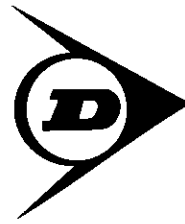


**DUNLOP KENYA LIMITED**



**DUNLOP KENYA LIMITED**

**FINANCIAL STATEMENTS**

**31<sup>ST</sup> DECEMBER 2002**



<b>Contents</b>	<b>Pages</b>
Corporate information	1
Notice of Meeting	2
Report of the Directors	3
Chairman's Statement	4 - 5
Corporate Governance	6
Statement of Directors' Responsibilities	7
Report of the auditors	8
Consolidated income statement	9
Consolidated balance sheet	10
Company balance sheet	11
Consolidated statement of changes in equity	12
Company statement of changes in equity	13
Consolidated cash flow statement	14
Notes to the financial statements	15 - 35

**CORPORATE INFORMATION****DIRECTORS**

Dr. C W Obura - Chairman  
M M W Matu  
P N Ndetei  
M Kunyiha  
S A Lakhani  
E M Wamae

**REGISTRARS**

Barclays Advisory & Registrar Services Limited  
P. O. Box 30120  
Nairobi

**SECRETARY**

J L G Maonga  
P. O. Box 30029  
Nairobi

**REGISTERED OFFICE**

Nanyuki Road  
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**

Commercial Bank of Africa Limited  
Kijabe Street  
P. O. Box 30437  
Nairobi

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

Standard Chartered Bank Kenya Limited  
Moi Avenue  
P. O. Box 72585  
Nairobi

Barclays Bank of Kenya Limited  
Barclays Plaza Business Centre  
P. O. Box 46661  
Nairobi

Barclays Bank of Kenya Limited  
Enterprise Road,  
P. O. Box 18060  
Nairobi

First National Bank of Botswana Limited  
P. O. Box 1552  
Gaborone  
Botswana

Standard Chartered Bank of Botswana Limited  
P.O. Box 496  
Gaborone  
Botswana

**NOTICE OF MEETING**

Notice is hereby given that the Thirty-Third Annual General Meeting of the Company will be held at the Nairobi Club on Tuesday, 30<sup>th</sup> September 2003 at 12.00 noon for the following purposes.

**ORDINARY BUSINESS**

1. To approve the minutes of the Thirty-Second Annual General Meeting held on 14<sup>th</sup> March 2003.
2. To receive, consider and adopt the Financial Statements for the financial year ended 31<sup>st</sup> December 2002 and the Directors' and the Auditors' reports thereon.
3. To note that the Directors do not recommend payment of a dividend for the financial year ended 31<sup>st</sup> December 2002.
4. To re-elect Directors:
  - (i) In accordance with Article 99 of the Companies Articles of Association, Dr C.W. Obura retires by rotation and, being eligible, offers himself for re-election
  - (ii) In accordance with Article 106 of the Companies Articles of Association, Mr E. M. Wamae retires at this meeting and, being eligible, offers himself for re-election.
5. To note that Deloitte & Touche, Certified Public Accountants, will continue in office as Auditors under Section 159(2) of the Companies Act (Cap 486) and to authorise the Directors to fix their remuneration.

**SPECIAL BUSINESS**

6. To consider the following resolution which will be proposed as an ordinary resolution.

"That the Directors' fees shall be Kshs 600,00.00 for the financial year ended 31<sup>st</sup> December 2002".

**BY ORDER OF THE BOARD**

**J L G MAONGA  
COMPANY SECRETARY  
DUNLOP KENYA LIMITED**

Date: 25<sup>th</sup> June, 2003

**Note:**

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a Member of the Company.
2. In the case of a member being a corporation this form must be completed under its common seal or under the hand of an officer or attorney duly authorised in writing.
3. Proxies must be in the hands of the Secretary not later than 48 hours before the meeting.



## REPORT OF THE DIRECTORS

The directors submit their report together with the group audited financial statements for the year ended 31<sup>st</sup> December 2002.

### ACTIVITIES

The principal activities of the group are the manufacture and sale of floor tiles and adhesives.

On 14 October 2002, Dunlop Kenya Limited jointly with other local shareholders formed a company, Yeti Holdings (Proprietary) Limited incorporated in Botswana with Dunlop Kenya Limited holding 59.9% equity in the subsidiary. Yeti Holdings (Proprietary) Limited subsequently acquired a 100% stake in Kalahari Floor Tiles (Proprietary) Limited, a company incorporated in Botswana which has two wholly owned subsidiaries, Gaborone Enterprises (Proprietary) Limited incorporated in Botswana and Plasrik (SA) Proprietary Limited incorporated in South Africa. 6% of the acquired equity in Kalahari Floor Tiles (Proprietary) Limited was subsequently disposed of to a local investor.

### GROUP RESULTS

	Sh'000
Group profit before taxation	19,691
Taxation charge	(1,650)
	<hr/>
Net profit after taxation	18,041
Minority interest	(12,990)
	<hr/>
Net profit for the year	5,051
	=====

### DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002.

### DIRECTORS

The directors who held office during the year are shown on page 2.

Mr. E. M. Wamae was appointed to the board on 2nd May 2003.

In accordance with Article 99 of the Company's Articles of Association, Dr. C W Obura retires by rotation and, being eligible, offers himself for re-election.

In accordance with Article 106 of the Company's Articles of Association, Mr. E M Wamae retires at this meeting and, being eligible, offers himself for re-election.

### AUDITORS

Deloitte & Touche, having expressed their willingness, 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  
22<sup>nd</sup> July, 2003



## **Chairman's Statement**

The year ended 31<sup>st</sup> December 2002 shows a significant improvement in the financial affairs of the group. We have finally consolidated our accounts with those of our recently acquired subsidiaries in Botswana and South Africa resulting in a total improvement in turnover figures and an improvement in profitability.

Following the spin off of our Kenyan manufacturing business into a fully owned subsidiary called Dunlop Industries Limited and the acquisitions in both Botswana and South Africa, the company has transformed itself into a regional investment holding company. Our principal line of business will be in the investment of productive assets in the building material sector within East and Southern Africa.

As I mentioned in my last years report, we have embarked on an aggressive five-year acquisition plan that will be financed from cash flows, liquidation of certain assets and debt. Our intention is not to burden the shareholders with any calls for capital, and this will necessitate that the company will not pay any dividends in the short term.

### **Kenya:**

Our Kenyan manufacturing business which only contributed 23% of our turnover, continued to suffer during 2002. A major restructuring of the business has been done during the first quarter of 2003, and we are already seeing some good results from this. There was a revamping of senior management, change in the organisational structure of the business, benchmarking against our Botswana manufacturing business and changes in the manufacturing process. All these changes have led to improved efficiency in the plant, which enabled us to convert to better priced raw materials which led to a reduction in both operating and production costs.

We are confident of having a profitable year in our Kenyan manufacturing operations this year. We expect to realise significant cash from the liquidation of our short term investments during the year. These funds will be utilised in financing further improvements in the Kenyan manufacturing business and also assist in the expansion elsewhere in Africa.

### **Botswana:**

Our businesses here contributed 36% of the turnover and apart from changes made at the beginning of 2002, the retiring of the Chief Executive, and transfer of the Deputy General Manager to South Africa in early 2003, there have been no changes to our very competent management in Botswana.

Our manufacturing business continues to do well, and has become the backbone of the group. We have purchased a joint venture in a PVC frame fabricating business in Botswana during the second quarter of 2003. We are confident that this plant will do well, even in it's first year of operation. We have maintained a conservative approach to our property business in Botswana due to the need to conserve cash for acquisitions of other productive assets.

In the year 2002, we relocated our regional holding company from Mauritius to Botswana, and continue to service our US dollar vendor financed debt. We are in discussions to acquire another manufacturing concern in Botswana which will be self-financing.

During the year 2002, we disposed of 6% of the shares in our operating company, Kalahari Floor Tiles Limited, to a local investor, who is now our local partner in Botswana and is a member of the board there. As we continue to acquire more assets, we will increase the involvement of locals in our businesses.

### **South Africa:**

We do not have a manufacturing business in South Africa as yet. However our trading operations, principally of our manufactured goods from Botswana, contributed 41% of the group turnover. Our trading business in South Africa made a significant loss in the year 2002 as a result of high operating costs and high transport costs in a very competitive environment.

Due to the loss, we totally restructured our business in early 2003. This involved the departure of two Executive Directors and transfer of our deputy General Manager from Botswana. We are in advanced negotiations to acquire a manufacturing business and merge it with our trading operation. This we anticipate to be completed in the third quarter of 2003.

In line with our strategy in Botswana, we have recently invited a local investor to the board there and anticipate the investor to take equity in any future acquisitions.

**Future prospects:**

As was outlined last year, our medium term strategy, of seeking opportunities in Southern African countries has not changed, and to this objective, we anticipate at least one further acquisition during the course of 2003. With the increased amount of our assets in Southern Africa and our strategy to seek other opportunities there, we are in the process of setting up our corporate office in Johannesburg, South Africa.

I am pleased with the strategy that the board embarked on in 2001 and I am very confident that we will end up with a significantly larger, more profitable and better placed company due to our regional expansions.

I would like to take this opportunity to thank the Board Members and Management for their dedication during the year, and welcome the appointment of Mr. E M Wamae to our board.

**Dr. C W. Obura**  
*Chairman*

July, 2003



**CORPORATE GOVERNANCE**

The board is accountable to the company's shareholders for good governance and the statement set out below describes how the principles identified in the Capital Markets Act – Corporate Governance Guidelines are applied by the group.

**DIRECTORS**

The main board consists of a chairman, Dr. C. W. Obura, 4 non-executive directors and 1 executive director. Michael Matu is the Chief Executive.

The group has five subsidiary boards, each of which comprises the Chief Executive and at least one non-executive main board member and two non-executive members. The Chief Executive chairs four of the Subsidiary boards.

**OTHER BOARD INFORMATION**

The key functions of the Chairman are to conduct board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the group's business to meet the requirements of its shareholders.

**BOARD APPOINTMENTS**

Appointments to the board of executive and non-executive directors are considered by the main board.

**RE-ELECTIONS OF DIRECTORS**

Any director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek re-election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting. The directors required to retire will be those in the office longest since their previous re-election and this will usually mean that each director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Corporate Governance Guidelines but avoid the expenses of amending the company's articles to deal with this single point, the board has resolved that each director will retire at least once every three years, even if this is not strictly required by application of the provisions of the articles.

**BOARD COMMITTEES**

It has been decided that, owing to the investment holding nature of the company, where operational details are handled by the subsidiary boards of the company, the functions of the audit committee, remuneration committee and nomination committee be handled by the main board.

**MAJOR SHAREHOLDERS**

The top 10 major shareholders based on the company's share register as at 31<sup>st</sup> December 2002 were as follows:-

Shareholder	Location	No. of shares	Percentage shareholdings
Dunlop International Limited	Nairobi	3,799,900	37.99
Manrik Holdings Limited	Nairobi	1,847,280	18.47
Croxley Properties Limited	Nairobi	1,016,844	10.16
Karen Enterprises Limited	Nairobi	692,830	6.92
Scotlink Limited	Nairobi	193,900	1.93
Jagden Krisians	Nairobi	165,700	1.65
M F Gandhi & M M Gandhi	Nairobi	110,000	1.10
Velji Dharamshi Shah	Nairobi	96,250	0.96
Ali Mohamed Adan	Nairobi	61,250	0.61
John Wahome Murage	Nairobi	52,400	0.52



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which 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 operating results of the company and the group for that year. It also requires the directors to ensure the company and the group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and the group and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and the subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

**Dr. C W Obura**

.....  
Director

**M M W MATU**

.....  
Director

26th June 2003



REPORT OF THE AUDITORS TO THE MEMBERS OF  
DUNLOP KENYA LIMITED

1. We have audited the financial statements on pages 10 to 35 and, have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

**Respective responsibilities of directors and auditors**

2. As described on page 8, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

**Basis of opinion**

3. We conducted our audit in accordance with International Standards on Auditing. Those 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. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

4. In our opinion:
  - (a) proper books of account have been kept by the company and the company's balance sheet is in agreement therewith;
  - (b) the financial statements give a true and fair view of the state affairs of the company and the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act.

**Emphasis of Matter**

5. We draw attention to the disclosure in note 2 to the financial statements regarding the going concern aspect of one of the subsidiaries, Dunlop Industries Limited. We consider it appropriate to draw this matter to your attention in view of the significance of the financial support expected from the shareholders to enable the subsidiary continue with its operations as a going concern. However, our opinion is not qualified in this respect.

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

22nd July, 2003


**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	2002 Sh '000	2001 Sh '000
SALES		263,232	67,919
COST OF SALES		(172,683)	(54,504)
GROSS PROFIT		90,549	13,415
PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		8,252	-
OTHER OPERATING INCOME		3,859	1,645
SELLING AND DISTRIBUTION COSTS		(3,965)	(1,642)
ADMINISTRATIVE EXPENSES		(76,840)	(22,643)
OTHER OPERATING EXPENSES		(17,785)	(10,420)
OPERATING PROFIT/(LOSS)	4	4,070	(19,645)
FINANCE INCOME/(COSTS)	5	15,621	(2,167)
PROFIT/(LOSS) BEFORE TAXATION		19,691	(21,812)
TAXATION (CHARGE)/CREDIT	7	(1,650)	5,714
NET PROFIT/(LOSS) AFTER TAXATION	8	18,041	(16,098)
MINORITY INTEREST	9	(12,990)	-
NET PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		5,051	(16,098)
EARNINGS/(LOSS) PER SHARE	10	Sh. 0.51	(Sh. 1.61)



**CONSOLIDATED BALANCE SHEET  
31 DECEMBER 2002**

	Note	2002 Sh '000	2001 (Restated) Sh '000
<b>ASSETS</b>			
<b>Non current assets</b>			
Goodwill	11(b)	11,652	-
Property, plant and equipment	12(a)	51,204	36,907
Prepaid operating lease	13	8,271	736
Non-current receivables	16	2,050	-
		<hr/>	<hr/>
		73,177	37,643
<b>Current assets</b>			
Inventories	15	22,213	9,643
Trade and other receivables	16	40,619	32,580
Due from related parties	17	70,434	60,111
Cash and bank balances		19,365	254
		<hr/>	<hr/>
		152,631	102,588
<b>Total assets</b>		<hr/> <b>225,808</b> <hr/>	<hr/> <b>140,231</b> <hr/>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	18	50,000	50,000
Exchange revaluation reserve		642	3,801
Property revaluation reserve		15,663	17,184
Revenue reserve		13,060	6,488
		<hr/>	<hr/>
		79,365	77,473
<b>Minority interest</b>	9	17,124	-
		<hr/>	<hr/>
<b>Non current liabilities</b>			
Deferred taxation	19	2,369	1,279
Borrowings	20	16,731	2,350
		<hr/>	<hr/>
		19,100	3,629
<b>Current liabilities</b>			
Trade and other payables	21	83,521	32,793
Borrowings repayable within one year	20	7,148	10,192
Due to related parties	17	8,432	5,586
Dividends payable		5,851	5,851
Taxation payable		5,267	4,707
		<hr/>	<hr/>
		110,219	59,129
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<hr/> <b>225,808</b> <hr/>	<hr/> <b>140,231</b> <hr/>

The financial statements on pages 8 to 31 were approved by the board of directors on 26th June 2003 and were signed on its behalf by:

Dr. C W Obura )  
M M W Matu ) Directors



COMPANY BALANCE SHEET  
31 DECEMBER 2002

	Note	2002 Sh '000	2001 (Restated) Sh '000
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	12(b)	28,737	31,269
Prepaid operating lease	13	527	736
Investment in subsidiary companies	14	18,218	3,845
Non-current receivables	16	2,050	-
		<hr/>	<hr/>
		49,532	35,850
		<hr/>	<hr/>
<b>Current assets</b>			
Trade and other receivables	16	4,148	20,799
Due from related parties	17	69,642	59,523
Cash and bank balances		1,072	192
		<hr/>	<hr/>
		74,862	80,514
		<hr/>	<hr/>
<b>Total assets</b>		124,394	116,364
		=====	=====
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	18	50,000	50,000
Exchange revaluation reserve		-	3,801
Property revaluation reserve		15,663	17,184
Revenue reserve		28,329	20,345
		<hr/>	<hr/>
		93,992	91,330
		<hr/>	<hr/>
<b>Non current liabilities</b>			
Deferred taxation	19	7,352	3,906
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	21	7,050	3,759
Borrowings	20	105	4,451
Due to related parties	17	8,432	5,586
Dividends payable		5,851	5,851
Taxation payable		1,612	1,481
		<hr/>	<hr/>
		23,050	21,128
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		124,394	116,364
		=====	=====

The financial statements on pages 10 to 35 were approved by the board of directors on 26th June 2003 and were signed on its behalf by:

Dr. C W Obura )  
M M W Matu ) Directors


**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Share capital Sh '000	Exchange revaluation reserve Sh '000	Property revaluation reserve Sh '000	Revenue reserve Sh '000	Proposed dividend Sh '000	Total Sh '000
At 1 January 2001						
- As previously reported	50,000	3,801	26,539	18,662	4,000	103,002
Prior year adjustments on:						
- Transfer of excess depreciation	-	-	800	(800)	-	-
- Deferred tax on excess depreciation	-	-	(240)	240	-	-
- Reversal of revaluation surplus on leasehold land	-	-	(5,828)	-	-	(5,828)
- Reversal of deferred tax on leasehold land revaluation surplus	-	-	1,748	-	-	1,748
- Prior year underprovision on deferred tax	-	-	-	(1,351)	-	(1,351)
At 1 January 2001 - restated	50,000	3,801	23,019	16,751	4,000	97,571
Excess depreciation	-	-	660	(660)	-	-
Deferred tax on excess depreciation	-	-	(198)	198	-	-
Net loss for the year	-	-	-	(16,098)	-	(16,098)
Dividend declared	-	-	-	-	(4,000)	(4,000)
At 31 December 2001	50,000	3,801	23,481	191	-	77,473
=====	=====	=====	=====	=====	=====	=====
At 1 January 2002						
- As previously reported	50,000	3,801	23,481	191	-	77,473
- Prior years' adjustment on transfer of excess depreciation	-	-	(6,297)	6,297	-	-
- As restated	50,000	3,801	17,184	6,488	-	77,473
Realisation of revaluation surplus on disposal of property	-	-	(1,663)	1,663	-	-
Deferred tax on realised revaluation surplus	-	-	498	(498)	-	-
Transfer of excess depreciation	-	-	(509)	509	-	-
Deferred tax on transfer	-	-	153	(153)	-	-
Write back	-	(3,801)	-	-	-	(3,801)
Exchange revaluation in the year	-	642	-	-	-	642
Net profit for the year	-	-	-	5,051	-	5,051
At 31 December 2002	50,000	642	15,663	13,060	-	79,365
=====	=====	=====	=====	=====	=====	=====


**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Share capital Sh '000	Exchange revaluation reserve Sh '000	Property revaluation reserve Sh '000	Revenue reserve Sh '000	Proposed dividend Sh '000	Total Sh '000
At 1 January 2001						
- as previously reported	50,000	3,801	26,539	22,702	4,000	107,042
Prior year adjustments on:						
- transfer of excess depreciation	-	-	800	(800)	-	-
- deferred tax on excess depreciation	-	-	(240)	240	-	-
- reversal of revaluation surplus on leasehold land	-	-	(5,828)	-	-	(5,828)
- reversal of deferred tax on leasehold land revaluation surplus	-	-	1,748	-	-	1,748
- prior year overprovision on deferred tax	-	-	-	1,445	-	1,445
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2001 - As restated	50,000	3,801	23,019	23,587	4,000	104,407
Excess depreciation	-	-	660	(660)	-	-
Deferred tax on excess depreciation	-	-	(198)	198	-	-
Net loss for the year	-	-	-	(9,077)	-	(9,077)
Dividend declared	-	-	-	-	(4,000)	4,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	50,000	3,801	23,481	14,048	-	91,330
	=====	=====	=====	=====	=====	=====
At 1 January 2002						
- As previously reported	50,000	3,801	23,481	14,048	-	91,330
- Prior year adjustment on transfer of excess depreciation	-	-	(6,297)	6,297	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
- As restated	50,000	3,801	17,184	20,345	-	91,330
Realisation of revaluation surplus on disposal of property	-	-	(1,663)	1,663	-	-
Deferred tax on realised revaluation surplus	-	-	498	(498)	-	-
Transfer of excess depreciation	-	-	(509)	509	-	-
Deferred tax on transfer	-	-	153	(153)	-	-
Write back	-	(3,801)	-	-	-	(3,801)
Net profit for the year	-	-	-	6,463	-	6,463
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	50,000	-	15,663	28,329	-	93,992
	=====	=====	=====	=====	=====	=====



CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 Sh '000	2001 Sh '000
<b>Operating activities</b>			
Cash generated from/(used in) operations	22(a)	61,015	(8,280)
Interest received		665	-
Interest paid		(2,144)	(2,418)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		59,536	(10,698)
		<hr/>	<hr/>
<b>Investing activities</b>			
Purchase of plant and equipment		(16,571)	(1,737)
Acquisition of subsidiary company	11(a)	(60,867)	-
Proceeds from disposal of property, plant and equipment		21,907	-
Proceeds from disposal of investment		3,763	6,645
		<hr/>	<hr/>
Net cash (used in)/generated from investing activities		(51,768)	4,908
		<hr/>	<hr/>
<b>Financing activities</b>			
Loans received		17,857	9,500
Loans repaid		(7,138)	(2,448)
Proceeds from issue of share capital		6	-
		<hr/>	<hr/>
Net cash generated from financing activities		10,725	7,052
		<hr/>	<hr/>
Increase in cash and cash equivalents		18,493	1,262
At 1 January		(3,738)	(5,000)
		<hr/>	<hr/>
At 31 December	22(b)	14,755	(3,738)
		=====	=====



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002

**1 ACCOUNTING POLICIES**

The financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted remain unchanged from the previous year and are set out below:

**(a) Basis of preparation**

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain items of property, plant and equipment.

**(b) Consolidation**

Subsidiary undertakings, being those companies in which the Group either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated as from the date of disposal. All inter-company balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

The group financial statements reflect the results of the consolidation of the financial statements of the company and its subsidiaries, Dunlop Industries Limited, Yeti Holdings (Proprietary) Limited, Kalahari Floor Tiles (Proprietary) Limited, Gaborone Enterprises (Proprietary) Limited and Plasrik SA (Proprietary) Limited all made up to 31 December. The accounting policies adopted by the subsidiaries are consistent with the policies adopted by the company.

**(c) Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair value of net assets/liabilities of the subsidiaries acquired. Goodwill is recognised as an asset and amortised on the straight line basis over a period of 5 years.

**(d) Revenue recognition**

Sales are recognised upon delivery of products to customers and are stated at amounts invoiced to customers during the year net of value added tax and discounts.

**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost or professional valuation less accumulated depreciation.

The last valuation for Dunlop Kenya Limited was as at 31 December 1997.

The basis of valuation was as follows:-

Property – open market value for the existing use

Other assets – depreciated replacement cost.

The resulting valuation surpluses/(deficits) are dealt with in the revaluation reserve. Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to revenue reserve.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### Depreciation

Depreciation is calculated to write off the cost or valuation of the property, plant and equipment in equal annual instalments over their expected useful lives. The annual rates used are:

Leasehold buildings	2% - 2.5%
Plant and machinery	7.5% -20%
Office furniture, fittings and equipment	20%
Motor vehicles	20%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

#### (f) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods comprises the actual cost of raw materials and an appropriate proportion of labour and overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Raw materials and other inventories are stated at purchase cost. Goods in transit are stated at cost. Provision is made for obsolete and slow moving stock.

#### (g) Leases

Leases are classified as finance leases, whenever the term of the leases, transfer substantially all risks and rewards of ownership to the company or group as the lessee.

Assets held under finance leases are capitalised at their capital values at the inception of the related leases. The corresponding liability to the lessor is recognised at an equivalent amount. The monthly lease payments are apportioned between the reduction in the principal balance and the interest charges. The interest charges are ascertained on a pro-rata basis and are charged to the income statement.

Capitalised assets are included in property, plant and equipment in the balance sheet and are depreciated in accordance with note 1(e).

All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on the straight line basis over the term of the relevant lease.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

(h) **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 provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(i) **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 are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement in the year in which they arise.

The exchange rate used in consolidating the financial statements for the subsidiary companies were Kshs 14.08 = Pula 1.00 and 1.5866 South African Rand = Pula 1.00.

(j) **Retirement benefits**

The company and its Kenyan subsidiary contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. Obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to Sh 200 per month per employee. The group's obligations to retirement benefits schemes are charged to the income statement in the year to which they relate.

The company also operates an in-house defined contribution pension scheme for its employees. The scheme is funded by payments from both the employees and the company.

(k) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which are within three months to maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

(l) **Financial instruments**

Financial assets and financial liabilities are recognised in the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

*Trade receivables*

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

*Bank borrowings*

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs. Finance charges are accounted for on the accrual basis.

*Trade payables*

Trade payables are stated at their nominal value.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 1 ACCOUNTING POLICIES (Continued)

## (m) Impairment

At each balance sheet date, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

## (n) Contingent liabilities

In certain circumstances, letters of credit and company guarantees are usually issued by the company to support performance by customers to third parties. The company will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

## 2. FINANCIAL SUPPORT

As at 31 December 2002, the current liabilities of Dunlop Industries Limited, a wholly owned subsidiary of Dunlop Kenya Limited, exceeded its current assets by Kshs 32,885,000 (2001- Kshs 19,272,000) and it had a shareholder's deficit of Kshs 28,833,000 (2001 - Kshs 13,357,000) primarily due to trading losses made by the company in the previous years'.

Return to profitable operations and satisfactory liquidity levels are dependent on improved operations and/or injection of additional capital.

The shareholders have given their commitment to continue supporting Dunlop Industries Limited to improve its operations and financial position and have undertaken to provide the necessary financial support to enable the company pay its liabilities as they fall due.

In view of the above, the directors consider it appropriate to consolidate the financial statements of Dunlop Industries Limited in these group financial statements on a going concern basis.

## 3. SEGMENTAL INFORMATION

## (a) Primary reporting format - business segments

The major part of the business of the company comprises the manufacture and sale of floor tiles and adhesives. Primary segmental reporting is, therefore, not considered to be of any real value to financial statements users.

## (b) Secondary reporting - geographical segments

The group is organised on a regional basis into two main geographical segments:

- Kenya
- Botswana



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002

3 SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2002

All figures in Sh'000

	Kenya	Botswana	Group
Revenues	61,353	201,879	263,232
Operating (loss)/profit	(20,593)	16,523	4,070
	=====	=====	=====
Segment assets	123,127	102,681	225,808
			=====
Segment liabilities	133,268	92,540	225,808
			=====

Year ended 31 December 2001

All figures in Sh'000

Revenues	67,919	-	67,919
Operating loss	(19,645)	-	(19,645)
	=====	=====	=====
Segment assets	140,231	-	140,231
			=====
Segment liabilities	140,231	-	140,231
			=====

There are no sales or other transactions between the business segments. Segment assets comprise those operating assets which are employed by a segment in its operating activities. Segment liabilities are those operating liabilities that result from the operating activities of a segment.

Segment assets and liabilities are either directly attributed to the segment or can be allocated to the segment on a reasonable basis.

Sales revenue is based on the country in which the production facility is located. Total assets are shown by the geographical area in which the assets are located.



	2002	2001
	Sh '000	Sh '000
<b>4 OPERATING PROFIT/(LOSS)</b>		
The operating profit/(loss) is arrived at after charging:		
Depreciation	4,594	3,110
Amortisation of goodwill	2,913	-
Director's emoluments:		
Fees	600	-
Other emoluments	6,835	1,700
Staff costs (Note 6)	20,705	6,263
Bad debts	8,978	3,160
Auditors' remuneration	1,664	750
Loss on disposal of equipment	-	360
Loss on disposal of investment	68	1,455
and after crediting		
Profit on disposal of property, plant and equipment	8,252	-
	=====	=====
<b>5 FINANCE INCOME/(COST)</b>		
Interest receivable on:		
Short term advances	10,119	-
Sale of property	553	-
Other	112	-
	-----	-----
	10,784	-
	-----	-----
Interest payable on:		
Bank loan	(1,331)	(619)
Bank overdraft	(400)	(1,799)
Finance leases	(188)	-
Loans due to directors	(177)	-
Car loan interest	(48)	-
	-----	-----
	(2,144)	(2,418)
	-----	-----
Net exchange gain	6,981	251
	-----	-----
	15,621	(2,167)
	=====	=====



NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP	
	2002	2001
	Sh '000	Sh '000
<b>6 STAFF COSTS</b>		
Wages and salaries	17,924	5,559
Social security cost (NSSF)	85	41
Pension and retirement benefits	1,342	441
Final dues	1,354	922
	20,705	6,963
	=====	=====
The average number of persons employed by the group during the year was:	No.	No.
Full time	92	41
Part time	8	9
	100	50
	=====	=====
	2002	2001
	Sh '000	Sh '000
<b>7 TAXATION</b>		
(a) <b>Taxation charge/(credit)</b>		
Current taxation based on adjusted profit at 30%	560	-
Deferred taxation charge/(credit) - note 19(b)	1,090	(5,714)
	1,650	(5,714)
	=====	=====
(b) <b>Reconciliation of tax based on accounting profit/(loss) to taxation charge/(credit)</b>		
Accounting profit/(loss) before taxation	19,691	(21,812)
	=====	=====
Tax at the applicable rate of 30%	5,907	(6,544)
Tax effect of expenses not deductible for tax purposes 2,416	830	
Tax effect of non-taxable income	(1,292)	
Deferred tax on tax losses not recognised - note 19(a) 6,600	-	
Prior years' deferred tax overprovision	(553)	
Differences with the subsidiaries tax rate	(11,428)	
	1,650	(5,714)
	=====	=====



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**8 NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS**

Profit after taxation dealt with in the financial statements of Dunlop Kenya Limited is Sh 6,463,000 (2001 – loss Sh 9,077,000).

	2002 Sh '000	2001 Sh '000
<b>9 MINORITY INTEREST</b>		
Share of (loss)/profit for the year:		
Yeti Holdings (Proprietary) Limited	(517)	-
Kalahari Floor Tiles (Proprietary) Limited	13,507	-
	<hr/>	<hr/>
	12,990	-
	<hr/>	<hr/>
Share of reserves:		
<b>Pre-acquisition reserve:</b>		
Kalahari Floor Tiles (Proprietary) Limited	3,832	-
Yeti Holdings (Proprietary) Limited	6	-
	<hr/>	<hr/>
	3,838	-
	<hr/>	<hr/>
Movement in the year on:		
<b>Exchange revaluation reserve:</b>		
Yeti Holdings (Proprietary) Limited	41	-
Kalahari Floor Tiles (Proprietary) Limited	255	-
	<hr/>	<hr/>
	296	-
	<hr/>	<hr/>
At 31 December	17,124	-
	=====	=====

**10 EARNINGS/(LOSS) PER SHARE**

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to shareholders by the number of ordinary shares in issue during the year, as follows:

	2002	2001
Net Profit/(loss) attributable to shareholders (Sh'000)	5,051	(16,098)
Number of issued ordinary shares (thousands)	10,000	10,000
Basic earnings/(loss) per share	0.51	(1.61)

The diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there were no potentially dilative shares outstanding at 31 December 2002 or 31 December 2001.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 11 GOODWILL

- (a) During the year, the new subsidiary company, Yeti Holdings (Proprietary) Limited acquired 100% of the issued share capital of Kalahari Floor Tiles (Proprietary) Limited.

The net fair value of assets acquired and liabilities assumed is as shown below:-

	Sh '000
Trade and other receivables	30,894
Property, plant and equipment	23,522
Inventories	10,051
Cash and bank balances	3,007
Trade and other payables	(17,767)
Long term liabilities	(398)
	<hr/>
Value of net assets acquired	49,309
Goodwill on acquisition	14,565
	<hr/>
Consideration paid	63,874
Less: Cash and bank balances taken over	(3,007)
	<hr/>
Net consideration paid for the acquisition	60,867
	=====

- (b) The goodwill balance at the year end is arrived as at follows:

Goodwill arising from acquisition of Kalahari Floor Tiles (Proprietary) Limited during the year	14,565
Amortisation for the year	(2,913)
	<hr/>
At 31 December 2002	11,652
	=====



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 (a)

## PROPERTY, PLANT AND EQUIPMENT - GROUP

	Leasehold buildings Sh '000	Plant and machinery Sh '000	Office furniture fittings & equipment Sh '000	Motor vehicles Sh '000	Total Sh '000
<b>COST OR VALUATION</b>					
At 1 January 2002	33,367	14,259	5,135	5,124	57,885
Acquired from subsidiary	21,501	75,316	6,128	6,856	109,801
Additions	11,470	1,482	976	2,643	16,571
Disposals	(15,343)	(161)	(165)	(6,916)	(22,585)
Reclassified to prepaid operating lease	(7,744)	-	-	-	(7,744)
	-----	-----	-----	-----	-----
At 31 December 2002 – restated	43,251	90,896	12,074	7,707	153,928
	-----	-----	-----	-----	-----
<b>COMPRISING</b>					
At cost	12,111	90,896	12,074	7,707	122,788
At valuation	31,140	-	-	-	31,140
	-----	-----	-----	-----	-----
At 31 December 2002	43,251	90,896	12,074	7,707	153,928
	-----	-----	-----	-----	-----
<b>DEPRECIATION</b>					
At 1 January 2002	2,682	10,611	4,032	3,653	20,978
Acquired from subsidiary	3,122	74,697	4,064	4,396	86,279
Charge for the year	1,087	1,129	1,068	1,310	4,594
Eliminated on disposals	(3,268)	(91)	(140)	(5,628)	(9,127)
	-----	-----	-----	-----	-----
At 31 December 2002	3,623	86,346	9,024	3,731	102,724
	-----	-----	-----	-----	-----
<b>NET BOOK VALUE</b>					
At 31 December 2002	39,628	4,550	3,050	3,976	51,204
	=====	=====	=====	=====	=====
At 31 December 2001	30,685	3,648	1,103	1,471	36,907
	=====	=====	=====	=====	=====
<b>NET BOOK VALUE (Cost basis)</b>					
At 31 December 2002	17,253	4,550	3,050	3,976	28,829
	=====	=====	=====	=====	=====
At 31 December 2001	12,245	3,648	1,103	1,471	18,467
	=====	=====	=====	=====	=====

As at 31 December 2002, a short leasehold building, LR No 209/5532 Industrial Area Nairobi, belonging to Dunlop Kenya Limited with a net book value of Sh 28,737,000 (2001- Sh 30,685,000) was charged to Standard Chartered Bank Kenya Ltd for Sh 17,500,000 to secure overdraft and loan facilities granted to Dunlop Industries Ltd.

Included in plant and equipment are assets with a cost of Sh 8,428,000 (2001 – Sh 8,428,000) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 1,685,000 (2001 – Sh 1,685,000).

Included in motor vehicle are vehicles with a cost of Sh 1,849,000 (2001 – Sh 2,624,000) whose title documents are in the names of related companies.

Included in property, plant and equipment are capitalised finance leases with a net book value of Sh 3,441,000 (2001 – Nil).

The reclassification reflected above is in respect of leasehold land which belongs to Kalahari Floor Tiles (Proprietary) Limited, a subsidiary of Yeti Holdings (Proprietary) Limited. This has been reclassified to prepaid operating leases in order to comply with the provisions of International Accounting Standard No. 17 on leases. The reclassification has however not been effected in the consolidated financial statements of Yeti Holdings (Proprietary) Limited.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 (b)

**PROPERTY, PLANT AND EQUIPMENT - COMPANY**

	Leasehold buildings Sh '000	Motor vehicles Sh '000	Total Sh '000
<b>COST OR VALUATION</b>			
At 1 January 2002	33,367	1,550	34,917
Additions	414	-	414
Disposals	(1,860)	(1,550)	(3,410)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	31,921	-	31,921
	<hr/>	<hr/>	<hr/>
<b>COMPRISING</b>			
At cost	781	-	781
At valuation – 1997	31,140	-	31,140
	<hr/>	<hr/>	<hr/>
At 31 December 2002	31,921	-	31,921
	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION</b>			
At 1 January 2002	2,682	966	3,648
Charge for the year	652	-	652
Eliminated on disposal	(150)	(966)	(1,116)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	3,184	-	3,184
	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUE</b>			
At 31 December 2002	28,737	-	28,737
	=====	=====	=====
At 31 December 2001	30,685	584	31,269
	=====	=====	=====
<b>NET BOOK VALUE (Cost basis)</b>			
At 31 December 2002	6,362	-	6,362
	=====	=====	=====
At 31 December 2001	12,245	584	12,829
	=====	=====	=====

As at 31 December 2002, the leasehold building, LR No 209/5532 Industrial Area Nairobi, was charged to Standard Chartered Bank Kenya Ltd for Sh 17,500,000 to secure overdraft and loan facilities granted to Dunlop Industries Ltd.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PREPAID OPERATING LEASES

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
At 1 January	736	752	736	752
Reclassified from property, plant and equipment	7,744	-	-	-
Disposal in the year	(197)	-	(197)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	8,283	752	539	752
Amortisation for the year	(12)	(16)	(12)	(16)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	8,271	736	527	736
	=====	=====	=====	=====

14 INVESTMENT IN SUBSIDIARY COMPANIES

Unquoted investments:

(a) Dunlop Industries Limited – 100% equity interest:

Shareholding at cost	500	500
Amount due on current account	7,577	3,345
	<hr/>	<hr/>
	8,077	3,845
	<hr/>	<hr/>

(b) Yeti Holdings (Proprietary) Limited - 59.9% equity interest:

Shareholding at cost	8	-
Amount due on current account	650	-
Funds paid awaiting allotment of shares	9,483	-
	<hr/>	<hr/>
	10,141	-
	<hr/>	<hr/>
	18,218	3,845
	=====	=====



**NOTE TO THE FINANCIAL STATEMENTS (Continued)**

**14 INVESTMENT IN SUBSIDIARY COMPANIES (Continued)**

The details of the subsidiary companies are as follows:

Company	Share capital	Country of incorporation	Principal activity
Dunlop Industries Limited	Ksh 500,000	Kenya	Manufacturer and sale of vinylex floor tiles and adhesives
Yeti Holdings (Proprietary) Limited	Pula 1,000	Botswana	Manufacturer and sale of vinylex floor tiles and adhesives
Kalahari Floor Tiles (Proprietary) Limited	Pula 15,336,320	Botswana	Manufacturer and sale of vinylex floor tiles and adhesives
Gaborone Enterprises (Proprietary) Limited	Pula 450,000	Botswana	Manufacturer and sale of vinylex floor tiles and adhesives
Plasrik SA (Proprietary) Limited	ZAR 1,000,000	South Africa	Manufacturer and sale of vinylex floor tiles and adhesives

Dunlop Kenya Limited holds a 59.9% equity interest in Yeti Holdings (Proprietary) Limited, a company which was incorporated during the year. As at 31 December 2002, Yeti Holdings (Proprietary) Limited had acquired a 94% equity interest in Kalahari Floor Tiles (Proprietary) Limited which has two fully owned subsidiaries, Gaborone Enterprises (Proprietary) Limited and Plasrik SA (Proprietary) Limited.

The company has registered another subsidiary company Dunvon Tanzania Limited. However operations are not due to commence until 2003. The financial statements of Dunvon Tanzania Limited have not been consolidated because of the immateriality of the amounts involved. Amounts due from Dunvon Tanzania Limited are included under short term advances in note 17.

**15 INVENTORIES**

	GROUP	
	2002 Sh'000	2001 Sh'000
Raw materials	8,330	4,142
Finished goods	6,072	2,174
Consumables – spares	6,344	825
Goods in transit	1,467	2,502
	22,213	9,643
	=====	=====


**NOTES TO THE FINANCIAL STATEMENTS (Continued)**
**16 TRADE AND OTHER RECEIVABLES**

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
Trade receivables	31,270	12,390	900	1,526
Staff receivables	1,071	-	-	-
Other receivables	8,595	7,459	5,298	6,878
Due from a Director	796	1,051	-	715
Deposits and prepayments	937	11,680	-	11,680
	<u>42,669</u>	<u>32,580</u>	<u>6,198</u>	<u>20,799</u>
Less: Non-current receivables	(2,050)	-	(2,050)	-
	<u>40,619</u>	<u>32,580</u>	<u>4,148</u>	<u>20,799</u>
	=====	=====	=====	=====

Other receivables include Sh 4,950,000 receivable on the sale of a portion of the factory land and building. Sales proceeds amounting to Sh 2,050,000 are classified as non-current as the settlement of this balance is expected to be received in year 2004 in accordance with the terms of sale agreement.

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
<b>17 DUE FROM / TO RELATED PARTIES</b>				
(a) Short term advances				
Maniple Limited	53,725	52,997	53,725	53,725
Mount Kenya Investments Ltd.	5,798	5,798	5,798	5,798
Dunvon Tanzania Limited	-	1,022	-	-
	<u>59,523</u>	<u>59,817</u>	<u>59,523</u>	<u>59,523</u>
	=====	=====	=====	=====
Accrued interest receivable	10,119	-	10,119	-
	<u>69,642</u>	<u>59,817</u>	<u>69,642</u>	<u>59,523</u>
	<u>792</u>	<u>294</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====
(b) Others				
Arco Industries Limited	592	174	-	-
Dunvon Tanzania Limited	120	120	-	-
Avon Rubber Company Limited	80	-	-	-
	<u>792</u>	<u>294</u>	<u>-</u>	<u>-</u>
	<u>70,434</u>	<u>60,111</u>	<u>69,642</u>	<u>59,523</u>
	=====	=====	=====	=====



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17 DUE FROM / TO RELATED PARTIES (Continued)

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
Due from Related Parties				
Dunlop UK	6,422	4,321	6,422	4,321
Avon Rubber Company Limited	460	-	460	-
Croxley Properties Limited	740	1,223	740	1,223
Avon Financial Services Limited	250	-	250	-
Avon Marketing Services Limited	210	-	210	-
Arco Industries Limited	265	-	265	-
Kalahari Floor Tiles (Proprietary) Limited	85	-	85	-
Dunlop (EA) Limited	-	42	-	42
	<u>8,432</u>	<u>5,586</u>	<u>8,432</u>	<u>5,586</u>
	=====	=====	=====	=====

A related party for the purposes of these financial statements is a company which directly or indirectly has common ownership with Dunlop Kenya Limited. The amounts due from and due to related parties are in respect of transactions arising in the normal course of business.

The directors are of the opinion that these short term advances due from related parties will be recovered from the expected liquidation of some of the underlying assets belonging to the Avon Group Companies which secured the debt. The liquidation is expected to be completed in the year 2003.

For this reason, the directors consider it prudent to accrue interest on the short term advances at a rate of 17% per annum with effect from 1 January 2003.

18 SHARE CAPITAL	GROUP		COMPANY	
	2002	2001	2002	2001
Authorised Share Capital				
40,000,000 Ordinary Shares of Sh 5 each	200,000	200,000	200,000	200,000
	=====	=====	=====	=====
Issued and fully paid				
10,000,000 Ordinary Shares of Sh 5 each	50,000	50,000	50,000	50,000
	=====	=====	=====	=====

## 19 DEFERRED INCOME TAXES

(a) The net deferred tax liability is attributable to the following items:	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
Accumulated tax losses	(13,889)	(4,908)	(1,221)	(2,418)
Accelerated capital allowances	2,352	702	640	792
Revaluation surplus	6,712	5,532	6,712	5,532
Leave pay provision	(66)	(120)	-	-
Unrealised exchange gain	660	73	-	-
	<u>(4,231)</u>	<u>1,279</u>	<u>6,131</u>	<u>3,906</u>
Less: Tax losses not recognised - note 7(b)	6,600	-	1,221	-
	<u>2,369</u>	<u>1,279</u>	<u>7,352</u>	<u>3,906</u>
	=====	=====	=====	=====


**NOTES TO THE FINANCIAL STATEMENTS (Continued)**
**19 DEFERRED INCOME TAXES (Continued)**

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
(b) The movement on the deferred tax account is as follows:				
At 1 January	1,279	<b>6,993</b>	3,906	<b>6,679</b>
Income statement charge/(credit) - note 7(a)	1,090	<b>(5,714)</b>	3,446	<b>(2,773)</b>
At 31 December	2,369	<b>1,279</b>	7,352	<b>3,906</b>
(c) Tax losses not recognised	22,000	-	4,070	-

A proportion of the deferred tax asset attributable to tax losses has not been recognised as the future profitability of the company is uncertain. This is in line with IAS 12 which requires that deferred tax assets relating to the carry forward of unused tax losses be recognised only to the extent that it is probable that future taxable profit will be available against which the unutilised tax losses can be used.

**20 BORROWINGS**

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
(a) The borrowings are made up as follows:				
Bank borrowings:				
Standard Chartered Bank Kenya Ltd.	1,412	<b>4,150</b>	-	-
Standard Chartered Bank of Botswana Ltd.	8,413	-	-	-
Prime Capital Credit Ltd.	-	<b>4,400</b>	-	<b>4,400</b>
Total bank borrowings	9,825	<b>8,550</b>	-	<b>4,400</b>
Bank overdrafts	4,610	<b>3,992</b>	105	<b>51</b>
Directors' loans	6,609	-	-	-
Finance leases	2,835	-	-	-
Total borrowings	23,879	<b>12,542</b>	105	<b>4,451</b>
Borrowings payable within one year:				
Bank borrowings	1,412	<b>6,200</b>	-	<b>4,400</b>
Bank overdraft	4,610	<b>3,992</b>	105	<b>51</b>
Finance leases	1,126	-	-	-
	7,148	<b>10,192</b>	105	<b>4,451</b>
Non-current borrowings	16,731	<b>2,350</b>	-	-



NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 BORROWINGS (Continued)

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
<b>(b) Analysis of borrowings by currency</b>				
<b>Kenya shillings</b>				
Standard Chartered Bank Kenya Limited	1,412	4,150	-	-
Prime Capital Credit Limited	-	4,400	-	4,400
Bank overdraft	4,610	3,992	105	51
	<hr/>	<hr/>	<hr/>	<hr/>
	6,022	12,542	105	4,451
	=====	=====	=====	=====
<b>Pula</b>				
Standard Chartered Bank of Botswana	597	-	-	-
Directors' loans	469	-	-	-
Finance leases	201	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,267	-	-	-
	=====	=====	=====	=====

(c) Details of securities for borrowings

The loan and overdraft facilities with Standard Chartered Bank Kenya Ltd are secured by a debenture for Kshs 15.7 million over the assets of Dunlop Industries Limited supported by a legal charge of Kshs 17.5 million over property LR No. 209/5532, Industrial Area Nairobi in the name of Dunlop Kenya Limited and a guarantee by the latter for Kshs 15.7 million.

Capitalised leased assets are secured by the assets leased and are repayable over a period of 29 to 54 months in equal monthly instalments of Kshs 74,000 (P 5,290) and carry monthly interest rates varying between prime rate plus 1.02% to 3.03%.

The Standard Chartered Bank of Botswana loan is repayable in equal monthly instalments of Kshs 176,000 (P 12,500) over a period of 60 months and is secured as follows:

- Guarantee by Michael Matu for Kshs 10,560,000 (P 750,000)
- Guarantee by Olympia Capital Ventures (Proprietary) Limited for Kshs 10,560,000 (P 750,000)
- First surety mortgage bond over lots 51, 52 and 53 Mogoditshane for Kshs 10,560,000 (P 750,000)

The loan from Standard Chartered Bank Kenya Limited is repayable in instalments of Kshs 274,992 per month with the last instalment expected on 30th May 2003. It attracts interest at the Bank's base rate +5% p.a calculated on daily overdrawn balances and payable monthly in arrears.

The directors' loans are unsecured, interest free and have no fixed terms of repayment.


**NOTES TO THE FINANCIAL STATEMENTS (Continued)**
**21 TRADE AND OTHER PAYABLES**

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
Trade payables	58,638	20,307	-	-
Other payables	13,324	11,651	3,596	2,924
Staff payables	1,844	-	-	-
Due to directors	3,559	232	238	232
Tax penalties	4,114	-	2,547	-
Staff gratuity and severance pay	2,042	314	669	314
Accrued interest	-	289	-	289
	<u>83,521</u>	<u>32,793</u>	<u>7,050</u>	<u>3,759</u>
	=====	=====	=====	=====

**22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

	2002 Sh'000	2001 Sh'000
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations:		
Operating profit/(loss)	4,070	(19,645)
Depreciation	4,594	3,118
(Gain)/loss on disposal of property, plant and equipment	(8,252)	560
Loss on disposal of investment	68	1,455
Amortisation of - goodwill	2,913	-
- prepaid operating leases	12	-
Net exchange gain	6,585	251
Exchange revaluation written back	(2,863)	-
	<u>7,127</u>	<u>(14,261)</u>
(Increase)/decrease in inventories	(2,519)	6,544
(Decrease)/increase in trade and other receivables	20,805	(9,522)
Increase in trade and other payables	32,960	9,986
Movement in related party balances	2,642	(1,027)
	<u>61,015</u>	<u>(8,280)</u>
	=====	=====
(b) Analysis of balances of cash and cash equivalents		
Cash and bank balances	19,365	254
Bank overdrafts note 20 (a)	(4,610)	(3,992)
	<u>14,755</u>	<u>(3,738)</u>
	=====	=====



NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 OPERATING LEASE ARRANGEMENTS

The company as a lessor

Rental income earned during the year amounted to Sh 1,815,000 (2001 – Sh 1,428,000). At the balance sheet date, the company had contractual lease agreements with tenants which are expected to generate the following streams of income:

	2002 Sh'000	2001 Sh'000
Within one year	1,446	1,851
In the second to fourth year inclusive	5,292	6,738
After five years	-	-
	<u>6,738</u>	<u>8,589</u>
	=====	=====

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

All transactions with related parties are at arm's length in the normal course of business and on terms and conditions similar to those applicable to other customers and suppliers.

The following transactions were carried out with related parties during the year.

	2002 Sh'000	2001 Sh'000
(a) Sale of motor vehicle to Arco Industries Limited	280	-
	=====	=====
(b) Sale of products to:		
Related party director – P N Ndetei	28	-
Arco Industries Limited	54	-
	<u>82</u>	<u>-</u>
	=====	=====
(c) Purchases of goods from Mineral Mining Limited	629	256
	=====	=====
(d) Other expenses		
Rent expenses – Avon Rubber Company Limited	105	-
Security expenses – Avon Rubber Company Limited	45	-
Consultancy services – Ndetei & Associates	256	668
	<u>406</u>	<u>668</u>
	=====	=====
(e) Loans advanced by directors	17,988	-
	=====	=====
(f) Interest income accrued on short term advances to:		
Maniple Limited	9,133	-
Mount Kenya Investment Limited	986	-
	<u>10,119</u>	<u>-</u>
	=====	=====

Amounts carried in the balance sheet in respect of these transactions are included in notes 17, 20 and 21.

Nature of relationship

Dunvon Tanzania Limited is related to Dunlop Kenya Limited by virtue of having common shareholding.

Arco Industries Limited, Mineral Mining Limited and Avon Rubber Limited are related to Dunlop Kenya Limited by virtue of having common directorship.

P N Ndetei who owns Ndetei & Associates is a director in Dunlop Kenya Limited.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		COMPANY	
	2002 Sh '000	2001 Sh '000	2002 Sh '000	2001 Sh '000
<b>25 CONTINGENT LIABILITIES</b>				
Guarantee – bank overdraft	1,412	-	1,412	-
- staff car loans	1,602	1,499	1,038	48
	<u>3,014</u>	<u>1,499</u>	<u>2,450</u>	<u>48</u>
Nairobi City Council – disputed water bill	4,826	-	4,826	-
	<u>7,840</u>	<u>1,499</u>	<u>7,276</u>	<u>48</u>
	=====	=====	=====	=====

The guarantee on the bank overdraft relates to the balance on an overdraft granted to Dunlop Industries Limited by Standard Chartered Bank Kenya Limited and guaranteed by Dunlop Kenya Limited.

Letters of guarantees are issued by the company on behalf of its employees who have taken up car loans with Standard Chartered Bank Kenya Limited. The company will only be required to meet the obligation in the event of default by the employees.

The contingent liability due to Nairobi City Council relates to a disputed water bill dated 4 January 2003. No provision has been made in the financial statements in respect of this bill.

**26 INCORPORATION**

The holding company is incorporated in Kenya under the Companies Act.

**27 CURRENCY**

The financial statements are presented in Kenya shillings (Sh'000).