UGANDA CLAYS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	Dr. Martin Aliker	Chairman
	Eng. Martin Kasekende	Member (Re-appointed on 9 Dec 2016)
	Mr. Richard Byarugaba	Member (Re-appointed on 9 Dec 2016)
	Mr. Bayo Folayan	Member (Re-appointed on 9 Dec 2016)
	Mrs. Marion Adengo Muyobo	Member (Re-appointed on 9 Dec 2016)
	Mr. Joseph Tukuratiire	Member (Re-appointed on 9 Dec 2016)
	Mrs. Florence Namatta Mawejje	Member (Re-appointed on 9 Dec 2016)
	Mrs. Peninnah Tukamwesiga	Member (Re-appointed on 9 Dec 2016)
	Dr. Kabumba Ijuka	Member (Re-appointed on 9 Dec 2016)
	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

Equity Bank Uganda Limited
P.O. Box 10184
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 2016 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 65% (2015: 63%).

RESULTS

	2016 Shs '000	2015 Shs '000
Loss before tax	4,030,241	(1,035,378)
Tax (charge)/credit	(1,656,866)	171,876
Total Comprehensive profit/ loss for the year	2,373,375	(1,207,254)

DIVIDEND

The directors proposed a final dividend for the year of Ushs 1 per share for the year ended 2016 (2015 Nil).

DIRECTORS

The directors who served the Board during the year ended 31 December 2016 are shown on Page 1.

AUDITORS

Jim Roberts & Associates were re-appointed as auditors on 9th December 2016 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

27-4-2017

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 2016 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 27.04. 2017 and signed on its behalf by:

DIRECTOR

DIRECTOR

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

Opinion

We have audited the accompanying financial statements of Uganda Clays Limited set out on pages 7 to 38, which comprise the statement of financial position as at 31 December, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies' Act of Uganda, 2012.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Maintaining of an up-to-date inventory ledger.

Updating of the Company's inventory ledger was not timely. The reconciliation process was done manually and then adjustments made to the system at the end of each stock take exercise.

Although the Company maintained manual stock records, it may not be able to have timely system generated inventory reports at any one time.

Our approach was to verify if indeed the inventory balance was fairly stated.
We did this by:
- Reviewing inventory policies.
- Attending year end stock take.
- Carrying out inventory quantity tests.
- Carrying out inventory valuation.
- Carrying out inventory cut-off tests.
- Specifically reviewing obsolete stock policy for appropriations.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the requirements of the Companies' Act, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our Objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory 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

(iii) The Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

Julius Tumuhimbise
Engagement Partner

Certified Public Accountants
Kampala
REF: JT/02/0417/279
............................2017

JIM ROBERTS
CERTIFIED PUBLIC ACCOUNTANTS
09 MAY 2017
P.O.BOX 10639, KAMPALA - UGANDA
E-mail: partners@jim-roberts.org

STATEMENT OF PROFIT OR LOSS

	Notes	2016 Shs '000	2015 Shs '000
Revenue	1	26,037,358	24,111,965
Cost of sales		(15,580,167)	(16,366,799)
Gross profit		10,457,191	7,745,166
Other Incomes			
Compensation on Land		-	3,113,471
Rent and other incomes		141,508	103,364
Total income		10,598,699	10,962,001
Administrative expenses		(1,684,520)	(1,913,708)
Distribution expenses		(1,034,548)	(753,527)
Other operating expenses		(3,728,228)	(3,208,859)
Loss of Excavated Clay		-	(1,883,520)
Total expenses		(6,447,296)	(7,759,614)
Operating profit (/loss)		**4,151,403**	**3,202,387**
Net finance costs	4	(121,162)	(4,237,765)
Profit/ Loss before tax		4,030,241	(1,035,378)
Tax (Charge)/ Credit	5(a)	(1,656,866)	171,876
Total comprehensive profit/ loss for the year		**2,373,375**	**(1,207,254)**

		Ushs/share	Ushs/share
Basic and diluted gain/ (loss) per share	6	2.64	(1.34)

The accounting policies and notes on pages 11 to 38 form an integral part of these financial statements.
Report of the independent auditors - page 4 - 6

STATEMENT OF CHANGES IN EQUITY

	Issued Capital Shs '000	Share premium Shs '000	Revaluation Reserves Shs '000	Retained earnings Shs '000	Proposed dividend Shs '000	Total Shs '000
Year ended 31 December 2015						
At 1 January 2015	900,000	9,766,028	11,727,729	4,387,149	-	26,780,906
Prior year adjustment						
Deferred tax	-		-	1,469	-	1,469
Loss 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	900,000	9,766,028	10,368,305	4,540,788	-	25,575,121
Year ended 31 December 2016						
At 1 January 2016	900,000	9,766,028	10,368,305	4,540,788	-	25,575,121
Prior year adjustment						
Property, plant and equipment	-	-	-	(7,472)	-	(7,472)
Deferred tax	-	-	-	348	-	348
Income tax recpverable	-	-	-	93,131	-	93,131
					-	
Profit for the year	-	-	-	2,373,375	-	2,373,375
Proposed dividends	-	-	-	(900,000)	900,000	-
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 2016	900,000	9,766,028	9,008,881	7,459,594	900,000	28,034,503

STATEMENT OF CASH FLOWS

	Notes	2016 Shs '000	2015 Shs '000
Operating activities			
Cash generated from operations	20	3,142,946	3,007,236
Interest paid/Accrued		(102,274)	(4,237,765)
Tax paid		(113,303)	(61,779)
Net cash generated from/(used in) operating activities		2,927,369	(1,292,308)
Investing activities			
Cash paid for purchase of property, plant and equipment	11	(685,311)	(536,541)
Cash paid for prepaid operating lease	12	(475,000)	-
Adjustment for WIP reversal	12	-	104,250
Proceeds from sale of land		-	3,303,589
Prior year proceeds from fixed deposits		1,000,000	-
Cash paid for investment in fixed deposits		-	(1,000,000)
Net cash used in/generated from investing activities		(160,311)	1,871,298
Financing activities			
Repayment of leases		-	(15,754)
Proceeds from bank and share holder's loan		-	3,508,743
Repayments of loans		-	(2,975,564)
Net cash from financing activities		-	517,425
Increase in cash and cash equivalents		2,767,058	1,096,415
Movement in cash and cash equivalents			
At start of year	16	1,402,768	306,353
Increase		2,767,058	1,096,415
At end of year	16	4,169,826	1,402,768

The accounting policies and notes on pages 11 to 38 form an integral part of these financial statements.
Report of the independent auditors - page 4 - 6

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
- IFRS 10 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 value 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 currrent 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 actuarial gains and losses are recognised in OCI with no subsquent recycling to profit or loss.

-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 the 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 for 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 finacial 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:

	Rate %
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 buildings

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 transfered 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 assesing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An asset's carriying 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 arrangemnt 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 laibility 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 certainlty 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 liabilites 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 nolonger 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 aginst 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 admninistered 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 benfits relating to employees service in the current and prior periods. The Company and all prior oeriods. 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 chardes to profit or loss in the year in which they fall due. The Company's bonus, gratuity and termination payments are harged 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 recieved 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

		2016 Shs '000	2015 Shs '000
1.	**Revenue**		
	Roofing tiles	16,897,949	15,132,661
	Half bricks	1,367,614	1,527,882
	Maxpans	4,905,665	4,536,933
	Ridges	1,117,965	782,350
	Other products	1,418,167	2,132,139
	Bricks	329,998	-
		26,037,358	24,111,965
2.	**Operating loss**		
	The following items have been charged in arriving at operating profit:		
	Depreciation on property, plant and equipment (Note 11)	3,936,735	4,279,008
	Amortisation of prepaid operating lease rentals (Note 12)	57,682	33,932
	Auditors' remuneration	35,000	35,000
	Employee benefits expense	-	5,276,410
	Staff costs (Note 3)	2,221,301	1,914,747
3.	**Staff costs**		
	Salaries and wages	2,186,375	1,869,470
	Other staff costs	34,926	45,277
		2,221,301	1,914,747
4.	**Finance costs**		
	Interest expense		
	- bank overdrafts	-	3,240
	- forex loss	18,888	11,142
	- finance leases	-	263
	interest on borrowings	-	4,012,724
	interest on unpaid gratuity	102,274	210,396
		121,162	4,237,765

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Income tax

a) Income tax expense

(i) Charge to profit

	2016 Shs '000	2015 Shs '000
Current tax	-	-
Deferred tax charge (Note 10)	1,656,866	171,876
	1,656,866	171,876

(ii) Charge to other comprehensive income

	2016 Shs '000	2015 Shs '000
Deffered income tax	-	-

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2016 Shs '000	2015 Shs '000
Profit/(loss) before tax	4,030,241	(1,035,378)
Tax calculated at a tax rate of 30% (2015: 30%)	1,209,072	(310,613)
Expenses not deductible for tax purposes	447,794	482,489
Tax charge	1,656,866	171,876

b)Current income tax recoverable

The movement in current tax recoverable is as follows:	**2016** **Ushs '000**	**2015** **Ushs '000**
At 1 January	302,555	240,776
Under provision of prior year income tax	93,131	-
Current income tax paid	113,303	61,779
At 31st December	**508,989**	**302,555**

6. Profit/ loss per share

Basic profit/ loss per share is calculated by dividing the profit/ loss attributable to shareholders by the average number of ordinary shares in issue during the year.

	2016	2015
Profit/ loss attributable to shareholders (Shs'000)	2,373,375	(1,207,254)
Weighted average number of ordinary shares in issue('000)	900,000	900,000
Basic and diluted earnings/ loss per share (Ushs/share)	2.64	(1.34)

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	900,000,000	900,000	9,766,027

The total authorised number of ordinary shares as at 31 December 2016 and 2015 was 900,000,000 with a par value of UShs 1. All issued shares are fully paid up.

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.

	2016 Shs '000	2015 Shs '000
At 1 January	10,368,305	11,727,729
Transfer of excess depreciation for the year	(1,942,034)	(1,942,034)
Deferred tax on depreciation transfer	582,610	582,610
At end of year	9,008,881	10,368,305

9. **Borrowings**

	2016 Shs '000	2015 Shs '000
Non-current portion		
Shareholder's loan-NSSF (Note 21)	23,211,380	19,702,637
Total non-current portion	**23,211,380**	**19,702,637**
Current		
Shareholder's loan-NSSF (Note 21)	-	3,508,743
Total current portion	**-**	**3,508,743**
Total borrowings	**23,211,380**	**23,211,380**

The movement in borrowings is as follows:

	2016 Shs '000	2015 Shs '000
At 1 January	23,211,380	22,678,202
Accrued interest	-	3,508,743
Overdraft repayments	-	(3,240)
Loan repayments	-	(2,972,325)
At 31 December	**23,211,380**	**23,211,380**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Weighted average effective interest rates:

	2016 %	2015 %
Shareholder's loan-NSSF	-	15.00
Maturity of non-current borrowings		
Between 1 and 2 years	-	19,702,637
Between 2 and 5 years	-	-
Over 5 years	23,211,380	-
Non-current portion	**23,211,380**	**19,702,637**

10.**Deferred tax**

Deferred tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2015:-30%). The movement on the deferred tax account is as follows:

	2016 Shs '000	2015 Shs '000
At 1 January	7,693,662	7,523,255
Income statement credit	1,656,866	170,407
Charged to equity	(348)	-
At end of year	9,350,180	7,693,662

Deferred tax liabilities and (assets), deferred tax 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	7,192,051	(467,697)	10,790	6,735,144
-revaluation surplus	6,211,713	-	-	6,211,713
	13,403,764	(467,697)	10,790	12,946,857
Deferred tax assets				
Tax losses carried foward	(2,832,297)	2,163,965	(11,138)	(679,470)
Other deductable temporary differences	(2,877,805)	(39,402)	-	(2,917,207)
	(5,710,102)	2,124,563	(11,138)	(3,596,677)
Net deferred tax liability	7,693,662	1,656,866	(348)	9,350,180

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. **Property, plant and equipment**

Year ended 31 December 2016

	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	13,564,937	61,202,388	895,962	3,035,492	1,890,182	80,588,960
Additions	-	285,290	169,802	64,500	165,719	685,311
Transfer	-	64,500	-	-	(64,500)	-
Write off	-	-	-	-	(7,472)	(7,472)
At end of year	13,564,937	61,552,178	1,065,764	3,099,992	1,983,929	81,266,799
Depreciation						
At start of year	2,363,352	24,446,354	591,238	2,954,695	-	30,355,639
Charge for the year	266,102	3,489,661	92,865	88,107	-	3,936,735
At end of year	2,629,454	27,936,015	684,103	3,042,802	-	34,292,374
Net book value						
At end of year	10,935,483	33,616,163	381,661	57,190	1,983,929	46,974,425

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property plant and equipment (continued)

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
Disposal	(207,776)	-	-	-	-	(207,776)
Additions	-	129,549	145,139	-	261,853	536,541
Transfer/ Capitalization	6,913	329,759	-	-	(336,672)	-
At end of year	13,564,937	61,202,388	895,962	3,035,492	1,890,182	80,588,960
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	266,107	3,906,854	95,689	10,358	-	4,279,008
At end of year	2,363,352	24,446,354	591,238	2,954,695	-	30,355,639
Net book value						
At end of year	11,201,585	36,756,034	304,724	80,797	1,890,182	50,233,321

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. **Prepaid operating lease rentals**

The movement of prepaid operating rentals is as follows:

	2016 Shs '000	2015 Shs '000
Cost		
At start of year	464,877	569,127
Reclassification to work in progress	-	(104,250)
Additions	475,000	-
At end of year	939,877	464,877
Amortisation		
At start of year	123,066	89,134
Charge for the year	57,682	33,932
At end of year	180,748	123,066
Net book value	759,129	341,811

13 . **Staff advances**

Staff advances comprise the following:

Gross Staff advances	94,159	98,678
Provision for doubtful debts	-	-
	94,159	98,678

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	3,877,290	2,032,685
Work in progress	749,651	366,835
Finished goods	4,582,974	2,780,268
Goods in Transit	165,175	927,490
	9,375,090	**6,107,278**

During 2016, Ushs 2.185 million (2015: Ushs 2.801 million) was recognised as an expense for inventories carried at net realizable value. This is recognised in cost of sales. There are no inventories committed as security.

The net closing inventory of 9.4 billion is net of provision for obsolete and breakages amounting to Ushs. 138,934,867.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 Shs '000	2015 Shs '000

15. **Trade and other receivables**

	2016 Shs '000	2015 Shs '000
Trade receivables	2,345,715	1,890,111
Less:provision for impairment of trade receivables	(570,850)	(570,850)
Net trade receivables	1,774,865	1,319,261
Prepayments	285,202	439,567
Amount due from employee retirement fund administrator	313,542	313,542
Other recievables	990,559	979,898
Staff Debtors	18,069	18,507
	3,382,237	**3,070,775**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2016, trade receivables of an initial value of Ushs 570,850,048 (2015: Ushs 570,850,048) 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**

	2016 Shs '000	2015 Shs '000
Cash at bank	4,168,442	1,400,534
Cash in hand	1,384	2,234
Cash at bank and in hand	**4,169,826**	**1,402,768**

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.

	2016 Shs '000	2015 Shs '000
Cash at bank and in hand	4,169,826	1,402,768
	4,169,826	1,402,768

17. **Other investments**

	2016 Shs '000	2015 Shs '000
Fixed deposits	-	1,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. **Retirement benefits obligations**

	2016	2015
	Shs '000	Shs '000
At 1 January	2,067,552	2,687,561
Contributions for the year	1,104,584	1,396,438
Payments during the year	(3,047,325)	(2,016,447)
At 31 December	124,811	2,067,552

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 contibution 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.

Effective 1st June 2016, the Board reviewed the Company contribution to 10% of gross salary, and employee contribution to 5% of gross monthly salary for all employees.

19. **Trade and other payables**

	2016	2015
	Shs '000	Shs '000
Trade deposits	1,810,377	1,946,002
Trade payables	1,588,361	817,614
VAT payable	99,890	258,835
Accrued expenses	197,807	347,722
Unpaid dividends	376,170	376,170
National social Security Fund contributions payable	129,197	84,110
Pay-As-You-Earn	287,126	151,248
Other payables	54,053	27,771
Total trade and other payables	4,542,981	4,009,472

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The maturity analysis of trade and other payables is as follows:

At 31 December 2016

	0 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Un paid dividends	-	-	-	376,170	376,170
Statutory payables	516,213	-	-	-	516,213
Trade payables	1,325,486	17,149	106,197	139,529	1,588,361
Accruals	197,807	-	-	-	197,807
Other payables	54,053	-	-	-	54,053
Trade deposits	1,810,377	-	-	-	1,810,377
	3,903,936	17,149	106,197	515,699	4,542,981

	2016	2015
	Shs '000	Shs '000

20. **Cash from/(used in) operations**

Reconciliation of Profit/(loss) before tax to cash from operations

	2016	2015
Profit/(loss) before tax	4,030,241	(1,035,378)
Adjustments for:		
Depreciation (Note 11)	3,936,735	4,279,008
Amortisation of prepaid operating lease rentals (Note 12)	57,682	33,932
Profit from sale of property	-	(3,113,471)
Net interest expense	102,274	4,237,765
Changes in working capital:		
Inventory	(3,267,812)	1,522,105
Trade and other receivables	(311,461)	(1,204,351)
Trade and other payables	533,509	(1,093,309)
Staff loans	4,519	944
Retirement benefits obligation	(1,942,741)	(620,009)
Cash from operations	3,142,946	3,007,236

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Related party transactions

The following transactions were carried out with related parties:

	2016 Shs '000	2015 Shs '000
i) **Key management compensation**		
Salaries and other short term employment benefits	959,655	1,036,882

The key management personnel include the Managing director, Head of Internal audit, Head of Finance, Head of Human resource and Support Services, Head of Marketing and Head of production.

	2016 Shs '000	2015 Shs '000
ii) **Directors' remuneration**		
Fees	46,500	54,042
Other	61,433	74,629
	107,933	128,671
iii) **Shareholder's loan**		
At 1st January	23,211,380	19,702,637
Accrued interest	-	3,508,743
At 31 December	**23,211,380**	**23,211,380**
Current portion	-	3,508,743
Non-current portion	23,211,380	19,702,637
	23,211,380	23,211,380

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.

In 2016, there was no interest accrued on the loan as it had been waivered off.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. **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 donot 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 2016

	SSP Ushs '000	**USD Ushs '000**	**Ushs Ushs '000**	**Ushs Ushs '000**
Financial assets				
Trade and other receivables	-	-	3,382,237	3,382,237
Staff loans	-	-	94,159	94,159
Cash and bank balances	241,515	84,946	3,843,365	4,169,826
	241,515	84,946	7,319,761	7,646,222
Financial liabilities				
Retirement benefit obligations	-	-	124,811	124,811
Finance lease: non-current portion		-	-	-
Borrowings: non-current portion	-	-	23,211,380	23,211,380
Trade and other payables	-	-	4,542,981	4,542,981
Finance lease: current portion	-	-	-	-
Borrowings: current portion	-	-	-	-
	-	-	27,879,172	27,879,172
Net foreign exchange gap	**326,461**			

At 31 December 2015				
Financial assets				
Trade and other receivables	-	-	3,070,775	3,070,775
Staff loans	-	-	98,678	98,678
Cash and bank balances	131,174	71,663	1,199,931	1,402,768
	131,174	71,663	4,369,384	4,572,221
Financial liabilities				
Retirement benefit obligation	-	-	2,067,552	2,067,552
Finance lease: non-current portion		-	-	-
Borrowing: 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	-	-	3,508,743	3,508,743
	-	-	29,288,404	29,288,404
Net foreign exchange gap	**202,837**			

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

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 32 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 2016	**1 to 3 months**	**3 months to 1 year**	**1-5 years**	**Non -interest bearing**	**Total**
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Financial assets					
Trade and other receivables	-	-	-	3,382,237	3,382,237
Staff loans	-	94,159	-	-	94,159
Cash and bank balances	-	-	-	4,169,826	4,169,826
	-	**94,159**	**-**	**7,552,063**	**7,646,222**
Financial liabilities					
Finance leases	-	-	-	-	-
Retirement benfit obligation	-	-	-	124,811	124,811
Trade and other payables	-	-	-	4,542,981	4,542,981
Borrowings	-	-	23,211,380	-	23,211,380
	-	**-**	**23,211,380**	**4,667,792**	**27,879,172**
Interest rate gap	**-**	**94,159**	**(23,211,380)**	**2,884,271**	**(20,232,950)**

As at 31 December 2015	**1 to 3 months**	**3 months to 1 year**	**1-5 years**	**Non -interest bearing**	**Total**
	Ushs '000	**Ushs '000**	**Ushs '000**	**Ushs '000**	**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)**

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, recievables, 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 (2015:3%), the impact on the Company's profit before tax and equity is as follows:

	2016 Ushs '000	2015 Ushs '000
Profit before tax		
Cash flow interest rate risk	696,341	679,812
Equity	487,439	475,868

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	
	2016 Ushs '000	2015 Ushs '000	2016 Ushs '000	2015 Ushs '000
Non-current assets				
Property, plant and equipment	46,974,425	50,233,321	46,974,425	50,233,321
Prepaid operating lease rentals	759,129	341,811	782,879	650,000
	47,733,554	**50,575,132**	**47,757,304**	**50,883,321**
Current assests				
Current income tax recoverable	508,989	302,555	508,989	302,555
Staff loans	94,159	98,678	94,159	98,678
Inventories	9,375,089	6,107,279	9,375,089	6,107,279
Trade and other receivables	3,382,237	3,070,775	3,382,237	3,070,780
Cash and bank balances	4,169,826	1,402,768	4,169,826	1,402,768
	17,530,300	**10,982,055**	**17,530,300**	**10,982,060**
Total Assets	**65,263,854**	**61,557,187**	**65,287,604**	**61,865,381**
Non-current liabilities				
Borrowings: non-current portion	23,211,380	19,702,637	23,211,380	19,702,637
	23,211,380	**19,702,637**	**23,211,380**	**19,702,637**
Current liabilities				
Retirement benefit obligations	124,811	2,067,552	124,811	2,067,552
Borrowings: current portion	-	3,508,743	-	3,508,743
Trade and other payables	4,542,981	4,009,472	4,542,981	4,009,472
	4,667,792	**9,585,767**	**4,667,792**	**9,585,767**
Total Liabilities	**27,879,172**	**29,288,404**	**27,879,172**	**29,288,404**

NOTES TO THE FINANCIAL STATEMNTS (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 2016				
Revalued property, plant and equipment	46,974,425	-	-	46,974,425
At 31 December 2015				
Revalued property, plant and equipment	50,233,321	-	-	50,233,321

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 2016, 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 proffesional 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 2016.

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:

	2016 **Ushs '000**	**2015** **Ushs '000**
Bank balances	4,169,826	1,402,768
Trade receivables	2,345,715	1,890,111
Staff loans	94,159	98,678
Amount due from employee retirement fund administrator	313,543	313,543
Staff and other receivables	8,573	12,218
	6,931,816	3,717,318

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 STATEMNTS (CONTINUED)

credit risk (continuation)

The analysis of trade receivables is below:

	2016 Ushs '000	2015 Ushs '000
Neither past due nor impaired	187,450	228,284
61 to 180 days	603,020	82,510
181 to 360 days	244,742	115,672
Total past due but not impaired	847,762	198,182
Impaired-past due by >360 days	570,850	570,850
Gross amount	2,345,715	1,890,111
Less: Allowance for impairment	(570,850)	(570,850)
Net amount	1,774,865	1,319,261

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

	2016 Ushs'000	2015 Ushs '000
Movement on allowance for impairment		
At 1 January	570,850	502,125
Add: charge for the year	-	68,725
At 31 December	570,850	570,850

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 liabiliites 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 2016:			
- Borrowings (excluding finance leases)	-	-	23,211,380
- Trade and other payables	4,542,981	-	-
	4,542,981	**-**	**23,211,380**
At 31 December 2015:			
- Borrowings (excluding finance leases)	-	-	23,211,380
- Trade and other payable	3,870,203	139,269	-
	3,870,203	**139,269**	**23,211,380**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Contigencies

The company is involved in two legal and court cases which are yet to be concluded.
The cases the Company is involved in are as below:

a) 32 former employees of the Company have lodged complaint before the labour suite in which they are disputing a compensation from the Company for redundancy. As at the time of the audit, the Commissioner - Labour was yet to deliver a ruling on this matter.

b) The Company has been sued by Ronald Mutimba, a former employee under Entebbe Chief Magistrate on grounds of damages for defamation.
In the unlikely event that the Plaintiff succeeds, he may be awarded damages and costs in the region of Ushs 5,000,000.

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 2016 and 2015 were as follows:

	2016 Shs '000	**2015 Shs '000**
Total borrowings	23,211,380	19,702,637
Less cash and cash equivalents (Note 16)	(4,169,826)	(1,402,768)
Net debt	19,041,554	18,299,869
Total equity	28,034,503	25,575,121
Total capital	**47,076,057**	**43,874,990**
Gearing ratio %	40	42

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 2016 were as follows;

	Kajjansi factory Ushs '000	**Kamonkoli factory Ushs '000**	**Total Ushs '000**
Revenue	19,282,944	6,754,414	26,037,358
Cost of sales	(8,867,903)	(6,712,264)	(15,580,167)
Gross profit	**10,415,041**	**42,150**	**10,457,191**
Other operating income	140,325	1,183	141,508
Total income	**10,555,366**	**43,333**	**10,598,699**
Administrative expenses	(1,478,194)	(206,326)	(1,684,520)
Distribution expenses	(972,704)	(61,844)	(1,034,548)
Other operating expenses	(3,257,786)	(470,443)	(3,728,228)
Total expenses	**(5,708,684)**	**(738,613)**	**(6,447,296)**
Operating profit/ loss	**4,846,682**	**(695,280)**	**4,151,403**
Net finance costs	(104,205)	(16,957)	(121,162)
Profit/ loss before tax	**4,742,477**	**(712,237)**	**4,030,241**

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	33,932	-	33,932

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement of financial position

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
31 December 2016			
Total assets	34,556,712	31,536,567	65,263,855
Total liabilities	34,587,960	1,866,066	37,229,352
Capital expenditure	474,677	210,634	685,311
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	303,759	232,782	536,541

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

	2016 Shs '000	2015 Shs '000
(i).**COST OF SALES**		
Opening stock of finished goods and work-in-progress	3,147,104	4,064,268
Production costs (ii)	17,765,688	15,449,637
Closing stock of finished goods and work-in-progress	(5,332,625)	(3,147,104)
	15,580,167	**16,366,799**
(ii).**PRODUCTION COSTS**		
Clay processing and product moulding	1,943,614	789,963
Depreciation of plant	3,837,876	4,132,653
Drying process	70,595	49,107
Electricity and generator	1,973,729	1,817,063
Factory general maintenance	382,302	228,069
Kilns (baking process)	2,488,009	2,784,328
Quarry and silo	1,048,846	697,004
Other production costs	1,920,183	1,476,874
Salaries and allowances- production staff	787,056	735,442
Wages and allowances -production staff	2,269,044	1,847,777
Sales outlet expenses	1,019,109	503,091
Transport	-	388,264
Quality assurance	25,325	-
	17,765,688	**15,449,635**

SCHEDULE OF OTHER INCOME AND EXPENDITURE

	2016 Shs '000	2015 Shs '000
(iii). OTHER INCOME		
Compensation on Land	-	3,362,202
Costs associated with land compensation	-	(248,731)
Rent and other incomes	141,508	103,364
	141,508	3,216,835

	2016 Shs '000	2015 Shs '000
(iv). **DISTRIBUTION EXPENSES**		
Business promotion	990,842	697,940
Communication	13,025	6,056
Donation	9,000	-
Public relation and entertainment	900	4,330
Sports and recreation	8,780	10,310
Subscriptions	12,001	15,366
Research and development	-	19,525
Total distribution costs	1,034,548	753,527

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	2016 Shs '000	2015 Shs '000
(v).ADMNISTRATIVE EXPENSES:		
Annual general meeting	74,595	69,770
Audit expenses	35,000	35,000
Provision for impairment of trade recievables and staff loans	-	37,883
Company house maintenance	-	3,990
Compound maintenance	11,327	5,842
Consultancy	54,822	143,142
Depreciation	98,859	146,355
Directors fees and allowance	107,933	128,671
Insurance	107,156	96,277
Rental expenses	8,100	8,100
Legal fees and expenses	224,662	156,450
Local travel	155,089	122,115
Office building maintenance	16,675	10,228
Office equipment maintenance	54,681	61,948
Printing and stationery	48,800	31,390
Registrar fees	36,759	35,544
Security	113,913	101,676
Tax consultancy	55,581	9,682
Transport costs	72,357	63,778
Travel abroad	4,080	57,571
Other expenses	170,706	379,998
Uniforms	2,736	-
Software Licences and support	2,950	10,432
Utilities	2,782	288
Property tax expense	38,139	75,865
Communication	129,136	87,781
Amortisation charge	57,682	33,932
Total administrative expenses	1,684,520	1,913,708

SCHEDULE OF EXPENDITURE

	2016 Shs '000	2015 Shs '000
(vi). **OTHER OPERATING EXPENSES**		
Bonus	282,550	217,004
Gratuity/pension	324,747	378,275
Leave transport and allowance	135,091	91,406
Medical expenses	124,363	44,820
NSSF - Company contribution	278,863	233,140
Salaries and allowances	2,186,375	1,869,470
Staff Welfare	116,995	108,684
Termination pay	20,183	27,467
Training costs	36,207	6,062
Wages and allowances	185,471	190,695
Bank Charges	37,383	41,836
Total other operating expenses	3,728,228	3,208,859
(vii). **FINANCE COSTS**		
Finance Lease Charges	-	263
Forex Loss	18,888	11,142
Interest on Overdraft	-	3,240
Interest on unpaid Gratuity	102,274	210,396
Interest expense on borrowings	-	4,012,724
Total Net finance costs	121,162	4,237,765