
# Annual Report 2014

Uganda Clays Ltd


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# Contents

# 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 31st December 2014 will be convened and held on Wednesday 9th December 2015 at 2:30 pm at the Sheraton Kampala Hotel, Rwenzori Ball Room.

Agenda

1. To receive and confirm the minutes of the meeting held on 17 October 2014.
2. To receive and consider the Directors' report and audited financial statements for the year ended 31 December 2014, 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 year ending 31st December 2015 and authorize the Directors to fix their remuneration. It is proposed to pass a resolution to re-appoint M/s Jim Roberts & Associates as external auditors of the Company for the financial year 2015, and to authorize the Board of Directors to fix their remuneration.
5. To consider and pass resolutions to increase the share capital of the Company and approve amendments to its Memorandum and Articles of Association.
6. 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.

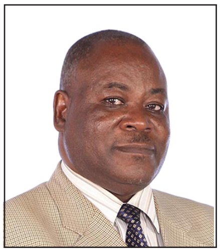
2. Duly completed proxy forms must be delivered to the Company's head office at Kajjansi or emailed in pdf to secretary@ugandaclays.co.ug, to be received at least 48 hours before the meeting.

# Board of Directors

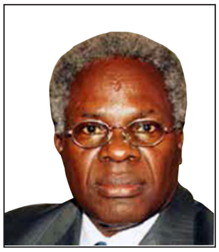
**Dr Martin Aliker**
**Chairman**
Appointed 24 August 2010 and re-appointed on 17 October 2014. He is also Chairman of Hima Cement Ltd and Vice-Chairman of the National Insurance Corporation Ltd. He is also chairman of several other companies. He has served on many Boards of leading companies in Uganda including Stanbic Bank Ltd and Monitor Publications Ltd.

**Eng. Martin Kasekende**
**Director and Chairman of the Board Administration and Technical Committee.**
Appointed 24 August 2012. He 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 Richard Byarugaba**
**Director and Chairman of the Board Finance Committee.**
Appointed on 17 October 2014. He is the Managing Director of the National Social Security Fund, a former Managing Director of Nile Bank and Global Trust Bank. He is a member of the Institute of Certified Public Accountants of Uganda.



**Mr Joseph Tukuratiire**
**Director and Chairman of the Board Audit Committee.**
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.



**Dr Ijuka Kabumba**
**Director**
Appointed on 17 July 2007 and re-appointed on 17 October 2014. He is the former Managing Director of the National Insurance Corporation and currently a professor of Public Administration at Nkumba University.

**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.

He vacated office on 26-8-2015.

**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.

**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, Bakers, Millers and Allied Workers Union. He is a member of the Central Organization 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 Organization 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 George Inholo**
Director and current Managing Director of the Company.

# Management Team

**Mr George Inholo**
Managing Director/CEO

**Peter Kiwanuka**
Head of Human Resources and Administration

**Jacqueline Kiwanuka**
Head of Finance

**Nelson Kiiza**
Head of Production

**Martin Mutahi**
Head of Internal Audit

**Nazarious Rukanyangira**
Head of Sales and Marketing

## Auditors

Jim Roberts & Associates
Certified Public Accountants
Social Security House
Plot 4 Jinja Rd
P.O. Box 10639,
Kampala-Uganda
Email: info@jimroberts.biz

## 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@lexugand.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

**Africa Alliance (Uganda) Ltd**
Workers House, 6th Floor
Plot 1 Pilkington Road
Tel: +256 414 235 577
Fax: +256 414 235575
Email: securities@africanallliance.co.ug.

**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

**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.

**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
P. O. Box 3188
KAMPALA

# Corporate information

## Analysis of Shareholding

### Distribution of Shares as at 31 October 2015

| Nationality | Category | No. of Members | No. of Shares | Percent Holding |
|---|---|---|---|---|
| East African | Corporate | 147 | 700,975,770 | 77.89% |
| | Individual | 2,369 | 186,451,201 | 20.72% |
| | | 2,516 | 887,426,971 | 98.60% |
| Foreign | Corporate | 3 | 697,507 | 0.08% |
| | Individual | 108 | 11,875,522 | 1.32% |
| | | 111 | 12,573,029 | 1.40% |
| | Grand Totals: | 2,627 | 900,000,000 | 100.00% |

### List of Largest 10 Shareholders

| Investor ID | CDSACNO | Investor Name | Postal Address | Shares Held | Percentage % |
|---|---|---|---|---|---|
| 100000244 | 223654 | NATIONAL SOCIAL SECURITY FUNDS | P. O. BOX 7140, KAMPALA 256 KAMPALA | 292,640,000 | 32.52 |
| 3503 | 12491 | NATIONAL INSURANCE CORPORATION LTD | P. O. BOX 7134 KAMPALA KAMPALA | 160,783,091 | 17.86 |
| 3682 | 21806 | CENTRAL BANK OF KENYA PENSION FUND | C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA | 23,900,000 | 2.66 |
| 3676 | 21741 | KENYA POWER AND LIGHTING COMPANY | C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA | 20,207,200 | 2.25 |
| 3441 | 9199 | UGANDA COMM EMPLOYEES CONTRB SCHEME-AAU | C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 | 19,674,001 | 2.19 |
| 3450 | 9318 | BANK OF UGANDA STAFF RETIREMENT BENEFIT SCH-SIM | C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 | 18,836,500 | 2.09 |
| 3679 | 21776 | KENYA AIRWAYS LIMITED STAFF PROVIDENT FUND | C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 | 15,000,000 | 1.67 |
| 3259 | 833 | JOSEPH TUKURATIIRE | P. O. BOX 12822 KAMPALA KAMPALA | 12,663,231 | 1.41 |
| 3893 | 41343 | UGANDA DEVELOPMENT BANK LIMITED | P. O. BOX 7210 KAMPALA | 10,147,335 | 1.13 |
| 4184 | 77771 | NATIONAL SOCIAL SECURITY FUND-SIMS | C/O STANDARD CHARTERED BANK UGANDA LTD KAMPALA | 9,575,568 | 1.06 |
| | | | **Total number of Shares** | **583,426,926** | **64.83** |
| | | | **AND:- 2,617 other Shareholders** | **316,573,074** | **35.17** |
| | | | **TOTAL** | **900,000,000** | **100** |

### Summary of Shareholders as at 31 October 2015

| Range ID | Description | No. of Investors | No of Shares Held | Percent Holding |
|---|---|---|---|---|
| 1 | Less than 500 Shares | 81 | 23,063 | 0.00% |
| 2 | Between 501 and 1,000 Shares | 94 | 78,737 | 0.01% |
| 3 | Between 1,001 and 5,000 Shares | 520 | 1,407,164 | 0.16% |
| 4 | Between 5,001 and 10,000 Shares | 489 | 4,175,612 | 0.46% |
| 5 | Between 10,001 and 50,000 Shares | 812 | 20,735,032 | 2.30% |
| 6 | Between 50,001 and 100,000 Shares | 250 | 19,230,949 | 2.14% |
| 7 | Above 100,001 Shares | 381 | 854,349,443 | 94.93% |
| | | **2,627** | **900,000,000** | **100.00%** |

Prepared by Secretarial Department, Deloitte Uganda Limited

# Reports

# Chairman's Statement

## Macro-economic Environment

The economic environment remained relatively stable throughout 2014. The Central Bank continued to implement a cautionary monetary policy. Annual inflation hovered around 5%. The Ugandan shilling depreciated against the major currencies due to a number of internal and external factors. The shilling has continued to depreciate further since the beginning of 2015.

The building industry and construction sector continued to be vibrant throughout the year. As a result the Company registered improved sales of its products. We remain a market leader for quality clay baked building products. However we are keenly aware of heightened competition which has spawned a host of cheap substitutes and imitation products, especially roofing materials, facing bricks and maxpans.

## Performance

Sales revenues grew marginally by 5%. Growth was highest during the 2nd half of the year. This growth is attributed to a number of factors including but not limited to strengthening the distribution of products, a performance culture brought in by the new management and cost reduction initiatives across the business.

High production costs especially at our Kamonkoli factory, debt servicing costs and aggressive competition and other factors suppressed our gross margins and wiped out the anticipated profit. The Company therefore posted a loss of UGX 5,179,306,000= in the year ended 31 December 2014.

However the future outlook remains positive. From the results so far, the Company is expected to post better results by the end of this year 2015.

**Finance Costs**

The business continues to suffer heavy finance costs on unpaid loans with Standard Chartered Bank, East African Development Bank the National Social Security Fund. In 2014 the Company incurred cumulative finance costs of UGX 4.5 billion. One of the main initiatives to reduce the finance costs is the conversion of the NSSF debt into equity. This was announced in the last annual general meeting of the Company.

**Cost of Production**

I am pleased to report that after multiple trials, Kamonkoli factory was migrated from heavy fuel oil to coffee husks as an energy source for the baking chamber. This migration was effective October 2014 and has brought about considerable savings and a drop in the cost of production.

However, the regular load-shedding on the national power grid has continued to undermine efforts to cut production costs at Kamonkoli because the rest of the factory has to operate on a diesel-powered generator for many hours in a week.

**Challenges**

Apart from high finance costs, the main challenge for the Company is old machinery at the Kajjansi factory. There are frequent machine breakdowns that negatively affect production targets. The Board and Management of the Company are considering options for financing capital expenditure to replace the old machinery in a phased manner.

**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.

**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 wiped out the profits of the Company. As reported in the financial statements, the Company realized a net loss of UGX 5.1 billion. Consequently, the Company is unable to pay any dividend for the year 2014.

**Outlook for the Future**

The process of conversion of the NSSF loan into equity is already underway and it is expected to be completed by March 2016. This will substantially reduce the Company's finance costs. The exposure to Standard Chartered Bank and East African Development Bank will be substantially reduced or paid off entirely by the end of 2015.

The Company has continued to improve its footprint around the country by partnering with agents to make our products widely available. We are constantly improving our distribution model through focusing on the needs of our customers and their convenience, with the overall goal of ensuring that the Company is truly customer-focused.

The Company is pursuing compensation from the Uganda National Roads Authority for the expropriation of its land for the Entebbe Express Way/Munyonyo Spur. Part of these funds will be used to pay off the Bank loans and finance capital expenditure on replacement of old machinery.

As a result of these initiatives, the Company is poised to register growth in 2015 and beyond. The positive trend has been evident since the second half of 2015.

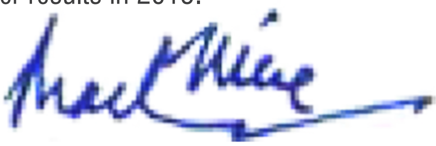
**A Note of Appreciation**

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.

I gratefully recognise our customers for the support, loyalty to and confidence in the Company and its products. It is indeed a privilege for us to serve our customers well.

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 appreciate 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 2015.



**Dr. Martin Aliker**
**CHAIRMAN BOARD OF DIRECTORS**


FOCUS ON
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# Managing Director/Chief Executive Officer's Statement

**Financial Results**

The Company registered a revenue growth of 5% during the year i.e. from UGX 21.1 billion in 2013 to UGX 22.2 billion in 2014 amidst a very competitive operating environment and production hiccups. Key to note is that the average gross margins declined from UGX 5.7 billion (2013) to UGX 4.2 billion (2014) due to the high cost of sales which was largely attributable to the use of furnace oil for firing the baking chamber in the Kamonkoli factory before the switch-over to coffee husks in October 2014. Distribution expenses reduced by over UGX 700m in comparison to the previous year.

The Company continued to honor its loan obligations to Standard Chartered Bank and East African Development Bank. The obligations will be substantially reduced or paid off entirely by the end of 2015.

I am also pleased to report that the Company cleared all its tax arrears owed to Uganda Revenue Authority and is now tax compliant. The Company also implemented an online payment system for its suppliers and staff salaries.

**Profitability**

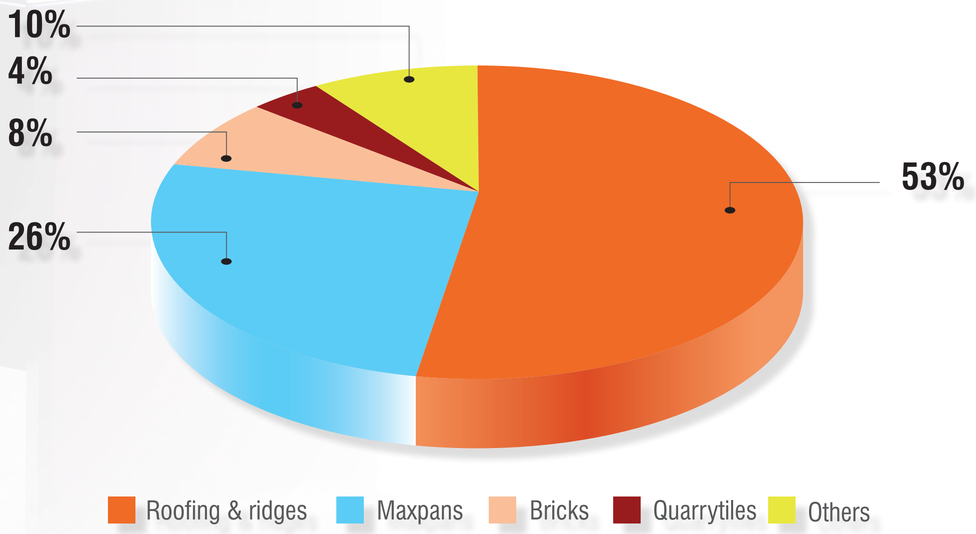
The cost of furnace oil remained a hindrance to profit realization in the business. However, a cheaper alternative to furnace oil was implemented in the last month of the year (2014) and it is expected that a significant cost saving will be realized from this change-over during 2015.

Finance costs remained high during the year which were largely attributable to the shareholder loan.

# Financial Highlights 2014 – 2010:

| | 2014 UShs '000 | 2013 UShs '000 | 2012 UShs '000 | 2011 UShs '000 | 2010 UShs '000 |
|---|---|---|---|---|---|
| Turnover | 22,112,617 | 21,095,645 | 23,959,107 | 25,853,586 | 17,792,671 |
| Profit / (Loss) before tax | (6,288,898) | (4,599,235) | 3,950,779 | 904,354 | (5,445,289) |
| Profit / (Loss) after tax (earnings) | (5,179,306) | (3,292,912) | 2,803,599 | 604,820 | (3,858,961) |
| Dividends | - | - | - | - | - |
| Cash generated from operations | 4,526,527 | 6,101,020 | 4,163,366 | 1,405,461 | 4,295,463 |
| Shareholders' funds | 26,780,905 | 31,960,211 | 35,253,123 | 20,423,512 | 19,818,692 |
| Capital expenditure | 515,424 | 205,396 | 17,390,018 | 3,562,096 | 532,605 |
| **Total assets** | **64,788,458** | **71,409,755** | **75,532,248** | **56,728,909** | **55,274,193** |
| **Per share data** | | | | | |
| **Dividends per share (UShs)** | - | - | - | - | - |
| Earnings / (Loss) per share (UShs) | (5.75) | (3.66) | 3.12 | 0.76 | (4.82) |

## As Product Contribution to Sales (% age)



**Challenges that Impacted on Sales Performance**
There were frequent stock-outs on our fast-moving product lines due to frequent breakdowns of old machines. We also faced pricing challenges from the competition.

The political instability and war in South Sudan seriously affected our off shore sales. This also led to the closure of our outlet in Juba.

**Production**
Production targets were below plan mainly due to repetitive breakdowns of our machines. For the second half of the year, our focus was largely on the cash generating product lines.

In Kajjansi factory the performance was at an average of 65% of the finished products. This was as a result of the following:

- Lack of machine spares which lead to long down-time.

- Shortage of coffee husks for four months between June and September 2014.

Kamonkoli operations continued to hurt the business profitability owing to high depreciation costs, finance costs on loans and high cost of production. The factory runs on a diesel-powered generator for many hours in a week due to load-shedding on the national power grid.

**Interventions for improvement**
We have prioritized the importation of critical spares and partsto address the problems of machine breakdowns and product stockouts.
We have segmented our customer data base. This has enabled us to gain a deeper understanding of each segment and consequently developed a pricing strategy for each segment.

In March 2015, we introduced a no-cash policy to reduce the risk of having cash on all our business sites. We have advised our customers to bank payments for products and have opened up a collection account with Equity Bank at Kajjansi for the purpose.

We have developed and are nurturing new business relationships under the theme "Customer days at Uganda Clays Limited" with key sector players.

**Sales and Distribution**
Our goal is to establish agencies in key markets within Uganda. In June 2015, we launched a new agency in Hoima trading as Multi-dime Consultants Limited to tap into the growing business opportunities within the Albertine sub-region. We were honored to have the agency launched by the Hon. Ernest Kizza – Minister of State for Bunyoro Affairs.

As soon as our production capabilities are enhanced, we will open more agencies to improve on our customer reach and service level.

Management has engaged a research agency to conduct an in-depth country market survey to establish customer changing tastes, attitude, key factors in buying decisions, missed opportunities and future demand. This will help the Company to understand its current standing in the market place and thereby design new strategies in the market place.

**Untapped opportunity**
Over the period, we have come to percieve an existing untapped potential within the corporate world. We have a few companies who have guaranteed their employees loans to buy building materials from us. We will deliberately venture into this to bring on board many such customers on board.

**On Debtor Management**
We have had a great year in managing our debtors. Throughout 2014, we did not incur any bad debt.

**Competition**
Competition has been a reality. Our results were partially 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 competition.

**Quality**
Uganda Clays Ltd has taken a big stride as a leading producer and seller of quality clay products in Uganda and the Great Lakes region by acquiring an ISO 9001:2008 certificate on 5th March 2014 which was awarded by International Certification Services PVT Ltd.
The ISO 9001:2008 Surveillance Audit was conducted on 13th and 14th January 2015 that confirmed that Uganda Clays Limited remains compliant to the standard and has a well-developed quality management system.

Uganda Clays is the first and the only ISO certified Company in the Clay Industry in Uganda. We shall maintain leadership in all aspects of this standard for the betterment of our customers and the shareholders. We shall use this certification as a marketing tool, among other benefits, to consolidate and widen our market share.

The weighbridge installation at the two factories has led to optimum control of the quality and quantity of all the incoming and outgoing goods from the factories. The system of receiving and handling coffee husks was introduced with the abolition of a unit measure of cubic meters and introduction of tonnage units with the weighbridge as the verification measure.

Customer related issues/complaints raised in relation to algae growth have been settled since the importation of algae repellant chemical. We have received compliments of gratitude from customers whose roofs have been treated.

**Our People**
Uganda Clays Limited maintains her position as one of the largest employers in Wakiso and Budaka districts where the Kajjansi and Kamonkoli factories are located respectively. As of 31st December 2014, the company had a total work force of 652 employees. Kajjansi factory employed 512 while Kamonkoli had 140 employees.

During the year 2014, about 50 employees retired from the service of the Company including the Ag. Managing Director, Eng. Martin Kasekende who was substantively replaced by Mr. George Inholo in August 2014. The Company was able to recruit 13 new employees.

The Company continued to explore ways of attracting and retaining the right number of staff with the right skills and attitudes to implement the business strategy. By December 2014, the effectiveness review project dubbed ***'Together for Success'*** facilitated by The Leadership Team was near completion. It reviewed the effectiveness of the workforce, with particular emphasis on the Sales & Marketing team, refinement of the organizational structure and putting in place a new performance management system.

Implementation of most of the Consultant's recommendations to support staffing decisions has been actualized this year including redundancies effected in two phases in May and August 2015.

I take this opportunity to express sincere appreciation to all those who retired from serving the company particularly the following for their service:

| | Name | Post at retirement | Years of service |
|---|---|---|---|
| 1 | Eng Martin Kasekende | Ag Managing Director | 1.6 years |
| 2 | Musoke Martin | Procurement Assistant | 17 years |
| 3 | Byaruhanga Adriano | Administrative Officer | 22 years |
| 4 | Khasula Annet | Marketing Manager | 14 years |
| 5 | Wanyama Peter | Audit Assistant | 22 years |
| 6 | Rweyabula Deo | Machine Operator | 20 years |
| 7 | Mande Peter | Machine Operator | 32 years |

**Corporate Social Responsibility**

Uganda Clays Ltd believes strongly in giving back to the communities where we operate and this is in line with the Company's strategic objectives. The Company is actively involved in supporting Community activities at Kajjansi and Kamonkoli through support to infrastructure development of the Police station, the church, and garbage collection and disposal. The Company is looking into enhancement of water and sanitation for the communities where we operate.

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 post tertiary institutions. Our student internship program served 30 interns in 2014.

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 Blood Bank, Uganda Clays employees have also donated blood.

**Future**

Our priorities are and will be to meet and exceed 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 revenues, 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.

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.

**Conclusion**

Raising the bar on production will be priority one. This will guarantee that we have products to sell. Therefore, more emphasis on:

- Procuring requisite spares & parts to stabilize production at both factories.
- Concluding the debt-equity swap with the NSSF. This will ease the burden on Company's cash flows.
- Revenue growth and cost saving and waste reduction for balance of 2015 and going forward into 2016.

Finally, I like to take this opportunity to thank all our shareholders, our customers, stakeholders and the Board of Directors for their continued support and confidence in us.

We are looking towards the future with great optimism.

Thank you.

**George INHOLO**
**MANAGING DIRECTOR**

# Directors' Report

The Directors submit their report together with the financial statements for the year ended 31 December 2014 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 are roofing tiles, maxpans and half bricks.

**Results**
The Company posted a net loss of UGX 5.1 billion for the year. (2013: profit/loss of UGX 3.2 billion).

The directors are therefore unable to recommend payment of any dividend for the year ended 31 December 2014 because of the loss position (2013: 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. | Eng. Martin Kasekende | - | Non-Executive Director |
| 3. | Mr Richard Byarugaba | - | Non-Executive Director |
| 4. | Mr Joseph Tukuratiire | - | Non-Executive Director |
| 5. | Dr Ijuka Kabumba | - | Non-Executive Director |
| 6. | Mr Bernard Katureebe | - | Non-Executive Director[vacated 26-8-2015] |
| 7. | Mr David Nambale | - | Non-Executive Director[vacated 21-3-2014] |
| 8. | Mrs Lilian Sebugenyi Mukasa | - | Non-ExecutiveDirector[vacated17-10-2014] |
| 9. | Mrs Agnes Kunihira | - | Non-Executive Director |
| 10. | Mr Richard Bigirwa | - | Non-Executive Director |
| 11. | Mr Musa Okello | - | Non-Executive Director |
| 12. | Mr George Inholo | - | Managing Director |

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 22 to the financial statements, no Director has received or become entitled to receive any benefit other than directors' fees and retainer, 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 22 to the financial statements.

**Board Meetings**

The Board held quarterly meetings and special meetings whenever the need arose. During the year under review, the Board of Directors of Uganda Clays Ltd held a total of six 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 | 6/6 | 100% |
| 2 | Mr. Richard Byarugaba | 2/2 | 100% |
| 3 | Dr. Ijuka Kabumba | 6/6 | 100% |
| 4 | Eng. Martin S Kasekende | 6/6 | 100% |
| 5 | Mrs. Lillian Sebugenyi Mukasa | 5/5 | 100% |
| 6 | Mr. Bernard Katureebe | 6/6 | 100% |
| 7 | Mr. David Nambale | 1/2 | 50% |
| 8 | Mrs. Agnes Kunihira | 6/6 | 100% |
| 9 | Mr Joseph Tukuratiire | 6/6 | 100% |
| 10 | Mr. Richard Bigirwa | 4/4 | 100% |
| 11 | Mr. Musa Okello | 4/4 | 100% |
| 12 | Mr. George Inholo | 6/6 | 100% |

**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 Jim Roberts & Associates 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 28-4-2015.

By order of the Board,

**Lex Uganda Advocates & Solicitors**
**COMPANY SECRETARY**

# Statement of Directors' Responsibilities

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

The directors are responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the authority, and to enable them ensure that the financial statements comply with the Companies Act, 2012.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at 31 December, 2014 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

The Company incurred a loss of Ushs 5.179 billion (2013: Ushs 3.292 billion) during the year ended 31 December 2014 and as of that date, the company's current liabilities exceeded its current assets by Ushs 890 million (2013: Ushs 2.560 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 and classification of liabilities that may be necessary if the Company does not continue as a going concern.

Approved by the board of directors on 24th April 2015 and signed on its behalf by:

**Director** **Director**

# Report of the independent auditors to the members of Uganda clays limited

**Report on the financial statements**
We have audited the accompanying financial statements of Uganda Clays Limited set out on pages 6 to 39, which comprise the statement of financial position as at 31 December 2014 and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

**Opinion**
In our opinion, the accompanying financial statements give a true and fair view of the financial position of Uganda Clays Limited as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting standards and the requirements of the Companies Act of Uganda, 2012(section 170)

**Emphasis of matter**

Without qualifying our opinion we draw your attention to note 1 to the financial statements which indicates that the company incurred a net loss of Ushs 5.179 billion for the year ended 31 December, 2014 (2013: Ushs 3.292 billion) and as of that date the company's current liabilities exceeded its current assets by Ushs 890 million (2013: Ushs 2.560 billion).The note also refers to the financial statements having been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends upon the continuing support of the company by its bankers/shareholders/creditors/directors. The financial statements do not include any adjustment that should result from a failure to obtain such continuing support.

**Report on other legal requirements**

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

I. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
II. in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
III. the Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

Certified Public Accountants
KAMPALA

REF: JT/02/0415/153
27th April 2015

**Jim Roberts & Associates**
**24th April 2015**


# Financial statements for the year ended 31st December 2014

# Statement of comprehensive income

| | Notes | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|---|
| Revenue | 2 | 22,112,617 | 21,095,645 |
| Cost of sales | | (17,883,442) | (15,392,187) |
| Gross profit | | 4,229,175 | 5,703,458 |
| Other operating income | | 112,690 | 759,522 |
| Administrative expenses | | (2,001,033) | (1,460,427) |
| Distribution expenses | | (1,040,942) | (1,778,913) |
| Other operating expenses | | (3,042,903) | (3,011,035) |
| Total expenses | | (6,084,878) | (6,250,375) |
| Operating (loss)/profit | 3 | (1,743,013) | 212,605 |
| Net finance costs | | (4,545,885) | (4,811,840) |
| Loss before tax | | (6,288,898) | (4,599,235) |
| Tax Credit | 6(a) | 1,109,592 | 1,306,323 |
| **Total comprehensive loss for the year** | | **(5,179,306)** | **(3,292,912)** |
| | | **Ushs/share** | **Ushs/share** |
| Basic and diluted loss per share | 7 | (5.75) | (3.66) |

# Statement of financial position

**As at 31 December**

| | Notes | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Issued capital | 8 | 900,000 | 900,000 |
| Share premium | 8 | 9,766,027 | 9,766,027 |
| Retained earnings | | 4,387,149 | 8,207,031 |
| Revaluation reserve | 9 | 11,727,729 | 13,087,153 |
| **Total equity** | | **26,780,905** | **31,960,211** |
| | | | |
| **Non current liabilities** | | | |
| Deferred income tax liability | 11 | 7,523,255 | 8,632,847 |
| Borrowings: non current portion | 10 | 19,451,622 | 15,094,853 |
| Total non current liabilities | | 26,974,877 | 23,727,700 |
| **Total equity & non current liabilities** | | **53,755,782** | **55,687,911** |
| | | | |
| **REPRESENTED BY** | | | |
| Non current assets | | | |
| Property, plant and equipment | 12 | 54,165,907 | 58,049,371 |
| Prepaid operating lease rentals | 13 | 479,993 | 198,850 |
| | | **54,645,900** | **58,248,221** |
| **Current assets** | | | |
| Inventories | 15 | 7,629,383 | 10,741,689 |
| Trade and other receivables | 16 | 1,866,424 | 1,583,705 |
| Staff loans | 14 | 99,622 | 134,565 |
| Current income tax recoverable | 6(b) | 240,776 | 201,629 |
| Cash and cash equivalents | 17 | 306,353 | 499,946 |
| | | **10,142,558** | **13,161,534** |
| **Current liabilities** | | | |
| Retirement benefit obligation | 18 | 2,687,561 | 3,083,713 |
| Finance lease: current portion | 19 | 15,754 | 340,375 |
| Borrowings: current portion | 10 | 3,226,580 | 6,593,854 |
| Trade and other payables | 20 | 5,102,781 | 5,703,902 |
| | | 11,032,676 | 15,721,844 |
| Net current liabilities | | (890,118) | (2,560,310) |
| | | **53,755,782** | **55,687,911** |

The financial statements on pages 6 to 40 were authorized and approved for issue by the Board of Directors on 24th April 2015 and were signed on its behalf by:

**Director** **Director**

# Statement of changes in equity

| | Issued Capital Shs '000 | Share premium Shs '000 | Revaluation Reserves Shs '000 | Retained earnings Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|
| **Year ended 31 December, 2013** | | | | | |
| 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) |
| 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 |
| **Year ended 31 December, 2014** | | | | | |
| At 1 January 2014 | 900,000 | 9,766,027 | 13,087,153 | 8,207,031 | 31,960,211 |
| Loss for the year | - | - | - | (5,179,306) | (5,179,306) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| 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 2014 | 900,000 | 9,766,027 | 11,727,729 | 4,387,149 | 26,780,905 |

# Statement of cash flows

| | Notes | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 21 | 4,526,527 | 6,583,788 |
| Interest paid/Accrued | | (4,545,885) | (2,918,623) |
| Tax paid | | (39,147) | (79,717) |
| Net cash (used in)/generated from operating activities | | (58,505) | 3,585,448 |
| **Investing activities** | | | |
| Cash paid for purchase of property, plant and equipment | 12 | (515,424) | (205,396) |
| Cash paid for purchase of other investments | 13 | (314,538) | - |
| Proceeds from sale of land | | - | 114,000 |
| Proceeds from disposal of motor vehicle | | 30,000 | - |
| Net cash used in investing activities | | (799,962) | (91,396) |
| **Financing activities** | | | |
| Repayment of leases | | (324,621) | (409,433) |
| Proceeds from bank and share holder's loan | | 3,537,935 | - |
| Repayments of loans | | (2,548,440) | (966,125) |
| Net cash from/(used in) financing activities | | 664,874 | (1,375,558) |
| (Decrease)/increase in cash and cash equivalents | | (193,593) | 2,118,494 |
| **Movement in cash and cash equivalents** | | | |
| At start of year | 17 | 499,946 | (1,618,548) |
| (Decrease)/increase | | (193,593) | 2,118,494 |
| At end of year | 17 | 306,353 | 499,946 |

# Siginificant accounting policies

**1(a) General information**

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

**1(b)Basis of preparation**

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

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

**Adoption of new and amended standards and interpretations**

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

IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interest in Other Entities.
IFRS 13 Fair Value Measurement
IAS 19 Post Employee Benefits( Amendment)
IAS 27 Separate Financial Statements (as revised in 20 11)
IAS 28 Investments in Associates and Joint Ventures (as revised 2011)
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
IAS 1 Presentation of Items of Other Comprehensive Income (Amendment)
Improvements to IFRS (issued in 2012)
The adoption of the standards or interpretations is described below:

**IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1st January 2013. These amendments require an entity to disclose information about rights of set off and related arrangements (e.g.; collateral arrangements). 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 recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized 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.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IFRS 13 Fair Value Management**

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

(ii) Adoption of new and amended standards and interpretations (continued) IAS 1 Presentation of Items of Other Comprehensive Income Amendments to IAS1

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 benefits plans, the ability to defer recognition of actuarial gains and losses (i.e.; the corridor approach) has been removed. As revised, amounts recorded in profits 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 recognized in OCI with no subsequent recycling to profit or loss.

Termination benefits will be recognized at the earlier of when the offer of termination cannot

be withdrawn, or when the related restructuring costs are recognized under IAS 37 Provisions,

Contingent Liabilities and Contingent Assets.

The distinction between short term and other long term employee benefits will be based on

the expected timing of settlement rather than the employee's entitlement to the benefits.

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

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

IAS 1 Presentation of Financial Statements

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

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

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

**Standards issued but not yet effective**

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

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

The amendments are effective for annual

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

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

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**a)Revenue recognition**

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

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when the 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 measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

**Revenue is recognized as follows:**

(i) Sales of goods are recognized 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 recognized on a time proportion basis using the effective interest rate method.

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

**b)Translation of foreign currencies**

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the company operates (functional currency). Transactions in foreign currencies are converted into Uganda Shillings using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss on monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on transaction of non monetary items measured at fair value of the item (i.e., transaction differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively)

**c) Property, plant and equipment**

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it's 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 the comprehensive income and then transferred to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the statement of profit or loss and other comprehensive incomes. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of profit or loss and other comprehensive income) and depreciation based on the assets original cost is transferred from the revaluation reserves to retained earnings.

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

| | **Rate %** |
|---|---|
| Plant and machinery | 10% |
| Furniture and office equipment | 10% |
| Motor vehicles | 25% |
| Computers equipment and accessories | 33.3% |
| Leasehold land & Buildings | Over the shorter of the lease period and useful life of buildings |

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

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

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

An item of property, plant and equipment and any significant part initially recognized is derecognized 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 derecognized.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized 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.

**d) Impairment of non financial assets**

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

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

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

Impairment losses of continuing operations, including impairment on inventories, are recognized 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 recognized in OCI up to the amount of any previous revaluation.

A previous recognized 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 recognized. 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 not impaired loss been recognized for the asset in prior years.
Such reversal is recognized in profit or loss unless the asset is carried at revalued amount in which case, the reversal is treated as a revaluation increase.

**e) leases**

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

**Financial leases**

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

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

**Operating lease**

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

**f) Inventories**

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

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

**g) Financial assets and liabilities**

**Financial assets**

The Company's financial assets within the scope of IAS 39 are classified as loans and receivables. The Company's financial assets include cash and short term include the following category: The Company's financial assets include the following category:

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

**h)Trade receivables**

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

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

**i) Cash and cash equivalents**

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

**j) Trade payables**

Trade payables are recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortization 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.

## k) Taxation

### Current income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Income Tax Act of Uganda.
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized outside profit or loss is recognized in equity or other comprehensive income and not in profit or loss

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

### Deferred income tax

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

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

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

## l) Provisions

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

## m) Employee retirement benefits

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

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

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

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

**p) Comparatives**
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Going concern
During the year ended 31 December 2014, the Company incurred a loss of Ushs 5.179 billion and as at that date. The company's current liabilities exceeded its current assets by Ushs 890 million (2013: Ushs 2.560 billion). These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The company has instituted measures to ensure that it generates adequate cash flows to finance its working capital requirements and meet its obligations as and when they fall due.

The financial statements have been prepared on a going concern basis and do not include any adjustments relating to 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.

### 2. Revenue

| | | |
|---|---|---|
| Roofing tiles | 11,789,942 | 12,403,671 |
| Half bricks | 1,763,411 | 1,577,758 |
| Maxpans | 5,744,652 | 4,213,075 |
| Ridges | 732,379 | 413,167 |
| Other products | 2,082,233 | 2,487,974 |
| | **22,112,617** | **21,095,645** |

### 3. Operating loss

The following items have been charged in arriving at operating loss/Profit :

| | | |
|---|---|---|
| Depreciation on property, plant and equipment (Note 12) | 4,398,888 | 4,449,917 |
| Amortization of prepaid operating lease rentals (Note 13) | 33,395 | 5,195 |
| Provision for doubtful debts | - | 142,860 |
| Auditors' remuneration | 30,050 | 37,625 |
| Employee benefits expense | 5,956,399 | 6,384,683 |
| Staff costs (Note 4) | **1,948,098** | **1,840,114** |

### 4. Staff costs

| | | |
|---|---|---|
| Salaries and wages | 1,908,534 | 1,840,114 |

| | | |
|---|---|---|
| Other staff costs | 39,564 | - |
| | **1,948,098** | **1,840,114** |

**5. Finance costs/(incomes)**

| | | |
|---|---|---|
| Interest expense | | |
| bank loans | - | 3,393,874 |
| bank overdrafts | 336,535 | 482,768 |
| finance leases | 23,515 | 98,706 |
| interest on borrowings | 3,915,904 | 338,336 |
| interest on unpaid gratuity | 269,931 | 498,156 |
| | **4,545,885** | **4,811,840** |

| | **2014 Shs '000** | **2013 Shs '000** |
|---|---|---|

**6. Income tax**

a) Income tax expense

(i) Charge to profit

| | | |
|---|---|---|
| Current tax | - | - |
| Deferred tax (credit)/charge (Note 11) | 1,109,592 | 1,306,323 |
| | 1,109,592 | 1,306,323 |

(ii) Charge to other comprehensive income

| | | |
|---|---|---|
| Deferred income tax | - | - |

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

| | | |
|---|---|---|
| Loss before tax | (6,288,898) | (4,599,235) |
| Tax calculated at a tax rate of 30% (2013: 30%) | (1,886,669) | (1,379,771) |
| Expenses not deductible for tax purposes | 654,817 | 652,908 |
| Income not subject to tax | - | (579,460) |
| Deferred tax movement on balances | 122,260 | - |
| Tax (credit) | **(1,109,592)** | **(1,306,323)** |

b) Current income tax recoverable

The movement in current tax recoverable is as follows:

| | **2014 Ushs '000** | **2013 Ushs '000** |
|---|---|---|
| At 1 January | 201,629 | 121,912 |
| Current income tax paid | 39,147 | 79,717 |
| At 31st December | 240,776 | 201,629 |

### 7. Loss per share

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

| | | |
|---|---|---|
| (Loss) attributable to shareholders (Shs'000) | (5,179,306) | (3,292,912) |
| Weighted average number of ordinary shares in issue('000) | **900,000** | **900,000** |
| Basic and diluted (loss)/earnings per share (Ushs/share) | **(5.75)** | **(3.66)** |

### 8. Issued capital

| | Number of shares | Issued capital Ushs'000 | Issued premium Ushs'000 |
|---|---|---|---|
| At start of year | 900,000,000 | 900,000 | 9,766,027 |
| At end of year | 900,000,000 | 900,000 | 9,766,027 |

The total authorized number of ordinary shares as at 31 December 2014 and 2013 was 900,000,000 with a par value of UShs 1. All issued shares are fully paid up.

| | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|

### 9. Revaluation Reserves

The revaluation surplus relates to the surplus on the revaluation of property, plant and machinery net of deferred income tax, and is non distributable.

| | | |
|---|---|---|
| At 1 January | 13,087,153 | 14,446,577 |
| Transfer of excess depreciation for the year | (1,942,034) | (1,942,034) |
| Deferred tax on depreciation transfer | 582,610 | 582,610 |
| At end of year | 11,727,729 | 13,087,153 |

### 10. Borrowings

| | | |
|---|---|---|
| **Non current portion** | | |
| Bank loan | 1,321,075 | - |
| Shareholder's loan (Note 22) | 18,130,547 | 15,094,853 |
| **Total non current portion** | **19,451,622** | **15,094,853** |
| | | |
| **Current** | | |
| Bank loan | 1,514,684 | 2,333,519 |
| Bank overdraft | 139,806 | 2,688,245 |
| Shareholder's loan (Note 22) | 1,572,090 | 1,572,090 |
| Total current portion | 3,226,580 | 6,593,854 |
| **Total borrowings** | **22,678,202** | **21,688,707** |


S6F
CUTTING TABLE

### 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%.

### 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%.

The movement in borrowings is as follows:

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| At 1 January | 21,688,708 | 22,212,319 |
| Loan received from banks | 2,300,000 | - |
| Accrued interest | 4,944,319 | 2,375,985 |
| Overdraft received | 139,805 | 754,774 |
| Overdraft repayments | (1,912,811) | - |
| Loan repayments | (4,481,819) | (3,654,370) |
| At 31 December | 22,678,202 | 21,688,708 |

### The bank loan is collectively secured by:

legal mortgage for Ushs 16,740,353,372 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:

| | 2014<br>% | 2013<br>% |
|---|---|---|
| Bank overdraft | 19.05 | 19.05 |
| Bank borrowing | 19.05 | 19.05 |
| Shareholder's loan | 15.00 | 15.00 |
| Maturity of non current borrowings | | |
| Between 1 and 2 years | 3,144,180 | 3,144,179 |
| Between 2 and 5 years | 4,716,269 | 4,716,269 |
| Over 5 years | 11,591,173 | 7,234,405 |
| **Non current portion** | **19,451,622** | **15,094,853** |

### Import letters of credit

During the year, the Company signed import letters of credit of Usd 200,000 with Standard Chartered Bank to facilitate the issuance of sight and usage of the credit for importation/ purchase of spare parts and related sundries for regular maintenance of Kajjansi and Kamonkoli production lines. The tenor of the Letter of credit was 180 days end to end (including validity and issuance)

By 31 December 2014 the Letter of credit was left with one month of validity

## 11. Deferred tax

| | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|

Deferred tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2013: 30%).

The movement on the deferred tax account is as follows:

| | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|
| At 1 January | 8,632,847 | 9,939,170 |
| Income statement (credit) | (1,109,592) | (1,306,323) |
| At end of year | 7,523,255 | 8,632,847 |

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

| | At 01 January Shs'000 | Charged to statement of comprehensive income Shs'000 | At 31 December Shs'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| • historical cost | 8,249,514 | (530,384) | 7,719,130 |
| • revaluation surplus | 6,211,713 | - | 6,211,713 |
| | 14,461,227 | (530,384) | 13,930,843 |
| **Deferred tax assets** | | | |
| Tax losses carried forward | (4,927,530) | 322,814 | (4,604,716) |
| Other deductable temporary differences | (900,850) | (902,022) | (1,802,872) |
| | (5,828,380) | (579,208) | (6,407,588) |
| **Net deferred tax liability** | **8,632,847** | **(1,109,592)** | **7,523,255** |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. Property, plant and equipment

### Year ended 31 December 2014

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Property plant and equipment (continued)

### Year ended 31 December 2013

| | Freehold land and Buildings Ushs '000 | Plant & machinery Ushs '000 | Furniture, fittings & Computer equipment Ushs '000 | Motor & Vehicles Ushs '000 | Capital work in & progress Ushs '000 | Total Ushs '000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At start of year | 13,765,800 | 60,464,222 | 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) |
| Revaluation surplus | - | - | - | - | - | - |
| At end of year | 13,765,800 | 60,483,013 | 692,350 | 3,009,642 | 1,909,717 | 79,860,522 |
| **Depreciation** | | | | | | |
| At start of year | 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 end of year | 1,851,358 | 16,611,330 | 427,074 | 2,921,389 | - | 21,811,151 |
| **Net book value** | | | | | | |
| **At end of year** | **11,914,442** | **43,871,683** | **265,276** | **88,253** | **1,909,717** | **58,049,371** |

## 13. Prepaid operating lease rentals

The movement of prepaid operating rentals is as follows:

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| **Cost** | | |
| At start of year | 254,589 | 254,589 |
| Reclassification from prepayments | 314,538 | - |
| At end of year | 569,127 | 254,589 |
| **Amortization** | | |
| At start of year | 55,739 | 50,544 |
| Charge for the year | 33,395 | 5,195 |
| Net book value | 479,993 | 198,850 |

## 14. Staff advances

**Staff advances comprise the following:**

| | | |
|---|---|---|
| Gross Staff advances | 99,622 | 134,565 |
| Provision for doubtful debts | - | - |
| | **99,622** | **134,565** |

All staff advances are unsecure and due within 1 year from the reporting date. The weighted average interest rate on staff advances was 5%

## 15. Inventories

| | | |
|---|---|---|
| Spares and consumables | 1,611,270 | 1,682,968 |
| Work in progress | 2,719,104 | 2,700,334 |
| Finished goods | 3,228,684 | 6,276,428 |
| Goods in Transit | 70,325 | 81,959 |
| | **7,629,383** | **10,741,689** |

During 2014, Ushs 3,029 million (2013: Ushs 1,124 million) was recognized as an expense for inventories carried at net realizable value. This is recognized in cost of sales. There are no inventories committed as security.

## 16. Trade and other receivables

| | 2013<br>Shs '000 | 2014<br>Shs '000 |
|---|---|---|
| Trade receivables | 1,087,261 | 712,326 |
| Less: provision for impairment of trade receivables | (502,125) | (502,125) |
| Net trade receivables | 585,136 | 210,201 |
| Prepayments | 383,948 | 600,766 |
| Amount due from employee retirement fund administrator | 313,542 | 313,542 |

| | | |
|---|---|---|
| Amount receivable from sale of land | - | 456,000 |
| Other receivables | 583,798 | - |
| Staff Debtors | - | 3,196 |
| | **1,866,424** | **1,583,705** |

Trade and other receivables are non interest bearing and are generally on 30 90 day terms. As at 31 December 2014, trade receivables of an initial value of Ushs 502,124,000 (2013: Ushs 502,125,000) were impaired and fully provided for. (see credit risk disclosure for further details).

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

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

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

### 17. Cash and cash equivalents

| | | |
|---|---|---|
| Cash at bank | 270,464 | 397,662 |
| Cash in hand | 35,889 | 102,284 |
| **Cash at bank and in hand** | **306,353** | **499,946** |

For the purpose of the statement of cash flows, the year-end cash and cash equivalents comprise the above. The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

| | | |
|---|---|---|
| Cash at bank and in hand | 306,353 | 499,946 |
| Bank overdraft (Note 10) | (139,806) | (2,688,245) |
| | **166,547** | **(2,188,299)** |

## 18. Retirement benefits obligations

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| At 1 January | 3,083,713 | 2,506,684 |
| Contributions for the year | 1,244,977 | 1,804,842 |
| Payments during the year | (1,641,129) | (1,227,813) |
| At 31 December | 2,687,561 | 3,083,713 |

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

- Heads of department: Company contribution of 25% and employee contribution of 5% of gross monthly salary.
- Employees in salary scales UC 3:1 and UC 3:2: The annual contribution comprises the Company
- contribution of 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.

## 19. Finance leases

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| Not later than 1 year current portion | 15,754 | 340,375 |
| Later than 1 year and not later than 5 years | - | - |
| | **15,754** | **340,375** |

The finance lease relates to a facility that was obtained from stanbic Bank Uganda Limited to finance the purchase of machinery and generators. The limit of the transaction was for Ushs 1.6 billion and the interest on the amount drawn is 0.5% below the Uganda Shillings prime interest rate.
The lease is secured by the original log books of the financed vehicles and original documents of title for the financed equipment, registered in the names of the bank.

The carrying value of property, plant and equipment held under finance leases at 31 December 2014 was Ushs 589.6 million (2013: Ushs 739.8million)

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Minimum payments | present value of payments | Minimum payments | present value of payments |
| Within one year | 16,017 | 15,754 | 424,395 | 340,375 |
| After one year but not more than five years | - | - | - | - |
| Total minimum lease payments | 16,017 | 15,754 | 424,395 | 340,375 |
| Less amounts representing finance charges | (263) | - | (84,020) | - |
| Present value of minimum lease payments | 15,754 | 15,754 | 340,375 | 340,375 |

## 20. Trade and other payables

| | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|
| Trade deposits | 1,686,449 | 1,121,605 |
| Trade payables | 1,380,912 | 1,729,134 |
| VAT payable | 593,095 | 861,817 |
| Accrued expenses | 120,763 | 286,357 |
| Unpaid dividends | 376,170 | 376,170 |
| National social Security Fund contributions payable | 344,357 | 805,305 |
| Pay As You Earn | 591,155 | 523,514 |
| Other payables | 9,880 | - |
| **Total trade and other payables** | **5,102,781** | **5,703,902** |

Trade deposits relate to the amount paid in advance to the Company by the customers for the purchase of its clays products. They are non interest bearing and are normally settled on 60 day terms.
Trade payables are non interest bearing and have an average term of six months.

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

**At 31 December 2014**

| | 0 to 3 months Shs '000 | 3 to 6 months Shs '000 | 6 to 12 months Shs '000 | Over 1 year Shs '000 | Total Shs '000 |
|---|---|---|---|---|---|
| Un paid dividends | - | - | - | 376,169 | 376,169 |
| Statutory payables | 1,528,606 | - | - | - | 1,528,606 |
| Trade payables | 1,057,965 | 150,509 | 41,993 | 130,444 | 1,380,911 |
| Accruals | 120,764 | - | - | - | 120,764 |
| Other payables | 9,881 | - | - | - | 9,881 |
| Trade deposits | 1,686,450 | - | - | - | 1,686,450 |
| | **4,403,666** | **150,509** | **41,993** | **506,613** | **5,102,781** |

| | 2014<br>Shs '000 | 2013<br>Shs'000 |
|---|---|---|
| **21. Cash from/(used in) operations** | | |
| Reconciliation of Loss before tax to cash from operations | | |
| Loss before tax | (6,288,898) | (4,599,235) |
| **Adjustments for:** | | |
| Depreciation (Note 12) | 4,398,888 | 4,449,917 |
| Write off of capital work in progress (note 12) | - | 92,663 |
| Amortization of prepaid operating lease rentals (Note 13) | 33,395 | 5,195 |
| Impairment provision for bad and doubtful debts | - | 142,860 |
| Bad debts write off | - | 30,843 |
| Net proceeds receivable from sale of property | - | 427,500 |
| Profit from sale of property | - | (541,500) |
| Proceeds from disposal of motor vehicle | (30,000) | - |
| Finance costs | 4,545,885 | 4,811,840 |
| Interest expense on bank borrowings | - | 482,768 |
| **Changes in working capital:** | | |
| Inventory | 3,112,306 | (643,852) |
| Trade and other receivables | (282,719) | 450,369 |
| Trade and other payables | (601,121) | 832,758 |
| Staff loans | 34,943 | 64,633 |
| Retirement benefits obligation | (396,152) | 577,029 |
| Cash from operations | 4,526,527 | 6,583,788 |

## 22. Related party transactions

The following transactions were carried out with related parties:

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| **i) Key management compensation** | | |
| Salaries and other short term employment benefits | 1,023,906 | 1,015,952 |

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.

| | 2014 | 2013 |
|---|---|---|
| **ii) Directors' remuneration** | | |
| Fees | 44,375 | 40,500 |
| Other | 59,547 | 85,128 |
| | **103,922** | **125,628** |
| **iii) Shareholder's loan** | | |
| At 1st January | 16,666,943 | 14,448,924 |
| Accrued interest | 3,035,694 | 2,218,019 |
| At 31 December | 19,702,637 | 16,666,943 |
| Current portion | 1,572,090 | 1,572,090 |
| Non current portion | 18,130,547 | 15,094,853 |
| | **19,702,637** | **16,666,943** |

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

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

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

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

| | 2014 | 2013 |
|---|---|---|
| **iv) Short term advances to directors** | | |
| At 1st January | - | 952 |
| Repayments received | - | (952) |
| At 31st December | - | - |

## 23. Financial risk management objectives and policies

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

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

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

a) Market Risk

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

The Company's profit before tax would decrease/increase by Ushs 6,194,000 (2013: Ushs 2,610,000) were the US$ foreign exchange rate to change by 3%. The impact on equity would be Ushs 4,335,800 (2013: Ushs1,827,000). This variation is measured by reference to foreign currency exposes 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.

| **At 31 December 2014** | **USD Ushs '000** | **Ushs Ushs '000** | **UShs Ushs '000** |
|---|---|---|---|
| Financial assets | | | |
| Trade and other receivables | - | 1,296,530 | 1,296,530 |
| Staff loans | - | 99,622 | 99,622 |
| Cash and bank balances | 206,462 | 99,891 | 306,353 |
| | 206,462 | 1,496,043 | 1,702,505 |
| **Financial liabilities** | | | |
| Retirement benefit obligations | - | 2,687,561 | 2,687,561 |
| Finance lease: non current portion | - | - | - |
| Borrowings: non current portion | - | 17,574,752 | 17,574,752 |
| Trade and other payables | - | 4,532,886 | 4,532,886 |
| Finance lease: current portion | - | 15,754 | 15,754 |
| Borrowings: current portion | - | 5,103,450 | 5,103,450 |
| | - | 29,914,403 | 29,914,403 |
| **Net foreign exchange gap** | **206,462** | | |

**At 31 December 2013**

| | | | |
|---|---|---|---|
| **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 obligation | - | 3,083,714 | 3,083,714 |
| Finance lease: non current portion | - | - | - |
| Borrowing: 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**

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

**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, categorized by the earlier of contractual maturity dates.

All figures are in thousands of Uganda shillings

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interest rate risk (continued)

**As at 31 December 2014**

| | 1 to 3 months Ushs '000 | 3 months to 1 year Ushs '000 | 1-5 years Ushs '000 | Non interest bearing Ushs '000 | Total Ushs '000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Trade and other receivables | - | - | - | 912,584 | 912,584 |
| Staff loans | 3,658 | 95,964 | - | - | 99,622 |
| Cash and bank balances | - | - | - | 1,583,705 | 1,583,705 |
| | **3,658** | **95,964** | **-** | **2,496,289** | **2,595,911** |
| **Financial liabilities** | | | | | |
| Finance leases | 15,754 | - | - | - | 15,754 |
| Retirement benefit obligation | 2,687,561 | - | - | - | 2,687,561 |
| Trade and other payables | - | - | - | 4,580,161 | 4,580,161 |
| Borrowings | 954,268 | 2,443,387 | 19,280,547 | - | 22,678,202 |
| | 3,657,583 | 2,443,387 | 19,280,547 | 4,580,161 | 29,961,678 |
| **Interest rate gap** | **(3,653,925)** | **(2,347,423)** | **(19,280,547)** | **(2,083,872)** | **(27,365,767)** |

**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)** |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interest rate risk (continued)

The Company faces cash flow interest rate risk on its variable rate financial instruments measured at amortized 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 (2013:3%), the impact on the Company's profit before tax and equity is as follows:

| | 2014<br>Ushs '000 | 2013<br>Ushs '000 |
|---|---|---|
| **Profit before tax** | | |
| Cash flow interest rate risk | 761,446 | 650,661 |
| Equity | 533,012 | 455,463 |

### Fair values of assets and liabilities

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2014<br>Ushs '000 | 2013<br>Ushs '000 | 2014<br>Ushs '000 | 2013<br>Ushs '000 |
| **Non current assets** | | | | |
| property, plant and equipment | 54,165,907 | 58,049,371 | 54,165,907 | 58,049,371 |
| Prepaid operating lease rentals | 490,039 | 198,850 | 650,000 | 270,000 |
| | **54,655,946** | **58,248,221** | **54,815,907** | **58,319,371** |
| **Current assets** | | | | |
| Current income tax recoverable | 240,776 | 201,629 | 240,776 | 201,629 |
| Staff loans | 99,622 | 134,565 | 99,622 | 134,565 |
| **Inventories** | **7,629,383** | **10,741,689** | **7,629,383** | 10,741,689 |
| Trade and other receivables | 1,296,530 | 1,583,705 | 1,296,530 | 1,583,705 |
| Cash and bank balances | 306,353 | 499,946 | 306,353 | 499,946 |
| | 9,572,664 | 13,161,534 | 9,572,664 | 13,161,534 |
| **Total Assets** | **64,228,610** | **71,409,755** | **64,388,571** | **71,480,905** |
| **Non current liabilities** | | | | |
| Finance lease: non-current portion | - | - | - | - |
| Borrowings: non current portion | 19,280,547 | 15,094,853 | 19,280,547 | 15,094,853 |
| | **19,280,547** | **15,094,853** | **19,280,547** | **15,094,853** |

## NOTES TO THE FINANCIAL STATEMNTS (CONTINUED)

| Current liabilities | | | | |
|---|---|---|---|---|
| Retirement benefit obligations | 2,687,561 | 3,083,713 | 2,687,561 | 3,083,713 |
| Finance lease: current portion | 15,754 | 340,375 | 15,754 | 340,375 |
| Borrowings: current portion | 3,397,655 | 6,593,854 | 4,547,655 | 6,593,854 |
| Trade and other payables | 4,532,886 | 5,703,902 | 4,532,886 | 5,703,902 |
| | 10,633,856 | 15,721,844 | 11,783,856 | 15,721,844 |
| **Total Liabilities** | **29,914,403** | **30,816,697** | **31,064,403** | **30,816,697** |

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

Fair values of assets and liabilities

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

The following table represents the fair value measurement hierarchy for the group's 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 2014** | | | | |
| Revalued property, plant and equipment | 54,165,907 | - | - | 54,165,907 |
| | - | - | - | - |
| **At 31 December 2013** | | | | |
| Revalued property, plant and equipment | 58,049,374 | - | - | 58,049,374 |

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 credit worthiness of the customer/staff. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2014, 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.

## NOTES TO THE FINANCIAL STATEMNTS (CONTINUED)

- The risk of the Company's plant and equipment is determined based on the property valuations which were done by a professional valuer on the basis of the open market value and the plant and equipment were valued on a depreciated replacement cost basis. The last revaluation was done as at 31 December 2012 and the management estimates that the carrying amounts do without materially differ from their fair values as at 31 December 2014.

### b) Credit risk

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

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

| | 2014<br>Ushs '000 | 2013<br>Ushs '000 |
|---|---|---|
| Bank balances | 270,464 | 397,662 |
| Trade receivables | 1,097,260 | 712,326 |
| Staff loans | 99,622 | 134,565 |
| Amount due from employee retirement fund administrator | 313,542 | 313,542 |
| Staff and other receivables | 3,906 | 459,196 |
| | **1,784,794** | **2,017,291** |

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

## NOTES TO THE FINANCIAL STATEMNTS (CONTINUED)

### Credit risk (continuation)

The analysis of trade receivables is below:

| | 2014<br>Ushs '000 | 2013<br>Ushs '000 |
|---|---|---|
| Neither past due nor impaired | 229,261 | 29,543 |
| Past due but not impaired | - | - |
| 61 to 180 days | 121,284 | 37,727 |
| 181 to 360 days | 244,590 | 66,537 |
| **Total past due but not impaired** | **365,874** | **104,264** |
| | | |
| Impaired past due by >360 days | 502,125 | 502,125 |
| | | |
| Gross amount | 1,097,260 | 712,326 |
| Less: Allowance for impairment | (502,125) | (502,125) |
| Net amount | 595,135 | 210,201 |

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

| | 2014<br>Ushs'000 | 2013<br>Ushs '000 |
|---|---|---|
| Movement on allowance for impairment | | |
| At 1 January | 502,125 | 359,265 |
| Add: charge for the year | - | 142,860 |
| At 31 December | 502,125 | 502,125 |

c) Liquidity risk

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

The table below analyses the Company's financial liabilities into 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| At 31 December 2014: | Less than 1 year | Between 1 and 2 years | Over 2 years |
|---|---|---|---|
| Borrowings (excluding finance leases) | 3,397,655 | 3,144,180 | 14,986,367 |
| finance leases | 15,754 | - | - |
| Trade and other payables | 4,532,886 | - | - |
| | 7,946,295 | 3,144,180 | 14,986,367 |
| **At 31 December 2013:** | | | |
| Borrowings (excluding finance leases) | 6,593,854 | 3,144,179 | 12,783,136 |
| finance lease | 424,395 | - | - |
| Trade and other payable | 4,582,297 | - | - |
| | **11,600,546** | **3,144,179** | **12,783,136** |

**Uganda Clays Limited**
Annual report and financial statements
For the year ended 31 December, 2014

### 24. Contingencies

The company is involved in a number of legal and court cases which were yet to be concluded upon by the date of authorization of these financial statements. The contingent liabilities arising from these cases amount to shs 180 million. However, based on legal advice, the directors have evaluated the pending cases and determined that no material financial liability is likely to crystalize. Consequently, no provisions have been made in these financial statements.

### 25. Capital risk management

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The debt to capital ratio at 31 December 2014 and 2013 were as follows:

| | 2014 Shs '000 | 2013 Shs '000 |
|---|---|---|
| Total borrowings | 22,678,202 | 21,688,707 |
| Less cash and cash equivalents (Note 17) | (306,353) | (499,946) |
| Net debt | 22,371,849 | 21,188,761 |
| Total equity | 26,780,905 | 31,960,211 |
| Total capital | 49,152,754 | 53,148,972 |
| Gearing ratio % | 46 | 40 |

### 26. Segment information

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

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

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

| | Kajjansi factory Ushs '000 | Kamonkoli factory Ushs '000 | Total Ushs '000 |
|---|---|---|---|
| Revenue | 17,904,059 | 4,208,559 | 22,112,617 |
| profit /(loss) before income tax | 2,861,954 | (9,143,802) | (6,288,898) |
| Income tax expense/ (credit) | 57,589 | 1,049,888 | 1,109,592 |
| Profit/ (Loss) after tax | 2,919,543 | (8,093,914) | (5,179,306) |
| Depreciation | 229,028 | 4,169,860 | 4,398,888 |
| Interest expense | 236,682 | 4,309,203 | 4,545,885 |
| Amortization | 12,379 | - | 33,395 |

The segment results for the year ended 31 December 2013 were as follows:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | Kamonkoli factory Ushs '000 | Kajjansi 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 loss | 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 |
| Amortization | 5,195 | - | 5,195 |

### Statement of financial position

| | Kamonkoli factory Ushs '000 | Kajjansi factory Ushs '000 | Total Ushs '000 |
|---|---|---|---|
| **31 December 2014** | | | |
| Total assets | 27,385,922 | 36,842,691 | 64,228,613 |
| Total liabilities | 45,230,046 | (6,682,795) | 38,547,251 |
| Capital expenditure | 455,139 | 60,283 | 515,422 |
| | | | |
| **31 December 2013** | | | |
| Total assets | 29,158,939 | 42,250,816 | 71,409,755 |
| Total liabilities | 24,098,181 | 15,351,364 | 39,449,545 |
| Capital expenditure | 198,133 | 7,263 | 205,396 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 27. Country of incorporation

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

### 28. Currency

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

## DIRECT COSTS

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| **(i). COST OF SALES** | | |
| Opening stock of finished goods and work in progress | 8,976,762 | 7,853,058 |
| Production costs (27.1) | 14,854,468 | 16,515,891 |
| Closing stock of finished goods and work in progress | (5,947,788) | (8,976,762) |
| | 17,883,442 | 15,392,187 |
| **(ii). PRODUCTION COSTS** | | |
| Clay processing and product moulding | 531,926 | 687,011 |
| Depreciation of plant | 4,249,660 | 4,302,384 |
| Drying process | 70,026 | 126,732 |
| Electricity and generator | 1,374,522 | 1,698,465 |
| Factory general maintenance | 163,610 | 168,129 |
| Kilns (baking process) | 3,027,057 | 4,391,654 |
| Other production overheads | 1,432,005 | 1,592,184 |
| Quarry and silo | 463,510 | 717,464 |
| Salaries and allowances production staff | 720,236 | 719,565 |
| Wages and allowances production staff | 1,935,735 | 2,112,303 |
| Sales outlet expenses | 331,715 | - |
| Transport | 554,466 | - |
| | **14,854,468** | **16,515,891** |

## SCHEDULE OF OTHER INCOME AND EXPENDITURE

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| **(iii). OTHER INCOME** | | |
| Profit from sale of Land | - | 541,500 |
| Other income | 103,694 | 218,022 |
| Forex Gain | 8,996 | - |
| | 112,690 | 759,522 |
| **(iv). DISTRIBUTION EXPENSES** | | |
| Business promotion | 995,865 | 1,694,646 |
| Communication | 29,256 | 49,312 |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| | | |
|---|---|---|
| Donation | - | 7,061 |
| Public relation and entertainment | 2,692 | 2,345 |
| Sports and recreation | 5,513 | 12,220 |
| Subscriptions | 6,716 | 13,329 |
| Research and development | 900 | - |
| **Total distribution costs** | **1,040,942** | **1,778,913** |
| | | |
| **(v). ADMNISTRATIVE EXPENSES:** | | |
| Annual general meeting | 49,409 | 36,751 |
| Audit expenses | 35,531 | 37,625 |
| Provision for impairment of trade receivables and staff loans | - | 142,860 |
| Bad debts written off | - | 30,843 |
| Company house maintenance | 4,400 | 1,219 |
| Compound maintenance | 3,418 | 2,459 |
| Consultancy | 79,027 | 200,435 |
| Depreciation | 149,497 | 181,626 |
| Directors fees and allowance | 103,923 | 125,628 |
| Insurance | 51,436 | 14,502 |
| Rental expenses | 7,184 | 33,690 |
| Legal fees and expenses | 148,500 | 23,250 |
| Local travel | 164,744 | 130,517 |
| Office building maintenance | 7,461 | 3,715 |
| Office equipment maintenance | 39,992 | 51,073 |
| Printing and stationery | 28,394 | 30,363 |
| Registrar fees | 28,262 | 28,550 |
| Security | 100,783 | 98,276 |
| Tax consultancy | 38,438 | 5,625 |
| Transport costs | 28,637 | 40,147 |
| Travel abroad | 39,500 | - |
| Other expenses | 517,642 | 195,114 |
| Uniforms | 4,523 | 2,510 |
| Stock write off | - | 43,649 |
| Utilities | 3,787 | - |
| Property tax expense | 272,615 | - |
| Communication | 60,535 | - |
| Amortization charge | 33,395 | - |
| Total administrative expenses | **2,001,033** | **1,460,427** |

## SCHEDULE OF INCOME AND EXPENDITURE

| | 2014<br>Shs '000 | 2013<br>Shs '000 |
|---|---|---|
| **(vi). OTHER OPERATING EXPENSES** | | |
| Bonus | 44,455 | 31,973 |
| Gratuity/pension | 334,987 | 309,170 |
| Leave transport and allowance | 118,120 | 97,851 |
| Medical expenses | 52,198 | 43,017 |
| NSSF Company contribution | 226,193 | 268,703 |
| Salaries and allowances | 1,908,534 | 1,840,114 |
| Staff Welfare | 82,072 | 71,736 |
| Termination pay | 12,581 | 53,593 |
| Training costs | 36,794 | 23,048 |
| Wages and allowances | 209,829 | 195,664 |
| Foreign exchange loss | 1,024 | 3,137 |
| Bank Charges | 16,116 | 73,029 |
| **Total other operating expenses** | **3,042,903** | **3,011,035** |
| | | |
| **(vii). FINANCE COSTS** | | |
| Finance Lease Charges | 23,515 | 98,706 |
| Interest on Overdraft | 336,535 | 482,768 |
| Interest on unpaid Gratuity | 269,931 | 498,156 |
| Interest expense on borrowings | 3,915,904 | 3,393,874 |
| Others (Finance costs) | - | 338,336 |
| **Total Net finance costs** | **4,545,885** | **4,811,840** |

# 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 emailed in pdf to secretary@ugandaclays.co.ug 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.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OUR PRIDE

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Website: www.ugandaclays.co.ug