UGANDA CLAYS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

PKF Uganda
Certified Public Accountants
A member firm of PKF International

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	: Eng. Martin Kasekende	Chairman
	: Mr. Richard Byarugaba	Member
	: Mr. Bayo Folayan	Member
	: Mrs. Marion Adengo Muyobo	Member
	: Mr. Joseph Tukuratiire	Member
	: Mrs. Florence Namatta Mawejje	Member
	: Mrs. Peninnah Tukamwesiga	Member
	: Mr. Henry Ngabirano	Member
	: Dr. Tom Mutyabule	Member
	: Mr. Rueben Tumwesigye	Managing Director

REGISTERED OFFICE
: 14km Entebbe Road
: Kajjansi
: P.O. Box 3188
: Kampala, Uganda

INDEPENDENT AUDITOR
: PKF Uganda
: Certified Public Accountants
: P.O. Box 24544
: Kampala, Uganda

COMPANY SECRETARY/LEGAL ADVISOR
: Lex Uganda Advocates & Solicitors
: 8th Floor, Communication House
: Plot 01, Colville Street
: P.O. Box 22490
: Kampala, Uganda

COMPANY REGISTRAR
: SCD Registrars
: Block A, 4th Floor
: UAP Nakawa Business Park
: Plot 3-5 New Port Bell Road
: P.O. Box 23552
: Kampala, Uganda

PRINCIPAL BANKERS
: Standard Chartered Bank (U) Limited
: Speke Road
: P.O. Box 7111
: Kampala, Uganda

: Stanbic Bank (Uganda) Limited
: Plot 17 Hannington Road
: P.O. Box 7131
: Kampala, Uganda

: Equity Bank Uganda Limited
: Kajjansi
: P.O. Box 10184
: Kampala, Uganda

COMPANY INFORMATION (CONTINUED)

PRINCIPAL BANKERS (CONTINUED)

: Housing Finance Bank Limited
: Plot 25 Kampala Road
: P.O. Box 1539
: Kampala, Uganda

: Centenary Rural Development Bank Uganda Limited
: Plot 44 - 46 Kampala Road
: P.O. Box 1892
: Kampala, Uganda

: KCB Bank Uganda Limited
: P.O. Box 7399
: Kampala, Uganda

: KCB Bank South Sudan Limited
: Buluk Plaza
: P.O. Box 47
: Juba, South Sudan

: Absa Bank (U) Limited
: Plot 2/4 Hannington Road
: P.O. Box 7101
: Kampala, Uganda

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2022 which disclose the state of affairs of the Company.

PRINCIPAL ACTIVITIES

The principal activities of the Company are those of production and sale of wide range of baked clay building

BUSINESS REVIEW	2022 Shs'000	2021 Shs'000
Profit before tax	2,909,608	7,469,095
Tax charge	(467,858)	(1,548,533)
Profit for the year	2,441,750	5,920,562

During the year 2022, the total turnover of the Company reduced from Shs. 36.7 billion to Shs. 36.6 billion. This was mainly attributed to stock outs of major products in the month of January, October and November caused by breakdowns of the production lines.The profit before tax decreased from Shs.7.5 billion to Shs. 2.9 billion reflecting the effects of reduction in revenue and increase in direct and indirect costs. The company has embarked on a capacity expansion project in which it is to install a new plant. This will increase the efficiency levels resulting from higher volumes and better quality of products.

As at 31 December 2022, the net asset position of the company increased to Shs. 41.7 billion compared to Shs 40.7 billion as at 31 December 2021.

Key performance indicators	2022 Shs'000	2021 Shs'000
Turnover	36,616,097	36,686,157
Gross profit	14,750,218	17,238,120
Gross profit margin	40%	47%
Profit for the year	2,441,750	5,920,562
Net profit margin	7%	16%
Net assets	41,748,138	40,656,388
Return on capital employed	4%	11%

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall demand of the company's products and services. The company's strategic focus is to enhance sales growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions and other factors such as the impact of the recent coronavirus outbreak. The directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company.

In addition to the business risk(s) discussed above, the company's activities expose it to a number of financial risks which are described in details in Note 25 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE CAPITAL

The authorised, issued and paid up share capital is Shs. 900,000,000 (2021: Shs 900,000,000) representing 900,000,000 (2021: 900,000,000) ordinary shares of Shs. 1 each.

DIVIDEND

The directors recommend the declaration of a dividend for the year of Shs 0.5 per share (2021: Shs 1.5 per share)

DIRECTORS

The directors who held office during the year and to the date of this report are shown below

Eng. Martin Kasekende	Chairman
Mr. Richard Byarugaba	Member
Mr. Bayo Folayan	Member
Mrs. Marion Adengo Muyobo	Member
Mr. Joseph Tukuratiire	Member
Mrs. Florence Namatta Mawejje	Member
Mrs. Peninnah Tukamwesiga	Member
Mr. Henry Ngabirano	Member
Dr. Tom Mutyabule	Member
Mr. Rueben Tumwesigye	Managing Director

INDEPENDENT AUDITOR

The Company's auditor, PKF Uganda, has indicated willingness to continue in office in accordance with the Uganda Companies Act, 2012

BY ORDER OF THE BOARD

COMPANY SECRETARY
KAMPALA

12 - 4 - 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Uganda Companies Act, 2012 requires the directors to prepare financial statements for each financial year 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 its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; and that disclose, with reasonable accuracy, the financial position of the company and that enables them to prepare financial statements of the company that comply with International Financial Reporting Standards and the requirements of the Uganda Companies Act, 2012. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Uganda Companies Act, 2012. They also accept responsibility for:

i) designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2022 and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act, 2012.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern as set out in Note 1(a) to the financial statements. The directors are of the opinion that the Company will remain a going concern for at least the next twelve months from the date of this statement based on the factors described in Note 1(a).

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 12 - 4 - 2023 and signed on its behalf by:

DIRECTOR **DIRECTOR**

Report of the independent auditor to the members of Uganda Clays Limited

Opinion

We have audited the financial statements of Uganda Clays Limited set out on pages 9 to 38, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the Company's financial position as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Uganda Companies Act, 2012.

Basis for opinion

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

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Key Audit matters:

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. During the year, there were no key audit matters to report.

Responsibilities of directors for the financial statements

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

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Report of the independent auditor to the members of Uganda Clays Limited (continued)

Responsibilities of directors for the financial statements (continued)

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

Auditor's responsibilities for theaudit of the financial statements

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

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

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

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

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

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

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

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

PKF

Report of the independent auditor to the members of Uganda Clays Limited (continued)

Report on other legal and regulatory requirements

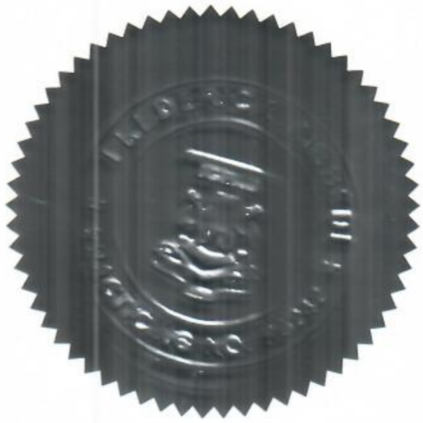
As required by the Uganda Companies Act, 2012 we report to you, based on our audit, that:

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.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Frederick Kibbedi - P0242

Frederick Kibbedi [P0242]
Engagement Partner

Certified Public Accountants
Kampala



17th Apr 2023
Ref: FK/U087/0090/2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2022 Shs'000	2021 Shs'000
Revenue from contracts with customers	2	36,616,097	36,686,157
Cost of sales		(21,865,879)	(19,448,037)
Gross profit		14,750,218	17,238,120
Other operating income	3	1,700,064	2,312,471
Decrease/(increase) in impairment losses		36,768	(170,869)
Selling and distribution expenses		(979,419)	(1,667,476)
Administrative expenses		(10,490,983)	(8,539,812)
Other operating expenses		(2,101,436)	(1,703,339)
Operating profit		2,915,212	7,469,095
Finance costs		(5,604)	-
Profit before tax		2,909,608	7,469,095
Tax charge	6	(467,858)	(1,548,533)
Profit for the year		2,441,750	5,920,562
Other comprehensive income:			
Total comprehensive income for the year attributable to owners of the company, net of tax		2,441,750	5,920,562
Earnings per share			
Basic and diluted earnings per share	8	2.71	6.58

The notes on pages 13 to 38 form an integral part of these financial statements.

Report of the independent auditor - pages 6 - 8.

STATEMENT OF FINANCIAL POSITION

	Notes	2022 Shs'000	2021 Shs'000
EQUITY			
Share capital	9	900,000	900,000
Share premium	9	9,766,028	9,766,028
Revaluation reserve	10	852,338	2,211,761
Retained earnings		29,779,772	26,428,598
Proposed dividends	7	450,000	1,350,000
Equity attributable to the owners of the entity		41,748,138	40,656,388
Non-current liabilities			
Borrowings	11	20,600,381	20,600,381
Deferred tax	12	4,051,091	4,545,056
Lease liability	29	155,041	-
		24,806,513	25,145,437
		66,554,651	65,801,825
REPRESENTED BY			
Non-current assets			
Property, plant and equipment	13	50,665,534	44,054,681
Investment securities	19	6,457,950	9,527,126
Prepaid operating lease	15	2,409,789	2,168,253
Intangible asset	14	4,453	7,260
Right of use	28	140,097	-
		59,677,823	55,757,320
Current assets			
Inventories	16	6,166,868	7,958,204
Trade and other receivables	17	9,124,425	4,799,445
Cash and cash equivalents	18	1,370,507	5,903,531
Investment securities	19	420,426	-
Staff advances	20	128,191	120,810
		17,210,417	18,781,990
Current liabilities			
Trade and other payables	21	9,487,879	8,332,800
Retirement benefit obligation	22	634,250	878
Current tax payable		211,460	403,807
		10,333,589	8,737,485
Net current assets		6,876,828	10,044,505
		66,554,651	65,801,825

The financial statements on pages 9 to 38 were approved and authorised for issue by the board of directors on

12 - 4 - 2023 and were signed on its behalf by:

DIRECTOR **DIRECTOR**

The notes on pages 13 to 38 form an integral part of these financial statements.

Report of the independent auditor - pages 6 - 8.

STATEMENT OF CHANGES IN EQUITY

	Notes	Ordinary share capital Shs'000	Share premium Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2022							
At start of year		900,000	9,766,028	2,211,761	26,428,598	1,350,000	40,656,388
Transfer of excess depreciation	10	-	-	(1,942,034)	1,942,034	-	-
Deferred tax on excess depreciation transfer	10	-	-	582,610	(582,610)	-	-
Dividends paid	7	-	-	-	-	(1,350,000)	(1,350,000)
Proposed dividends	7	-	-	-	(450,000)	450,000	-
Profit for the year		-	-	-	2,441,750	-	2,441,750
At end of year		900,000	9,766,028	852,338	29,779,772	450,000	41,748,138
Year ended 31 December 2021							
At start of year		900,000	9,766,028	3,571,185	20,498,613	1,218,486	35,954,312
Transfer of excess depreciation	10	-	-	(1,942,034)	1,942,034	-	-
Deferred tax on excess depreciation transfer	10	-	-	582,610	(582,610)	-	-
Dividends paid	7	-	-	-	-	(1,218,486)	(1,218,486)
Proposed dividends	7	-	-	-	(1,350,000)	1,350,000	-
Profit for the year		-	-	-	5,920,562		5,920,562
At end of year		900,000	9,766,028	2,211,761	26,428,598	1,350,000	40,656,388

The notes on pages 13 to 38 form an integral part of these financial statements.

Report of the independent auditor - pages 6 - 8.

STATEMENT OF CASH FLOWS

	Notes	2022 Shs'000	2021 Shs'000
Operating activities			
Cash from operations	23	6,323,067	10,534,366
Tax paid		(1,154,171)	(1,255,843)
Net cash from operating activities		5,168,896	9,278,523
Investing activities			
Cash paid for purchase of property, plant and equipment	13	(11,217,491)	(9,067,132)
Cash paid for purchase of prepaid operating lease	15	(476,494)	(1,455,074)
Cash paid for purchase of treasury bonds		-	(4,785,006)
Proceeds from sale of fixed deposits		2,403,160	-
Interest received from trading of treasury bonds		938,905	-
Net cash used in investing activities		(8,351,920)	(15,307,212)
Financing activities			
Dividends paid to ordinary shareholders	7	(1,350,000)	(1,218,486)
Net cash used in financing activities		(1,350,000)	(1,218,486)
Decrease in cash and cash equivalents		(4,533,024)	(7,247,175)
Movement in cash and cash equivalents			
At start of year		5,903,531	13,150,706
Decrease		(4,533,024)	(7,247,175)
At end of year	18	1,370,507	5,903,531

The notes on pages 13 to 38 form an integral part of these financial statements.

Report of the independent auditor - pages 6-8

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements comply with the requirements of the Uganda Companies Act, 2012. The Company statement of profit or loss represent the profit and loss account referred to in the Act.

a). Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received on the sell of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into consideration when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 - Inventories or value in use in IAS 36 - Impairment of assets.

Going concern

The financial performance of the company is set out in the Director's report and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk and capital management are set out in notes 25 and 26 respectively.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the forseeable future and as a result the financial statements are prepared on a going concern basis.

New standards, amendments and interpretations issued but not effective

At the date of authorization of these consolidated financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective for the year presented:

- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020), effective for annual periods beginning or after 1 January 2023, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.
- Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
- Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

NOTES: (CONTINUED)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective (continued)

The directors do not expect that adoption of these standards and interpretations will have a material impact on the financial statements in future periods. The company plans to apply the changes above, if applicable, from their effective dates.

b) Significant accounting judgements, estimates and assumptions

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Measurement of expected credit losses (ECL):**

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behavior.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing company's of similar financial assets for the purposes of measuring ECL.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets, other than trade receivables, contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b) **Significant accounting judgements, estimates and assumptions**

- **Measurement of expected credit losses (ECL): (Continued)**

  - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

  Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments that are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The company uses these guidelines in determining the staging of its financial assets unless there is persuasive evidence available to rebut these presumptions.

For trade receivables, the company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

The carrying amounts of the company's financial assets that are subject to impairment assessment are disclosed in note 17.

Useful lives, depreciation methods and residual values of property, plant and equipment, intangible assets and right-of-use assets

Management reviews the useful lives, depreciation methods and residual values of the items of property, plant and equipment, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values. The carrying amounts of property, plant and equipment and right-of-use assets are disclosed in notes 13 and 28 respectively.

Accounting for leases under IFRS 16

Management has made various judgements and estimates under IFRS 16 as detailed below :

Incremental borrowing rate: To determine the incremental borrowing rate, the company:
- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g.. term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).
- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b) **Significant accounting judgements, estimates and assumptions (continued)**

- **Measurement of Expected Credit Losses (ECL) (continued):**

Assessment of significant increase in credit risk (continued)

Most extension options in offices and vehicles leases have not been included in the lease liability because the company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The carrying amounts of lease liabilities and right-of-use assets are disclosed in notes 15 and 28, respectively.

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The carrying amounts of property, plant and equipment and right-of-use assets are disclosed in notes 13 and 28, respectively.

c) **Revenue recognition**

The company recognizes revenue from distribution of products and provision of services. The company recognizes revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognized is the amount the company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

i) **Sales from distribution of products**

Sales of distribution of products are recognised upon delivery to, and acceptance by the customer. Having accepted the goods, consumers do not have the right to return them. There is no variable element to the contract price, and payment, less any deposit already paid, is typically due within a period as agreed in the contract

Other income

i) Interest income is accrued by reference to time in relation to the principal outstanding and the effective interest rate applicable.

ii) Rental income from operating leases is recognised on a straight -line over the period of the lease

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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

Freehold land and capital work in progress are not depreciated.

Leasehold land is depreciated over the remaining period of the lease.

Depreciation is calculated on a straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life detailed below;

	Years
Buildings	'50
Plant and machinery	5 - 30
Furniture, fittings and computer equipment	3 - 5
Motor Vehicles	4 - 10

The assets residual values and useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate,.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future future economic benefits are expected from its use or disposal. 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.

e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

f) Financial instruments

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

- **Financial assets**

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f). Financial instruments (continued)

- **Financial assets (continued)**

The company classifies its financial assets into the following categories:

i) **Amortised cost;**
Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL),are classified and measured at amortised cost; The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

ii) **Fair Value Through Other Comprehensive Income (FVTOCI)**:
Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI).Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) **Fair Value Through Profit or Loss (FVTPL)**:
Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income.

- Notwithstanding the above, the company may: on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the company has not identified a change in its business models.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, the company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

f). **Financial instruments (continued)**

- **Financial assets (continued)**

Impairment

Debt instruments that are subsequently measured at amortised cost or at impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income(FVTOCI):

- cash and cash equivalents
- trade and other receivables
- other financial assets

The loss allowance is measured at an amount equal to the lifetime expected credit losses for trade receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a trade receivable has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

- **Financial liabilities**

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

- All other financial liabilities are classified and measured at amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities are classified as non-current except those held for trading, those 'expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

- **Derecognition**

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

- **Offsetting financial instruments**

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out(FIFO) method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, and related production overheads other direct costs x borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

h) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks net of bank overdrafts, which are specifically used to fund working capital requirements.

In the statement of financial position, bank overdrafts, which are specifically used to fund working capital requirements are included within borrowings in current liabilities.

i) Share capital

Ordinary shares are classified as equity.

j) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in the comprehensive income or in equity. In this case, the tax is also recognised in other comprehensive income or equity.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and tax credits and unused tax losses can be utilised.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

The carrying amount of deferred tax assets is reviewed 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The company offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Accounting for leases

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time.

The company as lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the company's incremental borrowing rate is used.

For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to of the underlying asset is not expected to pass to the company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation reserve to the retained earnings.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

l) Employee entitlements

The company and its employees also contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

m) **Comparatives**

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

2. Revenue from contracts with customers

	2022 Shs'000	2021 Shs'000
Recognised at a point in time:		
- Roofing tiles	23,143,573	24,499,903
- Half Bricks	2,253,883	2,280,876
- Max pans	6,507,395	6,202,373
- Quarry Tiles	3,140,201	2,464,973
- Bricks	770,052	596,501
- Other products	800,993	641,531
Revenue from sale of goods	36,616,097	36,686,157

3. Other operating income

	2022 Shs'000	2021 Shs'000
Other income	222,246	2,289,296
Interest income	797,782	-
Rental income	20,720	23,175
Realized exchange gain	140,611	-
Unrealised exchange gain	518,705	-
Total other operating income	1,700,064	2,312,471

4. Operating profit

The following items have been charged in arriving at the operating profit:

	2022 Shs'000	2021 Shs'000
Depreciation on property, plant and equipment (Note 13)	4,114,107	3,585,089
Depreciation on right-of-use assets (Note 28)	241,424	112,701
Ammortisation of intangible assets (Note 14)	2,807	1,160
Directors' emoluments	300,502	196,285
Audit fees		
- current year	60,000	57,000
Repairs and maintenance	2,047,725	2,675,201
Staff costs	12,540,210	12,701,306

5. Staff costs

	2022 Shs'000	2021 Shs'000
Salaries and wages	8,618,746	9,491,970
NSSF company contribution	924,395	803,087
Gratuity and pension costs	857,234	649,249
Leave transport and allowance	444,567	192,071
Staff medical expenses	332,841	279,823
Staff welfare expenses	599,335	678,375
Staff termination pay	566,039	236,013
Staff training costs	43,244	46,323
Wages and allowance costs	153,313	324,345
Staff uniforms	496	50
Total staff costs	12,540,210	12,701,306

The average number of persons employed during the year, by category, were:	2022	2021
Production	218	234
Sales and distribution	33	35
Management and administration	82	92
Total	333	361

6. Tax

	2022 Shs'000	2021 Shs'000
Current tax	955,607	2,464,973
Rental tax	6,216	6,953
Deferred tax credit (Note 12)	(493,965)	(923,393)
Tax charge	467,858	1,548,533

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

	2022 Shs'000	2021 Shs'000
Profit before tax	2,909,608	7,469,095
Tax calculated at a rate of 30% (2021: 30%)	872,882	2,240,729
Tax effect of:		
- expenses not deductible for tax purposes	215,455	190,310
- (over) provision in prior year	(37,869)	(299,896)
- adjustment to indexation on revalued assets not recognised	(582,610)	(582,610)
Tax charge	467,858	1,548,533
Tax payable		
At start of year	(403,807)	812,275
charge for the year	(961,823)	(2,471,926)
Tax paid	1,154,171	1,255,844
At end of year	(211,460)	(403,807)

7. Dividends

The directors recommend the payment of a dividend of Shs. 0.5 per share for the year (2021: Shs 1.5 per share) amounting to a total of Shs 450,000,000 (2021: Shs 1,350,000,000)

Payment of dividend is subject to a withholding tax at the rate of 10% for residents and 15% for companies. Payment of dividends to shares held by a Company resident in Uganda from a local subsidiary or associated company in which it controls (directly or indirectly) 25% or more of the shareholding are exempt from withholding tax.

8. Earnings per share

- Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

	2022 Shs'000	2021 Shs'000
Profit attributable to equity holders	2,441,750	5,920,562
Weighted average number of ordinary shares	900,000	900,000
Basic earnings per share	2.71	6.58

8. **Earnings per share(continued)**

- *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive ordinary shares in issue as at 31 December 2022.

	2022 Shs'000	2021 Shs'000
Profit attributable to owners of the company	2,441,750	5,920,562
Weighted average number of ordinary shares adjusted for the effect of dilution	900,000	900,000
Diluted earnings per share	2.71	6.58

9. **Share capital**

Authorised, issued and fully paid:

900,000,000 (2021: 900,000,000) ordinary shares at Shs 1 each	900,000	900,000
Share premium	9,766,028	9,766,028

10. **Revaluation reserve**

Property, plant and equipment

At start of year	2,211,762	3,571,186
Transfer of excess depreciation for the year	(1,942,034)	(1,942,034)
Deferred tax on the transfer of excess depreciation	582,610	582,610
At end of year	852,338	2,211,762

11. **Borrowings**

The borrowings are made up as follows:

Non current		
Borrowings from related parties (Note 24(iii))	20,600,381	20,600,381

The Loan from National Social Security Fund (NSSF) was obtained on the 27th day of December 2010 for 10 years with a grace period of 2 years from the first disbursement date. The loan amounting to UGX 11,050 Billion financing working capital i.e. UGX. 950 Million was for procurement of spare parts in Kajjansi, UGX. 3 Billion was for the procurement and installation of the kiln extension in Kamonkoli, 1UGX. 60 Million for payment of creditors reviewed by the parties and approved by the Lender, UGX. 3.3 Billion for repayment of a bridge finance loan by standard chartered bank and UGX. 3.6 Billion for retirement of outstanding loan arrears due to Standard Chartered Bank Uganda. An interest rate of 15% was charged on the loan and an arrangement fee of 1% of the loan amount was to be charged. A surcharge of 2% to be charged in case of default.

In July 2015, NSSF capped the interest on the loan and the total outstanding amount due was UGX. 20.6 Billion

The exposure of the Company's borrowings to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2022 Shs'000	2021 Shs'000
Over 5 years	20,600,381	20,600,381

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant.

11. **Borrowings (continued)**

The carrying amounts of the Company's borrowings are denominated in Uganda shillings.

Maturity based on the repayment structure of non-current borrowings (excluding finance lease liabilities) is as follows:	2022 Shs'000	2021 Shs'000
Over 5 years	20,600,381	20,600,381

12. **Deferred tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2021:30%). The movement on the deferred tax account is as follows:

	2022 Shs'000	2021 Shs'000
At start of year	4,545,056	5,468,450
Charge to profit or loss	(493,965)	(923,393)
At end of year	4,051,091	4,545,056

Deferred tax liability in the statement of financial position and deferred (charge)/credit to profit or loss are attributable to the following items:

Deferred tax liabilities	**At start of year Shs'000**	**Charge/(credit) to profit or Shs'000**	**At end of year Shs'000**
Property, plant and equipment - accelerated tax depreciation	6,781,152	(146,260)	6,634,892
Revaluation	636,683	(582,610)	54,073
Unrealised exchange gain	22,782	43,875	66,657
	7,440,617	(684,995)	6,755,622
Deferred tax assets			
Unrealised exchange losses	-	-	-
Provision for impairment of trade recievables	(795,772)	11,030	(784,742)
Provision for bonus	(180,000)	180,000	-
Unpaid interest	(1,919,789)	-	(1,919,789)
	(2,895,561)	191,030	(2,704,531)
Net deferred tax liability	4,545,056	(493,965)	4,051,091

13. Property, plant and equipment

Year ended 31 December 2022

	Land Shs'000	Buildings Shs'000	Plant and machinery Shs'000	Furniture, fittings and computer equipment Shs'000	Motor vehicle Shs'000	Capital work in progress Shs'000	Total Shs'000
Cost							
At start of year	6,238,049	12,429,670	60,075,995	2,325,062	3,285,343	3,482,258	87,844,797
Transfers from WIP	183,831	116,966	3,506,581	97,786	-	(3,905,163)	(8,420)
Additions	231,642	188,142	410,109	170,716	15,947	10,200,935	11,217,491
Disposals	-	-	-	(3,104)	-	-	(3,104)
Reinstatement	-	-	735,400	-	288,184		1,023,583
Write off	-	(305,591)	(675,963)	(3,771)	-	(4,336)	(989,660)
At end of year	6,653,522	12,429,186	64,052,122	2,586,690	3,589,474	9,773,694	99,084,688
Depreciation							
At start of year	-	4,019,595	36,620,591	1,276,166	1,865,344	-	43,781,696
Reclassification	-	(1,283)	20	(32,569)	40,299	-	6,466
Charge for the year	-	293,852	2,816,191	592,354	411,710	-	4,114,107
Reinstatement	-	-	735,400	-	288,184	-	1,023,583
Write off	-	(144,726)	(358,756)	(112)	-	-	(503,594)
Disposals	-	-	-	(3,104)	-	-	(3,104)
At end of year	-	4,167,437	39,813,445	1,832,735	2,605,537	-	48,419,155
Net book value	6,653,522	8,261,749	24,238,677	753,955	983,937	9,773,694	50,665,534

13. Property, plant and equipment

Year ended 31 December 2021

Cost	Land Shs'000	Buildings Shs'000	Plant and machinery Shs'000	Furniture, fittings and Shs'000	Motor vehicle Shs'000	Capital work in progress Shs'000	Total Shs'000
At start of year	2,405,118	12,343,520	64,403,791	2,183,534	3,755,338	1,950,765	87,042,066
Transfers from/(to)	-	135,420	271,462	25,469	287,024	(727,795)	-
Additions	3,832,931	26,442	1,377,975	746,867	823,629	2,259,288	9,067,132
Disposals	-	-	-	(200)	(55,585)	-	(55,785)
Write off	-	(75,712)	(5,977,233)	(630,608)	(1,525,063)	-	(8,208,616)
At end of year	6,238,049	12,429,670	60,075,995	2,325,062	3,285,343	3,482,258	87,844,797
Depreciation							
At start of year	-	3,742,291	39,988,872	1,374,971	3,233,647	-	48,339,781
Reclassification	-	16,972	(17,175)	(2,453)	2,656	-	-
Charge for the year	-	281,818	2,572,598	520,914	209,689	-	3,585,019
Write off	-	(21,486)	(5,923,704)	(617,066)	(1,525,063)	-	(8,087,319)
Disposals	-	-	-	(200)	(55,585)	-	(55,785)
At end of year	-	4,019,595	36,620,591	1,276,166	1,865,344	-	43,781,696
Net book value	6,238,049	8,410,075	23,455,404	1,048,896	1,419,999	3,482,258	44,054,681

14 Intangible assets

Year ended 31 December 2022

	2022 Shs'000	2021 Shs'000
Cost		
At start of year	8,420	-
Reclassification from work in progress	-	8,420
At end of year	8,420	8,420
Depreciation		
At start of year	1,160	-
Charge for the year	2,807	1,160
At end of year	3,967	1,160
At end of year	4,453	7,260

15. Prepaid operating lease

	2022 Shs'000	2021 Shs'000
Cost		
At start of year	2,814,951	1,359,877
Additions	476,494	1,455,074
At end of year	3,291,445	2,814,951
Depreciation		
At start of year	646,698	533,997
Reclassification	(6,466)	-
Charge for the year	241,424	112,701
At end of year	881,656	646,698
At end of year	2,409,789	2,168,253

16. Inventories

	2022 Shs'000	2021 Shs'000
Spares and consumables	3,256,127	4,819,304
Work in progress	1,355,104	1,645,066
Finished goods	1,518,459	1,103,213
Goods in transit	37,178	390,621
Total inventory	6,166,868	7,958,204

The cost of inventory recognised as an expense amounted to Shs 2.9 billion (2021: 2.7 billion) has been included under 'Cost of sales' in the profit or loss.

17. Trade and other receivables

	2022 Shs'000	2021 Shs'000
Current		
Trade receivables	4,047,412	4,723,832
Less: expected credit losses	(2,615,804)	(2,652,572)
Net trade receivables	1,431,608	2,071,260
Prepayments	47,188	393,466
Other receivables	7,645,629	2,334,719
Total trade and other receivables	9,124,425	4,799,445

Trade and other receivables	2022 **Gross amount Shs'000**	2022 **ECL allowance Shs'000**	2022 **Carrying amount Shs'000**	2021 **Gross amount Shs'000**	2021 **ECL allowance Shs'000**	2021 **Carrying amount Shs'000**
Trade receivables	4,047,412	(2,615,804)	1,431,608	4,723,832	(2,652,572)	2,071,260
Prepayments	47,188	-	47,188	393,466	-	393,466
Other receivables	7,645,629	-	7,645,629	2,334,719	-	2,334,719
	11,740,229	(2,615,804)	9,124,425	7,452,017	(2,652,572)	4,799,445

The carrying amounts of the company's other receivables are denominated in Uganda Shillings.

18. Cash and cash equivalents

	2022 Shs'000	2021 Shs'000
Cash at bank and in hand	1,370,507	5,903,531

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2022 Shs'000	2021 Shs'000
Uganda Shillings	1,298,135	5,697,463
US Dollars	40,987	206,068
Euros	31,385	-
	1,370,507	5,903,531

19. Investment in securities

	2022 Shs'000	2021 Shs'000
Non-current		
Treasury bonds	6,457,950	9,527,126
Current		
Accrued treasury bond interest	420,426	-
	6,878,376	9,527,126

The maturity analysis for the treasury bills and treasury bonds is summarised below.

Treasury bond
Maturing within 12 years

	2022 Shs'000	2021 Shs'000
Opening balance	9,527,126	4,742,120
Additions	-	4,508,456
Interest earned	869,512	1,211,107
Principal and Interest received	(3,342,065)	(838,926)
Fair value loss	(104,467)	(14,613)
Withholding Tax	(71,730)	(81,018)
	6,878,376	9,527,126

20. Staff advances

Staff advances comprise of the following:

	2022 Shs'000	2021 Shs'000
At start of year	120,810	86,055
Advances to staff	309,082	320,257
Receipts from staff	(301,701)	(285,501)
At end of year	128,191	120,810

Staff advances are unsecured and due within three months from the reporting date.

21. Trade and other payables

	2022 Shs'000	2021 Shs'000
Current		
Trade payables	4,375,960	3,798,787
Advances from customers	3,382,649	2,726,482
Accruals	899,174	293,626
Other payables	830,096	1,513,905
Total trade and other payables	9,487,879	8,332,800

In the opinion of the directors, the carrying amounts of trade and other payables approximate to their fair value. The carrying amounts of the Company's trade and other payables are denominated in Uganda Shillings The maturity analysis of company's trade and other payables is as follows:

Year ended 31 December 2022	0 to 1 month Shs'000	2 to 3 months Shs'000	4 to 12 months Shs'000	Total Shs'000
Trade payables	1,506,519	1,286,703	1,582,738	4,375,960
Advances from customers	1,786,784	29,678	1,566,187	3,382,649
Accruals	899,174	-	-	899,174
Other payables	830,096	-	-	830,096
	5,022,573	1,316,381	3,148,925	9,487,879
Year ended 31 December 2021				
Trade payables	1,023,667	1,354,342	1,420,778	3,798,787
Advances from customers	627,091	1,090,592	1,008,799	2,726,482
Accruals	293,626	-	-	293,626
Other payables	1,113,755	150	400,000	1,513,905
	3,058,138	2,445,084	2,829,577	8,332,800

22. Retirement benefit obligations

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

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

	2022 Shs'000	2021 Shs'000
At start of year	878	-
Contributions for the year	1,456,792	773,780
Payments for the year	(823,420)	(772,902)
At end of year	634,250	878

NOTES (CONTINUED)

23. Cash from operations

	2022 Shs'000	2021 Shs'000
Reconciliation of profit before tax to cash used in operations:		
Profit before tax	2,909,608	7,469,095
Adjustments for:		
Depreciation on property, plant and equipment (Note 13)	4,114,107	3,585,019
Amortization of prepaid operating lease rentals (Note 15)	241,424	112,701
Ammortisation on software (Note 14)	2,807	1,160
Amortization of right of use asset (Note 28)	9,340	-
Write offs	486,066	121,296
Interest income	(797,782)	-
Interest on finance lease	5,604	-
Restatement of loan	-	7,543
Fair value loss on for trading financial assets	104,467	-
Expected credit losses	(36,768)	170,869
Changes in working capital:		
- inventories	1,791,336	783,007
- trade and other receivables	(4,288,212)	(3,174,701)
- staff loans	(7,381)	(34,755)
- retirement benefits obligation	633,372	878
- trade and other payables	1,155,079	1,492,254
Cash from operations	6,323,067	10,534,366

24. Related party transactions and balances

The Company is controlled by National Social Security Fund incorporated Uganda, which owns 32% of the Company's shares. The remaining 68% of the shares are the general public.

	2022 Shs'000	2021 Shs'000
i) **Key management compensation (including directors' remuneration)**		
Short term employee benefits	2,117,000	803,087
Termination benefits	-	236,013
	2,117,000	1,039,100

The Key management personnel include the Managing Director, Head of Internal Audit, Head of Finance, Head of Human Resource and Support Services, Head of Sales and Marketing and Head of Production.

	2022 Shs'000	2021 Shs'000
ii) **Directors' benefits and other remuneration**		
Salaries	300,502	196,285
iii) **Borrowings from related parties**		
At start	20,600,381	20,592,838
Restatement	-	7,543
At end of year	20,600,381	20,600,381

25. 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 and interest rate risk), credit risk and liquidity risk.

25. Risk management objectives and policies (continued)

Financial risk management (continued)

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

Risk management is carried out by the management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial

(a) **Market risk**

- Foreign exchange risk

The Company is exposed to foreign exchange risk arising from currency exposure primarily with respect to the US Dollar. The risk arises from future transactions, assets and liabilities in the statement of financial position date.

The table below summarises the effect on post-tax loss and components of equity had the Uganda Shilling weakened by 10% against the US Dollar, with all other variables held. If the Uganda shilling strengthened against each currency, the effect would have been the opposite.

	2022 Shs'000	2021 Shs'000
Effect on profit - decrease	55,726	158,672

A 10% sensitivity rate is being used when reporting foreign risk internally to key management personnel and represents managements assessment of the reasonably possible change in foreign exchange rates.

(b) **Credit risk**

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

In assessing whether the credit risk on a financial asset has increased significantly, the company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:
- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

25. **Risk management objectives and policies (continued)**

Financial risk management (continued)

(b) **Credit risk (continued)**

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	Lifetime expected credit losses	
As at 31 December	**2022 Shs'000**	**2021 Shs'000**
Trade receivables	4,047,412	4,723,832
Other receivables	7,645,629	2,334,719
Cash at bank	1,370,507	5,903,531
Gross carrying amount	13,063,548	12,962,082
Loss allowance	(2,615,804)	(2,652,572)
Exposure to credit risk	10,447,744	10,309,510

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the balance sheet date;
c) at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

Year ended 31 December 2022	Cash and cash equivalents Shs'000	Trade receivables Shs'000	Total Shs'000
At start of year	-	(2,652,573)	(2,652,573)
Changes relating to assets	-	36,768	36,768
At end of year	-	(2,615,805)	(2,615,805)

Year ended 31 December 2021	Cash and cash equivalents Shs'000	Trade receivables Shs'000	Total Shs'000
At start of year	-	(2,481,704)	(2,481,704)
Changes relating to assets	-	(170,869)	(170,869)
At end of year	-	(2,652,573)	(2,652,573)

25. Risk management objectives and policies (continued)

Financial risk management (continued)

(c) Liquidity risk

Cash flow forecasting is performed by the finance department of the Company by monitoring the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Note 11 and 21 discloses the maturity analysis of the borrowings and trade payables respectively.

The table below discloses the undiscounted maturity profile of the Company's financial liabilities:

Year ended 31 December 2022	**Interest rate %age**	**Between 1-3months Shs'000**	**Between 3-12 months Shs'000**	**More than 5 years Shs'000**	**Total Shs'000**
Interest bearing liabilities					
- Borrowings	15%	-	-	20,600,381	20,600,381
Non-interest bearing liabilities					
- Trade and other payables		5,022,573	4,465,306	-	9,487,879
Year ended 31 December 2021					
Interest bearing liabilities					
- Borrowings	15%	-	-	20,600,381	20,600,381
Non- Interest bearing liabilities					
- Trade and other payables		3,058,138	5,274,661	-	8,332,799

26. Capital management

Internally imposed capital requirements

The Company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set out by the Company's lenders;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business, and
- to maintain an optimal capital structure to reduce the cost of capital.

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 a of 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 equity (i.e. share capital, share premium, revaluation reserve, proposed dividends and retained earnings).

26. **Capital management (continued)**

Internally imposed capital requirements (continued)

The gearing ratios at 31 December 2022 and 2021 were as follows:

	2022 Shs'000	2021 Shs'000
Total borrowings (Note 11)	20,600,381	20,600,381
Less cash and cash equivalents (Note 18)	(1,370,507)	(5,903,531)
Net debt	19,229,874	14,696,850
Total equity	41,748,138	40,656,388
Gearing ratio	0.46	0.36

Externally imposed capital requirements

The Company's bankers have established certain guidelines for the management of capital and working capital. These are

- dividend pay-outs and any changes in the capital structure of the Company must first be approved in writing by the bankers.

27. **Segment information**

For management purposes, the company is organised into two business units based on the factory location and has two reportable operating segments that is Kajjansi 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 decisions about resource allocations and performance assessments. Segment performance is evaluated based on operating profit or loss in the financial statements.

The segment results for the year ended 31 December 2022 and 2021 were as follows;

Statement of profit or loss 31 December 2022	**Kajjansi factory Shs'000**	**Kamonkoli factory Shs'000**	**Total Shs'000**
Revenue from contracts with customers	24,929,000	11,687,097	36,616,097
Cost of sales	(14,045,394)	(7,832,160)	(21,877,554)
Gross profit	10,883,606	3,854,937	14,738,543
Other operating income	1,740,114	(40,050)	1,700,064
(Increase)/decrease in impairment losses	36,768	-	36,768
Selling and distribution expenses	(597,332)	(382,087)	(979,419)
Administrative expenses	(8,335,413)	(2,143,895)	(10,479,308)
Other operating expenses	(1,592,748)	(508,688)	(2,101,436)
Operating profit	2,134,995	780,217	2,915,212
Finance costs	(3,811)	(1,793)	(5,604)
Profit before tax	2,131,184	778,424	2,909,608

27. **Segment information (continued)**

Statement of profit or loss 31 December 2021	**Kajjansi factory Shs'000**	**Kamonkoli factory Shs'000**	**Total Shs'000**
Revenue from contracts with customers	25,207,463	11,478,694	36,686,157
Cost of sales	(12,229,830)	(7,218,207)	(19,448,037)
Gross profit	12,977,633	4,260,487	17,238,120
Other operating income	1,519,731	792,740	2,312,471
(Increase)/decrease in impairment losses	(109,356)	(61,513)	(170,869)
Selling and distribution expenses	(1,533,426)	(134,050)	(1,667,476)
Administrative expenses	(6,610,834)	(1,928,978)	(8,539,812)
Other operating expenses	(1,426,563)	(276,776)	(1,703,339)
Operating profit	4,817,185	2,651,910	7,469,095
Profit before tax	4,817,185	2,651,910	7,469,095

Statement of financial position	**Kajjansi factory Shs'000**	**Kamonkoli factory Shs'000**	**Total Shs'000**
31 December 2022			
Equity	(37,102,945)	(4,645,192)	(41,748,138)
Non-current liabilities	(8,918,906)	(15,887,606)	(24,806,513)
Non-current assets	39,995,962	19,681,861	59,677,823
Current assets	13,987,375	3,223,041	17,210,416
Current liabilities	(7,961,486)	(2,372,103)	(10,333,589)
31 December 2021			
Equity	(37,443,278)	(3,329,176)	(40,772,455)
Non-current liabilities	(9,404,768)	(16,081,452)	(25,486,220)
Non-current assets	29,574,513	18,202,846	47,777,359
Current assets	25,637,865	4,673,628	30,311,493
Current liabilities	(8,364,331)	(3,465,846)	(11,830,177)

28. **Right-of use assets**

Year ended 31 August	**2022 Shs'000**
Cost	
At start of year	-
Addition	149,437
At end of year	149,437
Amortisation	
At start of year	-
Charge for the year	9,340
At end of year	9,340
Right of use asset	140,097

SCHEDULE OF MANUFACTURING ACCOUNT

1. COST OF SALES	2022 Shs'000	2021 Shs'000
Opening stock of finished goods and work-in-progress	2,748,279	2,617,609
Purchases	5,584,882	4,546,006
Production costs (1.1)	16,406,281	15,032,701
Closing stock of finished goods and work-in-progress	(2,873,563)	(2,748,279)
Total cost of sales	21,865,879	19,448,037

1.1 Production costs

Utilities	2,112,925	1,827,447
Repairs and maintenance	1,941,825	2,516,144
Transportation expenses	843,005	782,230
Loading and offloading costs	303,719	213,430
Sales outlet expenses	23,956	30,051
Salaries and wages	3,940,394	3,877,955
Casual labour wages	3,150,414	1,857,133
NSSF company contribution	442,772	389,463
Staff pension and gratuity	413,850	337,491
Staff welfare	137,665	133,267
Insurance	279,565	201,729
Professional fees	-	8,615
Bonus	-	285,148
Depreciation of property, plant and equipment	2,816,191	2,572,598
Total production costs	16,406,281	15,032,701

SCHEDULE OF EXPENDITURE

	2022 Shs'000	2021 Shs'000
1. SELLING AND DISTRIBUTION EXPENSES		
Business promotion expenses	358,897	148,211
Donations	17,274	-
Bonus costs	-	314,952
Repairs and maintenance	173,346	138,334
Public relations and entertainment expenses	7,700	2,731
Sports and recreation costs	10,700	2,999
Transport expenses	245,391	729,492
Commission expense	76,755	233,570
Subscriptions expenses	64,282	23,799
Aftter sale services	7,510	-
Research and development	17,564	73,388
Total selling and distribution expenses	979,419	1,667,476
2. ADMINISTRATIVE EXPENSES		
Employment:		
Salaries and wages	4,678,352	3,756,882
NSSF company contribution	481,623	413,624
Gratuity and pension costs	443,384	311,758
Leave transport and allowance	444,567	192,071
Staff medical expenses	332,841	279,823
Staff welfare expenses	461,670	545,108
Staff termination pay	566,039	236,013
Staff training costs	43,244	46,323
Wages and allowance costs	153,313	324,345
Staff uniforms	496	50
Total employment costs	7,605,529	6,105,997
Other administrative expenses		
Directors' remuneration	300,502	196,285
Annual general meeting expenses	204,353	111,533
Audit fees		
- current year	60,000	57,000
Legal and professional fees	168,683	276,601
Consultancy fees	412,340	511,229
Travel expenses	205,573	181,964
Printing and stationery expenses	30,910	43,899
Other expenses	225,920	118,148
Bank charges	108,792	109,618
Telephone and communication costs	291,142	257,190
Write offs	684,043	121,296
Fuel	193,196	59,854
Unrealised exchange loss	-	(75,940)
Realised forex loss	-	75,418
Withholding tax expense	-	389,720
Total other administrative expenses	2,885,454	2,433,815
Total administrative expenses	10,490,983	8,539,812

NOTES (CONTINUED)

29. **Lease liability**

	2022
	Shs'000
Non current	
Lease liability	155,041

The total cash outflow for leases in the year was:

At start of year	149,437
Interest charged to profit or loss	5,604
Payments of principal portion of the lease liability	-
At end of year	155,041

30. **Presentation currency**

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

31 **Commitments and contingencies**

The company had no contingent liabilities or capital commitments as at 31 December 2022.

32 **Events after the reporting period**

There were no events adjusting or non-adjustable which would require a disclosure in the financial statements

SCHEDULE OF EXPENDITURE (CONTINUED)

	2022 Shs'000	2021 Shs'000
3. OTHER OPERATING EXPENSES		
Establishment		
Rent and rates	92,047	49,682
Repairs and maintenance	105,900	159,057
Insurance	138,265	155,216
Software licence expenses	75,752	66,037
Security expenses	137,985	146,995
Amortisation on lease hold	241,424	112,701
Depreciation on property, plant and equipment	1,297,916	1,012,491
Ammortisation on right of use	9,340	-
Ammortisation on software	2,807	1,160
Total other operating expenses	2,101,436	1,703,339

4. FINANCE COSTS

	2022 Shs'000	2021 Shs'000
Interest on finance lease	5,604	-
	5,604	-