

REPUBLIC OF KENYA



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**REPORT OF
THE
AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF
RIVATEX EAST AFRICA LIMITED
FOR THE YEAR ENDED
30 JUNE 2012**

20 MAY 2012



RIVATEX EAST AFRICA LIMITED

[Incorporated 16th August 2007]



ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012



RIVATEX EAST AFRICA LIMITED

TABLE OF CONTENTS

ABLE OF CONTENTS	1
ESTABLISHMENT	2
COMPANY INFORMATION	2
CORPORATE VISION, MISSION & CORE VALUES	3
BOARD OF DIRECTORS	4
MANAGING DIRECTOR AND MANAGEMENT TEAM	6
CHAIRMAN'S STATEMENT	7
MANAGING DIRECTOR'S STATEMENT	9
STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES	11
CORPORATE GOVERNANCE RESPONSIBILITY	12
STATEMENT OF FINANCIAL POSITION	13
STATEMENT OF COMPREHENSIVE INCOME	14
STATEMENT OF CASHFLOWS	15
STATEMENT OF CHANGES IN EQUITY	16
NOTES TO THE FINANCIAL STATEMENTS	17

RIVATEX EAST AFRICA LIMITED

1. ESTABLISHMENT/INCORPORATION

The company is registered under Companies Act and its operations are also regulated in accordance with the State Corporations Act. It's owned by Moi University 99% and Moi University Holdings owns 1%.

The company was registered as Rift Valley Textiles Limited (RIVATEX) at inception in 1976 upto its collapse in 1998 owing to liberalization of the textiles industry. Moi University acquired the factory in 2007 for training, research, extension and commercial purposes, and incorporated it as Rivatex East Africa Limited (REAL).

2. COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

KIPKAREN ROAD, OFF ELDORET- KISUMU RD

P.O. BOX 4744,

30100 ELDORET.

BANKERS

EQUITY BANK OF KENYA LTD.,
ELDORET BRANCH,
P.O. BOX 2210 30100
ELDORET

KENYA COMMERCIAL BANK LTD.,
ELDORET BRANCH,
P.O. BOX 560 30100
ELDORET

HOUSING FINANCE CORP. (K) LTD.,
ELDORET BRANCH,
P.O. BOX 9015 30100
ELDORET

SOLICITORS

KALYA AND COMPANY ADVOCATES,

SAGONG HSE, 2ND FLOOR,

P.O. BOX 235,

30100 ELDORET.

AUDITORS

THE AUDITOR GENERAL,

P.O. BOX 30084,

00100 NAIROBI.

COMPANY SECRETARY

JACQUELINE MANANI (MRS),

KIPKAREN ROAD, OFF ELDORET- KISUMU RD

P.O. BOX 4744, 30100 ELDORET.

RIVATEX EAST AFRICA LIMITED

3. 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
- Uphold honesty, integrity and courtesy in all actions
- 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
- Observe human rights and equality for all, while respecting the dignity of individuals
- 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

RIVATEX EAST AFRICA LIMITED

4. CORE BUSINESS OF THE COMPANY

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

5. DIRECTORS

Mr. Evan Mwai, CBS

-Chairman

Prof. Richard K. Mibey, FWIF, EBS

Mr. Thomas K. Twei

Mr. David Mbugua

Dr. John T. Githaiga

PS-Ministry of Finance

-Alternate - Ms. Lucy W. Gitundu

PS-Ministry of Higher Education, Science & Technology

-Alternate - Mr. Michael Kahiti

PS-Ministry of Industrialization

-Alternate - Mr. Hezekiah Okeyo

Dr. David R. Tuigong

-Managing Director

RIVATEX EAST AFRICA LIMITED

BOARD OF DIRECTORS



Evan Mwai, CBS
Chairman



Dr. Eng. Kibichu Karanja
PS-Ministry of Industrialization (Mol)



Prof. Crispus Kiamba
PS-Ministry of Higher Education,
Science & Technology (MoHEST)



Joseph Kinyua
PS-PS –Ministry of Finance (MoF)



Dr. David R. Tuigong
Managing Director



Prof. Richard K. Mibey, FWIF, EBS
Vice Chancellor Moi University



Lucy W. Gitundu
Alternate Director –PS-MoF



Thomas Tuei
Director



Prof. John T. Githaiga
Director



Hezekiah Okeyo
Alternate Director-PS-Mol



Michael Kahiti
Alternate Director-PS -MoHEST



David Mbugua
Director

RIVATEX EAST AFRICA LIMITED

6. MANAGEMENT TEAM

Dr. David R. Tuigong	Managing Director
Joseph K. Sum	General Manager
Simon K. Too	Mill Manager
Titus K. Kipkemboi	Chief Accountant
Hosea K. Kangogo	Deputy Mill Manager
Christopher Maingi	Processing Manager
Allan K. Biwott	Internal Auditor
Japheth K. Rongoei	Sales & Marketing Manager
Amina Yusuf	Quality Control Manager
Peter Mugo	Preparation & Weaving Manager
Martin Cherono	Spinning Manager
Claude Mutai	Engineering Manager
Rael Cheruiyot	Finished Goods Manager

RIVATEX EAST AFRICA LIMITED

CHAIRMAN'S STATEMENT

Shareholders

I am sincerely privileged to table this annual report for the year ended 30th June 2012.

Rivatex East Africa Limited's financial performance and position for the financial year 2011/2012 improved markedly compared to 2010/2011 owing to sustained sales growth of 11% from Kshs.84.7 million to Kshs.94.2 million. The company expects to register further growth in sales in the coming financial year. During the year the processing department experienced major machine breakdowns which saw the sales volumes drop for some products and also increased delivery time. This hampered sales growth as projected. However, during the next financial year the company will acquire and install state of the art textile finishing machinery to address these bottlenecks.

The company registered a loss of Kshs.112.5 million compared with a loss of Kshs.112.1 million recorded in 2010/2011 financial year. The loss is expected to drop in the next financial year owing to completion of modernization of the processing department, the result of which shall be increased top line given that costs are not expected to increase in the long term.

Financial Performance

The company recorded a loss of Kshs. 112.5 million in 2011/2012 financial year. The direct manufacturing costs increased by 22% despite the reduction of labour and water expenses by 53% and 28% respectively. Electricity costs went up by 28% owing to increase in fuel cost charge levied by the provider i.e. Kenya Power and Lighting Company Limited (KPLC).Due to modern machinery in spinning consumption of cotton and polyester fibre increased leading to an increase by 61% of raw materials cost. The total net assets grew from Kshs. 761.4 million to Kshs. 951.9 million. This represents a 25% growth in net assets. The Government of Kenya injected Kshs.300 million while the World Bank through Deloitte &Touche donated Kshs.3.2 million during the year to finance the capital projects, operations and cotton farming initiatives.

Overview of Business Environment

The company has continued to attract partnerships both locally and internationally with various stakeholders, partners and institutions showing interest and giving support towards the sustainable growth and profitability of the company through donations and capacity building opportunities.

The company has also received overwhelming demand given the competitive pricing and quality products being adopted and offered. This is notwithstanding the major breakdowns that hastened the obsolescence of some processing machines. This greatly affected the quality and delivery time of our products to the market. Despite all these challenges we've managed to ensure customer loyalty and retention is maintained at high levels.

Future Outlook

The future for Rivatex is bright and we urge our shareholders to support us in increasing the value of their company which has enormous growth and profitability potential.

Cotton lint output is expected to increase given the efforts that have been spearheaded by Cotton Development Authority (CODA) and other stakeholders to rejuvenate and encourage sustainable cotton farming across farming.

RIVATEX EAST AFRICA LIMITED

Going forward, modernizing processing department as a matter of priority in the 2012/2013 financial year will lead the company to achieve its goal of internally generating its revenues through increased sales volumes. This has been a major challenge in the 2011/2012 financial owing to myriad fabric finishing machinery breakdowns which led to reduced deliveries, increased delivery time and affected quality as well.

Appreciation

I wish to express my sincere gratitude to all the Board members for their sacrifice, support and guidance towards the eventual revival and modernization of the company. I also wish to applaud the commitment and dedication displayed by management and staff of the company.

Finally, on behalf of the Board, I would like to thank the various Government ministries for their continued technical and financial support.

Thank you.



Evan Mwai, CBS

Chairman

RIVATEX EAST AFRICA LIMITED

MANAGING DIRECTOR'S STATEMENT

I wish to take this worthy opportunity to report that during the 2011/2012 financial year the company managed to record a Net loss of Kshs.112.5 million. The company saw its turnover grow by 11% compared with last year's results, from Kshs.84.7 million to Kshs.94.2 million.

Financial Results

The company recorded a loss of Kshs.112.5 million. The company's financial position grew by 25% from Kshs. 761.4 million, recorded the previous financial year to Kshs.951.9 million. The growth in net assets can be attributed to increased government funding and sound working capital management. Given the budgetary allocation of Kshs.250 million in the next financial year the company expects to increase its production capacity through modernization of the Processing department that will translate to improved sales. We expect to see a further reduction in costs in the coming financial year as a result of economies of scale emanating from improved efficiency and increased production capacity given the ongoing implementation of the third phase of modernization.

Business Environment

The company has seen its sales increase over the years due to unmatched quality of its products growth in the local textiles market. Upon completion of the modernization process the company expects to see a remarkable increase in its market share across its product spectrum. As a result of this ambitious and worthwhile process the company expects to see an increase in internally generated revenue to finance future expansion and diversification.

The company during the year ventured into uniforms distribution having opened an outlet that will concentrate solely on selling and distribution of school and protective uniforms. The company is considering embarking on an ambitious diversification strategy that'll see it add value to its traditional products. Through this initiative higher margins and returns shall be expected from each unit of production.

Future Outlook

The company's future has never been this brighter and promising having managed to improve efficiencies along the production sequence given the successful modernization of spinning department. With the support of the government the company is set to modernize the processing department during the next financial year.

During the financial year the company, in a bid to secure its major raw material, started cotton farming in a pilot basis in Mogotio, Baringo County. Through this project the company together with Moi University shall be able to conduct research and suitably provide extension services to cotton farmers. The company has increased the acreage of the farm from 100 acres to 300 acres so as to cushion the company against any unforeseen cotton lint shortages and price increases. This cotton farm project has subsequently created the need for a ginnery which shall be situated at the company's premises.

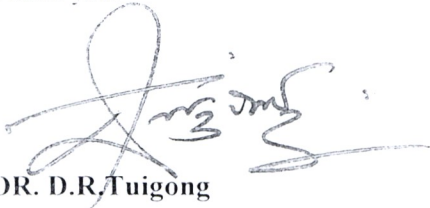
The company is expected to derive an array of benefits from modernization of processing department. Cost of finishing fabrics is expected to reduce drastically, improved quality, swift delivery of orders and improved market penetration and market share consolidation.

RIVATEX EAST AFRICA LIMITED

Appreciation

I am grateful to the Board, shareholders, the government, donors, partners, our esteemed customers, employees and other stakeholders whose contributions have brought the company this far.

Thank you.

A handwritten signature in black ink, appearing to read 'DR. D.R. Tuigong', written over a faint, illegible stamp or watermark.

DR. D.R. Tuigong

Managing Director

RIVATEX EAST AFRICA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation and presentation of the financial statements of Rivatex East Africa Limited set out on pages 13 to 26 which comprise the Statement of Financial Position as at 30th June 2012, the Statement of Comprehensive Income, Statement of Cash flows and Statement of Changes in equity for the year ended 30th June 2012, and summary of significant accounting policies and other explanatory notes.

The directors' responsibility includes: determining that the basis of accounting described in note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Companies Act Cap 486, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company.

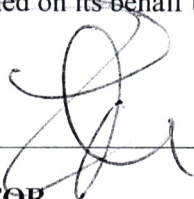
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in a manner required by the Companies Act Cap 486. 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 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.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for atleast the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above were approved by the Board of Directors on/...../2012 and were signed on its behalf by:



DIRECTOR



DIRECTOR

RIVATEX EAST AFRICA LIMITED

CORPORATE GOVERNANCE RESPONSIBILITY

Corporate governance is the process and structure by which companies are directed and controlled and held accountable in order to achieve long term value to shareholders taking cognizant of the interest of other stakeholders.

The Board of Directors of Rivatex East Africa Limited is responsible for the governance of the company and is accountable to shareholders for ensuring that the company complies with the law and highest standards of business ethics and corporate governance. Accordingly, the Board attaches very high importance to the generally accepted corporate governance practice and has embraced the internationally developed principles and code of best practice of good corporate governance.

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 directors of which eight of them are independent non-executive including the Chairman. The Board defines the Company'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 meetings on regular basis while special meetings are called when deemed necessary to do so. The Board held four regular meetings during the financial year.

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 and General Purposes committee**
- 2) **Audit and Risk Management committee**
- 3) **Production, Operations and Technical committee**
- 4) **Human Resources, Recruitment and Training committee**

REPUBLIC OF KENYA

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NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON RIVATEX EAST AFRICA LIMITED FOR THE YEAR ENDED 30 JUNE 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Rivatex East Africa Limited set out on pages 13 to 27, which comprise the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International

Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

1. Financial Performance

In the year under review, the Company recorded a net loss of Kshs.112,515,120 (2010/2011 loss Kshs.112,051,273) resulting in an increase of accumulated losses of Kshs.494,930,561 as at 30 June 2012 from the previous years figure of Kshs.382,415,441. The Company's financial performance is precarious and if this trend is not reversed, the Company is likely to face financial difficulties in its future operations.

2. World Bank Grant

The Company received Kshs.3,159,225 from the World Bank during the year under review for promotion of cotton cultivation as disclosed in note 14 to the financial statements. The donation brings the total received from the financier and for the same purpose to Kshs.17,663,332 as at 30 June 2012. The donations have been classified as long and medium terms liabilities in the statement of financial position. Further, donations of the kind are of revenue nature, which should be accounted for through the statement of comprehensive income as per the requirements of IAS 20. The management however has not explained why donations are treated as liabilities.

3. Cash and Bank Balances

- (i) The cash in hand of kshs.246,811 disclosed under note 8 as at 30 June 2012 excludes cash in Narok, Nairobi, Kisumu and Mupen outlets of Kshs.49,745, Kshs.153,184, Kshs.4,400 and Kshs.17,806 respectively, all totalling to Kshs.225,135. Further, management has not indicated when the unrepresented cheques amounting to Kshs.2,739,804 which were stale at the time of audit will be cleared by the banks or reversed in the cash books.
- (ii) The bank reconciliation statement for June 2012 of sales bank account also had payment in bank not in cashbook totalling to Kshs.8,965,154, which management did not provide analysis and sources.

In the foregoing circumstances, the accuracy of cash and bank balance of Kshs.74,026,295 as at 30 June 2012 could not be confirmed.

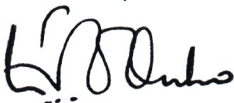
Qualified Opinion

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 Company as at 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenya Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenya Companies Act, I report based on my 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 account have been kept by the Company, so far as appears from my examination of those books; and,
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

14 May 2013

RIVATEX EAST AFRICA LIMITED

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30TH JUNE 2012

		2011/2012	2010/2011
	NOTE(S)	Kshs.	Kshs.
ASSETS			
<i>Non Current Assets</i>			
Property, Plant & Equipment	3	452,100,017	446,579,199
		452,100,017	446,579,199
<i>Current Assets</i>			
Inventory	4	374,822,964	172,746,060
Prepayments	5	12,437,024	6,495,625
Trade And Other Receivables	6	19,712,956	9,943,923
Related Party Transactions	7	32,772,973	33,257,771
Cash & Bank balances	8	74,026,295	105,779,547
		513,772,211	328,222,926
<i>Current Liabilities</i>			
Trade Creditors and Other payables	9	11,390,600	10,964,602
Provisions	1(i)	2,590,051	2,590,051
		13,980,651	13,554,653
WORKING CAPITAL		499,791,561	314,668,273
TOTAL NET ASSETS		951,891,578	761,247,472
FINANCED BY:			
Share Capital	10	1,000,000	1,000,000
Retained Earnings		(494,930,561)	(382,415,441)
General reserves	11	58,546,236	58,546,236
Capital reserves	12	895,000,000	595,000,000
		459,615,675	272,130,795
<i>Long Term & Medium Term Liabilities</i>			
Shareholders loans	13	474,612,570	474,612,570
Donations	14	17,663,332	14,504,107
		492,275,902	489,116,677
TOTAL OWNERS' EQUITY & LIABILITIES		951,891,577	761,247,472



CHAIRMAN

Date:



MANAGING DIRECTOR

Date:

RIVATEX EAST AFRICA LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2012

		2011/2012	2010/2011
	NOTE(S)	Actual Kshs.	Actual Kshs.
Turnover	15	94,233,018	84,659,679
Cost of Sales	16	142,716,995	145,802,611
GROSS PROFIT		(48,483,977)	(61,142,932)
Other Operating Income		4,585,596	11,522,881
TOTAL OPERATING PROFIT		(43,898,381)	(49,620,051)
OVERHEADS			
Administration expenses	17(i)	9,172,392	17,444,252
Board Allowances	17(ii)	3,494,845	3,458,270
Audit fees	17(iii)	250,000	250,000
Establishment expenses	17(iv)	21,918,142	12,985,341
Sales & Marketing expenses	17(v)	9,535,051	5,085,113
Employment expenses	(17(vi)	23,017,861	23,061,707
Finance expenses	17(vii)	1,228,448	146,539
TOTAL EXPENDITURE		68,616,739	62,431,222
NET PROFIT/(LOSS)		(112,515,120)	(112,051,273)

RIVATEX EAST AFRICA LIMITED

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2012

	2011/2012 Kshs.	2010/2011 Kshs.
OPERATING ACTIVITIES		
Net Loss Before Taxation	(112,515,120)	(112,051,273)
Adjustment for:		
Depreciation	14,099,481	15,352,390
Operating results before working capital changes	(98,415,638)	(96,698,883)
(Increase) Decrease inventories	(202,076,904)	(7,386,593)
(Increase) Decrease prepayments	(5,941,399)	10,201,120
(Increase) Decrease trade debtors	(9,769,033)	(1,009,703)
(Increase) Decrease related party transactions	484,798	(1,926,973)
Increase (Decrease) trade creditors	425,998	(805,980)
Increase (Decrease) provision	-	-
Increase (Decrease) Short term loan	-	-
NET CASH GENERATED (ABSORBED) FROM OPERATING ACTIVITIES	(315,292,179)	(97,631,012)
INVESTING ACTIVITIES		
Purchase of Plant & Equipment	(14,330,389)	(123,973,520)
Purchase of Office Equipment & accessories	(956,775)	(831,900)
Improvements-Buildings	(1,818,888)	(10,347,264)
Sale of obsolete looms and furniture	-	-
Purchase of Furniture & Fittings	(55,497)	(110,171)
Purchase of Motor Vehicles/tractors	(2,458,750)	-
NET CASH GENERATED (ABSORBED) FROM INVESTING ACTIVITIES	(19,620,299)	(135,262,795)
FINANCING ACTIVITIES		
Shareholders' loans	-	-
Government grants	300,000,000	200,000,000
Donations	3,159,225	6,460,160
Short term loan repayment from Moi University (Note 16)	-	-
NET CASH GENERATED (ABSORBED) FROM FINANCING ACTIVITIES	303,159,225	206,460,160
NET CASH & CASH EQUIVALENTS	(31,753,253)	(26,433,647)
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	105,779,549	132,213,196
CASH & CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 9)	74,026,296	105,779,549

RIVATEX EAST AFRICA LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2012

	Share Capital Kshs	Retained Earnings Kshs	General Reserves Kshs	Capital reserves Kshs	Total Kshs
At 1st July 2010	1,000,000	(270,364,168)	58,546,236	-	(210,817,932)
Net Profit/Loss for the Year	-	(112,051,273)	-	-	(112,051,273)
Transfers to General reserves	-	-	-	595,000,000	595,000,000
At 30th June 2011	1,000,000	(382,415,441)	58,546,236	595,000,000	272,130,795
At 1st July 2011	1,000,000	(382,415,441)	58,546,236	595,000,000	272,130,795
Net Profit/Loss for the Year	-	(112,515,120)	-	-	(112,515,120)
Transfers to General reserves	-	-	-	300,000,000	300,000,000
At 30th June 2012	1,000,000	(494,930,561)	58,546,236	895,000,000	459,615,675

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The principal accounting policies adopted are:

a) BASIS OF PREPARATION

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs).

b) REVENUE RECOGNITION

Sales are recognized upon the issue of invoice for the goods supplied.

c) PROPERTY, PLANT & EQUIPMENT

Properties held for use in production of goods, or for administrative purposes are carried at cost, less any recognized impairment loss.

d) DEPRECIATION

Depreciation is charged so as to write off cost of property, plant and equipment to their residual values over their expected useful lives, using straight line method at the following rates:

Buildings	2.5% p.a.
Plant & Machinery	2.5% p.a.
Furniture & Fittings	12.5% p.a.
Computers & Accessories	25% p.a.
Office Equipment	12.5% p.a.
Motor Vehicles	12.5% p.a.

e) LEASEHOLD LAND

Payments to acquire leasehold interest in land are treated as prepaid lease rentals and amortized over the term of the lease on a straight line basis.

The leasehold land has been amortized at 2.5% p.a.

f) INVENTORIES

Stocks are stated at lower of cost & net realizable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

g) TRADE RECEIVABLES

Trade receivables are stated at nominal value as reduced by appropriate allowances for the estimated irrecoverable amounts.

h) TRADE PAYABLES

Trade payables are stated at nominal value.

i) PROVISIONS

Provisions are recognized when the company has a present obligation as a result of past event and is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

	2011/2012	2010/2011
	Kshs	Kshs
Provisions	2,590,051	2,590,051
TOTAL	2,590,051	2,590,051

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

There were no critical areas of accounting estimates and judgment applied in relation to the preparation of these financial statements.

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT & EQUIPMENT

ASSET Cost/Valuation	Land Kshs	Buildings Kshs	Plant & Equipment Kshs	Furniture & Fittings Kshs	Computers & Accessories Kshs	Office Equipment Kshs	Motor Vehicles Kshs	Total Kshs
As At 1st July 11	47,317,921	93,818,039	281,437,451	2,315,612	1,066,974	666,879	19,956,323	446,579,199
Additions 2011/2012	-	1,818,888	14,330,389	55,497	648,800	307,975	2,458,750	19,620,299
Disposals/Obsolete assets	-	-	-	-	-	-	-	-
As at 30th June 2011	47,317,921	95,636,927	295,767,840	2,371,109	1,715,774	974,854	22,415,073	466,199,498
<u>ACCUM. DEPRECIATION</u>								
As at 1st July 2011	3,004,312	9,113,598	36,874,466	1,306,982	825,812	267,730	1,070,828	52,463,731
Disposals	-	-	-	-	-	-	-	-
Charge for the year	751,078	2,390,923	7,394,196	296,389	343,155	121,857	2,801,884	14,099,481
As at 30th June 2012	3,755,390	11,504,521	44,268,662	1,603,371	1,168,967	389,587	3,872,712	66,563,212
<u>Net Book Value</u>								
As at 30th June 2012	46,566,843	93,246,004	288,373,644	2,074,720	1,372,619	852,997	19,613,189	452,100,017
As at 30th June 2011	47,317,921	93,818,039	281,437,451	2,315,612	1,066,974	666,879	19,956,323	446,579,199

Leasehold land:

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.

	2011/2012 Kshs	2010/2011 Kshs
Balance B/d	47,317,921	48,068,999
Amortization for the year	751,078	751,078
NET BOOK VALUE	46,566,843	47,317,921

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. INVENTORY

	2011/2012 Kshs	2010/2011 Kshs
Raw materials	156,249,300	12,396,347
Finished goods	33,833,473	32,845,698
Work-In-Progress	91,009,877	40,296,024
Sub-Total	281,092,650	85,538,069
Consummables, spares & accessories-New stock	43,180,921	32,367,214
Consummables, spares & accessories-Old stock	50,549,393	54,840,777
Sub-Total	93,730,314	87,207,991
Total	374,822,964	172,746,060

5. PREPAYMENTS

	2011/2012 Kshs	2010/2011 Kshs
Support Africa	-	2,458,750
Insurance cover(WIBA.Fire,Burglary)	747,510	615,359
Comhard Ltd	33,600	-
Customs Duty, Clearing and Forwarding fees	371,219	2,655,401
Desbro K. Ltd	41,760	-
Lianyungang Co. Ltd	3,596,950	-
Lereiwin H. K. Co. Ltd	5,778,189	-
Subscriptions	-	11,635
Insurance cover(Motor Vehicles)	673,297	754,480
Manawa Ginneries	1,194,499	-
TOTAL	12,437,024	6,495,625

6. TRADE & OTHER RECEIVABLES

Trade and other receivables as at the end of financial year was Kshs. 23.9 million.

	2011/2012 June Kshs	2010/2011 June Kshs
Trade Receivables	19,712,956	9,943,923
TOTAL	19,712,956	9,943,923

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. RELATED PARTY TRANSACTIONS

The company traded with Moi University and its constituent colleges and schools during the financial year. The following is the summary of the related party transactions receivable from Moi University:

	2011/2012	2010/2011
	Kshs	Kshs
Trade debts	3,601,771	8,672,170
Short Term Loan	15,000,000	20,000,000
Govt Grants	5,000,000	-
Accrued rent (DODL & Sch. Of Aerospace)	9,171,202	4,585,601
TOTAL	32,772,973	33,257,771

8. CASH & CASH EQUIVALENTS

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

	2011/2012	2010/2011
	June	June
	Kshs	Kshs
Cash at Hand	246,811	27,218
Bank balance	73,779,484	105,752,329
TOTAL	74,026,295	105,779,547

9. TRADE & OTHER PAYABLES

This is made up of:-

	2010/2011	2010/2011
	Kshs	Kshs
Trade Creditors	9,382,514	9,038,025
Statutory deductions	471,073	428,717
MUSCO loan repayment	31,069	131,993
MUSCO shares contribution	23,800	67,700
MUPEN Pension contributions (employer&employee)	333,282	344,124
Accrued terminal dues	137,428	13,675
HELB	51,143	33,029
Benevolent fund deductions	34,100	37,900
Audit fees provision	250,000	250,000
Accrued Rent	619,440	619,440
Canteen deductions	56,750	0
TOTAL	11,390,600	10,964,602

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. SHARECAPITAL

	2011/2012 June Kshs	2010/2011 June Kshs
AUTHORISED		
50,000 Ordinary shares of @ Kshs 20	1,000,000	1,000,000
ISSUED & FULLY PAID		
50,000 Ordinary shares of @ Kshs 20	1,000,000	1,000,000

11. GENERAL RESERVES

Part of the value indicated was carried forward from last financial year.

	2011/2012 June Kshs	2010/2011 June Kshs
General reserves	58,546,236	58,546,236
TOTAL	58,546,236	58,546,236

12. CAPITAL RESERVES (GOVERNMENT GRANTS)

The company received Kshs. 300 million from the government for acquisition of property, plant and equipment during 2011/2012 financial year.

	2011/2012 Kshs	2010/2011 Kshs
Bal B/d	595,000,000	395,000,000
Govt Grants	300,000,000	200,000,000
TOTAL	895,000,000	595,000,000

13. SHAREHOLDERS LOANS

There were no cash injections from Moi University during the financial year.

	2011/2012 Kshs	2010/2011 Kshs
Bal B/d	474,612,570	459,612,570
Cash injections-MU	-	15,000,000
TOTAL	474,612,570	474,612,570

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. DONATIONS

A donation from the World Bank of Kshs.3,159,225 was received during the financial year for cotton cultivation and promotion.

	2011/2012 Kshs	2010/2011 Kshs
Bal B/d	14,504,107	8,043,947
Donations	3,159,225	6,460,160
TOTAL	17,663,332	14,504,107

15. 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.

Other operating income included income from office and lecture room spaces of 6453 square foot and 1190 square foot being occupied by Moi Universty School of Aerospace and Directorate of Distance Learning. The rate applied to establish the rent chargeable is Kshs.50 per square foot.

	2011/2012 Kshs	2010/2011 Kshs
Products		
Printed fabrics	43,269,979	35,090,643
Dyed	20,622,425	18,829,125
Cloth (Grey)	11,252,581	10,270,432
Garments	15,937,481	14,549,779
Waste	945,801	855,869
Others	6,839,674	5,991,085
	98,867,940	85,586,933
Less		
Discounts	(162,559)	-
Return Inwards		
Printed fabrics	(3,148,163)	880,910
Dyed	(1,324,200)	18,545
Cloth (Grey)	-	9,273
Garments	-	18,545
	(4,634,922)	927,274
Turnover	94,233,018	84,659,659
SUNDRY INCOME		
Fabrication of Beds	-	6,937,280
Rent income		
Directorate of Distance Learning	714,000	714,000
School of Aerospace	3,871,601	3,871,601
Other Operating Income	4,585,601	11,522,881
NET TURNOVER	98,818,619	96,182,540

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. COST OF SALES STATEMENT

	2011/2012 Kshs	2010/2011 Kshs
DIRECT COST		
Opening stock	12,397,536	16,753,644
Purchases	231,895,572	50,475,544
Closing stock	156,249,300	12,397,536
Cost of Raw materials	88,043,809	54,831,652
Direct labour	13,905,979	29,348,879
Electricity	28,905,371	21,154,499
Water	3,988,974	5,534,573
Other direct expenses		
Sub-Total	134,844,132	110,869,603
INDIRECT COST		
Salaries & Wages	23,182,788	15,195,872
Packing materials	553,529	584,896
Designs & Screens	1,131,393	843,583
Fuels-Diesel etc	137,158	205,721
Lubricants & Oils	523,865	498,436
Firewood expenses	7,944,528	8,898,617
Tailoring Consumables	768,056	715,861
Fabrication-Beds	459,050	5,423,809
Staff expenses & consumables	-	
Insurance	-	777,802
Spares & Consumables	9,399,871	
Machinery Repair & Maintenance	2,725,243	
Vehicle running/maintenance expenses (Folk lift&Lorry)	-	22,927
Depreciation	12,689,953	11,681,049
Other indirect expenses	59,476	68,158
Sub-Total	59,574,491	44,916,731
TOTAL COST	194,418,623	155,786,334
Add:		
Opening Work-In-Progress	40,296,024	41,651,823
Less:		
Closing Work-In-Progress	91,009,877	40,296,024
COST OF GOODS MANUFACTURED	143,704,770	157,142,133
Add:		
Opening Finished goods	32,845,698	21,506,354
Less:		
Closing Finished goods	33,833,473	32,845,698
COST OF SALES	142,716,995	145,802,789

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. OVERHEADS

	2011/2012 Kshs.	2010/2011 Kshs.
<u>(i) Administration Expenses</u>		
General administration expenses	3,322,060	2,164,161
Postage and stationary	521,143	793,038
Telephone and internet expenses	561,111	712,140
Sundry expenses	821,974	535,233
Cleaning Materials	-	-
Travelling and subsistence allowances(Air tickets)	-	-
Valuation & legal charges	-	-
Club membership	199,420	-
Lunch allowance	-	-
Training/seminars	-	-
Rent & rates	-	65,378
Entertainment(-	125,821
Accomodation expenses	-	-
Deprn Property, plant and equipment(PPE)	1,409,948	3,671,340
Transport, courier services	437,788	419,640
Insurance-Motor Vehicles	918,192	1,176,049
Insurance-fire and peril	955,748	86,422
Insurance-buglary	10,008	22,703
Legal fees	15,000	-
Provision for bad debts	-	-
Total Admin Expenses	9,172,392	17,444,252
(ii)Board Allowances & Honararia	3,494,845	3,458,270
(iii)Audit fees	250,000	250,000
	3,744,845	3,708,270
<u>(iv) Establishment Expenses</u>		
Security& Transport Salaries	5,896,880	6,724,926
Motor vehicle Repairs and Maintainance	1,552,859	681,164
Water	452,173	641,813
Electricity	6,008,046	2,571,686
Fuel and Oil	1,542,039	2,365,752
Fire fighting expenses	-	-
Research and product development	3,944,652	2,044,878
General Repair & Maintenance	2,521,493	-
Total Establishment Expenses	21,918,142	12,985,341

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

<u>(v) Sales & Marketing Expenses</u>		
Selling & Distribution expenses	3,317,217	4,914,363
Advertising Expenses	-	-
Courier and distribution expenses	-	-
Nairobi Office Expenditure	30,887	75,313
Eldoret Outlet-Mupen	16,920	46,805
Eldoret Outlet-Dalsa Centre	-	-
Kisumu Outlet	49,951	35,456
Narok Outlet	10,000	13,176
Stationery & related accessories	-	-
Rent & rates	6,110,076	5,627,449
Total Sales & Marketing Expenses	9,535,051	5,085,113
<u>(vi) Employment Expenses</u>		
Salaries & Wages	13,725,619	15,199,934
N.s.s.f Employer Contribution	847,750	980,200
Employer's Pension Contribution	2,830,702	3,050,685
Insurance (W.I.B.A)	2,511,044	1,232,003
Staff beverage expenses	-	-
Casual wage	-	-
Staff training expenses	-	-
Staff costs	2,896,370	1,873,308
Staff Costs-Petty	0	600,187
Salaries & Wages	206,376	125,390
General Maintenance & Cleaning expenses	-	-
Medicines & related accessories	-	-
DIT levy	-	-
Canteen expenses	-	-
Other medical costs	-	-
Miscellaneous expenses	-	-
Total Employment Expenses	23,017,861	23,061,707
<u>(vii) Finance Expenses</u>		
Bank charges	1,228,448	146,539
Total Finance Costs	1,228,448	146,539
TOTAL OPERATING EXPENDITURE	68,616,739	62,431,221

RIVATEX EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. OPERATING RESULTS BEFORE TAXATION

The operating loss before taxation is arrived after charging:

	2011/2012 Kshs	2010/2011 Kshs
Depreciation	14,099,481	15,352,390
Auditors remuneration	250,000	250,000
Directors' fees & emoluments	1,696,382	3,512,270
TOTAL	16,045,863	19,114,660

19. STATEMENT OF TAXATION

	2011/2012 Kshs	2010/2011 Kshs
Operating results before tax	-112,515,120	-112,051,273
<u>Add Disallowed items:</u>	-	-
Depreciation	13,348,403	14,601,312
Amortization	751,078	751,078
Donations	-	-
	-98,415,638	-96,698,883
<u>Less allowed items:</u>	-	-
Wear & tear allowance	-33,723,271	-33,723,271
Industrial Buildings Deductions		
NET PROFIT/LOSS	-33,723,271	-130,422,154
Less Brought Forward losses	-400,786,322	-270,364,168
	-532,925,231	-400,786,322
CORPORATION TAX	Nil	Nil
ADD BROUGHT FORWARD	Nil	Nil
LESS PAID DURING THE YEAR	Nil	Nil
BALANCE CARRIED FORWARD	Nil	Nil

20. CURRENCY

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