Uganda Clays Ltd

Quality. Durability. Beauty to last

Annual Report

For the year ended
31st December 2012

Uganda Clays Limited
Annual Report and Financial Statements
For the year ended 31 December 2012

Vision:
To be the preferred provider of building products.

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

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9 August 2013

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Uganda Clays Ltd in respect of the year ended 31 December 2012 will be convened and held on **Friday 30 August 2013 at 2:30 pm at the Kampala Sheraton Hotel, Rwenzori Ball Room.**

Agenda

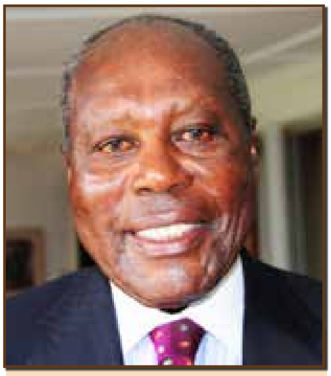
1. To receive and confirm the minutes of the meeting held on 26 August 2012
2. To receive and consider the Directors' report and audited financial statements for the year ended 31 December 2012, together with the report of the auditors.
3. To rotate and elect Directors in accordance with Article 59 of the Articles of Association of the Company and determine their remuneration.
4. To appoint auditors for the next year ending 31 December 2013 and authorize the Directors to fix their remuneration.
5. To consider any other business for which notice has been given to the Secretary at least 48 hours before the meeting.

Lex Uganda Advocates & Solicitors
COMPANY SECRETARY

Note:

1. A shareholder who is unable to attend the AGM may appoint a proxy to attend the meeting on his or her behalf. Proxy forms are in the Annual Report.
2. Duly completed proxy forms must be delivered to the Company's head office at Kajjansi or faxed to **+256 414 200167**, to be received at least 48 hours before the meeting.

Board of Directors

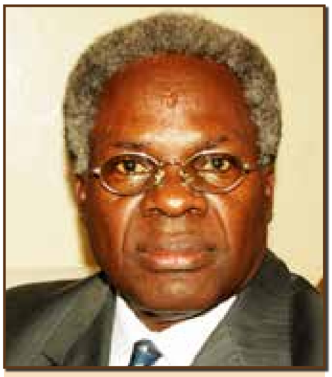


Dr Martin Aliker
Chairman

Appointed 24 August 2010. He is also Chairman of Hima Cement Ltd and Vice-Chairman of NIC. 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.

Mr Richard Byarugaba
Director & Chairman of the Board Audit Committee 29 October 2010.

Appointed 29/Oct/2010
He is the Managing Director of NSSF and former Managing Director of Nile Bank and Global Trust Bank. He is a member of the Institute of Certified Public Accountants of Uganda



Dr Ijuka Kabumba
Director

Appointed 24 August 2010. He is the former Managing Director of NIC and currently a professor of Public Administration at Nkumba University

Mrs Lillian Sebugenyi Mukasa
Director

Appointed 24 July 2009. Mrs Mukasa is an enterpreneur and a Pharmacist. She is a former proprietor of City Pharmacy and currently owns and manages an information Technology firm specialising in records management.

Mrs Agnes Kunihira
Director

Appointed 24 August 2012. She is a member of the Board of Directors of NSSF. She is a social worker and community educator.

Mr Bernard Katureebe
Director

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

Eng. Martin Kasekende
Director

Appointed 24 August 2012. He is the Chairman of the Board Administration and Technical Committee, and Acting Managing Director of the Company. 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 is a former General Manager of National Housing and Construction Corporation, and a former Board member of NSSF, Housing Finance Bank Ltd and Private Sector Foundation.

Mr David Nambale
Director

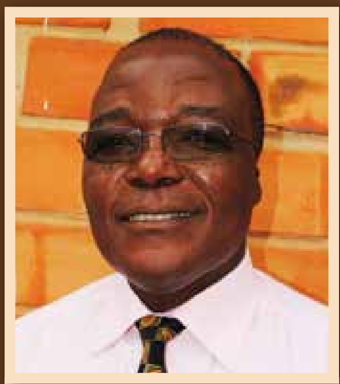
Appointed 24 August 2012. He is the Corporation Secretary of NSSF. He is a former Company Secretary of the Microfinance Support Centre Ltd. He is a partner in the law firm of Nambale, Nerima & Company Advocates and an Advocate of the High Court of Uganda.

Mr Charles Rubaijaniza
Managing Director (resigned 30-4-2013)

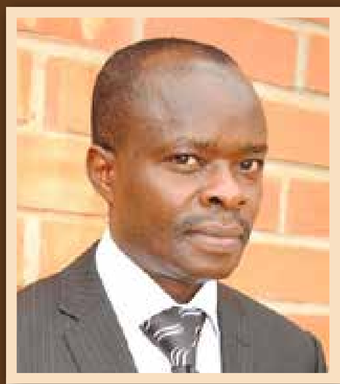
Management Team

Eng. Martin Kasekende
(Acting Managing Director)

Ms. Sepiranza Mayanja
(Information Technology Manager)



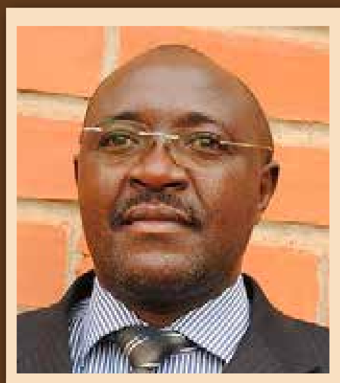
Mr. John Gitta
(Production Manager)



Mr. Peter Kiwanuka
(Human Resources and Administration Manager)

Ms. Jacqueline Kiwanuka
(Finance Manager)

Mr. Richard Mugabyomu
(Internal Audit Manager)



Mr. Nazarious Rukanyangira
(Marketing and Sales Manager)

Corporate Information

Auditors

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

Lawyers & Company Secretary

Lex Uganda Advocates, Solicitors
8th Floor Communications House
Plot 1 Colville Street
P.O. Box 22490, Kampala
Tel: 0414 232733/344172
Fax: 0414 254721
Email: partners@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

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

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

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

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.

Renaissance Capital Ltd.
Plot 3 Kololo Hill Lane
P.O. Box 893 Kampala
Tel: +256 312 264775/76
Fax: +256 312 264755
Email: enquiries@renaissance.co.ug

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

Registered Office

Uganda Clays Limited
Plot 22/2 Kitende, Kajjansi
Kampala-Entebbe Road
P O Box 3188
KAMPALA

CORPORATE INFORMATION

Analysis of Shareholding

List of Largest 10 Shareholders

MEMBERNO	ADDRESS	SHARES	PERCENT
0018856	NATIONAL SOCIAL SECURITY FUND	292,640,000	32.52
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0012491	NATIONAL INSURANCE CORPORATION LTD	160,783,091	17.86
	P.O BOX 7134 KAMPALA		
	KAMPALA		
0021806	CENTRAL BANK OF KENYA PENSION FUND	23,900,000	2.66
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0009199	UGANDA COMM EMPLOYEES CONTRB	21,377,042	2.38
	SCHEME-AAU		
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0021741	KENYA POWER AND LIGHTING COMPANY	20,207,200	2.25
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0009318	BANK OF UGANDA STAFF RETIREMENT	18,836,500	2.09
	BENEFIT SCH-SIM		
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0000833	MR JOSEPH TUKURATIIRE & KETRAH	15,125,783	1.68
	P.O. BOX 12822		
	KAMPALA		
	KAMPALA		
0021776	KENYA AIRWAYS LIMITED STAFF	15,000,000	1.67
	PROVIDENT FUND		
	C/O STANDARD CHARTERED BANK UG		
	P.O. BOX 7111		
	KAMPALA		
0041343	UGANDA DEVELOPMENT BANK LIMITED	10,147,335	1.13
	P.O.BOX 7210		
	KAMPALA		
0077771	NATIONAL SOCIAL SECURITY FUND-SIMS	9,575,568	1.06
	C/O STANDARD CHARTERED BANK		
	UGANDA LTD		
	KAMPALA		

Summary of Shareholders

INSTITUTIONAL	NO.OF SHAREHOLDERS	SHARES	% HOLDING
Uganda	81	598,552,687	66.51
Foreign	20	109,634,194	12.18
INDIVIDUAL			
Uganda	2,446	177,583,923	19.73
Foreign	151	14,229,196	1.58
GRAND TOTAL	**2,698**	**900,000,000**	**100.00**

MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER'S STATEMENT

Financial Results

The Company saw a slight drop in turnover in 2012 in comparison to 2011 at UShs 23.5 billion and UShs 25.8 billion respectively mainly due to the slow growth in the construction sector during the year. The impact of the high interest rates that drastically increased in 2011 continued into 2012. This had a negative effect on the demand for the company's products. However, an increment of 6.7% in the gross profit was registered.

The cost of production at the Kamonkoli factory remained high because of the cost of furnace oil given the volatility of fuel prices, as well as the high finance charges on the loan used to finance the factory's construction. This has in part contributed to the slight reduction in gross profit margin from 59% to 52% in 2011 and 2012 respectively.

The operating expenses during the year remained relatively constant with the 2011 position standing at UShs 5.9 billion in 2012 compared to 5.7 during 2011. On the other hand, operating profit increased from UShs 604 million in 2011 to UShs 2.8 billion in 2012, and the company's total assets increased by 41% (UShs 62.5 b in 2012 and UShs 44.5 b in 2011).

Summary of Financial Highlights 2008 - 2012

	2012	2011	2010	2009	2008
	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000
Turnover	23,959,107	25,853,586	17,792,671	16,722,124	13,548,257
Profit / (Loss) before tax	3,950,779	904,354	(5,445,289)	(778,744)	3,155,315
Profit / (Loss) after tax (earnings)	2,803,599	604,820	(3,858,961)	(707,062)	2,151,982
Dividends	-	-	-	-	-
Cash generated from operations	4,163,366	1,405,461	4,295,463	7,747,990	5,818,447
Shareholders' funds	35,253,123	20,423,512	19,818,692	23,677,653	24,384,715
Capital expenditure	17,390,018	3,562,096	532,605	6,560,261	12,096,193
Total assets	75,532,248	56,728,909	55,274,193	57,461,644	52,470,889
Per share data					
Dividends per share (UShs)	-	-	-	-	-
Earnings / (Loss) per share (UShs)	3.12	0.76	(4.82)	(0.88)	2.70

Units of major products (Output at both factories)

Products (pieces)	2012	2011	2010	2009	2008
Roofing tiles	12,731,689	8,103,077	6,922,272	6,386,555	5,456,649
Maxpans	1,714,405	2,071,378	1,779,250	1,914,171	1,500,469
Half bricks	5,170,387	6,895,206	5,312,549	5,940,567	5,013,183

Production

Production in Kajjansi was 83% to the budget for the roofing tiles and 77% for the max – pans. The production in Kajjansi was hampered by machine break downs. The Company injected 1.5 billion worth of spares in the factory and this will reflect in the coming years.

Kamonkoli produced 91% of the budget for roofing tiles. The major hindrances were Kaolin and the rising costs of furnace oil coupled with its scarcity to beat the rising costs and scarcity of furnace oil.

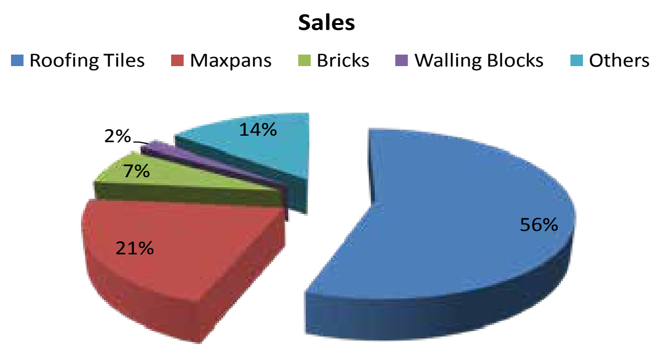
This year the Company managed to buy a major deposit of Kaolin which will run the company for more than 15 years. Experiments are ongoing to find alternative fuels for the tunnel kilns, to beat the rising costs and the scarcity.

The production in Kamonkoli has stabilized so much that no one has to wait for the tiles anymore.

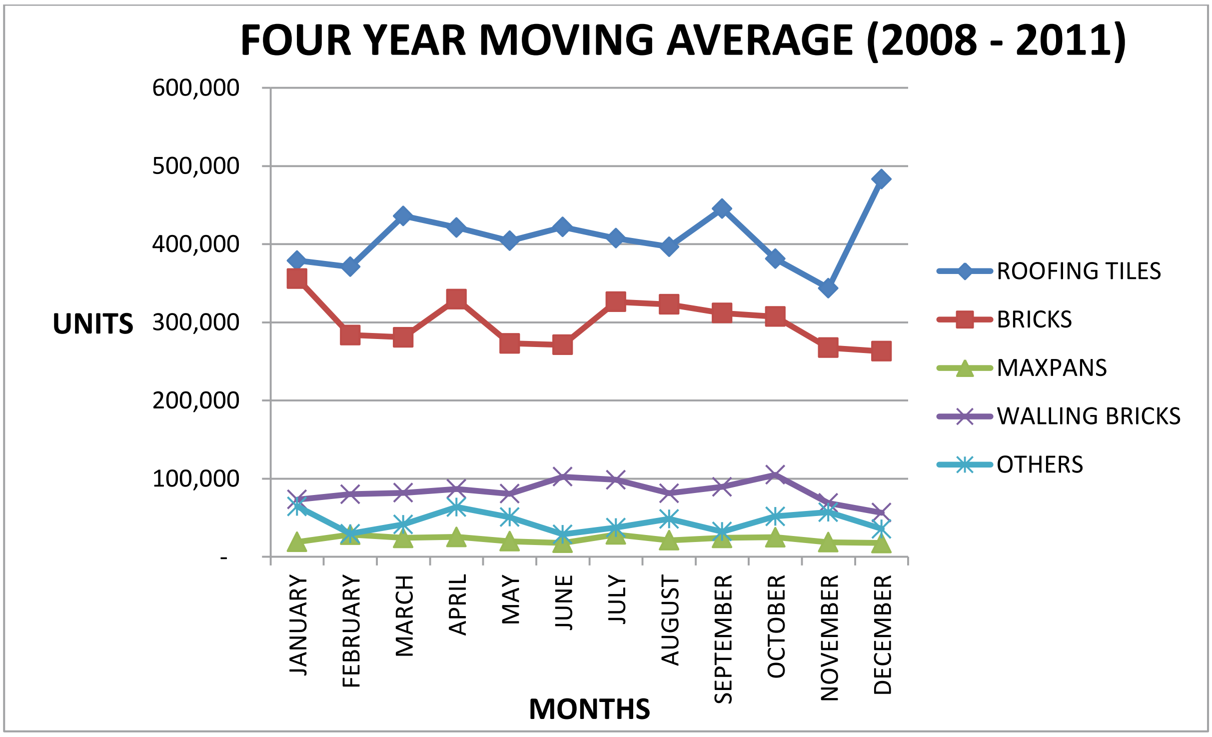
Marketing

In regard to 2012, roofing tiles and maxpans were the major products sold. Roofing tiles remain the major income earners for the Company contributing 56% of the sales revenue. However, with the increasing construction of storied buildings demand for maxpan blocks is steadily increasing and they contributed 21% of the sales revenue.

Chart of value contribution by products



Past Trend Performance:



The strategy of raising annual revenue for 2012 was majorly affected by the external factors especially the 2nd and 3rd Quarter (High Bank Interest rates, limited remittances by Nationals working abroad and Inflation) which in turn affected most Real Estate Dealers who are complaining of low property sales.

The repossessed Ntinda Outlet is still performing below its Budget but on a positive trend. Commission has been introduced and recruitment of more Field staff on commission terms to solicit orders in their catchment zones is ongoing to improve performance. Similarly all Agencies are being revamped and new ones are being selected and have been directed to employ Field Marketing Assistants to be trained and get orders to meet sales targets.

Seminars are being organized with key decision makers i.e. Architects and Civil Engineers (through their Professional bodies) and Site Foremen to educate them about the Products and establish partnerships to mention but a few.

Human Resources

Uganda Clays Limited is among the largest employers in Wakiso and Budaka districts where the Kajjansi and Kamonkoli factories are located respectively. As of 31st December 2012 the Company had a total work force of 682 employees. Kajjansi factory employed 543 and Kamonkoli 139.

During the year about 45 employees retired from the services of the Company including two senior managers. The Human Resources Manager, Ms. Rebecca Nabweteme, and The Finance Manager Mr. Richard Kajungu retired on 15th June2012 and 12th August 2012 respectively. Arrangements were made for recruitment to replace the above mentioned managers and have a fully constituted management team by mid 2013. The Company continued to explore ways to retain the best staff with the right skills and attitude to implement the business strategy. This became the cornerstone of the Human Resources department ever since it was elevated to a department in 2010.

On this note therefore I take this opportunity to thank the following outgoing employees for their work and contribution to the Company.

	Name	Post at retirement	Years of service
1	Remigious Ssejjuko	Procurement Assistant	25
2	Kafeero Dissan	Yard sorter	22
3	Kasita Henry	Driver	22
4	Namisi Simon	Human Resources Assistant	20
5	Esayu Amos	Administrative Assistant-Security	20
6	Wanyama Charles	Yard checker	19
7	Mugisha B Eliasi	Yard sorter	19
8	Kajungu Richard	Finance Manager	18
9	Mukasa David	Machine operator	17
10	Sewalu Charles (RIP)	Headman	15
11	Lwanyaga Robert	Driver	11
12	Kaddu Francis	Kiln loader	10
13	Mukooza Musa	Mechanic	10
14	Lutaaya Wilson	Yard sorter	9
15	Mukasa G Kayiira	Fireman	9

Key positions which fell vacant in 2012 have been filled. Ms. Jacqueline Kiwanuka was appointed Finance Manager effective 1st February 2013 and Mr. Peter Kiwanuka was appointed Human Resources & Administration Manager effective 15th February 2013. Due to demand for continuous productivity improvement the Quality Assurance Section was elevated to a department and a Quality Manager, Mr Nelson Kiiza was appointed effective 1st March 2013.

I also report to you that early this year (2013) the Marketing Manager Mr. Joseph Kitone and Managing Director Mr. Charles Rubaijaniza retired. Subsequently Mr. Nazarious Rukanyangira was appointed Marketing Manager. The position of the Managing Director is yet to be substantively filled .In the meantime the board appointed Engineer Martin Kasekende as the Acting Managing Director /CEO effective 1st May 2013

With this new Management team fully constituted and other interventions being undertaken, we are optimistic that the Company will be do better and provide a return on investment for shareholders for the year 2013.

On behalf of the Board I take this opportunity to thank the outgoing employees and appreciate their work and contribution to the company and welcome the new Management team.

Corporate Social Responsibility:

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

The Company continues to value education and groom 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 over 100 interns in 2012.

Eng. Martin Kasekende
AG. MANAGING DIRECTOR

CHAIRMAN'S STATEMENT

Introduction

During the year under review, the Bank of Uganda adopted tight monetary and fiscal measures to curb inflation. This had an effect of suppressing consumer purchasing power. The Central Bank's tight monetary policy also led to a hike in interest rates by commercial banks. As a result, there has been lower than expected economic growth.

There has been heightened competition in the building materials industry with a number of entrants in the sector. The competition has spawned a host of cheap substitutes and imitation products, especially roofing materials. These factors had a negative effect on the Company's sales performance.

Amid this challenging and competitive environment, the Company's market share remained strong. The Company delivered a reasonable performance with a profit after tax of UGX 2,803,599,000 compared to UGX 604,820,000 for the previous year.

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 regular Board meetings. The two Committees of the Board, namely the Board Audit Committee and the Board Administration and Technical Committee, also met regularly. All the Directors since the last Annual General Meeting are still in office, apart from Mr Charles Rubaijaniza who ceased to be a Director on resignation as Managing Director.

Dividend

The Board of Directors is deeply aware that the shareholders who have invested their money in the Company expect a regular return on 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 have eaten substantially into the profits of the Company. Consequently, the Directors do not recommend the payment of any dividend for year 2012.

Outlook for the Future

Towards the end of 2012, the Central Bank begun to ease the strict monetary stance and to lower the Central Bank rate. As a result, commercial bank lending rates have steadily come down since. Inflation has been brought down from a high of 27% at the beginning of 2012 to 5.8% at the end of 2012. The macroeconomic improvement that begun in 2012 is expected to stabilize in 2013. The macroeconomic indicators for 2013 look more stable.

Our priorities are to meet our customers' 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 improving quality, reducing the cost of production and enhancing the marketing 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 will also continue to strengthen management of the Company. We have embarked on the recruitment of a new Management team. The Human Resources and Administration Manager, Finance Manager, Marketing and Sales Manager, Quality Manager and Information Technology Manager are all new. Following the resignation of Mr. Charles Rubaijaniza, the Board appointed Eng. Martin Kasekende Managing Director/CEO on an interim basis and has commenced the process of recruiting a suitable. The Board has full confidence in the ability of Eng. Kasekende, who has wide experience, to manage the Company in the interim.

The Board will continue to provide close management oversight through the Board and its Committees to ensure proper management and functioning of the Company, in accordance with the established corporate governance framework.

A Note of Appreciation

I would like to thank the shareholders for the continued commitment to the Company. I wish to appreciate our staff for their continued effort and service to the Company. The success of the Company depends largely on their effort. The outgoing Managing Director, Mr Charles Rubaijaniza, has served the Company for over twenty five years in various capacities. I thank him for long service and wish him well for the future.

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

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

We value the contribution of all who have given value to the business of the Company and assure you all of our continued dedication as we strive for better results in 2013.

Dr Martin Aliker
CHAIRMAN BOARD OF DIRECTORS

DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 31 December 2012 which disclose the state of the affairs of Uganda Clays Limited ('the Company').

Principal activities

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

Results

The Company made a net profit of UGX 2,803,599,000 for the year. (2011: profit of UGX 604,820,000) which has been added to retained earnings.

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil per share).

Directors and their Emoluments

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

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

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

During the year under review, other than as disclosed in note 29 to the financial statements, no Director has received or become entitled to receive any benefit other than directors' fees and gratuity, and monthly emoluments in the case of the Managing Director.

The total amount of emoluments of the Directors for the year is disclosed in note 29 to the financial statements.

Board Meetings

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

No.	Name of Director	No. of Board meetings attended	% of attendance of Board meetings
1	Dr. Martin Aliker	6/7	85.7%
2	Mr. Richard Byarugaba	7/7	100%
3	Dr. Ijuka Kabumba	6/7	85.7%
4	Eng. Martin S Kasekende	2/2	100%
5	Mrs. Lillian Sebugenyi Mukasa	5/7	71.4%
6	Mr. Bernard Katureebe	5/7	71.4%
7	Mr. David Nambale	2/2	100%
8	Mrs. Agnes Kunihira	2/2	100%
9	Mr. Charles Rubaijaniza	7/7	100%
10	Eng. John Senfuma	5/7	71.4%
11	Mr. James Musaazi	5/7	71.4%

Company Secretary

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

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

Auditors

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

Issue of Financial Statements

The financial statements in this report were authorised for issue by a resolution of the Board of Directors passed on 25-4-2013.

By order of the Board,

Lex Uganda Advocates & Solicitors
CAMPANY SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Ugandan Companies Act (Cap 110) requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Company keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for safeguarding the assets of the Company.

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

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The financial statements were approved by the Board of Directors on April 25th 2013 and were 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 which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 6 to 39.

Directors' responsibility for the financial statements
The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act (Cap 110), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Uganda Clays Limited as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act, (Cap 110).

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Ugandan Companies Act (Cap 110) 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 the audit;

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

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

KAMPALA
6th May 2013

STATEMENT OF COMPREHENSIVE INCOME

	Note	2012 Ushs '000	2011 Ushs '000
Revenue	2	23,959,107	25,853,586
Cost of sales	3	(12,535,938)	(15,152,224)
Gross profit		**11,423,169**	**10,701,362**
Other operating income	4	3,853,808	160,991
Administrative expenses	5	(1,293,893)	(1,297,486)
Distribution expenses	6	(1,926,446)	(1,963,542)
Other operating expenses	7	(2,743,838)	(2,513,539)
Operating profit		**9,312,800**	**5,087,786**
Finance costs	8	(5,362,021)	(4,183,432)
Profit before tax	**9**	**3,950,779**	**904,354**
Income tax expense	10(a)	(1,147,180)	(299,534)
Profit for the year		**2,803,599**	**604,820**
Other comprehensive income for the year	13	17,180,017	-
Deferred income tax effect	10(a)	(5,154,005)	-
Other comprehensive income for the year, net of tax		12,026,012	-
Total comprehensive income for the year, net of tax		**14,829,611**	**604,820**
		Ushs/share	**Ushs/share**
Basic and diluted earnings per share	11	3.12	0.67

STATEMENT OF FINANCIAL POSITION

	Note	2012 Ushs '000	2011 Ushs '000
Equity			
Issued capital	12	900,000	900,000
Share premium	12	9,766,027	9,766,027
Revaluation reserves	13	14,446,577	2,702,440
Retained earnings		10,140,519	7,055,045
Total equity		**35,253,123**	**20,423,512**
Non-current liabilities			
Deferred income tax liability	14	9,939,170	3,637,985
Retirement benefit obligations	15	2,506,684	2,528,264
Finance lease: non-current portion	16	480,117	775,881
Borrowings: non-current portion	17	14,409,149	17,148,342
Total non-current liabilities		**27,335,120**	**24,090,472**
Total equity & non-current liabilities		**62,588,243**	**44,513,984**
Represented by:			
Non-current assets			
Property, plant and equipment	18	62,386,555	47,579,720
Prepaid operating lease rentals	19	204,045	209,239
		62,590,600	**47,788,959**
Current assets			
Current income tax recoverable	10(b)	121,912	33,795
Staff loans	20	230,041	561,949
Inventories	21	10,097,837	6,148,828
Trade and other receivables	22	2,176,934	1,995,085
Cash and bank balances	23	314,924	195,924
		12,941,648	**8,935,581**
Assets classified as held for sale	24	-	4,369
		12,941,648	**8,939,950**
Current liabilities			
Finance lease: current portion	16	269,691	269,691
Borrowings: current portion	17	7,803,170	7,038,445
Trade and other payables	25	4,871,144	4,906,789
		12,944,005	**12,214,925**
Net current liability		**(2,357)**	**(3,274,975)**
		62,588,243	**44,513,984**

The financial statements were approved by the Board of Directors on **25th April 2013** and signed on its behalf by:

....

Director **Director**

STATEMENT OF CHANGES IN EQUITY

	Issued capital (Note 12) Ushs '000	Share premium (Note 12) Ushs '000	Revaluation reserves (Note 13) Ushs '000	Retained earnings Ushs '000	Total equity Ushs '000
At 1 January 2011	900,000	9,766,027	2,984,315	6,168,350	19,818,692
Profit for the year	-	-	-	604,820	604,820
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year, net of tax	-	-	-	604,820	604,820
Transfer of excess depreciation	-	-	(281,875)	281,875	-
At 31 December 2011	**900,000**	**9,766,027**	**2,702,440**	**7,055,045**	**20,423,512**
At 1 January 2012	900,000	9,766,027	2,702,440	7,055,045	20,423,512
Profit for the year	-	-	-	2,803,599	2,803,599
Other comprehensive income for the year, net of tax	-	-	12,026,012	-	12,026,012
Total comprehensive income for the year, net of tax	-	-	12,026,012	2,803,599	14,829,611
Transfer of excess depreciation	-	-	(281,875)	281,875	-
At 31 December 2012	**900,000**	**9,766,027**	**14,446,577**	**10,140,519**	**35,253,123**

STATEMENT OF CASH FLOWS

	Note	2012 Ushs '000	2011 Ushs '000
Operating activities			
Cash generated from operations	28	4,163,366	1,405,461
Interest paid		(3,290,872)	(2,811,656)
Net cash flows from /(used in) operating activities		**872,494**	**(1,406,195)**
Investing activities			
Purchase of property, plant and equipment	18	(210,001)	(3,562,096)
Proceeds from sale of land		3,797,887	56,865
Net cash flows from / (used in) investing activities		**3,587,886**	**(3,505,231)**
Financing activities			
Repayment of leases		(295,764)	(337,510)
Proceeds from borrowings	17	873,947	7,338,173
Repayments of borrowings		(4,232,488)	(3,553,113)
Net cash flows (used in) / from financing activities		**(3,654,305)**	**3,447,550**
Net increase / (decrease) in cash and cash equivalents		**806,075**	**(1,463,876)**
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		(2,424,623)	(960,747)
Net increase / (decrease) in cash & cash equivalents for the year		806,075	(1,463,876)
Cash and cash equivalents at 31 December	**23**	**(1,618,548)**	**(2,424,623)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 (A) General information

Uganda Clays Limited is incorporated in Uganda under the Companies Act (Cap 110) as a public limited liability company, and is domiciled in Uganda. The address of its registered office is:

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

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on **25th April 2013.**

1 (B) Summary of significant accounting policies

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

(i) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act (Cap 110). The financial statements are presented in the functional currency, Uganda Shillings (Ushs), rounded to the nearest thousand, and prepared under the historical cost convention except where stated otherwise.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(C) below.

(ii) Adoption of new and amended standards and interpretations

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

- IAS 1 Financial statement presentation (Amendment) – 1 July 2012
- IAS 12 Income taxes (Amendment) – 1 January 2012
- IFRS 1 *First-time Adoption of international Financial Reporting Standards (Amendment)* – 1 July 2011
- IFRS 7 Financial *Instruments: Disclosures (Amendment)* – 1 July 2011

The adoption of the standards or interpretations is described below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(ii) Adoption of new and amended standards and interpretations (continued)

IAS 1 *Financial statement presentation (Amendment)*
The amendment is effective for annual periods beginning on or after 1 July 2012 and requires that items of other comprehensive income be grouped in Items that would be reclassified to profit or loss at a future point (for example, upon derecognition or settlement) and items that will never be reclassified. This amendment only effects the presentation in the financial statements and had no impact on the Company's financial position or performance.

IAS 12 *Income taxes (Amendment)*
The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment will have no impact on the Company after initial application.

IFRS 1 *First-time Adoption of international Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)*
The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS.

IFRS 7 Financial *Instruments: Disclosures - Transfer of financial assets (Amendment)*
The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:
- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets) - to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets
- Financial assets are not derecognised in their entirety – to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities.

The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

Standards issued but not yet effective
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Company's financial position or performance in the period of initial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Standards issued but not yet effective (continued)

application but additional disclosures will be required. In cases where it will have an impact, the Company is still assessing the possible impact.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. These amendments are not expected to have an impact on the Company's financial statements as the Company has no financial assets and financial liabilities that it offsets.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. This amendment is not expected to have an impact on the Company's financial statements as the Company has no financial assets and financial liabilities that it offsets.

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. IFRS 9 initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected during 2013. The Company is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Company at the date of adoption, it is not practical to quantify the effect.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The Company will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Company starting 1 July 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Standards issued but not yet effective (continued)

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

- Borrowing costs - clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23, including those incurred on qualifying assets under construction.
- 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.
- 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.
- 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.
- IAS 34 Interim Financial Reporting. The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

The following standards were issued but were not yet effective as at the date of issuance of the Company's financial statements and are not expected to have an impact on the Company's financial statements.

- IAS 19 Post employee benefits (Amendment)
- IAS 27 *Separate Financial Statements* (as revised in 2011)
- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
- *IFRS 1 time Adoption of International Financial Reporting Standards (Amendment) - Government Loans*
- IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of Interest in Other Entities*
- IFRS 10 *Consolidated Financial Statements – Investment entities (Amendment)*
- *IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*
- Improvements to IFRSs – 2009 – 2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013): Repeated application of IFRS 1

(iii) Revenue recognition

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

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:
(i) Sales of goods are recognised in the period in which the Company delivers products to the customer, the customer has accepted the products and it is probable that the economic benefits associated with the transaction will flow to the Company; and
(ii) Interest income on bank deposits is recognised on a time proportion basis using the effective interest rate method.

(iv) Translation of foreign currencies

Transactions are recorded on initial recognition in Uganda Shillings, being the currency of the primary economic environment in which the Company operates (the functional currency). Transactions in foreign currencies are converted into Uganda Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(v) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Land and buildings and plant and machinery are subsequently shown at fair value, based on periodic valuations by external independent valuers, less subsequent accumulated depreciation and impairment losses.

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

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and then transferred to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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

Leasehold buildings	Over the shorter of the lease period and useful life of buildings
Plant and machinery	10%
Furniture and fittings	10%
Vehicles	25%
Computer equipment	33.3%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete the assets for its intended use. All other borrowing costs are expensed in profit or loss.

(vi) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(vii) Impairment of non financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(viii) Leases

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Summary of significant accounting policies (continued)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. The details of the finance lease are in Note 16.

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

(ix) 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, other direct costs and related production overheads, but excludes interest expense.

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

(x) Loans and receivables

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

Loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value including transaction costs that are directly attributable to the acquisition. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss upon disposal or impairment as well as through the amortisation process.

The Company assesses at each reporting date whether there is objective evidence that loans and receivables are impaired. Loans and receivables are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the loan or receivable that can be reliably estimated.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(xi) Borrowings and payables

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

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Offsetting

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

(xii) Taxes

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Ugandan Income Tax Act.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in profit or loss.

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

Deferred tax is provided for in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates enacted or substantively enacted at reporting date

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and are expected to apply when the related deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable

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

(xii) Taxes (continued)

profits will be available against which the temporary differences can be utilised. Deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available to enable the deferred tax asset to be recovered. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

VAT

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

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

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

(xiii) 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.

xiv) 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 employee service in the current and prior periods.

The Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Company's contributions to the defined contribution pension scheme are charged to profit or loss in the year in which they fall due.

xv) Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(xvi) 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.
Summary of significant accounting policies (continued)

Cash and cash equivalents (continued)

Bank overdrafts are shown within borrowings under current liabilities on the statement of financial position.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

1 (C) Critical accounting assumptions, estimates and judgements

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

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

Property, plant and equipment
Critical estimates are made by the directors in determining depreciation rates for property and equipment. The rates used are set out in Note 1(B) (v).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

concern basis.

Revaluation of property, plant and equipment
The Company measures its property, plant and equipment at revalued amounts with changes in

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

fair value being recognised in other comprehensive income. The Company engaged independent valuation specialists to determine fair value as at 31 December 2012.

Critical judgements in applying the entity's accounting policies

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

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

The Company's activities expose it to a variety of financial risks: Market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

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

Market risk

(i) Foreign exchange risk

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

The Company's profit before tax would decrease/increase by UShs 1,324,000 (2011: UShs 593,000) were the US$ foreign exchange rate to change by 3%. This variation is measured by reference to foreign currency exposures existing at reporting date.

The variations in other currencies do not have a material impact on the Company's results.

The table below summarises the Company's exposure to foreign currency exchange rate risk. All balances are stated in thousands of UShs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Foreign exchange risk (continued)

At 31 December 2012	**Ushs '000***	**Ushs '000**	**Total Ushs '000**
Financial assets			
Trade and other receivables	-	2,176,933	2,176,933
Staff loans	-	230,041	230,041
Cash and bank balances	44,297	270,627	314,924
	44,297	2,677,601	2,721,898
Financial liabilities			
Retirement benefit obligations	-	2,506,684	2,506,684
Finance lease: non-current portion	-	480,117	480,117
Borrowings: non-current portion	-	14,409,149	14,409,149
Trade and other payables	-	4,871,144	4,871,144
Finance lease: current portion	-	269,691	269,691
Borrowings: current portion	161	7,803,009	7,803,170
	161	30,339,794	30,339,955
Net foreign exchange gap	**44,136**		

At 31 December 2011	**Ushs '000 ***	**Ushs '000**	**Total Ushs '000**
Financial assets			
Trade and other receivables	-	1,995,085	1,995,085
Staff loans	-	561,949	561,949
Cash and bank balances	38,573	157,351	195,924
	38,573	2,714,385	2,752,958
Financial liabilities			
Retirement benefit obligations	-	2,528,264	2,528,264
Finance lease: non-current portion	-	775,881	775,881
Borrowings: non-current portion	-	17,148,342	17,148,342
Trade and other payables	58,348	4,848,441	4,906,789
Finance lease: Current portion	-	269,691	269,691
Borrowings: current portion	-	7,038,445	7,038,445
	58,348	32,609,064	32,667,412
Net foreign exchange gap	**(19,775)**		

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Credit risk

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

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

	2012 Ushs '000	2011 Ushs '000
Bank balances	130,624	46,371
Trade receivables	232,383	714,761
Staff loans	230,041	561,949
Amount due from employee retirement fund administrator	597,103	660,535
Staff and other receivables	832,383	61,012
	2,022,534	**2,044,628**

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.

None of the above assets are past due or impaired except for the following trade receivables amounts:

	2012 Ushs '000	2011 Ushs '000
Past due but not impaired:		
- by up to 180 days	208,463	702,510
- by 181 to 360 days	23,920	12,251
Total past due but not impaired	232,383	714,761
Impaired- past due by >360 days	359,265	268,734
Gross amount	591,648	983,495
Less: Allowance for impairment	(359,265)	(268,734)
Net amount	232,383	714,761

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

Movement on allowance for impairment:	2012 Ushs '000	2011 Ushs '000
At 1 January	268,734	114,224
Add: Charge for the year	90,531	154,510
At 31 December	359,265	268,734

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Liquidity risk

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

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Over 2 years
	Ushs '000	Ushs '000	Ushs '000
At 31 December 2012:			
- Borrowings (excluding finance leases)	7,803,170	3,104,405	12,982,823
- Finance leases	269,691	269,691	376,815
- Trade and other payables	4,871,144	-	-
	12,944,005	**3,374,096**	**13,359,638**
At 31 December 2011:			
- Borrowings (excluding finance leases)	7,038,445	5,741,087	13,085,334
- Finance leases	269,691	269,691	672,579
- Trade and other payables	4,906,789	-	-
	12,214,925	**6,010,778**	**13,757,913**

Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for borrowings.

The table below summarises the exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual maturity dates. All figures are in thousands of Uganda Shillings.

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

Interest rate risk (continued)

As at 31 December 2012	1 to 3 Months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	2,176,934	2,176,933
Staff loans	57,510	172,531	-	-	230,041
Cash and bank balances	-	-	-	314,924	314,924
	57,510	172,531	-	2,491,857	2,721,898
Financial liabilities					
Finance leases	67,423	202,268	480,117	-	749,808
Retirement benefit obligation	-	-	-	2,506,684	2,506,684
Trade and other payables	1,217,786	3,653,358	-	-	
Borrowings	1,950,792	5,852,378	14,409,149	-	22,212,319
	3,236,001	9,708,004	14,889,266	2,506,684	30,339,955
Interest rate gap	(3,178,491)	(9,535,473)	(14,889,266)	(14,827)	(27,618,057)

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

Interest rate risk (continued)

As at 31 December 2011	1 to 3 Months Ushs '000	3 months to 1 year Ushs '000	1-5 years Ushs '000	Non interest bearing Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables	-	-	-	1,995,085	1,995,085
Staff loans	140,487	421,462	-	-	561,949
Cash and bank balances	-	-	-	195,924	195,924
	140,487	421,462	-	2,191,009	2,752,958
Financial liabilities					
Finance leases	67,423	202,268	775,881	-	1,045,572
Retirement benefit obligation	-	-	-	2,528,264	2,528,264
Trade and other payables	1,226,697	3,680,092	-	-	4,906,789
Borrowings	1,759,611	5,278,834	17,148,342	-	24,186,787
	3,053,731	9,161,194	17,924,223	2,528,264	32,667,412
Interest rate gap	(2,913,244)	(8,739,732)	(17,924,223)	(337,255)	(29,914,454)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interest rate risk (continued)

The Company faces cash flow interest rate risk on its variable rate financial instruments measured at amortised cost. Financial instruments with cash flow interest rate risk comprise deposits and balances due from banks, loans, receivables, payables and borrowings.

The table below summarises the Company's cash flow interest rate risks sensitivity at 31 December. Assuming a market interest rate variation of 3% points from the rates ruling at year-end (2011: 3%), the impact on the Company's profit before tax is as follows:

	2012 Ushs '000	2011 Ushs '000
Cash flow interest rate risk	673,270	742,468

Fair values of financial assets and liabilities

The fair values of the Company's financial assets and liabilities approximate the respective carrying amounts,

1 (E) Capital risk management

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

Consistent with others in the industry, the Company monitors capital on the basis of gearing ratio. This ratio is calculated as net debt by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity plus net debt. The gearing ratio at 31 December 2012 and 2011 were as follows:

	2012 Ushs '000	2011 Ushs '000
Total borrowings	22,212,319	24,186,787
Less: Cash and bank balances	(314,924)	(195,924)
Net debt	21,897,395	23,990,862
Total equity	35,253,123	20,423,512
Total capital	57,150,518	44,414,374
Gearing ratio	**38%**	**54%**

1 (F) Segment information

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 (F) Segment information (continued)

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

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

The segment results for the year ended 31 December 2011 were as follows:

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
Revenue	16,644,753	9,208,833	25,853,586
Profit /(loss) before income tax	3,811,300	(2,906,946)	904,354
Income tax (credit)/ expense	(1,066,674)	767,140	(299,534)
Profit /(loss) after tax	2,744,626	(2,139,806)	604,820
Depreciation	1,011,043	1,812,690	2,823,733

Statement of financial position

	Kajjansi factory Ushs '000	Kamonkoli factory Ushs '000	Total Ushs '000
31 December 2012			
Total assets	25,765,500	49,766,748	75,532,248
Total liabilities	16,426,488	22,212,319	38,638,807
Capital expenditure	185,232	24,769	210,001
31 December 2011			
Total assets	25,891,897	36,306,728	56,728,909
Total liabilities	12,976,752	23,328,645	36,305,397
Capital expenditure	2,931,584	630,512	3,562,096

The Company's operations are all attributed to Uganda, the Company's country of domicile.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2012 Ushs '000	2011 Ushs '000
2	**REVENUE**		
	Roofing tiles	12,731,689	14,475,595
	Half bricks	1,714,405	2,391,094
	Maxpans	5,170,387	5,395,040
	Ridges	682,403	852,429
	Other products	3,660,223	2,739,428
		23,959,107	**25,853,586**
3	**COST OF SALES**		
	Clay processing and product moulding	799,454	905,441
	Depreciation of plant	2,459,701	2,787,610
	Drying process	135,204	171,195
	Electricity and generator expenses	2,269,037	1,900,337
	Factory general maintenance	166,262	206,037
	Kilns (baking process)	4,701,829	4,508,255
	Other production overheads	1,463,032	1,493,182
	Quarry and Silo	970,095	784,832
	Salaries and allowances-production staff	641,101	566,172
	Wages and allowances-production staff	2,206,867	2,039,318
		15,812,581	15,362,379
	Stock adjustment	(3,276,643)	(210,155)
		12,535,938	**15,152,224**
4	**OTHER INCOME**		
	Profit from sale of land	3,793,520	-
	Other income	60,288	160,991
		3,853,808	**160,991**
5	**ADMINISTRATIVE EXPENSES**		
	Annual general meeting	42,104	43,966
	Audit expenses	37,625	34,580
	Provision for impairment of trade receivables and staff loans	164,257	179,664
	Company house maintenance	2,223	-
	Compound maintenance	4,217	5,903
	Consultancy	49,315	76,496
	Depreciation	127,577	92,833
	Directors fees and allowances	158,556	118,812
	Insurance	28,749	55,973
	Rental expenses	29,962	33,129
	Legal fees and expenses	78,896	99,255
	Local travel	125,605	60,667
	Office building maintenance	5,502	2,455
	Office equipment maintenance	36,705	22,830
	Printing and stationery	31,407	37,563
	Registrars fees	10,623	19,870
	Security	111,198	103,340
	Tax consultancy	-	10,984
	Transport costs	46,270	80,864
	Travel abroad	7,995	29,442
	Other expenses	188,150	141,720
	Uniforms	3,532	138
	Stock write-off	-	29,793
	Utilities	3,425	17,209
		1,293,893	**1,297,486**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2012	2011
6	**DISTRIBUTION EXPENSES**	**Ushs '000**	**Ushs '000**
	Business promotion	1,853,093	1,837,065
	Communication	60,024	63,283
	Donation	3,077	14,909
	Public relations and entertainment	4,011	22,330
	Sports and recreation	632	7,737
	Subscriptions	5,609	18,218
		1,926,446	**1,963,542**
7	**OTHER OPERATING EXPENSES**		
	Bonus	15,465	14,462
	Gratuity/pension	353,793	342,789
	Leave transport and allowance	86,497	95,508
	Medical expenses	63,949	42,257
	NSSF – Company contribution	176,258	116,273
	Salaries and allowances	1,593,383	1,507,935
	Staff welfare	84,725	63,417
	Termination pay	81,992	48,432
	Training costs	11,432	16,430
	Wages and allowances	217,177	211,086
	Foreign exchange loss	405	1,887
	Bank charges	58,762	53,063
		2,743,838	**2,513,539**
8	**FINANCE COSTS**		
	Interest expense on borrowings	**5,362,021**	**4,183,432**

9 PROFIT BEFORE TAX

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

	2012	2011
	Ushs '000	**Ushs '000**
Depreciation on property, plant and equipment (note 18)	2,583,183	2,823,733
Amortisation of prepaid operating lease rentals (note 19)	5,195	5,195
Provision for impairment of trade receivables	90,531	154,510
Provision for impairment of staff loans	73,726	25,154
Employee benefits expense (note 9 (a))	3,683,568	3,585,491
Auditors' remuneration	37,625	34,580

a) Employee benefits expense

The following items are included within employee benefits expense:

	2012	2011
Retirement benefit obligations	597,103	681,780
Termination benefits	133,531	98,570
NSSF company contributions	176,258	116,273
Salaries and allowances	2,776,676	2,688,868
	3,683,568	**3,585,491**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 INCOME TAX

	2012 Ushs '000	2011 Ushs '000
a) Income tax expense		
(i) Charge to profit		
Current income tax	-	-
Deferred income tax	(1,147,180)	(299,534)
	(1,147,180)	**(299,534)**
(ii) Charge to other comprehensive income		
Deferred income tax	**(5,154,005)**	-

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

	2012 Ushs '000	2011 Ushs '000
Profit before tax	3,950,779	904,354
Tax calculated at a tax rate of 30% (2011: 30%)	1,185,234	271,306
Tax effect of:		
- Expenses not deductible for tax purposes	38,054	28,228
Income tax charge to profit	**1,147,180**	**299,534**
	%	**%**
Tax charge as a percentage of profit before tax	**29%**	**33%**

Further information on deferred income tax is presented in note 14.

b) Current income tax recoverable

The movement in current income tax recoverable is as follows:

	2012 Ushs '000	2011 Ushs '000
At 1 January	33,795	33,795
Current income tax paid	88,117	-
At 31 December	**121,912**	**33,795**

11 EARNINGS PER SHARE

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

	2012	2011
Profit attributable to shareholders (Ushs'000)	2,803,599	604,820
Weighted average number of ordinary shares in issue ('000)	900,000	900,000
Diluting shares	-	-
Basic and diluted earnings per share (Ushs/share)	**3.12**	**0.67**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 ISSUED CAPITAL	Number of shares	Issued capital Ushs '000	Share premium Ushs '000
At 31 December 2012	900,000,000	900,000	9,766,027
At 31 December 2011	900,000,000	900,000	9,766,027

The total authorised number of ordinary shares as at 31 December 2012 and 2011 was 900,000,000 with a par value of Ushs 1. All shares were issued and fully paid.

13 REVALUATION RESERVES

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

	2012 Ushs '000	2011 Ushs '000
At 1 January	2,702,440	2,984,315
Transfer of excess depreciation for the year	(281,875)	(281,875)
Revaluation for the year	17,180,017	-
Deferred income tax effect	(5,154,005)	-
At 31 December	14,446,577	2,702,440

14 DEFERRED INCOME TAX LIABILITY

Deferred income tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as follows:

	2012 Ushs '000	2011 Ushs '000
At 1 January	3,637,985	3,338,451
Charge to profit	1,147,180	299,534
Charge to other comprehensive income	5,154,005	-
At 31 December	9,939,170	3,637,985

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 DEFERRED INCOME TAX LIABILITY (CONTINUED)

	At 1 January 2011 Ushs '000	Movement for the year Ushs '000	At 31 December 2011 Ushs '000
Deferred income tax liabilities			
Property, plant and equipment			
-on historical cost basis	9,186,351	(273,845)	8,912,506
-on revaluation surplus	1,575,224	65,094	1,640,318
	10,761,575	(208,751)	10,552,824
Deferred income tax assets			
Other deductible temporary differences	(34,099)	(46,521)	(80,620)
Tax losses carried forward	(7,389,025)	554,806	(6,834,219)
Net deferred income tax liability	**3,338,451**	**299,534**	**3,637,985**

15 RETIREMENT BENEFIT OBLIGATIONS

	2012 Ushs '000	2011 Ushs '000
At 1 January	2,528,264	2,148,401
Contributions for the year	1,730,541	787,241
Payments during the year	(1,752,121)	(407,378)
At 31 December	**2,506,684**	**2,528,264**

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

- Chief Executive Officer and heads of department: Company contribution of 25% and employee contribution of 5% of gross monthly salary.
- Employees in salary scales UC 3.1 and UC 3.2: The annual contribution comprises the Company contribution of 1.5 times of one month's gross salary per completed year of service and employee contribution of 2.5% of gross monthly salary.
- Employees in salary scales UC 4.1, 4.2 and 5.1: The annual contribution comprises the Company contribution of 2.5 times of one month's gross salary per completed year of service and employee contribution of 4% of gross monthly salary.
- Employees in salary scales UC 5.2, 6.1, 6.2, 6.3 and 6.4: The annual contribution comprises the Company's contribution of 1.5 times of one month's gross salary per completed year of service and employee contribution of 5% of gross monthly salary.

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

16 FINANCE LEASE

	2012 Ushs '000	2011 Ushs '000
Not later than 1 year-current portion	269,691	269,691
Later than 1 year and not later than 5 years	480,117	775,881
	749,808	**1,045,572**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 FINANCE LEASE (CONTINUED)

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

17 BORROWINGS

	2012 Ushs '000	2011 Ushs '000
Total borrowings	22,212,319	24,186,787
Less: current portion	(7,803,170)	(7,038,445)
Non-current portion	**14,409,149**	**17,148,342**
The borrowings are made up as follows:		
Non-current portion		
Bank loan	1,532,315	5,720,805
Shareholder's loan (note 29(iv))	12,876,834	11,427,537
Total non-current portion	**14,409,149**	**17,148,342**
Current portion		
Bank loan	4,297,608	4,297,607
Bank overdraft	1,933,472	2,620,548
Shareholder's loan (note 29(iv))	1,572,090	120,290
Total current portion	**7,803,170**	**7,038,445**
Total borrowings	**22,212,319**	**24,186,787**

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

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

	2012 Ushs '000	2011 Ushs '000
At 1 January	24,186,787	17,608,016
Loans received from shareholder (note 29(iv))	873,947	3,076,052
Accrued interest	2,071,149	1,371,775
Loans received from bank	-	4,262,121
Overdraft received	511,537	1,421,935
Loan repayments	(5,387,101)	(3,553,113)
At 31 December	**22,212,319**	**24,186,787**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 BORROWINGS (CONTINUED)

The bank loan and the overdraft are collectively secured by:

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

Weighted average effective interest rates:	2012 %	2011 %
Bank overdraft	19.05	25.36
Bank borrowing	19.05	25.36
Shareholder's loan	15.00	15.00

Maturity of non-current borrowings:	2012 Ushs '000	2011 Ushs '000
Between 1 and 2 years	3,104,405	5,741,087
Between 2 and 5 years	1,572,089	5,753,631
Over 5 years	9,732,655	5,653,624
Non-current portion	**14,409,149**	**17,148,342**

18 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Plant & machinery	Furniture, fittings & computer equipment	Motor vehicles	Capital work in progress	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Cost/valuation						
At 1 January 2011	11,699,056	43,600,163	456,345	3,014,807	226,775	58,997,146
Additions	-	531,250	41,940	26,900	2,962,006	3,562,096
Transfers	127,367	-	-	-	(127,367)	-
Disposal	-	-	-	(201,471)	-	(201,471)
At 31 December 2011	**11,826,423**	**44,131,413**	**498,285**	**2,840,236**	**3,061,414**	**62,357,771**
Additions	-	14,687	23,336	-	171,978	210,001
Transfers	973,682	264,243	-	-	(1,237,925)	-
Revaluation surplus	965,695	16,053,879	31,024	129,419	-	17,180,017
At 31 December 2012	**13,765,800**	**60,464,222**	**552,645**	**2,969,655**	**1,995,467**	**79,747,789**
Depreciation						
At 1 January 2011	1,046,299	8,891,121	291,479	1,925,948	-	12,154,847
Charge for the year	250,481	1,880,767	38,065	654,420	-	2,823,733
Disposals	-	-	-	(200,529)	-	(200,529)
At 31 December 2011	**1,296,780**	**10,771,888**	**329,544**	**2,379,839**	**-**	**14,778,051**
Charge for the year	262,157	1,927,196	37,703	356,127	-	2,583,183
At 31 December 2012	**1,558,937**	**12,699,084**	**367,247**	**2,735,966**	**-**	**17,361,234**
Net carrying amount						
31 December 2012	**12,206,863**	**47,765,138**	**185,398**	**233,689**	**1,995,467**	**62,386,555**
31 December 2011	**10,529,643**	**33,359,525**	**168,741**	**460,397**	**3,061,414**	**47,579,720**

18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

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

	2012 Ushs '000	2011 Ushs '000
Cost	56,026,399	55,816,398
Accumulated depreciation	(12,229,808)	(9,646,625)
	43,796,591	**46,169,773**

19 PREPAID OPERATING LEASE RENTALS

	2012	2011
Cost	254,589	259,759
Transfers	-	(5,170)
	254,589	**254,589**
Accumulated amortisation	(45,349)	(40,956)
	209,240	**213,633**
Amortisation charge for the year	(5,195)	(5,195)
Transfers	-	801
	204,045	**209,239**

20 STAFF LOANS

	2012	2011
Gross staff loans	328,921	587,103
Provision for doubtful debts	(98,880)	(25,154)
	230,041	**561,949**

All staff loans are due within 1 year from the reporting date. The weighted average interest rate on staff loans was 5% (2011: 5%).

21 INVENTORIES

	2012 Ushs '000	2011 Ushs '000
Spares and consumables	2,179,492	1,515,740
Work in progress	2,671,268	2,497,323
Finished goods	5,181,789	2,079,091
Goods in transit	65,288	56,674
	10,097,837	**6,148,828**

During 2012, Ushs 3,277 million (2011: Ushs 210 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

22 TRADE AND OTHER RECEIVABLES

	2012 Ushs '000	2011 Ushs '000
Trade receivables	591,648	983,495
Less: provision for impairment of trade receivables	(359,265)	(268,734)
	232,383	**714,761**
Prepayments	515,065	558,777
Amount due from employee retirement fund administrator	597,103	660,535
Amount receivable from sale of land	755,000	-
Staff and other receivables	77,383	61,012
	2,176,934	**1,995,085**

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2012, trade receivables of an initial value of Ushs 359,265,000 (2011: Ushs 268,734,000) were impaired and fully provided for (see credit risk disclosure in Note 1(D) for further details).

23 CASH AND BANK BALANCES

	2012 Ushs '000	2011 Ushs '000
Cash at bank	130,624	46,371
Cash in hand	184,300	149,553
	314,924	**195,924**

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2012 Ushs '000	2011 Ushs '000
Cash and bank balances	314,924	195,924
Bank overdrafts (note 16)	(1,933,472)	(2,620,547)
	(1,618,548)	**(2,424,623)**

24 ASSETS CLASSIFIED AS HELD FOR SALE

	2012	2011
Land	**-**	**4,369**

During the year 2011, the Company offered a portion of its idle land for sale. The land was sold in 2012.

25 TRADE AND OTHER PAYABLES

	2012 Ushs '000	2011 Ushs '000
Trade deposits (advance payments received)	1,257,525	1,426,030
Trade payables	2,329,501	1,216,298
VAT payable	230,694	661,277
Accrued expenses	429,048	441,991
Unpaid dividends	376,169	376,189
National Social Security Fund contributions payable	160,041	424,487
Pay-As-You-Earn	88,166	360,517
	4,871,144	**4,906,789**

25 TRADE AND OTHER PAYABLES (CONTINUED)

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

Trade deposits relate to the amount paid in advance to the Company by the customers for the purchase of its clay products. They are non-interest bearing and are normally settled on 60-day terms.

Trade payables are non-interest bearing and are have an average term of six months.

26 CONTINGENT LIABILITIES

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

27 CAPITAL COMMITMENTS

The Company had no capital expenditure commitments as at the reporting date.

28 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	2012 Ushs '000	2011 Ushs '000
Profit before tax	3,950,779	904,354
Adjustments for:		
Depreciation (note 18)	2,583,183	2,823,733
Amortisation of prepaid operating lease rentals (note 19)	5,195	5,195
Profit on sale of property	(3,793,520)	(55,926)
Finance costs (note 8)	5,362,021	4,183,432
Changes in working capital		
- Increase in inventories	(3,949,009)	(683,247)
- Increase in trade and other receivables	(181,848)	(136,642)
- Increase in current tax recoverable	(88,118)	-
- Decrease in staff loans	331,908	55,461
- Decrease in trade and other payables	(35,645)	(6,070,762)
- (Decrease) / increase in retirement benefits obligation	(21,580)	379,863
Cash generated from operations	**4,163,366**	**1,405,461**

29 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties

i) Key management compensation

	2012 Ushs '000	2011 Ushs '000
Salaries and other short term employment benefits	878,459	1,164,529

ii) Directors' remuneration

	2012 Ushs '000	2011 Ushs '000
Fees	26,000	20,880
Other	132,556	97,932
	158,556	**118,812**

29 RELATED PARTY TRANSACTIONS (CONTINUED)

iii) Short term advances to directors

	2012 Ushs'000	2011 Ushs'000
At 1 January	3,846	5,822
Additional advance	17,265	7,155
Repayments received	(20,159)	(9,131)
At 31 December	**952**	**3,846**

The loans and advances were given at a weighted average interest rate of 5% per annum (2011: 5%).

iv) Shareholder's loan

	2012 Ushs '000	2011 Ushs '000
At 1 January	11,547,828	7,100,000
Loan received	873,947	3,076,052
Accrued interest	2,071,149	1,371,775
At 31 December	**14,448,924**	**11,547,827**
Current portion	1,572,090	120,290
Non-current portion	12,876,834	11,427,537
	14,448,924	**11,547,827**

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

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

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

Interest on this loan is 15% per annum and the loan tenure is 10 years with grace period of 2 years. Interest is to be capitalised during the grace period. Interest amounting to Ushs 1.37 billion and Ushs 2.07 billion was capitalised for the years 2011and 2012 respectively.

30 EVENTS AFTER THE REPORTING DATE

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

Notes

Notes

UGANDA CLAYS LIMITED

PROXY FORM

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

ANNUAL GENERAL MEETING OF UGANDA CLAYS LIMITED

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

Signed: ....

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

Notes:

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

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

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

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

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

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

For the year ended
31st December 2012

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SALES OUTLETS
Juba, Mbarara, Soroti, Gulu, Natete & Ntinda