Uganda Clays Ltd

Quality. Durability. Beauty to last

Annual Report 2008

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BOARD OF DIRECTORS

Prof. Eng. John Senfuma
(Chairman)

Mr. Martin Bandeebire

Eng. Martin Kasekende

Mr. Joseph Kitamirike

Ms. Sepiranza Mayanja

Mr. Michael Olupot Tukei

Mr. Claudius Olweny

CORPORATE INFORMATION

Board of Directors

Prof. John Senfuma	(Chairman)
Martin Bandeebire	
Eng. Martin Kasekende	
Joseph Kitamirike	
Ms. Sepiranza Mayanja	
Michael Olupot Tukei	
Claudius Olweny	

Senior Management

John Wafula	(Chief Executive Officer)
Charles Rubaijaniza	(Acting Deputy CEO)
Charles Atodu	(Acting Company Secretary)
Joseph Kitone	(Marketing Manager)
Cosmas Olwoch	(Production Manager)
Ms. Sepiranza Mayanja	(IT Manager)
Richard Kajungu	(Acting Finance Manager)
Richard Mugabyomu	(Internal Audit Manager)
John Gita	(Acting Production Manager-Kamonkoli)
Bonny Isabirye	(Acting Financial Manager-Kamonkoli)
Ms. Annet Khasula	(Acting Marketing Manager-Kamonkoli)

Auditors

Pricewaterhouse Coopers
Communication House
1 Colville Street
P.O.Box 882, Kampala, Uganda.

Lawyers

Kawanga and Kasule Advocates
Kizito Towers
29 Luwum Street
P.O.Box 216 Kampala, Uganda.

Registrars

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

Company Secretary And Registered Office

Charles Atodu
14km Entebbe Road
Kampala, Uganda
Tel: +256 (414) 200261/55
Email: uclays@ugandaclays.co.ug
Website: www.ugandaclays.co.ug

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the next Annual General Meeting (AGM) of the shareholders of Uganda Clays Limited in respect of the year ended 31 December 2008, will be held on Friday 24 July 2009 at 11:00am, at Kamonkoli factory, Budaka District.

Agenda:

1. Confirmation of the minutes of the meetings held on 29 August 2008.
2. Action Report
3. To receive and consider the directors' report and the audited financial statements for the year ended 31st December, 2008.
4. To elect directors in accordance with Article 59 of the Memorandum and Articles of Association and determine their remuneration.
5. To appoint the auditors for the next financial year ending 31 December 2009 and to authorise directors to fix the auditors' remuneration.
6. Any Other Business (AOB).

    i) Proposed amendments to the memorandum and articles of association.

A member wishing to raise an item under AOB should register the matter with the secretary at least 48 hours before the start of the meeting.

By Order of the Board

UGANDA CLAYS LIMITED

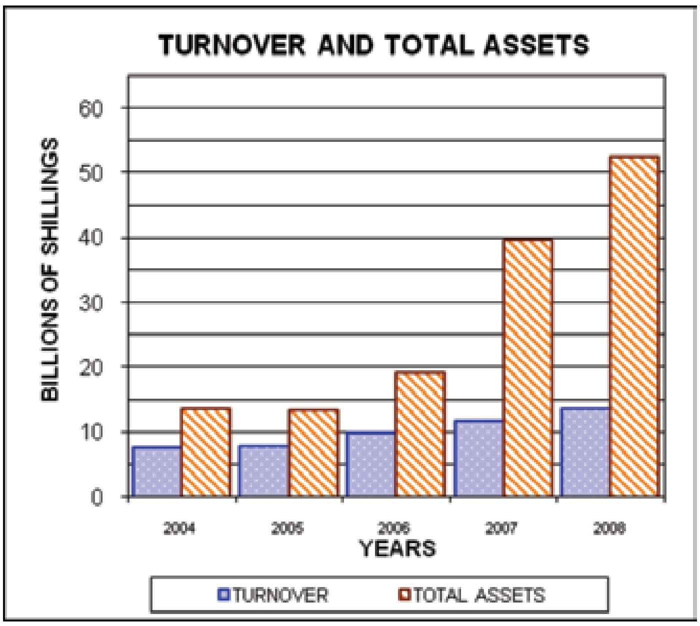
CHARLES ATODU
AG. COMPANY SECRETARY

30th June 2009.

Notes: Transport to the meeting venue will be available from the National Theatre parking yard, departing at 7:00 am on the same day. Register with the Ag Company secretary (0772-703208) before close of day on 17th July, 2009

FINANCIAL HIGHLIGHTS 2005-2008.

Financial highlights	2008 shs ' 000	2007 shs ' 000	2006 shs ' 000	2005 shs ' 000
Turnover	**13,548,257**	**11,699,713**	**9,984,104**	**7,915,007**
Profit before tax	3,155,315	3,178,204	1,768,190	1,329,639
Profit after tax (earnings)	2,151,982	2,107,841	1,307,156	952,827
Dividends	--	500,000	200,000	400,000
Cash generated from operations	5,489,439	4,125,406	3,805,650	2,481,028
Shareholders's funds	24,384,715	12,566,706	10,658,865	7,681,256
Capital expenditure	12,096,193	21,393,838	1,996,199	528,195
Total assets	**52,470,889**	**39,758,943**	**19,153,760**	**13,401,271**
Per share data				
Dividends per share (shs)	0	140	40	80
Earnings per share (shs)	2.70	3.05	261	191



CORPORATE SOCIAL RESPONSIBILITY

Uganda Clays Limited (UCL) has continuously upheld values of Corporate Social Responsibility through programmes and partnerships with organisations that are community-focused and development-oriented.

Community Policing

A UCL company official welcoming the Ag. Commissioner of Police, Simeon Nsubuga (m) at the closure of the Community Policing programme.

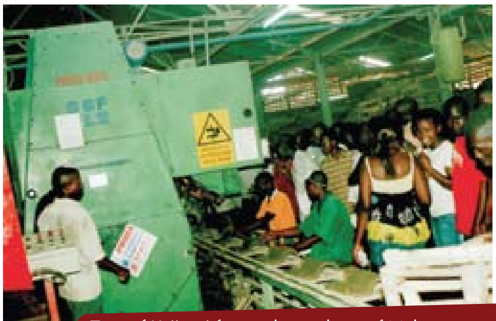
Uganda Clays Ltd employees march through Kajjansi at the launch of the Community Policing programme.

The Company is actively involved in addressing the security issues of the Kajjansi community through the community policing initiative in partnership with Uganda Police. UCL employees in a concerted effort with the police have taken on the responsibility of instilling discipline in the Kajjansi community, in which the factory is located, and hence helping to reduce the crime rate in the area.

Education

UCL invests in the company employees and encourages them to take up courses at higher institutions of learning through financial support of employees with specific interest in the field of engineering.

The company continues to value education and groom future employees and investors through the academic tours of the Kajjansi factory that are offered to pre-primary, primary and secondary school levels, as well as post secondary levels.



Tour of Kajjansi factory by students of Makerere University, Chemistry Department

UCL Marketing Manager (r) Joseph Kitone, hands over cleaning tools to Kajjansi local Government market official (L)

Our community, our responsibility

The company has taken an interest in the sanitation issues of the local Kajjansi community and has initiated programmes to curb the number of health cases arising from this problem. UCL has played a role in the building and maintaining facilities like waste disposal sites which are used by the population.

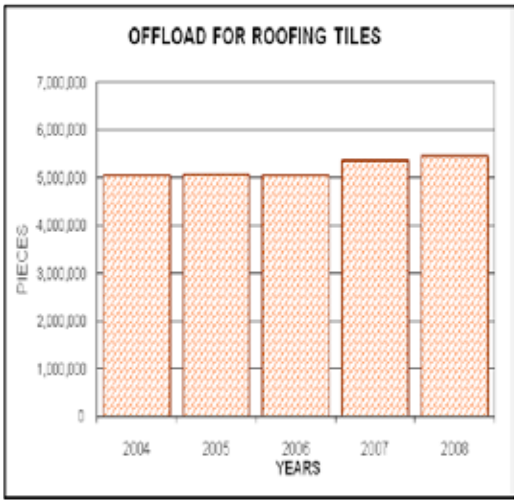
CHAIRMAN'S STATEMENT

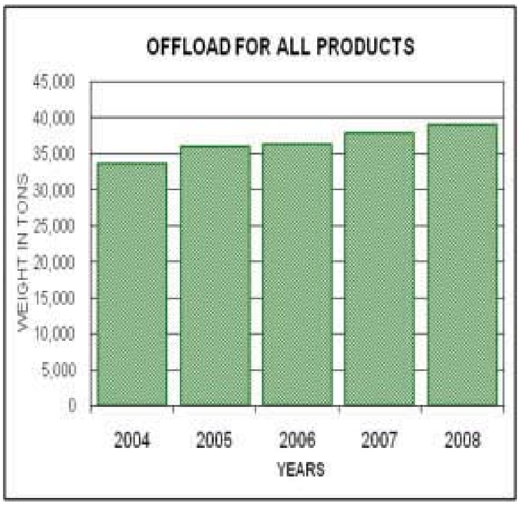
2008 was an eventful year for Uganda Clays Limited (UCL) both financially and in terms of business expansion. In line with our mission to remain the leading manufacturer of quality, cost effective, baked clay building products in Uganda, we shifted the emphasis of our efforts to focus on the expansion and development of the export potential of UCL.
This shift was due to increasing demand in the east african market for our quality, clay building products and also due to local market dynamics. As a result, we have been able to reposition and re-brand the company, culminating in the launch of a new company logo on 20th August, 2008.

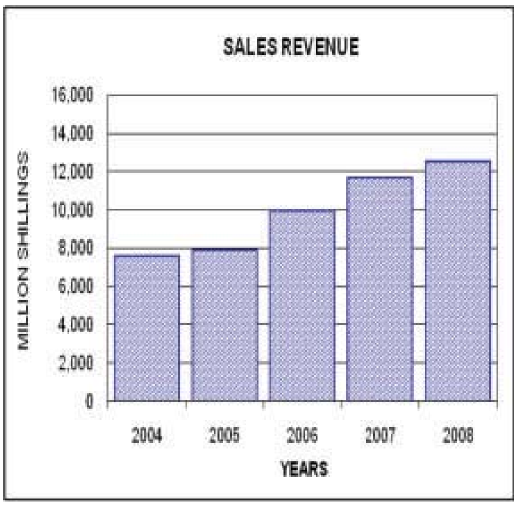
Financial Results

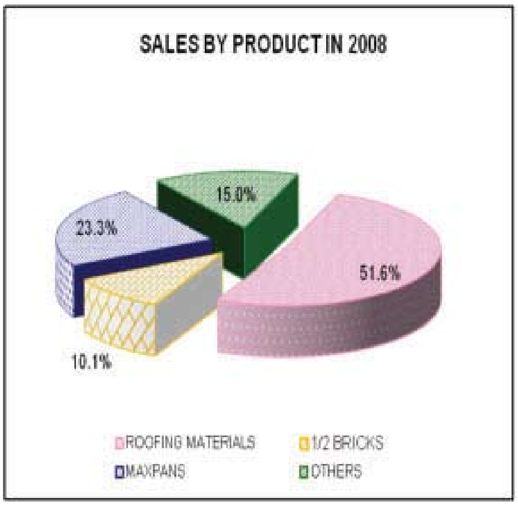
During the year, sales went up by 16% from 11.7 billion in 2007 to 13.7 billion in 2008. The net profit increased by 2%. This relatively low increment in net profit was due to the sharp increase in the price of diesel which was followed by the removal of the fuel subsidy for industrial generators.

Company performance 2004 to 2008









Expansion

With the approval and support of our shareholders, the company embarked on a major expansion. The completion of a new factory at Kamonkoli, Budaka District was successfully realised in December 2008, and is now open for business.

The modern, state-of-the art factory, which is semi-automated and designed to recycle energy through an internal drying system, is cutting down on the drying time of the products and as a result, productivity and output have significantly increased.

However, the completion of the factory was marked by a number of setbacks, most notably the political crisis in Kenya in early 2008 and the strike that followed in Mombasa port a few months later. As this was one of the main trade channels for goods entering the country, the strike had an adverse affect on the delivery of vital components to the new factory and substantially pushed project costs upwards.

Production

The sustainability of the company is rooted in the production of quality bricks and tiles. With this in mind, we invested in new laboratory equipment and acquired additional machinery at both our Kajjansi and Kamonkoli plants. This investment ensures that there is no compromise on the standard of the end product.

As a result of this investment, the overall company output of roofing tiles will increase from the 15,900 tonnes in 2008 to 31,800 tonnes in 2009, while the output of facing bricks will increase from 4,250 tonnes to 8,500 tonnes in the same period.

Our Human Resources

As of 30th April 2009, employment at our Kajjansi factory stood at 690 employees. The Kamonkoli factory currently has 38 employees and we project that this number will triple before the end of 2009.

On 26th February 2009, the Federation of Ugandan Employers, recognised UCL for the best employee motivation initiatives. A critical component of these initiatives is the health programme, through which medical cover is extended to our employees, their spouses and dependants.
Sustainability of the company is also ensured through succession planning within the company through leadership development training of employees.

1st April, 2009 also saw the signing of a new agreement with Uganda Building Construction, Civil Engineering Cement & Allied Workers Union. The agreement enforces good industrial relations and improved remuneration for the UCL employees.

Senior Management Change.

On January 1st, 2009, Charles Rubaijaniza, who had been Company Secretary, was appointed the Acting Deputy Chief Executive Officer of UCL in charge of the Kamonkoli factory. Charles Atodu, who had been Administrative Officer, assumed the position of Acting Company Secretary.

Share Split.

At the extraordinary general meeting held on 25th July 2008, the shareholders resolved to split the ordinary shares of the company into 100 ordinary shares for 1 ordinary share and revise the par value from Shs 100 to Shs 1 per share. This resulted in an increase in ordinary shares to 900,000,000.

Dividends

The Directors do not recommend payment of dividend for the year ended 31st December 2008 due to the borrowing and accompanying financing costs for the Kamonkoli factory.

The Directors

At the same extraordinary general meeting of 25th July 2008, the number of directors was increased from 7 to 10, with 2 slots being created for Executive Directors.

Prospects for the Business

In 2008, UCL effectively opened sales outlets in strategic locations of Nateete and Ntinda to bring our products closer to the customers.

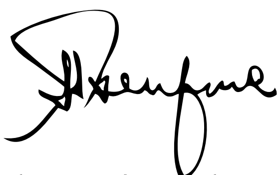
The Marketing Department has actively undertaken research which has identified new markets. As a result, UCL has successfully penetrated the Sudan (Juba) market and is exploring the possibility of expansion in western Kenya, Rwanda, northern Tanzania and the Democratic Republic of Congo in 2009. New outlets in Mbarara and Gulu are planned for this year as well.

Expansion into Rwanda was put on hold in 2008 due to the withdrawal of Rwanda Enterprise Investment Corporation, UCL country partner. Currently, UCL agents are operating in Rwanda and in the future, we hope that this partnership will consolidate our position in the country and enhance the level of our operations there.

Conclusion

This is an exciting time for the company and we believe that our regional and countrywide expansion programmes and strategy will create more long-term value for our shareholders.

The company is poised to consolidate its position as market leader in the east african region and as we continue to build our business in 2009 and beyond, I would like to recognize the determination and dedication of the Board of Directors, management, and all employees of UCL, as well as your support and cooperation which have enabled us to get to where we are.
I thank you, ladies and gentlemen.



Prof. Eng. John Senfuma.
Chairman.

DIRECTOR'S REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of the company.

Principal activities

The principal activities of the company include the production and sale of a wide range of clay building products. The main items produced are roofing tiles which account for 52% of the company's turnover during the period.

Results

The net profit after tax for the year of Shs 2,152 million (2007:2,108 million) has been applied to the retained earnings. The directors do not recommend the payment of a dividend for the year ended 31 December 2008. (2007: Shs 500 million)

Directors

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

Professor J Senfuma	-	(Chairman) re-appointed on 29th August 2008
Mr M. Bandeebire	-	re-appointed on 29th August 2008
Ms S. Mayanja	-	re-appointed on 29th August 2008
Mr C. Olweny	-	re-appointed on 29th August 2008
Mr J. Kitamirike	-	re-appointed on 29th August 2008
Mr M. Olupot	-	re-appointed on 29th August 2008
Eng. M. Kasekende	-	appointed on 28th March 2008 and re-appointed on 29th August 2008
Dr I. Kabumba	-	retired on 28th March 2008

In accordance with Article 59 of the Company's **Memorandum and Articles of Association**, one third of the directors may retire at the Annual General Meeting but are eligible for re-appointment.

Auditors

The Company's auditors, PricewaterhouseCoopers, continues in office in accordance with section 159 (2) of the Uganda Companies Act until re appointment at the next annual general meeting.

By order of the Board

Secretary
28th April 2009

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Uganda Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Company's profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Uganda 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 profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

....	....
Director	Director
28th April 2009	28th April 2009

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

We have audited the accompanying financial statements of Uganda Clays Limited ("the Company"), as set out on pages 14 to 37. These financial statements comprise the balance sheet as at 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Ugandan Companies Act.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an independent 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 Company's internal controls.

An audit also involves 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 opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Company at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Uganda Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UGANDA CLAYS LIMITED (continued)

Report on other legal requirements

The Uganda Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) In our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;
iii) The Company's balance sheet and profit and loss account are in agreement with the books of account.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Certified Public Accountants

18th June 2009

PROFIT AND LOSS ACCOUNT

	Notes	2008 Shs'000	2007 Shs'000
Revenue	1	13,548,257	11,699,713
Cost of sales		(6,808,659)	(5,663,570)
Gross profit		6,739,598	6,036,143
Other operating income		24,773	31,820
Distribution costs		(880,867)	(383,006)
Administrative expenses		(684,484)	(474,933)
Other operating expenses		(1,956,393)	(1,885,599)
Operating profit	2	3,242,657	3,324,425
Finance costs	4	(87,342)	(146,221)
Profit before income tax		3,155,315	3,178,204
Income tax expense	5	(1,003,333)	(1,070,363)
Net profit		2,151,982	2,107,841
Dividend per share	6	-	Shs. 140
Earnings per share	7	Shs 2.7	Shs 3.05

BALANCE SHEET

	Notes	2008 Shs'000	2007 Shs'000
Equity			
Share capital	8	900,000	500,000
Share premium	8	9,766,027	-
Revaluation reserves	9	3,675,526	3,827,409
Retained earnings		10,043,162	7,739,297
Proposed dividend		-	500,000
Total equity		**24,384,715**	**12,566,706**
Non-current liabilities			
Deferred income tax liabilities	10	4,996,461	3,993,128
Retirement benefit obligation	11	1,034,995	215,520
Finance lease		207,466	-
Borrowings	19	14,113,062	8,784,386
Total non current liabilities		20,351,984	12,993,034
Total equity & non – current liabilities		44,736,699	25,559,740
Represented by:			
Non-current assets			
Property, plant and equipment	12	46,635,987	35,827,172
Prepaid operating lease rentals	13	186,721	53,930
Non-current receivables	14	80,530	120,129
		46,903,238	36,001,231
Current assets			
Inventories	15	3,317,042	2,613,045
Receivables and prepayments	16	1,958,594	883,143
Tax recoverable	5	33,793	33,793
Cash and cash equivalents	17	258,222	227,731
		5,567,651	3,757,712
Current liabilities			
Payables and accrued expenses	18	4,707,585	2,553,684
Borrowings	19	3,026,605	11,645,519
		7,734,190	14,199,203
Net current liabilities		**(2,166,539)**	**(10,657,011)**
		44,736,699	25,559,740

The financial statements on pages 14 to 37 were approved by the board of directors on 28th April 2009 and signed on its behalf by:

……………………………………………
Director

……………………………………………
Director

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	Share capital	Revaluation reserves	Retained earnings	Proposed dividend	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of the year		**500,000**	**3,970,491**	**6,188,374**	**-**	**10,658,865**
Net profit for the year		-	-	2,107,841	-	2,107,841
Transfer of excess depreciation		-	(143,082)	143,082	-	-
Interim dividends declared during the year		-		(200,000)	200,000	-
Dividends paid during the year	6	-	-	-	(102,768)	(102,768)
Unpaid declared interim dividends		-	-	-	(97,232)	(97,232)
Proposed final dividend 2007	6	-	-	(500,000)	500,000	-
At end of year		**500,000**	**3,827,409**	**7,739,297**	**500,000**	**12,566,706**

Year ended 31 December 2008	Notes	Share capital	Share Premium	Revaluation reserves	Retained earnings	Proposed dividend	Total
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of the year		500,000		3,827,409	7,739,297	500,000	12,566,706
Rights issue		400,000	10,200,000	-	-	-	10,600,000
Rights issue expenses		-	(433,973)	-	-	-	(433,973)
Net profit for the year		-	-	-	2,151,982	-	2,151,982
Transfer of excess depreciation		-	-	(151,883)	151,883	-	-
Dividends paid during the year	6	-	-	-	-	(329,904)	(329,904)
Unpaid declared dividends	6	-	-	-	-	(170,096)	(170,096)
At end of year		**900,000**	**9,766,027**	**3,675,526**	**10,043,162**	**-**	**24,384,715**

CASH FLOW STATEMENT

	Notes	2008 Shs'000	2007 Shs'000
Operating activities			
Cash generated from operations	22	5,489,439	4,125,406
Income tax paid	5	-	(609,884)
Retirement contribution paid	11	-	(901,625)
Interest received	4	173	16,788
Interest paid	4	(96,820)	(162,799)
Net cash from operating activities		5,392,792	2,467,999
Investing activities			
Purchase of property, plant and equipment	12	(11,767,184)	(21,393,838)
Purchase of leasehold land		(141,000)	
Proceeds from disposals of property, plant and equipment		-	15,250
Net cash used in investing activities		(11,908,184)	(21,378,588)
Financing activities			
Proceeds from borrowings		6,900,264	20,116,884
Proceeds from rights issue		10,600,000	-
Rights issue expenses		(433,973)	-
Dividends paid	6	(329,904)	(102,768)
Repayments on borrowings	19	(10,461,124)	(1,871,267)
Net cash from financing activities		6,275,263	18,142,849
(Decrease) in cash and cash equivalents		(240,129)	(767,740)
Movement in cash and cash equivalents			
At start of year		(359,092	408,648
Decrease		(240,129	(767,740)
At end of the period	17	(599,221)	(359,092)

Notes (continued)

A General information

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

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

B Summary of significant accounting policies

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

(i) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Uganda Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain property and equipment.

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 C below.

Interpretations effective in 2008

In 2008, the following new interpretations became effective for the first time but have not had an impact on the company's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 39 and IFRS 7 – Reclassification of financial assets.

Standards, interpretations and amendments to published standards that are not yet effective

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the company's accounting periods beginning on or after 1 January 2009, but the company has not early adopted any of them.

The Directors have assessed the relevance of the new standard and interpretations, and amendments to existing standards with respect to the company's operations and concluded that they will not have any impact on the company's financial statements, other than for the amendments to IAS 1 - Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

Notes (continued)

(ii) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the company's activities. Revenue is shown net of value-added tax (VAT), rebates and discounts.

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(i) Sales of goods are recognised in the period in which the company delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured; and

(iii) Interest income is recognised on a time proportion basis using the effective interest method.

(iii) 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 the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or cost'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other (losses)/gains – net'.

(iv) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and plant and machinery are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

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 the profit and loss account during the financial period in which they are incurred.

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

Notes (continued)

(iv) Property, plant and equipment (continued)

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

Leasehold buildings	Over lease period
Plant and machinery	10%
Furniture and fittings	10%
Vehicles	25%
Computer equipment	33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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.

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.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit or loss. 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.

(v) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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).

(vi) Leasehold land

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.

Assets acquired under finance leases are capitalised and depreciated in accordance with the Company's policy on property, plant and equipment. The associated financial liabilities are included in creditors as finance lease obligations.

Notes (continued)

(vii) 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 estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(viii) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of trade 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 cash flows, discounted at the market rate of interest for similar borrowers.

(ix) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(x) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account 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 Uganda Income Tax Act.

Deferred income tax is provided 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 income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

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

(xi) Share capital

Ordinary shares are classified as ‘share 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.

Notes (continued)

(xii) Employee benefits – pension obligations

The Company operates a defined contribution pension scheme for the management 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's contributions to the defined contribution pension scheme are charged to the profit and loss account in the year to which they fall due.

(xii) 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.

(xiii) Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred.
Borrowings 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 the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities and non current liabilities where the settlement of the liability is done after 12 months.

(xiv) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component in equity until declared.

(xv) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.
Bank overdrafts are shown within borrowings under current liabilities on the balance sheet.

C Critical accounting 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.

(i) Critical accounting estimates and assumptions

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 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

Notes (continued)

Critical accounting estimates and judgements (continued)

Property 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 B (iv) above.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of impaired receivables. The carrying amount of impaired receivables is set out in Note 16

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the company's accounting policies, management has made judgements in determining whether assets are impaired

D Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: Market risk (including currency risk, fair value interest rate risk and cash flow interest rate 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 various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

At 31 December 2008, if the shilling had weakened / strengthened by 5% against the US dollar with all other variables held constant, post tax profit for the year would have been Shs 3,543,144 (2007:Shs 821,515) lower / higher mainly as a result of the US dollar bank balances.

(ii) Price risk

The company does not have any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

The company's interest bearing financial liabilities are the bank overdraft and bank loan from Standard Chartered Bank Uganda Limited, which are both at valuable rates, and on which the company is there for exposed to cash flow interest rate risk. The company regularly monitors financing options available to ensure optimum interest rates are obtained. At 31st December 2008, an increase/decrease of two basis points would have resulted in a decrease/increase in post tax profit of Shs 239 million (2007:Shs 409 million).

Notes (continued)

Financial risk management objectives and policies (continued)

Credit risk

Credit risk arises from trade and other receivables. The Company's finance function assesses the credit quality of each customer, 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 at 31 December 2008 is made up as follows:

	2008 Shs'000	2007 Shs'000
Cash and bank balances	258,222	227,731
Trade receivables	395,475	253,742
Loans to directors	10,004	15,524
Short term advance to directors	3,210	3,665
Other receivables	1,692,916	541,471
	2,359,827	1,042,133

No collateral is held for any of the above assets. All receivables that are neither past due or impaired and 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 amounts in trade receivables:

	2008 Shs'000	2007 Shs'000
Past due but not impaired:		
- by up to 180 days	298,100	126,488
- by 181 to 360 days	48,108	32,068
Total past due but not impaired	346,208	158,556
Impaired	49,267	26,650

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

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 that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes (continued)

Financial risk management objectives and policies (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	Shs'000	Shs'000	Shs'000
At 31 December 2008:			
- Borrowings (excluding finance leases)	3,026,605	3,256,861	10,856,201
- finance leases	121,544	207,465	
- trade and other payables	4,586,041		
	7,734,190	**3,464,326**	**10,856,201**
At 31 December 2007:			
- borrowings (excluding finance leases)	11,645,519	2,884,330	5,900,056
- finance leases	112,839	-	
- trade and other payables	2,440,845	-	-
	14,199,203	**2,884,330**	**5,900,056**

Capital Risk Management

The company's objectives when managing capital are to safe guard the company's ability to continue as a going concern in order to provide returns for 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 divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

During 2008 the company strategy was to reduce borrowings significantly in order to save on interest costs and maintain a low gearing ratio. The gearing ratio at 31st December 2008 and 2007 were as follows:

	2008 Shs'000	2007 Shs'000
Total borrowings	17,139,667	20,429,905
Less: cash and cash equivalents	258,222	227,731
Net debt	16,881,445	20,202,174
Total equity	24,384,715	12,566,706
Total capital	41,266,160	32,768,880
Gearing ratio	**41%**	**62%**

Notes (continued)

1 Revenue

	2008 Shs'000	2007 Shs'000
Roofing tiles	6,990,073	6,045,432
Half bricks	1,372,185	1,049,396
Maxpans	3,151,138	2,469,852
Ridges	438,143	404,770
Others	1,596,718	1,730,263
	13,548,257	**11,699,713**

2 Operating profit

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

	2008 Shs'000	2007 Shs'000
Depreciation on property, plant and equipment (note 12)	1,287,378	946,433
Amortisation of prepaid leasehold land rentals (note 13)	8,209	1,453
Receivables – provision for impairment losses	49,267	26,650
Employee benefits expense (note 3)	2,763,573	2,572,051
Auditors' remuneration	35,000	30,000

3 Employee benefits expense

The following items are included within employee benefits expense:

	2008 Shs'000	2007 Shs'000
Retirement benefit obligations	608,115	552,087
Termination benefits	25,640	32,670
NSSF company contributions	137,786	134,698
Salaries and allowances	1,992,032	1,852,596
Total	2,763,573	2,572,051

4 Finance costs

	2008 Shs'000	2007 Shs'000
Interest income	173	16,788
Interest expense	(96,820)	(162,799)
Net foreign exchange gains / (losses)	9,305	(210)
	(87,342)	(146,221)

Notes (continued)

5 Income tax expense

	2008 Shs'000	2007 Shs'000
Current income tax	-	673,448
Deferred income tax	1,003,333	396,915
Income tax expense	1,003,333	1,070,363

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

	2008 Shs'000	2007 Shs'000
Profit before income tax	3,155,315	3,178,204
Tax calculated at a tax rate of 30% (2007: 30%)	946,595	953,461
Tax effect of:		
- Expenses not deductible for tax purposes	57,067	4,431
- Prior year under / (over) provision for corporation tax charge	-	(436)
- (Over)/understatement of deferred tax liability in respect of prior years	(329)	112,907
Tax charge	1,003,333	1,070,363
	%	%
Tax charge as a percentage of profit before tax	31.8	33.7

Further information on deferred income tax is presented in note 10

The movement in tax (recoverable)/payable is as follows:

	2008 Shs'000	**2007 Shs'000**
At start of year	(33,793)	(97,357
Current income tax	-	673,448
Income tax paid	-	(609,884
At end of period	**(33,793)**	**(33,793)**

Notes (continued)

6 Dividends per share

The directors did not recommend dividends in respect of the year ended 31 December 2008. The movement in proposed dividend is as follows:

	2008 Shs'000	2007 Shs'000
At start of year	500,000	-
Interim dividend declared (per share)	-	200,000
	500,000	200,000
Dividends paid during the year	(329,904)	(102,768)
	170,096	97,232
Unpaid declared dividends	(170,096)	(97,232)
Proposed final dividend (per share)	-	500,000
At end of period	**-**	**500,000**

7 Earnings per share

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

	2008 Shs'000	2007 Shs'000
Net profit attributable to shareholders	2,151,982	2,107,841
Weighted average number of ordinary shares in issue (2007 adjusted for share split)	800,000	500,000
Theoretical ex-rights value adjustment factor	-	1.38
Basic earnings per share	2.7	3.05

8 Share capital

	Number of shares (Thousands)	Ordinary shares Shs '000	Share premium Shs '000
Balance at 1 January 2007	5,000	500,000	-
Balance at 1 January 2008	5,000	500,000	-
Rights issue	4,000	400,000	9,766,027
Issue of shares	9,000	900,000	9,766,027
Effect of share split	900,000	900,000	9,766,027

Notes (continued)

Share capital (continued)

The total authorised number of ordinary shares is 900,000,000 with a par value of Shs 1. All issued shares are fully paid.

The Company's shareholders resolved to amend the Company's share capital as follows;

(i) At the extra ordinary meeting held on 4 January 2008, it was resolved among other things, to:

- Increase the company's authorised share capital to 9,000,000 ordinary shares of shs. 100 each
- Undertake a rights issue at a ratio of four (4) ordinary shares for every five (5) ordinary shares held at 31 December 2007.The rights issue, which was concluded in April 2008, resulted in the issuance of 4,000,000 new ordinary shares. As a result, the company's authorised and fully paid up shares at 25 April 2008 increased to 9,000,000 ordinary shares.

(ii) At the extra ordinary meeting held on 25 July 2008, it was resolved to split the ordinary shares of the company into 100 ordinary shares for 1 ordinary share and revise the par value from Shs. 100 to Shs. 1 per share. This resulted in an increase in ordinary shares to 900,000,000.

9 Revaluation reserves

The revaluation reserves represent solely the surplus on the revaluation of plant & machinery and land & buildings net of deferred income tax and are non-distributable.

	2008 Shs'000	2007 Shs'000
At start of year	3,827,409	3,970,490
Transfer of excess depreciation for the year	(151,883)	(143,082)
At end of year	**3,675,526**	3,827,409

10 Deferred income tax liabilities

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2007: 30%). The movement on the deferred income tax account is as follows:

	2008 Shs'000	**2007 Shs'000**
At start of the year:	3,993,128	3,596,213
Charge to profit and loss account (note 5)	1,003,333	284,008
Understatement of deferred tax in respect of prior years	-	112,907
At the end of year	4,996,461	3,993,128

Notes (continued)

Deferred income tax liabilities (continued)

Deferred income tax assets and liabilities, deferred tax charge/(credit) in the profit and loss account, and deferred tax charge/(credit) in equity are attributable to the following items:

	At 1 January 2008 Shs'000	Charged to profit and loss Shs'000	At the end of the year Shs'000
Deferred tax liabilities			
Property plant and equipment			
-on historical cost basis	2,360,869	1,276,752	3,637,621
-on revaluation surpluses	1,640,317	(65,093	1,575,224
	4,001,186	1,211,659	5,212,845
Deferred tax assets			
Other deductible temporary differences	(8,058	(3,763	(11,821
Trading tax losses	-	(204,563	(204,563
Net deferred tax liability	3,993,128	1,003,333	4,996,461

11 Retirement benefit obligation

	Shs '000	**Shs '000**
At start of year	215,520	788,980
Contributions for the year	875,297	328,166
Payments during the year	(55,822)	(901,626)
At end of period	1,034,995	215,520

Notes (continued)

Retirement benefit obligation (continued)

The company has a 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 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 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 contribution of 1.5 of one month's gross salary per completed year of service and employee contribution of 5% of gross monthly salary.

Effective July 2007, the contributions to the scheme were transferred to a fund administrator, National Insurance Corporation (NIC).

The liability disclosed in this note is funded by assets of a similar amount receivable from NIC.

12 Property, plant and equipment

Year ended 31st December 2007	Buildings Shs'000	Plant and machinery Shs'000	Furniture and fittings and computer equipment Shs'000	Motor vehicles Shs'000	Capital work in progress Shs'000	Total Shs'000
Opening net book amount	5,141,682	9,672,818	77,675	133,005	413,386	15,438,566
Additions	-	138,085	72,783	720,025	20,462,945	21,393,838
Transfers	94,979	1,342,875	-	23,585	(1,461,439)	-
Write off	-	-	-	-	(358)	(358)
Disposals						
Cost	-	-	-	(202,061)	-	(202,061)
Accumulated depreciation	-	-	-	143,620	-	143,620
Depreciation charge	(103,534)	(726,607)	(31,788)	(84,504)	-	(946,433)
Closing net book amount	5,133,127	10,427,171	118,670	733,670	19,414,534	35,827,172

Notes (continued)

Property, plant and equipment (continued)

At 31 December 2007

Cost or valuation	**5,613,549**	**13,645,409**	**272,741**	**1,387,779**	**19,414,534**	**40,334,012**
Accumulated depreciation	(480,422)	(3,218,238)	(154,071)	(654,109)	-	(4,506,840)
Net book amount	5,133,127	10,427,171	118,670	733,670	19,414,534	35,827,172

Year ended 31 December 2008	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Opening net book amount	5,133,127	10,427,171	118,670	733,670	19,414,534	35,827,172
Additions	-	36,984	43,182	767,146	11,248,881	12,096,193
Transfers	3,324,293	4,424,042	-	-	(7,748,336)	-
Depreciation charge	(106,702)	(829,291)	(44,714)	(306,671)	-	(1,287,378)
Closing net book amount	8,350,718	14,058,906	117,138	1,194,145	22,915,079	46,635,986
At 31 December 2008						
Cost or valuation	8,937,842	18,106,437	315,923	2,154,925	22,915,079	52,430,205
Accumulated depreciation	(587,124)	(4,047,529)	(198,785)	(960,780)	-	(5,794,218)
Net book amount	**8,350,718**	**14,058,906**	**117,138**	**1,194,145**	**22,915,079**	**46,635,987**

Notes (continued)

Property, plant and equipment (continued)

In the opinion of directors, there is no impairment of property, plant and equipment.

All the company's property, plant and equipment except for vehicles and computers were revalued in 1991, 1992, 1996, 2001 and 2006 by professional valuers.

The property valuations were made on the basis of the open market value and the plant and equipment was on a depreciated replacement cost basis. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income taxes credited to revaluation and other reserves in shareholders' equity.

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

	2008 Shs. '000	2007 Shs. '000
Cost	45,797,832	33,701,639
Accumulated depreciation	(1,761,380)	(690,981)
Net book amount	44,036,452	33,010,658

13. Prepaid operating lease rentals

	2008 Shs. '000	2007 Shs. '000
Cost	**72,669**	72,669
Additions	**141,000**	-
	213,669	72,669
Accumulated amortisation	**(18,739)**	(17,286)
	194,930	55,383
Amortisation during the year	**(8,209)**	(1,453)
	186,721	53,930

14. Non current receivables

Staff loans	**80,530**	120,129

Total staff loans are shown in note 16. All non-current receivables are due within 4 years from the balance sheet date. The weighted average interest rate on staff and directors' loans (current and non-current) was 5% (2007: 5%).

Notes (continued)

15 Inventories

	2008 Shs '000	2007 Shs '000
Spares and consumables	940,498	822,545
Work in progress	1,325,385	852,899
Finished goods	889,546	912,247
Goods in transit	161,613	25,354
	3,317,042	2,613,045

16 Receivables and prepayments

	2008 Shs '000	2007 Shs '000
Trade receivables	395,475	253,742
Less: provision for impairment of trade receivables	(49,267)	(26,650
	346,208	227,092
Prepayments	282,530	148,099
Staff and directors' loans and advances	324,120	345,605
Retirement benefit obligation fund assets	790,475	215,520
Other receivables	295,791	66,956
	2,039,124	1,003,272
Less: non-current staff loans (note 14)	(80,530)	(120,129)
	1,958,594	883,143

17 Cash and cash equivalents

	2008 Shs '000	2007 Shs '000
Cash at bank	82,373	153,466
Cash in hand	175,849	74,265
	258,222	227,731

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2008 Shs '000	2007 Shs '000
Bank and cash balances as above	258,222	227,731
Bank overdrafts (note 19)	(857,443)	(586,823
	(599,221)	(359,092)

Notes (continued)

18 Payables and accrued expenses

	2008 Shs '000	2007 Shs '000
Trade deposits (advance payments received)	1,001,663	1,197,816
Trade payables	2,809,329	625,045
VAT payable	116,533	168,292
Accrued expenses	10,480	67,680
Unpaid dividends	388,128	218,032
Other payables	381,452	276,819
	4,707,585	2,553,684

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.

19 Borrowings

	2008 Shs '000	2007 Shs '000
Total borrowings	17,139,667	20,429,905
Less: current portion	(3,026,605	(11,645,519
Non-current portion	**14,113,062**	8,784,386
The borrowings are made up as follows:		
Non-current		
Bank loan	14,113,062	8,784,386
Current		
Bank loan	2,169,161	11,058,696
Bank overdraft	857,444	586,823
Total current	3,026,605	11,645,519
Total borrowings	17,139,666	20,429,905

Notes (continued)

Borrowings (continued)

The bank loan comprises of medium term loan facilities from Standard Chartered Bank Uganda Limited (SCB) and East African Development Bank (EADB) to finance construction of a new factory in Kamonkoli, Mbale.

During the year, part of a loan, Shs 9,614 million was repaid with proceeds from the rights issue (SCB Shs 4,807 million and EADB Shs 4,807 million).
The balancing loan of another Shs 9,614 million (SCB shs. 4,807 million and EADB shs. 4,807 million) was rolled over to be repaid by 30 April 2014.

Loan acquired during the year

SCB agreed to advance a loan of Shs 6,698 million to finance additional capital expenditure for the Kamonkoli factory pending finalisation of a financing arrangement with EADB. SCB however advanced an amount of Shs 6,669 million during the period.
Interest on this 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.
In addition, the Company had an overdraft facility with SCB from which it had a balance of Shs 857 million at the end of the period.

The movement in borrowings is as follows:

	2008 Shs '000	2007 Shs '000
At start of the year	20,429,905	1,875,685
Loans received	7,170,885	20,425,487
Loan repayments	(10,461,124)	(1,871,267)
At end of year	17,139,666	20,429,905

The loan and the overdraft are collectively secured by;

1) Debenture for Shs. 10,631,588,530 over the fixed and floating assets of the company both present and future.

2) Legal mortgage for Shs. 10,631,588,530 over all of the the fixed assets, including properties situated on plot numbers 4, 16, 17, 18, 21 and 30, Kajjansi,

Notes (continued)

Borrowings (continued)

Weighted average effective interest rates:	2008	2007
	%	%
Bank overdraft	19	19
Bank borrowing	14.96	14.96

Maturity of non-current borrowings:

	2008 Shs '000	2007 Shs '000
Between 1 and 2 years	3,256,861	2,884,330
Between 2 and 5 years	10,856,201	5,900,056
Non-current portion	**14,113,062**	8,784,386

The carrying amount of short term borrowing and lease obligations approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the balance sheet date.
It is impracticable to assign fair values to the company's long term liabilities due to inability to forecast interest rate and foreign exchange rate charges.

20 Contingent liabilities

The Company is a defendant in various legal actions. Although it is not practical to estimate the liability that will arise from the settlement of these cases, in the opinion of directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

21 Capital commitments

Capital expenditure approved at the balance sheet date but not recognised in the financial statements is as follows:

	2008 Shs'000	2007 Shs'000
Property, plant and equipment (Plant expansion and new factory)	-	6,568,603
Opening capital commitment	6,568,603	14,263,306
Authorised capital expenditure	-	11,665,559
Effected capital expenditure	(6,568,603)	(19,360,262)
Capital commitment at 31 December	-	6,568,603

Notes (continued)

22 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2008 Shs'000	2007 Shs'000
Profit before income tax	3,155,315	3,178,204
Adjustments for:		
Depreciation (note 12)	1,287,378	946,433
Loss on disposal of property, plant and equipment	-	43,190
Amortisation of prepaid operating lease rental (note 13)	8,209	1,453
Write off of property, plant and equipment	-	358
Retirement scheme contributions not paid	244,520	112,646
Interest expense (note 4)	96,820	162,799
Interest income (note 4)	(173)	(16,788)
Changes in working capital		
- Increase in inventories	(703,997)	(1,354,006)
- increase in receivables and prepayments	(460,897)	805,890
- increase in payables and accrued expenses	1,862,264	245,341
Cash generated from operations	**5,489,439**	**4,125,520**

23 Related party transactions

The following transactions were carried out with related parties

i) Key management compensation

	2008 Shs'000	2007 Shs'000
Salaries and other short term employment benefits	776,731	841,247

ii) Directors' remuneration

	2008 Shs'000	2007 Shs'000
As fees	10,920	10,170
Other	46,780	60,458
	57,700	70,628

iii) Loans to directors

	2008 Shs'000	2007 Shs'000
At start of year	15,524	9,544
Additional loan	-	10,000
Interest accrued during the period	627	627
Loan repayment received	(6,147)	(4,647)
At end of period	**10,004**	15,524

Notes (continued)

Related party transactions (continued)

iv) Short term advance to a director

	Shs'000	Shs'000
At start of year	3,665	2,129
Additional advance	2,201	7,221
Repayments received	(2,656	(5,685)
At end of period	**3,210**	3,665

The loan and advance were given at weighted average interest rate of 5% per annum (2007: 5%).

ANALYSIS OF SHAREHOLDING

Distribution Schedule of equity as at 23 June 2009

Class of equity No. of shareholders	Total holding within range	Percentage of holding
1 - 1000	58,826	0.006536222
1001 - 5000	1,123,406	0.124822889
5001 - 10000	4,031,601	0.447955667
10001 – 100000	38,469,239	4.274359889
1000001 and over	856,316,928	95.14632533
Total	**900,000,000**	**100**
	========	========

List of 10 largest shareholding as at 23 June 2009

Name and Address	**Shares**	**Percent**
National Social Security Fund P.O. Box 7140 Kampala	292,640,000	32.52
National Insurance Corporation P.O. Box 7134 Kampala	169,777,800	18.86
Uganda Communications Employee Contributory Pension Scheme A/C UG 00027 P.O. Box 29661 Kampala	28,466,778	3.16
Central Bank of Kenya Pension Fund P.O. Box 2971 Kampala	23,900,000	2.66
Kenya Power and Lighting Company P. O. Box 2971 Kampala	20,207,200	2.25
Bank of Uganda Retirement Benefits Scheme P.O. Box 2971 Kampala	18,836,500	2.09

Stanbic Bank Pension Fund P.O. Box 2971 Kampala	16,265,900	1.81
Kenya Airways Limited Staff Provident Fund P.O. Box 2971 Kampala	15,000,000	1.67
Uganda Development Bank Ltd P.O. Box 7210 Kampala	10,147,335	1.13
Uganda Communications Employee Contributory Pension Scheme A/C UG 00026 P.O. Box 29661 Kampala	8,975,400	1.00
Total number of shares	604,216,913	67.15
ADD: 2311 other shareholders	**295,783,087**	**32.86**
TOTAL	**900,000,000**	**100.00**

Director's Shareholding as at 23 June 2009

Senfuma S. R. John	940,700	0.10
Mayanja Sepiranza	570,000	0.06
Kasekende Martin	500,000	0.05
Claudius Mary Olweny	388,159	0.04
	2,398,859	0.25

Notes

UGANDA CLAYS LIMITED

PROXY FORM

	RESOLUTION	FOR	AGAINST
Annual General Meeting to be held at 11:00 a.m on Friday 24 July 2009 at Kamonkoli factory, Budaka District. I/We --- (insert full names) Of --- (insert full names) Being member(s) of UGANDA CLAYS LIMITED hereby appoint *--- (insert full names) Or failing him the Chairman of the meeting as my proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to he held on 24 July 2009 and at any and every adjournment hereof. Dated this -------day of----------------------- 2009. -- Shareholder's Signature	1. To receive the accounts		
	2. To elect-----------------------as director		
	3. To elect----------------------as director		
	4. To elect----------------------as director		
	5. To elect----------------------as director		
	6. To elect----------------------as director		
	7. To elect----------------------as director		
	8. To elect ----------------------as director		
	9. To elect ----------------------as director		
	10. To approve directors' fees		
	11. To appoint Ernst and Young as auditors and to authorize directors to fix their (auditors) remunerations.		
	Please indicate with an X in the appropriate square above how you wish your vote to be cast on each of the 11 resolutions. In case of resolutions Nos. 2 and 9 inclusive, you may first fill in the name(s) of up to 8 persons you would like to vote on as director(s). Unless otherwise instructed, the Proxy will vote or abstain from voting at their discretion.		

NOTES

1. A member (shareholder) who is unable to attend the Annual General Meeting is allowed by law to vote by proxy. The above proxy form has been prepared to enable you to exercise your vote by proxy.
2. Provision has been made on the form for the chairman of the meeting to act as your proxy but if you wish, you may insert in the blank space (*) the name of any person whether a member of the company or not, who will attend the meeting and vote on your behalf instead of the chairman of the meeting.
3. In case of joint shareholders, each joint shareholder should sign.
4. If executed by a corporation, the proxy form should bear its common seal or be signed on its behalf by an officer or attorney duly authorized.
5. Please sign the above proxy form and post or hand deliver it, so as to reach the Company Secretary not later than 9.00 am on 22 July 2009.

Notes

Uganda Clays Ltd

Quality. Durability. Beauty to last

The leading name in clay construction materials in the East African region

14 kms Entebbe Road, Kajjansi P.O. Box 3188 Kampala Uganda
Tel: +256 414 200255/261, Fax: +256 414 200167 and Kamonkoli 5km Mbale Tirinyi Road
Email: uclays@ugandaclays.co.ug, Website: www.ugandaclays.co.ug