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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RIVATEX EAST AFRICA LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2017**



OFFICE OF THE AUDITOR GENERAL
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RIVATEX EAST AFRICA LIMITED



THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017



RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017
KEY ENTITY INFORMATION AND MANAGEMENT

1. ESTABLISHMENT/INCORPORATION

Rivatex East Africa Limited (REAL) is incorporated as a limited liability company under the Companies Act No. 17 of 2015 and its operations are also regulated in accordance with the State Corporations Act. Its shareholders comprise of Moi University with ninety nine percentum (99%) shareholding and Moi University Holdings with one percentum (1%) shareholding. Moi University acquired the company in the year two thousand & seven (2007) mainly for training, research, extension purposes as well as for commercial purposes.

2. VISION, MISSION & CORE VALUES

OUR CORPORATE VISION

To be a leader in textiles technology, innovation and production for development and socio-economic well-being.

OUR CORPORATE MISSION

To satisfy customer needs through innovation, development, manufacture and conversion of textile products.

OUR CORE VALUES

- Maintain efficiency in production and service delivery at all times
- Comply with all relevant legislations, legal requirements and set procedures
- Attach great importance to the contributions by all, build sustainable relationships and share company's success with stakeholders
- Attach great importance to team work and consultative approach to management
- Remain committed to fulfilling the company's goal and objectives and the same shall take precedence over individual interests.
- Encourage and reward achievement and innovation by staff
- Conform to high standards in respect to work performance, product requirements, operational procedures, health and safety, environmental issues, governance and ethics

3. CORE BUSINESS OF RIVATEX EAST AFRICA LIMITED

The company's major objects as set out in the company's Memorandum and Articles of Association includes textiles manufacturing, training, research and extension.

The company is one of the institutions in Africa that incorporates textiles research, training and manufacturing.

RIVATEX EAST AFRICA LIMITED

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4. INSTITUTIONAL DETAILS

PRINCIPAL PLACE OF BUSINESS

Rivatex East Africa Limited factory
Kipkaren road, off Eldoret- Kisumu road,
P.O. Box 4744 – 30100,
Eldoret.

ENTITY CONTACTS

Telephone: (254) 53 2030901
E-mail: info@rivatex.co.ke
Website: www.rivatex.co.ke

ENTITY BANKERS

Equity Bank of Kenya Ltd
P.O. Box 2210- 30100, Eldoret
Tel: +254-053-2060907
Fax: +254-053-2031777
E-mail: info@equitybank.co.ke
Website: www.equitybank.co.ke

Kenya Commercial Bank Ltd
P.O. Box 560 – 30100, Eldoret
Tel: +254-053-2062241/2
Fax: +254-053-2061259
E-mail: xretailmngreld@kcb.co.ke
Website: www.kcbbankgroup.com

INDEPENDENT AUDITORS

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

CORPORATION SECRETARY

Jacqueline Manani (Mrs), (CPS), LLB,
Kipkaren road, off Eldoret- Kisumu road
P.O. Box 4744-30100, Eldoret
Tel: +254- 053-43184
Fax: +254- 053-43074
E-mail: legaloffice@mu.ac.ke
Website: www.mu.ac.ke

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PRINCIPAL LEGAL ADVISER

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

SOLICITORS

Kalya and Company advocates


Sagong house, 2nd floor

P.O. Box 235-30100




Eldoret

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THE BOARD OF DIRECTORS

DIRECTORS	DESCRIPTION
 Dr. Jeremiah Ntoloji Koshal	<p>Chairman</p> <p>Dr. Jeremiah Ole Koshal is a seasoned governance and leadership expert with over 20 years of experience mainly in academia and social sector. He is currently an Assistant Professor of Leadership at United States International University (USIU)-Africa. He has previously taught at Strathmore University and was also a Research Fellow at Regent University, USA, where he helped found the Regent Centre for Entrepreneurship, which advocated for starting ethical and sustainable businesses that bring about social, economic and spiritual transformation among disadvantaged populations.</p> <p>Dr. Koshal has also presented in international conferences in the areas of leadership and governance, and business development. He has authored a book, a book chapter, papers and reports on research conducted on entrepreneurship, economic development, kingdom business and leadership. He has also undertaken several consulting projects in the area of leadership and business development, as well as helping train entrepreneurs and corporate leaders for a more transformative workplace and society. Further, Dr. Koshal helped design practical social enterprise that generate income and jobs for the local people. Dr. Koshal is also an avid grant proposal writer.</p> <p>Dr. Koshal's areas of expertise include corporate governance, servant leadership, change management, cross-cultural leadership and entrepreneurship.</p>
 Prof. Colleta Suda	<p>PS-Ministry of Education, Science & Technology</p> <p>Prof. Collette Akoth Suda, currently the Principal Secretary, State department for University Education, Ministry of Education. She is the former Secretary for Gender and Social Development, Ministry of Gender, Children and Social Development. Previously, she was the Director, Institute of African Studies and Director, Board of Common Undergraduate Courses, University of Nairobi.</p> <p>She also served as a member of the National Commission on Gender and Development and a member of the Advisory Board of the Women Enterprise Fund, among others. Prof. Suda is a full Professor of Sociology at the Institute of African Studies. She is a fellow of the National Academy of Sciences (FKNAS). She has served as an external Examiner at Moi University, Maseno University and the University of Dar-es-Salaam.</p>

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 <p style="text-align: center;">Mr. Julius Korir</p>	<p>PS-Ministry of Industrialization & Enterprise Development</p> <p>Mr. Julius Korir is the Principal Secretary, State Department of Industry and Enterprise Development in the Ministry of Industrialization and Enterprise having been appointed in December 2015. Prior to his latest appointment, he served as the Industrialization Secretary, Ministry of Industrialization and Enterprise Development from May 2014. He holds an MBA in International Business and a BSc. in Agricultural Economics. Mr. Julius Korir has 15 years of experience in the national trade and industry development and 10 years in senior management and leadership positions in various institutions in the trade and industry sectors. At Kenya Investment Authority (KENINVEST) he held the position of Acting Managing Director from August 2011 to August 2012. Mr. Julius Korir also served at the Export Promotion Council for 15 years rising up to become the General Manager in charge of Trade Information and Business Advisory Services in 2008.</p>
 <p style="text-align: center;">Dr. Kamau Thugge</p>	<p>PS-National Treasury</p> <p>Dr. Kamau Thugge serves as Principal Secretary of National Treasury. Dr. Thugge served as Treasury and Permanent Secretary of Kenya Reinsurance Corporation Ltd. He worked as a Senior Economic Advisor in the Ministry of Finance from the year 2010.</p> <p>He also worked at the International Monetary Fund (IMF) in various capacities for over 21 years, both in the policy making Departments and non-policy making Departments as Economist/Senior Economist and Deputy Division Chief. He served as Head of the Fiscal and Monetary Affairs Department, Treasury from 2004 to 2005 and the Economic Secretary and Head of Economic Affairs Department, Treasury from 2005 to 2008.</p>
 <p style="text-align: center;">Mr. Emilio Mugo</p>	<p>Chief Conservator of Kenya Forest Service</p> <p>Mr. Mugo is the Chief conservator of forests and sits on the Board of the Kenya Forest Research Institute. He is a career forest officer with a master's degree in teams and financing, a post graduate diploma in project management and a bachelor's degree in forestry with over thirty (30) years' experience in the field and in management. He has also undergone basic training at the National Youth Service and officer's paramilitary course at the Administration Police Training College in addition to being a member and past chairperson of the Forestry Society of chairperson of the Forestry Society of Kenya.</p>

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 <p align="center">Mr. John Temba</p>	<p>Alternate -PS –Ministry of Education Science & Technology</p> <p>Temba is a Deputy Director in the State Department for Basic Education, Ministry of Education. With a career spanning over 20 years' experience in the education sector, he has served at the Teachers Service Commission as a senior administrative officer before moving to the Ministry of education. His expertise is in quality assurance and ICT in education. He holds a Master degree in Education management and a post graduate diploma in ICT and knowledge management.</p>
 <p align="center">Mr. Hezekiah Okeyo</p>	<p>Alternate – PS - Ministry of Industrialization & Enterprise Development</p> <p>Hezekiah B. Okeyo holds a Master of Business Administration (MBA) in Strategic Management from the Eastern and Southern African Management Institute (ESAMI), Tanzania; Master of Science (MSc) in Environmental Science and Technology from the UNESCO Institute for Environment and Water, Delft, The Netherlands; and Bachelor of Science (BSc) in Industrial Chemistry from the University of Nairobi. He has over 25 years' experience in private sector development and industrial policy/strategy research and analysis. He has represented the Ministry to the Board of Directors of several State Corporations for a period spanning over 15 years.</p> <p>He joined the Company in the year 2009.</p>
 <p align="center">Ms. Eunice Kigen</p>	<p>Alternate PS-National Treasury</p> <p>Ms. Eunice Kigen holds a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi and an Executive Masters of Business Administration from the Jomo Kenyatta University of science and Technology. She is also a Certified Public Accountant CPA (K).</p> <p>Ms. Eunice has wide experience in Public Sector Financial Management, having worked in the Government in senior positions in that field for the past 15 years. Currently, she is the Senior Deputy Director of Budget at the National Treasury. She is also the Alternate Director representing the Cabinet Secretary National Treasury at the Board of Kenya Airports Authority.</p>

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Mr. Patrick Nyaga

Alternate-Director - Kenya Forest Service

Mr. Nyaga is the Senior manager in charge of Finance and Administration and represents the Director on the Board of Rivatex East Africa Limited. He holds a master's degree in Strategic management, is a certified public accountant (K), holds diplomas in; Supply chain management, financial services and customer service management as well as a bachelor's degree in commerce with over eighteen (18) years' experience. He is a member of; Life Office Management Association (LOMA), Institute of Certified Public Accountants (ICPAK) and associate - Kenya Institute of Supplies and Management (KISM), as well as being a certified retirement benefits trustee.



Prof. Laban Ayiro

Ag. Vice Chancellor Moi University

Prof. Laban Peter Ayiro is currently the Acting Vice Chancellor of Moi University. He is a Professor of Research Methods and Statistics at Moi University. He is a Senior Fulbright Scholar having been to the USA in 2011-2012 researching and teaching at the University of Texas A&M.

Prof. Ayiro is a leading consultant in Research, Economics of Education, Organizational Leadership and Emotional Intelligence.

He was the Director, Quality Assurance at Moi University before being appointed the Acting Deputy Vice Chancellor in charge of Administration, Planning and Development. Prof. Ayiro has been a Chemistry teacher, Principal of several High Schools, Provincial Director of Education, Deputy Director of Staff Training (Kenya Education Management Institute), Senior Deputy Director for Policy and Planning at the Ministry Headquarters and Senior Deputy Director for Research and Curriculum Development at the Kenya Institute of Curriculum Development.





Ms. Lucy W. Gitundu

Director

Ms L.Gitundu is an Independent Director. She was a Senior Accountant in the The National Treasury before retiring. She has been representing the PS-Treasury in several State Corporations Boards including Agricultural Finance Corporation (AFC), Moi University Council, Pyrethrum Board, Sports Stadia Management Board (SSMB)

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 <p style="text-align: center;">Dr. Eric Oyondi</p>	<p>Director</p> <p>Dr. Eric Oyondi Nganyi is the head Department of Manufacturing, Industrial and Textile Engineering at Moi University. He holds a Bachelor's degree, a Master's degree and PhD degree in Textile Engineering. He is a member of the Textile Institute, Manchester. He is also a member of Kenya Institute of Management. He has over 20 years' experience as a lecturer, and further 17 years of working in the textile industry in Kenya.</p>
 <p style="text-align: center;">Prof. Thomas Kipkurgat, EBS</p>	<p>Managing Director</p> <p>Professor Thomas Kipkurgat is the Managing Director and Chief Executive Officer at Rivatex East Africa Limited. He holds a Doctor of Philosophy degree in Agribusiness Management from Texas Tech University (USA). He has a Masters in Business Administration from Abilene Christian University (USA).</p> <p>Before joining Rivatex East Africa Limited, he worked with Moi University as the Director of International Linkages. He also worked as the Director of International and Multicultural Linkages at Oklahoma State University (USA) for more than 10 years.</p> <p>He has also attended and presented in numerous seminars, conferences and workshops both locally and internationally, presenting on various areas such as in transformative leadership, management, micro-enterprise development, among others.</p>

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MANAGEMENT TEAM

1. Prof. Thomas Kipkurgat	Managing Director
2. Mr. Joseph K. Sum	General Manager
3. Mr. Charles Kemei	Mill Manager
4. Mr. Titus K. Kipkemboi	Finance & Administration Manager
5. Mr. Josphat Cheruiyot	Processing Manager
6. Mr. Allan K. Biwott	Internal Auditor
7. Mr. Geoffrey Langat	Sales & Marketing Manager
8. Mr. Richard Tanui	Quality Control Manager
9. Mr. Peter Mugo	Weaving Manager
10. Mr. Hosea K. Kangogo	Engineering Manager
11. Mr. Victoria M. Muthami	Finished Goods Manager
12. Mr. Joseph Keter	Human Resource Manager

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CHAIRMAN'S STATEMENT

Dear Shareholders

I am sincerely privileged to table this annual report for the year ended 30th June 2017.

We are driven by the goal of becoming the leading textile factory in the East African region, one that produces quality and embraces innovation for consistent and sustainable supply of quality fabrics and apparels both locally and internationally. During the year we utilized four hundred and twenty three million two hundred thousand four hundred and twenty eight shillings (Kshs.423, 200,428/-) to modernize processing department of the factory in order for Rivatex East Africa Limited to be more competitive to withstand threats and take advantage of emerging opportunities in the fast changing global textile manufacturing arena. We recognize that in order to build a formidable textile industry giant we must invest in modern plant and machinery that will enable the company to sustainably produce both efficiently and cost effectively. We continued to manage our costs while ensuring that quality not compromised by availing to the market high quality textile products despite having to overcome various machinery breakdowns and obsolescence.

Board Changes

During the financial year Prof. Laban Ayiro replaced Prof. Richard Mibey as the acting vice-chancellor of Moi University. Dr. Jeremiah Ntolo Koshal also joined the Board to replace Prof. Jenesio Kinyamario as the Chairman of the Board. Ms Eunice Kigen replaced Ms Rose Magondu as alternate to PS-TNT during the financial year.

The Board wishes to thank Prof. Richard Mibey, Prof. Jenesio Kinyamario and Ms. Rose Magondu for their expert contributions and sacrifices that they made while serving as Board members of the company.

Overview of Business Environment

According to World Bank, in their April 2017 forecast report, the Kenyan economy is projected to decelerate to five decimal five percentum (5.5%) in 2017 and five decimal eight percentum (5.8) in 2018 buoyed by a stable macro-economic environment, rebound in tourism, strong remittance inflows and an ambitious public investment drive. The government has also identified the textile industry as one sector of the economy that can catalyze economic growth in the country as well as increase employment opportunities for the youth and women. The Ministry of Industrialization and Enterprise Development has prioritized the textile sector in the country's industrialization road map. One of the key enablers in the road map is enhancement of skills for industrial development for which Rivatex is strategically placed by virtue of being owned by Moi University, which happens to be the only University in the country that trains and equips graduates with textile industry related expertise.

The ten (10) year extension of African Growth and Opportunity Act (AGOA) in 2015 has further increased the opportunities that Rivatex East Africa Limited can exploit in order to grow and be profitable upon completion of the modernization that is being undertaken. Furthermore the East African region has been tipped as the next global textile manufacturing frontier after China and South East Asia. Going by the positive global developments and shifts Rivatex is strategically placed geographically to be a global textile industry player in the near future.

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Corporate Social Responsibility

Rivatex recognizes that for sustainable growth and profitability it must play its role in society as an ethical and compliant company in respect to people, communities, legal requirements and natural environment. During the financial year Rivatex East Africa Limited supported projects and activities that positively impacts on the lives of communities and society at large. Rivatex East Africa Limited also adopted greener production practices that protect the environment and minimizes the damage to the natural environment and the society. We take cognizance of the fact that abiding by the set regulations and doing the right things in terms of decisions and actions, immensely contributes and sustains our future success as a Company.

Future Outlook

Rivatex continues to maintain its solid reputation of home of quality textiles. The local textile industry is expected to receive much attention from potential investors given the Government's various interventions and efforts to revive the cotton value chain. Other positive developments have been witnessed in the region following proven regional textile industry's milestones in the past five years. East African countries have been increasing their relentless efforts to expand their respective textile industry infrastructure and sphere to tap into the unfolding global shifts in textile manufacturing sites. The company has not been left behind in strategically placing itself to benefit from the opportunities that will accrue from leading textile manufacturers shifting their manufacturing bases to Kenya and the larger East Africa. We are aggressively modernizing the spinning and processing departments in order to maximize on the emerging opportunities and consequently deliver superior shareholder value.


Strategic Direction

The Board and management developed and approved the implementation of the company's 2015-2020 Strategic Plan. The Strategic plan took into consideration the achievements of the strategic objectives envisaged in the 2010-2015 Strategic Plan. The 2015-2020 Strategic Plan is expected to guide the company through the next phase of modernization, human capital optimization and growth for five (5) years to become a textile industry leader in the East African region.

Appreciation

I would like to extend my thanks to Moi University Council and Rivatex Board of Directors, the management team and employees for their continued dedication and hard work to ensure that Rivatex is fully revived and grows to be an industry giant. I urge the Board and management, as a team, to tackle the next financial year with the same enthusiasm and effort with a view to positioning ourselves as a leader in the global textile environment.

Thank you.



Dr. Jeremiah Ntolo Koshal
Chairman, Board of Directors

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MANAGING DIRECTOR'S STATEMENT

Production Capacity Enhancement

Allow me to present the financial statements for the year ended 30th June 2017.

The government of Kenya has steadfastly supported Rivatex East Africa Limited through allocation of funds which have been utilized prudently through acquisition of state-of-the-art machinery. Through modernization we shall be able to produce cost effectively and thus be competitive to attract huge orders from the apparels manufacturers and brands that are expected to shift to the Special Economic Zones in the near future as well as serve our existing strongholds. During the 2016/2017 financial year Rivatex East Africa Limited acquired one (1) washing machine, one (1) mercerizing machine, one (1) pad steam dyeing range, one (1) raising machine, and one (1) doubling and precision, folding & plaiting machine and one (1) automatic inspection machine all totaling Kshs.423,200,428 (Four Hundred and Twenty Three Million, Two Hundred Thousand Four Hundred and Twenty Eight Shillings). This will make Rivatex East Africa Limited effectively serve the local and regional markets with quality products. We consider the investment in the above machines will enable the company increase its sales volumes tremendously while retaining more clients during the 2017/2018 financial year. The company plans to invest Kshs.546,629,870 (Five Hundred and Forty Six Million Six Hundred and Twenty Nine Thousand Eight Hundred and Seventy Shillings) in the 2017/2018 financial year, one (1) grey cloth inspection machine, one (1) rotating machine, one (1) yarn dyeing machine one (1) hot flue machine and one (1) continuous bleaching & scouring machine. These modernization efforts will together enable Rivatex East Africa Limited increase production and sales volumes in the long run.

Financial Results

During the financial year under review Rivatex East Africa Limited recorded an increase of fifty nine percentum (59%) in its non-current assets from one billion sixty million four hundred and thirty one thousand and thirty two shillings (Kshs.1, 060,431,032) to one billion, six hundred and ninety million six hundred and eight thousand three hundred and sixty four one shillings (Kshs.1, 690,608,364).

Rivatex East Africa Limited registered a twenty eight percentum (28%) growth in its financial position from one billion, seven hundred and seven million five hundred and sixty seven thousand nine hundred and twenty six shillings (Kshs. 1,707,567,926) recorded in the previous financial year to two billion, one hundred and eighty five million five hundred and fifty two thousand four hundred and twenty five shillings (Kshs. 2,185,552,425). We expect to record a further growth in net assets in the 2017/2018 financial year especially with the transformative modernization of the Processing department of the company.

The company registered a twenty percentum (20%) increase in turnover from ninety eight million one hundred and seventy two thousand and fifty eight shillings (Kshs.98, 172,058) recorded in the previous financial year to one hundred and seventeen million seven hundred and two thousand and sixty shillings (Kshs.117,702,060). The positive trend in turnover is expected to be sustained with the commissioning of new machines in processing department. It is expected therefore that with the improved efficiency of both the spinning and processing departments, the company will be in a position to attain a sustainable growth in sales and profitability.

Business Environment

The textile and apparel sector has been identified by the Kenyan Government as one of the sectors that will accelerate the country's economic growth. With the recent positive trends and developments in the global and regional textile industry Rivatex East Africa Limited is fastracking the implementation of its modernization strategies in order to take advantage of the expected shift of production and manufacturing sites by leading textile brands to East Africa from China and Far East. Rivatex East Africa

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Limited will continue scanning its environment for opportunities and options to pursue in order to ensure sustainable growth and profitability.

Appreciation

The achievements that we have been able to fulfill in 2016/2017 financial year would not have been possible without the dedication and expertise of our employees, to whom I extend my sincere thanks. I would also like to show my appreciation to the Board of Directors who have provided wise counsel to my colleagues and myself during the year.

On behalf of the Board, I would like to thank the Government for its continued support through the Ministry of Education, The National Treasury and Ministry of Industry, Trade and Co-operatives. It's my sincere hope that the 2017/2018 financial year will usher in profitability and sustainable growth.

Thank you.



Prof. Thomas Kipkurgat, EBS
Managing Director

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act No. 17 of 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i. designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii. selecting and applying appropriate accounting policies; and
- iii. making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of Rivatex East Africa Limited as at 30th June 2017 and of its financial performance and cashflows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act No. 17 of 2015.

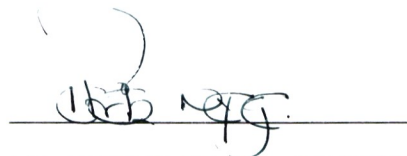
Nothing has come to the attention of the directors to indicate that Rivatex East Africa Limited will not remain a going concern for twelve (12) months from the date of this statement.

Approval of the financial statements

Approved by the Board of Directors on/..... 2017 and signed on its behalf by:



DR. ERIC OYONDI - DIRECTOR



MR. PATRICK NYAGA - DIRECTOR

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CORPORATE GOVERNANCE STATEMENT

Corporate governance comprises rules, laws, practices and processes by which Rivatex East Africa Limited is directed and involves balancing of interests of all stakeholders in order to achieve long term strategic objectives of the company.

The Board of Directors of Rivatex East Africa Limited has embraced corporate governance to direct, control and be held accountable by the shareholders. Rivatex East Africa Limited is in compliance with the Mwongozo Code of corporate governance for state corporations. The Mwongozo Code offers corporate governance framework for all state corporations. The Board has undergone training on this Code which culminated to the Evaluation of all Board members by State Corporations Advisory Committee.

Board of Directors

The roles of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined.

The Board comprises of nine (9) directors of which three (3) of them are independent non-executive including the Chairman. The Board defines Rivatex East Africa Limited's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring their diverse experience and qualifications into the Board's deliberations.

Except for direction and guidance on general policy, the Board has delegated authority of its day-to-day business to the Managing Director. However the Board is responsible for the stewardship of the company and assumes responsibility for the effective control of the company.

Board Meetings

The Board holds Board and committee meetings on regular basis while Special meetings are called when deemed necessary to do so.

Committees of the Board

The Board has set up the following four principal committees which meet under well defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities. They are:-

- 1) Finance, Administration and Strategy committee
- 2) Audit and Risk Management committee
- 3) Production, Operations and Technical committee
- 4) Human Resources, Training and Development committee

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Finance and General Purposes committee members

1. Mr. Patrick Nyaga Chair
2. Ms. Rose Magondu
3. Mr. John Temba
4. Prof. Thomas Kipkurgat

The committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the organization. The committee also reviews the organization's financial performance against its goals and proposes major transactions and programs to the board.

Audit and Risk Management committee members

1. Ms. Lucy W. Gitundu Chair
2. Mr. Hezekiah Okeyo
3. Dr. Eric Oyondi
4. Ms. Rose Magondu

The Committee reviews the appropriateness of the Company's accounting policies as well as monitoring and assessing the role and effectiveness of the Internal Audit function and receiving reports on these matters. The Committee also reviews and monitors the integrity of the Company's annual financial statements and any formal announcements relating to the Company's financial performance, including significant financial reporting judgements contained within them.

Production, Operations and Technical committee

1. Dr. Eric Oyondi Chair
2. Mr. Patrick Nyaga
3. Mr. Hezekiah Okeyo
4. Ms. Lucy Gitundu
5. Prof. Thomas Kipkurgat

This committee is charged with responsibility of reviewing from time to time production, marketing and capital expenditure plans including research projects. It also reviews proposals for capital developments to enhance capacity and expand business reach. In addition the committee appraises capital budgets for all hardware and software purchases for recommendation to the Board.

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Human Resource Management and Development committee

1. Prof. Laban Ayiro Chair
2. Mr. John Temba
3. Mr. Hezekiah Okeyo
4. Ms. Lucy W. Gitundu
5. Prof. Thomas Kipkurgat

The objective of the Human Resources Committee is to assist the Board in discharging its duty to oversee the establishment of appropriate Human Resources policies and strategies that provides the Company with the capability to achieve its short and long term business objectives.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RIVATEX EAST AFRICA LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rivatex East Africa Limited set out on pages 20 to 42, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Rivatex East Africa Limited as at 30 June 2017, and of its financial performance and of its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenyan Companies Act.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Trade and Other Receivables

As previously reported, included in the trade and other receivables balance of Kshs.43,081,682 as disclosed in note 19(a) to the financial statements is prepayments of Kshs.14,102,936 relating to 2013/2014 and prior years. Although the management has provided evidence that the matter has been handed over to the lawyer to institute legal proceeding with a view to recover the prepayment, however no explanation has been provided for making advance payments before goods were received. Consequently, the propriety of the prepayment of Kshs.14,102,936 as at 30 June 2017 could not be confirmed and the company did not receive value for money on this payment.

2.0 Current Liabilities

Included in the statement of financial position as at 30 June 2017 under current liabilities figure of Kshs.220,903,542 is cash and cash equivalent (O/D) figure of Kshs.1,736,741 as disclosed in note 21 to the financial statement relating to the following banks:

Bank	Name	Account Number	Amount (Kshs)
Equity Bank	Nairobi Account	0300297551263	1,467,680
Kenya Commercial Bank	Show Room Account	1136152989	229,884
Equity Bank	Moi University	0300294911893	33,047
Kenya Commercial Bank	Main Account	1182314436	6,130
Total			1,736,741

Although the management has explained that this relates to overdrawn cash books, no explanation has been given for this anomaly. Under the circumstances, the validity, accuracy and propriety of the cash and cash equivalent (O/D) balance of Kshs.1,736,741 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rivatex East Africa Limited in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit matters to communicate in my report.

Other Matter

1.0 Financial Performance

The company net loss decreased from Kshs.132,543,477 in 2015/2016 to Kshs.132,015,501 in the year under review bringing the accumulated losses to Kshs.1,152,619,354. The management attributes the poor performance to constant breakdown in wet processing machine that had hindered the company's ability to supply goods of the right quality and on time. Although the management indicates that it has partially addressed this challenge through acquisition of new machinery, no indication has been provided of measures being taken to increase sales volume. If

this loss making trend is not reversed, the company is likely to face financial difficulties in its future operations.

2.0 Budgetary Control and Performance

2.1 Receipts

The Company budgeted to collect income of Kshs.241,106,801 during the year under review. However, Kshs.118,902,060 was realized resulting in a shortfall of Kshs.122,204,741 or 50.68% of the budgeted income. There is need for the management to re-align its budget process in line with the realities on the ground in order to achieve realistic targets.

2.2 Expenditure

A review of the company budgeted and actual expenditure for the year ended 30 June 2017 revealed that the total budget for the year 2016/2017 was Kshs.98,480,317 against which total expenditure of Kshs.96,967,545 was incurred resulting to an under expenditure of Kshs.1,512,772 or approximately 1.5% of the budgeted expenditure.

The under absorption of approved budget is an indication of activities and projects in the annual work plan not implemented by the Rivatex East Africa Limited which is likely to have negative effect on goods and service produced for sales which may have contributed to land the company poor performance.

3.0 Failure to Observe One Third Staff Establishment Rule

Audit review of the payroll for the month of June 2017 showed that Rivatex East Africa Limited had a staff establishment of 475 out of whom 358 or 75% of staff are from the same ethnicity leaving only 117 or 25% from other ethnicities as analysed here below:

STAFF STRUCTURE	No	DOMINANT ETHNIC COMMUNITY	% OF DOMINANT ETHNIC COMMUNITY
Board of Directors	13	3	23
Senior Management	12	9	75
Other permanent and pensionable staff	450	346	77
Total	475	358	75%

This is Contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community. Consequently the entity is in breach of the law.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for

such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material

uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

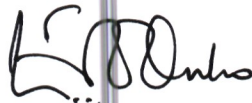
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of accounts have been kept by the Company, so far as appears from the examination of those books; and
- (iii) The Company's financial statements and statement of comprehensive income are in agreement with the books of account.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 March 2018

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2017

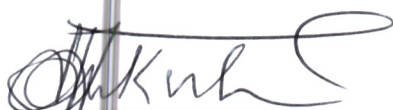
	NOTE(S)	2016/2017	2015/2016
		Kshs.	Kshs.
Turnover	7	117,702,060	98,172,058
Cost of Sales	8	153,950,016	154,892,211
GROSS PROFIT		(36,247,956)	(56,720,153)
Other Operating Income	9	1,200,000	1,200,000
TOTAL OPERATING PROFIT		(35,047,956)	(55,520,153)
OVERHEADS			
Administration expenses	10	40,145,522	32,816,814
Board Expenses	11	4,807,716	3,990,500
Honoraria	12	648,000	648,000
Audit fees	13	250,000	250,000
Sales & Marketing expenses	14	9,699,122	8,497,144
Personnel emoluments	15	40,818,443	30,343,722
Bank charges	16	598,742	477,143
TOTAL EXPENDITURE		96,967,545	77,023,323
NET PROFIT/(LOSS)		(132,015,501)	(132,543,477)

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2017

	NOTE(S)	2016/2017 Kshs.	2015/2016 Kshs.
ASSETS			
<i>Non Current Assets</i>			
Property, Plant & Equipment	17	1,690,608,364	1,060,431,032
		1,690,608,364	1,060,431,032
<i>Current Assets</i>			
Inventory	18	664,336,193	593,105,620
Trade And Other Receivables	19	43,081,682	43,805,179
Cash & Cash Equivalents	20	8,429,729	62,813,362
		715,847,604	699,724,161
<i>Current Liabilities</i>			
Cash & Cash Equivalents(O/D)	21	1,736,741	-
Trade creditors and other payables	22	218,067,484	51,406,658
Provisions	1c(xiv)	1,099,318	1,180,609
		220,903,542	52,587,267
WORKING CAPITAL		494,944,061	647,136,894
TOTAL NET ASSETS		2,185,552,425	1,707,567,926
FINANCED BY:			
Share Capital	23	1,000,000	1,000,000
Retained Earnings	24	(1,152,619,354)	(1,020,603,854)
Revaluation reserves	25	73,652,680	73,652,680
Capital reserves	26	3,263,519,099	2,653,519,099
TOTAL OWNERS' EQUITY & LIABILITIES		2,185,552,425	1,707,567,925



CHAIRMAN

Date:



MANAGING DIRECTOR

Date:

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2017

	Share Capital Kshs	Retained Earnings Kshs	Revaluation Reserves Kshs	Capital reserves Kshs	Total Kshs
At 1st July 2015	1,000,000	(888,060,377)	106,283,598	1,968,519,099	1,187,742,320
Net Profit/Loss for the Year	-	(132,543,477)	-	-	(132,543,477)
Transfers to Capital reserves	-	-	-	685,000,000	685,000,000
Transfers from Revaluation reserves	-	-	(32,630,918)	-	(32,630,918)
At 30th June 2016	1,000,000	-1,020,603,854	73,652,680	2,653,519,099	1,707,567,926
At 1st July 2016	1,000,000	(1,020,603,854)	73,652,680	2,653,519,099	1,707,567,926
Net Profit/Loss for the Year	-	(132,015,501)	-	-	(132,015,501)
Transfers to Capital reserves	-	-	-	610,000,000	610,000,000
Transfers to Revaluation reserves	-	-	-	-	-
At 30th June 2017	1,000,000	(1,152,619,354)	73,652,680	3,263,519,099	2,185,552,425

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30TH JUNE 2017

	NOTE(S)	2016/2017 Kshs.	2015/2016 Kshs.
CASHFLOWS FROM OPERATING ACTIVITIES			
Net Loss Before Taxation		(132,015,501)	(132,543,477)
Adjustment for:			
Depreciation	17	33,606,887	24,770,652
Operating results before working capital changes		(98,408,614)	(107,772,825)
(Increase) Decrease inventories	18	(71,381,862)	(93,390,858)
(Increase) Decrease trade & other receivables	19	723,497	(20,464,325)
Increase (Decrease) trade & other payables	22	166,660,826	37,870,984
NET CASH USED IN OPERATING ACTIVITIES		(2,406,154)	(175,605,995)
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchase of Plant & Equipment	17	(663,714,221)	(461,559,841)
NET CASH USED IN INVESTING ACTIVITIES		(663,714,221)	(461,559,841)
CASHFLOWS FROM FINANCING ACTIVITIES			
Government grants	5	610,000,000	685,000,000
NET CASH GENERATED FROM FINANCING ACTIVITIES		610,000,000	685,000,000
NET INCREASE IN CASH & CASH EQUIVALENTS		(56,120,374)	47,834,164
CASH & CASH EQUIVALENTS AT 1ST JULY 2016	20	62,813,362	23,130,227
CASH & CASH EQUIVALENTS AT 30TH JUNE 2017		6,692,988	62,813,362

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) BASIS OF PREPARATION

The financial statements are prepared under the Historical Cost basis of measurement as modified by fair value adjustments where necessary and in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations originated by the International Financial Reporting Interpretation Committee (IFRIC) as well as the accrual basis.

The financial statements comprise of the Statement of comprehensive income, Statement of financial position, Statement of changes of equity, Statement of cashflows, notes comprising a summary of accounting policies and other explanatory notes which are presented in functional currency of Kenya shillings (Kshs) which is the prevailing currency within the primary economic environment, rounded to the nearest shilling and prepared in accordance with the measurement bases prescribed by International Financial Reporting Standards.

In the process of applying Rivatex East Africa Limited's accounting policies, its Directors make certain judgments, estimates and assumptions that are continuously evaluated and assessed for adjustments based on prior experience and other determinants, including expectations of future events that are believed to be reasonable under the prevailing circumstances. Although these estimates are based on the Directors' best knowledge of current events and actions, in practice actual results may differ from these estimates. Such estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are reviewed at the end of each reporting period, and any revisions to such estimates are recognized in the year in which the revision is made and are described in these notes to the Financial Statements.

b) REVISED AND NEW STANDARDS

i. Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortization)

The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

NOTES TO THE FINANCIAL STATEMENTS

The company shall implement the requirement of the revised standard when identifying the actual cost of the asset with the revenue it generates. By spreading the expense out of several years, the ledger will not only reflect the true cost of doing business but also help to make tax liability more consistent.

ii. Amendment to IFRS 5 (Annual Improvements to IFRSs Cycle)

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

ii. Amendment to IFRS 5 (Annual Improvements to IFRSs Cycle)

The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. The company, with the help of the management, will be able to plan on the assets needed to be disposed of through sale. The requirement to deduct cost to sell from fair value may result in an immediate charge to the profit or loss to the company.

iii. Amendments to IAS 1- Disclosure Initiative

The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The company is keen on the amendment made in order to achieve compliance with the Companies Act and related Regulations.

iv. Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)

The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values. The financial statements have been prepared taking into consideration the requirement of the revised standard.

c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

i) Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the company and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the company's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met.

Revenue from the sale of goods and services is recognized in the year in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Grants from National Government are recognized in the year in which the company actually receives such grants. Finance income comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method. Dividend income is recognized in the income statement in the year in which the right to receive the payment is established. Rental income is recognized in the income statement as it accrues using the effective lease agreements. Other income is recognized as it accrues.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

ii) In-kind contributions

In-kind contributions are donations that are made to the company in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the company includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

iii) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

iv) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognized in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

a.	Land	-Amortized over the remaining lease period
b.	Buildings	- 2.5%
c.	Plants & Machinery	- 2.5%
d.	Office Furniture	- 12.5%
e.	Office Equipment	- 12.5%
f.	Motor Vehicles and Tractors	- 12.5%
g.	Computers	- 25%

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal. Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

v) Amortization and impairment of Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software.

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years. All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

vi) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the company, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external valuers. Changes in fair values are included in profit or loss in the income statement.

vii) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

viii) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

ix) Taxation

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the company operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

x) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

xi) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the company or not, less any payments made to the suppliers.

xii) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

xiii) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the company operates, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

xiv) PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, for which it is highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. During the financial year a general provision of Kshs.1,099,318 being 5% of the total trade debtors was provided as required under IAS 39.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

Rivatex East Africa Limited's activities expose it to a variety of financial risks including credit and market risks. The Rivatex East Africa Limited's overall risk management policies are set out by the Board and implemented by the management, and focus on the unpredictability of changes in the operating environment and seek to minimize the potential adverse effects of such risks on the Company's performance by setting acceptable levels of risk. Rivatex East Africa Limited does not hedge against any risks. Rivatex East Africa Limited's activities expose it to a variety of financial risks, including credit risk and A description of the significant risk factors is given below together with the risk management policies applicable.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

i. Credit risk

Rivatex East Africa Limited does not have any significant concentrations of credit risk. Credit risk on trade receivables is managed by ensuring that credit is extended to customers with an established credit history. The credit history is determined by taking into account the financial position, past experience and other relevant factors. Credit is managed by setting the credit limit and the credit period for each customer. The utilisation of the credit limits and the credit period is monitored by management on a monthly basis.

ii. Market risk

a. Foreign exchange risk

The Company closely monitors foreign exchange rates. Currency exposure arising from liabilities denominated in foreign currencies is managed primarily through the holding of bank balances in dollars. Foreign currency letters of credit facilities are also used to manage foreign currency fluctuations.

b. Cash flow and fair value interest rate risk

As the Company has no significant interest bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions

Property, plant and equipment

Critical estimates are made by the Directors in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 2(d) above.

b. Critical judgements in applying the entity's accounting policies

In the process of applying the Company's accounting policies, management has made judgements in determining:

- The classification of leases
- The useful lives of, or expected pattern of consumption of the future economic benefits embodied in depreciable assets
- Whether assets are impaired

4. REVALUATION RESERVES

There was no revaluation made during this financial year hence the revaluation reserve value of seventy three million six hundred and fifty two thousand six hundred and eighty shillings (Kshs.73,652,681) remained the same.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

5. GOVERNMENT GRANTS

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. During the financial year the Company received capital grants of six hundred and ten million shillings (Kshs 610,000,000/-) while in 2015/2016 the government grants were six hundred and eighty five million shillings (Kshs. 685,000,000/-).

6. UTILITIES DEPOSITS

These are amounts paid to the KPLC as a deposit for power connection for the factory, showground stand, Eldoret, Nairobi and Kisumu factory outlets including rent deposits for existing outlets.

Utilities deposits

	2016/2017 Kshs	2015/2016 Kshs
Rent & power connection deposits b/f	380,140	380,140
Rent deposit refund Narok outlet	-	-
Rent deposits- Kitale & Nakuru outlets	-	-
Total	380,140	380,140

7. TURNOVER

It's is the gross revenue for the year. This figure is composed of woven fabrics both printed and dyed. Also the woven cloth was sold before being dyed or printed.

	2016/2017 Kshs	2015/2016 Kshs
Products		
Printed fabrics	45,668,399	38,529,342
Dyed	22,363,391	16,428,576
Cloth (Grey)	3,766,466	2,805,621
Bleached	5,296,593	3,901,504
Garments	39,783,296	35,902,827
Waste	588,510	428,317
Others	235,404	175,871
	117,702,060	98,172,058
Less		
Discounts	-	-
Return Inwards		
Printed fabrics	-	-
	-	-
Total Sales	117,702,060	98,172,058

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

8. COST OF SALES STATEMENT

	2016/2017 Kshs	2015/2016 Kshs
DIRECT COST		
Opening Stock	111,873,042	114,149,743
Add: Purchases	20,033,111	38,990,499
Less: Closing stock	(94,662,553)	(111,873,042)
Cost of Raw materials	37,243,600	41,267,200
Direct labour	22,657,332	18,312,293
Factory Electricity	22,982,001	24,257,615
Factory Water	5,656,551	5,370,661
Sub-Total	88,539,485	89,207,769
INDIRECT COST		
Firewood expenses	4,700,000	4,216,000
Salaries & Wages	37,158,025	30,032,161
Packaging materials	586,267	396,772
Designs & Screens	859,363	143,528
Lubricants & Oils	2,988,044	1,498,616
Spares & Consumables	5,130,134	3,455,351
Staff uniforms & Consumables	1,503,159	0
Other indirect costs	0	2991
Tailoring Consumables	6,259,522	4,007,094
Depreciation	30,246,198	22,293,586
Sub-Total	89,430,711	66,046,099
TOTAL COST	177,970,196	155,253,868
Add: Opening Work-In-Progress	224,979,897	246,558,649
Less: Closing Work-In-Progress	(245,854,154)	(224,979,897)
COST OF GOODS MANUFACTURED	157,095,939	176,832,620
Add:		
Opening Finished goods	42,205,625	20,265,216
Less:		
Closing Finished goods	(45,351,549)	(42,205,625)
COST OF SALES	153,950,016	154,892,211

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER OPERATING INCOME

	2016/2017 Kshs	2015/2016 Kshs
<u>Sundry income</u>		
Lease of motor vehicle to Confucius Institute	1,200,000	1,200,000
Other Operating Income	1,200,000	1,200,000

10. ADMINISTRATION EXPENSES

	2016/2017 Kshs.	2015/2016 Kshs.
<u>Administration Expenses</u>		
General administration expenses	3,351,782	1,749,321
Postage and stationery	2,173,038	1,809,864
Sundry expenses	1,782,533	1,246,415
Telephone and internet expenses	1,438,660	1,376,583
Travelling, Air Tickets and subsistence allowances	5,591,841	6,154,190
Deprn Property, plant and equipment(PPE)	3,360,689	2,477,065
Legal fees	922,400	766,142
Motor vehicle Repairs and Maintenance	1,427,764	1,982,646
Research and product development	2,537,270	3,008,505
Water	628,426	596,740
Electricity	2,553,556	2,695,291
Fuel and Oil	1,301,202	1,668,229
Staff costs	3,580,509	3,927,820
Insurance	4,396,535	2,177,394
General provisions for bad debts	1,099,318	1,180,609
Ex-gratia	4,000,000	
Total Admin Expenses	40,145,522	32,816,814

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

11. BOARD EXPENSES

	2016/2017 Kshs.	2015/2016 Kshs.
Board Expenses	4,807,716	3,990,500
	4,807,716	3,990,500

12.

	2016/2017 Kshs.	2015/2016 Kshs.
Honoraria	648,000	648,000
	648,000	648,000

13. AUDIT FEES

	2016/2017 Kshs.	2015/2016 Kshs.
Audit fees	250,000	250,000
	250,000	250,000

14. SALES & MARKETING EXPENSES

	2016/2017 Kshs.	2015/2016 Kshs.
Selling & Distribution expenses	3,913,714	3,896,128
Outlets Sundry expenses	563,104	96,312
Rent-outlets	5,222,304	4,504,704
Total Sales & Marketing Expenses	9,699,122	8,497,144

15. PERSONNEL EXPENSES

	2016/2017 Kshs.	2015/2016 Kshs.
<u>Personnel Expenses</u>		
Salaries	30,813,972	24,904,719
NSSF Employer Contribution	1,033,402	943,400
Employer's Pension Contribution	6,438,318	4,495,603
Gratuity	2,532,751	-
Total Personnel Expenses	40,818,443	30,343,722

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

16. BANK CHARGES

	2016/2017 Kshs.	2015/2016 Kshs.
<u>Bank charges</u>		
Bank charges	598,742	477,143
Total Bank Charges	598,742	477,143

NOTES TO THE FINANCIAL STATEMENTS

17. MOVEMENTS IN PROPERTY, PLANT & EQUIPMENT

ASSET	Land	Buildings	Plant & Equipment	Buildings (Work-In-Progress)	Plant & Equipment (Work-In-Progress)	Furniture & Fittings	Computers & Accessories	Office Equipment	Motor Vehicles	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost/Valuation										
As At 1st July 07	50,322,233	84,513,920	112,271,815	-	-	3,165,874	323,000	255,000	-	250,851,842
As At 1st July 2016	50,322,233	113,895,343	566,661,882	10,000,000	397,775,748	4,992,573	15,084,756	2,831,476	43,365,431	1,204,929,442
Additions	-	-	206,051,628	31,787,256	423,200,428	1,014,453	1,490,800	55,695	113,961	663,714,221
Disposals/Obsolete assets	-	-	-	-	-	-	-	-	-	-
As at 30th June 2017	50,322,233	113,895,343	772,713,510	41,787,256	820,976,176	6,007,026	16,575,556	2,887,171	43,479,392	1,868,643,663
Accum. Depreciation										
As at 1st July 2016	6,759,702	21,981,135	82,289,206	-	-	3,441,591	8,236,196	1,369,119	20,351,463	144,428,412
Disposals	-	-	-	-	-	-	-	-	-	-
Charge for the year	751,078	2,847,384	19,317,838	-	-	750,878	4,143,889	360,896	5,434,924	33,606,887
As at 30th June 2017	7,510,780	24,828,519	101,607,043	0	0	4,192,469	12,380,085	1,730,015	25,786,387	178,035,298
Net Book Value										
As at 30th June 2017	42,811,453	89,066,824	671,106,467	41,787,256	820,976,176	1,814,557	4,195,471	1,157,156	17,693,005	1,690,608,364
As at 30th June 2016	43,562,531	91,914,208	484,372,677	10,000,000	397,775,748	1,480,982	6,848,560	1,462,358	23,013,968	1,060,431,032

Note * The cost is carried in the financial statements as long-term prepayment and is amortized to the income statement on a straight-line basis over 67 years of the remaining 99 year lease period.

* Under Plant & Equipment the company acquired one (1) washing machine, one (1) mercerizing machine, one (1) pad steam dyeing machine, one (1) automatic inspection machine, one (1) raising machine, and one (1) doubling, and precision, folding & plaiting machine worth a total of Kshs. 440,961,340 All these machines are yet to be received except for washing machine which was fully received in May 2017.

NOTES TO THE FINANCIAL STATEMENTS

18. INVENTORY

	2016/2017 Kshs	2015/2016 Kshs
Raw materials	94,662,553	111,873,042
Finished goods	45,351,549	42,205,625
Work-In-Progress	245,854,154	224,979,897
Sub-Total	385,868,255	379,058,564
Consumables, spares & accessories	278,467,938	214,047,056
Sub-Total	278,467,938	214,047,056
Total	664,336,193	593,105,620

Inventories are valued using First in First out (FIFO) method. They are valued at lower of cost and net realizable value.

19. TRADE & OTHER RECEIVABLES

Trade and other receivables as at the end of financial year was Kshs. 43.1 million.

	2016/2017 Kshs	2015/2016 Kshs
Trade receivables	21,986,351	23,612,175
Prepayments (Note 19(a))	14,102,936	14,102,936
Other receivables from related parties (Note 19 (b))	6,612,255	5,709,928
Utilities deposits (Note 6)	380,140	380,140
TOTAL	43,081,682	43,805,179

The past due debtors are not impaired and continue to be settled. The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due and impaired receivables. Periodically, each debt is assessed individually and provisions recalculated based on a history of debt recovery. In case of liquidation, receivership and insolvency the provision is always be a hundred percentum (100%). In the case of imprests and supplier prepayments, no provision for bad debts is made until the imprest holder is confirmed dead or the entity is insolvent. The Company's general provision for bad and doubtful loans is as provided for in its Credit control policy. The company did not have any provision for bad debts during the 2016/2017 financial year.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017
NOTES TO THE FINANCIAL STATEMENTS

19(a). Prepayments

The prepayments for various goods and services as follows:-

	2016/2017 Kshs	2015/2016 Kshs
Manawa Ginneries	13,978,936	13,978,936
Seragraphics Ltd	124,000	124,000
Total	14,102,936	14,102,936

19(b). Related Party transactions

During the financial year the following transactions were carried out with related parties

	2016/2017 Kshs	2015/2016 Kshs
Trade debts	6,612,255	5,709,928
TOTAL	6,612,255	5,709,928

Sales to related parties were made at terms and conditions similar to those offered to major customers. The related party is Moi University which is the majority shareholder of Rivatex.

20. CASH & CASH EQUIVALENTS

Cash and Cash equivalents included in the Statement of Cash flows comprise of the following Statement of financial position items:

	2016/2017 Kshs	2015/2016 Kshs
Cash at Hand	114,595	32,162
Bank Balance	8,315,134	62,781,200
TOTAL	8,429,729	62,813,362

21. CASH & CASH EQUIVALENT(OVERDRAFT)

Cash & Cash Balance(O/D) included in the Statement of Cash flows is as follows:

	2016/2017 Kshs	2015/2016 Kshs
Cash & Cash Balance(O/D)	1,736,741	-
TOTAL	1,736,741	-

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

22. TRADE & OTHER PAYABLES

This is made up of:-

	2016/2017 Kshs	2015/2016 Kshs
Trade Creditors	217,817,484	51,156,658
Audit fees provision	250,000	250,000
TOTAL	218,067,484	51,406,658

23. SHARE CAPITAL

AUTHORISED

50,000 Ordinary shares of @ Kshs.20

ISSUED & FULLY PAID

50,000 Ordinary shares of @ Kshs.20

	2016/2017 Kshs	2015/2016 Kshs
	1,000,000	1,000,000
	1,000,000	1,000,000

24. RETAINED EARNINGS

This is made up of:-

	2016/2017 Kshs	2015/2016 Kshs
Retained earnings b/f	(1,020,603,854)	(888,060,377)
Net Loss for the year	(132,015,501)	(132,543,477)
TOTAL	(1,152,619,354)	(1,020,603,854)

25. REVALUATION RESERVES

The value indicated was carried forward from last financial year.

	2016/2017 Kshs	2015/2016 Kshs
Revaluation reserves b/f	73,652,680	106,283,598
Transfers from Revaluation reserves	-	(32,630,918)
TOTAL	73,652,680	73,652,680

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

26. CAPITAL RESERVES

The Capital reserves comprises of Government grants, Shareholders cash injections and donations.

	2016/2017 Kshs	2015/2016 Kshs
Capital Reserves (Note 25 (a))	2,653,519,099	1,968,519,099
Government Grants for the year	610,000,000	685,000,000
TOTAL	3,263,519,099	2,653,519,099

27. PROFIT BEFORE TAX

The Net loss before tax is arrived after charging:

	2016/2017 Kshs	2015/2016 Kshs
Depreciation (Note 17)	33,606,887	24,770,652
Employee benefits expense (Note 26 (a))	100,633,799	78,688,175
Directors' fees & emoluments	3,888,400	4,638,500
Auditors remuneration	250,000	250,000
TOTAL	138,379,086	109,310,969

(a) Employee benefit expense

	2016/2017 Kshs	2015/2016 Kshs
Salary and wages	90,629,328	73,249,172
Retirement benefits costs:		
- Defined contribution scheme	6,438,318	4,495,603
- National Social Security Fund	1,033,402	943,400
Gratuity	2,532,751	-
Sub-Total	100,633,799	78,688,175

NOTES TO THE FINANCIAL STATEMENTS

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

28. STATEMENT OF TAXATION

	2016/2017 Kshs	2015/2016 Kshs
Operating results before tax	(132,015,501)	(132,543,477)
<u>Add back: Disallowed items:</u>		
Depreciation	33,606,887	24,770,652
Amortization	751,078	751,078
	(97,575,536)	(107,021,747)
<u>Less allowed items:</u>		
Wear & tear allowance	(611,287)	(33,723,271)
Industrial Buildings Deductions	-	-
Investment deductions	(206,051,628)	(126,219,302)
NET PROFIT/LOSS	(304,320,451)	(268,291,149)
Less Brought Forward losses	(1,423,779,755)	(1,155,488,606)
	(1,728,100,206)	(1,423,779,755)
Corporation tax	nil	nil
Add: brought forward	nil	nil
Less: paid during the year	nil	nil
Balance carried forward	nil	nil

29. CURRENCY

These financial statements are presented in Kenya Shillings (Kshs.).

30. CONTINGENT LIABILITIES

The company does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. There are no contingent liability and there are none foreseen.

31. POST BALANCE EVENTS

The company secured a contract to supply KPLC with uniforms. This contract was confirmed on 30th June 2017 with the settlement of three million nineteen thousand two hundred and forty shillings (3,019,240) being the performance bond.

NOTES TO THE FINANCIAL STATEMENTS

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS

32. CAPITAL COMMITMENTS

Authorized and contracted for capital commitment at the year-end for which no provision has been made in this financial statement amounted to three billion twelve million eight hundred and forty thousand four hundred and forty two shillings.(Kshs.3,012,840,442) being the contract price for the Supply, Installation and Commissioning of heavy plant and machinery. In addition, a contract of Kshs. 389,000,383 (Three Hundred and Eighty Nine Million Three Hundred and Eighty Three Shillings) for the construction, refurbishment and extension of the factory building was awarded of Rivatex Company.

RIVATEX EAST AFRICA LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

BRANCHES

We have factory outlets various towns across the country where customers can purchase our quality products at affordable prices:

1. Nairobi Outlet.

Bazaar Building along Moi Avenue, Biashara Street.

2. Kisumu Outlet.

Rahemtulla Bunja Building along Paul- Mboya Road.

3. Nakuru Outlet.

Baraka Plaza along Kenyatta Street Opposite Equity Bank.

4. Kitale Outlet.

Next to North Rift, Mumias Highway.

5. Eldoret Outlet.

Mupen Building along Ronald Ngala Street.

6. Eldoret Head Office.

Off Kisumu Road, along Kipkaren Road.

7. Moi University Outlet.

Administration Block, main Campus.

8. Moi Teaching and Referral Hospital Outlet.

At Amenity gate next to KCB Bank.