Uganda Clays Ltd

Quality. Durability. Beauty to last

Annual Report

For the year ended 31st December 2013

Uganda Clays Limited
Annual Report and Financial Statements
For the year ended 31 December 2013

Vision:
To be the preferred provider of building products.

Mission:
We commit to providing quality building products in a profitable and sustainable operation driven by productive staff.

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

12 September 2014

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Uganda Clays Ltd in respect of the year ended 31 December 2013 will be convened and held on **Friday 17 October 2014** at **2:30 pm** at the **Kampala Sheraton Hotel, Rwenzori Ball Room**.

Agenda

1. To receive and confirm the minutes of the meeting held on 30 August 2013.

2. To receive and consider the Directors' report and audited financial statements for the year ended 31 December 2013, together with the report of the auditors.

3. To rotate and elect Directors in accordance with Article 59 of the Articles of Association of the Company and determine their remuneration.

4. To appoint auditors for the next year ending 31 December 2014 and authorize the Directors to fix their remuneration. It is proposed to pass a resolution to appoint M/s Jim Roberts & Associates as external auditors of the Company for the financial year 2014, and to authorize the Board of Directors to fix the auditors' remuneration.

5. To consider any other business for which notice has been given to the Secretary at least 48 hours before the meeting.

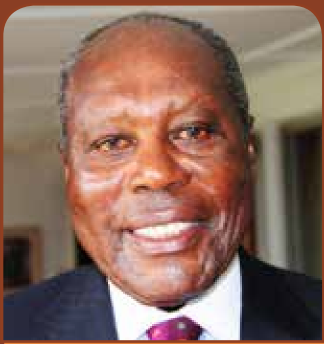
Lex Uganda Advocates & Solicitors
COMPANY SECRETARY

Note:

1. A shareholder who is unable to attend the AGM may appoint a proxy to attend the meeting on his or her behalf. Proxy forms are in the Annual Report to be sent out to the Members.

2. Duly completed proxy forms must be delivered to the Company's head office at Kajjansi or faxed to **+256 414 200167**, to be received at least 48 hours before the meeting.

Board of Directors

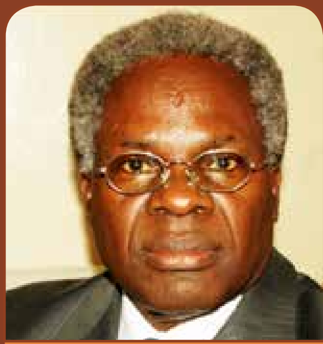


Dr Martin Aliker
Chairman

Appointed Appointed 24 August 2010 and re-appointed on 30 August 2013. He is also Chairman of Hima Cement Ltd and Vice-Chairman of the National Insurance Corporation Ltd. He is also chairman of several other companies. He has served on many Boards of leading companies in Uganda including Stanbic Bank Ltd and Monitor Publications Ltd.

Mrs Lillian Sebugenyi Mukasa
Director and Current Chairperson of the Board Audit Commitee

Appointed 24 July 2009 and re-appointed on 30 August 2013. Mrs Mukasa is an entrepreneur and a Pharmacist. She is a former proprietor of City Pharmacy and currently owns and manages an information technology firm specialising in records management.



Dr Ijuka Kabumba
Director

Appointed on 17 July 2007 and re-appointed on 30 August 2013. He is the former Managing Director of the National Insurance Corporation and currently a professor of Public Administration at Nkumba University.

Mr Richard Byarugaba
Director & Former Chairman of the Board Audit Committee

Director and Chairman of the Board Audit Committee Appointed on 29 October 2010 and re-appointed on 30 August 2013. He is a former Managing Director of the National Social Security Fund, Nile Bank and Global Trust Bank. He is a member of the Institute of Certified Public Accountants of Uganda.

Resigned on 21 March 2014.

Mr Bernard Katureebe
Director

Appointed 20 April 2012. He is a director at the National Insurance Corporation Ltd and a Partner in the law firm of ENS Africa Uganda. He is an Advocate of the High Court of Uganda and a Solicitor of England and Wales. He has formerly worked with DentonWildeSapte, a leading international law firm in London.

Eng. Martin Kasekende
Director

Appointed 24 August 2012. His is the Chairman of the Board Administration and Technical Committee, and acted as Managing Director of the Company from May 2013 to August 2014. He is the Minister of Lands, Agriculture and Environment in the Buganda Government and also Chairman of Buganda Land Board. He is a registered engineer. He a former General Manager of National Housing and Construction Corporation. He is a former Board member of NSSF, Housing Finance Bank Ltd and Private Sector Foundation.

Mr David Nambale
Director

Appointed 24 August 2012. He was the Corporation Secretary of the National Social Security Fund. He is also a former Company Secretary of the Microfinance Support Centre Ltd. He is a partner in the law firm of Nambale, Nerima & Company Advocates and an Advocate of the High Court of Uganda.

Vacated office on 21 March 2014.

Mrs Agnes Kunihira
Director

Appointed 24 August 2012. She is a member of the Board of Directors of the National Social Security Fund. She has expertise in Board and strategic leadership, social systems audit, and contract safety management. She is also a social worker and community educator.

Board of Directors

Mr. Joseph Tukuratiire

Director

Appointed 30 August 2013. He is a financial consultant. He is formerly Principal Assistant City Treasurer at Kampala City Council. He has taught finance courses at Uganda Management Institute as Associate Consultant. He has worked as a Consultant with Acclaim Africa. He is active dealer in company stocks, Government securities and money markets.

Mr. Richard Bigirwa

Director

Appointed 21 March 2014. He is a member of the Board of Directors of the National Social Security Fund. He was a member of the Board of Directors of DFCU Bank. He is the Secretary General of the Bottling, Bankers, Millers and Allied Workers Union. He is a member of the Central Organisation of Free Trade Unions.

Mr Musa Okello

Director

Appointed 21 March 2014. He is a member of the Board of Directors of the National Social Security Fund. He is the General Secretary NUEIL/ National Organisation of Trade Unions {NOTU} and its representative to the East African Trade Union Council. He is the Chairman PSI Uganda. He is also Church Minister of the Redeemed Church.

Mr Charles Rubaijaniza

Former Managing Director

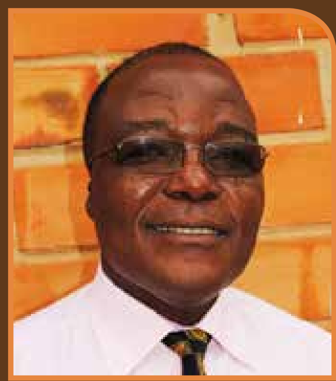
Former Managing Director. He resigned on 30 April 2013.

Management Team

Mr. George Inholo
Managing Director/ CEO

Mr. Peter Kiwanuka
Human Resources and Administration Manager

Ms. Jacqueline Kiwanuka
Finance Manager



Mr. John Gitta
Production Manager

Mr. Nazarious Rukanyangira
Marketing and Sales Manager

Mr. Richard Mugabyomu
Internal Audit Manager

Ms. Sepiranza Mayanja
Information Technology Manager

Corporate Information

Auditors

Ernst & Young
Plot 18 Clement Hill Road
P.O. Box 7215
Kampala
Uganda

Lawyers & Company Secretary

Lex Uganda Advocates, Solicitors
8th Floor Communications House
Plot 1 Colville Street
P.O. Box 22490, Kampala
Tel: 0414 232733/344172
Fax: 0414 254721
Email: partners@lexuganda.com
Website: www.lexuganda.com
A member firm of TERRALEX

Registrars

Deloite (U) Ltd
Rwenzori House
1 Lumumba Avenue
P.O. Box 10319
Kampala, Uganda

Security Central Depository Agents/Brokers

Baroda Capital Markets (U) Ltd
P.O. Box 7197 Kampala
Tel:+256 414 233680/3
Fax:+256 414 258363
Email:bob 10@calva.com

Crane Financial Brokers (U) Ltd
Plot 20/38 Kampala Road
P.O. Box 22572 Kampala
Tel:+256 414 341414/345345
Fax:+256 414 231578

Equity Stock Brokers (U) Ltd
Orient Plaza Plot 6/6A Kampala Road
P.O. Box 3072 Kampala
Tel; +256 414 236012/3/4/5
Fax:+256 414 348039
Email: equity@orient-bank.com

Dyer & Blair (Uganda Ltd)
Rwenzori House Ground Floor
P.O. Box 36620 Kampala
TeL:256 414 233050
Email: shares@dyerandblair.com

Registered Office
Uganda Clays Limited
Plot 22/2 Kitende, Kajjansi
Kampala-Entebbe Road

Africa Alliance (Uganda) Ltd
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Plot 1 Pilkington Road
Tel: +256 414 235 577
Fax: +256 414 235575
Email: securities@africanallliance.co.ug.

Renaissance Capital Ltd.
Plot 3 Kololo Hill Lane
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Tel: +256 312 264775/76
Fax: +256 312 264755
Email: enquiries@renaissance.co.ug

Crested Stocks and Securities Limited
6th Floor Impala House
Plot 13-15 Kimathi Avenue
P.O. Box 31736 Kampala
Tel: +256 414 230900
Fax +256 414 230612
Email: info@crestedsecurities.com
www.crestedsecurities.co.

Summary of Shareholders

Range ID	Description	No. of Investors	No Of Shares Held	Percent Holding
1	Below100,000,000 shares	4,590	446,576,909	49.62%
2	Between 100,000,001 - 200,000,000 shares	1	160,783,091	17.86%
3	Between 200,000,001 - 300,000,000 shares	1	292,640,000	32.52%
		4,592	900,000,000	100.00%

Nationality	Category	No. of Members	No. of Shares	Percent Holding
East African				
	Corporate	146	702,028,864	78.00%
	Individual	2,390	184,044,097	20.45%
		2,536	886,072,961	98.45%
Foreign				
	Corporate	2	237,594	0.03%
	Individual	113	13,689,445	1.52%
		115	13,927,039	1.55%
Grand Totals:		2,651	900,000,000	100.00%

Summary of Shareholders

Analysis of Shareholding

UGANDA CLAYS LIMITED - TOP 20 INVESTORS

Name & Postal Address	Shares Held
NATIONAL SOCIAL SECURITY FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	292,640,000
NATIONAL INSURANCE CORPORATION LTD P.O. BOX 7134 KAMPALA KAMPALA	160,783,091
CENTRAL BANK OF KENYA PENSION FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	23,900,000
UGANDA COMM EMPLOYEES CONTRB SCHEME-AAU C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	20,677,870
KENYA POWER AND LIGHTING COMPANY C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	20,207,200
BANK OF UGANDA STAFF RETIREMENT BENEFIT SCH-SIM C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	18,836,500
KENYA AIRWAYS LIMITED STAFF PROVIDENT FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	15,000,000
JOSEPH TUKURATIIRE P.O. BOX 12822 KAMPALA KAMPALA	12,663,231
UGANDA DEVELOPMENT BANK LIMITED P.O. BOX 7210 KAMPALA	10,147,335
NATIONAL SOCIAL SECURITY FUND-SIMS C/O STANDARD CHARTERED BANK UGANDA LTD KAMPALA	9,575,568
UGANDA COMM EMPLOYEES CONTRB SCHEME-SIMS C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	8,975,400
ROOFINGS LTD P.O. BOX 7169 K'LA	8,929,300
EAST AFRICAN DEVELOPMENT BANK RETIREMENT BENEFITS C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	8,534,600
STANBIC BANK UGANDA STAFF PENSION FUND AC UG0005 C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	8,132,950
RICHARD MUGABYOMU P.O. BOX 3188 KAMPALA UGANDA CLAYS LTD NSAMBYA	7,525,189
BAT KENYA STAFF P.R. FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	7,200,000
SCNK - US GOVERNMENT PENSION FUND C/O STANDARD CHARTERED BANK P.O. BOX 7111 KAMPALA	7,000,000
STANBIC BANK UGANDA LIMITED STAFF PENSION FUND AAU C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	6,768,748
U.R.A STAFF RETIREMENT BENEFITS SCHEME C/O STANDARD CHARTERED BANK UG P.O. BOX 7111	6,147,666
BRITISH-AMERICAN INSURANCE CO (K) LTD P.O BOX 30375-00100 NAIROBI	5,500,000

Summary of Shareholders as at 29 August 2014

Prepared by Secretarial Department, Deloitte Uganda Limited

Managing Director's Statement

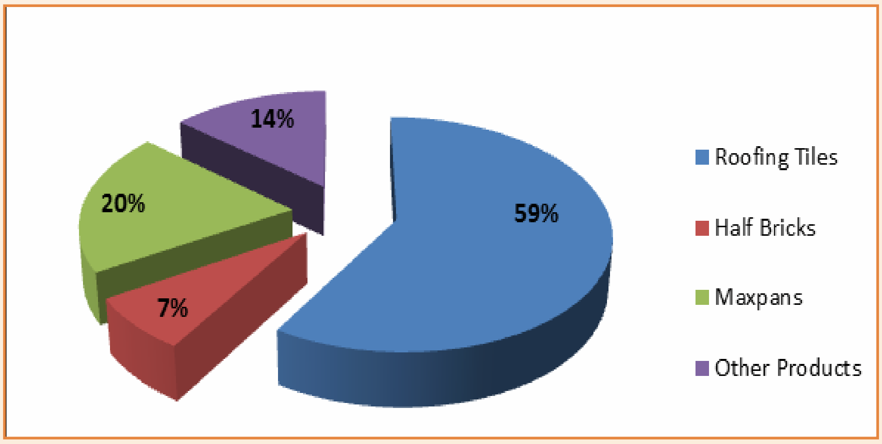
Financial Results

Revenue for the period dropped by 12% in comparison to last year (2012: UShs 23.9 billion, 2013: UShs 21 billion).

The business continued to suffer high costs of production with the total costs of sales accounting for 73% of the annual revenue. The major contributors to this trend were: firing costs (furnace oil and coffee husks costs), plant depreciation, finance charges, salaries and wages, and power/diesel costs.

There was a slight increase in operating expenses of 5% during the year from the 2012 performance. This was largely due to a deliberate effort by management to cut costs. The finance charges incurred during the period were 10% lower than the previous year although they still remained high.

Summary of Revenues by Product - 2013



Units of major products (Output at both factories)

Products (pieces)	2013	2012	2011	2010	2009
Roofing tiles	8,220,961	12,731,689	8,103,077	6,922,272	6,386,555
Maxpans	1,235,906	1,714,405	2,071,378	1,779,250	1,914,171
Half bricks	4,504,453	5,170,387	6,895,206	5,312,549	5,940,567

Future Outlook

Our priorities are to meet our customer's expectations by delivering to them high quality building products at affordable prices and provide acceptable returns to the shareholders. Our focus will therefore be on growing our top-line, improving operating margins, improving quality, reducing the cost of production and enhancing the market and distribution of the products. We will continue to strengthen the control environment across the Company's operations in line with best practices, and continue to adhere to good corporate governance standards.

Improved Management

We have also strengthened the management in a number of ways. We have a newly constituted Management team with new energy, a wealth of diverse experience and expertise in the area of General Management, Finance, HR, Production, IT and Audit control and Management. Every departmental Manager now works on key performance targets which have been jointly formulated, discussed, approved and are reviewed on a monthly/quarterly basis.

We have introduced a performance culture within the staff and a general overhaul in our ways of working, including open door policy, monthly communication with the Management team, raised the bar on safety and security, bias for action.
Marketing and Distribution

The Sales and Marketing team have a monthly rolling target of achieving UGX 2.5 billion in sales, up from an average of UGX 1.7 billion in 2013. This represents a growth of 47%. This will be achieved by or through:

- setting up agencies in key towns country-wide;
- relocating the sales outlet in Juba to Nimule;
- enhancing our reach to the corporate sector and building and construction firms;
- explore markets in Rwanda, Burundi, South Sudan and DRC.

We have also rolled out bottom-up forecasting focusing fast-moving and more profitable products which currently include:

- Roofing tiles 920,000 Units & 100,000 Ridges/ per month
- Half Bricks 154,000 Units/month
- Maxpans (assorted) 250,000 Units/month
- Quarry Tiles 9000m2/month

Slow-selling products will only be made on order.
We have put special emphasis and focus on the Albertine region to exploit the growing

construction in the sub-region which is being spurred by oil-related infrastructure development.

Power/Energy Savings

We have started a Company-wide campaign to save costs even on seemingly small things - believing that its these small little things do add up to the big picture. This is a major area of intervention to curb wastage and losses. We have re-organized production schedule from mid night to 6pm in the evening (giving us 18 hours of production), thus stopping production at peak hours to avoid punitive power tariffs. At the Kamonkoli Factory, we are in advanced stages of migrating from the use of furnace oil to coffee husks. It is envisaged that these measures will bring down production costs by 50%.

Production

Production in Kajjansi was 83% to the budget for the roofing tiles and 77% for the max-pans. The production in Kajjansi was hampered by machine break-downs. Kamonkoli produced 91% of the budget for roofing tiles.

The major hindrance was the rising cost of furnace oil. The Company is fast-tracking the migration from furnace oil to coffee husks at our Kamonkoli factory to cut down costs of production.

Sales & Marketing

Roofing tiles, max-pans and quarry tiles remained the Company's "cash cows" and contributed contributed significantly to the Company's turnover. During 2013 the average sales of products were UGX 67 million per day or UGX 1.7 billion per month.

Challenges in 2013

The unregulated clay sector attracted multiple entrants who poised fierce and sustained competition by availing cheap substitutes on the market with attractive pricing offers.

Due to financial constraints through the year, our communication & promotional programs were cut and this impacted on our ability to remain high on the consumer/customer mind.

There was limited or no innovation in our product mix. We continued to produce brick red colour products while customer tastes and preferences appear to be changing to other colour variants.

Innovation and Quality:

We are committed to introducing new products as demanded by the market to grow our market share. Currently we are working on a project to go into glazed tiles by the end of 2014.

We are also fast-tracking the acquisition of a mold to manufacture Merseilles tiles which will increase on our product range and sales performance.

Uganda Clays Limited is committed to manufacturing and selling of quality baked clay products that satisfy and even exceed customer requirements. In 2013 the Company implemented the quality management system under the ISO 9001:2008 and was certified under the same standard by International certification services Limited on 5th March 2014. It should be noted that Uganda Clays is the first and the only ISO certified Company in the Clay Industry in Uganda. This international recognition is a big stride for Uganda Clays Ltd as a leading producer and seller of quality clays products in Uganda and the Great lakes region towards.

Through this mark of excellence in quality management, Uganda Clays is committed to meeting and satisfying our customers' needs and expectations through producing quality products and effective customer oriented sales. We shall work tirelessly to maintain this lead in all aspects in this sector.

External Market

The external market contributes about 3% of our business. We opened up shop in Juba in 2008. Due to the current political impasse in South Sudan, our operations there have largely been grounded. Plans are underway to re-locate our sales point to Nimule within Uganda.

Competition

Competition has been a reality. Partially, our results were depressed by aggressive competition where price wars were the order of the day. We will continue to emphasize quality, value for money and availability to edge out on Competition.

Our People

Uganda Clays Limited continued to be one of the largest employers in Wakiso and Budaka districts where the Kajjansi and Kamonkoli factories are located respectively. As of 31st December 2013 the Company had a total work force of 618 employees, 529 at Kajjansi and 89 at Kamonkoli.

During the year 2013, about 47 employees retired from the service of the company including the former Managing Director, Mr Charles Rubaijaniza who left at the end of April 2013. He was replaced by Eng. Martin Kasekende who worked as Ag. Managing Director up to end of August 2014. 23 new staff were hired during 2013. Among these included the Finance Manager Ms Jacqueline Kiwanuka, the Sales and Marketing Manager Mr Nazarious Rukanyangira, the Quality Manager Mr Nelson Kiiza, and the Human Resources and Administration Manager Mr Peter Ssamula Kiwanuka.

In June 2013 the Company embarked on an employee effectiveness review project dubbed 'Together for Success'. The purpose of this project was threefold:

1. To review the effectiveness of the workforce.
2. To enhance the effectiveness of the sales and marketing function
3. To develop an organization structure and performance management system that will result in enhanced productivity and motivation for the staff of Uganda Clays.

Implementation of this project is ongoing and the project will ultimately support staffing decisions and improve human resource function in the Company. It will also enhance a culture of performance as well as improve the reward system in the Company.

I take this opportunity to thank the all those who retired from the service of the Company particularly the following for their long service:

	Name	Post at retirement	Years of service
1	Charles Rubaijaniza	Managing Director	22 years
2	Luwemba Samuel	Headman	16 years
3	Kayondo Matia	Production Assistant-Kiln	14 years
4	Nakabiri Martha	Secretary	12 years
5	Ntambi Hamisi	Human Resources Assistant	24 years
6	Okwankol Samuel	Accounts Assistant / Cashier	22 years
7	Lwanyanga Robert	Driver	10 years

Corporate Social Investment:

Uganda Clays Ltd believes strongly in giving back to the communities in which it operates and this is in line with the company's strategic objectives. The Company is actively involved in supporting security related activities of Kajjansi community through support to infrastructure development of the police station.

The company continues to value education and grooming future employees and investors through educational tours of the factory offered to primary and secondary schools, interns as well as tertiary institutions. Our student internship program served 25 interns in 2013.

The company has also engaged in fundraising activities that included the contributions of the "Ttoffaali" for the development of Kasubi Royal Tombs and Masengere project of the Buganda Kingdom. Uganda Clays has further contributed towards building and renovation of churches like Lweza Catholic Parish.

The Company has also been involved in health sensitization programs where it has offered free HIV counseling and testing to the community. In coordination with the National Blood Bank, Uganda Clays employees have also donated blood.
Finally, I like to take this opportunity to thank all our shareholders, customers, stakeholders, the Board of Directors for their continued trust and confidence in us.

We are looking towards the future with optimism.
Thank you.

George Inholo
MANAGING DIRECTOR

Macro-economic environment

The economic environment remained moderate throughout 2013, compared to the market volatility in the previous year. Inflationary pressures eased during the year on account of low commodity prices and weak global demand. Annual inflation ranged between 5 - 6% in 2013, and is expected to fall to 4 - 5% in 2014.

Despite strong performance of the building industry and construction sector, sales of our building clay baked products continue to be depressed by heightened competition from a number of entrants in the sector. The competition has spawned a host of cheap substitutes and imitation products, especially roofing materials. These factors had a negative effect on the Company's sales performance.

Amid this challenging and competitive environment, the Company's market share remained strong particularly on Mangalore roofing tiles.

CEO Appointment

I am pleased to report that after a rigorous selection process, the Board of Directors appointed a new Managing Director of the Company. He is Mr. George Inholo and started work on 1st August 2014. Mr Inholo is a former Country Manager for Unilever and brings a lot of valuable experience to the Company. The Board has confidence that he will spearhead the management effort to return the Company to profitability.

As we welcome the new CEO, the entire Board of Directors would like to express our gratitude to Eng. Martin Kasekende for steering the Company as Ag. Managing Director for a period of fifteen months.

Performance

As will be evident from the financial statements, the Company's performance declined compared to the previous year. Revenues for the year 2013 were UGX 21,095,645,000. This was a 12% decline compared to the sales performance of UGX 23,959,107,000 in 2012. This decline is attributed to a number of factors including high production costs especially at our Kamonkoli factory, debt servicing costs and aggressive competition. These factors and others suppressed our gross margins and wiped out the anticipated profit. The Company therefore posted a loss of UGX 3,292,912,000 in the year ended 31 December 2013.

The Board and management are committed to reversing this trend by taking a number of initiatives including cost-cutting, switching to cheaper heat energy at the Kamonkoli factor, and improving the distribution model for the Company's products. The Company is expected to post better results in the second half of this year 2014. The Board of Directors

The primary role of the Board of Directors is to provide management oversight, in accordance with the established corporate governance framework, to ensure proper management and functioning of the Company and a reasonable return to the shareholders.

The Board of Directors executed this role satisfactorily through the regular Board meetings. The two Committees of the Board, namely the Board Audit Committee and the Board Administration and Technical Committee, also met regularly and gave due guidance to management. The Board has continued to improve the governance framework of the Company, and to strengthen the control environment to minimize risk.

Two directors, namely Mr Richard Byarugaba and Mr David Nambale, left the Board in April 2014 due to changes in senior management at the National Social Security Fund which is the majority shareholder of the Company. Mr Richard Bigirwa and Mr Musa Okello were appointed in their stead.

Dividends

The Board of Directors is deeply aware that the shareholders who have invested their money in the Company expect a regular and decent return on their investment. However, the Company has continued to be saddled by the cost of servicing the commercial loan that was incurred to finance the establishment of the factory at Kamonkoli. As will be evident from the financial statements in the later sections of this Report, the loan and interest payments coupled with high production costs have wiped out the profits of the Company. As reported in the financial statements, the Company realized a net loss of UGX 3,292,912,000. Consequently, the Company is unable to pay any dividend for the year 2013.

However, the management team are working tirelessly to ensure that the Company returns to profitability in the financial year 2014.

Outlook for the Future

Uganda Clays Limited is poised to register growth in 2014 and beyond owing to new strategies put in place to turn round the Company and bring returns to the shareholders. The Board has approved plans to halt usage of heavy fuel oil which

is costly and move to coffee husks at our Kamonkoli factory. There is ongoing overhaul of the general route-to-market to improve the availability and distribution of the Company's products.
The Board will continue to provide close management oversight to ensure that the above plans and others are successfully implemented.

A Note of Appreciation

I would like to thank the shareholders for the continued commitment to the Company. I wish to appreciate our staff for their continued effort and service to the Company. The success of the Company depends largely on their effort. The outgoing Ag. Managing Director, Eng. Martin Kasekende, was at the helm of the Company for the last fifteen months, some of which were challenging times. I would like to appreciate his contribution to the Company and also extend appreciation to Mr. David Nambale & Mr. Richard Byarugaba.

I gratefully recognise our customers for the support, loyalty to and confidence in the Company and its products, despite the challenging economic environment during the year under review.

I also thank the members of the Board of Directors for their continued dedication to improving the governance of the Company and determination to see it return to profitability.

We value the contribution of all who have given value to the business of the Company and assure you all of our continued dedication as we strive for better results in 2014.

Dr. Martin Aliker
CHAIRMAN BOARD OF DIRECTORS


FUE
FEDERATION OF UGANDA EMPLOYERS
Award 2008
ASEA
Uganda Clays Limited
In Recognition of
your Invaluable Contribution
to the
Growth and Development
of
Uganda Securities Exchange
Uganda Society of
Architects
ganda Clays Ltd
for their sponsorship
for the
Symposium
Standard
Chartered
Uganda Clays

Directors' Report

The Directors submit their report together with the financial statements for the year ended 31 December 2013 which disclose the state of the affairs of Uganda Clays Limited ('the Company').

Principal activities

The principal activities of the Company are the production and sale of a wide range of clay building products. The main products according to contribution to total turnover 2012 are roofing tiles, maxpans and half bricks.

Results

The Company posted a net loss of UGX 3,292,912,000 for the year. (2012: profit of UGX 2,803,599,000).

The directors are therefore unable to recommend payment any dividend for the year ended 31 December 2013 because of the loss position (2012: nil dividend per share).

Directors and their Emoluments

The directors who held office during the year and up to the date of this report were:

1.	Dr Martin Aliker	-	Chairman
2.	Mr Richard Byarugaba	-	Non-Executive Director
3.	Dr Ijuka Kabumba	-	Non-Executive Director
4.	Mrs Lillian Sebugenyi Mukasa	-	Non-Executive Director
5.	Mr Bernard Katureebe	-	Non-Executive Director
6.	Eng. Martin Kasekende	-	Director/Ag. Managing Director
7.	Mr David Nambale	-	Non-Executive Director
8.	Mrs Agnes Kunihira	-	Non-Executive Director
9.	Mr Joseph Tukuratiire	-	Non-Executive Director
10.	Mr Charles Rubaijaniza	-	Managing Director (vacated office on resignation as CEO)

In accordance with Article 59 of the Company's Articles of Association, all the Directors hold office until the Annual General Meeting, at which half of them shall retire but are eligible for re-appointment.

During the year under review, other than as disclosed in note 28 to the financial statements, no Director has received or become entitled to receive any benefit other than directors' fees and gratuity, and monthly emoluments in the case of the Managing Director.

The total amount of emoluments of the Directors for the year is disclosed in note 28 to the financial statements.

Board Meetings

Board meetings are normally held quarterly. During the year under review, the Board of Directors of Uganda Clays Ltd held a total of nine regular and special Board meetings, excluding Committee meetings. The attendance of members at Board meetings was as follows:

No.	Name of Director	No. of Board meetings attended	% of attendance of Board meetings
1	Dr. Martin Aliker	9/9	100%
2	Mr. Richard Byarugaba	8/9	89%
3	Dr. Ijuka Kabumba	9/9	89%
4	Eng. Martin S Kasekende	8/9	89%
5	Mrs. Lillian Sebugenyi Mukasa	8/9	89%
6	Mr. Bernard Katureebe	8/9	89%
7	Mr. David Nambale	8/9	89%
8	Mrs. Agnes Kunihira	8/9	89%
9	Mr Joseph Tukuratiire	3/3	100%
10	Mr. Charles Rubaijaniza	4/9	44% [Resigned]

Company Secretary

The name and address of the Secretary to the Company are as follows:

Lex Uganda Advocates, Solicitors
8th Floor Communications House
Plot 1 Colville Street
P.O. Box 22490, Kampala - Uganda
Tel: 0414 - 232733/ 344172
Fax: 0414 - 254721
E-mail: partners@lexuganda.com
Website: www.lexuganda.com
A member firm of TERRALEX

Auditors

The Company's auditors during the year were Ernst & Young, and have expressed willingness to continue in office.

Issue of Financial Statements

The financial statements in this report were authorised for issue by a resolution of the Board of Directors passed on 28-4-2014.

By order of the Board,

Lex Uganda Advocates & Solicitors
CAMPANY SECRETARY

Statement of Directors Responsibilities

The Companies Act of Uganda, 2012 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda, 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 and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Company incurred a loss of Ushs 3.292 billion during the year ended 31 December 2013 and as of that date, the company's current liabilities exceeded its current assets by Ushs 2.560 billion (2012: Ushs 2.509 billion).This financial condition indicates the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, the Company's cash flow projections for the foreseeable future indicate that the Company will be in position to finance its working capital requirements and meet its obligations as and when they fall due.

Thus, the financial statements have been prepared on the going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company does not continue as a going concern.

The financial statements were approved by the Board of Directors on 28 April 2014 and were signed on its behalf by:

Mrs. Lilian S. Mukasa
Director

Director

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Uganda Clays Limited which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 23 to 65.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Uganda, 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Uganda Clays Limited as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Uganda, 2012.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 1(B) to the financial statements which indicates that the company incurred a loss of Ushs 3.292 billion for the year ended 31 December 2013 and, as of that date, the company's current liabilities exceeded its current assets by Ushs 2,560 billion (2012: Ushs 2,509 million).These conditions, along with other matters as set forth in note 1(B),indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Companies Act of Uganda, 2012we 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 the audit;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Ernst & Young

KAMPALA

29 April 2014

Statement of Comprehensive Income

	Note	2013 Ushs '000	2012 Ushs '000
Revenue	2	21,095,645	23,959,107
Cost of sales	3	(15,392,187)	(12,535,938)
Gross profit		**5,703,458**	**11,423,169**
Other operating income	4	759,522	3,853,808
Administrative expenses	5	(1,460,427)	(1,293,893)
Distribution expenses	6	(1,778,913)	(1,926,446)
Other operating expenses	7	(3,011,035)	(2,743,838)
Operating profit		**212,605**	**9,312,800**
Finance costs	8	(4,811,840)	(5,362,021)
(Loss)/profit before tax	**9**	**(4,599,235)**	**3,950,779**
Income tax credit/(expense)	10(a)	1,306,323	(1,147,180)
(Loss)/profit for the year		**(3,292,912)**	**2,803,599**
Other comprehensive income			
Revaluation of property, plant and equipment	13	-	17,180,017
Deferred income tax effect	10(a)	-	(5,154,005)
Other comprehensive income for the year, net of tax		-	12,026,012
Total comprehensive income for the year, net of tax		**(3,292,912)**	**14,829,611**
		Ushs/share	**Ushs/share**
Basic and diluted (loss)/earnings per share	**11**	**(3.66)**	**3.12**

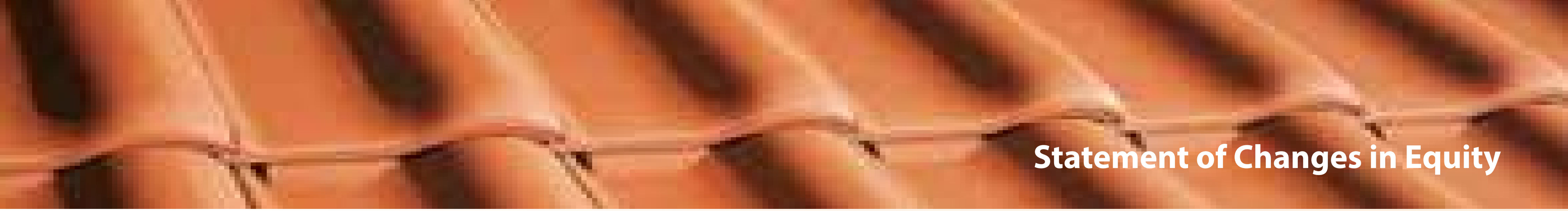
Statement of Financial Position

	Note	2013	2012
		Ushs '000	Ushs '000
Equity			
Issued capital	12	900,000	900,000
Share premium	12	9,766,027	9,766,027
Revaluation reserves	13	13,087,153	14,446,577
Retained earnings		8,207,031	10,140,519
Total equity		**31,960,211**	**35,253,123**
Non-current liabilities			
Deferred income tax liability	14	8,632,847	9,939,170
Finance lease: non-current portion	16	-	480,117
Borrowings: non-current portion	17	15,094,853	14,409,149
Total non-current liabilities		**23,727,700**	**24,828,436**
Total equity & non-current liabilities		**55,687,911**	**60,081,559**
Represented by:			
Non-current assets			
Property, plant and equipment	18	58,049,371	62,386,555
Prepaid operating lease rentals	19	198,850	204,045
		58,248,221	**62,590,600**
Current assets			
Current income tax recoverable	10(b)	201,629	121,912
Staff loans	20	134,565	230,041
Inventories	21	10,741,689	10,097,837
Trade and other receivables	22	1,583,705	2,176,934
Cash and bank balances	23	499,946	314,924
		13,161,534	**12,941,648**
Current liabilities			
Retirement benefit obligations	15	3,083,713	2,506,684
Finance lease: current portion	16	340,375	269,691
Borrowings: current portion	17	6,593,854	7,803,170
Trade and other payables	24	5,703,902	4,871,144
		15,721,844	**15,450,689**
Net current liability		**(2,560,310)**	**(2,509,041)**
		55,687,911	**60,081,559**

The financial statements were approved by the Board of Directors on 28 April 2014 and signed on its behalf by:

Director

Director



Statement of Changes in Equity

	Issued capital (Note 12)	Share premium (Note 12)	Revaluation reserves (Note 13)	Retained earnings	Total equity
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
At 1 January 2012	900,000	9,766,027	2,702,440	7,055,045	20,423,512
Profit for the year	-	-	-	2,803,599	2,803,599
Other comprehensive income for the year	-	-	17,180,017	-	17,180,017
Deferred income tax effect	-	-	(5,154,005)	-	(5,154,005)
Total comprehensive income for the year, net of tax	-	-	12,026,012	2,803,599	14,829,611
Transfer of excess depreciation	-	-	(402,678)	402,678	-
Deferred income tax on transfer of excess depreciation	-	-	120,803	(120,803)	-
At 31 December 2012	**900,000**	**9,766,027**	**14,446,577**	**10,140,519**	**35,253,123**
At 1 January 2013	900,000	9,766,027	14,446,577	10,140,519	35,253,123
Loss for the year	-	-	-	(3,292,912)	(3,292,912)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year, net of tax	-	-		(3,292,912)	(3,292,912)
Transfer of excess depreciation	-	-	(1,942,034)	1,942,034	-
Deferred income tax on transfer of excess depreciation	-	-	582,610	(582,610)	-
At 31 December 2013	**900,000**	**9,766,027**	**13,087,153**	**8,207,031**	**31,960,211**

	Note	2013	2012
		Ushs '000	Ushs '000
Operating activities			
Cash generated from operations	27	6,101,020	4,251,484
Interest paid		(2,435,855)	(3,290,872)
Tax paid	10(b)	(79,717)	(88,118)
Net cash flows from operating activities		**3,585,448**	**872,494**
Investing activities			
Purchase of property, plant and equipment	18	(205,396)	(210,001)
Proceeds from sale of land		114,000	3,797,887
Net cash flows (used in)/ from investing activities		**(91,396)**	**3,587,886**
Financing activities			
Repayment of leases		(409,433)	(295,764)
Proceeds from borrowings		-	873,947
Repayments of borrowings	17	(3,654,370)	(4,232,488)
Net cash flows used in financing activities		**(4,063,803)**	**(3,654,305)**
Net (decrease)/increase in cash and cash equivalents		**(569,751)**	**806,075**
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		(1,618,548)	(2,424,623)
Net(decrease)/increase in cash & cash equivalents for the year		(569,751)	806,075
Cash and cash equivalents at 31 December	**23**	**(2,188,299)**	**(1,618,548)**

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. The address of its registered office is:

Uganda Clays Limited
Kajjansi, Entebbe Road
P. O. Box 3188
Kampala

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 28 April 2014

1 (B) Going concern

The Company incurred a loss of Ushs 3.292 billion during the year ended 31 December 2013 (2012: Profit of Ushs 2.803 billion) and as of that date, the Company's current liabilities exceeded its current assets by Ushs 2.560 billion (2012: Ushs 2.509 billion). This financial condition indicates the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's cash flow projections for the foreseeable future indicate that the Company will be in position to finance its working capital requirements and meet its obligations as and when they fall due.

Thus, the financial statements have been prepared on the going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the company does not continue as a going concern.

1(C) Summary of significant accounting policies

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

(i) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of Uganda, 2012.The financial statements are presented in the functional currency, Uganda Shillings (Ushs), rounded to the nearest thousand, and prepared under the historical cost basis except where stated otherwise.

The preparation of financial statements in conformity with IFRS requires the use of 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 Note 1(C) below.

1(C) Summary of significant accounting policies (continued)

(ii) 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 1 First time Adoption of IFRS (Amendment) - Government Loans
- 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 in 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 IFRSs (issued in 2012)
The adoption of the standards or interpretations is described below:

IFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. The amendments had no impact on the Company's financial statements.

IFRS 13 Fair Value Measurement

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.

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

(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.

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 benefit 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 IFRSs – 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.

1(C) Summary of significant accounting policies (continued)

All other new standards, amendments and interpretations that were effective for years commencing 1 January 2013 had no impact on the Company'sfinancial 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 interpretations issued, which the company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects that adoption of these standards, amendments and interpretations 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 beginning on or after 1 January 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. They clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. It is further clarified that rights of set-off must not be contingent on a future event. The amendments are required to be applied retrospectively and the Company is still assessing the possible impact.

Amendment to IAS 36 - IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2014. IFRS 13 Fair Value Measurement resulted in some unintended disclosure requirements under IAS 36. This amendment is to align these disclosure requirements with the original intention. The Company is still assessing the possible impact on the financial statements.

IFRS 10,IFRS 12 and IAS 27 amendment - Investment Entities

The amendments are effective for annual periods beginning on or after 1 January 2014. The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The amendment is not expected to have an impact on the Company's financial statements.

IFRS 9 Financial Instruments

Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 is being developed in phases with a view to replacing IAS 39 in its entirety.
Phase 1 of IFRS 9 addressed the classification and measurement of financial assets. All financial assets are measured at fair value at initial recognition.

Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortised cost if:

The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows; and

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other
equity investment financial assets.

Phase 2 of IFRS 9 addressed the classification and measurement of financial liabilities. All financial assets are measured at fair value at initial recognition.

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

IFRS 9 Financial Instruments (continued)

The Board's work on the other phases is ongoing, and includes impairment of financial instruments and hedge accounting.

The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the company's financial assets but will potentially have no impact on classification and measurements of financial liabilities.

The Company is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the company at the date of adoption, it is not practical to quantify the effect. The standard has no mandatory effective date.

The standards issued but not yet effective which the company does not expect to have an impact on the financial statements are listed below:

- IFRIC 21 Levies
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

Improvements to IFRSs: 2010-2012 Cycle (issued in 2013 effective for annual periods beginning on or after 1 July 2014)

- IFRS 2 Definitions relating to vesting conditions: Performance condition and service condition are defined in order to clarify various issues, including the following:

  - A performance condition must contain a service condition
    A performance target must be met while the counterparty is rendering service

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition

Improvements to IFRSs: 2010-2012 Cycle (issued in 2013 effective for annual periods beginning on or after 1 July 2014) (continued)

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment had no impact on the Company's financial statements.

- IFRS 3 Accounting for contingent consideration in a business combination: Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. The amendment had no impact on the Company's financial statements.

- IFRS 8 Aggregation of operating segments: Operating segments may be combined/aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The amendment had no impact on the Company's financial statements.

- IFRS 13 Short-term receivables and payables: The IASB clarified in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment had no impact on the Company's financial statements.

Improvements to IFRSs: 2010-2012 Cycle (issued in 2013 effective for annual periods beginning on or after 1 July 2014) (Continued)

- IAS 24 Key management personnel: The amendment clarifies that a management entity - an entity that provides key management personnel services - is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment had no impact on the Company's financial statements.

- IAS 16 and IAS 38 Revaluation method proportionate restatement of accumulated depreciation: The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:
  - Adjust the gross carrying amount of the asset to market value

Or

  - Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The IASB also clarified that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount of the asset (i.e., gross carrying amount - accumulated depreciation/amortisation = carrying amount). The amendment to IAS 16.35(b) and IAS 38.80(b) clarifies that the accumulated depreciation/amortisation is eliminated so that the gross carrying amount and carrying amount equal the market value.

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

Improvements to IFRSs: 2011-2013 Cycle (issued in 2013 effective for annual periods beginning on or after 1 July 2014)

- IFRS 1 Meaning of effective IFRSs: An entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.

- IFRS 3 Scope exceptions for joint ventures: The amendment clarifies that:
  - Joint arrangements are outside the scope of IFRS 3, not just joint ventures
  - The scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

- IFRS 13 Scope paragraph 52 (portfolio exception). The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts.

- IAS 40 Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The description of ancillary services in IAS 40 differentiates between investment property and owner occupied property. IFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination.

The above improvements that are not yet effective are not expected to have an impact on the Company's financial statements as there are no accounting items that are the subject of the improvements. The new and amended standards and interpretations that are not described above are not relevant to the Company's operations.

(iii) 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 the Company's activities. Revenue is shown 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 specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable 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, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:
(i) Sales 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.

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

(iv) 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 (the functional currency). Transactions in foreign currencies are converted into Uganda Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-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 translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation 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).

v) 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 and buildings and plant and machinery are subsequently shown at fair value, based on revaluationsevery 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 it is 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 other 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 profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (depreciation charged to profit or loss) and depreciation based on the asset’s original cost is transferred from the revaluation reserve 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:

Leasehold buildings Over the shorter of the lease period and useful life of buildings

Plant and machinery 10%

Furniture and fittings 10%

Vehicles 25%

Computer equipment 33.3%

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

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

(v) Property, plant and equipment (continued)

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 gain or loss on disposal. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

An item 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.

(vi) 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 taken 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 properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

A previously 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 does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Notes on the Financial Statements (continued)

1(C) Summary of significant accounting policies (continued)

(vii) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment 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 that right is not explicitly specified in an arrangement.

Finance 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 lease 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 16.

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. Leasehold 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.

(viii) Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(ix) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Company's financial assets within the scope of IAS 39 are classified as loans and receivables. The Company's financial assets include cash and short-term deposits, trade receivables and other advances and receivables. All financial assets are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

1(C) Summary of significant accounting policies (continued)

(ix) Financial instruments (continued)

Financial assets (continued)

Cash at bank and loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as held-for-trading and those that the Company on initial recognition designates as at fair value through profit or loss; (b) those that the Company upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.Loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument.

They are initially measured at fair value including transaction costs that are directly attributable to the acquisition. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss upon disposal or impairment as well as through the amortisation process.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

1(C) Summary of significant accounting policies (continued)

(ix) Financial instruments (continued)

Financial liabilities

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts. Payables and borrowed funds are initially measured at fair value. After initial measurement, trade payables are 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 amortization is included in profit and loss.

Borrowed funds are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowed funds. Gains and losses are also recognised on borrowings and payables through the amortisation process

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(x) Fair value measurement

The Company measures property, plant and equipment at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in anorderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

1(C) Summary of significant accounting policies (continued)

(x) Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or Liabilities
  Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
  Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. See Note 1(E) for further disclosures.

(xi) Taxes

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act.

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 tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided for in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred 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 substantively enacted at reporting date and are expected to apply when the related deferred tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary 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.

1(C) Summary of significant accounting policies (continued)

(xi) Taxes (continued)

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.

VAT

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of trade and other receivables or trade and other payables in the statement of financial position.

(xii) 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.

(xiii) 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 ifthe fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and 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.

(xiv) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount 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 but only when the reimbursement is virtually certain.

(xv) 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 financial position. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Notes on the Financial Statements (continued)

1 (D) Critical accounting assumptions, estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Property, plant and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment. The rates used are set out in Note 1(B)(v).The carrying amounts are disclosed in note 18.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The Company reviews its loans and receivables to assess impairment at least annually. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the loans and receivables before the decrease can be identified with an individual asset. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with defaults on the loans and receivables. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The carrying amounts are disclosed in notes 1(E).

Taxes

The Company is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are requiredin determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact profit or loss.See note 10 for further disclosures.

Notes on the Financial Statements (continued)

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Revaluation of property, plant and equipment

The Company measures its property, plant and equipment at revalued amounts with changes in fair value being recognised in other comprehensive income. The Company engaged independent valuation specialists to determine fair value as at 31 December 2012. The carrying amounts and estimates and assumptions made are included in note 18 and note 1E.

Notes on the Financial Statements (continued)

1(D) Critical accounting assumptions, estimates and judgements (continued)

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. See note 1(E) for further disclosures.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 1(E) for further disclosures.

Contingent liabilities

A contingent liability is:
(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or(b) a present obligation that arises from past events but is not recognised because:(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;or(ii) the amount of the obligation cannot be measured with sufficient reliability.

The company discloses its contingent liabilities, unless the possibility of an outflow of resources embodying economic benefits is remote. See note 25 for further disclosures.

Critical judgements in applying the entity's accounting policies

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

- the classification of financial assets and leases - The Company follows the guidance of IAS 39 on classifying its financial assets and IAS 17 to classify its leases. These classifications require significant judgement.

1(E) Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: Market risk (including currency risk, fair value interest rate risk, cash flow 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 its financial performance.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

Market risk

(i) 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 Company's profit before tax would decrease/increase by Ushs 2,610,000 (2012: Ushs 1,324,000) were the US$ foreign exchange rate to change by 3%. The impact on equity would be Ushs 1,827,000 (2012: Ushs 926,800). This variation is measured by reference to foreign currency exposures existing at reporting date.

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.

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

Foreign exchange risk (continued)

At 31 December 2013	USD Ushs '000*	Ushs Ushs '000	Total Ushs '000
Financial assets			
Trade and other receivables	-	982,939	982,939
Staff loans	-	134,565	134,565
Cash and bank balances	86,986	412,960	499,946
	86,986	**1,530,464**	**1,617,450**
Financial liabilities			
Retirement benefit obligations	-	3,083,714	3,083,714
Finance lease: non-current portion	-	-	-
Borrowings: non-current portion	-	15,094,853	15,094,853
Trade and other payables	-	5,703,902	5,703,902
Finance lease: current portion	-	340,375	340,375
Borrowings: current portion	-	6,593,854	6,593,854
	-	**30,816,698**	**30,816,698**
Net foreign exchange gap	**86,986**		

At 31 December 2012	Ushs '000*	Ushs '000	Total Ushs '000
Financial assets			
Trade and other receivables	-	1,661,869	1,661,869
Staff loans	-	230,041	230,041
Cash and bank balances	44,297	270,627	314,924
	44,297	**2,162,537**	**2,206,834**
Financial liabilities			
Retirement benefit obligations	-	2,506,684	2,506,684
Finance lease: non-current portion	-	480,117	480,117
Borrowings: non-current portion	-	14,409,149	14,409,149
Trade and other payables	-	4,871,144	4,871,144
Finance lease: Current portion	-	269,691	269,691
Borrowings: current portion	-	7,803,170	7,803,170
	-	**30,339,955**	**30,339,955**
Net foreign exchange gap	**44,297**		

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

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

(ii) 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 below 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 on the Financial Statements (continued)

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

Interest rate risk (continued)

As at 31 December 2013	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	-	-	-	982,939	982,939
Staff loans	1,879	132,686	-	-	134,565
Cash and bank balances	397,662	-	-	102,284	499,946
	399,541	**132,686**	**-**	**1,085,223**	**1,617,450**
Financial liabilities					
Finance leases	100,696	239,679	-	-	340,375
Retirement benefit obligation	-	-	-	3,083,713	3,083,713
Trade and other payables	-	-	-	5,703,902	5,703,902
Borrowings	3,661,627	2,932,226	15,094,854	-	21,688,707
	3,762,323	**3,171,905**	**15,094,854**	**8,787,615**	**30,816,697**
Interest rate gap	**(3,362,782)**	**(3,039,219)**	**(15,094,854)**	**(7,702,392)**	**(29,199,247)**

As at 31 December 2012	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	-	-	-	1,661,869	1,661,869
Staff loans	57,510	271,411	-	-	328,921
Cash and bank balances	130,624	-	-	184,300	314,924
	188,134	**271,411**	**-**	**1,846,169**	**2,305,714**
Financial liabilities					
Finance leases	67,423	202,268	480,117	-	749,808
Retirement benefit obligation	-	-	-	2,506,684	2,506,684
Trade and other payables	-	-	-	4,871,144	4,871,144
Borrowings	1,950,792	5,852,378	14,409,149	-	22,212,319
	2,018,215	**6,054,646**	**14,889,266**	**7,377,828**	**30,339,955**
Interest rate gap	**(1,830,081)**	**(5,783,235)**	**(14,889,266)**	**(5,531,659)**	**(28,034,241)**

Notes on the Financial Statements (continued)

1(E) Financial risk management objectives and policies (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 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 (2012: 3%), the impact on the Company's profit before tax and equity is as follows:

	2013	2012
	Ushs '000	Ushs '000
Profit before tax		
Cash flow interest rate risk	650,661	673,270
Equity	455,463	471,289

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:

Assets	**Carrying amount**		**Fair value**	
	2013	**2012**	**2013**	**2012**
	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Non-current assets				
Property, plant and equipment	58,049,371	62,386,555	58,049,371	62,386,555
Prepaid operating lease rentals	198,850	204,045	270,000	250,000
	58,248,221	**62,590,600**	**58,319,371**	**62,636,555**
Current assets				
Current income tax recoverable	201,629	121,912	201,629	121,912
Staff loans	134,565	230,041	134,565	230,041
Inventories	10,741,689	10,097,837	10,741,689	10,097,837
Trade and other receivables	1,583,705	2,176,934	1,583,705	2,176,934
Cash and bank balances	499,946	314,924	499,946	314,924
	13,161,534	**12,941,648**	**13,161,534**	**12,941,648**
Total Assets	**71,409,755**	**75,532,248**	**71,480,905**	**75,578,203**
Non-current liabilities				
Finance lease: non-current portion	-	480,117	-	480,117
Borrowings: non-current portion	15,094,853	14,409,149	15,094,853	14,409,149
	15,094,853	**14,889,266**	**15,094,853**	**14,889,266**
Current liabilities				
Retirement benefit obligations	3,083,713	2,506,684	3,083,713	2,506,684
Finance lease: current portion	340,375	269,691	340,375	269,691
Borrowings: current portion	6,593,854	7,803,170	6,593,854	7,803,170
Trade and other payables	5,703,902	4,871,144	5,703,902	4,871,144
	15,721,844	**15,450,689**	**15,721,844**	**15,450,689**
Total Liabilities	**30,816,697**	**30,339,955**	**30,816,697**	**30,339,955**

Notes on the Financial Statements (continued)

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

Fair values of assets and liabilities (continued)

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 orderly 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 2013				
Revalued property, plant and equipment	58,049,371	-	-	58,049,371
At 31 December 2012				
Revalued property, plant and equipment	62,386,555	-	-	62,386,555

The carrying amounts of property, plant and equipment no longer equal 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 creditworthiness of the customer/staff. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2013, 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 fair value 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 management estimates that the carrying amounts do not materially differ from their fair value as of 31 December 2013.

Notes on the Financial Statements (continued)

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

Credit risk

Credit risk arises from bank balances, loans and trade and other 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:

	2013 Ushs '000	2012 Ushs '000
Bank balances	397,662	130,624
Trade receivables	712,326	591,648
Staff loans	134,565	328,921
Amount due from employee retirement fund administrator	313,542	597,103
Staff and other receivables	459,196	832,383
	2,017,291	2,480,679

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.

The analysis of trade receivables is below:

	2013 Ushs '000	2012 Ushs '000
Neither past due nor impaired	29,543	28,033
Past due but not impaired:		
- by 61 to 180 days	37,727	180,430
- by 181 to 360 days	66,537	23,920
Total past due but not impaired	104,264	204,350
Impaired- past due by >360 days	502,125	359,265
Gross amount	712,326	591,648
Less: Allowance for impairment	(502,125)	(359,265)
Net amount	210,201	232,383

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

Movement on allowance for impairment:	2013 Ushs '000	2012 Ushs '000
At 1 January	359,265	268,734
Add: Charge for the year	142,860	90,531
At 31 December	502,125	359,265

The analysis of staff loans is presented in note 20.

Notes on the Financial Statements (continued)

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

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from 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 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 2013:			
- Borrowings (excluding finance leases)	6,593,854	3,144,179	12,783,136
- Finance leases	424,395	-	-
- Trade and other payables	4,582,297	-	-
	11,600,546	**3,144,179**	**12,783,136**
At 31 December 2012:			
- Borrowings (excluding finance leases)	7,803,170	3,104,405	12,982,823
- Finance leases	269,691	269,691	376,815
- Trade and other payables	3,613,619	-	-
	11,686,480	**3,374,096**	**13,359,638**

I (F) Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns to shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of gearing ratio. This ratio is calculated as net debt by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity plus net debt. The Company's target gearing ratio is between 35% and 45% and it has no externally imposed capital requirements.

The gearing ratio at 31 December 2013 and 2012 were as follows:

	2013 Ushs '000	2012 Ushs '000
Total borrowings	21,688,707	22,212,319
Less: Cash and bank balances	(499,946)	(314,924)
Net debt	21,188,761	21,897,395
Total equity	31,960,211	35,253,123
Total capital	53,148,972	57,150,518
Gearing ratio	**40%**	**38%**

Notes on the Financial Statements (continued)

1(G) Segment information

For management purposes, the Company is organised into two business units based on their 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 business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit 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 2013 were as follows

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	15,323,095	5,772,551	21,095,645
Profit /(loss) before income tax	2,768,062	(7,367,297)	(4,599,235)
Income tax expense/ (credit)	875,866	(2,182,189)	(1,306,323)
Profit/(Loss) after tax	1,892,196	(5,185,108)	(3,292,912)
Depreciation	1,040,185	3,409,732	4,449,917
Interest expense	809,649	4,002,191	4,811,840
Amortisation	5,195	-	5,195

The segment results for the year ended 31 December 2012 were as follows:

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	19,012,118	4,946,989	23,959,107
Profit /(loss) before income tax	8,439,882	(4,489,103)	3,950,779
Income tax expense/ (credit)	2,651,511	(1,504,331)	1,147,180
Profit /(loss) after tax	6,313,704	(3,510,105)	2,803,599
Depreciation	913,905	1,669,278	2,583,183
Interest expense	719,577	4,642,444	5,362,021
Amortisation	5,195	-	5,195

Notes on the Financial Statements (continued)

1(G) Segment information (continued)

Statement of financial position

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
31 December 2013			
Total assets	29,158,939	42,250,816	71,409,755
Total liabilities	24,098,181	15,351,364	39,449,544
Capital expenditure	198,133	7,263	205,396
31 December 2012			
Total assets	25,765,500	49,766,748	75,532,248
Total liabilities	16,426,488	23,852,637	40,279,125
Capital expenditure	185,232	24,769	210,001

2. REVENUE

	2013 Ushs '000	2012 Ushs '000
Roofing tiles	12,403,671	12,731,689
Half bricks	1,577,758	1,714,405
Maxpans	4,213,075	5,170,387
Ridges	413,167	682,403
Other products[i]	2,487,974	3,660,223
	21,095,645	**23,959,107**

[i] Other products include floor tiles, interlocking bricks, half interlocking bricks, vents, partitions, quarry tiles etc.

3. COST OF SALES

	2013 Ushs '000	2012 Ushs '000
Clay processing and product moulding	687,011	799,454
Depreciation of plant	4,302,384	2,459,701
Drying process	126,732	135,204
Electricity and generator expenses	1,698,465	2,269,037
Factory general maintenance	168,129	166,262
Kilns (baking process)	4,391,654	4,701,829
Other production overheads	1,592,184	1,463,032
Quarry and Silo	717,464	970,095
Salaries and allowances-production staff	719,565	641,101
Wages and allowances-production staff	2,112,303	2,206,866
	16,515,891	15,812,581
Stock adjustment	(1,123,704)	(3,276,643)
	15,392,187	**12,535,938**

4. OTHER INCOME

	2013 Ushs '000	2012 Ushs '000
Profit from sale of land	541,500	3,793,520
Other income	218,022	60,288
	759,522	**3,853,808**

Notes on the Financial Statements (continued)

		2013 Ushs '000	2012 Ushs '000
5.	**ADMINISTRATIVE EXPENSES**		
	Annual general meeting	36,751	42,104
	Audit expenses	37,625	37,625
	Provision for impairment of trade receivables and staff loans	142,860	164,257
	Bad debts written off	30,843	-
	Company house maintenance	1,219	2,223
	Compound maintenance	2,459	4,217
	Consultancy	200,435	49,315
	Depreciation	181,626	127,577
	Directors fees and allowances	125,628	158,556
	Insurance	14,502	28,749
	Rental expenses	33,690	29,962
	Legal fees and expenses	23,250	78,896
	Local travel	130,517	125,605
	Office building maintenance	3,715	5,502
	Office equipment maintenance	51,073	36,705
	Printing and stationery	30,363	31,407
	Registrars fees	28,550	10,623
	Security	98,276	111,198
	Tax consultancy	5,625	-
	Transport costs	40,147	46,270
	Travel abroad	-	7,995
	Other expenses	195,114	188,150
	Uniforms	2,510	3,532
	Stock write-off	43,649	-
	Utilities	-	3,425
		1,460,427	**1,293,893**
6.	**DISTRIBUTION EXPENSES**		
	Business promotion	1,694,646	1,853,093
	Communication	49,312	60,024
	Donation	7,061	3,077
	Public relations and entertainment	2,345	4,011
	Sports and recreation	12,220	632
	Subscriptions	13,329	5,609
		1,778,913	**1,926,446**
7.	**OTHER OPERATING EXPENSES**		
	Bonus	31,973	15,465
	Gratuity/pension	309,170	353,793
	Leave transport and allowance	97,851	86,497
	Medical expenses	43,017	63,949
	NSSF – Company contribution	268,703	176,258
	Salaries and allowances	1,840,114	1,593,383
	Staff welfare	71,736	84,725
	Termination pay	53,593	81,992
	Training costs	23,048	11,432
	Wages and allowances	195,664	217,177
	Foreign exchange loss	3,137	405
	Bank charges	73,029	58,762
		3,011,035	**2,743,838**

Notes on the Financial Statements (continued)

	2013 Ushs '000	2012 Ushs '000
8. FINANCE COSTS		
Interest expense on borrowings	4,811,840	5,362,021

9. PROFIT BEFORE TAX

The following items have been charged in arriving at the (loss)/profit before tax:

	2013 Ushs'000	2012 Ushs'000
Depreciation on property, plant and equipment (note 18)	4,449,917	2,583,183
Amortisation of prepaid operating lease rentals (note 19)	5,195	5,195
Provision for impairment of trade receivables	142,860	90,531
Provision for impairment of staff loans	-	73,726
Employee benefits expense (note 9 (a))	6,384,683	3,683,568
Auditors' remuneration	37,625	37,625

(a) Employee benefits expense

The following items are included within employee benefits expense:

	2013	2012
Retirement benefit obligations	877,318	597,103
Termination benefits	64,990	133,531
NSSF company contributions	574,730	176,258
Salaries and allowances	4,867,645	2,776,676
	6,384,683	3,683,568

10. INCOME TAX

a) Income tax expense

(i) Charge to profit

	2013	2012
Current income tax	-	-
Deferred income tax credit/(charge) (Note 14)	1,306,323	(1,147,180)
	1,306,323	(1,147,180)

(ii) Charge to other comprehensive income

	2013	2012
Deferred income tax	-	(5,154,005)

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

	2013	2012
(Loss)/profit before tax	(4,599,235)	3,950,779
Tax calculated at a tax rate of 30% (2012:30%)	(1,379,771)	1,185,234
Tax effect of:		
Expenses not deductible for tax purposes	652,908	-
Income not subject to tax	(579,460)	(38,054)
Income tax (credit)/charge to profit	(1,306,323)	1,147,180
Tax charge as percentage of (loss)profit before tax	(31%)	29%

Further information on deferred income tax is presented in note 14

Notes on the Financial Statements (continued)

10. INCOME TAX (CONTINUED)

b) Current income tax recoverable

The movement in current income tax recoverable is as follows:

	2013 Ushs '000	2012 Ushs '000
At 1 January	121,912	33,795
Current income tax paid	79,717	88,117
At 31 December	**201,629**	**121,912**

11. EARNINGS PER SHARE

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

	2013	2012
(Loss)/Profit attributable to shareholders (Ushs'000)	(3,292,912)	2,803,599
Weighted average number of ordinary shares in issue ('000)	900,000	900,000
Dilutive instruments	-	-
Basic and diluted (loss)/earnings per share (Ushs/share)	**(3.66)**	**3.12**

12. ISSUED CAPITAL

	Number of shares	Issued capital Ushs ' 000s	Issued premium Ushs'000s
At 31 December 2013	900,000,000	900,000	9,766,027
At 31 December 2012	900,000,000	900,000	9,766,027

The total authorised number of ordinary shares as at 31 December 2013 and 2012 was 900,000,000 with a par value of Ushs 1.All shares were issued and fully paid.

13. 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.

	2013 Ushs '000	2012 Ushs '000
At 1 January		
Transfer of excess depreciation for the year	14,446,577	2,702,440
Revaluation for the year	(1,942,034)	(281,875)
Deferred income tax effect	-	17,180,017
At 31 December	582,610	(5,154,005)
	13,087,153	**14,446,577**

14. DEFERRED INCOME TAX LIABILITY

Deferred income tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2012: 30%).The movement on the deferred income tax account is as follows:

	2013 Ushs '000	2012 Ushs '000
At 1 January	9,939,170	3,637,985
(Credit)/charge to profit	(1,306,323)	1,147,180
Charge to other comprehensive income	-	5,154,005
At 31 December	8,632,847	9,939,170

The deferred income tax liability is attributable to the following items:

	At 1 January 2013	Movement for the year	At 31 December 2013
Deferred income tax liabilities			
Property, plant and equipment			
-on historical cost basis	8,663,042	(413,528)	8,249,514
-on revaluation surplus	6,794,323	(582,610)	6,211,713
	15,457,365	(996,138)	14,461,227
Deferred income tax assets			
Other deductible temporary differences	(137,444)	(763,406)	(900,850)
Tax losses carried forward	(5,380,751)	453,221	(4,927,530)
Net deferred income tax liability	9,939,170	(1,306,323)	8,632,847

	At 1 January 2012	Movement for the year Charge to profit	 Charge to OCI	At 31 December 2012
Deferred income tax liabilities	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Property, plant and equipment				
-on historical cost basis	8,912,506	(249,464)	-	8,663,042
-on revaluation surplus	1,640,318	-	5,154,005	6,794,323
	10,552,824	(249,464)	5,154,005	15,457,365
Deferred income tax assets				
Other deductible temporary differences	(80,620)	(56,824)	-	(137,444)
Tax losses carried forward	(6,834,219)	1,453,468	-	(5,380,751)
Net deferred income tax liability	(3,637,985)	1,147,180	5,154,005	9,939,170

15. RETIREMENT BENEFIT OBLIGATIONS

	2013 Ushs '000	2012 Ushs '000
At 1 January	2,506,684	2,528,264
Contributions for the year	1,804,842	1,730,541
Payments during the year	(1,227,813)	(1,752,121)
At 31 December	**3,083,713**	**2,506,684**

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:

- Chief Executive Officer and 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 1.5 times of one month's gross salary per completed year of service 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 2.5 times of one month's gross salary per completed year of service 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 1.5 times of one month's gross salary per completed year of service and employee contribution of 5% of gross monthly salary.

The contributions to the scheme are administered by a fund administrator, National Insurance Corporation (NIC).

16. FINANCE LEASES

	2013 Ushs '000	2012 Ushs '000
Not later than 1 year-current portion	340,375	269,691
Later than 1 year and not later than 5 years	-	480,117
	340,375	**749,808**

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

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

The carrying value of property, plant and equipment held under finance leases at 31 December 2013 was Ushs 739.8 million (2012: Ushs 890 million).

Notes on the Financial Statements (continued)

FINANCE LEASES (CONTINUED)

	Minimum payments 2013 Ushs '000	Present value of payments 2013 Ushs '000	Minimum payments 2012 Ushs '000	Present value of payments 2012 Ushs '000
Within one year	424,395	340,375	269,691	269,691
After one year but not more than five years	-	-	646,586	480,117
Total minimum lease payments	424,395	340,375	916,277	749,808
Less amounts representing finance charges	(84,020)	-	(166,469)	-
Present value of minimum lease payments	340,375	340,375	749,808	749,808

17. BORROWINGS

	2013 Ushs '000	2012 Ushs '000
Total borrowings	21,688,707	22,212,319
Less: current portion	(6,593,854)	(7,803,170)
Non-current portion	15,094,853	14,409,149

The borrowings are made up as follows:

	2013 Ushs '000	2012 Ushs '000
Non-current portion		
Bank loan	-	1,532,315
Shareholder's loan (note 28(iv))	15,094,853	12,876,834
Total non-current portion	**15,094,853**	**14,409,149**
Current portion		
Bank loan	2,333,519	4,297,608
Bank overdraft	2,688,245	1,933,472
Shareholder's loan (note 28(iv))	1,572,090	1,572,090
Total current portion	**6,593,854**	**7,803,170**
Total borrowings	**21,688,707**	**22,212,319**

Bank loan

The bank loan comprises medium term loan facilities from Standard Chartered Bank Uganda Limited (SCB) and East African Development Bank (EADB) that were obtained to finance the construction of the factory in Kamonkoli, Budaka District. Interest on this syndicated loan is computed at a rate of the 365 day treasury bill yield rate plus 2.25%.
The loan principal is repayable by 30 April 2014.

Bank overdraft

The bank overdraft was obtained from Standard Chartered Bank Uganda Limited for working capital support for both the Kajjansi and Kamonkoli factory. The interest charged is at the bank's base lending rate plus 1%.

17. BORROWINGS (CONTINUED)

The movement in borrowings is as follows:

	2013 Ushs '000	2012 Ushs '000
At 1 January	22,212,319	24,186,787
Loans received from shareholder (note 28(iv))	-	873,947
Accrued interest	2,375,985	2,027,149
Overdraft received	754,774	511,537
Overdraft repayments	-	(1,154,613)
Loan repayments	(3,654,370)	(4,232,488)
At 31 December	**21,688,707**	**22,212,319**

The bank loan and the overdraft are collectively secured by:

- Legal mortgage for Ushs 10,631,588,530 over all of the fixed and floating assets of the Company both present and future, including properties situated on plot numbers 4, 16, 17, 18, 21 and 30, Kajjansi.

Weighted average effective interest rates:	2013 %	2012 %
Bank overdraft	19.05	19.05
Bank borrowing	19.05	19.05
Shareholder's loan	15.00	15.00

Maturity of non-current borrowings:

	2013 Ushs '000	2012 Ushs '000
Between 1 and 2 years	3,144,179	3,104,405
Between 2 and 5 years	4,716,269	1,572,089
Over 5 years	7,234,405	9,732,655
Non-current portion	**15,094,853**	**14,409,149**

Notes on the Financial Statements (continued)

18. PROPERTY, PLANT AND EQUIPMENT

	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/valuation						
At 1 January 2012	11,826,423	44,131,413	498,285	2,840,236	3,061,414	62,357,771
Additions	-	14,687	23,336	-	171,978	210,001
Transfers	973,682	264,243	-	-	(1,237,925)	-
Revaluation surplus	965,695	16,053,879	31,024	129,419	-	17,180,017
At 31 December 2012	**13,765,800**	**60,464,222**	**552,645**	**2,969,655**	**1,995,467**	**79,747,789**
Additions	-	18,791	139,705	39,987	6,913	205,396
Write off	-	-	-	-	(92,663)	(92,663)
At 31 December 2013	**13,765,800**	**60,483,013**	**692,350**	**3,009,642**	**1,909,717**	**79,860,522**
Depreciation						
At 1 January 2012	1,296,780	10,771,888	329,544	2,379,839	-	14,778,051
Charge for the year	262,157	1,927,196	37,703	356,127	-	2,583,183
At 31 December 2012	**1,558,937**	**12,699,084**	**367,247**	**2,735,966**	**-**	**17,361,234**
Charge for the year	292,421	3,912,246	59,827	185,423	-	4,449,917
At 31 December 2013	**1,851,358**	**16,611,330**	**427,074**	**2,921,389**	**-**	**21,811,151**
Net carrying amount						
31 December 2013	**11,914,442**	**43,871,683**	**265,276**	**88,253**	**1,909,717**	**58,049,371**
31 December 2012	**12,206,863**	**47,765,138**	**185,398**	**233,689**	**1,995,467**	**62,386,555**

Notes on the Financial Statements (continued)

18. PROPERTY,PLANT AND EQUIPMENT (CONTINUED)

Capital work in progress relates to expenditure incurred on the bicycle shade,heat exchanger and Kibricco Spares.

The Company's property, plant and equipment except for motor vehicles and computers were revalued as at 31 December 2012 by professional valuers.

The property valuations were done on the basis of the open market value and the plant and equipment were valued on a depreciated replacement cost basis. The book values of the assets were adjusted to the revaluations and the resultant surplus net of deferred income tax credited to revaluation reserves in other comprehensive income.

If the property, plant and equipment were stated on the historical basis, the amount would be as follows:

	2013 Ushs '000	2012 Ushs '000
Cost	56,231,795	56,026,399
Accumulated depreciation	(14,812,991)	(12,229,808)
	41,418,804	**43,796,591**

19. PREPAID OPERATING LEASE RENTALS

Cost	254,589	254,589
Accumulated amortisation	(50,544)	(45,349)
	204,045	**209,240**
Amortisation charge for the year	(5,195)	(5,195)
	198,850	**204,045**

20. STAFF LOANS

Gross staff loans	134,565	328,921
Provision for doubtful debts	-	(98,880)
	134,565	**230,041**

All staff loans areunsecured and due within 1 year from the reporting date. The weighted average interest rate on staff loans was 5% (2012: 5%).

The reconciliation of the provision for bad debts is as follows:

	2013 Ushs '000	2012 Ushs '000
At 1 January	98,880	25,154
Increase in provisions	-	73,726
Staff loans written off	(98,880)	-
At 31 December	-	98,880

21. INVENTORIES

Spares and consumables	1,682,968	2,179,492
Work in progress	2,700,334	2,671,268
Finished goods	6,276,428	5,181,789
Goods in transit	81,959	65,288
	10,741,689	**10,097,837**

During 2013, Ushs 1,124 million (2012: Ushs 3,277 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. There are no inventories pledged as security.

Notes on the Financial Statements (continued)

22. TRADE AND OTHER RECEIVABLES

	2013 Ushs '000	2012 Ushs '000
Trade receivables	712,326	591,648
Less: provision for impairment of trade receivables	(502,125)	(359,265)
	210,201	**232,383**
Prepayments	600,766	515,065
Amount due from employee retirement fund administrator	313,542	597,103
Amount receivable from sale of land	456,000	755,000
Staff and other receivables	3,196	77,383
	1,583,705	**2,176,934**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2013, trade receivables of an initial value of Ushs 502,125,000 (2011: Ushs 359,265,000) were impaired and fully provided for (see credit risk disclosure in Note 1(D) for further details).

23. CASH AND BANK BALANCES

	2013 Ushs '000	2012 Ushs '000
Cash at bank	397,662	130,624
Cash in hand	102,284	184,300
	499,946	**314,924**

Cash and bank balances do not include any interest earning accounts. The fair value of cash at hand and at bank is the same as the carrying amount.For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2013 Ushs '000	2012 Ushs '000
Cash and bank balances	499,946	314,924
Bank overdrafts (note 17)	(2,688,245)	(1,933,472)
	(2,188,299)	**(1,618,548)**

24. TRADE AND OTHER PAYABLES

	2013	2012
Trade deposits (advance payments received)	1,121,605	1,257,525
Trade payables	1,729,134	2,329,501
VAT payable	861,817	230,694
Accrued expenses	286,357	429,047
Unpaid dividends	376,170	376,170
National Social Security Fund contributions payable	805,305	160,041
Pay-As-You-Earn	523,514	88,166
	5,703,902	**4,871,144**

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 are have an average term of six months.

25. CONTINGENT LIABILITIES

The Company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

26. CAPITAL COMMITMENTS

As at 31 December 2013 and 2012, the Company has assets pledged as security for its borrowings. The details are included in note 17..

27. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2013 Ushs '000	2012 Ushs '000
Profit before tax	(4,599,235)	3,950,779
Adjustments for:		
Depreciation (note 18)	4,449,917	2,583,183
Write off of capital work in progress (note 18)	92,663	-
Amortisation of prepaid operating lease rentals (note 19)	5,195	5,195
Impairment provision for bad and doubtful debts (note 5)	142,860	164,257
Bad debts write off (note 5)	30,843	-
Net proceeds receivable from sale of property (note 22)	427,500	-
Profit on sale of property (note 4)	(541,500)	(3,793,520)
Finance costs (note 8)	4,811,840	5,362,021
Changes in working capital		
- Increase in inventories	(643,852)	(3,949,009)
- Decrease/(increase) in trade and other receivables	450,369	(346,105)
- Decrease in staff loans	64,633	331,908
- Increase/(decrease) in trade and other payables	832,758	(35,645)
- Increase/(decrease) in retirement benefits obligation	577,029	(21,580)
Cash generated from operations	**6,101,020**	**4,251,484**

28. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties

i) Key management compensation

	2013 Ushs '000	2012 Ushs '000
Salaries and other short term employment benefits	1,015,952	878,459

The key management personnel include the Managing director, Internal audit manager, Finance manager,Human resource and administration manager, Quality manager, Marketing manager and production manager.

ii) Directors' remuneration

	2013 Ushs '000	2012 Ushs '000
Fees	40,500	26,000
Other	85,128	132,556
	125,628	**158,556**

Notes on the Financial Statements (continued)

28. RELATED PARTY TRANSACTIONS (CONTINUED)

iii) Short term advances to directors

	2013 Ushs '000	2012 Ushs '000
At 1 January	952	3,846
Additional advance	-	17,265
Repayments received	(952)	(20,159)
At 31 December	**-**	**952**

Short term advances to directors are non-interest bearing and are normally settled on 60-day terms.

iv) Shareholder's loan

	2013 Ushs '000	2012 Ushs '000
At 1 January	14,448,924	11,547,828
Loan received	-	873,947
Accrued interest	2,218,019	2,027,149
At 31 December	**16,666,943**	**14,448,924**
Current portion	1,572,090	1,572,090
Non-current portion	15,094,853	12,876,834
	16,666,943	**14,448,924**

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 down 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 Ushs1.37 billion,Ushs 2.07 billion and Ushs 2.22 billionwas accrued as at 31 December 2011,2012 and 2013 respectively.

29. EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date affecting the financial statements as at the date of this report.

Notes

Notes

UGANDA CLAYS LIMITED

PROXY FORM

The Company Secretary
Uganda Clays Limited
P.O. Box 3188
Kampala

ANNUAL GENERAL MEETING OF UGANDA CLAYS LIMITED

I/We, the undersigned being a shareholder(s) in the above-mentioned Company hereby appoint .... of address .... as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at the .... on..................................... or at any adjournments thereof.

Signed: ....

Name: ....
Address (full contact details i.e. Postal address, telephone, and e-mail)
....
Date: ....

Notes:

1. This proxy is to be delivered to the Company Secretary at the registered office as shown on the notice, or faxed to + 256 (0) 41 200167 at least forty eight (48) hours before the time appointed for holding the meeting and, in default, the instrument of proxy shall be treated as invalid.

2. In case of a corporation, the proxy must be under its common seal.

3. Where a shareholder has been assisted in filling this form, the details of the person assisting should be indicated (state capacity and full name).

4. The completion and lodging of this form or proxy does not prevent the relevant ordinary shareholder from attending the Annual General Meeting of the proxy.

5. The Chairman of the Annual General Meeting may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.

6. Where there are joint holders of ordinary shares, any one holder may sign the proxy form.

ROOFING TILES

MANGALORE TILES

Kg/unit	length	Width	Height	Area/M2
2.6	410	235	46	16

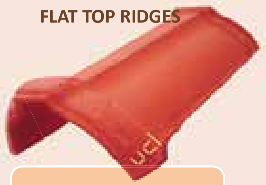
ROMAN TILES

Kg/unit	length	Width	Height	Area/M2
1.84	437	160	75	35

PORTUGUESE TILES

Kg/unit	length	Width	Height	Area/M2
3.3	410	230	70	16

FLAT TOP RIDGES



Kg/unit	length	Width	Height	Area/M2
2.6	400	210	110	3.0

MERSEILLES TILES

Kg/unit	length	Width	Height	Area/M2
2.6	410	235	46	16

Uganda Clays Ltd

Quality. Durability. Beauty to last

**All Dimensions in Millimeters

BRICKS AND FLOOR TILES

HALF BRICKS

Kg/unit	length	Width	Height	Area/M2
0.90	220	38	75	60

FIRE BRICKS

Kg/unit	length	Width	Height	Area/M2
3.5	230	115	75	120

PRESSED FLOOR TILES

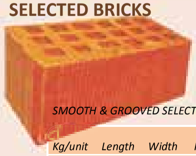
	Kg/unit	length	Width	Height	Area/M2
6X6"	0.70	150	150	10	45
5X10"	1.0	250	125	10	33

QUARRY TILES

	Kg/unit	length	Width	Height	Area/M2
6X6"	0.74	150	150	10	45
8X8"	1.4	200	200	10	25
8X12"	1.98	300	200	10	17
6X12"	1.4	300	150	10	23

WALLING & PARTITIONING BLOCKS

SELECTED BRICKS



SMOOTH & GROOVED SELECTED BRICKS

Kg/unit	Length	Width	Height	Area/M2
1.9	230	115	75	60
For 230mm thick walls				120

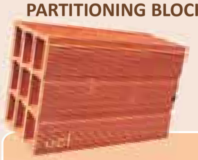
CORNER BLOCKS

	Kg/unit	length	Width	Height	Area/M2
6"	4.6	300	150	115	8
9"	5.6	300	225	115	8

INTERLOCKING BLOCKS

	Kg/unit	length	Width	Height	Area/M2
6"	3.3	300	150	115	30
9"	5.2	300	225	115	30

PARTITIONING BLOCKS



	Kg/unit	length	Width	Height	Area/M2
4"	4.3	300	100	225	15
6"	8.3	300	150	225	15

**All Dimensions in Millimeters

SUSPENDED FLOOR UNITS

MAXPAN

Kg/unit		length	Width	Height	Area/M2
4"	7.7	300	300	100	8
5"	8.70	300	300	125	8
6"	9.00	300	300	150	8
7"	10.6	300	300	175	8
8"	12.2	300	300	200	8
9"	13.6	300	300	230	8

FREE SPAN

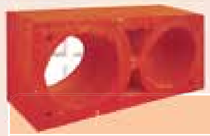
Kg/unit		length	Width	Height	Area/M2
4"	6.2	300	300	100	11
5"	8.9	300	300	125	11

VENTILATORS

VENEZIA

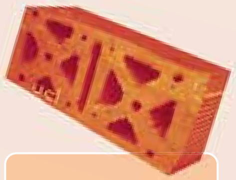
Kg/unit	length	Width	Height	Area/M2
1.80	220	115	75	40

TORINNO



Kg/unit	length	Width	Height	Area/M2
1.80	220	115	75	40

SISSA



Kg/unit	length	Width	Height	Area/M2
2.0	220	115	75	40

Z-VENT

Kg/unit	length	Width	Height	Area/M2
1.7	220	115	75	40

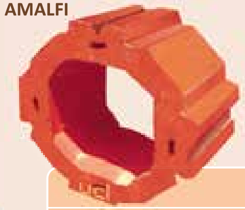
**All Dimensions in Millimeters

DECORATIVE GRILLES

TOLEDO

Kg/unit	length	Width	Height	Area/M2
2.1	200	200	100	30

AMALFI



Kg/unit	length	Width	Height	Area/M2
1.9	200	200	100	30

POMPEI

Kg/unit	length	Width	Height	Area/M2
1.5	180	180	100	30

CABLE COVER

Linear meter

Kg/unit	length	Width	Height	Area/M2
4.5	300	130	80	3.5

**All Dimensions in Millimeters

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Email: uclays@ugandaclays.co.ug
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SALES OUTLETS

Mbarara, Hoima, Soroti, Gulu, Natete, Ntinda, Lugogo, Jinja & Juba