

UGANDA CLAYS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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COMPANY INFORMATION

| | | |
|---------------------------|------------------------------|-------------------------------------|
| BOARD OF DIRECTORS | Dr. Martin Alier | 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 Maweje | 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 | <u>(1,656,866)</u> | <u>171,876</u> |
| Total Comprehensive profit/ loss for the year | <u><u>2,373,375</u></u> | <u><u>(1,207,254)</u></u> |

DIVIDEND

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

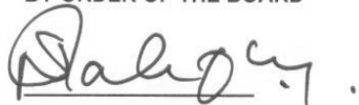
DIRECTORS

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

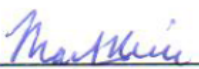
The Companies Act 2012, requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results for that year.

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



STATEMENT OF PROFIT OR LOSS

| | Notes | 2016 Shs '000 | 2015 Shs '000 |
|--|-------|-------------------------|---------------------------|
| Revenue | 1 | 26,037,358 | 24,111,965 |
| Cost of sales | | <u>(15,580,167)</u> | <u>(16,366,799)</u> |
| Gross profit | | 10,457,191 | 7,745,166 |
| Other Incomes | | | |
| Compensation on Land | | - | 3,113,471 |
| Rent and other incomes | | <u>141,508</u> | <u>103,364</u> |
| Total income | | <u>10,598,699</u> | <u>10,962,001</u> |
| 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 | | <u>-</u> | <u>(1,883,520)</u> |
| Total expenses | | (6,447,296) | (7,759,614) |
| Operating profit (/loss) | | 4,151,403 | 3,202,387 |
| Net finance costs | 4 | <u>(121,162)</u> | <u>(4,237,765)</u> |
| Profit/ Loss before tax | | 4,030,241 | (1,035,378) |
| Tax (Charge)/ Credit | 5(a) | <u>(1,656,866)</u> | <u>171,876</u> |
| Total comprehensive profit/ loss for the year | | <u>2,373,375</u> | <u>(1,207,254)</u> |
| | | Ushs/share | Ushs/share |
| Basic and diluted gain/ (loss) per share | 6 | <u>2.64</u> | <u>(1.34)</u> |

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 | <u>900,000</u> | <u>9,766,028</u> | <u>10,368,305</u> | <u>4,540,788</u> | <u>-</u> | <u>25,575,121</u> |
| 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 | <u>900,000</u> | <u>9,766,028</u> | <u>9,008,881</u> | <u>7,459,594</u> | <u>900,000</u> | <u>28,034,503</u> |

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) |
| | | <hr/> | <hr/> |
| 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) |
| | | <hr/> | <hr/> |
| 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) |
| | | <hr/> | <hr/> |
| Net cash from financing activities | | - | 517,425 |
| | | <hr/> | <hr/> |
| 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 |
| | | <hr/> | <hr/> |
| At end of year | 16 | 4,169,826 | 1,402,768 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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 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 actuarial gains and losses are recognised in OCI with no subsequent 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 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:

| | 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 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

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | Shs '000 | 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 | - |
| | <u>26,037,358</u> | <u>24,111,965</u> |
| 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 |
| | <u>2,221,301</u> | <u>1,914,747</u> |
| 3. Staff costs | | |
| Salaries and wages | 2,186,375 | 1,869,470 |
| Other staff costs | 34,926 | 45,277 |
| | <u>2,221,301</u> | <u>1,914,747</u> |
| 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 |
| | <u>121,162</u> | <u>4,237,765</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | 2016 | 2015 |
|---|-------------------------|-----------------------|
| | Shs '000 | Shs '000 |
| 5. Income tax | | |
| a) Income tax expense | | |
| (i) Charge to profit | | |
| Current tax | - | - |
| Deferred tax charge (Note 10) | <u>1,656,866</u> | <u>171,876</u> |
| | <u><u>1,656,866</u></u> | <u><u>171,876</u></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: | | |
| Profit/(loss) before tax | <u>4,030,241</u> | <u>(1,035,378)</u> |
| Tax calculated at a tax rate of 30% (2015: 30%) | 1,209,072 | (310,613) |
| Expenses not deductible for tax purposes | <u>447,794</u> | <u>482,489</u> |
| Tax charge | <u><u>1,656,866</u></u> | <u><u>171,876</u></u> |
| b)Current income tax recoverable | | |
| The movement in current tax recoverable is as follows: | 2016 | 2015 |
| | Ushs '000 | Ushs '000 |
| At 1 January | 302,555 | 240,776 |
| Under provision of prior year income tax | 93,131 | - |
| Current income tax paid | <u>113,303</u> | <u>61,779</u> |
| At 31st December | <u><u>508,989</u></u> | <u><u>302,555</u></u> |
| 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. | | |
| Profit/ loss attributable to shareholders (Shs'000) | 2,373,375 | (1,207,254) |
| Weighted average number of ordinary shares in issue('000) | <u>900,000</u> | <u>900,000</u> |
| Basic and diluted earnings/ loss per share (Ushs/share) | <u><u>2.64</u></u> | <u><u>(1.34)</u></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 2016 and 2015 was 900,000,000 with a par value of UShs 1. All issued shares are fully paid up.

| | 2016 Shs '000 | 2015 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 | 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 | <u>9,008,881</u> | <u>10,368,305</u> |

9. Borrowings

Non-current portion

| | | |
|-----------------------------------|------------|------------|
| Shareholder's loan-NSSF (Note 21) | 23,211,380 | 19,702,637 |
|-----------------------------------|------------|------------|

Total non-current portion

| | |
|-------------------|-------------------|
| <u>23,211,380</u> | <u>19,702,637</u> |
|-------------------|-------------------|

Current

| | | |
|-----------------------------------|---|-----------|
| Shareholder's loan-NSSF (Note 21) | - | 3,508,743 |
|-----------------------------------|---|-----------|

Total current portion

| | |
|---|------------------|
| - | <u>3,508,743</u> |
|---|------------------|

Total borrowings

| | |
|-------------------|-------------------|
| <u>23,211,380</u> | <u>23,211,380</u> |
|-------------------|-------------------|

The movement in borrowings is as follows:

| | | |
|-----------------------|-------------------|-------------------|
| 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 | <u>23,211,380</u> | <u>23,211,380</u> |

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 | <u>23,211,380</u> | <u>19,702,637</u> |

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 | <u>9,350,180</u> | <u>7,693,662</u> |

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 |
| | <u>13,403,764</u> | <u>(467,697)</u> | <u>10,790</u> | <u>12,946,857</u> |
| Deferred tax assets | | | | |
| Tax losses carried forward | (2,832,297) | 2,163,965 | (11,138) | (679,470) |
| Other deductible temporary differences | (2,877,805) | (39,402) | - | (2,917,207) |
| | <u>(5,710,102)</u> | <u>2,124,563</u> | <u>(11,138)</u> | <u>(3,596,677)</u> |
| Net deferred tax liability | <u>7,693,662</u> | <u>1,656,866</u> | <u>(348)</u> | <u>9,350,180</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Property, plant and equipment

Year ended 31 December 2016

| | Freehold land and Buildings Ushs '000 | Plant & machinery Ushs '000 | Furniture, fittings & computer equipment Ushs '000 | Motor vehicles Ushs '000 | Capital work in progress Ushs '000 | Total 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 Ushs '000 | Plant & machinery Ushs '000 | Furniture, fittings & Computer equipment Ushs '000 | Motor & Vehicles Ushs '000 | Capital work in & progress Ushs '000 | Total 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 | <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 | 266,107 | 3,906,854 | 95,689 | 10,358 | - | 4,279,008 |
| 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><u>11,201,585</u></u> | <u><u>36,756,034</u></u> | <u><u>304,724</u></u> | <u><u>80,797</u></u> | <u><u>1,890,182</u></u> | <u><u>50,233,321</u></u> |

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 | - |
| | <u>939,877</u> | <u>464,877</u> |
| Amortisation | | |
| At start of year | 123,066 | 89,134 |
| Charge for the year | 57,682 | 33,932 |
| | <u>180,748</u> | <u>123,066</u> |
| Net book value | <u><u>759,129</u></u> | <u><u>341,811</u></u> |

13. Staff advances

Staff advances comprise the following:

| | | |
|------------------------------|---------------|---------------|
| Gross Staff advances | 94,159 | 98,678 |
| Provision for doubtful debts | - | - |
| | <u>94,159</u> | <u>98,678</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 | 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 |
| | <u>9,375,090</u> | <u>6,107,278</u> |

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 | | |
| Trade receivables | 2,345,715 | 1,890,111 |
| Less:provision for impairment of trade receivables | <u>(570,850)</u> | <u>(570,850)</u> |
| 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 receivables | 990,559 | 979,898 |
| Staff Debtors | <u>18,069</u> | <u>18,507</u> |
| | <u>3,382,237</u> | <u>3,070,775</u> |

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

| | | |
|---------------------------------|-------------------------|-------------------------|
| Cash at bank | 4,168,442 | 1,400,534 |
| Cash in hand | <u>1,384</u> | <u>2,234</u> |
| Cash at bank and in hand | <u>4,169,826</u> | <u>1,402,768</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 | <u>4,169,826</u> | <u>1,402,768</u> |
| | <u>4,169,826</u> | <u>1,402,768</u> |

17. Other investments

| | | |
|----------------|----------|------------------|
| Fixed deposits | <u>-</u> | <u>1,000,000</u> |
|----------------|----------|------------------|

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 | <u>(3,047,325)</u> | <u>(2,016,447)</u> |
| At 31 December | <u><u>124,811</u></u> | <u><u>2,067,552</u></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.

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.

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| | Shs '000 | Shs '000 |
| 19. Trade and other payables | | |
| 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 | <u>54,053</u> | <u>27,771</u> |
| Total trade and other payables | <u><u>4,542,981</u></u> | <u><u>4,009,472</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.

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 |
| | <u>3,903,936</u> | <u>17,149</u> | <u>106,197</u> | <u>515,699</u> | <u>4,542,981</u> |

| | 2016 | 2015 |
|--|------------------|------------------|
| | Shs '000 | Shs '000 |
| 20. Cash from/(used in) operations | | |
| Reconciliation of Profit/(loss) before tax to cash from operations | | |
| 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 | <u>3,142,946</u> | <u>3,007,236</u> |

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 | <u>959,655</u> | <u>1,036,882</u> |
| 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. | | |
| ii) Directors' remuneration | | |
| Fees | 46,500 | 54,042 |
| Other | <u>61,433</u> | <u>74,629</u> |
| | <u>107,933</u> | <u>128,671</u> |
| iii) Shareholder's loan | | |
| At 1st January | 23,211,380 | 19,702,637 |
| Accrued interest | <u>-</u> | <u>3,508,743</u> |
| At 31 December | <u>23,211,380</u> | <u>23,211,380</u> |
| Current portion | - | 3,508,743 |
| Non-current portion | <u>23,211,380</u> | <u>19,702,637</u> |
| | <u>23,211,380</u> | <u>23,211,380</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.

In 2016, there was no interest accrued on the loan as it had been waived 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 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 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 |
| | <u>241,515</u> | <u>84,946</u> | <u>7,319,761</u> | <u>7,646,222</u> |
| 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 | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>27,879,172</u> | <u>27,879,172</u> |
| Net foreign exchange gap | <u>326,461</u> | | | |

At 31 December 2015

| | SSP Ushs '000 | USD Ushs '000 | Ushs Ushs '000 | Ushs Ushs '000 |
|------------------------------------|--------------------------|--------------------------|---------------------------|---------------------------|
| 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 |
| | <u>131,174</u> | <u>71,663</u> | <u>4,369,384</u> | <u>4,572,221</u> |
| 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 |
| | <u>-</u> | <u>-</u> | <u>29,288,404</u> | <u>29,288,404</u> |
| Net foreign exchange gap | <u>202,837</u> | | | |

*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 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 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 | - | - | - | 3,382,237 | 3,382,237 |
| Staff loans | - | 94,159 | - | - | 94,159 |
| Cash and bank balances | - | - | - | 4,169,826 | 4,169,826 |
| | <u>-</u> | <u>94,159</u> | <u>-</u> | <u>7,552,063</u> | <u>7,646,222</u> |
| Financial liabilities | | | | | |
| Finance leases | - | - | - | - | - |
| Retirement benefit obligation | - | - | - | 124,811 | 124,811 |
| Trade and other payables | - | - | - | 4,542,981 | 4,542,981 |
| Borrowings | - | - | 23,211,380 | - | 23,211,380 |
| | <u>-</u> | <u>-</u> | <u>23,211,380</u> | <u>4,667,792</u> | <u>27,879,172</u> |
| Interest rate gap | <u><u>-</u></u> | <u><u>94,159</u></u> | <u><u>(23,211,380)</u></u> | <u><u>2,884,271</u></u> | <u><u>(20,232,950)</u></u> |
| | | | | | |
| 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 |
| | <u>4,775</u> | <u>93,903</u> | <u>-</u> | <u>1,730,039</u> | <u>1,828,717</u> |
| 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 |
| | <u>-</u> | <u>-</u> | <u>20,592,838</u> | <u>6,077,024</u> | <u>26,669,862</u> |
| Interest rate gap | <u><u>4,775</u></u> | <u><u>93,903</u></u> | <u><u>(20,592,838)</u></u> | <u><u>(4,346,985)</u></u> | <u><u>(24,841,145)</u></u> |

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 (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 |
| | <u>47,733,554</u> | <u>50,575,132</u> | <u>47,757,304</u> | <u>50,883,321</u> |
| Current assets | | | | |
| 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 |
| | <u>17,530,300</u> | <u>10,982,055</u> | <u>17,530,300</u> | <u>10,982,060</u> |
| Total Assets | <u>65,263,854</u> | <u>61,557,187</u> | <u>65,287,604</u> | <u>61,865,381</u> |
| Non-current liabilities | | | | |
| Borrowings: non-current portion | 23,211,380 | 19,702,637 | 23,211,380 | 19,702,637 |
| | <u>23,211,380</u> | <u>19,702,637</u> | <u>23,211,380</u> | <u>19,702,637</u> |
| 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 |
| | <u>4,667,792</u> | <u>9,585,767</u> | <u>4,667,792</u> | <u>9,585,767</u> |
| Total Liabilities | <u>27,879,172</u> | <u>29,288,404</u> | <u>27,879,172</u> | <u>29,288,404</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 | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|------------|---|---|---|
| | Ushs '000 | Ushs '000 | Ushs '000 | 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 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 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 |
| | <u>6,931,816</u> | <u>3,717,318</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:

| | 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 | <u>847,762</u> | <u>198,182</u> |
| Impaired-past due by >360 days | 570,850 | 570,850 |
| Gross amount | 2,345,715 | 1,890,111 |
| Less: Allowance for impairment | <u>(570,850)</u> | <u>(570,850)</u> |
| Net amount | <u><u>1,774,865</u></u> | <u><u>1,319,261</u></u> |

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 | <u>-</u> | <u>68,725</u> |
| At 31 December | <u><u>570,850</u></u> | <u><u>570,850</u></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 2016: | | | |
| - Borrowings (excluding finance leases) | - | - | 23,211,380 |
| - Trade and other payables | 4,542,981 | - | - |
| | <u>4,542,981</u> | <u>-</u> | <u>23,211,380</u> |
| At 31 December 2015: | | | |
| - Borrowings (excluding finance leases) | - | - | 23,211,380 |
| - Trade and other payable | 3,870,203 | 139,269 | - |
| | <u>3,870,203</u> | <u>139,269</u> | <u>23,211,380</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Contingencies

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

| | Kajjansi factory | Kamonkoli factory | Total |
|--------------------------------|-------------------------|--------------------------|-------------------------|
| | Ushs '000 | Ushs '000 | 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 | <u>4,742,477</u> | <u>(712,237)</u> | <u>4,030,241</u> |

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

| | Kajjansi factory | Kamonkoli factory | Total |
|-----------------------------------|-------------------------|--------------------------|------------------|
| | Ushs '000 | Ushs '000 | 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> |

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 | <u>474,677</u> | <u>210,634</u> | <u>685,311</u> |
| 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> |

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) |
| | <u>15,580,167</u> | <u>16,366,799</u> |
| (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 | - |
| | <u>17,765,688</u> | <u>15,449,635</u> |

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 |
| | <u>141,508</u> | <u>3,216,835</u> |
| (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 | <u>1,034,548</u> | <u>753,527</u> |
| (v). ADMINISTRATIVE EXPENSES: | | |
| Annual general meeting | 74,595 | 69,770 |
| Audit expenses | 35,000 | 35,000 |
| Provision for impairment of trade receivables 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 | <u>1,684,520</u> | <u>1,913,708</u> |

SCHEDULE OF EXPENDITURE

| | 2016 | 2015 |
|---------------------------------------|-------------------------|-------------------------|
| | Shs '000 | 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 | <u>3,728,228</u> | <u>3,208,859</u> |
| (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 | <u>121,162</u> | <u>4,237,765</u> |