Uganda Clays Ltd

Beauty to last

Annual Report

January 1, 2010 to December 31, 2010

Vision:

To be the preferred provider of building products.

Mission:

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

Table of Contents

Board of Directors

Prof. Eng. John Senfuma
(Chairman)

Mr. Charles Rubaijaniza
(Managing Director)

Mr. Romano O. Ochieng
(Director)

Mrs. Lillian S. Mukasa
(Director)

Mr. Richard Byarugaba
(Director)

Mrs. Jolly Aripa Kirabo
(Director)

Mr. James Nelson Musaazi
(Director)

Dr. Ijuka Kabumba
(Director)

Dr. Martin Aliker
(Director)

Corporate Information *(Continued)*

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.
P.O.Box: 7197 Kampala
Tel: +256-414 233680/3
Fax: +256-414 258263
Email: bob10@calva.com

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

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

Dyer & Blair (Uganda) Ltd
Rwenzori House Ground Floor
P.O.Box: 36620
Tel: +256-414-233050
Fax: +256 -414 231813
Email: shares@dyerandblair.com

African Alliance (Uganda) Ltd
Workers' House, 6th Floor
Plot 1 Pilkington Road
Tel: +256 414 235 577
Fax: +256- 414 235575
E-mail: securities@africanalliance.co.ug

Renaissance Capital Ltd
Plot 3 Kololo Hill Lane
P.O Box: 893, Kampala
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Fax: +256- 312 264755
E-mail: enquiries@renaissance.co.ug

Crested Stocks and Securities Limited
6th Floor Impala House
Plot 13-15, Kimathi Avenue
P.O.Box 31736,
Kampala, Uganda
Tel: +256 41 4 230900
Fax: +256 41 4 230612
Email: info@crestedsecurities.com
www.crestedsecurities.com

Company Secretary

Atodu Charles Amanu

Registered Office

Uganda Clays Limited
P.O. Box 3188
Kampala, Uganda
Tel:+256 (41) 4200261/55
+256 (35) 2260091
Fax: +256 (41) 4200167
Email: uclays@ugandaclays.co.ug.
www.ugandaclays.co.ug

Left - Right (Standing)

Mr. Joseph Kitone	*(Marketing Manager)*
Ms. Sepiranza Mayanja	*(Information Technology Manager)*
Mr. Richard Mugabyomu	*(Internal Audit Manager)*
Mr. Atodu Charles Amanu	*(Company Secretary)*

Left - Right (Sitting)

Mr. Richard Kajungu	*(Finance Manager)*
Mr. Charles Rubaijaniza	*(Managing Director)*
Mr. John Gitta	*(Acting Production Manager)*

Management Team

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the next Annual General Meeting (AGM) of the shareholders of Uganda Clays Limited in respect of the year ended 31 December 2010, will be held on 26 August, 2011, at 10:00am, at the company premises in Kajjansi14kms along Entebbe road.

The meeting will deal with the following business:

1. Confirmation of the minutes of the meeting held on 20th August 2010.

Ordinary Resolutions:

2. To receive and consider the directors' report and the audited financial statements for the year ended 31 December, 2010.

3. To elect directors in accordance with Article 59 of the Memorandum and Articles of Association and determine their remuneration.

4. To appoint the auditors for the next financial year ending 31 December 2011 and to authorise directors to fix the auditors' remuneration.

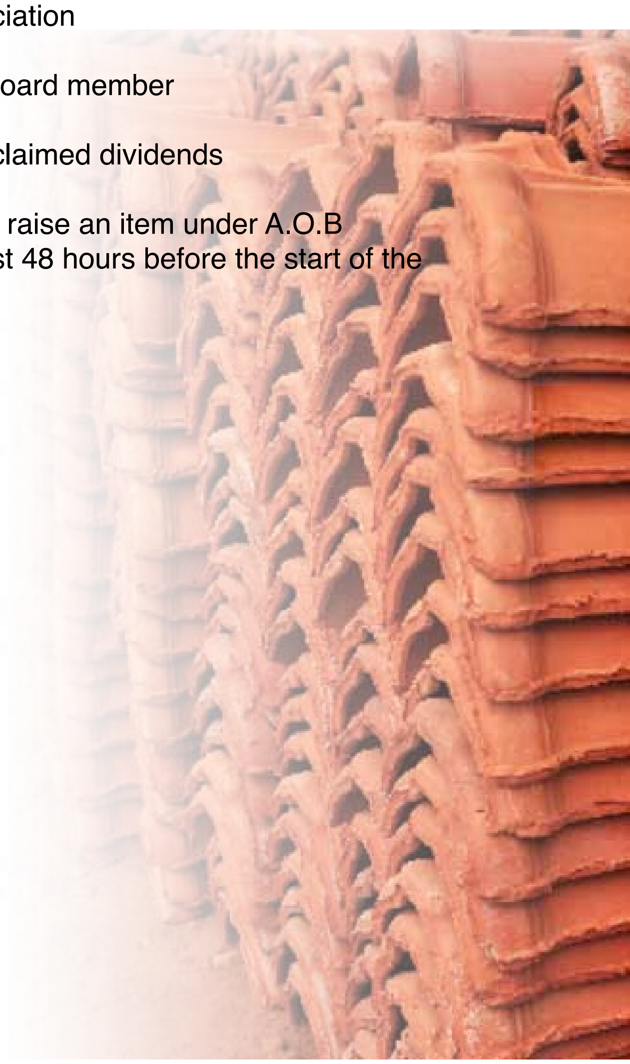
Special Resolutions:

5. To ammend the memorandum and articles of association

   a) To remove the Executive Director from being a board member

   b) To authorise the company on the handling of unclaimed dividends

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

UGANDA CLAYS LIMITED

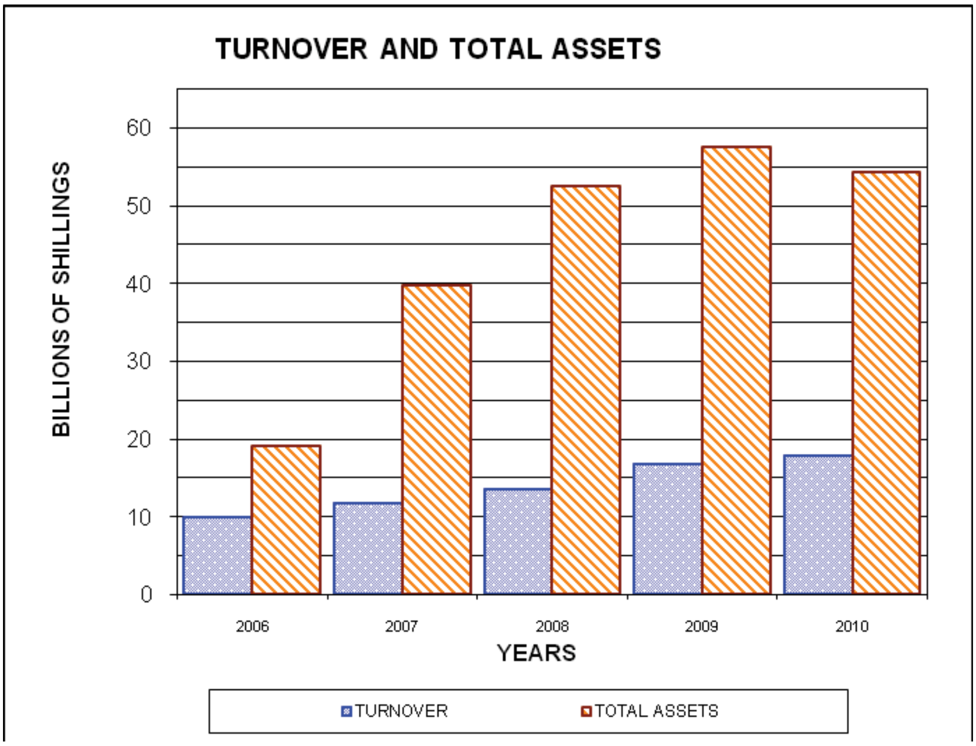
Atodu Charles Amanu

COMPANY SECRETARY

4 May, 2011

FINANCIAL HIGHLIGHTS

	2010	2009	2008	2007	2006
	shs ' 000	shs ' 000	shs ' 000	shs ' 000	shs ' 000
Turnover	17,792,671	16,722,124	13,548,257	11,699,713	9,984,104
(Loss) / Profit before tax	(5,445,289)	(778,744)	3,155,315	3,178,204	1,768,190
(Loss) / Profit after tax (earnings)	(3,858,961)	(707,062)	2,151,982	2,107,841	1,307,156
Dividends	--	--	--	700,000	200,000
Cash generated from operations	4,295,463	7,747,990	5,818,447	4,125,520	3,805,650
Shareholders's funds	19,818,692	23,677,653	24,384,715	12,566,706	10,658,865
Capital expenditure	532,605	6,560,261	12,096,193	21,393,838	1,996,199
Total assets	55,274,193	57,461,644	52,470,889	39,758,943	19,153,760
PER SHARE DATA					
Dividends per share	0	0	0	shs 140	shs 40
(Loss) / Earnings per share	shs (4.82)	shs (0.88)	shs 2.70	shs 3.05	shs 261



Dear Shareholders,

I am pleased to issue my first report to you since my official commencement date as Chief Executive Officer on Jan 01 2011. I write at a time of immense transition in our internal operating environment and indeed, the broad market for building materials.

I would like to first of all extend my thanks to my predecessor, Mr. John Wafula, for his dedication to your company in close to two decades of devoted service.

Macro Environment

The economic environment over the past two years has been challenging for most sectors. Uganda's economy experienced lower than expected growth rates in the fiscal year 2010 of 5.8 percent compared to 7.2 percent in the previous year. The drop was somewhat cushioned by year-on-year decline in annual inflation over the first nine months of 2010 before an unprecedented surge in prices in the fourth quarter.

The construction sectors' contribution to GDP was unchanged at 13.0 percent in terms of total GDP at current prices. Construction activities experienced a growth of 7.7 percent for 2010, marginally higher than the previous year when it grew by 5.9 percent. The slow growth in an increased inflationary environment was further exacerbated by a rise in construction inputs of 8.0 percent in 2010. Nonetheless, market demand for the Company products continued to rise.

Review Of 2010

We reaffirm our conviction that the challenges we faced in fully operationalizing the new plant in *Kamonkoli* reached a crescendo in 2010. As we reported following the first half of the year, our focus was to apply the appropriate technical adjustments in order to reach the right blend of quality and quantity of offload.

Revenue Growth

Revenue was in line with industry growth coming at just under 6.0 percent. There was however a shortfall in production which hampered top-line growth following the aforementioned challenges on the plant. Our core products for the most part retained a high demand in the market, a fact that hastened our pace of optimisation and maintenance work in *Kamonkoli* and *Kajjansi* respectively.

Strategic Review

It was against this backdrop in the macro-economic, industry and in-company environment that your management and board took a timely decision to review the strategic direction of your company.

The exhaustive deliberations centred on Uganda Clays focusing on our core competence which quite simply is the manufacture of quality building materials. We simplified the Company mission and vision statements as well as designed a new set of core values that shape our every action over the next five years.

On the operational side, there was a need to rein in costs via a combination of patching up points of haemorrhage as an immediate action point. It was also decided that a number of functions would be outsourced to competent third parties where applicable. This included logistics and distribution, retail points of sale, security and more. From this alone, we anticipate cost savings of approximately **0.50 billion** per annum.

Similarly, we established the need to match the product range with the changing preferences of the core retail client base. This includes the elimination of many of the low margin products. The need to keep pace with and anticipate market tastes is important in informing the operational and capital spend in order to derive the highest possible return on invested capital.

Divesting out of non-operational assets was an important point of action. So far, we have identified assets on the balance sheet that can be sold, with expected revenue of 2billion. The funds realised will be put to better use within the operating framework of your company.

The manual operations of the old plant in Kajjansi made productivity statistics lower than desired. Management carried out a robust Human Resource audit and managed to trigger an annual saving of 1.2billion from voluntary redundancies with a corresponding increase in productivity. For the remaining staff, a skills assessment has enabled us to come up with retraining and redeployment as a priority.

Cost of funding has put a strain on our bottom-line for the past few years. It was therefore an important step that we obtained a finance package with the National Social Security Fund (NSSF), which enabled us to refinance the relatively higher cost funding from commercial banks.

Sustainability

We firmly believe in the need to be accountable to the people, shareholders and the planet. As a business whose core resource is extracted from the natural environment, it is the company's responsibility to do so in a manner that does not tilt the natural balance we find. Uganda Clays complies with the regulatory authority.

We class sustainability as integral, not peripheral to our business strategy. As such, your company has programmes for best use of resources including water, renewable sources of energy for the kiln, as well as afforestation programmes in partnership with the relevant parties.

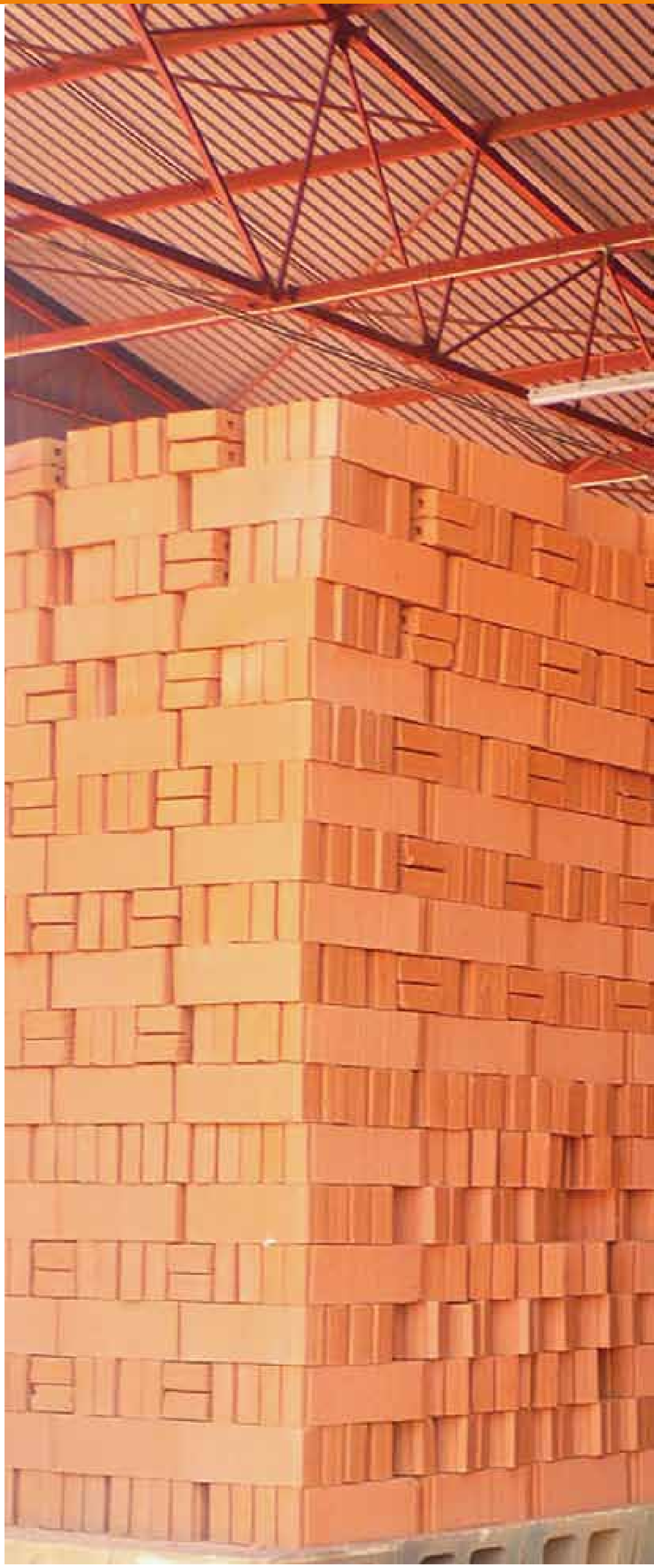
Conclusion

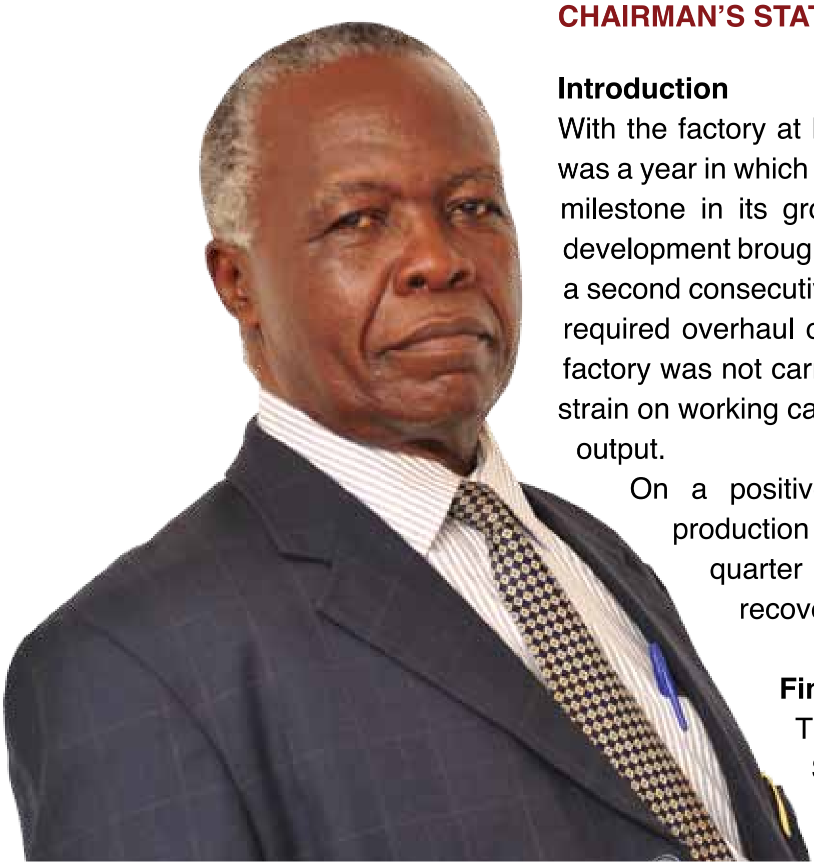
UCL prides itself in having contributed to the growth of Uganda since its humble beginnings sixty-one years ago. We owe all of the success to our loyal clients, the dedication of a hardworking staff and all partners in the business. The board of directors has to be singled out for putting the interests of you the shareholders, above all else. We are optimistic that as we journey through our seventh decade, your business will deliver a return that will exceed your expectations.

Yours,

CHARLES RUBAIJANIZA
Chief Executive Officer

Founded in 1950, Uganda Clays Limited is the leading manufacturer of baked clay building products. The company employs close to 798 employees who work in the two major factories of Kajjansi and Kamonkoli. Uganda Clays has been actively trading on the Uganda Stock Exchange since the year 2000.





CHAIRMAN'S STATEMENT

Introduction

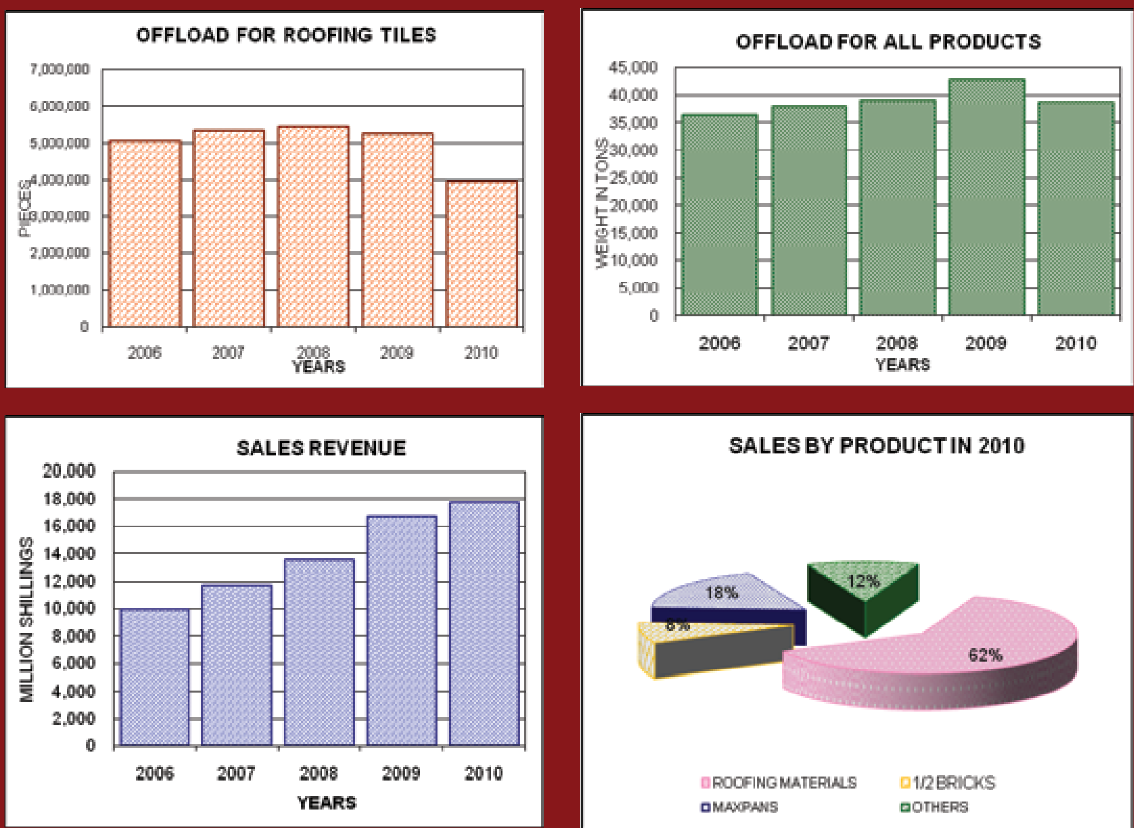
With the factory at Kamonkoli being commissioned, 2010 was a year in which the company celebrated another major milestone in its growth history. The impact of this new development brought a number of challenges resulting into a second consecutive year of financial loss. In addition the required overhaul of the clay preparation line at Kajjansi factory was not carried out as earlier projected due to the strain on working capital which negatively affected product output.

On a positive note, a marked improvement in production was realized at the turn of the third quarter of the year which marked the road to recovery for the company.

Financial results

The Company's turnover rose by 6% to Shs 17.8 billion compared to Shs 16.7 billion for the year 2009. However, a loss of 3.8 billion was registered due

Company performance 2005 to 2009



to the high production and financing costs that were accelerated by continuous adjustments in all Kamonkoli factory operations. The delays in realising income to counter the costs also put a strain on company's cash flow needed to enable timely meeting of the financiers' obligations, resulting into higher financing costs.

Production

The Kamonkoli factory experienced a number of setbacks in production characteristic of a newly setup manufacturing establishment. However with adjustments in operations the challenges were addressed. This greatly reduced production losses and resulted in a rise from 1359 tonnes of roofing tiles and half bricks in the first quarter of 2010 to 5351 tonnes of the same products in the first quarter of 2011.

Plans are in motion to specialize production at the two factories. The company is set to concentrate on the products that are on high demand and those that are major income earners. This will in turn increase total output at lower costs. Kamonkoli will specialise in production of roofing tiles and facing bricks while Kajjansi factory will continue with production of maxpan blocks, ridges and floor tiles. All other products will be produced on order.

Looking towards the future: Our Strategic Vision

The company has redefined its vision and set a road map for the five years 2011 – 2015 that will return it to sustainable production and profitability for both factories. A long term loan was provided by National Social Security Fund to partly re-finance the relatively high cost loans from commercial banks. In addition, the loan was used to purchase machinery for increasing kiln output in Kamonkoli and purchase spares for Kajjansi factory. Most of the machinery and spares have been delivered and installed.

The Board has instituted efficiency improvement measures that will lower costs and give better service to the customers. With these interventions that are set out in the five year strategic plan, the Company will return to profit making effective 2011. The Company changed the vision and mission statements, in order to have a broader focus onto the construction industry as follows;

Previous Vission and Mission

Vision	To dominate the market for baked clay building materials by making our products available to all income groups in the country
Mission	To be the leading manufacturer and supplier of quality baked clay building products at affordable prices in Uganda and Beyond

Current Vision and Mission

Vision	To be the preferred provider of building products.
Mission	We commit to providing quality building products in a profitable and sustainable operation driven by production staff

Among the improvement measures is the enhancement of the production process at Kamonkoli factory through improving the clay milling system. This will result in increased output of half bricks from 133,200 units in 2010 to 978,840 units per month, in 2011. Production losses will be reduced from 18% to 13%. At Kajjansi, production losses will reduce from 35% to 21% as a result of overhauling the clay preparation line and acquisition of a better brick/block cutting table as well as replacing the vital parts.

Additionally, the Company will specialize in the production of the most profitable and highly demanded products. This coupled with human resource restructuring and training will ensure operational efficiency. Non-core activities like security, catering and motor vehicle maintenance services have been outsourced. Prominent in the outsourced activities is the sales function.

Negotiations with the agents to handle the sales and distribution of the products, have been completed. This strategy will enable the Company to concentrate on only production and marketing of the products to serve the growing construction sector in the integrated East African region. The projection in savings for the company by undertaking this process is estimated at 480 million Uganda shillings per year.

With these interventions, we are optimistic that the company will be able to generate adequate cash flows to timely meet financial obligations and realise profits in 2011.

Our Human resources

On 31 December 2010, Mr. John Wafula retired from the service of the Company after serving for 18 years – 9 years as Company Secretary and subsequently 9 years as Managing Director. Following interviews for the post, Mr. Charles Rubaijaniza was appointed Managing Director effective 01 January 2011. I hereby thank Mr. Wafula for his contribution to the Company during his tenure of office.

As at 30th June 2011 the workforce stood at a total of 798 employees; 640 at Kajjansi and 158 at Kamonkoli. Owing to the process of setting Uganda Clays back on the road to profitability, there has been a reduction in the number of employees and our projection in amount of savings on wages is estimated at 1.2 billion Uganda shillings when the restructuring process is completed. Staff training has continued as one of the measures to improve productivity covering areas of Management and Employee Resilience programmes, to enhance their work performance.

Contribution in taxes

Uganda Clays contributed to Government revenues in taxes worth 3.31 billion in 2010 compared to the 3.29 billion in the year 2009.

Dividends

The Board of Directors does not recommend payment of dividends for the year ended 31st December 2010 because of financial obligations arising from expansion programmes.

The Directors

On 29 October 2010 Mr. Richard Byarugaba was appointed a director to fill the vacant position that was remaining on the Board. The Board has played a vital role in formulating and overseeing strategies and policies aimed at the Company's growth.

Negotiations with the agents to handle the sales and distribution of the products, has been completed. This strategy will enable the Company to concentrate on only production and marketing of the products to serve the growing construction sector in the integrated East African region. The projection in savings for the company by undertaking this process is estimated at 480 million Uganda shillings per year.

With these interventions, we are optimistic that the company will be able to generate adequate cash flows to timely meet financial obligations and realise profits in 2011.

Conclusion

I want to take this opportunity to thank whole heartedly, the Shareholders, Board of Directors and employees for the support during the back to back years of financial loss for the company. We are well on the way to recovery and your commitment on this journey is commendable.

The overhaul to our strategy in bringing UCL back to profitability is yielding positive results and we intend to move in this positive direction, to harness the vibrant growth in the construction industry of East Africa and match the expected increase in demand for quality building products - an area in which we are a market leader.

Thank you.

Prof. Eng. John Senfuma

Chairman

The directors submit their report together with the financial statements for the year ended 31 December 2010, which disclose the state of affairs of Uganda Clays Limited ('the Company').

Principal activities

The 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 roof tiles, which accounted for 62% (2009: 51%) of the Company's turnover during the year.

Results

The loss for the year of Ushs 3.86 billion (2009: Ushs 0.71 billion) has been deducted from retained earnings.

The directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil).

Directors

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

Professor J. Senfuma	-	Chairman; re-appointed on 20 August 2010
Mr. J. Wafula	-	retired on 31 December 2010
Mr. C. Rubaijaniza	-	re-appointed on 20 August 2010
Ms J. A. Kirabo	-	re-appointed on 20 August 2010
Mr. J.N. Musaazi	-	re-appointed on 20 August 2010
Ms. L. Sebugenyi Mukasa	-	re-appointed on 20 August 2010
Mr. R. Ojiambo Ochieng	-	re-appointed on 20 August 2010
Dr. M. Aliker	-	appointed on 20 August 2010
Dr. Ijuka Kabumba	-	appointed on 20 August 2010
Mr. R. Byarugaba	-	appointed on 28 October 2010
Mr. J. Kitamirike	-	retired on 01 August 2010

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, 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

4 May, 2011

The Ugandan 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 financial 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 Ugandan 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 Ugandan Companies Act (Cap 110). 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's statement of financial position had a net current liability position of Ushs 6.9 billion (2009: Ushs 6.5 billion) as at 31 December 2010 and the company made a loss of Ushs 3.8 billion (2009: Ushs 707 million) for the year then ended. These factors indicate that there is a possibility that the Company will not continue as a going concern. However, National Social Security Fund, the Company's biggest shareholder approved a 10-year loan facility of Ushs 11.05 billion to the Company. The purposes of this loan are:

- Retiring expensive loans from commercial banks
- Purchase of necessary spares for old factory (Kajjansi) and refurbishment of the clay preparation line
- Pay loan arrears due to East African Development Bank and Standard Chartered Bank
- Kiln extension at Kamonkoli factory that is expected to sort the production challenges at the new factory.

The first drawdown on this loan was made in December 2010 and the expensive loan from Standard Chartered Bank retired and other loan arrears paid to date. The orders for spares for Kajjansi and machinery for improvements of the Kamonkoli factory aimed at increasing kiln output have been made in March 2011. Delivery, installation and commissioning is expected to take 2 months to May 2011. These measures will result in increased output at both Kajjansi and Kamonkoli factories. 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 liquidity and production stability.

The company has also obtained approval for a term loan of Ushs 4.3 billion from Standard Chartered Bank to pay current creditors and an overdraft facility of Ushs 1.5 billion for working capital support.

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 continue as a going concern.

....	....
Director	Director
4 May, 2011	4 May, 2011

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

Report on the Financial Statements

We have audited the accompanying financial statements of Uganda Clays Limited which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 18 to 49.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Uganda Clays Limited as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act (Cap 110).

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1(B) to the financial statements, which indicate that, the Company's statement of financial position had a net current liability position of Ushs 6.9 billion as at 31 December 2010 and that the company made a loss of Ushs 3.8 billion for the year then ended. These factors indicate that there is material uncertainty that the Company will not 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, the Company's cash flow projections indicate that the company shall have positive cash flows in the foreseeable future and this is attributed to increased sales following liquidity and production stability that is expected from the NSSF long term loan. The financial statements have been prepared on a going concern basis on the assumption that the operating results shall improve and support the Company's 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 the audit;

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

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

KAMPALA

23 June, 2011

Statement of comprehensive income

	Note	2010 Ushs'000	2009 Ushs'000
Revenue	2	17,792,671	16,722,124
Cost of sales	3	(13,912,190)	(9,975,577)
Gross profit		**3,880,481**	**6,746,547**
Other operating income		558,722	145,298
Administrative expenses	4	(1,485,137)	(1,676,571)
Distribution expenses	5	(1,643,952)	(1,202,795)
Other operating expenses	6	(2,630,190)	(2,469,154)
Operating profit		**(1,320,076)**	**1,543,325**
Finance costs	7	(4,125,213)	(2,322,069)
Loss before tax	**8**	**(5,445,289)**	**(778,744)**
Income tax expense	9(a)	1,586,328	71,682
Loss for the year		**(3,858,961)**	**(707,062)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		**(3,858,961)**	**(707,062)**

		Ushs/share	Ushs/share
Basic and diluted loss per share	10	(4.82)	(0.88)

Statement of financial position

	Note	2010 Ushs'000	2009 Ushs'000
Equity			
Issued capital	11	900,000	900,000
Share premium	11	9,766,027	9,766,027
Revaluation reserves	12	2,984,315	3,379,685
Retained earnings		6,168,350	9,631,941
Total equity		**19,818,692**	**23,677,653**
Non-current liabilities			
Deferred tax liability	13	3,338,451	4,924,779
Retirement benefit obligations	14	2,148,401	1,864,435
Finance lease: non-current portion	15	998,595	1,252,180
Borrowings: non -current portion	16	13,816,644	12,123,277
Total non-current liabilities		**20,302,091**	**20,164,671**
Total equity & non-current liabilities		**40,120,783**	**43,842,324**
Represented by:			
Non-current assets			
Property, plant and equipment	17	46,842,299	50,065,920
Prepaid operating lease rentals	18	218,802	223,997
Staff loans: non-current portion	19	3,627	30,381
		47,064,728	**50,320,298**
Current assets			
Current tax recoverable	9(b)	33,793	33,793
Staff loans: current portion	19	613,783	311,987
Inventories	20	5,465,581	4,429,707
Trade and other receivables	21	1,858,443	2,003,429
Cash and bank balances	22	237,865	362,430
		8,209,465	**7,141,346**
Current liabilities			
Finance lease: current portion	15	384,487	466,822
Borrowings: current portion	17	3,791,372	4,911,029
Trade and other payables	23	10,977,551	8,241,469
		15,153,410	**13,619,320**
Net current liabilities		**(6,943,945)**	**(6,477,974)**
		40,120,783	**43,842,324**

The financial statements on pages 18 to 49 were approved by the board of directors on 4 May, 2011 and signed on its behalf by:

Director

Director

Statement of changes in equity

	Issued capital (Note 11) Ushs'000	Share premium (Note 11) Ushs'000	Revaluation reserves (Note 12) Ushs'000	Retained earnings Ushs'000	Total equity Ushs'000
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)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income 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**
At 1 January 2010	900,000	9,766,027	3,379,685	9,631,941	23,677,653
Loss for the year	-	-	-	(3,858,961)	(3,858,961)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(3,858,961)	(3,858,961)
Transfer of excess depreciation	-	-	(395,370)	395,370	-
At 31 December 2010	**900,000**	**9,766,027**	**2,984,315**	**6,168,350**	**19,818,692**

	Note	2010 Ushs'000	2009 Ushs'000
Operating activities			
Cash generated from operations	26	4,295,463	7,747,990
Finance costs	7	(4,125,213)	(2,322,069)
Net cash from operating activities		**170,250**	**5,425,921**
Investing activities			
Purchase of property, plant and equipment	17	(532,605)	(5,170,264)
Purchase of leasehold land		-	(46,090)
Net cash used in investing activities		**(532,605)**	**(5,216,354)**
Financing activities			
Repayment of leases	15	(335,920)	-
Proceeds from borrowings	16	7,725,258	37,977
Repayments of borrowings	16	(6,402,725)	(1,233,328)
Net cash from /(used in) financing activities		**986,613**	**(1,195,351)**
Net increase/(decrease) in cash and cash equivalents		**624,258**	**(985,784)**
Movement in cash and cash equivalents			
Cash and cash equivalents at 1 January		(1,585,005)	(599,221)
Net increase/(decrease) in cash & cash equivalents for the year		624,258	(985,784)
Cash and cash equivalents at 31 December	**22**	**(960,747)**	**(1,585,005)**

1 (A) General information

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

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

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 4 May, 2011.

1 (B) Going concern

The Company's statement of financial position had a net current liability position of Ushs 6.9 billion (2009: Ushs 6.5 billion) as at 31 December 2010 and the company made a loss of Ushs 3.8 billion (2009: Ushs 707 million) for the year then ended. These factors indicate that there is a possibility that the Company will not continue as a going concern. However, National Social Security Fund, the Company's biggest shareholder approved a 10 year loan facility of Ushs 11.05 billion to the Company. The purposes of this loan are:

- Retiring expensive loans from commercial banks
- Purchase of necessary spares for old factory (Kajjansi) and refurbishment of the clay preparation line
- Pay loan arrears due to East African Development Bank and Standard Chartered Bank
- Kiln extension at Kamonkoli factory that is expected to sort the production challenges at the new factory.

The first drawdown on this loan was made in December 2010 and the expensive loan from Standard Chartered Bank Uganda Limited retired and other loan arrears paid. The orders for spares for Kajjansi and machinery for improvements of the Kamonkoli factory aimed at increasing kiln output have been made in March 2011. Delivery, installation and commissioning is expected to take 2 months to May 2011. These measures will result in increased output at both Kajjansi and Kamonkoli factories. 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 liquidity and production stability.

The company has also obtained approval for a term loan of Ushs 4.3 billion from Standard Chartered Bank Uganda Limited to pay current creditors and an overdraft facility of Ushs 1.5 billion for working capital support.

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 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) and the requirements of the Ugandan Companies Act (Cap 110). The financial statements are presented in the functional currency, Uganda Shillings (Ushs), rounded to the nearest thousand, and prepared under the historical cost convention 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.

(ii) Adoption of new and revised standards

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

- *IFRS 2 Share-based payment: Group cash-settled Share based payment transactions* effective 1 January 2010
- *IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items* effective 1 July 2009
- *IFRIC 17 Distributions of Non-cash Assets* to owners effective 1 July 2009.
- *Improvements to IFRSs (May 2008)*
- *Improvements to IFRSs (April 2009)*

Standards issued but not effective
The standards issued but not yet effective up to the date of issuance of the Company's financial statements are as below.

IAS 24 *Related Party Disclosures (Amendment)*
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Company reasonably expects this standard to be applicable at a future date and intends to adopt it when it becomes effective.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

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

(ii) Adoption of new and revised standards (continued)

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

Other standards issued but not effective, that the directors do not expect to be applicable include:

- IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

(iii) Revenue recognition

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

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

Revenue is recognised as follows:

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

(iv) Translation of foreign currencies

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

(v) Property, plant and equipment

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

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

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

(v) Property, plant and equipment (continued)

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and then transferred to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the 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 the shorter of the lease period and useful life of buildings
Plant and machinery	10%
Furniture and fittings	10%
Vehicles	25%
Computer equipment	33.3%

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.

(vi) 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.

(vii) 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 recognised as finance lease obligations.

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

(viii) 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.

(ix) Loans and receivables

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

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

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

(x) 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.

(xi) 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 tax is provided for in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred 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 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 tax liability is settled

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

(xi) Taxes (continued)

Deferred 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.

(xii) Issued capital

Ordinary shares are classified as ‘issued capital’ in equity. Any premium received over and above the par value of the shares is classified as ‘share premium’ in equity.

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds.

(xiii) Employee retirement benefits

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

The Company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Company’s contributions to the defined contribution pension scheme are charged to the statement of comprehensive income in the year in which they fall due.

(xiv) 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.

(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.

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

Property, plant and equipment

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

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.

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 loss before tax and equity would decrease/increase by Ushs 16,100,475 (2009: Ushs 15,789,110) were the US$ foreign exchange rate to change by 3%. This variation 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 results.

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

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

Foreign exchange risk (continued)

As at 31 December 2010

		Ushs	Total
Equity			
Issued capital	-	900,000	900,000
Share premium	-	9,766,027	9,766,027
Revaluation reserves	-	2,984,315	2,984,315
Retained earnings	-	6,168,350	6,168,350
Total equity	**-**	**19,818,692**	**19,818,692**
Non-current liabilities			
Deferred income tax liabilities	-	3,338,451	3,338,451
Retirement benefit obligations	-	998,595	998,595
Finance lease	-	2,148,401	2,148,401
Borrowings: non -current portion	-	**13,816,644**	**13,816,644**
Total non-current liabilities	**-**	**20,302,091**	**20,302,091**
Total equity & non–current liabilities	**-**	**40,120,783**	**40,120,783**
Represented by:			
Non-current assets			
Property, plant and equipment	-	46,842,299	46,842,299
Prepaid operating lease rentals	-	218,802	218,802
Staff loans: non-current portion	-	3,627	3,627
	-	**47,064,728**	**47,064,728**
Current assets			
Inventories	-	5,465,581	5,465,581
Trade and other receivables	-	1,858,443	1,858,443
Staff loans: current portion	-	613,783	613,783
Tax recoverable	-	33,793	33,793
Cash and bank balances	60,527	177,338	237,865
	60,527	**8,148,938**	**8,209,465**
Current liabilities			
Trade and other payables	396,208	10,581,343	10,977,551
Finance lease: current portion	-	348,487	348,487
Borrowings: current portion	-	3,791,372	3,791,372
	396,208	**14,757,202**	**15,153,410**
Net current liabilities	**(335,681)**	**(6,608,264)**	**(6,864,746)**
	(335,681)	**40,456,464**	**40,120,783**

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**	**20,164,779**
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	-	2,003,429	2,003,429
Staff loans: Current portion	-	311,987	311,987
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	7,977,708	8,241,469
Finance lease: Current portion	-	466,822	466,822
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**

* 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 (continued)

Credit risk

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

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

	2010 Ushs'000	2009 Ushs'000
Cash and bank balances	237,865	362,430
Trade receivables	710,021	716,836
Staff and directors	617,410	342,368
Prepayments	430,937	470,575
Amount due from employee retirement fund administrator	693,258	772,457
Other receivables	138,451	139,295
	2,827,942	**2,803,961**

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:

	2010 Ushs'000	2009 Ushs'000
Past due but not impaired:		
- by up to 180 days	217,786	437,247
- by 181 to 360 days	378,011	183,855
Total past due but not impaired	595,797	621,102
Impaired- past due by >360 days	114,224	95,734
Gross amount	710,021	716,836
Less: Allowance for impairment	(114,224)	(95,734)
Net amount	595,797	621,102

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:	2010 Ushs'000	2009 Ushs'000
Balance at 1 January	95,734	46,267
Add: Charge for the year (note 4)	18,490	49,467
Balance at 31 December	114,224	95,734

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.

	Less than 1 year Ushs'000	Between 1 and 2 years Ushs'000	Between 2 and 5 years Ushs'000
At 31 December 2010:			
- Borrowings (excluding finance leases)	3,791,372	2,592,760	6,786,384
- Finance leases	384,487	342,345	656,280
- Trade and other payables	10,977,551	-	-
	15,153,410	**2,935,105**	**7,442,664**
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**

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 2010

	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	-	-	-	2,984,315	2,984,315
Retained earnings	-	-	-	6,168,350	6,168,350
Total equity	**-**	**-**	**-**	**19,818,692**	**19,818,692**
Non - current liabilities					
Deferred tax liability	-	-	-	3,338,451	3,338,451
Finance leases	-	-	998,595	-	998,595
Retirement benefit obligation	-	-	-	2,148,401	2,148,401
Borrowings	-	-	13,816,644	-	13,816,644
Total non - current liabilities	**-**	**-**	**14,815,239**	**5,486,852**	**20,302,091**
Total equity & non - current liabilities	**-**	**-**	**14,815,239**	**25,305,544**	**40,120,783**
Represented by:					
Non-current assets					
Property, plant & equip.	-	-	-	46,842,299	46,842,299
Prepaid operating lease rentals	-	-	-	218,802	218,802
Staff loans: non-current portion	-	-	3,627	-	3,627
	-	**-**	**3,627**	**47,061,101**	**47,064,728**
Current assets					
Inventories	-	-	-	5,465,581	5,465,581
Trade and other receivables	3,601	5,658	-	1,849,184	1,858,443
Staff loans: Current portion	-	-	-	613,783	613,783
Tax recoverable	-	-	-	33,793	33,793
Cash and bank balances	96,138	-	-	141,727	237,865
	99,739	**5,658**	**-**	**8,104,068**	**8,209,465**
Current liabilities					
Trade and other payables	-	-	-	10,977,551	10,977,551
Finance lease	96,121	288,364	-	-	384,487
Borrowings	648,189	3,143,183	-	-	3,791,372
	744,311	**3,431,547**	**-**	**10,977,551**	**15,153,410**
Net current liabilities	**(644,572)**	**(3,425,889)**	**-**	**(2,873,484)**	**(6,943,945)**
	(644,572)	**(3,425,889)**	**3,627**	**44,187,617**	**40,120,783**

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 & other receivables	13,663	34,496	-	1,955,270	2,003,429
Staff loans: Current portion	-	-	-	311,987	311,987
Current 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	-	-	-	8,241,469	8,241,469
Finance lease	116,706	350,116	-	-	466,822
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)

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

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

	2010 Ushs, 000	2009 Ushs'000
Cash flow interest rate risk	363,298	323,476

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 2010 and 2009 were as follows:

	2010 Ushs'000	2009 Ushs'000
Total borrowings	17,608,016	17,034,306
Less: Cash and cash equivalents	(237,865)	(362,430)
Net debt	17,370,151	16,671,876
Total equity	19,818,692	23,677,653
Total capital	37,188,843	40,349,529
Gearing ratio	**47%**	**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 2010 were as follows:

	Kajjansi Factory Ushs'000	Kamonkoli Factory Ushs'000	Total Ushs'000
Revenue	14,384,540	3,408,131	17,792,671
Profit /(loss) before income tax	1,958,506	(7,403,795)	(5,445,289)
Income tax (credit)/ expense	(284,599)	1,870,927	1,586,328
Profit /(loss) after tax	1,673,907	(5,532,868)	(3,858,961)
Depreciation	1,345,049	2,411,177	3,756,226

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	1,250,396	2,786,401

Statement of financial position

	Kajjansi Factory Ushs'000	Kamonkoli Factory Ushs'000	Total Ushs'000
31 December 2010			
Total assets	20,910,705	34,363,488	55,274,193
Total liabilities	34,954,457	501,044	35,455,501
Capital expenditure	482,128	50,477	532,605
31 December 2009			
Total assets	22,356,740	35,104,904	57,461,644
Total liabilities	33,704,555	79,436	33,783,991
Capital expenditure	2,339,382	4,220,879	6,560,261

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

2 Revenue

	2010 Ushs'000	2010 Ushs'000
Roofing tiles	11,039,691	8,580,717
Half bricks	1,495,230	1,623,393
Maxpans	3,190,029	3,306,131
Ridges	533,675	519,774
Others	1,534,046	2,692,109
	17,792,671	**16,722,124**

3 Cost of sales

Clay processing and product moulding	748,372	669,072
Depreciation of plant	3,628,021	2,578,565
Drying process	236,540	284,093
Electricity and generator expenses	1,498,704	1,204,258
Factory general maintenance	212,607	119,609
Kilns (baking process)	3,089,504	2,243,994
Other production overheads	1,675,104	1,271,361
Quarry and Silo	892,123	351,707
Salaries and allowances-production staff	651,829	574,418
Wages and allowances-production staff	2,142,780	1,966,436
	14,775,584	11,263,513
Stock adjustment	(863,394)	(1,287,936)
	13,912,190	**9,975,577**

4 Administrative expenses

Annual general meeting	30,719	26,153
Audit expenses	33,000	28,000
Bad debt write off	-	18,838
Provision for bad debts (note 1E)	18,490	49,467
Company house maintenance	234	11,097
Compound maintenance	8,156	5,258
Consultancy	106,354	63,742
Depreciation	133,399	115,444
Directors fees and allowances	154,106	63,293
Insurance	49,200	17,068
Rental expenses	9,845	1,406
Legal fees and expenses	41,313	31,650
Local travel	173,110	104,067
Office building maintenance	5,255	13,867
Office equipment maintenance	22,504	30,064
Printing and Stationery	42,149	25,499
Registrars fees	9,455	10,969
Security	103,147	74,762
Tax consultancy	10,111	7,500
Transport costs	101,192	76,325
Travel abroad	28,202	81,214
Regulatory expenses	-	696,164
Other expenses	397,453	119,864
Utilities	7,745	4,860
	1,485,137	**1,676,571**

		2010 Ushs'000	2009 Ushs'000
5	**Distribution expenses**		
	Business promotion	1,443,990	1,055,132
	Communication	114,279	96,730
	Donation	24,211	18,156
	Public relations and entertainment	31,674	15,040
	Sports and recreation	311	5,421
	Subscriptions	29,487	12,316
		1,643,952	**1,202,795**
6	**Other operating expenses**		
	Bonus	4,751	33,930
	Gratuity/pension	381,426	359,026
	Leave transport and allowance	99,615	100,015
	Medical	40,928	27,934
	NSSF – Company contribution	114,672	184,038
	Salaries and allowances	1,587,350	1,439,411
	Staff welfare	102,526	61,755
	Termination pay	17,251	2,191
	Training	20,501	25,858
	Wages and allowances	235,150	195,846
	Foreign exchange loss	6,089	16,048
	Bank charges	19,931	23,102
		2,630,190	**2,469,154**
7	**Finance costs**		
	Interest expense on borrowings	4,125,213	2,322,069

8 Loss before tax

The following items have been charged in arriving at the loss before tax:

	2010 Ushs'000	2009 Ushs'000
Depreciation on property, plant and equipment (note 17)	3,756,226	2,786,402
Amortisation of prepaid operating lease rentals (note 18)	5,195	8,814
Provision for bad debts	18,490	49,467
Employee benefits expense (note 8 (a))	3,739,112	3,397,037
Auditors' remuneration	33,000	28,000

a) Employee benefits expense

The following items are included within employee benefits expense:

	2010 Ushs'000	2009 Ushs'000
Retirement benefit obligations	779,838	743,269
Termination benefits	101,952	10,563
NSSF company contributions	114,672	184,038
Salaries and allowances	2,742,650	2,459,167
	3,739,112	**3,397,037**

9 Income tax

a) Income tax expense

	2010 Ushs'000	2009 Ushs'000
Current income tax	-	-
Deferred income tax	1,586,328	71,682
	1,586,328	**71,682**

9 Income tax (Continued)

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

	2010 Ushs'000	2009 Ushs'000
Loss before income tax	(5,445,289)	(778,744)
Tax calculated at a tax rate of 30% (2009: 30%)	(1,633,587)	(233,623)
Tax effect of:		
- Expenses not deductible for tax purposes	47,259	161,941
Income tax charge	**(1,586,328)**	**(71,682)**
	%	**%**
Tax charge as a percentage of loss before tax	**29**	**9.2**

Further information on deferred tax is presented in note 13.

b) Current tax recoverable

The movement in current tax recoverable is as follows:

	2010 Ushs'000	2009 Ushs'000
At 1 January	(33,793)	(33,793
Current income tax paid	-	-
At 31 December	**(33,793)**	**(33,793**

10 Loss per share

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

	2010	2009
Loss attributable to shareholders (Ushs'000)	(3,858,961)	(707,062)
Weighted average number of ordinary shares in issue ('000)	800,000	800,000
Diluting shares	-	-
Basic and diluted loss per share (Ushs/share)	(4.82)	(0.88)

11 Issued capital

	Number of shares	Issued capital Ushs '000	Share premium Ushs '000
At 31 December 2010	900,000,000	900,000	9,766,027
At 31 December 2009	900,000,000	900,000	9,766,027

The total authorised number of ordinary shares as at 31 December 2010 and 2009 was 900,000,000 with a par value of Ushs 1. All shares were issued and fully paid.

12 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.

	2010	2009
	Ushs'000	Ushs'000
As at 1 January	3,379,685	3,675,526
Transfer of excess depreciation for the year	(395,370)	(295,841)
As at 31 December	2,984,315	3,379,685

13 Deferred tax liability

Deferred tax is calculated on all temporary differences using the liability method and a principal tax rate of 30% (2009: 30%). The movement on the deferred tax account is as follows:

	2010	2009
	Ushs'000	Ushs'000
At 1 January	4,924,779	4,996,461
Charge to the statement of comprehensive income (note 9)	(1,586,328)	(71,682)
At 31 December	3,338,451	4,924,779

The deferred tax liability is attributable to the following items:

	At 1 January 2010 Ushs'000	Movement for the year Ushs'000	At 31 December 2010 Ushs'000
Deferred tax liabilities			
Property plant and equipment			
-on historical cost basis	9,573,234	(386,883)	9,186,351
-on revaluation surpluses	1,575,224	-	1,575,224
	11,148,458	(386,883)	10,761,575
Deferred tax assets			
Other deductible temporary differences	(34,540)	441	(34,099)
Tax losses carried forward	(6,189,139)	(1,199,886)	(7,389,025)
Net deferred tax liability	4,924,779	(1,586,328)	3,338,451

13 Deferred tax liability (continued)

	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**

14 Retirement benefit obligations

	2010 Ushs'000	2009 Ushs'000
At 1 January	1,864,435	1,034,995
Contributions made during the year	926,028	919,330
Payments during the year	(642,062)	(89,890)
At 31 December	**2,148,401**	**1,864,435**

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

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

The contributions to the scheme are administered by a fund administrator, National Insurance Corporation (NIC).
The liability disclosed in this note is partly funded by the amount due from the fund administrator.

15 Finance lease

	2010 Ushs	2009 Ushs
Not later than 1 year-current portion	384,487	466,822
Later than 1 year and not later than 5 years	998,595	1,252,180
	1,383,082	**1,719,002**

15 Finance lease (continued)

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

16 Borrowings

	2010 Ushs	2009 Ushs
Total borrowings	17,608,016	17,034,306
Less: current portion	(3,791,372)	(4,911,029)
Non-current portion	13,816,644	12,123,277

The borrowings are made up as follows:

	2010	2009
Non-current portion		
Bank loan	6,716,644	12,123,277
Shareholder's loan (note 27(v))	7,100,000	-
Total non – current portion	**13,816,644**	**12,123,277**
Current portion		
Bank loan	2,592,760	2,963,594
Bank overdraft	1,198,612	1,947,435
Total current portion	**3,791,372**	**4,911,029**
Total borrowings	**17,608,016**	**17,034,306**

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

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

The movement in borrowings is as follows:

	2010 Ushs '000	2009 Ushs '000
At 1 January	17,034,306	17,139,666
Interest accrued	625,258	-
Loans received (note 27(v))	7,100,000	1,127,968
Overdraft repayments	(748,823)	-
Loan repayments	(6,402,725)	(1,233,328)
At 31 December	**17,608,016**	**17,034,306**

16 Borrowings (continued)

The Bank loan and the overdraft are collectively secured by;

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

Weighted average effective interest rates:	2010 %	2009 %
Bank overdraft	20.00	19.00
Bank borrowing	24.65	16.73
Shareholder's loan	15.00	-

Maturity of non-current borrowings:

	2010 Ushs '000	2009 Ushs '000
Between 1 and 2 years	2,592,760	2,927,697
Between 2 and 5 years	6,786,384	9,195,580
Over 5 years	4,437,500	-
Non-current portion	**13,816,644**	**12,123,277**

17 Property, plant and equipment

	Freehold Land and Buildings Ushs'000	Plant & Machinery Ushs'000	Furniture, fittings & Computer equipment Ushs'000	Motor vehicles Ushs'000	Capital work In progress Ushs'000	Total Ushs'000
Cost/valuation						
At 1 January 2009	8,937,843	18,106,437	315,923	2,063,923	22,915,079	52,339,205
Additions (leasehold)	-	1,217,598	-	172,399	-	1,389,997
Additions (other)	200,000	-	61,715	687,670	4,220,879	5,170,264
Transfers	2,350,356	24,550,320	-	-	(26,900,676)	-
Disposals	-	(343,925)	-	(91,000)	-	(434,925)
At 31 December 2009	**11,488,199**	**43,530,430**	**377,638**	**2,832,992**	**235,282**	**58,464,541**
Additions	14,308	65,086	50,400	163,165	239,646	532,605
Transfers	196,549	4,647	28,307	18,650	(248,153)	-
At 31 December 2010	**11,699,056**	**43,600,163**	**456,345**	**3,014,807**	**226,775**	**58,997,146**
Depreciation						
At 1 January 2009	587,125	4,047,531	198,785	869,778	-	5,703,219
Charge for the year	217,900	1,990,185	46,935	531,382	-	2,786,402
Disposals	-	-	-	(91,000)	-	(91,000)
At 31 December 2009	**805,025**	**6,037,716**	**245,720**	**1,310,160**	**-**	**8,398,621**
Charge for the year	241,274	2,853,405	45,759	615,788		3,756,226
Disposals/adjustments	-	-	-	-	-	-
At 31 December 2010	**1,046,299**	**8,891,121**	**291,479**	**1,925,948**	**-**	**12,154,847**
Net carrying amount						
31 December 2010	**10,652,757**	**34,709,042**	**164,866**	**1,088,859**	**226,775**	**46,842,299**
31 December 2009	**10,683,174**	**37,492,714**	**131,918**	**1,522,832**	**235,282**	**50,065,920**

17 Property, plant and equipment (continued)

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 tax credited to revaluation reserves in equity.

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

	2010 Ushs '000	2009 Ushs '000
Cost	52,455,773	51,923,168
Accumulated depreciation	(7,225,570)	(4,125,159)
	45,230,203	**47,798,009**

18 Prepaid operating lease rentals

	2010 Ushs '000	2009 Ushs '000
Cost	259,759	213,669
Additions	-	46,090
	259,759	**259,759**
Accumulated amortisation	(35,762)	(26,948)
	223,997	**232,811**
Amortisation charge for the year	(5,195)	(8,814)
		223,997
Staff and directors loans	**218,802**	
Non-current portion	3,627	30,381
Current portion		
	613,783	311,987
	617,410	**342,368**

All non-current staff and directors loans 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% (2009: 5%).

20 Inventories

	2010 Ushs '000	2009 Ushs '000
Spares and consumables	984,394	875,584
Work in progress	2,427,878	2,232,219
Finished goods	1,938,381	1,270,646
Goods in transit	114,928	51,258
	5,465,581	**4,429,707**

The amount of write-down of inventories recognised as an expense is Ushs 863,394,000 (2009: Ushs 1,287,936).

21 Trade and other receivables

	2010 Ushs '000	2009 Ushs '000
Trade receivables	710,021	716,836
Less: provision for impairment of trade receivables	(114,224)	(95,734)
	595,797	**621,102**
Prepayments	430,937	470,575
Amount due from employee retirement fund administrator	693,258	772,457
Other receivables	138,451	139,295
	1,858,443	**2,003,429**

21 Trade and other receivables (continued)

Trade and other receivables are non-interest bearing and are generally on 30-90 day terms. As at 31 December 2010, trade receivables of an initial value of Ushs 114,224,000 (2009: Ushs 95,734,000) were impaired and fully provided for (see credit risk disclosure in Note 1(E) for further details).

22 Cash and bank balances

	2010 Ushs '000	2009 Ushs '000
Cash at bank	96,138	26,776
Cash in hand	141,727	335,654
	237,865	**362,430**

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

	2010 Ushs '000	2009 Ushs '000
Cash and bank balances as above	237,865	362,430
Bank overdrafts (note 16)	(1,198,612)	(1,947,435)
	(960,747)	**(1,585,005)**

23 Trade and other payables

	2010 Ushs '000	2009 Ushs '000
Trade deposits (advance payments received)	1,834,490	1,217,154
Trade payables	3,215,794	2,976,268
VAT payable	3,505,744	1,917,888
Accrued expenses	22,105	45,036
Unpaid dividends	376,712	377,192
National Social Security Fund contributions payable	1,306,520	1,253,817
Pay-As-You-Earn	348,340	340,048
Other payables	367,846	114,066
	10,977,551	**8,241,469**

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

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

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

24 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.

25 Capital commitments

The Company had no capital expenditure commitments as at the statement of financial position date.

26 Cash generated from operations

Reconciliation of loss before tax to cash generated from operations:

	2010 Ushs'000	2009 Ushs'000
Loss before tax	(5,445,289)	(778,744)
Adjustments for:		
Depreciation (note 17)	3,756,226	2,786,402
Amortisation of prepaid operating lease rentals (note 18)	5,195	8,814
Profit on sale of property	-	343,925
Finance costs (note 7)	4,125,213	2,322,069
Changes in working capital		
- increase in inventories	(1,035,874)	(1,112,670)
- decrease/(increase) in trade and other receivables	144,986	(368,955)
- (Increase)/decrease in staff loans	(275,042)	62,282
- increase in trade and other payables	2,736,082	3,655,427
- increase in retirement benefits obligation	283,966	829,440
Cash generated from operations	**4,295,463**	**7,747,990**

27 Related party transactions

The following transactions were carried out with related parties

i) Key management compensation

	2010 Ushs'000	2009 Ushs'000
Salaries and other short term employment benefits	1,353,536	1,100,948
ii) Directors' remuneration		
As fees	21,255	18,360
Other	132,851	44,934
	154,106	**63,294**

iii) Loans to directors

At 1 January	37,884	10,004
On appointment of directors	-	45,940
Interest accrued during the period	1,292	1,092
Loan repayment received	(39,176)	(12,368)
On cessation of directorship	-	(6,784)
At 31 December	**-**	**37,884**

27 Related party transactions (continued)

iv) Short term advances to directors

	2010 Ushs'000	2009 Ushs'000
At 1 January	60,343	3,210
On appointment of directors	-	25,730
Additional advance	142,732	43,119
Repayments received	(197,253)	(10,095)
On cessation of directorship	-	(1,621)
At 31 December	**5,822**	**60,343**

The loans and advances were given at a weighted average interest rate of 5% per annum (2009: 5%).

v) Shareholder's loan

	2010 Ushs'000	2009 Ushs'000
At 1 January	-	-
Loan received	7,100,000	-
At 31 December	**7,100,000**	**-**

During the year, the company was granted an unsecured loan of Ushs 11.05 billion by NSSF (the company's biggest shareholder with 32.5% of the shares) for the following purposes:

- Retiring a bridge loan from Standard Chartered Bank Uganda Limited of Ushs 3.3 billion
- Paying off critical creditors amounting to Ushs 3.8 billion
- Procuring spares for the Kajjansi factory of Ushs 0.95 billion
- Extending the tunnel kiln at Kamonkoli factory at Ushs 3 billion.

In December 2010, Ushs 7.1 billion was drawn down to retire the bridge loan and pay off the critical creditors. Interest on this loan is 15% per annum and the loan tenure is 10 years with grace period of 2 years. The interest is to be capitalised during the grace period.

ANALYSIS OF SHAREHOLDING

Distribution Schedule of equity as at: 22 June 2011

Class of equity No. of Shareholders	No. of Shareholders	Total holding within range	Percentage of holding
1 - 1000 shares	139	86,830	0.0096
1001 - 5000 shares	509	1369333	0.1521
5001 - 10000 shares	521	4,440,789	0.4934
10001 - 100000 shares	1,131	43,054,843	4.7839
100001 and over shares	384	851,048,205	94.5609
Totals	**2,684**	**900,000,000**	**100**

LIST OF LARGEST 10 SHAREHOLDERS	SHARES	PERCENT
NATIONAL SOCIAL SECURITY FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	292,640,000	32.52
NATIONAL INSURANCE CORPORATION LTD P.O BOX 7134 KAMPALA	167,886,168	18.65
UGANDA COMM EMPLOYEES CONTRIBUTION SCHEME-AAU C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	27,945,732	3.11
CENTRAL BANK OF KENYA PENSION FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	23,900,000	2.66
KENYA POWER AND LIGHTING COMPANY C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	20,207,200	2.25

BANK OF UGANDA STAFF RETIREMENT BENEFIT SCH-SIM C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	18,836,500	2.09
KENYA AIRWAYS LIMITED STAFF PROVIDENT FUND C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	15,000,000	1.67
UGANDA DEVELOPMENT BANK LIMITED P.O.BOX 7210 KAMPALA	10,147,335	1.13
MR JOSEPH TUKURATIIRE & TUKURATIIRE P.O. BOX 12822 KAMPALA	9,540,597	1.06
UGANDA COMM EMPLOYEES CONTRIBUTION SCHEME-SIMS C/O STANDARD CHARTERED BANK UG P.O. BOX 7111 KAMPALA	8,975,400	1.00
Total number of Shares	**595,078,932**	**66.14**
ADD:- 2674 Other Shareholders	**304,921,068**	**33.86**
TOTAL	**900,000,000**	**100.00**

Director's Shareholding as at 31 May 2010

Rubaijaniza Charles	1,035,100
Senfuma S. R. John	940,700
Musaazi James Nelson	205,818
Mukasa Lilian	108,393
Ojiambo Ochieng Romano	100,000
Ijjuka Kabumba	57,349
Byarugaba Richard Patrick	10,000

SUMMARY OF SHAREHOLDERS

INSTITUTIONAL	No. of Shareholders	Shares	% Holding
Ugandan	83	601,488,946	66.83
Foreign	19	108,899,794	12.1
INDIVIDUAL			
Ugandan	2,437	176,757,440	19.64
Foreign	145	12,853,820	1.43
Grand Total	**2,684**	**900,000,000**	**100.00**

UGANDA CLAYS LIMITED

PROXY FORM

For the attention: **The Company Secretary**
Uganda Clays Limited
P.O. Box 3188
KAMPALA

ANNUAL GENERAL MEETING OF UGANDA CLAYS LTD

I/we, the undersigned being a shareholder(s) in the above-mentioned company hereby appoint

………………………………………………………………………………………………of address

……

As my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at the……………………… on ……………………………… or at any adjournments thereof.

Signed:……………………………………………………………………………………………………

Name:……………………………………………………………………………………………………..

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

……

……

Date:……………………………………………….

NOTES

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

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

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

4. The completion and lodging of this form or proxy does not prevent the relevant ordinary shareholder from attending the annual general meeting INSTEAD of the proxy.

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

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

The Mangalore Tile


Annual Report

June 1, 2010 to June 30, 2011