

UGANDA CLAYS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2015

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COMPANY INFORMATION

BOARD OF DIRECTORS

Dr. Martin Alier	Chairman
Eng. Martin Kasekende	Member
Mr. Richard Byarugaba	Member (Appointed on 9 Dec 2015)
Mr. Bayo Folayan	Member (Appointed on 9 Dec 2015)
Mrs. Marion Adengo Muyobo	Member (Appointed on 9 Dec 2015)
Mr. Joseph Tukuratiire	Member
Mrs. Florence Namatta Maweje	Member (Appointed on 9 Dec 2015)
Mrs. Peninnah Tukamwesiga	Member (Appointed on 9 Dec 2015)
Dr. Kabumba Ijuka	Member
Mr. George Inholo	Managing Director

REGISTERED OFFICE

Entebbe Road,
Kajjansi
P O Box 3188
Kampala

INDEPENDENT AUDITORS

Jim Roberts & Associates
Certified Public Accountants
P.O.Box 10639
Kampala

PRINCIPAL BANKERS

Standard Chartered Bank (U) Limited
P O Box 7111
Kampala

Stanbic Bank (Uganda) Limited
P.O Box 7131
Kampala

Barclays Bank of Uganda Limited
P O Box 2791
Kampala

KCB Bank Uganda Limited
P O Box 7399
Kampala

Housing Finance Bank Limited
P.O.Box 1539
Kampala

SOLICITORS

Lex Uganda Advocates
P.O.Box 216
Kampala

REGISTRARS

Deloitte (U) Limited
Rwenzori House
P.O.Box 10319
Kampala

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December, 2015 which disclose the state of affairs of Uganda Clays Limited (the Company).

PRINCIPAL ACTIVITIES

The principal activity of the Company is the production and sale of a wide range of clay building products. The main products according to contribution to total turn over are roofing tiles which accounted for 63% (2014: 53%).

RESULTS

	2015 Shs '000	2014 Shs '000
Loss before tax	(1,035,378)	(6,288,898)
Tax (charge)/credit	<u>(171,876)</u>	<u>1,109,592</u>
Total Comprehensive Deficit for the year	<u><u>(1,207,254)</u></u>	<u><u>(5,179,306)</u></u>

DIVIDEND

The directors do not recommend the declaration of a dividend for the year ended 2015 (2014 Nil).

DIRECTORS

The directors who served the Board during the year ended 31 December 2015 are shown on Page 1.

AUDITORS

Jim Roberts & Associates were re-appointed as auditors on 9th December 2015 and have expressed their willingness to continue in office in accordance with section 167(2) of the Companies Act of Uganda , 2012 .

BY ORDER OF THE BOARD

SECRETARY

KAMPALA

.....2016

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Companies Act 2012, requires the directors to prepare financial statements 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 for that year.

The directors are responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company, and to enable them ensure that the financial statements comply with the Companies Act, 2012. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates consistent with previous years, and in conformity with the International Financial Reporting Standards and the requirements of the Companies Act 2012.

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 as at 31 December, 2015 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

Approved by the board of directors on _____ 2016 and signed on its behalf by:

DIRECTOR

DIRECTOR

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF UGANDA CLAYS LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Uganda Clays Limited set out on pages 6 to 39, which comprise the statement of financial position as at 31 December 2015 and the statement of profit or loss, 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.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Company's Act 2012. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair representation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that 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 judgment, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Uganda Clays Limited as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting standards and the requirements of the Companies Act of Uganda, 2012.

Emphasis of matter

Without qualifying our opinion we draw your attention to note 25 of the segment information which indicates continuous loss making positions on the Kamonkoli segment of Ushs 7.076 billion (2014: Ushs 8.098 billion). This has continuously impacted negatively on the overall financial performance of the company.

Report on other legal requirements

As required by the Companies Act of Uganda ,2012 we report to you, based on our audit, that

- (i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) In our opinion proper books of account have been kept by the company, so far as it appears from our examination of those books; and
- (ii) The Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

**Certified Public Accountants
KAMPALA**

REF: JT/02/...../.....

.....2016

STATEMENT OF PROFIT OR LOSS

	Notes	2015 Shs '000	2014 Shs '000
Revenue	1	24,111,965	22,112,617
Cost of sales		<u>(16,366,799)</u>	<u>(17,883,442)</u>
Gross profit		7,745,166	4,229,175
Other Incomes			
Compensation on Land			3,113,471
Rent and other incomes		<u>103,364</u>	<u>112,690</u>
Total income		<u>10,962,001</u>	<u>4,341,865</u>
Administrative expenses		(1,913,708)	(2,001,033)
Distribution expenses		(753,527)	(1,040,942)
Other operating expenses		(3,208,859)	(3,042,903)
Loss of Excavated Clay		<u>(1,883,520)</u>	-
Total expenses		(7,759,614)	(6,084,878)
Operating profit (/loss)	2	3,202,387	(1,743,013)
Net finance costs		<u>(4,237,765)</u>	<u>(4,545,885)</u>
Loss before tax		(1,035,378)	(6,288,898)
Tax (Charge)/Credit	5(a)	<u>(171,876)</u>	<u>1,109,592</u>
Total comprehensive loss for the year		<u>(1,207,254)</u>	<u>(5,179,306)</u>
		Ushs/share	Ushs/share
Basic and diluted gain/(loss) per share	6	<u>(1.34)</u>	<u>(5.75)</u>

The accounting policies and notes on pages 10 to 40 form an integral part of these financial statements.
Report of the independent auditors - page 4 - 5

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2015 Shs '000	2014 Shs '000
CAPITAL AND RESERVES			
Issued capital	7	900,000	900,000
Share premium		9,766,028	9,766,027
Retained earnings		4,540,788	4,387,149
Revaluation reserve	8	<u>10,368,305</u>	<u>11,727,729</u>
Total equity		<u>25,575,121</u>	<u>26,780,905</u>
Non-current liabilities			
Deferred income tax liability	10	7,693,661	7,523,255
Borrowings: non-current portion	9	<u>19,702,637</u>	<u>19,451,622</u>
Total non-current liabilities		<u>27,396,298</u>	<u>26,974,877</u>
Total equity & non-current liabilities		<u>52,971,419</u>	<u>53,755,782</u>
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	11	50,233,321	54,165,907
Prepaid operating lease rentals	12	<u>341,811</u>	<u>479,993</u>
		<u>50,575,132</u>	<u>54,645,900</u>
Current assets			
Inventories	14	6,107,278	7,629,383
Trade and other receivables	15	3,070,775	1,866,424
Staff loans	13	98,678	99,622
Current income tax recoverable	5(b)	302,555	240,776
Cash and cash equivalents	16	1,402,768	306,353
Fixed Deposits	17	<u>1,000,000</u>	<u>-</u>
		<u>11,982,054</u>	<u>10,142,558</u>
Current liabilities			
Retirement benefit obligation	18	2,067,552	2,687,561
Finance lease: current portion	19	-	15,754
Borrowings: current portion	9	3,508,743	3,226,580
Trade and other payables	20	<u>4,009,472</u>	<u>5,102,781</u>
		<u>9,585,767</u>	<u>11,032,676</u>
Net current assets/(liabilities)		<u>2,396,287</u>	<u>(890,118)</u>
		<u>52,971,419</u>	<u>53,755,782</u>

The financial statements on pages 6 to 40 were authorised and approved for issue by the Board of Directors on2016 and were signed on its behalf by: _____

DIRECTOR

DIRECTOR

The accounting policies and notes on pages 10 to 40 form an integral part of these financial statements.
Report of the independent auditors - page 4 - 5

STATEMENT OF CHANGES IN EQUITY

	Issued Capital Shs '000	Share premium Shs '000	Revaluation Reserves Shs '000	Retained earnings Shs '000	Total Shs '000
Year ended 31 December, 2014					
At 1 January 2014	900,000	9,766,027	13,087,153	8,207,031	31,960,211
Loss for the year	-	-	-	(5,179,306)	(5,179,306)
Transfer of excess depreciation	-	-	(1,942,034)	1,942,034	-
Deffered income tax on transfer of excess depreciation	-	-	582,610	(582,610)	-
At 31 December 2014	<u>900,000</u>	<u>9,766,027</u>	<u>11,727,729</u>	<u>4,387,149</u>	<u>26,780,905</u>
Year ended 31 December, 2015					
At 1 January 2015	<u>900,000</u>	<u>9,766,027</u>	<u>11,727,729</u>	<u>4,387,149</u>	<u>26,780,905</u>
Prior year adjustment					
Deferred tax	-	-	-	1,469	1,469
Profit for the year	-	-	-	(1,207,254)	(1,207,254)
Transfer of excess depreciation	-	-	(1,942,034)	1,942,034	-
Deffered income tax on transfer of excess depreciation	-	-	582,610	(582,610)	-
At 31 December 2015	<u>900,000</u>	<u>9,766,027</u>	<u>10,368,305</u>	<u>4,540,788</u>	<u>25,575,120</u>

STATEMENT OF CASH FLOWS

	Notes	2015 Shs '000	2014 Shs '000
Operating activities			
Cash generated from operations	20	3,007,236	4,526,527
Interest paid/Accrued		(4,237,765)	(4,545,885)
Tax paid		(61,779)	(39,147)
Net cash (used in) operating activities		(1,292,308)	(58,505)
Investing activities			
Cash paid for purchase of property, plant and equipment	11	(536,541)	(515,424)
Adjustment for WIP reversal	12	104,250	(314,538)
Proceeds from sale of land		3,303,589	30,000
Cash paid for investment in fixed deposits		(1,000,000)	-
Net cash from/used in investing activities		1,871,298	(799,962)
Financing activities			
Repayment of leases		(15,754)	(324,621)
Proceeds from bank and share holder's loan		3,508,743	3,537,935
Repayments of loans		(2,975,564)	(2,548,440)
Net cash from financing activities		517,425	664,874
Increase/(decrease) in cash and cash equivalents		1,096,415	(193,593)
Movement in cash and cash equivalents			
At start of year	16	306,353	499,946
Increase/(decrease)		1,096,415	(193,593)
At end of year	16	1,402,768	306,353

The accounting policies and notes on pages 10 to 40 form an integral part of these financial statements.
Report of the independent auditors - page 4 - 5

SIGNIFICANT ACCOUNTING POLICIES

1(a) General information

Uganda Clays Limited is incorporated in Uganda under the Companies Act as a public limited liability company, and is domiciled in Uganda.

1(b) Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards (IFRS).

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in accounting policy (b) below.

Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
- IFRS10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities.
- IFRS 13 Fair Value Measurement
- IAS 19 Post Employee Benefits(Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- IAS 1 Presentation of Items of Other Comprehensive Income (Amendment)
- Improvements to IFRS (issued in 2012)

The adoption of the standards or interpretations is described below:

IFRS 13 Fair Value Management

The amendment is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single framework for all fair value measurement (financial and non financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The amendments had an impact on the company's disclosures. See note 1(E) for further disclosures.

(ii) Adoption of new and amended standards and interpretations (continued) IAS 1 Presentation of Items of Other Comprehensive Income- Amendments to IAS 1

The amendments to IAS 1 which were effective for annual periods beginning on or after 1 July 2012, introduce a grouping of items presented in OCI. Items that will be reclassified ("recycled") to profit or loss at a future point in time (e.g: net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g; revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company's financial position or performance.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 19 Employee benefits (Amendment)

The amendments are effective for annual periods beginning on or after 1 January 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re- wording. The more significant changes include the following:

-For defined benefits plans, the ability to defer recognition of actuarial gains and losses (i.e; the corridor approach) has been removed. As revised, amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability), including

-Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

-The distinction between short- term and other long- term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

The amendment had no impact on the Company's financial statements.

Improvements to IFRS- 2009- 2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013)

IAS 1 Presentation of Financial Statements (Amendments). The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. The improvement did not have an impact on the financial statements.

IAS 16 Property, Plant and Equipment (Amendment). The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The improvement did not have an impact on the financial statements.

IAS 32 Financial Instruments: Presentation. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The improvement did not have an impact on the financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretation issued, which the company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects that adoption of these standards, amendments and interpretation in most cases not to have any significant impact on the Company's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Company is still assessing the possible impact.

Amendment to IAS 32- Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The amendments are effective for annual periods.

The following new standards and amendments to standards are mandatory for the first time the financial year beginning 1 January 2010.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, in the ordinary course of business and is stated net of Value Added Tax (VAT), rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when a specific criteria has been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

Revenue is recognised as follows:

- (i) Sale of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and it is probable that the economic benefits associated with the transaction will flow to the company; and
- (ii) Interest income on bank deposits is recognised on a time proportion basis using the effective interest rate method.

EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss and other comprehensive incomes.

b) Translation of foreign currencies

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the company operates (functional currency). Transactions in foreign currencies are converted into Uganda Shillings using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss

On-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on transaction of non-monetary items measured at fair value of the item (i.e, transaction differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met.

Land, buildings, plant and machinery are subsequently shown at fair value, based on revaluations every 3-5 years, by external independent valuers, less subsequent accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when its probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to their comprehensive income and then transferred to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the statement of profit or loss and other comprehensive incomes. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of profit or loss and other comprehensive income) and depreciation based on the assets original cost is transferred from the revaluation reserves to retained earnings.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or its revalued amount, to its residual value over their estimated useful lives. The annual rates used are as follows:

	<u>Rate %</u>
Plant and machinery	10%
Furniture and office equipment	10%
Motor vehicles	25%
Computers equipment and accessories	33.3%
Leasehold land & Buildings	Over the shorter of the lease period and useful life of bulidings

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

Assets in the course of construction (capital work in progress) are not depreciated. Upon completion of the project the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the policy set out above.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

Any items of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete the assets for its intended use. All other borrowing costs are expensed in profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Impairment of non financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for property previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI upto the amount of any previous revaluation.

A previous recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset neither exceeds its recoverable amount, nor the carrying amount that would have been determined, net of depreciation, had not impaired loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount in which case, the reversal is treated as a revaluation increase.

e) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substantial arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if the right is not explicitly specified in an arrangement.

Financial leases

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the leases at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. The details of the finance lease are in note 18

Operating lease

Leases in which the Company does not transfer substantially, all the risks and benefits of ownership of an asset are classified as operating leases. Leashold land is recognised as an operating lease. Any upfront lease payments are recognised as prepaid lease rentals and recorded under non-current assets to be amortised over the remaining period of the lease on a straight-line basis. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by first-in, first-out (FIFO). The cost of finished goods and work in progress comprises of raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

g) Financial assets and liabilities

Financial assets

The Company's financial assets with in the scope of IAS 39 are classified as loans and receivables. The Company's financial assets include the following category:

Receivables: Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the statement of financial position date. All assets with maturities greater than 12 months after the statement of financial position date are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position. Such assets are carried at an amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of other Comprehensive income.

h) Trade receivables

Trade receivables are recognised at fair value and subsequently measured at an amortised cost using the effective interest rate method, less impairment.

Impairment of trade receivables is recognised in the statement of comprehensive income and expenditure under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The provision is based on the difference between the carrying amount and the present fair value of the expected cash flows, discounted at the effective interest rate. Receivables not collectable are written off against the impairment. Subsequent recoveries of amounts previously written off are credited to the statement of other comprehensive income under other operating income in the year of their recovery.

i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities on the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of understanding bank overdrafts.

j) Trade payables

Trade payables are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Taxation

Current income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Income Tax Act of Uganda.

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. Current income tax relating to items recognised outside profit or loss is recognised in equity or other comprehensive income and not in profit or loss

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

Deferred income tax

Deferred tax is provided in full, using the liability method, on all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or subsequently enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

The carrying amounts of the deferred income tax assets are reassessed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available to enable the deferred income tax asset to be recovered. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

l) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

m) Employee retirement benefits

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the company and employees. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior periods. The Company and all prior periods. The Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Company's contributions to the defined contribution pension scheme are charged to profit or loss in the year in which they fall due. The Company's bonus, gratuity and termination payments are charged to profit or loss in the year in which they fall due.

n) **Borrowings**

Borrowings are recognised at a fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the statement of other comprehensive income over the period of the borrowings.

o) **Issued Capital**

Ordinary shares are classified as issued capital in equity. Any premium received over and above the par value of the shares is classified as share premium in equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds.

p) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

	2015 Shs '000	2014 Shs '000
1. Revenue		
Roofing tiles	15,132,661	11,789,942
Half bricks	1,527,882	1,763,411
Maxpans	4,536,933	5,744,652
Ridges	782,350	732,379
Other products	<u>2,132,139</u>	<u>2,082,233</u>
	<u><u>24,111,965</u></u>	<u><u>22,112,617</u></u>
2. Operating loss		
The following items have been charged in arriving at operating loss/Profit :		
Depreciation on property, plant and equipment (Note 11)	4,279,008	4,398,888
Amortisation of prepaid operating lease rentals (Note 12)	33,932	33,395
Auditors' remuneration	35,000	30,050
Employee benefits expense	5,276,410	5,956,399
Staff costs (Note 3)	<u>1,914,747</u>	<u>1,948,098</u>
3. Staff costs		
Salaries and wages	1,869,470	1,908,534
Other staff costs	<u>45,277</u>	<u>39,564</u>
	<u><u>1,914,747</u></u>	<u><u>1,948,098</u></u>
4. Finance costs/(incomes)		
Interest expense		
- bank overdrafts	3,240	336,535
- forex loss	11,142	-
- finance leases	263	23,515
interest on borrowings	4,012,724	3,915,904
interest on unpaid gratuity	<u>210,396</u>	<u>269,931</u>
	<u><u>4,237,765</u></u>	<u><u>4,545,885</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 Shs '000	2014 Shs '000
5. Income tax		
a) Income tax expense		
(i) Charge to profit		
Current tax	-	-
Deferred tax charge/(credit) (Note 10)	<u>171,876</u>	<u>(1,109,592)</u>
	<u>171,876</u>	<u>(1,109,592)</u>
(ii) Charge to other comprehensive income		
Deffered income tax	<u>-</u>	<u>-</u>
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Loss before tax	<u>(1,035,378)</u>	<u>(6,288,898)</u>
Tax calculated at a tax rate of 30% (2014: 30%)	(310,613)	(1,886,669)
Expenses not deductible for tax purposes	958,812	654,817
Income not subject to tax	-	-
Deffered tax- movement on balances	<u>-</u>	<u>122,260</u>
Tax charge/(credit)	<u>648,199</u>	<u>(1,109,592)</u>
b)Current income tax recoverable		
The movement in current tax recoverable is as follows:	2015	2014
	Ushs '000	Ushs '000
At 1 January	240,776	201,629
Current income tax paid	<u>61,779</u>	<u>39,147</u>
At 31st December	<u>302,555</u>	<u>240,776</u>
6. Loss per share		
Basic (loss/profit per share is calculated by dividing the (loss)/profit attributable to shareholders by the average number of ordinary shares in issue during the year.		
Profit/(Loss) attributable to shareholders (Shs'000)	(1,207,254)	(5,179,306)
Weighted average number of ordinary shares in issue('000)	<u>900,000</u>	<u>900,000</u>
Basic and diluted (loss)/earnings per share (Ushs/share)	<u>(1.34)</u>	<u>(5.75)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Issued capital

	Number of shares	Issued capital Ushs'000	Issued premium Ushs'000
At start of year	900,000,000	900,000	9,766,027
At end of year	<u>900,000,000</u>	<u>900,000</u>	<u>9,766,027</u>

The total authorised number of ordinary shares as at 31 December 2015 and 2014 was 900,000,000 with a par value of UShs 1. All issued shares are fully paid up.

	2015 Shs '000	2014 Shs '000
8. Revaluation Reserves		
The revaluation surplus relates to the surplus on the revaluation of property, plant and machinery net of deferred income tax, and is non-distributable.		
At 1 January	11,727,729	13,087,153
Transfer of excess depreciation for the year	(1,942,034)	(1,942,034)
Deferred tax on depreciation transfer	<u>582,610</u>	<u>582,610</u>
At end of year	<u>10,368,305</u>	<u>11,727,729</u>

9. Borrowings

Non-current portion		
Bank loan	-	1,321,075
Shareholder's loan-NSSF (Note 21)	<u>19,702,637</u>	<u>18,130,547</u>
Total non-current portion	<u>19,702,637</u>	<u>19,451,622</u>
Current		
Bank loan	-	1,514,684
Bank overdraft	-	139,806
Shareholder's loan-NSSF (Note 21)	<u>3,508,743</u>	<u>1,572,090</u>
Total current portion	<u>3,508,743</u>	<u>3,226,580</u>
Total borrowings	<u>23,211,380</u>	<u>22,678,202</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The movement in borrowings is as follows:

	2015	2014
	Shs '000	Shs '000
At 1 January	22,678,202	21,688,708
Loan received from banks	-	2,300,000
Accrued interest	3,508,743	4,944,319
Overdraft received	-	139,805
Overdraft repayments	(3,240)	(1,912,811)
Loan repayments	<u>(2,972,325)</u>	<u>(4,481,819)</u>
At 31 December	<u>23,211,380</u>	<u>22,678,202</u>

Weighted average effective interest rates:

	2015	2014
	%	%
Bank overdraft	-	19.05
Bank borrowing	-	19.05
Shareholder's loan-NSSF	15.00	15.00
Maturity of non-current borrowings		
Between 1 and 2 years	19,702,637	3,144,180
Between 2 and 5 years	-	4,716,269
Over 5 years	-	11,591,173
Non-current portion	<u>19,702,637</u>	<u>19,451,622</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Deferred tax

Deferred tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2014:-30%). The movement on the deferred tax account is as follows:

	2015 Shs '000	2014 Shs '000
At 1 January	7,523,255	8,632,847
Income statement charge/(credit)	<u>170,407</u>	<u>(1,109,592)</u>
At end of year	<u><u>7,693,662</u></u>	<u><u>7,523,255</u></u>

Deferred tax liabilities and (assets), deferred tax charge/(credit) in the income statement is attributable to the following items:

	At 01 January Shs'000	Charged to statement of comprehensive income Shs'000	Prior year adjustment Shs'000	At 31 December Shs'000
Deferred tax liabilities				
-historical cost	7,719,130	(546,253)	19,174	7,192,051
-revaluation surplus	<u>6,211,713</u>	<u>-</u>	<u>-</u>	<u>6,211,713</u>
	<u>13,930,843</u>	<u>(546,253)</u>	<u>19,174</u>	<u>13,403,764</u>
Deferred tax assets				
Tax losses carried forward	(4,604,716)	1,793,062	(20,643)	(2,832,297)
Other deductible temporary differences	<u>(1,802,872)</u>	<u>(1,074,933)</u>	<u>-</u>	<u>(2,877,805)</u>
	<u>(6,407,588)</u>	<u>718,129</u>	<u>(20,643)</u>	<u>(5,710,102)</u>
Net deferred tax liability	<u><u>7,523,255</u></u>	<u><u>171,876</u></u>	<u><u>(1,469)</u></u>	<u><u>7,693,662</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, plant and equipment

Year ended 31 December 2015

	Freehold land and Buildings	Plant & machinery	Furniture, fittings & computer equipment	Motor vehicles	Capital work in progress	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost or valuation						
At start of year	13,765,800	60,743,080	750,823	3,035,492	1,965,001	80,260,196
Disposals	(207,776)	-	-	-	-	(207,776)
Additions	-	129,549	145,139	-	261,853	536,541
Transfers/Capitalization	<u>6,913</u>	<u>329,759</u>	<u>-</u>	<u>-</u>	<u>(336,672)</u>	<u>-</u>
At end of year	<u>13,564,937</u>	<u>61,202,388</u>	<u>895,962</u>	<u>3,035,492</u>	<u>1,890,182</u>	<u>80,588,960</u>
Depreciation						
At start of year	2,114,903	20,539,500	495,549	2,944,337	-	26,094,289
Disposals	(17,658)	-	-	-	-	(17,658)
Charge for the year	<u>266,107</u>	<u>3,906,854</u>	<u>95,689</u>	<u>10,358</u>	<u>-</u>	<u>4,279,008</u>
At end of year	<u>2,363,352</u>	<u>24,446,354</u>	<u>591,238</u>	<u>2,954,695</u>	<u>-</u>	<u>30,355,639</u>
Net book value						
At end of year	<u>11,201,585</u>	<u>36,756,034</u>	<u>304,724</u>	<u>80,797</u>	<u>1,890,182</u>	<u>50,233,321</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property plant and equipment (continued)

Year ended 31 December 2014

	Freehold land and Buildings	Plant & machinery	Furniture, fittings & Computer equipment	Motor & Vehicles	Capital work in & progress	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost or valuation						
At start of year	13,765,800	60,483,013	692,350	3,009,642	1,909,717	79,860,522
Disposal	-	-	-	(115,750)	-	(115,750)
Additions	-	260,067	58,473	141,600	55,284	515,424
At end of year	<u>13,765,800</u>	<u>60,743,080</u>	<u>750,823</u>	<u>3,035,492</u>	<u>1,965,001</u>	<u>80,260,196</u>
Depreciation						
At start of year	1,851,358	16,611,330	427,074	2,921,389	-	21,811,151
Disposals	-	-	-	(115,750)	-	(115,750)
Charge for the year	<u>263,545</u>	<u>3,928,170</u>	<u>68,475</u>	<u>138,698</u>	<u>-</u>	<u>4,398,888</u>
At end of year	<u>2,114,903</u>	<u>20,539,500</u>	<u>495,549</u>	<u>2,944,337</u>	<u>-</u>	<u>26,094,289</u>
Net book value						
At end of year	<u><u>11,650,897</u></u>	<u><u>40,203,580</u></u>	<u><u>255,274</u></u>	<u><u>91,155</u></u>	<u><u>1,965,001</u></u>	<u><u>54,165,907</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Prepaid operating lease rentals

The movement of prepaid operating rentals is as follows:

	2015 Shs '000	2014 Shs '000
Cost		
At start of year	569,127	254,589
Reclassification from prepayments	-	314,538
Reclassification to work in progress	(104,250)	-
	<u>464,877</u>	<u>569,127</u>
Amortisation		
At start of year	89,134	55,739
Charge for the year	33,932	33,395
	<u>123,066</u>	<u>89,134</u>
Net book value	<u><u>341,811</u></u>	<u><u>479,993</u></u>

13. Staff advances

Staff advances comprise the following:

Gross Staff advances	98,678	99,622
Provision for doubtful debts	-	-
	<u>98,678</u>	<u>99,622</u>

All staff advances are not secured and due within 1 year from the reporting date. The weighted average interest rate on staff advances was 5%

14. Inventories

Spares and consumables	2,032,685	1,611,270
Work in progress	366,835	2,719,104
Finished goods	2,780,268	3,228,684
Goods in Transit	927,490	70,325
	<u><u>6,107,278</u></u>	<u><u>7,629,383</u></u>

During 2015, Ushs 2,801 million (2014: Ushs 3,029 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. There are no inventories committed as security.

The net closing inventory of 6.1 billion is net of provision for obsolete and breakages amounting to Ushs. 82,736,295.

Opening inventory worth 1.88 billion work in progress was expensed as a result of excavated clay lost to UNRA construction works.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 Shs '000	2014 Shs '000
15. Trade and other receivables		
Trade receivables	1,890,111	1,087,261
Less: provision for impairment of trade receivables	<u>(570,850)</u>	<u>(502,125)</u>
Net trade receivables	1,319,261	585,136
Prepayments	439,567	383,948
Amount due from employee retirement fund administrator	313,542	313,542
Other receivables	979,898	-
Staff Debtors	<u>18,507</u>	<u>583,798</u>
	<u>3,070,775</u>	<u>1,866,424</u>

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2015, trade receivables of an initial value of Ushs 570,850,048 (2014: Ushs 502,125,000) were impaired and fully provided for. (see credit risk disclosure for further details).

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

16 Cash and cash equivalents

Cash at bank	1,400,534	270,464
Cash in hand		
	<u>2,234</u>	<u>35,889</u>
Cash at bank and in hand	<u>1,402,768</u>	<u>306,353</u>

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the above.

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

Cash at bank and in hand	1,402,768	306,353
Bank overdraft (Note 9)	<u>-</u>	<u>(139,806)</u>
	<u>1,402,768</u>	<u>166,547</u>

17. Other investments

Fixed deposits	<u>1,000,000</u>	<u>-</u>
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During the year, Uganda Clays placed a fixed deposit of 1 Billion shillings with Standard Chartered Bank at an interest rate of 17% with a maturity date of 21st March 2016

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Retirement benefits obligations

	2015	2014
	Shs '000	Shs '000
At 1 January	2,687,561	3,083,713
Contributions for the year	1,396,438	1,244,977
Payments during the year	<u>(2,016,447)</u>	<u>(1,641,129)</u>
At 31 December	<u>2,067,552</u>	<u>2,687,561</u>

The Company has a defined contribution gratuity scheme for all permanent and contract employees. Under the terms of this scheme, the computation of the benefits payable to the employees for each completed year of service is as follows;

- Heads of department: Company contribution of 25% and employee contribution of 5% of gross monthly salary.
- Employees in salary scales UC 3:1 and UC 3:2: The annual contribution comprises the Company contribution of 12.5% and employee contribution of 2.5% of gross monthly salary.
- Employees in salary scales UC 4.1, 4.2 and 5.1: The annual contribution comprises the Company contribution of 20.8% and employee contribution of 4% of gross monthly salary.
- Employees in salary scales UC 5.2, 6.1, 6.2, 6.3 and 6.4: The annual contribution comprises the Company's contribution of 16.7% and employee contribution of 5% of gross monthly salary.

	2015	2014
	Shs '000	Shs '000
19. Finance leases		
Not later than 1 year-current portion	-	15,754
	<u>-</u>	<u>15,754</u>

The finance lease related to a facility that was obtained from Stanbic Bank Uganda Limited to finance the purchase of machinery and generators. The limit of the transaction was for Ushs 1.6 billion and the interest on the amount drawn is 0.5% below the Uganda Shillings prime interest rate.

The lease is secured by the original log books of the financed vehicles and original documents of title for the financed equipment, registered in the names of the bank.

	2015	2014
	Minimum Payments	Minimum payments
	present value of payments	present value of payments
Within one year	-	16,017
After one year but not more than five years	-	-
Total minimum lease payments	-	16,017
Less amounts representing finance charges	-	(263)
Present value of minimum lease payments	<u>-</u>	<u>15,754</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 Shs '000	2014 Shs '000
20. Trade and other payables		
Trade deposits	1,946,002	1,686,449
Trade payables	817,614	1,380,912
VAT payable	258,835	593,095
Accrued expenses	347,722	120,763
Unpaid dividends	376,170	376,170
National social Security Fund contributions payable	84,110	344,357
Pay-As-You-Earn	151,248	591,155
Other payables	<u>27,771</u>	<u>9,880</u>
Total trade and other payables	<u><u>4,009,472</u></u>	<u><u>5,102,781</u></u>

Trade deposits relate to the amount paid in advance to the Company by the customers for the purchase of its clay products. They are non-interest bearing and are normally settled on 60-day terms.

Trade payables are non-interest bearing and have an average term of six months.

The maturity analysis of trade and other payables is as follows:
At 31 December 2015

	0 to 3 months Shs '000	3 to 6 months Shs '000	6 to 12 months Shs '000	Over 1 year Shs '000	Total Shs '000
Un paid dividends	376,169	-	-	-	376,169
Statutory payables	494,194	-	-	-	494,194
Trade payables	630,054	42,164	6,127	139,269	817,614
Accruals	347,722	-	-	-	347,722
Other payables	27,771	-	-	-	27,771
Trade deposits	<u>1,946,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,946,002</u>
	<u><u>3,821,912</u></u>	<u><u>42,164</u></u>	<u><u>6,127</u></u>	<u><u>139,269</u></u>	<u><u>4,009,472</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2015 Shs '000	2014 Shs '000
21. Cash from/(used in) operations		
Reconciliation of Loss before tax to cash from operations		
Loss before tax	(1,035,378)	(6,288,898)
Adjustments for:		
Depreciation (Note 11)	4,279,008	4,398,888
Amortisation of prepaid operating lease rentals (Note 12)	33,932	33,395
Profit from sale of property	(3,113,471)	(30,000)
Net interest expense	4,237,765	4,545,885
Changes in working capital:		
Inventory	1,522,105	3,112,306
Trade and other receivables	(1,204,351)	(282,719)
Trade and other payables	(1,093,309)	(601,121)
Staff loans	944	34,943
Retirement benefits obligation	<u>(620,009)</u>	<u>(396,152)</u>
Cash from operations	<u><u>3,007,236</u></u>	<u><u>4,526,527</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Related party transactions

The following transactions were carried out with related parties:

	2015 Shs '000	2014 Shs '000
i) Key management compensation		
Salaries and other short term employment benefits	<u>1,036,882</u>	<u>1,023,906</u>
The key management personnel include the Managing director, Internal audit manager, Finance manager, Human resource and administration manager, Quality manager, Marketing manager and production manager.		
ii) Directors' remuneration		
Fees	54,042	44,375
Other	<u>74,629</u>	<u>59,547</u>
	<u>128,671</u>	<u>103,922</u>
iii) Shareholder's loan		
At 1st January	19,702,637	16,666,943
Accrued interest	<u>3,508,743</u>	<u>3,035,694</u>
At 31 December	<u>23,211,380</u>	<u>19,702,637</u>
Current portion	3,508,743	1,572,090
Non-current portion	<u>19,702,637</u>	<u>18,130,547</u>
	<u>23,211,380</u>	<u>19,702,637</u>

In 2010, the Company was granted an unsecured loan of Ushs 11.05 billion by NSSF (the Company's largest shareholder with 32.5% of the shares). In December 2010, Ushs 7.1 billion was drawn to retire the bridge loan and pay off the critical creditors.

During 2011, Ushs 3.08 billion was drawn down to procure spares for the Kajjansi factory (Ushs 0.92 billion) and for Kamonkoli factory kiln enhancements (Ushs 2.16 billion).

During 2012, Ushs 0.87 billion was drawn down to pay off critical current liabilities.

Interest on this loan is 15% per annum and the loan tenure is 10 years with grace period of 2 years. Interest is to be accrued during the grace period. Interest amounting to, Ushs 2.07 billion , 2.22 billion, 3.04 billion and 3.508 billion was accrued as at 31 December 2012, 2013,2014 and 2015 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Financial risk management objectives and policies

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the board of directors. The board identifies, evaluates and hedges financial risks in close co-operation with various staff in the Company.

a) Market Risk

- Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from exposures to other currencies, primarily with respect to the US Dollar. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities.

The variations in other currencies do not have a material impact on the Company's results.

The table below summarises the Company's exposure to foreign currency exchange rate risk. All balances are stated in thousands of Ushs.

At 31 December 2015

	SSP	USD	Ushs	Ushs
Financial assets				
Trade and other receivables	-	-	3,070,775	3,070,775
Staff loans	-	-	98,678	98,678
Cash and bank balances	<u>131,174</u>	<u>71,663</u>	<u>1,199,931</u>	<u>1,402,768</u>
	<u>131,174</u>	<u>71,663</u>	<u>4,369,384</u>	<u>4,572,221</u>
Financial liabilities				
Retirement benefit obligations	-	-	2,067,552	2,067,552
Finance lease: non-current portion	-	-	-	-
Borrowings: non-current portion	-	-	19,702,637	19,702,637
Trade and other payables	-	-	4,009,472	4,009,472
Finance lease: current portion	-	-	-	-
Borrowings: current portion	<u>-</u>	<u>-</u>	<u>3,508,743</u>	<u>3,508,743</u>
	<u>-</u>	<u>-</u>	<u>29,288,404</u>	<u>29,288,404</u>

Net foreign exchange gap 202,837

At 31 December 2014

Financial assets				
Trade and other receivables	-	-	1,296,530	1,296,530
Staff loans	-	-	99,622	99,622
Cash and bank balances	<u>-</u>	<u>206,462</u>	<u>99,891</u>	<u>306,353</u>
	<u>-</u>	<u>206,462</u>	<u>1,496,043</u>	<u>1,702,505</u>
Financial liabilities				
Retirement benefit obligation	-	-	2,687,561	2,687,561
Finance lease: non-current portion	-	-	-	-
Borrowing: non-current portion	-	-	17,574,752	17,574,752
Trade and other payables	-	-	4,532,886	4,532,886
Finance lease: current portion	-	-	15,754	15,754
Borrowings: current portion	<u>-</u>	<u>-</u>	<u>5,103,450</u>	<u>5,103,450</u>
	<u>-</u>	<u>-</u>	<u>29,914,403</u>	<u>29,914,403</u>

Net foreign exchange gap 206,462

*Amounts that are denominated in foreign currency (US dollars) and hence exposed to foreign currency rate risk shown in Ushs (presentation currency) equivalent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for borrowings.

The table on page 33 summarises the exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual maturity dates.

All figures are in thousands of uganda shillings

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1(E) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

As at 31 December 2015	1 to 3 months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non -interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	327,271	327,271
Staff loans	4,775	93,903	-	-	98,678
Cash and bank balances	-	-	-	1,402,768	1,402,768
	4,775	93,903	-	1,730,039	1,828,717
Financial liabilities					
Finance leases	-	-	-	-	-
Retirement benefit obligation	-	-	-	2,067,552	2,067,552
Trade and other payables	-	-	-	4,009,472	4,009,472
Borrowings	-	-	20,592,838	-	20,592,838
	-	-	20,592,838	6,077,024	26,669,862
Interest rate gap	4,775	93,903	(20,592,838)	(4,346,985)	(24,841,145)
As at 31 December 2014	1 to 3 months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non -interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	912,584	912,584
Staff loans	3,658	95,964	-	-	99,622
Cash and bank balances	-	-	-	1,583,705	1,583,705
	3,658	95,964	-	2,496,289	2,595,911
Financial liabilities					
Finance leases	15,754	-	-	-	15,754
Retirement benefit obligation	2,687,561	-	-	-	2,687,561
Trade and other payables	-	-	-	4,580,161	4,580,161
Borrowings	954,268	2,443,387	19,280,547	-	22,678,202
	3,657,583	2,443,387	19,280,547	4,580,161	29,961,678
Interest rate gap	(3,653,925)	(2,347,423)	(19,280,547)	(2,083,872)	(27,365,767)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interest rate risk (continued)

The Company faces cash flow interest rate risk on its variable rate financial instruments measured at amortised cost. Financial instruments with cash flow interest rate risk comprise of deposits and balances due from banks, loans, receivables, payables and borrowings.

The table below summarises the Company's cash flow interest rate risks sensitivity at 31 december. Assuming a market interest rate variation of 3% points from the rates ruling at year-end (2014:3%), the impact on the Company's profit before tax and equity is as follows:

	2015 Ushs '000	2014 Ushs '000
Profit before tax		
Cash flow interest rate risk	679,812	761,446
 Equity	 475,868	 533,012

Fair values of assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2015 Ushs '000	2014 Ushs '000	2015 Ushs '000	2014 Ushs '000
Non-current assets				
Property, plant and equipment	50,233,321	54,165,907	50,233,321	54,165,907
Prepaid operating lease rentals	341,811	490,039	650,000	650,000
	<u>50,575,132</u>	<u>54,655,946</u>	<u>50,883,321</u>	<u>54,815,907</u>
 Current assets				
Current income tax recoverable	302,555	240,776	302,555	240,776
Staff loans	98,678	99,622	98,678	99,622
Inventories	6,107,279	7,629,383	6,107,279	7,629,383
Trade and other receivables	3,070,775	1,296,530	3,070,780	1,296,530
Cash and bank balances	1,402,768	306,353	1,402,768	306,353
	<u>10,982,055</u>	<u>9,572,664</u>	<u>10,982,060</u>	<u>9,572,664</u>
 Total Assets	 <u>61,557,187</u>	 <u>64,228,610</u>	 <u>61,865,381</u>	 <u>64,388,571</u>
 Non-current liabilities				
Finance lease: non current portion	-	-	-	-
Borrowings: non-current portion	19,702,637	19,280,547	19,702,637	19,280,547
	<u>19,702,637</u>	<u>19,280,547</u>	<u>19,702,637</u>	<u>19,280,547</u>
 Current liabilities				
Retirement benefit obligations	2,067,552	2,687,561	2,067,552	2,687,561
Finance lease: current portion	-	15,754	-	15,754
Borrowings: current portion	3,508,743	3,397,655	3,508,743	4,547,655
Trade and other payables	4,009,472	4,532,886	4,009,472	4,532,886
	<u>9,585,767</u>	<u>10,633,856</u>	<u>9,585,767</u>	<u>11,783,856</u>
 Total Liabilities	 <u>29,288,404</u>	 <u>29,914,403</u>	 <u>29,288,404</u>	 <u>31,064,403</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1(E) Financial risk management objectives and policies (continued)

Fair values of assets and liabilities

The fair values of the Company's financial assets and liabilities are included at the amount at which the instrument could be exchanged in an ordinary transaction between willing parties other than in a forced or liquidation sale

The following table represents the fair value measurement hierarchy for the groups assets at fair value

	Total Ushs '000	Quoted prices in active markets (Level 1) Ushs '000	Significant observable inputs (Level 2) Ushs '000	Significant unobservable inputs Level 3) Ushs '000
At 31 December 2015				
Revalued property, plant and equipment	50,233,321	-	-	50,233,321
	-	-	-	-
At 31 December 2014				
Revalued property, plant and equipment	54,165,907	-	-	54,165,907

The carrying amounts of property, plant and equipment no longer equal to their fair value as the last revaluation was done as at 31 December 2012.

The following methods and assumptions were used to estimate the fair values:

-Trade and other receivables and staff loans are evaluated by the Company based on parameters such as individual credit worthiness of the customer/staff. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2015, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

-The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

-The risk of the Company's plant and equipment is determined based on the property valuations which were done by a professional valuer on the basis of the open market value and the plant and equipment were valued on a depreciated replacement cost basis. The last revaluation was done as at 31 December 2012 and the management estimates that the carrying amounts do not materially differ from their fair values as at 31 December 2015.

b) Credit risk

Credit risk arises from bank balances, loans and other trade receivables. The Company's finance function assesses the credit quality of each debtor, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

The amount that best represents the Company's maximum exposure to credit risk as at 31 December is made up as follows:

	2015 Ushs '000	2014 Ushs '000
Bank balances	1,402,768	270,464
Trade receivables	1,890,111	1,097,260
Staff loans	98,678	99,622
Amount due from employee retirement fund administrator	313,543	313,542
Staff and other receivables	12,218	3,906
	<u>3,717,318</u>	<u>1,784,794</u>

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits. No receivables have had their terms renegotiated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

credit risk (continuation)

The analysis of trade receivables is below:

	2015	2014
	Ushs '000	Ushs '000
Neither past due nor impaired	228,284	229,261
61 to 180 days	82,510	121,284
181 to 360 days	<u>115,672</u>	<u>244,590</u>
Total past due but not impaired	<u>198,182</u>	<u>365,874</u>
Impaired-past due by >360 days	570,850	502,125
Gross amount	1,890,111	1,087,261
Less: Allowance for impairment	<u>(570,850)</u>	<u>(502,125)</u>
Net amount	<u>1,319,261</u>	<u>585,136</u>

All receivables past due by more than 360 days are considered to be impaired and are carried at their estimated recoverable amounts.

	2015	2014
	Ushs'000	Ushs '000
Movement on allowance for impairment		
At 1 January	502,125	502,125
Add: charge for the year	<u>68,725</u>	<u>-</u>
At 31 December	<u>570,850</u>	<u>502,125</u>

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance function maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities into a relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Over 2 years
At 31 December 2015:			
- Borrowings (excluding finance leases)	-	-	23,211,380
- finance leases	-	-	-
- Trade and other payables	<u>3,870,203</u>	<u>139,269</u>	<u>-</u>
	<u>3,870,203</u>	<u>139,269</u>	<u>23,211,380</u>
At 31 December 2014:			
- Borrowings (excluding finance leases)	3,397,655	3,144,180	14,986,367
- finance lease	15,754	-	-
- Trade and other payable	<u>4,532,886</u>	<u>-</u>	<u>-</u>
	<u>7,946,295</u>	<u>3,144,180</u>	<u>14,986,367</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Contingencies

The company is involved in one legal and court case which is yet to be concluded upon by the date of authorisation of these financial statements. The case is not of a liability in nature.

24. Capital risk management

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt : capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of the equity (i.e. share capital and retained earnings).

The debt-to-capital ratio at 31 December 2015 and 2014 were as follows:

	2015	2014
	Shs '000	Shs '000
Total borrowings	19,702,637	22,678,202
Less cash and cash equivalents (Note 16)	<u>(1,402,768)</u>	<u>(306,353)</u>
Net debt	18,299,869	22,371,849
Total equity	<u>25,575,121</u>	<u>26,780,905</u>
Total capital	<u>43,874,990</u>	<u>49,152,754</u>
Gearing ratio%	<u>42</u>	<u>46</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Segment information

For management purposes, the Company is organised into two business units based on the factory location and has two reportable operating segments that is Kajjansi factory and Kamonkoli factory. No operating segments have been aggregated to form these reportable operating segments.

Management monitors the operating results of its operating units separately for the purpose of making decision about resource allocations and performance assessments. Segment performance is evaluated based on operating profits or loss which is measured the same as the operating profit or loss in the financial statements.

The segment results for the year ended 31 December 2015 were as follows;

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	18,354,753	5,757,212	24,111,965
profit /(loss) before income tax	6,040,670	(7,076,048)	(1,035,378)
Income tax expense/ (credit)	(171,876)	-	(171,876)
Profit/ (Loss) after tax	5,868,794	(7,076,048)	(1,207,254)
Depreciation	871,795	3,407,213	4,279,008
Interest expense	226,420	4,011,345	4,237,765
Amortisation	<u>33,932</u>	<u>-</u>	<u>33,932</u>

The segment results for the year ended 31 December 2014 were as follows:

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	17,904,059	4,208,559	22,112,618
Profit / (loss) before income tax	2,854,904	(9,143,802)	(6,288,898)
Income tax expense / (credit)	57,589	1,052,003	1,109,592
Profit / (loss) after tax	2,919,543	(8,098,849)	(5,179,306)
Depreciation	229,028	4,169,860	4,398,888
Interest expense	236,682	4,309,203	4,545,885
Amortisation	<u>33,395</u>	<u>-</u>	<u>33,395</u>

Statement of financial position

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
31 December 2015			
Total assets	28,988,632	33,568,554	62,557,186
Total liabilities	36,832,900	149,165	36,982,065
Capital expenditure	<u>303,759</u>	<u>232,782</u>	<u>536,541</u>
31 December 2014			
Total assets	27,945,767	36,842,691	64,788,458
Total liabilities	44,690,348	(6,682,795)	38,007,553
Capital expenditure	<u>455,139</u>	<u>60,285</u>	<u>515,424</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Country of incorporation

Uganda Clays Limited is incorporated in Uganda under the Companies Act and domiciled in Uganda.

27. Currency

These financial statements are presented in Uganda Shillings rounded to the nearest thousand (Shs'000).

DIRECT COSTS

	2015 Shs '000	2014 Shs '000
(i).COST OF SALES		
Opening stock of finished goods and work-in-progress	4,064,268	8,976,762
Production costs (ii)	15,449,635	14,854,468
Closing stock of finished goods and work-in-progress	<u>(3,147,104)</u>	<u>(5,947,788)</u>
	<u>16,366,799</u>	<u>17,883,442</u>
(ii).PRODUCTION COSTS		
Clay processing and product moulding	789,963	531,926
Depreciation of plant	4,132,653	4,249,660
Drying process	49,107	70,026
Electricity and generator	1,817,063	1,374,522
Factory general maintenance	228,069	163,610
Kilns (baking process)	2,784,328	3,027,057
Other production overheads	1,476,874	1,432,005
Quarry and silo	697,004	463,510
Salaries and allowances- production staff	735,442	720,236
Wages and allowances -production staff	1,847,777	1,935,735
Sales outlet expenses	503,091	331,715
Transport	<u>388,264</u>	<u>554,466</u>
	<u>15,449,635</u>	<u>14,854,468</u>

SCHEDULE OF OTHER INCOME AND EXPENDITURE

	2015 Shs '000	2014 Shs '000
(iii). OTHER INCOME		
Compensation on Land	3,362,202	-
Rent and other incomes	103,364	112,690
Costs associated with land compensation	(248,731)	-
	<u>3,216,835</u>	<u>112,690</u>
(iv). DISTRIBUTION EXPENSES		
Business promotion	697,940	995,865
Communication	6,056	29,256
Public relation and entertainment	4,330	2,692
Sports and recreation	10,310	5,513
Subscriptions	15,366	6,716
Research and development	19,525	900
Total distribution costs	<u>753,527</u>	<u>1,040,942</u>
(v). ADMINISTRATIVE EXPENSES:		
Annual general meeting	69,770	49,409
Audit expenses	35,000	35,531
Provision for impairment of trade receivables and staff loans	37,883	-
Company house maintenance	3,990	4,400
Compound maintenance	5,842	3,418
Consultancy	143,142	79,027
Depreciation	146,355	149,497
Directors fees and allowance	128,671	103,923
Insurance	96,277	51,436
Rental expenses	8,100	7,184
Legal fees and expenses	156,450	148,500
Local travel	122,115	164,744
Office building maintenance	10,228	7,461
Office equipment maintenance	61,948	39,992
Printing and stationery	31,390	28,394
Registrar fees	35,544	28,262
Security	101,676	100,783
Tax consultancy	9,682	38,438
Transport costs	63,778	28,637
Travel abroad	57,571	39,500
Other expenses	379,998	517,642
Uniforms	-	4,523
Software Licenses and support	10,432	-
Utilities	288	3,787
Property tax expense	75,865	272,615
Communication	87,781	60,535
Amortisation charge	33,932	33,395
Total administrative expenses	<u>1,913,708</u>	<u>2,001,033</u>

SCHEDULE OF INCOME AND EXPENDITURE

	2015	2014
	Shs '000	Shs '000
(vi). OTHER OPERATING EXPENSES		
Bonus	217,004	44,455
Gratuity/pension	378,275	334,987
Leave transport and allowance	91,406	118,120
Medical expenses	44,820	52,198
NSSF - Company contribution	233,140	226,193
Salaries and allowances	1,869,470	1,908,534
Staff Welfare	108,684	82,072
Termination pay	27,467	12,581
Training costs	6,062	36,794
Wages and allowances	190,695	209,829
Foreign exchange loss	-	1,024
Bank Charges	41,836	16,116
Total other operating expenses	<u>3,208,859</u>	<u>3,042,903</u>
(vii). FINANCE COSTS		
Finance Lease Charges	263	23,515
Forex Loss	11,142	-
Interest on Overdraft	3,240	336,535
Interest on unpaid Gratuity	210,396	269,931
Interest expense on borrowings	4,012,724	3,915,904
Total Net finance costs	<u>4,237,765</u>	<u>4,545,885</u>