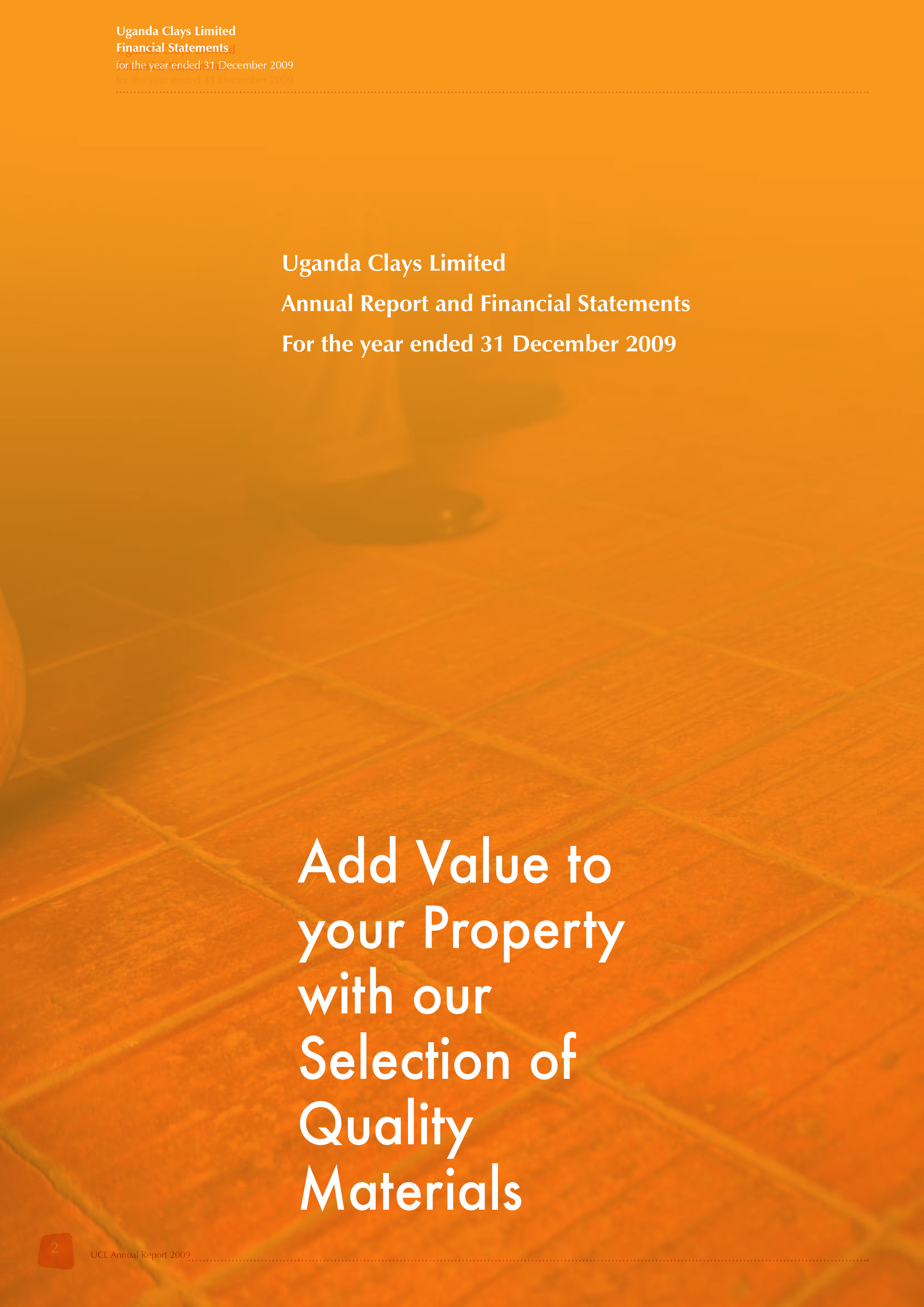
2009 Annual Report

Uganda Clays Ltd

Beauty to last



Uganda Clays Limited
Annual Report and Financial Statements
For the year ended 31 December 2009

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CORPORATE INFORMATION

Directors

Left - Right

Mr. Joseph Kitamirike	*(Director)*
Mr. Romano Ojiambo Ochieng	*(Director)*
Mr Charles Rubaijaniza	*(Executive Director)*
Mrs. Lilian Sebugenyi Mukasa	*(Director)*
Prof. Eng. John Senfuma	*(Chairman)*
Mrs. Jolly Aripa Kirabo	*(Director)*
Mr. James Nelson Musaazi	*(Director)*
Mr. Micheal Olupot Tukei	*(Director)*
Mr. John Wafula	*(Managing Director)*

CORPORATE INFORMATION (continued)

Senior Management

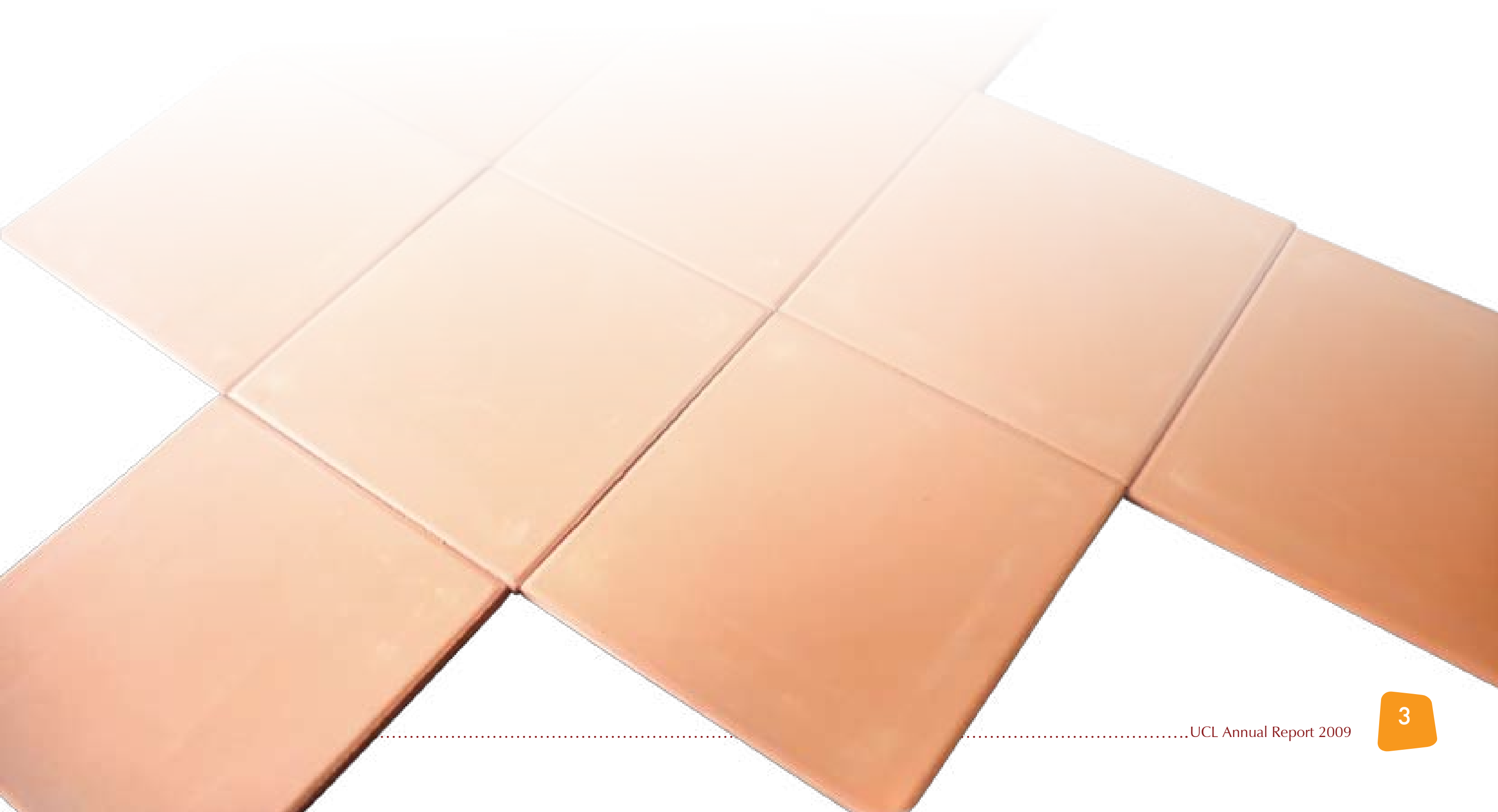
John Wafula	(Managing Director / Chief Executive Officer)
Charles Rubaijaniza	(Executive Director / Deputy CEO)
Atodu Charles Amanu	(Company Secretary)
Joseph Kitone	(Marketing Manager)
Cosmas Olwoch	(Production Manager)
Sepiranza Mayanja	(Information Technology Manager)
Richard Kajungu	(Finance Manager)
Richard Mugabyomu	(Internal Audit Manager)
John Gita	(Production Manager-Kamonkoli)
Bonny Isabirye	(Financial Manager-Kamonkoli)
Annet Khasula	(Marketing Manager-Kamonkoli)

Auditors

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

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.

Security Central Depository Agents / Brokers

Baroda Capital Markets (U) Ltd.

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Email: bob10@calva.com

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Email: equity@orient-bank.com

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Email: info@crestedsecurities.com
Website: www.crestedsecurities.com

Company Secretary and Registered Office

Atodu Charles Amanu
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Kampala, Uganda
Tel:+256 (41) 4200261/55
Email: uclays@ugandaclays.co.ug.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (AGM) of the shareholders of Uganda Clays Limited in respect of the year ended 31 December 2009 will be held on ***Friday 20th August 2010***, 10.00 a.m. at Hotel Africana, Wampewo Avenue (Kampala) and not on the 6th of August 2010 as earlier communicated.

AGENDA

1. Confirmation of the minutes of the meeting held on 24 July 2009.

2. Action report.

3. To receive and consider the directors' report and the audited financial statements for the year ended 31 December 2009.

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 2010 and to authorise directors to fix the auditors' remuneration.

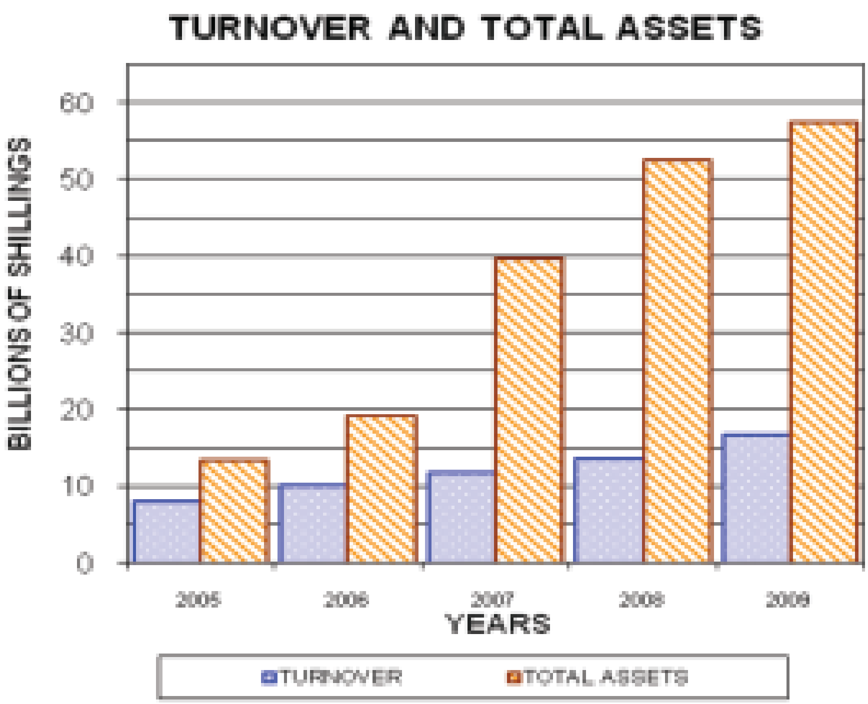
6. Any Other Business (A.O.B). A member wishing to raise an item under A.O.B. should register the matter with the secretary at least 48 hours before the start of the meeting.

BY ORDER OF THE BOARD

Atodu Charles Amanu
COMPANY SECRETARY

FINANCIAL HIGHLIGHTS 2005-2009.

FINANCIAL HIGHLIGHTS	2009	2008	2007	2006	2005
	shs ' 000	shs ' 000	shs ' 000	shs ' 000	shs ' 000
Turnover	16,722,124	13,548,257	11,699,713	9,984,104	7,915,007
(Loss) / Profit before tax	(778,744)	3,155,315	3,178,204	1,768,190	1,329,639
(Loss) / Profit after tax (earnings)	(707,062)	2,151,982	2,107,841	1,307,156	952,827
Dividends	-	-	700,000	200,000	400,000
Cash generated from operations	6,815,918	5,818,447	4,125,520	3,805,650	2,481,028
Shareholders's funds	23,677,653	24,384,715	12,566,706	10,658,865	7,681,256
Capital expenditure	6,560,261	12,096,193	21,393,838	1,996,199	528,195
Total assets	57,461,644	52,470,889	39,758,943	19,153,760	13,401,271
PER SHARE DATA					
Dividends per share (shs)	0	0	140	40	80
Earnings per share (shs)	(0.88)	2.70	3.05	261	191



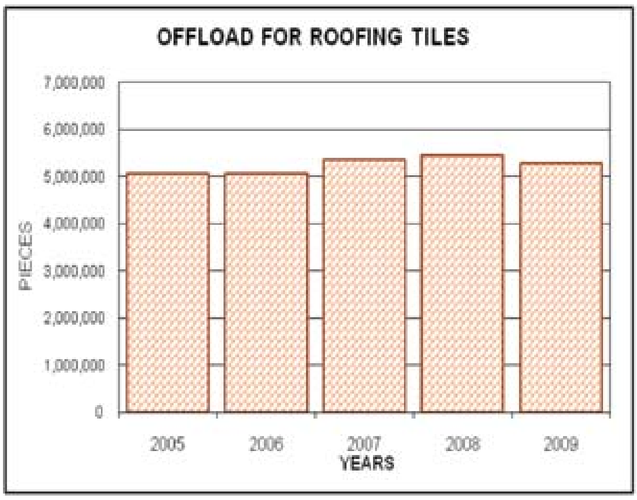
CHAIRMAN'S STATEMENT

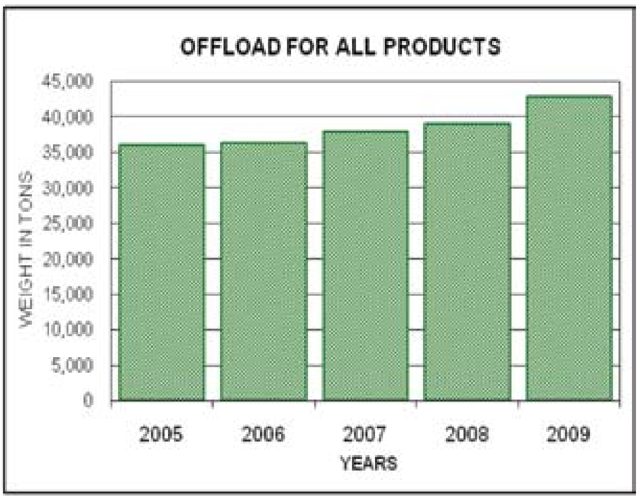
In 2009, Uganda Clays Limited (UCL) registered a marked progression in its East African Region expansion programme. Most notable was the opening of the Kamonkoli Factory in Budaka District (8kms Mbale-Tirinyi Road) which was graced by His Excellency Yoweri Kaguta Museveni, the President of Uganda. In the past year, UCL has considerably transitioned from being limited to the Kampala Central Business District to establishing their operations across Uganda and beyond its borders.

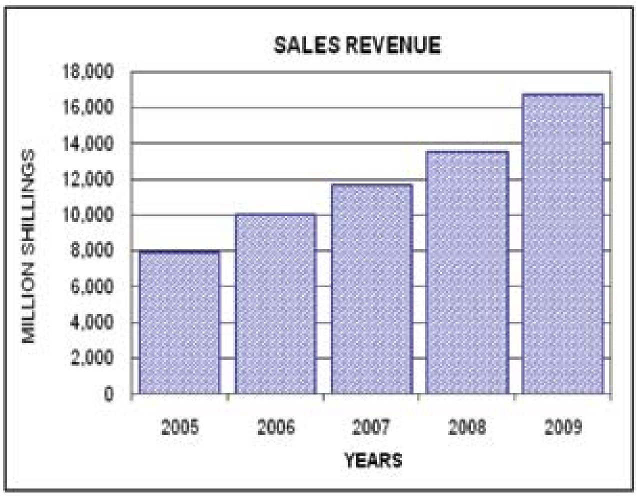
Financial results

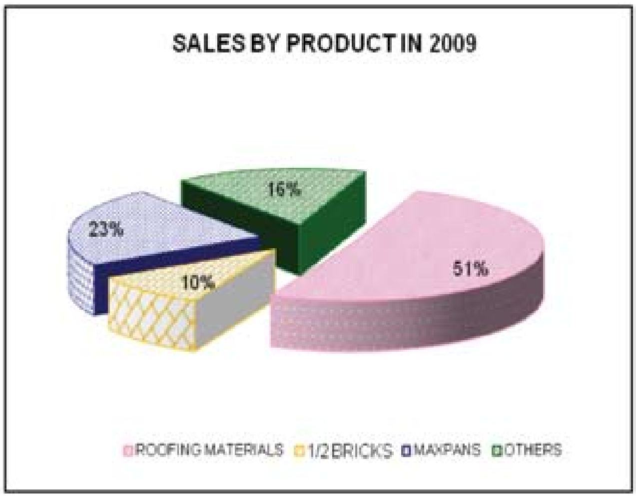
The Kajjansi factory recorded an improvement with a net profit of Ushs. 3.51 billion from Ushs. 2.15 billion which was an increase of 63% compared to the year ended 31 December 2008. However, due to the expected high production and financing costs typical of projects in infancy stages, the Kamonkoli factory recorded an inevitable loss of Ushs. 4.2 billion resulting in a net loss of 0.7 billion for the Company.

Company performance 2005 to 2009









Production

The company experienced relatively higher production costs precipitated by the new factory at Kamonkoli that was going through start up adjustments after commencing production. The rise in costs is however consistent with a manufacturing firm coming out of a phase of large capital investment. As a result, cost of sales as a percentage of turnovers went up from 50% for year ended 31 December 2008 to 60% for year ended 31 December 2009.

The delayed completion of the Kamonkoli factory and loan repayments that started before the factory became fully operational, adversely affected the company's general operations and this resulted in the net liability position on the statement of financial position for year ended 31 December 2009.

In May 2009 the new factory at Kamonkoli began operations and is now meeting the demand of customers in Northern and Eastern Uganda, Western Kenya and Southern Sudan. We are optimistic that having overcome the initial challenges of production and operation of this large investment, the company will post improved results for 2010.

Outlet performance

The UCL outlet network has grown since 2008 from one location at Lugogo Show Grounds to four locations including Ntinda (Kisaasi), Nateete, and Juba (Southern Sudan).

The latest addition to the distribution network has been the Mbarara outlet located 2kms on Mbarara-Masaka road. This outlet was strategically opened to serve Western Uganda and take the products closer to the customers in Rwanda, Burundi, Tanzania and Democratic Republic of Congo. Plans are in the offing to open two more sales outlets in Arua and Jinja in 2010 and Agents have been established in Soroti and Gulu which will allow easier accessibility to products by customers nationwide.

Exports performance

With the continued production of a quality product that is appreciated by customers across borders and the recent removal of all tariff barriers, UCL is taking part in the cross border trading activities. This is being done early to take advantage of the budding intra East African Community trade.

Corporate Social Responsibility

UCL believes strongly in giving back to communities in which it operates as this is in line with the company's strategic objectives and vision.

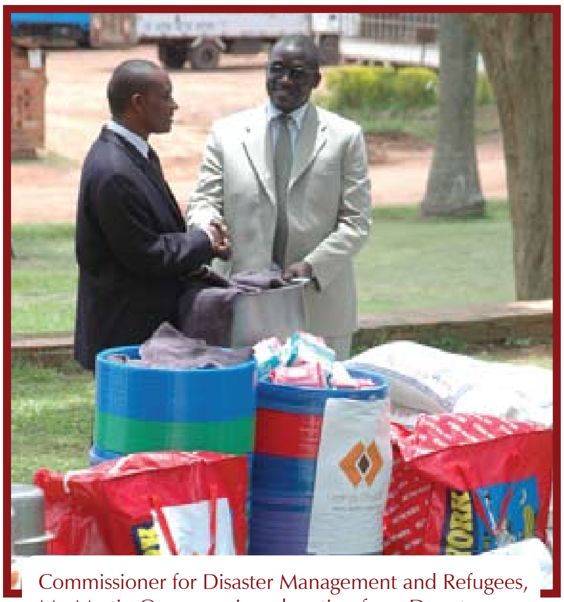
Deputy CEO Mr. Rubaijaniza receiving Kajjansi Rotary Club vocation award

UCL received the 2009 Kajjansi Rotary Club - Vocation award in recognition of the company's role in production of quality materials, alleviation of poverty through provision of employment opportunities to the people of Kajjansi and Community development through provision of sanitation facilities to the community and their continued role in sensitizing the community on Health issues/HIV awareness.

2nd in Command, Kajjansi Traffic Police, at the new Traffic Office.

In 2009, there was a significant decrease in the number of traffic fatalities in the area due to in large part by the great input by UCL who provided a park for the taxis along the Kajjansi-Entebbe road. An increase in the number of traffic personnel deployed at Kajjansi station was also realized in the same year. This created a need to provide office space for the officers.

UCL handed over building materials to Kajjansi Police Post, as a donation towards the extension of the traffic office in March 2010. These materials which included roofing tiles and bricks were received by the OC Traffic Kajjansi, AIP Onen Francis Lukwiya who appreciated the partnership that has been formed over the years with UCL, starting with the provision of land on which the Kajjansi Police station premises are located



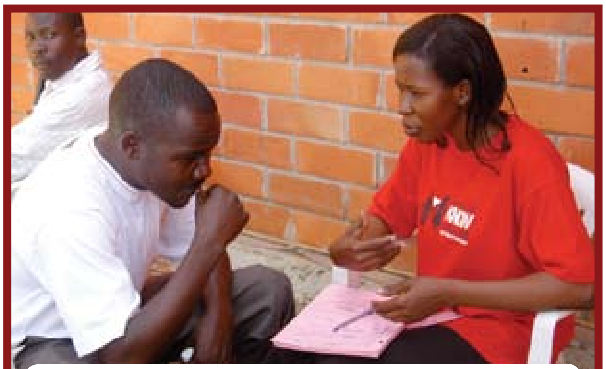
Commissioner for Disaster Management and Refugees, Mr. Martin Owor receives donation from Deputy CEO Mr. Rubaijaniza

According to Office of the Prime Minister, the Bududa tragedy landslide of 1st March 2010 washed away about 350 people and property worth millions of US dollars in the district. A total of 94 bodies had been recovered by mid March and about 300 people were still missing. The Government of Uganda hopes to move the victims from the temporary camps to more permanent locations in the long term resettlement plan that runs from August 2010 to July 2015.

The donation was received by the Commissioner for Disaster Management and Refugees, Mr. Martin Owor, who appreciated the role that development partners, institutions, companies and individuals have played in the provision of relief and support for the victims of the landslides.

Education

UCL encourages learning institutions to visit the factory premises and continues to offer academic tours whose aim is to educate students about the economic use of clay, the role of engineers, ceramists and chemists in the process of making the finished product in form of bricks and tiles, as well as groom them as future employees. The UCL Academic tour programme in 2009 saw an integration of schools participate including Buddo Secondary School, Aviation School of Uganda and Mityana Modern School among others.



A peer educator counsels a community member

A community member undergoing HIV testing

Kamonkoli Community Programme

UCL peer educators are involved in programmes aimed at sensitising the employees and the neighbouring community about prevention against HIV/AIDS and malaria, as well as care for those infected. These efforts have been greatly supplemented by Uganda Manufacturers Association and Health Initiatives for the Private Sector – a USAID funded project. These programmes are active both in Kajjansi and Kamonkoli.

In addition to ISO 9001:2000 (Quality Management System), the company has taken the initiative to establish and implement an Environment Management System based on ISO 14001:2004 series of standards. Terms of reference have been approved by National Environmental Management Authority (NEMA) for the Environment Audit to be performed.

Currently at the Kamonkoli factory, plans are underway to create fish ponds in the areas from which clay has been extracted. Fish farming being one of the livelihood activities for the community in this area, the fish ponds will be open to the people for this purpose.
Further more the company is encouraging environmental conservation in Kamonkoli by emphasising tree planting. Already tree and fruit seedlings have been distributed to the community.

Our Human resources

The company has four times running won the Best Employers Awards, in various categories, from the Federation of Uganda Employers and the same was true for the year 2009. UCL has continued to motivate its employees and emphasize the development of their human resources who play a significant role in the productivity of the company.
July 2009 saw UCL taking an active role in running a successful HIV/AIDS campaign with the launch of the company HIV/AIDS policy. This was done in partnership with AMREF and Uganda Manufacturers Association/HIPS project, with an objective to enhance openness among employees and help them face the challenge of AIDS at the work place through educational programmes as a way of promoting health and welfare of the employees, their families and the community.

UCL is among the largest employers in Wakiso and Budaka Districts, and currently employment at the Kajjansi factory stands at 688 employees while the Kamonkoli factory has 180 employees. There is good dialogue between employers and employees and this has been the driving force to make the company a market leader.

The Managing Director/Chief Executive Officer Mr. John Wafula will be retiring on 31 December 2010 after serving the Company for eighteen years.

He joined the Company in 1992 as Company Secretary and was later appointed Managing Director/ Chief Executive Officer in 2001. With support of the Board, Management and employees, he has made a tremendous contribution to the Company. Most of the significant achievements are highlighted in his farewell remarks on pages 13 - 16.

On behalf of the board, I wish to take this opportunity to thank him for the job well done. Given his wide experience in Management and the clay processing industry, I request him to continue giving advice to the Company whenever it is sought. At an appropriate time, a befitting farewell will be arranged for him.

Contribution in taxes

The company contributed to Government revenues in taxes worth 3.29 billion in 2009 compared to the 1.89 billion in the year 2008.

Dividends

The Board of Directors does not recommend payment of dividends for the year ended 31st December 2009 because of the continued investment in the new factory.

Notice of immobilization (Physical share certificates)

The ordinary shares issued by the Company have been immobilized with Securities Central Depository (SCD) operated by Uganda Securities Exchange. A notice issued by Uganda Securities Exchange dated May 13th 2010 notified all shareholders that effective 27th May 2010 no persons shall trade on USE in the said shares unless such a person shall have successfully opened an account with the Securities Central Depository and deposited such shares in such accounts. This is in accordance with the Securities Central Depository, Act 2008 and applies to all companies listed to Uganda Securities Exchange.

All share holders are therefore, urged to open accounts with SCD through their Securities Central Depository Agents (SCDA's) and deposit their certificates through such Agents (Brokers). Note that account opening and certificate deposit is free of charge. Shareholders are advised to ensure that they deposit their certificates through only the bonafide Brokers.

The Directors

All the nine members elected by the shareholder on the 24th July 2009 have diligently served the company. The diverse experience in management and board matters were handy in guiding the company particularly in improving the performance of the Kamonkoli factory.

Prospects for the business

The Kamonkoli factory is projected to break even in the year 2011 and central to reaching the optimum levels at the factory is the tunnel kiln expansion that is slated to begin in 2010. The second phase of the factory involving the construction of the second tunnel dryer and installation of another tile press is planned to begin in 2011. When this is completed production will double to 12 million tiles. Productivity and profitability will continue to be enhanced at the Kajjansi factory as well. After optimising production in Kamonkoli, plans are underway to improve the drying and baking processes in Kajjansi by constructing modern dryers and a tunnel kiln.

Conclusion

I want to take this opportunity to thank whole heartedly, the Board of Directors and our shareholders for the support rendered to us in our endeavour to take the UCL brand to the East African Region and also thank the Management and all employees for the commitment in ensuring that the company continues its legacy as a market leader in East Africa as a manufacturer of quality baked clay building products.

Prof. Eng. John Senfuma

Chairman

FAREWELL REMARKS FROM THE MANAGING DIRECTOR / CHIEF EXECUTIVE OFFICER [MD / CEO]

1. BACKGROUND

This valedictory message serves as a climax to my 18 years service in Uganda Clays Limited [UCL] first as Company Secretary from 2 December 1992 to 30 September 2001, and then as MD/CEO from 01 October 2001 to 31 December 2010.

It has been a long journey, indeed, in terms of the complete transformation UCL has undergone, from a small little-known Company to a vibrant, dynamic and large Company we know today, with regional ambitions and the prestige of trading on the Uganda Securities Exchange [USE]. Some of the evidence of this transformation is shown below:

	1993	2001	2009
Offload (all items) (tonnes)	11,474	19,846	42,843
Offload (Mangalore tiles only) (pieces)	1,244,693	3,462,532	5,273,742
Sales (Shs '000)	1,238,075	3,726,324	16,722,124
Fixed assets (shs '000)	3,202,928	4,249,618	50,065,900
No. of employees	381	416	861

I want to use this opportunity to pay special tribute to the UCL top managers of the post independence era who played a crucial role in bringing the Company to the level at which it is now: Late Eng Dr. Ottavio Botti, Mr. Joseph Kikonyogo and Dr. Eng. Frank Sebbowa.

Special mention is also made of the directors past and present, management and employees, and of course our customers, suppliers, the Kajjansi community and the rest of our stakeholders who have sustained and prospered the Company over the years.

2. THE DRIVERS

If I were to identify the key turning points in the modern history of UCL, I would mention three: the divesture by Government of National Housing Construction Corporation's 75% holding in UCL in 1999, the strike by employees in 2001 and the lessons learnt, and the construction of the Kamonkoli Factory in 2009.

2.1 Divestiture in 1999 and Listing in 2000

When UCL became the first company to be listed on USE in 2000, doors were opened for it to be in the limelight both nationally and internationally by having shareholders from all over the world, and with regular reports in the media about its operations. The listing further raised the bar for corporate governance and, this, together with the exposure, contributed to the third benefit of the listing: putting and anchoring UCL firmly into the mainstream of raising funds on the capital market.

2.2 Employees strike in 2001

In 2001, the employees went on strike while the three top-most leadership of the Company were out of the country. Without going into the details of the strike, I should say that this event obliged the Board to cancel my retirement (which I had tendered and had been accepted) and appoint me to head the Company.

2.3 Lessons from the strike

Under these unauspicious circumstances, I took the helms of the Company and together with the Board, Management and employees of UCL we set out to heal the wounds caused by the strike, to build morale and teamwork among all categories of employees and to plan and realise the Company's goals.

Between 2001 and 2006, we replaced all the dilapidated machinery and built a second Hoffman kiln and a second down-draught kiln. We built and equipped new workshops, extended the Administration Block by 100%, installed offices in the factory for the Production Manager, Supervisors, and Headmen, made all-round improvements and renovations on and inside the factory buildings, and completely re-designed the Company grounds and roads both within and outside the factory premises. All this gave the Company a distinctive and well-groomed appearance which is a fascination to both passersby on the Kampala-Entebbe highway and to the visitors and customers who enter the factory premises, as well as offering a good learning opportunity to various educational institutions, ranging from pre-primary to university levels. Since 2003 a total of 380 educational institutions with 25,533 learners have had educational visits to the Company.

We also improved the reward system of the employees: for example the highest and lowest wages of the unionised workers went up from shs. 259,000 and shs. 143,000 respectively on 31 December 2001 to shs. 537,600 and shs. 237,600 respectively on 30 June 2010. In addition, quarterly general meetings of ALL employees were introduced where issues deposited
in suggestion boxes were raised and openly discussed (mainly to the chagrin of us in Management!). Consequently, the Company has since 2002 won five Best Employer Awards in various categories from the Federation of Uganda Employers.

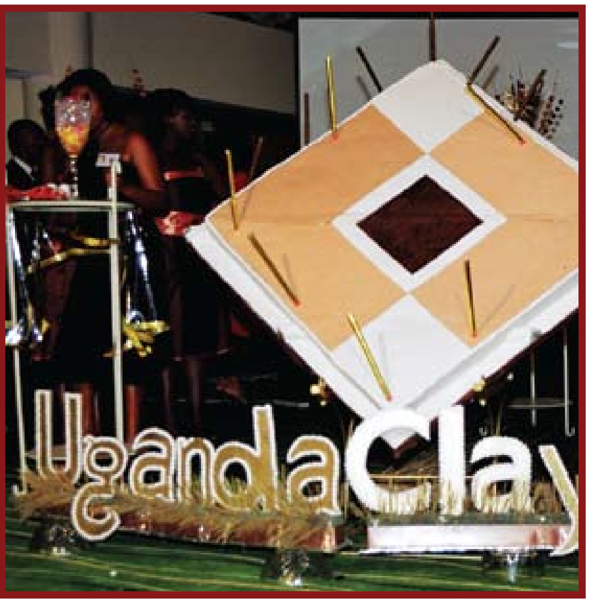
2.4 Kamonkoli factory

His Excellency President Yower K. Museveni commissioning the Kamonkoli factory on the 26th Janaury 2010.

Above all, this new method of work stimulated us to think big and strategically for the Company to ensure that it maintains its hegemony in the market, and that no competitor pops up and outflanks us at three levels: technological, national, and regional.

The Kamonkoli factory, built and equipped at a cost of shs. 35.8 billion was our answer to that challenge. When the second phase is completed at the end of next year, it will produce 38,448 tonnes, including 12 million roofing tiles annually. The factory will be our torch-bearer as we make forays into regional markets and we expect total sales, including Kajjansi, to hit the shs. 40 billion mark in 2012.

Following the transformation of the Company, from production far below the market demand



which led to a scramble for clay building products, to that poised to supply the East African region with all major products being readily available, we rebranded the Company to reflect this new corporate image and a new corporate logo was launched on 20 August 2008. During the launch, the Minister of State for Housing Honorable Michael Werikhe recognised the progress of UCL and in his own words said "Uganda Clays Limited has become a flagship for all other industries in Uganda, especially within the construction sector, showing that with a clear vision, a dedicated and innovative team, anything is possible in our country".

2.5 Employee Development and training

In order to encourage skills development particularly in production, the Company has sponsored three employees for various engineering disciplines. Various internal, local and international courses have been attended by all categories of employees.

In collaboration with the British Council, and Makerere University, the Company participated in the African Knowledge Transfer Partnership, a programme that was aimed at improving efficiencies in Companies and develop direct relationships between training institutions and the industry. Through this programme, the Company was able to determine the energy conservation potential and reduce on the drying time of materials in artificial dryers. A study to identify alternative fuel options is underway and is nearing completion.

3. PROSPECTS

I am absolutely convinced that your Company is in an enviable position to become a household name in the region for quality clay building materials. My own prediction is that within the next five years, UCL will be selling as many roofing tiles outside Uganda as within, and your investment is destined to multiply significantly as a result.

4. CONCLUSION

Finally I extend my thanks and appreciation to you, shareholders, for maintaining confidence in UCL and being active by attending and participating in meetings and giving us valuable advice. I thank my board chairman Prof Eng. Senfuma for his excellent work, keen interest, personal and professional help, skill and tact in overseeing the organisation. I thank the rest of the directors, both current and past, the Management team and all employees for their co-operation and commitment.

Last, but not least, I will always be indebted to our customers whom we have always endeavoured to make "King".

I take full responsibility for any shortcomings UCL has suffered; I share with all of you any success we have registered. And, above all, I give glory to God for enabling me to serve UCL at this exciting time in its history.

John Wafula
MANAGING DIRECTOR / CHIEF EXECUTIVE OFFICER

DIRECTOR'S REPORT

The directors submit their report together with the financial statements for the year ended 31 December 2009 which disclose the state of affairs of Uganda Clays Limited ('the Company').

Principal activities

Principal activities of the Company continue to be the production and sale of a wide range of clay building products. The main items produced are roofing tiles which account for 50% (2008: 52%) of the Company's turnover during the year.

Results

The net loss of Ushs 707million (2008: Net profit of Ushs 2,152 million) has been added to retained earnings

The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil).

Directors

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

Professor Eng. J.S Senfuma	-	(Chairman) re-appointed on 24 July 2009
Mr. J. Kitamirike	-	re-appointed on 24 July 2009
Mr. M. Olupot Tukei	-	re-appointed on 24 July 2009
Mr. J. Wafula	-	appointed on 24 July 2009
Mr. C. Rubaijaniza	-	appointed on 24 July 2009
Ms. J. Aripa Kirabo	-	appointed on 24 July 2009
Mr. J. Musaazi	-	appointed on 24 July 2009
Ms. L. Sebugenyi Mukasa	-	appointed on 24 July 2009
Mr. J. Ojiambo Ochieng	-	appointed on 24 July 2009
Mr. M. Bandeebire	-	retired on 24 July 2009
Mr. C. Olweny	-	retired on 24 July 2009
Eng. M. Kasekende	-	retired on 24 July 2009

In accordance with Articles 34 and 57 of the Company's Memorandum and Articles of Association, all the directors hold office until the Annual General Meeting but are eligible for re-appointment

Auditors

The Company's auditors, Ernst & Young, who were appointed during the year have expressed willingness to continue in office in accordance with section 159 (2) of the Ugandan Companies Act (Cap 110).

By order of the Board

Secretary
10th May 2010

The Companies Act (Cap 110) 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 operating results. 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 Companies Act (Cap 110). 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 results in accordance with International Financial Reporting Standards and the requirements of the Companies Act. 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.

The Company had a net current liability position of Ushs 6.5 billion (2008: Ushs 2.2 billion) as at 31 December 2009 and made a loss of Ushs 707 million (2008: profit of Ushs 2.152 billion) for the year then ended. The Company has also not been able to service term loan obligations with effect from January 2010. These factors indicate that there is a possibility that the Company will not continue as a going concern. However, as at the date of approval of the financial statements, the Company had approached its biggest shareholder, National Social Security Fund (NSSF), for financing of Ushs 21 billion to be used for refinancing the outstanding loans and working capital. NSSF has shown commitment to providing the required financing subject to finalisation of an on-site loan appraisal in line with the NSSF investment policy. In addition, the Company is discussing with its loan financiers the possibility of rescheduling the loan repayments and at the same time negotiating long term financing with other commercial banks.

The Company's cash flow projections indicate that the Company shall have positive cash flows in the foreseeable future and this is attributed to the increased sales following the commissioning of the new factory in Kamonkoli.

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

....	....
Director	Director
10^{th} May 2010	10^{th} May 2010

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

Report on the Financial Statements

We have audited the accompanying financial statements of Uganda Clays Limited, set out on pages 21 to 52 which comprise the statement of financial position as at 31 December 2009, 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 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 the requirements of the Companies Act (Cap 110). 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 give a true and fair view of the state of financial affairs of the Company as at 31 December 2009, and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap 110).

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 (B) to the financial statements which indicates that, the Company had a net current liability position of Ushs 6.5 billion (2008: Ushs 2.2 billion) as at 31 December 2009 and made a loss of Ushs 707 million for the year then ended. These factors indicate that there is material uncertainty that the Company will continue as a going concern and therefore, may be unable to realise its assets and discharge its liabilities in the normal course of business. However, as at the date of approval of the financial statements, the Company had approached its biggest shareholder, National Social Security Fund (NSSF), for financing of Ushs 21 billion to be used for refinancing the outstanding loans and working capital. NSSF has shown commitment to providing the required financing subject to finalisation of an on-site loan appraisal in line with the NSSF investment policy. The financial statements have been prepared on a going concern basis on the assumption that the Company shall obtain the financing from NSSF and that its operating results shall continue to improve and support the working capital requirements.

Report on Other Legal Requirements

As required by the 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 our audit;

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

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

KAMPALA

15 JUNE, 2010

Statement of comprehensive income

	Note	2009 Ushs'000	2008 Ushs'000
Revenue	2	16,722,124	13,548,257
Cost of sales	3	(9,975,577)	(6,808,659)
Gross profit		**6,746,547**	**6,739,598**
Other operating income		145,298	34,251
Administrative expenses	4	(1,676,571)	(684,454)
Distribution costs	5	(1,202,795)	(880,867)
Other operating expenses	6	(2,469,154)	(1,956,393)
Operating profit		**1,543,325**	**3,252,135**
Finance costs	7	(2,322,069)	(96,820)
(Loss)/profit before income tax	8	**(778,744)**	**3,155,315**
Income tax expense	9	71,682	(1,003,333)
(Loss)/ profit for the year		**(707,062)**	**2,151,982**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		**(707,062)**	**2,151,982**

		Ushs/share	Ushs/share
Basic and diluted (loss)/earnings per share	10	**(0.88)**	**2.7**

Statement of financial position

	Note	2009 Ushs'000	2008 Ushs'000
Equity			
Issued capital	12	900,000	900,000
Share premium	12	9,766,027	9,766,027
Revaluation reserves	13	3,379,685	3,675,526
Retained earnings		9,631,941	10,043,162
Total equity		**23,677,653**	**24,384,715**
Non-current liabilities			
Deferred income tax liability	14	4,924,779	4,996,461
Retirement benefit obligations	15	1,864,435	1,034,995
Finance lease	16	1,252,180	207,466
Borrowings: non -current portion	17	12,123,277	14,113,062
Total non-current liabilities		**20,164,671**	**20,351,984**
Total equity & non-current liabilities		**43,842,324**	**44,736,699**
Represented by:			
Non-current assets			
Property, plant and equipment	18	50,065,920	46,635,987
Prepaid operating lease rentals	19	223,997	186,721
Staff loans: non-current portion	20	30,381	80,530
		50,320,298	**46,903,238**
Current assets			
Inventories	21	4,429,707	3,317,042
Trade and other receivables	22	2,315,416	1,958,594
Tax recoverable	9	33,793	33,793
Cash and bank balances	23	362,430	258,222
		7,141,346	**5,567,651**
Current liabilities			
Trade and other payables	24	8,708,291	4,707,585
Borrowings: current portion	17	4,911,029	3,026,605
		13,619,320	**7,734,190**
Net current liabilities		**(6,477,974)**	**(2,166,539)**
		43,842,324	**44,736,699**

The financial statements on pages 21 to 52 were approved by the board of directors on 10th May 2010 and signed on its behalf by:

Director **Director**

Statement of changes in equity

	Note	Issued Capital (Note 12)	Share Premium (Note 12)	Revaluation reserves (Note 13)	Retained earnings	Proposed dividend (Note 11)	Total equity
		Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2008		500,000	-	3,827,409	7,739,297	500,000	12,566,706
Rights issue		400,000	9,766,027	-	-	-	10,166,027
Net profit for the year		-	-	-	2,151,982	-	2,151,982
Transfer of excess depreciation		-	-	(151,883)	151,883	-	-
Dividends paid during the year	11	-	-	-	-	(329,904)	(329,904)
Unpaid declared dividends	11	-	-	-	-	(170,096)	(170,096)
At 31 December 2008		**900,000**	**9,766,027**	**3,675,526**	**10,043,162**	**-**	**24,384,715**
At 1 January 2009		900,000	9,766,027	3,675,526	10,043,162	-	24,384,715
Loss for the year		-	-		(707,062)	-	(707,062)
Transfer of excess depreciation		-	-	(295,841)	295,841	-	-
At 31 December 2009		**900,000**	**9,766,027**	**3,379,685**	**9,631,941**	**-**	**23,677,653**

Statement of cash flows

	Note	2009 Ushs'000	2008 Ushs'000
Operating activities			
Cash generated from operations	27	9,137,987	5,818,621
Interest paid		(2,322,069)	(96,820)
Net cash flows from operating activities		**6,815,918**	**5,721,801**
Investing activities			
Purchase of property, plant and equipment	18	(6,560,261)	(12,096,193)
Purchase of leasehold land		(46,090)	(141,000)
Net cash flows used in investing activities		**(6,606,351)**	**(12,237,193)**
Financing activities			
Proceeds from borrowings		37,977	6,900,264
Proceeds from rights issue		-	10,166,027
Dividends paid	11	-	(329,904)
Repayments of borrowings	17	(1,233,328)	(10,461,124)
Net cash flows (used in)/ from financing activities		**(1,195,351)**	**6,275,263**
Net decrease in cash and cash equivalents		**(985,784)**	**(240,129)**
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		(599,221)	(359,093)
Net decrease in cash and cash equivalents for the year		(985,784)	(240,129)
Cash and cash equivalents at 31 December	**23**	**(1,585,005)**	**(599,222)**

Notes to the financial statements

1 General information and going concern

1 (A) General information

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

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

The financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 10th May 2010.

1 (B) Going concern

The Company had a net current liability position of Ushs 6.5 billion (2008: Ushs 2.2 billion) as at 31 December 2009 and made a loss of Ushs 707 million (2008: profit of Ushs 2.152 billion) for the year then ended. The Company has also not been able to service term loan obligations with effect from January 2010. These factors indicate that there is a possibility that the Company will not continue as a going concern. However, as at the date of approval of the financial statements, the Company had approached its biggest shareholder, National Social Security Fund (NSSF), for financing of Ushs 21 billion to be used for refinancing the outstanding loans and working capital. NSSF has shown commitment to providing the required financing subject to finalisation of an on-site loan appraisal in line with the NSSF investment policy. In addition, the Company is also negotiating with its loan financiers the possibility of rescheduling the loan repayments and at the same time negotiating long term loan financing from other commercial banks.

The Company's cash flow projections indicate that the Company shall have positive cash flows in the foreseeable future and this is attributed to the increased sales following the commissioning of the new factory in Kamonkoli.

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

1 (C) Summary of significant accounting policies

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

(i) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Uganda Shillings (Ushs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of certain property, plant 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 1(D) below.

Notes to the financial statements (Continued)

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

Adoption of new and revised standards

The accounting policies adopted are consistent with those used in the previous financial year except that the Company has adopted the following standards, statements and interpretations. The adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures.

- *IAS 1 Revised Presentation of Financial Statements*
This standard separates owner and non-owner changes in equity requiring all owner changes in equity to be presented in the statement of changes in equity, and all non-owner changes to be presented in either one statement of comprehensive income or in two separate statements, which are an income statement and statement of other comprehensive income. The revised standard also requires that the income tax effect of each component of other comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Company has elected to present comprehensive income in one statement of comprehensive income. The Company has not provided a restated comparative set of financial position for the earliest comparative period as it has not adopted any new accounting policies retrospectively, or has made a retrospective statement or retrospectively reclassified items in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

IFRS 8: Operating Segments (IFRS 8)
This standard was issued in November 2006 and replaced IAS 14 Segment Reporting (IAS 14). The standard requires disclosure of information about the Company's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. The Company's view is that the operating segments determined in accordance with IFRS 8 are the same as the business segments reported under IAS 14.

The other new standards, amendments and interpretations applicable for annual periods beginning on 1 January 2009 were not relevant to the Company's operations.

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

The following new standards, amendments to standards and interpretations have been issued but are not yet effective. They will be effective for the Company's accounting periods beginning on or after 1 January 2010:

-Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items. This amendment to IAS 39 was issued on 31 July 2008 and is applicable for annual periods beginning on or after 1 July 2009 with early application permitted.

Notes to the financial statements (Continued)

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

Adoption of new and revised standards (continued)

-IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction.

Other new and amended standards and interpretations that are not yet effective:

Applicable to December 2010 year-ends;
- IFRS 2 Group Cash-settled Share-based Payment Arrangements (Amendments)
- IFRIC 17 Distributions on Non-cash Assets to Owners
- *Improvements to International Financial Reporting Standards* (issued 2008)
- *Improvements to International Financial Reporting Standards* (issued 2009)

Effective subsequent to December 2010 year-ends;
- IFRS 9 *Financial Instruments*
- IAS 24 *Related Party Disclosures* (Revised)
- IAS 32 *Classification of Rights Issues* (Amendment)
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The Company has not early adopted any of them.

The directors have assessed the relevance of the new standards, interpretations and amendments to existing standards with respect to the Company's operations and concluded that they will not have an impact on the Company's financial statements.

(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 it is probable that the economic benefits associated with the transaction will flow to the company: and

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

Notes to the financial statements (Continued)

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

(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 statement of comprehensive income.

(iv) 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, but at least triennial, 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 the statement of comprehensive income during the year 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 statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (depreciation charged to the statement of comprehensive income) 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 lease period**
Plant and machinery	10%
Furniture and fittings	10%
Vehicles	25%
Computer equipment	33.3%

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

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

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

Notes to the financial statements (Continued)

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

(v) 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.

(vi) Leasehold land and finance 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.

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.

(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) 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 and 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.

Purchases and sales of financial assets are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

The Company assesses at each statement of financial position date whether there is objective evidence that loans and advances 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 the statement of comprehensive income.

Notes to the financial statements (Continued)

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

(ix) 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 the statement of comprehensive income over the period of the borrowed funds.

(x) 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.

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 statement of financial position 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. 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.

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.

(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.

(xii) Employee retirement benefits

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 has no legal or constructive obligations 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 the statement of comprehensive income in the year in which they fall due.

Notes to the financial statements (Continued)

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

(xiii) 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.

(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 include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings under current liabilities on the statement of financial position.

1 (D) 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:

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 C (iv) above.

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 the statement of comprehensive income, 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.

Notes to the financial statements (Continued)

1 (D) Critical accounting estimates and judgments (continued)

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 the statement of comprehensive income.

(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:

- the classification of financial assets and leases
- whether assets are impaired

1 (E) Financial risk management objectives and policies

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

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

Market risk

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

The Company's profit before income tax would decrease/ increase by Ushs 15,789,110 (2008: Ushs 2,122,124) were the US$ foreign exchange rate to change by 3%. This variation in profitability is measured by reference to foreign currency exposures existing at the statement of financial position date.

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

The table below summarises the Company's exposure to foreign currency exchange rate risk. Included in the table are the Company's financial instruments categorized by currency.

1 (E) Financial risk management objectives and policies (continued)
Foreign exchange risk (continued)
As at 31 December 2009

	Ushs*	Ushs	Total
Equity			
Issued capital	-	900,000	900,000
Share premium	-	9,766,027	9,766,027
Revaluation reserves	-	3,379,685	3,379,685
Retained earnings	-	9,631,941	9,631,941
Total equity	-	**23,677,653**	**23,677,653**
Non-current liabilities			
Deferred income tax liabilities	-	4,924,779	4,924,779
Retirement benefit obligations	-	1,864,435	1,864,435
Finance lease	-	1,252,180	1,252,180
Borrowings: non -current portion	-	12,123,277	12,123,277
Total non-current liabilities	-	**20,164,671**	**20,164,671**
Total equity & non–current liabilities	-	**43,842,324**	**43,842,324**
Represented by:			
Non-current assets			
Property, plant and equipment	-	50,065,920	50,065,920
Prepaid operating lease rentals	-	223,997	223,997
Staff loans: non-current portion	-	30,381	30,381
	-	**50,320,298**	**50,320,298**
Current assets			
Inventories	-	4,429,707	4,429,707
Trade and other receivables	-	2,315,416	2,315,416
Tax recoverable	-	33,793	33,793
Cash and bank balances	13,138	349,292	362,430
	13,138	**7,128,208**	**7,141,346**
Current liabilities			
Trade and other payables	263,761	8,444,530	8,708,291
Borrowings: current portion	-	4,911,029	4,911,029
	263,761	**13,355,559**	**13,619,320**
Net current liabilities	**(250,623)**	**(6,227,351)**	**(6,477,974)**
	(250,623)	**44,092,947**	**43,842,324**

1 (E) Financial risk management objectives and policies

Foreign exchange risk (continued)

As at 31 December 2008

	Ushs*	Ushs	Total
Equity			
Issued capital	-	900,000	900,000
Share premium	-	9,766,027	9,766,027
Revaluation reserves	-	3,675,526	3,675,526
Retained earnings	-	10,043,162	10,043,162
Total equity	**-**	**24,384,715**	**24,384,715**
Non-current liabilities			
Deferred income tax liabilities	-	4,996,461	4,996,461
Retirement benefit obligations	-	1,034,995	1,034,995
Finance lease	-	207,466	207,466
Borrowings: non -current portion	-	14,113,062	14,113,062
Total non-current liabilities	**-**	**20,351,984**	**20,351,984**
Total equity & non–current liabilities	**-**	**44,736,699**	**44,736,699**
Represented by:			
Non-current assets			
Property, plant and equipment	-	46,635,987	46,635,987
Prepaid operating lease rentals	-	186,721	186,721
Staff loans: non-current portion	-	80,530	80,530
	-	**46,903,238**	**46,903,238**
Current assets			
Inventories	-	3,317,042	3,317,042
Trade and other receivables	-	1,958,594	1,958,594
Tax recoverable	-	33,793	33,793
Cash and bank balances	35,971	222,251	258,222
	35,971	**5,531,680**	**5,567,651**
Current liabilities			
Trade and other payables	-	4,707,585	4,707,585
Borrowings: current portion	-	3,026,605	3,026,605
	-	**7,734,190**	**7,734,190**
Net current liabilities	**35,971**	**(2,202,510)**	**(2,166,539)**
	35,971	**44,665,836**	**44,736,699**

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

1 (E) Financial risk management objectives and policies

Credit risk

Credit risk arises from 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:

	2009 Ushs'000	2008 Ushs'000
Cash and bank balances	362,430	258,222
Trade receivables	716,836	395,475
Loans to directors	37,884	10,004
Short term advance to directors	60,343	3,210
Other receivables	1,626,468	1,692,916
	2,803,961	**2,359,827**

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:

	2009 Ushs'000	2008 Ushs'000
Past due but not impaired:		
- by up to 180 days	437,247	298,100
- by 181 to 360 days	183,855	48,108
	621,102	346,208
Total past due but not impaired		
Impaired - past due by > 360 days	95,734	49,267
Gross amount	716,836	395,475
Less allowed for Impairment	(95,734)	(49,267)
Net Amount	621,102	346,208

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	2009 Ushs'000	2008 Ushs'000
Balance at 1 January	46,267	26,650
Add: Charge for the year (note 4)	49,267	22,617
Balance at 31 December	95,734	46,267

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

Liquidity risk

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

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position 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.

Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	Ushs'000	Ushs'000	Ushs'000
At 31 December 2009:			
- Borrowings (excluding finance leases)	4,911,029	3,262,633	8,860,644
- Finance leases	466,822	466,822	785,358
- Trade and other payables	8,241,469	-	-
	13,619,320	**3,729,455**	**9,646,002**
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**

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

Interest rate risk (continued)

As at 31 December 2009	1 month to3 months	3 month to 1 year	1 - 5 years months	Non interest bearing	Total Ushs '000
Equity					
Issued Capital	-	-	-	900,000	900,000
Share premium	-	-	-	9,766,027	9,766,027
Revaluation Reserves	-	-	-	3,379,685	3,379,685
Retained Earnings	-	-	-	9,631,941	9,631,941
Total equity	**-**	**-**	**-**	**23,677,653**	**23,677,653**
Non - current liabilities					
Deferred tax liabilities	-	-	-	4,924,779	4,924,779
Finance leases	-	-	1,252,180	-	1,252,180
Retirement benefit obligation	-	-	-	1,864,435	1,864,435
Borrowings: Non-current portion	-	-	12,123,277	–	12,123,277
Total non - current liabilities	**-**	**-**	**13,375,457**	**6,789,214**	**20,164,671**
Total equity & non - current liabilities	**-**	**-**	**13,375,457**	**30,466,867**	**43,842,324**
Represented by:					
Non-current assets					
Property, plant & equip.	-	-	-	50,065,920	50,065,920
Prepaid operating lease rentals	-	-	-	223,997	223,997
Staff loans: non-current portion	**-**	**-**	30,381	–	30,381
	-	-	**30,381**	**50,289,917**	**50,320,298**
Current assets					
Inventories	-	-	-	4,429,707	4,429,707
Trade and other receivables	13,663	34,496	-	2,267,257	2,315,416
Tax recoverable	-	-	-	33,793	33,793
Bank & cash balances	26,776	-	-	335,654	362,430
	40,439	**34,496**	**-**	**7,066,411**	**7,141,346**
Current liabilities					
Trade and other payables	116,706	350,116	-	8,241,469	8,708,291
Borrowings	2,631,521	2,279,508	-	–	4,911,029
	2,748,227	**2,629,624**	**-**	**8,241,469**	**13,619,320**
Net current liabilities	**(2,707,788)**	**(2,595,128)**	**-**	**(1,175,058)**	**(6,477,974)**
	(2,707,788)	**(2,595,128)**	**30,381**	**49,114,859**	**43,842,324**

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

Interest rate risk (continued)

As at 31 December 2008

	1 month to 3 months	3 month to 1 year	1 - 5 years months	Non interest bearing	Total Ushs '000
Equity					
Issued Capital	-	-	-	900,000	900,000
Share premium	-	-	-	9,766,027	9,766,027
Revaluation Reserves	-	-	-	3,675,526	3,675,526
Retained Earnings	-	-	-	10,043,162	10,043,162
Total equity	**-**	**-**	**-**	**24,384,715**	**24,384,715**
Non - current liabilities					
Deferred tax liabilities	-	-	-	4,996,461	4,996,461
Finance leases	-	-	207,466	-	207,466
Retirement benefit obligation	-	-	-	1,034,995	1,034,995
Borrowings: Non-current portion	-	-	14,113,062	–	14,113,062
Total non - current liabilities	**-**	**-**	**14,320,528**	**6,031,456**	**20,351,984**
Total equity & non - current liabilities	-	-	**14,320,528**	**30,416,171**	**44,736,699**
Represented by:					
Non-current assets					
Property, plant & equipment	-	-	-	46,635,987	46,635,987
Prepaid operating lease rentals	-	-	-	186,721	186,721
Staff loans: Non-current portion	-	-	80,530	–	80,530
	-	**-**	**80,530**	**46,822,708**	**46,903,238**
Current assets					
Inventories	-	-	-	3,317,040	3,317,040
Trade and other receivables	16,218	48,656	-	1,893,720	1,958,594
Tax recoverable	-	-	-	33,793	33,793
Bank & cash balances	82,373	-	-	175,849	258,222
	98,591	**48,656**	**-**	**5,420,402**	**5,567,649**
Current liabilities					
Trade and other payables	30,387	91,156	-	4,586,041	4,707,584
Borrowings	857,443	2,169,161	-	-	3,026,604
	887,830	**2,260,317**	**-**	**4,586,041**	**7,734,188**
Net current liabilities	**(789,239)**	**(2,211,661)**	**-**	**834,361**	**(2,166,539)**
	(789,239)	**(,211,661)**	**80,530**	**47,657,069**	**44,736,699**

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

Interest rate risk (continued)

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

The table below summarises the Company's cash flow interest rate risks sensitivity at 31 December 2009 assuming a market interest rate variation of 3% points from the rates ruling at year-end (2008:3%)

	2009 Ushs,000	2008 Ushs'000
Cash flow interest rate risk	323,476	374,527

1 (F) Capital risk management

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

Consistent with others in the industry, the Company monitors capital on the basis of gearing ratio. This ratio is calculated as net debt by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. The gearing ratio at 31 December 2009 and 2008 were as follows:

	2009 Ushs'000	2008 Ushs'000
Total borrowings	17,034,306	17,139,667
Less: Cash and cash equivalents	(362,430)	(258,222)
Net Debt	16,671,876	16,881,445
Total equity	23,677,653	24,384,715
Total capital	40,265,501	41,266,160
Gearing ratio	**41%**	**41%**

1 (G) Segment information

For management purposes, the Company is organised into two business units based on their factory location, and has two reportable operating segments, that is, Kajjansi factory and Kamonkoli factory that started operations in June 2009. 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.

1 (G) Segment information (continued)

The segment results for the year ended 31 December 2009 were as follows:

	Kajjansi Factory Ushs'000	Kamonkoli Factory Ushs'000	Total Ushs'000
Revenue	15,564,588	1,157,536	16,722,124
Profit /(loss) before income tax	3,437,134	(4,215,878)	(778,744)
Income tax expense	(71,682)	-	(71,682)
Profit /(loss) after tax	3,508,816	(4,215,878)	(707,062)
Depreciation	1,536,005	1,250,398	2,786,402

The segment results for the year ended 31 December 2008 were as follows:

	Kajjansi Factory Ushs'000	Kamonkoli Factory Ushs'000	Total Ushs'000
Revenue	13,548,257	-	13,548,257
Profit before income tax	3,155,315	-	3,155,315
Income tax expense	1,003,333	-	1,003,333
Profit after tax	2,151,982	-	2,151,982
Depreciation	1,287,378	**-**	**1,287,378**

Statement of Financial position

	Kajjansi Factory Ushs'000	Kamonkoli Factory Ushs'000	Total Ushs'000
31 December 2009			
Total assets	61,562,188	35,104,904	96,667,092
Total liabilities	33,740,339	39,320,782	73,061,121
Capital expenditure	5,859,938	27,600,999	33,460,937
31 December 2008			
Total assets	52,470,889	-	52,470,889
Total liabilities	28,086,174	-	28,086,174
Capital expenditure	12,096,193	-	12,096,193

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

2. Revenue

	2009 Ushs'000	2008 Ushs'000
Roofing tiles	8,580,717	6,990,073
Half bricks	1,623,393	1,372,185
Maxpans	3,306,131	3,151,138
Ridges	519,774	438,143
Others	2,692,109	1,596,718
	16,722,124	**13,548,257**

3. Cost of sales

Clay processing and product moulding	669,072	437,081
Depreciation of plant	2,578,565	980,378
Drying process	284,093	36,292
Electricity and Generator expenses	1,204,258	799,108
Factory General Maintenance	119,609	118,258
Kilns (baking process)	2,243,994	1,060,568
Other production overheads	1,271,361	1,009,155
Quarry & Silo	351,707	810,955
Salaries & Allowances-production staff	574,418	484,579
Wages & Allowances-production staff	1,966,436	1,522,070
	11,263,513	7,258,444
Stock adjustment	(1,287,936)	(449,785)
	9,975,577	**6,808,659**

4 Administrative expenses

Annual General Meeting	26,153	29,403
Audit expenses	30,000	30,000
Bad debt write off	18,838	-
Provision for bad debts (note 1E)	46,467	22,617
Company house maintenance	11,097	1,493
Compound maintenance	5,258	10,946
Consultancy	63,742	40,175
Depreciation	115,444	128,590
Directors fees and allowances	63,293	57,700
Insurance	17,068	615
Rent expenses	1,406	1,320
Legal fees and expenses	31,650	24,413
Local travel	104,067	49,438
Office building maintenance	13,867	19,320
Office equipment maintenance	30,064	28,275
Printing and Stationery	25,499	19,815
Registrars fees	10,969	11,400
Security	74,762	23,397
Tax consultancy	7,500	7,375
Transport costs	76,325	73,112
Travel abroad	81,214	73,566
Uniforms and protective wear	-	1,380
Regulatory expenses	696,164	-
Other expenses	120,864	21,368
Utilities	4,860	8,736
	1,676,571	**684,454**

		2009	2008
5	**Distribution costs**	**Ushs'000**	**Ushs'000**
	Business promotion	1,055,132	771,700
	Communication	96,730	68,727
	Donation	18,156	16,996
	Public relations and entertainment	15,040	11,272
	Sports and recreation	5,421	3,655
	Subscriptions	12,316	8,517
		1,202,795	**880,867**
6	**Other operating expenses**		
	Bonus	33,930	75,317
	Gratuity / pension	359,026	284,101
	Leave transport and allowance	100,015	66,701
	Medical	27,934	25,776
	NSSF – company contribution	184,038	137,786
	Salaries & allowances	1,439,411	1,076,949
	Staff welfare	61,755	91,151
	Termination pay	2,191	15,117
	Training	25,858	38,104
	Wages and allowances	195,846	133,455
	Foreign exchange loss	16,048	-
	Bank charges	23,102	11,936
		2,469,154	**1,956,393**
7	**Finance Costs**		
	Interest expense on borrowings	(2,322,069)	(96,820)

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

	2009	2008
Depreciation on property, plant and equipment (note 18)	2,786,402	1,287,378
Amortisation of prepaid leasehold land rentals (note 19)	8,814	8,209
Provision for bad debts	65,305	22,617
Employee benefits expense (note 8 (b))	3,397,037	2,763,573
Auditors' remuneration	28,000	30,000

8 (b) Employee benefits expense

The following items are included within employee benefits expense:

	2009	2008
Retirement benefit obligations	743,269	608,115
Termination benefits	10,563	25,640
NSSF company contributions	184,038	137,786
Salaries and allowances	2,459,167	1,992,032
	3,397,037	**2,763,573**

9 Income tax

	2009	2008
Current income tax	-	-
Deferred income tax credit /(charge)	71,682	(1,003,333)
	71,682	**(1,003,333)**

9 Income tax (Continued)

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

	2009 Ushs'000	2008 Ushs'000
Profit before income tax	(778,744)	3,155,315
Tax calculated at a tax rate of 30% (2008: 30%)	(233,623)	946,595
Tax effect of:		
- Expenses not deductible for tax purposes	161,941	57,067
- (Over)/understatement of deferred tax liability in respect of prior years	-	(329)
Tax (credit)/charge	**(71,682)**	**1,003,333**
	%	%
Tax charge as a percentage of (loss)/profit before tax	**9.2**	**31.8**

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

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

	2009 Ushs'000	2008 Ushs'000
At 1 January	(33,793)	(33,793)
Current income tax charge	-	-
Current income tax paid	-	-
At 31 December	**(33,793)**	**(33,793)**

10 (Loss)/Earnings per share

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

	2009	2008
(Loss)/profit attributable to shareholders (Ushs'000)	(707,062)	2,151,982
Weighted average number of ordinary shares in issue ('000)	800,000	800,000
Diluting shares	-	-
Basic and diluted (loss)/earnings per share (Ushs/share)	(0.88)	2.7

11 Proposed dividends

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008: Nil). The movement in proposed dividends was as follows:

	2009 Ushs'000	2008 Ushs'000
At start of year	-	500,000
Proposed dividend	-	-
	-	500,000
Dividends paid during the year	-	(329,904)
Dividend declared but not yet paid		170,096
Dividend per share	-	-

12 Issued capital

	Number of shares	Issued capital Ushs '000	Share premium Ushs '000
At 1 January 2008	5,000,000	500,000	-
Rights issue	4,000,000	400,000	9,766,027
Issued shares/capital before share split	9,000,000	900,000	9,766,027
Share split (100 shares for 1)	891,000,000	-	-
At 31 December 2008	**900,000,000**	**900,000**	**9,766,027**
At 31 December 2009	**900,000,000**	**900,000**	**9,766,027**

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

i) Extra ordinary meeting held on 4 January 2008;
- Increase the Company's authorised share capital to 9,000,000 ordinary shares of Ushs 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 at Ushs 2,541.5 each.

ii) Extra ordinary meeting held on 25 July 2008;
- Split the ordinary shares of the company into 100 ordinary shares for 1 ordinary share and revise the par value from Ushs 100 to Ushs 1 per share. This resulted in an increased in ordinary shares to 900,000,000.

The total authorised number of ordinary shares as at 31 December 2008 and 2009 was 900,000,000 with a par value of Ushs 1. All shares were issued shares 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.

	2009 Ushs'000	2008 Ushs'000
As at 1 January	3,675,526	3,827,409
Transfer of excess depreciation for the year	(295,841)	(151,883)
As at 31 December	**3,379,685**	**3,675,526**

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% (2008: 30%). The movement on the deferred income tax account is as follows:

	2009 Ushs'000	2008 Ushs'000
At 1 January	4,996,461	3,993,128
(Credit)/charge to statement of comprehensive income (note 9)	(71,682)	1,003,333
At 31 December	**4,924,779**	**4,996,461**

Deferred income tax assets and liabilities, deferred tax charge/(credit) in the statement of comprehensive income, and deferred tax charge/(credit) in equity are attributable to the following items:

	At 1 January 2009 Ushs'000	Movement for the year Ushs'000	At 31 December 2009 Ushs'000
Deferred tax liabilities			
Property plant and equipment			
-on historical cost basis	3,637,621	5,935,613	9,573,234
-on revaluation surpluses	1,575,224	-	1,575,224
	5,212,845	5,935,613	11,148,458
Deferred tax assets			
Other deductible temporary differences	(11,821)	(22,719)	(34,540)
Tax losses carried forward	(204,563)	(5,984,576)	(6,189,139)
Net deferred tax liability	**4,996,461**	**(71,682)**	**4,924,779**

15 Retirement benefit obligations

	2009 Ushs '000	2008 Ushs '000
At 1 January	1,034,995	215,520
Contributions made during the year	919,330	875,297
Payments during the year	(89,890)	(55,822)
At 31 December	**1,864,435**	**1,034,995**

15 Retirement benefit obligations (continued)

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 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 partly funded by the amount due from the fund administrator.

16 Finance lease

	2009	2008
	Ushs	Ushs
Not later than 1 year-current portion	466,822	121,543
Later than 1 year and not later than 5 years	1,252,180	207,466
	1,719,002	**329,009**

The finance lease relates to leases for motor vehicles and generators for Stanbic Bank Uganda Limited

17 Borrowings

Total borrowings	17,034,306	17,139,667
Less: current portion	(4,911,029)	(3,026,605)
Non-current portion	**12,123,277**	**14,113,062**

The borrowings are made up as follows:

Non-current		
Bank loan	12,123,277	14,113,062
Current		
Bank loan	2,963,594	2,169,161
Bank overdraft	1,947,435	857,444
Total current	**4,911,029**	**3,026,605**
Total borrowings	**17,034,306**	**17,139,666**

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. 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.

17 Borrowings (continued)

The movement in borrowings is as follows:

	2009 Ushs '000	2008 Ushs '000
At start of the year	17,139,666	20,429,905
Loans received	1,127,968	7,170,885
Loan repayments	(1,233,328)	(10,461,124)
At end of year	**17,034,306**	**17,139,666**

The loan and the overdraft are collectively secured by;

- Legal mortgage for Ushs. 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,

Weighted average effective interest rates:	2009 %	2008 %
Bank overdraft	19	19
Bank borrowing	16.73	14.96

Maturity of non-current borrowings:

	2009 Ushs '000	2008 Ushs '000
Between 1 and 2 years	2,927,697	3,256,861
Between 2 and 5 years	9,195,580	10,856,201
Non-current portion	**12,123,277**	**14,113,062**

18 Property, plant and equipment

Year ended 31 December 2008	Freehold land and Buildings	Plant and machinery	Furniture and fittings and computer equipment	Motor vehicles	Capital work in progress	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Cost of valuation at 1 January	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 carrying amount at 1 January	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)	-	(1,287,377)
Net carrying amount at 31 December	**8,350,718**	**14,058,906**	**117,138**	**1,194,145**	**22,915,079**	**46,635,987**
At 31 December 2008						
Cost or valuation	8,937,842	18,106,435	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 carrying amount	**8,350,718**	**14,058,906**	**117,138**	**1,194,145**	**22,915,079**	**46,635,987**
Year ended 31 December 2009						
Net carrying amount at 1 January	8,350,718	14,058,906	117,138	1,194,145	22,915,079	46,635,987
Additions	200,000	1,217,598	61,715	860,069	4,220,879	6,560,261
Transfers	2,350,356	24,550,320	-	-	(26,900,676)	-
Disposals						
– cost	-	(343,925)	-	(91,000)	-	(434,925)
– Acc. depreciation	-	-	-	91,000	-	91,000
Depreciation charge	(217,900)	(1,990,185)	(46,935)	(531,382)	-	(2,786,401)
Net carrying amount	**10,683,174**	**37,492,714**	**131,918**	**1,522,832**	**235,282**	**50,065,920**
At 31 December 2009						
Cost or valuation	11,488,199	43,530,430	377,638	2,923,994	235,282	58,555,541
Accumulated depreciation	(805,025)	(6,037,716)	(245,720)	(1,401,160)	-	(8,489,621)
Net carrying amount	**10,683,174**	**37,492,714**	**131,918**	**1,522,832**	**235,282**	**50,065,920**

The Company's property, plant and equipment except for motor vehicles and computers were revalued in 2006 by professional valuers.

The property valuations were made on the basis of the open market value and the plant and equipment were 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 reserves in equity.

18 Property, plant and equipment (continued)

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

	2009 Ushs. '000	2008 Ushs. '000
Cost	51,923,168	45,797,832
Accumulated depreciation	(4,125,159)	(1,761,380)
	47,798,009	**44,036,452**

19 Prepaid operating lease rentals

Cost	213,669	72,669
Additions	46,090	141,000
	259,759	**213,669**
Accumulated amortisation	(26,948)	(18,739)
	232,811	**194,930**
Amortisation charge for the year	(8,814)	(8,209)
	223,997	**186,721**

20 Staff loans: non-current portion

Staff loans	**30,381**	**80,530**

All non-current receivables are due within 4 years from the statement of financial position date. The weighted average interest rate on staff and directors' loans (current and non-current) was 5% (2008: 5%).

21 Inventories

	2009 Ushs '000	2008 Ushs '000
Spares and consumables	875,584	940,498
Work in progress	2,232,219	1,325,385
Finished goods	1,270,646	889,546
Goods in transit	51,258	161,613
	4,429,707	**3,317,042**

22 Trade and other receivables

Trade receivables	716,836	395,475
Less: provision for impairment of trade receivables	(95,734)	(49,267)
	621,102	**346,208**
Prepayments	470,575	282,530
Staff and directors' loans and advances	342,368	324,120
Retirement benefit obligation fund assets	772,457	790,475
Other receivables	139,295	295,791
	2,345,797	**2,039,124**
Less: non-current portion of staff loans (note 20)	(30,381)	(80,530)
	2,315,416	**1,958,594**

	2009	2008
23 Cash and bank balances	**Ushs '000**	**Ushs '000**
Cash at bank	26,776	82,373
Cash in hand	335,654	175,849
	362,430	**258,222**

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

	2009 Ushs '000	2008 Ushs '000
Cash and Bank balances as above	362,430	258,222
Bank overdrafts (note 17)	(1,947,435)	(857,444)
	(1,585,005)	**(599,222)**

24 Trade and other payables

	2009 Ushs '000	2008 Ushs '000
Trade deposits (advance payments received)	1,217,154	1,001,663
Trade payables	2,976,268	2,809,329
VAT payable	1,917,888	116,533
Accrued expenses	45,036	10,480
Unpaid dividends	377,192	388,128
National Social Security Fund	1,253,817	150,111
Pay-As-You-Earn	340,048	74,586
Finance lease obligation– current portion	466,822	121,543
Other payables	114,066	35,212
	8,708,291	**4,707,585**

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.

25 Contingent liabilities

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

26 Capital commitments

The Company had no capital expenditure commitments as at the statement of financial position date as shown below:

	2009 Ushs'000	2008 Ushs'000
Capital commitments at 1 January	-	6,568,603
Authorised capital expenditure	-	-
Effected capital expenditure	-	(6,568,603)
Capital commitment at 31 December	-	-

27 Cash generated from operations

Reconciliation of (loss)/profit before income tax to cash generated from operations:

	2009 Ushs'000	2008 Ushs'000
(Loss)/profit before income tax	(778,744)	3,155,315
Adjustments for:		
Depreciation (note 18)	2,786,405	1,287,378
Amortisation of prepaid operating lease rental (note 19)	8,814	8,209
Sale of property	343,925	-
Interest expense (note 8)	2,322,069	96,820
Changes in working capital		
- increase in inventories	(1,112,670)	(703,997)
- increase in trade and other receivables	(353,140)	(1,058,468)
- increase in trade and other payables	5,921,328	3,033,364
Cash generated from operations	**9,137,987**	**5,818,621**

28 Related party transactions

The following transactions were carried out with related parties

i) Key management compensation

	2009 Ushs'000	2008 Ushs'000
Salaries and other short term employment benefits	1,100,948	776,731

ii) Directors' remuneration

	2009 Ushs'000	2008 Ushs'000
As fees	18,360	10,920
Other	44,934	46,780
	63,294	**57,700**

iii) Loans to directors

	2009 Ushs'000	2008 Ushs'000
At 1 January	10,004	15,524
On appointment of directors	45,940	-
Interest accrued during the period	1,092	627
Loan repayment received	(12,368)	(6,147)
On cessation of directorship	(6,784)	-
At 31 December	**37,884**	**10,004**

29 Related party transactions (continued)

iv) Short term advances to directors

	2009 Ushs'000	2008 Ushs'000
At 1 January	3,210	3,665
On appointment of directors	25,730	-
Additional advance	43,119	2,201
Repayments received	(10,095)	(2,656)
On cessation of directorship	(1,621)	-
At 31 December	**60,343**	**3,210**

The loans and advances were given at a weighted average interest rate of 5% per annum (2008: 5%).

ANALYSIS OF SHAREHOLDING

Distribution Schedule of equity as at 31 May 2010

Class of equity No. of shareholders:	Total holding within range	Percentage of holding
1 - 1000	65,837	0.007
1001 - 5000	1,295,882	0.144
5001 - 10000	4,190,604	0.466
10001 - 100000	40,496,872	4.500
100001 and over	853,950,805	94.88
Totals	**900,000,000**	**100**

List Of Largest 10 Shareholders as at 31 May 2010

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	15,000,000	1.67

P.O.Box 2971 Kampala		
Uganda Development Bank Ltd	10,147,335	1.13
P.O.Box 7210 Kampala		
Uganda Communications Employees Contributory Pension Scheme A/C Ug 00026 P.O.Box 29661 Kampala	8,975,400	1.00
Total Number Of Shares	**604,216,913**	**67.14**
ADD:- 2503 Other Shareholders	295,783,087	32.86
TOTAL	**900,000,000**	**100.00**

Director's Shareholding as at 31 May 2010

Senfuma S. R. John	940,700
Rubaijaniza Charles	1,035,100
Musaazi James	205,818
Mukasa Lillian	1,016,227

SUMMARY OF SHAREHOLDERS

INSTITUTIONAL	**No. Of shareholders**	**Shares**	**% Holding**
Ugandan	91	691,891,436	76.88
Foreign	9	28,853,369	3.21
INDIVIDUAL			
Ugandan	2,329	169,262,519	18.81
Foreign	84	9,992,676	1.11
Grand Total	**2,513**	**900,000,000**	**100.00**

UGANDA CLAYS LIMITED

PROXY FORM

<table>
<tr><th></th><th>RESOLUTION</th><th>FOR</th><th>AGAINST</th></tr>
<tr><td rowspan="11">Annual General Meeting to be held at 11:00 a.m on Friday 20 August 2010 at Hotel Africana

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 06 August 2010 and at any and every adjournment hereof.</td><td>1. To receive the accounts</td><td></td><td></td></tr>
<tr><td>2. To elect-----------------------as director</td><td></td><td></td></tr>
<tr><td>3. To elect----------------------as director</td><td></td><td></td></tr>
<tr><td>4. To elect----------------------as director</td><td></td><td></td></tr>
<tr><td>5. To elect----------------------as director</td><td></td><td></td></tr>
<tr><td>6. To elect----------------------as director</td><td></td><td></td></tr>
<tr><td>7. To elect----------------------as director</td><td></td><td></td></tr>
<tr><td>8. To elect ----------------------as director</td><td></td><td></td></tr>
<tr><td>9. To elect ----------------------as director</td><td></td><td></td></tr>
<tr><td>10. To approve directors' fees</td><td></td><td></td></tr>
<tr><td>11. To appoint Ernst and Young as auditors and to authorize directors to fix their (auditors) remunerations.</td><td></td><td></td></tr>
<tr><td>Dated this -------day of----------------------- 2010.

Shareholder's Signature</td><td colspan="3">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.</td></tr>
</table>

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 2010.

Uganda Clays Ltd

Beauty to last

The Leading name in Baked Clay Construction Materials in the East African Region

Factories at Kajjansi, 14 kms Entebbe Road Kajjansi, P.O. Box 3188 Kampala Uganda, Tel: +256 414 200255/261 Fax: +256 414 200167
Kamonkoli, 8kms Mbale Tirinyi Road Tel: +256 352 260091 Email: uclays@ugandaclays.co.ug, Website: www.ugandaclays.co.ug

NTINDA	NATEETE	LUGOGO UMA	MBARARA	JUBA - SOUTHERN SUDAN	AGENT IN RWANDA
opposite Ndere Centre Tel: 0312 112057	opposite Total near the Taxi Park Tel: 0312 112082	Show Grounds Tel: 0414 221926	2kms Mbarara - Masaka Rd near Mayanja Memorial Hospital Tel: +256 382 278196	Thongpiny 1st Class, Plot 259K south Tel: +249-955154635 926015036 +256-477173060	BRIKA Ltd. B.P. 6497 Gikondo Industrial Area Tel: +250788307771, +250503446

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