	-
Goodwill	8	-	2,500
CURRENT ASSETS			
Stocks	9	17,797	19,077
Debtors	10	13,511	15,844
Bank balances and cash		934	15,439
Short term advances	11	45,841	22,269
Taxation recoverable		3,521	4,647
		81,604	77,276
CURRENT LIABILITIES			
Creditors	12	19,253	18,135
Dividend payable		468	4
Dividend proposed (gross)		4,000	4,000
Bank overdraft (secured)		3,730	-
		27,451	22,139
NET CURRENT ASSETS		54,153	55,137
		105,804	103,757
Financed by:			
SHARE CAPITAL	13	50,000✓	10,000
RESERVES	14	55,804	93,757
SHAREHOLDERS' FUNDS		105,804	103,757

The financial statements on pages 9 to 16 were approved by the Board of Directors on 22nd June, 1999 and signed on its behalf by: **Dr C W Obura** Director **M M W Matu** Director



Cash Flow Statement

for the year ended 31 December 1998

	Note	1998 Sh'000	1997 Sh'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15 (a)	8,330	10,410
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(3,536)	(12,838)
Interest received		9,668	6,201
NET CASH INFLOW /(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		6,132	(6,637)
TAXATION PAID		(2,415)	(4,499)
INVESTING ACTIVITIES			
Purchase of investments		(6,851)	-
Purchase of fixed assets		(859)	(1,116)
Proceeds from disposal of fixed assets		1,000	770
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(6,710)	(346)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	15 (b)	5,337	(1,072)



Notes to the Financial Statements

for the year ended 31 December 1998

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared on the historic 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.

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 the leases
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.

INVESTMENTS

Investments are stated at the lower of cost and net realisable value.

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.



Notes to the Financial Statements

for the year ended 31 December 1998 (continued)

	1998 Sh'000	1997 Sh'000
2. EXCEPTIONAL ITEMS		
Staff retrenchment costs	4,119	-
Stamp duty on increase in share capital	1,900	-
Consultancy and legal fees	350	-
	6,369	-
3. PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging:		
Depreciation	2,179	1,904
Directors' emoluments		
Fees	477	669
Management fees	4,425	-
Other emoluments	-	3,675
Bad debts	1,993	247
Auditors' remuneration	768	696
Pensions & retirement benefits	708	2,517
and after crediting:		
Interest income - Avon Financial Services Ltd.	8,562	3,371
- Fixed deposits	1,105	2,931
Profit on disposal of fixed assets	1,000	770
Rent income	372	672
4. TAXATION		
Based on the taxable profit for the year:		
Income tax at 32.5% (1997 - 35%)	3,541	4,080
Overprovision in previous year	-	(2,229)
	3,541	1,851

The chargeable profit for the year is significantly higher than the profit before taxation mainly due to excess depreciation over capital allowances.

DEFERRED TAXATION

The company has a deferred tax liability of Sh 32,646 (1997 - Sh 265,296). No provision has been made for deferred taxation as the timing differences are not expected to reverse in the foreseeable future.

5. EARNINGS PER SHARE

Earnings per share has been calculated on the profit after taxation of Sh 6,047,000 (1997 - Sh 8,711,000) and 10,000,000 (1997 - 2,000,000) ordinary shares. Due to the bonus issue during the year, the comparative figure has been amended in line with generally accepted accounting practice.



Notes to the Financial Statements

for the year ended 31 December 1998 (continued)

6. 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 1998	7,000	33,000	20,739	60,739
Additions	-	-	859	859
Disposals	-	-	(3,049)	(3,049)
At 31 December 1998	7,000	33,000	18,549	58,549
COMPRISING				
Cost	-	-	18,549	18,549
Valuation - 1997	7,000	33,000	-	40,000
	7,000	33,000	18,549	58,549
DEPRECIATION				
At 1 January 1998	-	-	14,619	14,619
Charge for the year	140	660	1,379	2,179
Eliminated on disposals	-	-	(3,049)	(3,049)
At 31 December 1998	140	660	12,949	13,749
NET BOOK VALUE				
At 31 December 1998	6,860	32,340	5,600	44,800
At 31 December 1997	7,000	33,000	6,120	46,120

Fixed assets with a cost of Sh 7,753,297 were fully depreciated at 31 December 1998 (1997 - Sh 10,046,164). The normal annual depreciation charge in respect of these assets would have been Sh 891,589 (1997 - Sh 1,339,031).

7. INVESTMENT

This unquoted investment relates to the cost of 50,750 ordinary shares of Sh 20 each in Mountain Lodges Limited acquired during the year, representing a 10% holding. The directors are of the opinion that the valuation is at least equal to cost of the investment.

	1998 Sh'000	1997 Sh'000
8. GOODWILL		
Goodwill on acquisition of tyre shop equipment franchise	-	2,500

The goodwill relates to the acquisition of franchise for sale of tyre shop equipment from Avon Rubber Company Limited, in 1997. The goodwill was reversed during the year after the Franchise was transferred to Avon Rubber Company Limited.



Notes to the Financial Statements

for the year ended 31 December 1998 (continued)

	1998 Sh'000	1997 Sh'000
9. STOCKS		
Finished goods	4,854	6,785
Raw materials	12,117	11,466
Consumables	826	826
	17,797	19,077
10. DEBTORS		
Trade debtors (net)	12,335	14,475
Staff loans	1,116	272
Others	60	1,097
	13,511	15,844
11. SHORT TERM ADVANCES		
Avon Financial Services Limited.	40,470	21,445
Other Avon group balances	2,231	824
Scottlink Limited	3,140	-
	45,841	22,269
12. CREDITORS		
Trade creditors	8,696	8,303
Others	10,515	9,790
Due to Dunlop East Africa Limited	42	42
	19,253	18,135
13. SHARE CAPITAL		
Authorised share capital, 40,000,000 (1997: 2,000,000) ordinary shares of Sh 5 each	200,000	10,000
Issued and fully paid 10,000,000 (1997: 2,000,000) ordinary shares of Sh 5 each	50,000	10,000

At the Annual General meeting held on 28 July 1998, the members approved that the authorised share capital of the company be increased by the creation of 38,000,000 ordinary shares of Sh 5 each.

At the same meeting, the shareholders also approved the capitalisation of Sh 40,000,000 to be applied to a bonus issue of four ordinary shares for every one ordinary share held.



Notes to the Financial Statements

for the year ended 31 December 1998 (continued)

14. RESERVES	Fixed assets revaluation Sh '000	Currency revaluation Sh '000	Revenue Sh '000	Total Sh '000
At 1 January 1998	36,031	3,801	53,925	93,757
Capitalisation of reserves (Note 13)	-	-	(40,000)	(40,000)
Retained profit	-	-	2,047	2,047
At 31 December 1998	36,031	3,801	15,972	55,804
			1998	1997
			Sh'000	Sh'000
15. NOTES TO CASH FLOW STATEMENT				
(a) Reconciliation of profit before taxation to net cash inflow from operating activities				
Operating (loss)/profit (Note (c))			(80)	4,260
Depreciation			2,179	1,904
Profit on disposal of fixed assets			(1,000)	(770)
Decrease/(increase) in stocks			1,280	(349)
Decrease in debtors			2,333	6,012
Increase in creditors			1,118	1,875
Decrease in amounts due to group company			-	(22)
Goodwill reversed/(purchased)			2,500	(2,500)
NET CASH INFLOW FROM OPERATING ACTIVITIES			8,330	10,410
			1998	Change in the year
			Sh'000	Sh'000
(b) Analysis of changes in cash and cash equivalents				
Bank overdraft			(3,730)	-
Bank balances and cash			934	15,439
Short term deposit			45,841	22,269
Increase in cash and cash equivalents				5,337
(c) The operating (loss)/profit is arrived at as follows:				
Profit before taxation			9,588	10,562
Interest income			(9,668)	(6,302)
			(80)	4,260
16. CONTINGENT LIABILITIES				
Guarantees in respect of immigration bond			32	32
Customs bond			652	652
			684	684
17. CAPITAL COMMITMENTS				
Authorised but not contracted			1,500	-



PROXY

We (names in block letters) _____

of (address) _____

being a members of Dunlop Kenya Limited, hereby appoint

(names in block letters) _____

of (address) _____

or failing him, the Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General Meeting of the company to be held on Thursday 26th August, 1999, at the Grand Regency Hotel or any adjournment thereof.

As witness my/our hand/hands this _____ day of _____ 1999

Signature of shareholders _____

Notes:

1. A proxy need not be a member

2. If executed by a corporation the proxy should be sealed.

3. This proxy must be deposited at the registered office of the company at P O Box 30102, Nairobi, not less than forty eight hours before the time for holding the meeting.

CMA-113717

FOLD HERE

The Company Secretary,
Dunlop Kenya Limited
P O Box 30102
Nairobi

Affix
Stamp

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