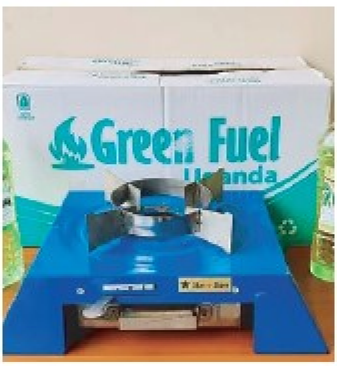
UGANDA DEVELOPMENT CORPORATION

Driving Industrial Growth

JUNE 2020
ANNUAL REPORT



UGANDA DEVELOPMENT CORPORATION

Who We Are

Uganda Development Corporation (UDC) is the investment arm of government mandated to promote and facilitate economic and industrial development in Uganda. It was re-established in 2016 by the UDC Act 2016. The Corporation is a wholly owned government institution whose mission is to establish sustainable investments in areas strategic to the social and economic transformation, and prosperity of Uganda. In order to deliver this ambition, the Corporation supports execution of investments in value addition with a focus on three key sectors namely; agro processing, mineral beneficiation, and infrastructure and social services.

UDC invests in both new and brown projects which may not be attractive to the private sector due to high initial capital requirements, resource constraints or initial low returns. The Corporation provides the private sector with a platform for meaningful participation in industrial development of Uganda's economy. The purpose of UDC intervention is not to compete with the private sector but rather to complement it and support it to grow.

The Corporation's mode of operation is through establishing subsidiaries and associate companies; entering into public-private partnerships with any commercial, Industrial or agricultural entities; financing and management of investment undertakings promoting industrial or economic development; and research into industrial development. Currently, UDC uses three financing options namely equity participation, lease financing and debt (shareholder loan) financing. Additionally, the Corporation provides expertise in management, governance and technology enhancement until that point when the investee company is able to profitably and sustainably operate the investment.

In order to commit to a decision to invest in any project, UDC considers five (5) fundamental principles in relation to the project i.e high likelihood to; create both direct and indirect employment, offtake significant volumes of local raw materials/resources, improve Uganda's trade balance position either through increased exports or reduced imports, develop local entrepreneurship, and contribute to balanced regional development within the country.

Presently, most of UDC's investments are in agro-processing, with one infant project in mineral beneficiation, one in the services sector and another in the infrastructure sector. The investments are; Kayonza Growers Tea Factory, Kigezi Highland Tea Limited, Mabale Growers Tea Factory, Atiak Sugar Factory, Soroti Fruits Factory, Kalangala Infrastructure Services, Nile Hotel International Limited and Moroto Ateker Cement Company Limited.

Vision

To be the leading driver of industrial development for the social and economic transformation and prosperity of Uganda.

Mission

To establish sustainable investments in areas strategic to Uganda's social and economic transformation, and prosperity of Uganda.

Organisational Values

The Corporation nurtures a high-performance culture through its values namely Sustainability, Teamwork, Adaptability, Integrity, Reliability and Excellence. These values are not only the principles guiding the conduct of business at the Corporation but are also considered the staircase to excellence.

Sustainability: It is our commitment and responsibility for the future to invest in strategic and sustainable ventures that strike a balance between benefit and social good.

Teamwork: UDC espouses team spirit, togetherness and collective responsibility for all actions, their intended and unintended outcomes.

Adaptability: UDC is flexible to take on new ideas and innovative ways of doing work and is proactive to emerging opportunities and challenges.

Integrity: We subscribe to high ethical and moral standards. Staff are expected to conduct themselves professionally at work, and in their social and private lives.

RELIABILITY

Reliability: UDC strives to demonstrate its consistent behaviour through meeting and exceeding the expectations of our stakeholders.

Excellence: Excellence is a key virtue charactering our undertakings and practices. We strive for perfection or near perfection in our processes and systems, as well as results.

Executive Director's Message

I am delighted to present to you the Uganda Development Corporation's annual report for the year ending June 30, 2020. The report provides information to UDC's stakeholders about the Corporation's performance in line with the strategic objectives. Our operations are guided by the UDC ten-year strategic plan with three key objectives namely to: strengthen the internal capacity and processes to enable UDC deliver its mandate; leverage partnerships and networks to optimize resources and foster collaboration; and invest in strategic and sustainable investments geared towards overall economic and industrial development of Uganda.

Patrick B Birungi, PhD
Executive Director

In order to strength UDC's capacity to perform its functions, the Corporation recruited four (4) new staff and promoted two others to Manager level from Senior Officer level. The recruitment helped reduce the staffing deficit. Further efforts are on-going to fill the remaining vacant positions. Aside from recruitments, a Management team comprising the Executive Director, Directors and Managers was constituted; and an Internal Audit department created to improve operations and management of UDC. The UDC staff participated in a training on Corporate Governance as part of the capacity building initiatives of the Corporation.

UDC recognizes the importance of partnerships and networks in the achievement of its mandate. Thus, during FY 2019/2020, UDC had engagements with development finance institutions with the objective of identifying and co-financing projects in agricultural value chains and infrastructure. Further, UDC in conjunction with the United Nations Development Programme (UNDP) convened an e-conference under the theme " Transformation of Uganda's Real Economy amidst COVID-19: Opportunities, Options and Strategies" With the e-conference, UDC achieved greater visibility both within the country and worldwide, increased positive synergies with partners (including the media and MDAs, private sector players, the public and development partners); created a shared understanding on the role and mandate of UDC, and how to capitalise the emerging opportunities created by COVID-19 pandemic.

In line with our core mandate, as at June 2020, the Corporation had invested in eight (8) projects, six agro-industries, two infrastructure and services projects and one mineral beneficiation facility. The agro-industries were four tea factories in Kyenjojo, Kanungu, Kabale and Kisoro, one fruit factory in Soroti and one sugarcane processing factory in Amuru in Acholi sub-region. Within the category of infrastructure and services, UDC acquired government interest in Nile Hotel International Limited. In the category of mineral beneficiation, UDC embarked on the establishment of an integrated cement, lime and marble factory in Moroto in Karamoja sub-region. Important to note is that the projects are located in different sub-regions which is critical for balanced regional development.

I would like to extend my sincere appreciation to all our funders and collaborators for the financial and technical support. I also extend our gratitude to the UDC Board of Directors for the oversight and guidance offered in the past year that enabled us to cope with the adverse effects of COVID-19 on our investments, and harness the opportunities it presented. I thank the UDC staff for adapting to flexible working modality, especially during the lockdown period where some business processes were undertaken remotely. Despite the COVID-19 induced challenges, we are more than ever committed and well-positioned to pursue the Corporation's mission of establishing sustainable investments in areas strategic to Uganda's social and economic transformation, and prosperity of Ugandans.

Patrick B Birungi, PhD
Executive Director

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Executive Summary

Introduction

This is a Corporate Annual Report for Uganda Development Corporation (UDC) for the FY 2019/2020. It serves to highlight the progress attained by UDC as at June 2020, the challenges encountered and the planned interventions for the next financial year (FY 2020/2021).

Performance

As at June 2020, UDC had nine (9) investments in agro-industry, infrastructure and services and mineral extractive sectors. These are: Kayonza Growers Tea Factory in Kanungu, Kigezi Highland Tea factories in Kabale and Kisoro, Mabale Growers Tea Factory in Kyenjojo, Atiak Sugar Factory in Amuru, Soroti Fruits Factory, Kalangala Infrastructure services, Nile Hotel International Limited in Kampala, and Moroto Ateker Cement Factory.

Kayonza Growers Tea factory: Equipment for the third CTC line with a capacity to process 600kg of green leaf per hour was procured, delivered at the factory, installed, test trial runs conducted, and the factory was technically commissioned.

Kigezi Highland Tea factory: In 2018, UDC in partnership with Kigezi Highland Tea Ltd (KHTL) established two tea factories in Kabale and Kisoro, each with the capacity to process 450kg of green leaf per hour into made tea. However, there was inadequate supply of green leaf to enable the factories operate at full capacity. So, during FY2019/2020, a strategic intervention facility agreement between UDC and KHTL was made with the objective to plant more tea.

Mabale Growers Tea Factory (MGTFL): UDC entered into and executed a Memorandum of Understanding with MGTFL to forestall the intended foreclosure of the factory by KCB bank, and eminent attachment of MGTFL property by its creditors.

Atiak Sugar Factory: UDC acquired additional shares in Horyal Investment Holding Company Limited, bringing UDC's total shareholding to 40%.

Additionally, 8,000 acres of sugarcane were planted with financial support from NAADs. The bridge on River Unyama was completed and it has enabled the farmers transport the cane with ease to the factory. Civil works and construction at the factory reached 80% completion level.

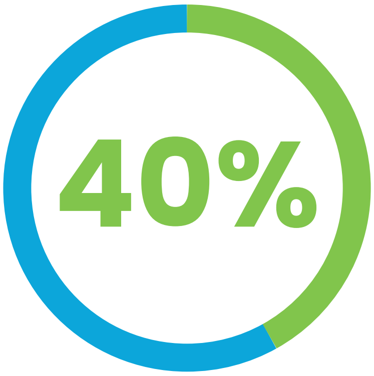
Soroti Fruits Factory: Vehicles (including a waste disposal truck) were procured to improve efficiency in factory operations. The factory obtained UNBS certification which is a condition for selling locally produced products.

Moroto Ateker Cement Factory: A reconnaissance survey to inform a detailed geological exploration study was conducted in Loyoro- Kaabong, and the results indicated the raw material (Marble) required for production of cement, lime and Marble is of good quality. A detailed geological mapping and sampling of marble prospects at the licensed exploration area was completed.

Kalangala infrastructure services: The company saw a general decline in business due to limited public mobility following Government restriction on business in a bid to minimise the spread of COVID-19. Business activity on Bugala island greatly slowed down due to the fact that there were no tourists, passenger crossings reduced by over 77%, vehicle traffic by about 68%, and demand for power by over 20%.

Nile Hotel International Limited (NHIL): In 2020, UDC acquired the interest of GoU in NHIL namely 100% shares in the hotel, which attract dividends. Important to note, NHIL manages the concession of Kampala Serena Hotel, and during FY2019/2020, the Corporation received UGX 572,620,674 as dividends from NHIL.

UDC acquired additional shares in Horyal Investment Holding Company Limited, bringing UDC's total shareholding to



Additionally,

8,000

acres of sugarcane were planted with financial support from NAADs.

Challenges

UDC's investments were not spared by the COVID-19 pandemic and the associated containment measures. The COVID-19-induced challenges and impacts faced by UDC's investments include: reduction in made tea exports; reduction in operational efficiency and increase cost of production; laying off of staff amidst economic hardships; inaccessibility of inputs including spare parts, packaging materials and fertilisers; reduction in sales volumes and revenues; constrained transport to export markets and increased cost of storage of factory products; reduced ability of factories to offtake raw materials; and generally reduced business activity.

Planned investments

In the coming year (FY2020/2021) UDC plans to continue investing in Mabale Growers Tea factory, Soroti fruits factory and establishment of an integrated cement, lime and marble plant in Moroto. Additionally, through equity participation, UDC will invest in Mutuma Commercial Agencies limited in Luuka to increase production of surgical cotton wool and expand the factory's product space to include medical guaze, gloves and sanitary towels. Also, the corporation intends to acquire equity in Budadiri Arabica Coffee Limited in Sironko to promote coffee value addition. The Corporation undertakes research to generate evidence needed to appraise and value proposed projects—thus, the kinds of research to be done include feasibility studies, business valuations and plans.

UDC Strategic Plan

A ten-year Strategic Plan (2019/2020 – 2029/2030) was developed to guide investments and operations of the UDC in the short, medium and long term. The UDC strategic plan which was launched on the 13th April, 2020 hinges on the theme "Driving industrial development for the economic transformation of Uganda". The plan was informed by the UDC Act 2016 with guidance from numerous national and international policies including but not limited to the Vision 2040, the National Development Plan II, the National Industrial Development Policy, the National Trade Policy, the National Export Development Strategy and the Buy Uganda Build Uganda (BUBU) policy. Through this strategic plan, UDC invests in green fields and brown fields with the long-term aim of eventual divesture of its interests in mature and ready-to-go investments.

Strategic Objectives

The Corporation pursues three inter-dependent strategic objectives,

1. Strengthen internal capacity and processes to enable UDC to deliver its mandate.
2. Leverage partnerships and networks to optimize resources and foster collaboration.
3. Invest in strategic and sustainable investments geared to overall economic and industrial development of Uganda.

Key Strategic Actions

The key strategies that will be implemented by UDC in order to attain the set strategic objectives are:

1) Strengthen the governance of UDC,
2) Adopt secure technology and systems to improve investment, communication and overall operational efficiency,
3) Implement strong risk management at all levels,
4) Use Operations & Management partnerships to run or turnaround UDC's investments efficiently and effectively,
5) Harness industrial and sectoral synergies to facilitate UDC Investments,
6) Invest in areas that have the greatest multiplier effect on the Ugandan economy, maximize the utilization of local raw materials as well as reduce the country's trade deficit,
7) Prioritize investments in regions that are underdeveloped, and
8) Exit investments once UDC's equity investment objectives in a company have been attained or the financial considerations no longer justify continuity of the investment.

Current UDC investments

The Corporation has focused on investing in selected priority sectors that have the greatest multiplier effect on the Ugandan Economy and maximize the utilization of locally available raw materials. As at June 2020, UDC had a portfolio of nine (9) projects namely Kayonza tea factory, Kigezi highland tea factories, Mabale growers' tea factory, Atiak sugar factory, Soroti fruits factory, Kalangala Infrastructure services, Nile Hotel International Limited and Moroto Ateker Cement factory. The key highlights about the investments are presented in the subsequent sections.

1. Kayonza Growers Tea Factory

The factory which processes green leaf (tea) into made tea is located in South Western Uganda in Kanungu district. It is privately owned by smallholder tea farmers who supply green leaf to the factory, and a percentage from their sale is deducted to pay up for the shares. The Corporation's investment involved the supply, installation and commissioning of a third (3rd) CTC tea processing line with a capacity of 600kg/hr. During the reporting period, equipment for the 3rd CTC line was procured, delivered at the factory, installed, test trial runs conducted, and the factory was technically commissioned.

Key Challenges

Due to the disruptions caused by the COVID-19 global pandemic;

- (i) The factory registered a reduction in made tea exports by approximately 50%.
- (ii) Operational efficiency reduced by 50% due to failure to get the required maintenance services at the factory.
- (iii) Out of the 600 factory employees, only 264 staff were retained while the rest (56%) were laid off, and
- (iv) The global disruption in the distribution chain led to delays in supply of fertilizers to tea farmers.
- (v) The factory was not able to fully off take the tea produced in the region, hence negatively impacting the lives of the farmers and others who benefit from the establishment.

2. Kigezi Highland Tea Factory Ltd

To promote tea growing as a perennial source of income in Kigezi sub-region, the Government through a cabinet directive decided to set up three tea factories in Kabale, Kisoro and Kanungu. This was a strategy to promote value addition and align the agro manufacturing sector to the National Export Development strategy and National Development Plan II. Through lease financing arrangement, the Corporation has since invested in the establishment of tea factories in Kabale and Kisoro, each with the capacity of 450kgs per hour, in partnership with Kigezi Highland Tea Ltd (KHTL).

Key Milestones

The two tea factories in Kabale and Kisoro are supporting tea production in South Western Uganda. However, they were faced with inadequate supply of green leaf to enable the factories operate at full capacity. As such, a Strategic Intervention Facility agreement between UDC and KHTL was made with the objective to establish more tea fields. The tea planting facility was in form of a grant of UGX 5 billion. For starters, KHTL was advanced UGX 500 million to plant 2.4 million tea seedlings. A UDC team and external researchers carried out a verification exercise as part of the arrangement towards the actualization of the tea planting facility.

Challenges

Due to the logistical challenges caused by the COVID-19 pandemic, there was a decline in the average monthly sales by approximately 50%. It should be noted, 94% of the tea produced by the factories is exported through the Mombasa Tea Auction market.

3. Mabale Growers Tea Factory Ltd

Mabale Growers Tea Factory (MGTFL) was established in 1969 by the Government of Uganda under the Uganda Tea Growers Corporation (a subsidiary of the 1952 UDC). it was privatised in 1994/5 and placed under the management of AGRIMAG Ltd until 2003. The factory is located in Kyenjojo but serves tea farmers in Kabarole as well. Through a presidential directive, UDC on behalf of Government was to invest in MGTFL by provision of a CTC processing line to enhance the factory's processing capacity. The intervention by UDC is intended to support the sustained commercial existence of MGTF, in light of the wider economic benefits the factory offers in supporting the tea out-grower economy in Toro sub-region. UDC intervened through equity participation and thus changed the factory ownership from being fully farmer-owned.

Key Milestones

1. Due diligence was conducted and the findings revealed that MGTFL was facing serious governance challenges that needed to be addressed first before UDC could provide the CTC Line.

2. Management is an important key element in the success of an organization. The future success and performance of organizations is hinged on the competence of the organizational leaders. To achieve this MGTFL with the guidance of UDC put in place a governance structure that has seen the entity improve in its planning, operational policies, procedures, financial and Non-financial objectives.

3. UDC entered into and executed a Memorandum of Understanding with MGTFL to forestall the intended foreclosure by the KCB bank, eminent attachment of company property by its creditors and provide working capital for the factory.

4. The operations of the factory improved to the extent that at least 2,049 tons of green leaf were processed resulting into 464.292 tons of made tea. The company sold 311.339 tons of made tea and generated USD 251,265.28 as sales revenue.

Key challenge

Most challenges were induced by the COVID-19 containment measures. They include: increase in cost of production due to limited supplies of goods and services; limited access to essential spares for factory machinery and packaging materials; initiatives aimed at increasing tea production were heavily constrained, particularly the importation of fertilizers; planned factory refurbishment failed to take-off; and the processed tea suffered a shortage of containers to transport it to Mombasa tea auction market in time. Consequently, the factory holding capacity of 92 MT worth of stock of made tea was stretched to hold over 276 MT.

4. Atiak Sugar Factory

Atiak Sugar Factory, owned jointly by Horyal Investment Holding Company Ltd (HIHC) and UDC, is located in Amuru district in Acholi sub-region. The factory processes sugar cane into brown sugar as the main product. The by-products (molasses and bagasse) are used to produce ethanol and electricity. The factory targets to benefit at least 15,000 sugarcane out growers. UDC intervention was through equity participation.

Key Milestones

a) UDC acquired an additional 1,600,897 shares in Horyal Investment Holding Company Limited at UGX 15,483,852,800, translating into 8% additional shareholding, and hence increasing UDC's total shareholding to 40%. In addition, UDC injected UGX 8,516,147,200 into the company as a shareholder's loan.

b) Out of the 20,000 acres of cane that were to be planted with the financial support from NAADs, 8,000 acres were planted. The planting activity resulted into employment creation for over 1,200 people.

c) The bridge on River Unyama was completed and it has enabled the farmers transport the cane with ease to the factory.

d) Civil works and construction at the Atiak Sugar Factory reached 80% completion level.

Challenges

(i) A section of the sugar cane fields that was planted first did not yield as expected due to poor agronomic practices and lack of proper training of the farmers.

(ii) There have been delays in launching and commissioning of the factory due to the impact of COVID-19.

(iii) Governance & management challenges

5. Soroti Fruit Factory

UDC in partnership with the Government of South Korea (through Korea International Agency [KOICA]) and Teso Tropical Fruits Cooperative Union Limited (TEFCU) established a fruit processing factory in Soroti district. UDC intervention was through equity participation. The factory was commissioned in April 2019 to provide market for oranges and mangoes and solve the challenge of post-harvest losses. The factory has installed capacity of 6MT/Hr and 2MT/Hr of oranges and mangoes, respectively. It adds value to local oranges and mangoes, predominantly purchased from farmers in Eastern and Northern Uganda, into fruit puree/concentrate and natural ready to drink juice which is branded "Teju juice".

Key milestones

(i) Vehicles were procured for the factory so as to improve the monitoring and effective running of the factory's operations such as marketing and distribution of the factory's produce. A waste disposal truck was procured for purposes of ferrying waste material from the factory to the waste disposal site.

(ii) The corporation embarked on acquisition of an accreditation to enable the factory procure fruits directly from farmers. This was instrumental in enabling the factory operate independently as a business and compete favourably with private players in fruit processing.

(iii) The factory obtained UNBS certification which is a condition for selling locally produced products. The products from the factory trade under the brand name of "TEJU" juice, and are sold in 200ml pouches of ready to drink orange and mango.

(iv) Terms of reference for development of a secondary effluent plant were developed.

(v) With respect to utilisation of target local raw materials, the factory purchased over 1,939 tonnes of oranges and about 103 tons of mangoes.

(vi) SOFTE responded to a Presidential call during the COVID-19 pandemic towards feeding the masses by donating 2,250 cartons of ready to drink juice to the COVID task force.

Key Challenges and Solutions

a) Due to the prolonged lockdown, the factory registered a 90% drop in sales revenue and a rise in credit sales. Further, the disruption in global supply chains hindered the factory's access to spare parts and production inputs especially packaging materials. The factory was unable to procure fruits due to the large volumes of stored concentrates—this affected the farmers that the factory is intended to support. To increase sales and be able to off take large volumes of fruits, the factory embarked on an aggressive campaign to market its products—it refocused its marketing strategy to digital marketing taking advantage of social media platforms.

b) Marketing the factory's concentrates is a challenge due to its strict storage and preservation requirements (such as cold storage) that deter most of the potential buyers without the required facilities. This has led to an increase in the cost of production. To address this challenge, the Corporation has embarked on the process to procure a mango line with an aseptic filler.

6. Moroto Ateker Cement Factory Limited (MACL)

In line with the NDPII, UDC is exploring the possibility of establishing an integrated cement, lime and Marble plant in Karamoja sub-region to add value to the limestone deposits within the districts of Moroto, Amudat, Nakapiripirit and Kaabong. This project aims at cutting back on the country's import bill, support local miners, increase local revenue, improve standards of living of the people in Karamoja sub-region and increase export earnings from mineral products.

Milestones

(i) An in- house Advisor on minerals exploration and beneficiation was recruited to conduct exploration and related activities. A reconnaissance survey to inform a detailed geological exploration study was conducted in Loyoro- Kaabong, and the results indicated the raw material (Marble) required for production of cement, lime and Marble is of good quality.

(ii) A detailed geological mapping and sampling of marble prospects at the licensed exploration area was completed. UDC is to embark on drilling activities in the licensed area to establish the volumes of available resources.

(iii) A meeting of promoters and partners in MACL was hosted and held at UDC offices in September 2019. Two shareholders namely Saboo Engineers Private

Limited a company based in India and Moroto District Investment Agency (for and on behalf of Moroto District Local Government) were admitted into the shareholding of Moroto Ateker Cement Company Ltd. The Memorandum and Articles of Association were amended to that effect.

(iv) Moroto District Local Government on behalf of UDC procured a contractor to undertake fencing activities of the project site.

(v) Engagements are ongoing with Ministry of works and Transport (MWoT) required to provide road equipment to construct the 14km access road to aid in the detailed geological studies in Loyoro-Kaabong.

Challenges

The project is challenged by lack of infrastructure (including roads), inadequate funding and insecurity in the region.

7. Kalangala Infrastructure Services

The Company was started in May 2006 under a Public-Private-Partnership steered by the Government of Uganda (GoU) partnering with Infraco Africa Limited, eleQtra Limited and Industrial Development Corporation (IDC). Commercial operations of Kalangala Infrastructure Services (KIS) commenced in December 2012. KIS company, through partnership with GoU undertook infrastructure improvements on Bugala island including:

a) Provision of two new (Roll-on-Roll-off) ferries (MV Pearl and MV Ssese) to operate between Bukakata and Luuku, and rehabilitation of ferry land sites at the two locations;

b) Rehabilitation and expansion of a 66km main island road from Luuku to Mulabana via Kalangala town council;

c) Generation, transmission and distribution of electricity on Bugala island via a solar hybrid power plant; and

d) Rehabilitation and expansion of the water supply system for Kalangala town council and seven (7) other settlement areas.

Key challenge

Following the COVID-19 containment measures adopted by the Government, Kalangala Infrastructure Services saw a general decline in business due to limited public mobility following Government restriction on business. As shown in Table 1, business activity on the Island greatly slowed down due to the fact that there were no tourists. Passenger crossings reduced by over 77%, vehicle traffic by about 68%, and demand for power by over 20%.

Table 1: Effect of COVID on Kalangala Infrastructure Services

Services	Before COVID	During COVID	% reduction in business activity	Notes
Passenger crossings	180,033	40,648	-77.4%	Restricted movements
Vehicle traffic	17,397	5,591	-67.9%	Restricted movements
Ferry Services	1,455	955	-34.4%	Decline due to restricted public movement
Power Supply Services(generation)	202,810KWH	161,092 KWH	-20.6%	Decline in average power generation
Demand of power	200,963KWH	159,777 KWH	-20.5%	Reduction in the leisure and hospitality industry the main business on the island.
Water supply operations (Kasekulo, Mulabana, Kagulube, Mulore, KTC & Nakatiba)	14,221 cubic meters	13,391 cubic meters	-5.8%	Reduction in consumption attributed to seasonal factors (heavy rains during April and May, suspension of making new connections and closure of businesses such as schools and shops.

8. Nile Hotel International Limited

Nile Hotel International Limited (NHIL) manages the concession of Kampala Serena Hotel. In 2020, UDC acquired the interest of GoU in NHIL namely 100% shares in the hotel which attract dividends, and the concessional arrangement in which Kampala Serena Hotel pays concessional fees to UDC. During FY2019/2020, the Corporation received UGX 572,620,674 as dividends from NHIL.

PIPELINE PROJECTS

Production of medical consumables

Uganda's cotton production is estimated at an annual average of 150,000 bales, 90% of which is exported as lint with minimal value addition. Uganda still imports surgical cotton wool because the local companies are failing to meet the demand of the population. In order to promote further value addition to cotton, UDC is in talks with a local company (Mutuma Commercial Agencies Ltd) based in Luuka district to increase production of surgical cotton wool, and expand the factory product space to include production of medical gauze, gloves and sanitary towels. The proposed investment aims at saving the country in forex exchange through import substitution and increasing export revenue, which will result into the socio-economic transformation of the persons in Busoga sub-region.

Factory employees at Mutuma factory packing cotton wool

Cassava Value addition in Northern and Eastern Uganda

Farmers in Acholi drying Cassava

There is potential to produce ethanol from cassava for use in cooking and blending with petroleum products. There are policy provisions (e.g. the Biofuels Act 2018) in support of production of biofuels for blending with petroleum products, and it is estimated that ethanol-petrol fusion would save the country between US$ 200-400 million annually in foreign exchange. So, there is an opportunity to improve Uganda's trade balance position through processing of locally produced cassava into starch, ethanol and other cassava-based value-added products.

Engagements are on-going between UDC and private sector players (Acholibur Archdiocese Gulu and Bukona Agro processors in Nwoya and Pader to establish facilities for processing cassava into various products including ethanol, industrial and pharmaceutical grade starch, as well as high quality cassava flour. Investment in such facilities is expected to increase foreign exchange earnings and savings for Uganda, create (direct and indirect jobs), and improve the livelihood of the communities by providing ready market for their cassava.

Coffee Value Addition

Coffee drying as part of the primary processing stage

During FY2019/2020, coffee production was estimated at 7,753, 954 bags of 60 kg each (UCDA 2020). Unfortunately, most (over 86%) of Uganda's coffee is exported with very minimal value addition, hence, it attracts a very low unit price (US$ 1.8 to about US$ 2 per kg). Notwithstanding the limited value addition, coffee is among Uganda's top export commodities. Therefore, through value addition, there is potential for the country to earn higher revenue from its coffee exports.

UDC expects to partner with the private sector involved in the coffee industry to invest in coffee value addition by establishing processing facilities in different regions where coffee is highly grown. This initiative will save the country huge revenue losses that it incurs while exporting raw unprocessed coffee beans, provide employment opportunities both directly and indirectly to the locals and also lead to a socio-economic transformation, especially in the areas where the facilities will be established.

Fruit processing plants

West Nile, Northern and Eastern regions are the leading producers of mangoes, oranges and other fruits in the country. In these regions, farmers face high post-harvest losses due to lack of enough facilities to add value to the fruits. UDC will support private sector actors to establish fruit processing factories in Yumbe, Nwoya, Luwero and Kayunga.

Production of human and animal medicines

Medical and pharmaceutical products contribute a significant share (4%) of Uganda's import bill. In 2019, the value of Uganda's imported medical and pharmaceutical products was USD 306.3 million against exports of USD 13.5 million. Some medical and pharmaceutical products imported are biological drugs and can be produced locally, however, the country lacks the requisite technological capacity. There is a need to become self-sufficient in the production of basic human medicines as well as veterinary drugs. To this end, UDC is assessing investment proposals for the production of intravenous fluids, veterinary medicines and vaccines (for animal and poultry).

Key Challenges Faced by UDC Headquarter and Mitigation Measures

Inadequate operations budget: This negatively impacted on the implementation of the strategic plan. Whereas the plan requires UDC to strengthen the internal capacity, processes and systems to deliver its mandate, the recruitment of staff with the required skills set could not be done due to limited funding. The Corporation requires automation and recruitment of additional competent human resource to be able to respond to the industrialization needs of the country on a timely basis. In order to solve this challenge, UDC embarked on a process to lobby for increased funding from the Government of Uganda through the Ministry of Finance Planning and Economic Development.

Projectisation of funds to UDC: Funds appropriated to UDC by parliament are tagged to specific projects and could not be reallocated or appropriated to other emerging or strategic or more deserving projects (at that time). The corporation started pursuing capitalisation instead of projectised funds. Capitalisation shall enable the UDC Board and management to be more accountable for their performance as funds shall be allocated where they are most needed based on the project appraisals.

Lack of support from some of the Government entities: The Corporation lacked support from some of the of the Government entities. A case in point, for illustration purposes is where by the Department of Geological Surveys and Mines granted a private company the exclusive exploration license over Lake Katwe, well aware and in preference to Government of Uganda's interest (since 1970's and through UDC) in the same Lake, therefore stalling the proposed implementation of the project by UDC. Going forward, UDC became intentional to forge good working relationships with different MDAs that are key to the functionality of its mandate.

Unfavorable legal framework for UDC to operate as a business: UDC's investment processes need to be freed from the rigidities of the Public Procurement and Disposal of Public Assets (PPDA Act 2003) and other legal framework works that affect its operations as the investment arm of Government. When following the PPDA Act 2003, sourcing consultancy firms to carry out feasibility studies, appraisals and valuations takes too long, and cause delays in investment decisions. At times, the Corporation is unable to attract the best consultants to bid because they consider the procurement process as time wasting and extremely laborious. A further illustration is in the procurement of equipment for the numerous industries being set up by UDC where we are restricted from making preference to a specific renowned brand and where such reputable brand owners would not be procured owing to restriction under the PPDA Act 2003. To address this challenge, UDC sought accreditation to be able operate as a business.

GOVERNANCE

Board of Directors

Under Section 6 of the UDC Act 2016, the governing body of the Corporation is a Board of Directors. As such, the Board of Directors (BOD) was appointed on 25th October 2017 for a three-year term ending on 24th October 2020. The Board inauguration was officiated by Hon. Amelia Kyambadde, the Hon. Minister of Trade, Industry & Co-operatives. Below are profiles of the Board.

Profiles of Board of Directors

Hamu Mugenyi
Chairman Board of Directors

Hamu Mugenyi holds a Master of Laws, International Trade and Economic Law; Post Graduate Diploma in Legal Practice (LDC, Kampala); and Bachelor of Laws (LLB), Makerere University Kampala. He is a private legal practitioner with experience of over 20 years. In the course of his career, he has been instrumental in setting up and founding of companies and overseen their growth and business development, some of which have contributed significantly to the growth of the Uganda's economy. He has been the Legal Advisor and consultant to private and public parastatals, advising on key commercial matters. He has served on various boards and as a leader of institutions.

Miriam Magala
Non-Executive Director

Miriam Magala holds a Master of Laws (International Law), Post Graduate Diploma in Legal Practice and Bachelor of Laws. She is an Advocate by profession and currently serves as the Company Secretary/Head of Legal and Regulatory Affairs, PTA Reinsurance Company (ZEP-RE, Nairobi-Kenya), an entity of the Common Market of Eastern and Southern Africa (COMESA), responsible for the development of insurance and reinsurance markets and supporting sub-regional economic development within the COMESA region. Prior to joining Zep- Re, she served as the Chief Executive Officer of Uganda Insurers Association (UIA). She has served on the Boards of Law Development Centre, Makerere University Retirement Benefits Scheme, Capital Markets Authority, the Organisation of Eastern and Southern Insurers and chaired the Country's National Committee (November 2015- May 2018) that was tasked with implementation of the Uganda Agriculture Insurance Scheme. She held a lecturing position with the Post - Graduate Law Development Centre from 2001 to 2014.

Godfrey Byamukama
Non-Executive Director

Godfrey Byamukama holds a Masters in Economic Policy & Planning, and Bachelor of Arts in Economics. He is a Certified Public Accountant, from the Institute of Certified Public Accountants of Uganda (ICPAU). Godfrey serves as an acting assistant commissioner for private sector and investment in the ministry of finance, planning and economic development. Before being appointed to his current role, he served in the ministry in the tax policy department for eight (8) years. He acquired skills in taxation policy, investment policy and private sector development. Godfrey has experience in policy analysis and formulation; planning and budgeting; and leadership, having served on different boards of public enterprises such as the Uganda Development Corporation. He is a member of the Institute of Corporate Governance, Uganda. Godfrey currently plays a key role at the ministry in: promoting investment; planning for enterprise growth and development; and industrial development in Uganda.

Ramathan Ggoobi
Non-Executive Director

Ramathan Ggoobi holds a Master of Arts in Economic Policy and Planning and Bachelor of Arts in Economics. He is an Economist and Policy Analyst. He's a disciple of "Economics that works," and teaches the same at Makerere University Business School (MUBS). He co-owns the Great Lakes Communications Ltd, publishers of The Sunrise Newspaper. He heads the MUBS Economic Forum, a think-tank established in June 2011 to cause debate and generate evidence-informed solutions to Uganda's economic policy challenges. Ramathan has published widely both in refereed and peer-reviewed journals. He has consulted with Overseas Development Institute (ODI) UK; International Labour Organisation (ILO); DFID; Friedrich-Ebert Stiftung (FES); Government of Uganda; Action Coalition for Development and Environment (ACODE), Civil Society Budget Advocacy Group (CSBAG), and Financial Sector Deepening Uganda (FSDU), among others. He's an enthusiast of industrial policy and believes both the State and Private sector have equal roles to play to transform a nation.

Josephine Akot
Non-Executive Director

Josephine Okot holds an MBA International Business and BCOM (Marketing). She is the Founder and Managing Director of Victoria Seeds Ltd. She has steered it from a struggling start up to Uganda's leading seed house. Okot's outstanding work has been recognized through numerous national and international accolades. Okot was awarded the prestigious 2007 YARA prize for a green revolution in Africa in recognition of her efforts to reverse Africa's declining agricultural productivity and standing as an example of African entrepreneurs willing to take risks and break new ground. She was an honorée of the 2009 Oslo Business for Peace Award in recognition of her work in promoting socially responsible and ethical business practice in an outstanding way. In 2011 she was the African woman of the year at the Africa Awards for Entrepreneurship for her outstanding work in supporting, promoting, mentoring women and demonstrating qualities required to succeed in business. Josephine Okot presently serves on the Board of the International Institute of Tropical Agriculture, Uganda Development Corporation and Soroti Fruits Ltd.

Andrew Rugasira
Non-Executive Director

Andrew Rugasira holds an MSc in African Studies, from St Antony's College, University of Oxford, UK and a BA(Hons) in Law & amp; Economics from the University of London, UK. Andrew is a consummate senior executive, change agent and social entrepreneur. He is acknowledged nationally and internationally for groundbreaking efforts in driving large-scale change through the development of various agri-business value- chains that generate revenue growth and community transformation. Andrew has over 25 years of experience in corporate strategy, marketing and communications, and is a leadership coach and mentor. He is a published author, has received numerous international awards, and sits on a number of corporate and non-profit boards.

Patrick B. Birungi
Executive Director

Patrick B. Birungi holds a PhD in Economics from the University of Pretoria. An Economist with excellent experience in programmes and project management, and currently working as the Executive Director of Uganda Development Corporation. Previously, Patrick held the position of Director of Development Planning at the National Planning Authority in Uganda for eight years, a Former Board member of the PPP committee of Government and sits on the boards of a number of institutions. Previously worked as a Senior National Economist at UNDP (Uganda Country Office), gaining a lot of experience in supervision of GOU-UN programmes and projects. Patrick spent most of his working career in the Academia as a senior Lecturer in Economics at Makerere University for fifteen years. He has also consulted widely for international, national and Government Institutions including but not limited to: World Bank; UN institutions; IDRC; AERC, NGOs; and Government, among many others. As a Director of Planning at the National Planning Authority, he was in charge of production of the long and medium term plans including the National Vision 2040 and the National Development Plan II. He has widely published in internationally refereed journals, and served on several International and National levels steering committees.

UDC Management Team

Dr. Patrick B. Birungi
Executive Director

PhD in Economics
M.A. Economic Policy & Planning
BSC. Economics

Christine Kyomugisha Zake
Director Finance and Administration

ACCA, Accounting & Finance
Master of Business Administration (MBA)
BSc. Mathematics and Statistics

Andrew Mugerwa
Director Investments, Development & Appraisal

M.A. Economic Policy & Planning
BSc. Statistics

Hope A. Kisitu
Corporation Secretary/
Director Legal & Corporate Affairs

Master of Business Administration (MBA),
Master of Laws (LLM)
PGD (Legal Practice), LDC
LLB (Hons)

Edbert Ayesiga
Director Internal Audit

CPA
ACCA
Master of Business Administration (MBA)
BA. (Commerce)

Teo Nanyange
Finance Manager

ACCA
MBA (Accounting)
BBA (Accounting)

Herbert Bitwire
Human Resource and Administration Manager

M.A Mgt Studies (HRM)
PGD in HRM
B.A. (Social Sciences

Pauline Among
Manager Legal Services

PGD (Legal Practice), LDC
LLB (Hons)

UDC Staff as at June 2020

By the end of FY2019/20, UDC had a total of 32 employees (29 on normal contracts and only 3 on one-year temporary contracts. There was gender parity at Management level, however, overall, females accounted for more than half (56.3%) of the total staff.

Strengthening internal capacity, processes and systems

Staffing: Three Directors and one Manager were recruited namely the Director Finance and Administration, Director Investments Appraisal and Development, The Corporation secretary and Manager Internal Audit. With the latter, an Internal Audit Department was created. Furthermore, two staff in senior position were promoted to a managerial level namely; Senior Legal Officer to Manager Legal Services and Senior Accountant to Manager Finance. With these recruitments and promotions, a management team was formed headed by the Executive Director.

The process of recruiting seven (7) additional staff commenced. The advertised positions were; Manager Procurement, Agro-Officers (3), Senior Personal Secretary to the Executive Director, Senior Human Resource Officer and Manager - Research, Monitoring and Evaluation.

Management meetings: These were instituted and have helped the Management team to meet regularly to discuss and strategize on how to help the Corporation achieve its core mandate. Regularly management meetings have led to increased productivity and operations within the organization.

Alignment of duties: An exercise to streamline job duties of each staff was embarked on to align with the Corporations objectives and strategic direction.

Team building: Staff were treated to a staff retreat, the first of its kind at UDC, to help in improving the teamwork amongst them.

Staff welfare: The welfare of staff was improved through salary enhancement

"Individuals don't win in business; teams do"

(Sam Walton)

in 2019. The Board improved staff remuneration and welfare changes in order to motivate, attract and retain competent staff to ensure that the Corporation achieves its strategic and operational objectives. The staff were also provided with medical insurance.

Training: The Board recognizes the need to build capacity of both the Board and staff with the requisite skills so as to achieve the Corporation's objectives and goals. In the spirit of capacity strengthening, select member of UDC Board and Management attended a training on Corporate Governance which was organized by Advantage Training between 19th to 22nd November 2019.

Development of internal Policies and Procedures: Policies and procedures are an essential part of any organization. Together, policies and procedures provide a roadmap for day-to-day operations, ensure compliance with laws and regulations, give guidance for decision-making, and streamline internal processes. The corporation lacked a number of key policies and procedures to aid in its governance, those in existence required to be reviewed in order for them to conform to the prevailing circumstances and contemporary trends. The policies under review are; Human Resource and Administration Manual, Finance policies and procedures Manual, Asset Management, Inventory Management and Information policy and Communications Technology Manual.

Other polices developed during the Financial Year include: Investment Policy, Internal Audit Charter, Risk Management policy, Internal Audit Policy and Procedures Manual, Governance of Subsidiaries.

When the policies are finalized and approved by the Board, the following are the expected outcomes:

(i) legal risk management and outline of clear benefits and opportunities the Corporation provides to its employees.

(ii) Improved workforce, morale, worker retention and job satisfaction.

(iii) Employees shall understand what is expected of them with respect to standards of behavior and performance; the policies give clear and defined boundaries that are consistent with the values of the Corporation.

(iv) Provision of sets of rules and guidelines for decision making in everyday situations for staff to easily refer to. These will help maintain the direction of the organization even during periods of change.

COLLABORATIONS

UDC recognizes the importance of partnerships and networks in the achievement of its mandate. As such, the Corporation aims at developing key partnerships both in project development and Co-investment as well as good relations with relevant implementation partners including MDAs. In the area of fostering collaborations, the key achievements during FY2019/2020 were:

Strategic Meetings: A meeting was held between the Corporation and Afriexim Bank to explore possible ways of collaboration. Afriexim Bank is an African financial institution with a purpose of financing, promoting and expanding intra- and extra- Africa trade in key selected sectors. The Bank expressed interest in funding projects in specific areas particularly; Fruit processing establishments, Urban Transport, Cement manufacture, Infrastructure Development and importation of equipment and feasibility studies. Also, members on the management Team held a meeting with officials from CDC group PLC (formerly the commonwealth Development Corporation), a development Finance institution owned by the UK Government. Subsequently, UDC continued to engage CDC towards co-financing projects in agricultural value chains and infrastructure.

Benchmarking Visit: A team comprised of UDC Board members and Management undertook a benchmarking visit to Industrial Development Corporation (IDC), South Africa in November 2019. IDC is a self-financing national Development Finance institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic prosperity of all citizens, a mandate similar to that of UDC. The two entities explored possible ways of collaboration to foster a good working relationship.

Stakeholder Engagement: UDC in conjunction with the United Nations Development Programme (UNDP) organised an e-conference under the theme "Transformation of Uganda's Real Economy amidst COVID-19: Opportunities, Options and Strategies" The Conference was held on the 28th and 29th May 2020, and was hosted live on NBS TV and social media platforms. With the e-conference, UDC achieved greater visibility both within the country and worldwide, increased positive synergies with partners (including the media and MDAs, private sector players, the public and development partners); created a shared understanding on the role and mandate of UDC, and how to capitalise the emerging opportunities created by the COVID-19 pandemic. A coherent view on thematic areas were discussed for purposes of policy change and actions for consideration by the Government in the short and medium term.

PLANNED INVESTMENTS FOR FY 2020/21

PLANNED INVESTMENTS FOR FY 2020/21

In the execution of its functions, the corporation is obliged to ensure the commercial, financial and technical soundness and viability of entities and ventures invested in or with whom Government enters into partnership. UDC will deliver its mandate through the setup of units under its identified strategic objectives and the National Development Plan III programmes as presented here.

SECTOR	Facility Name	District Sub-Region	Annual Planned Activities	Annual Planned Outputs
COTTON	Mutuma Commercial Agencies Ltd	Luuka Busoga	Acquire an equity stake (shareholding) in Mutuma Commercial Agencies Ltd	Equity (shareholding of 30%) acquired in Mutuma Commercial Agencies Ltd
COFFEE	Budadiri Arabica Coffee Ltd	Sironko Bugisu	▪ Acquire an equity stake (shareholding) in Budadiri Arabica Coffee Ltd ▪ Procure a vehicle	▪ Equity/shareholding of 30% acquired in Budadiri Arabica Coffee Ltd ▪ Vehicle procured
TEA	Mabale Growers Tea Factory	Kyenjojo Toro	▪ Acquire an equity stake (shareholding) in Mabale tea factory ▪ Procure a vehicle	▪ Equity/shareholding of 20% acquired in Mabale tea factory ▪ Vehicle procured
FRUITS	Soroti Fruits Limited	Soroti Teso	Plant modifications (mechanical, civil and electrical works)	Structural repairs on the primary effluent plant, dwarf walls for fuel tanks, dispensary, solid waste holding area, doors and burglary, replacement of asphalt, painting, drainage system completed
			Construct a weigh bridge office and procure a weigh bridge	A weigh bridge office constructed & one weigh bridge installed at Soroti Fruits Factory
			Procure consumables (e.g. fruits, additives, reagents, packaging materials, drums, etc)	Consumables (fruits, additives, reagents, packaging materials, drums) procured to aid fruit processing
MINERALS	Integrated cement, lime & marble plant	Moroto Karamoja	▪ Commence construction of the cement, lime and marble plants ▪ Procure a vehicle	▪ Construction works of the lime, cement and marble plant commenced ▪ Vehicle procured
RESEARCH	Feasibility and valuation studies for potential investments		Undertake feasibility, business plans and valuations on potential investments in agro-industrialization, mineral beneficiation & tourism	Feasibility study reports, business plans and valuation reports on potential investments in agro-industrialization, mineral beneficiation & tourism finalized.

FINANCIAL PERFORMANCE

UGANDA DEVELOPMENT CORPORATION
Driving Industrial Growth

OFFICE OF THE AUDITOR GENERAL
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P.O. BOX 7083, KAMPALA

UGANDA DEVELOPMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE, 2020

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PRINCIPAL PLACE OF BUSINESS

Uganda Development Corporation
5th Floor Soliz House
Plot 23, Lumumba Avenue
P. O. Box 7042
KAMPALA

BANKERS

Bank of Uganda
Plot 37/45, Kampala Road
P. O. Box 7120
KAMPALA

Centenary Rural Development Bank Limited
Plot 44-46 Kampala Road and Plot 2 Burton Street
P. O. Box 1892
KAMPALA

Dfcu Bank
Plot 26, Kyadondo Road, Nakasero
P. O. Box 70
KAMPALA

AUDITORS
Office of the Auditor General
P. O. Box 7083
KAMPALA

REPORT OF THE DIRECTORS

1 UDC Vision and Mission

The Uganda Development Corporation (UDC) is a body corporate established under the Uganda Development Corporation Act 2016. The Corporation is set up with the primary objective of promoting and facilitating industrial and economic development of Uganda. The Objective of the Corporation shall be met through:

i. establishment of subsidiary and associated companies;

ii. entering into public private partnerships with any commercial, industrial or agricultural undertaking or enterprises;

iii. using public private partnerships, assisting in financing and management of undertakings promoting industrial or economic development; and

iv. promoting and facilitating research into industrial development.

The functions for which the Uganda Development Corporation is set up are to:

i. Facilitate Government investment in strategic sectors of the economy for the purposes of industrial and economic development

ii. Promote, facilitate and implement public private partnerships in areas related to the objective of the Corporation

iii. Enter into joint ventures or other arrangements with any domestic or foreign entity for the purposes of fulfilling the objective of the Corporation

iv. Take over the interest of Government in Amber House Limited, Embassy House, Development House, Munyonyo Commonwealth Resort, Nile Hotel Limited, Phenix Logistics, and Tri-Star Apparels Limited; and to manage, promote and facilitate the interest of Government in those entities

v. Act as one of the implementing agencies of public private partnerships on behalf of Government

vi. Promote, finance or guarantee the financing of any undertaking in Uganda or outside Uganda, where Government is in partnership or joint venture with another entity, and

vii. Cooperate with research organizations in furtherance of the objective of the Corporation

UDC operated as a Subvention under the Ministry of Trade, Industry and Cooperatives during the reporting period.

UDC Vision

To be the leading driver of industrial development for the social and economic transformation of Uganda.

UDC Mission

To undertake sustainable investments for the social and economic transformation and prosperity of Uganda.

2 Principal Activities

UDC has been involved in the following activities in the Financial Year 2019/2020:

a) Operationalization of Soroti Fruit Factory
b) Monitoring implementation of Kalangala Infrastructure Services Ltd.
c) Implementation of Tea Factories Equipment Project
d) Implementation of Luwero Fruit Factory Project
e) Prospecting and exploration activities on mineral projects i.e Sheet Glass Project and Moroto Cement Plant.
f) Acquisition of shares in Horyal Investment Holdings Limited (Atiak Sugar Factory) and Mabale Growers Tea Factory.
g) Identification and carrying out due diligence, appraisal and valuation of proposed investments e.g Zonal Processing Centres (fruits, tea, cotton and coffee/cocoa); Cassava Processing Plants; Establishment of a Food City Complex, Establishment of a Metro Mass Transit Bus System (MTBS), Establishment of a Gamma Irradiation (SPS sanitization) Facility, Establishment of a Construction Company to spear head construction projects in Uganda.

3. Soroti Fruit Factory Project

The Soroti Fruit Factory is a Government directed intervention aimed at supporting value addition in fruit processing for the promotion of industrial growth, income diversification and increasing household incomes in the Teso Region by providing a readily accessible and fairly priced market for their fruit produce. Teso Region comprises the Districts of Soroti, Kumi, Bukedea, Katakwi, Amuria, Serere, Ngora and Kaberamaido and is the leading producer of citrus fruits in the country.

The factory was built through a joint venture partnership between UDC and private sector (Teso Tropical Fruit Cooperative Union) with funding from Government of Uganda and a grant from the Government of South Korea represented by KOICA. Although KOICA pledged a Grant of US $ 7.4 million for a Turnkey Factory (construction and machinery purchase, installation and commissioning), KOICA indicated that the final spend on the factory increased to US $ 8m. The capacity of the factory is 6MT/hour of oranges and 2MT/hour of mangoes.

The factory was launched by H.E. the President of Uganda on 13th April 2019 and full commercial operations commenced in October 2019.

A total of 2,121.31 tonnes of Oranges and mangoes had been processed in the year ended June 2020 producing 124.96 tonnes of concentrates. As a result, a total of UGX 1.2bn was injected into the local community through purchase of oranges and mangoes from farmers.

4. Tea Factory Project

The Tea Factory project is a Government strategy to promote value addition along the various agro industry value chains. In line with the strategy, Uganda Development Corporation has undertaken investments in various tea factories i.e. Kabale, Kisoro, Kayonza and Mabale. In addition, UDC is establishing a tea factory in Zombo, Nebbi district.

The tea project is being implemented through acquisition of equity stake in the partner tea factories with the exception of Kabale and Kisoro tea factories where UDC offered lease financing.

In addition, Government of Uganda extended a grant to UDC to support tea planting in Kigezi region to boost the green leaf supply to the two (2) tea factories in Kabale and Kisoro to which UDC extended a finance lease.

As at 30th June 2020, the key accomplishments were as follows:

i Procured machinery and equipment for Kabale and Kisoro tea factories. UDC also procured auxiliary equipment for Kabale and Kisoro tea factories such as Generators and Trucks. All the equipment and auxiliary equipment were given under a finance lease. The factories were commissioned on 1st August 2018 and they are currently operational.

The factories average production for the period before Covid-19 pandemic was 120MT of readymade tea per month. This translates into average sales of USD 200,000 per month through the Mombasa tea auction.

In addition, the factories were on average injecting UGX 240m per month in purchase of green leaf, payment of wages & utilities since commissioning them in August 2018 with 240 people directly employed by the 2 factories and about 3,000 indirect jobs created (comprising farmers & other players involved in the tea value chain).

However, due to Covid-19 pandemic, the two factories' operations were affected. The average monthly sales declined by approximately 50% due to logistical challenges since 94% of ready-made tea is destined for the export market through Mombasa Tea Auction.

ii The supply, installation and commissioning of tea processing equipment for Kayonza tea factory was completed in February 2020.

In the period before Covid-19, the company was purchasing 80,000kgs of green leaf per day from outgrowers. However, due to Covid-19 outbreak, the factory was forced to reduce the uptake to 50% resulting into reduction in income to the outgrowers. This was majorly due to reduction in the exports to Mombasa tea auction by 50% due to logistical challenges posed by the pandemic.

The global disruption in the distribution chain also caused delays in supply of fertilizers used by tea farmers in Kayonza. The fertilizers were obtained from China.

iii The process of acquisition of shares in Mabale tea factory was on-going by close of period. However, UDC managed to stop the foreclosure on the factory by KCB Bank thorugh injection of funds based on a Memorandum of Agreement (MOA) cleared by the Solicitor General. The factory was fully operational following recruitment of a new General Manager and provision of working capital.

However, the operations were also affected by Covid-19 especially sales. The company's cost of production went high due to limited suppliers of goods and services such as transport to Mombasa tea auction, brokerage costs, firewood, and packing materials.

iv On Zombo Tea Factory, UDC was in the process of undertaking viability studies to inform decision making on the project.

v A total of 2.4m tea seedlings out of the total number of 10m tea seedlings had been planted following a strategic intervention agreement between Kigezi Highland Tea Limited (KHTL) and UDC in line with the grant for tea planting in the Kigezi region.

5. Luwero Fruit Factory Project

The Luwero Fruit Factory project is a Government intervention aimed at supporting value addition in fruit processing for the promotion of industrial growth, income diversification and increasing household incomes in the greater Luwero Region. The greater Luwero Region comprises the districts of Nakasongola, Nakaseke, Kyankwanzi, Kiboga, Mityana, Wakiso, Luwero and Mubende.

A feasibility study was completed in October 2013, obtained a 10 acre piece of land from Luwero District Local Government (Although the Land ownership was transferred by the Central Government from Luwero District Local Government to Buganda Land Board in the course of "returning Buganda Kingdom Properties" in February 2014). UDC received the Lease agreement from Buganda Land Board in March 2016 and efforts of the Corporation to follow up on the land title with Buganda Land Board have not yet been successful.

Due to a lapse in funding for the project for 3 years, UDC is now in the process of re-validating the 2013 feasibility study as the issues of land title are prioritized. An EIA, master plan, geotechnical survey and topographical survey will be undertaken once the land issues are sorted out.

6. Lake Katwe Salt Project

UDC owns property in Kasese. This property is located in Katwe Kabatooro town council. It comprises of: the remains of the dilapidated Lake Katwe Salt Factory; dilapidated Senior quarters (12 Bungalows) and junior quarters (10 blocks).

To avoid vandalism at the quarters, a total of 8 houses which are still in habitable conditions were rented out to locals.

UDC's request for an exploration license was not granted. The Corporation is looking at other options available for development of the project

7. Kalangala Infrastructure Services

Kalangala Infrastructure Services is a Public Private Partnership arrangement mandated to improve infrastructure on Bugala Island in Kalangala District. It is a USD 50 million project. To facilitate the PPP arrangement, a special purpose vehicle in the names of "Kalangala Infrastructure Services Ltd" was formed. GOU, through UDC acquired 45.7% Ordinary shares and 45.7% convertible preference shares in Kalangala Infrastructure Services Ltd (KIS). Other shareholders are InfraCo Africa with 54.3% Ordinary shares and 54.3% convertible preference shares; Industrial Development Corporation of South Africa (IDC) with 100% preference shares.

As at 30th June 2020, the following achievements had been recorded:

i. Road works –rehabilitation, expansion and upgrade of the 66km main island road to class B gravel road was completed and being used by the community.
ii. Ferry services – Two ferries were operating between Bukakata and Luuku i.e MV Ssese and MV pearl. A total of 5,062 ferry crossings were done by the 2 ferries during the financial year ended June 2020 out of the projected total of 5,200. The reduction was due to restrictions issued by Government on passenger movement aimed at containing the spread of the Covid-19 pandemic. In the same line, passengers using the ferry reduced from 179,001 in March 2020 to 40,648 in the quarter ended June 2020. The vehicle and motorcycle traffic also reduced from 16,120 and 15,554 to 5,591 and 10,849 respectively.
iii. Power supply construction - KIS is mandated to generate and sell Electricity on Bugala island. The hybrid plant is 1.6 MW, comprising of 1 MW of thermal (Diesel Gen set) and 0.6 MW peak of Solar generation. This system is connected to 33 KV mini grid and distribution transformers to serve the various load centres. The operations commenced in April 2015 with takeover from UEDCL of the Kalangala Town Council 8KM mini-grid which had 451 (9 commercial and 442 domestic) customers connected. To date, a total of 4,450 customers have been connected to the grid compared to 3,791 connections in the financial year ended June 2019. Due to Covid-19 however, the average consumption rate (KWh/customer) reduced from 47.76 in the quarter ended December 2019 to 36.52 in the quarter ended June 2020. This was majorly due to suspension of

tourism and hospitality industry due to Covid-19 pandemic coupled with floods around low and medium voltage poles due to rising water levels on L. Victoria.

iv. Water supply construction - rehabilitated and expanded Kalangala Town Council water system and constructed 5 water supply systems for Kasekulo, Mulabana, Kagulube, Nakatiba and Mulore. A total of 1,074 customers had been connected with consumption of 13,391 cubic meters in the quarter ended 30th June 2020 compared to 935 customers in June 2019. Again, the segment was negatively affected by the Covid-19 pandemic due to closure of businesses and schools which resulted in less usage of water.

No funds were allocated to Kalangala Infrastructure Services in the Financial Year 2019/2020.

8. Directors

The composition of UDC Board during the financial year was as follows:

Name	Position
Mr. Hamu Mugenyi	Chairperson
Mr. Andrew Rugasira	Member
Ms. Josephine Okot	Member
Mr. Godfrey Byamukama	Member
Mr. Ramathan Ggoobi	Member
Ms. Miriam Magala	Member
Dr. Patrick B. Birungi	Member/Executive Director

9. Financial Position

The financial position as at 30th June 2020 is set out on page 10.

10. Reserves

The reserves of the Corporation are set out on page 11.

11. Other Remarks

There is need to expedite Capitalization of the Corporation to enable UDC fulfill the mandate of promoting, spearheading and facilitating the economic and industrial development of Uganda.

12. Auditors

The Office of the Auditor General is the Auditor of UDC as per S.27(1) of the UDC Act.

Executive Director ....18/12/.... 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Uganda Development Corporation (UDC) is a body corporate established under the Uganda Development Corporation Act 2016. The Corporation is set up with the primary objective of promoting and facilitating industrial and economic development of Uganda

UDC operated as a Subvention under the Ministry of Trade, Industry and Cooperatives during the year ended June 2020.

The Board is responsible for preparing financial statements for a given financial year reflecting a true and fair view of the state of affairs of Uganda Development Corporation and its subsidiaries. The Board also ensures that the Corporation and its subsidiaries keep proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. The Board is also responsible for safeguarding the assets of the Group.

The Board accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards. The Board is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and for the period. The Board further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

....

for Director | Director

9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE PERIOD ENDED 30TH JUNE 2020

	NOTE	June 2020 USHS '000	June 2019 USHS '000
ASSETS			
Non-Current Assets			
Property, plant and equipment	2	40,838,874	32,318,841
Development Projects	7a)	6,272,413	724,001
Investment in Associates	7(b)	89,696,385	71,930,449
Finance Lease Receivables	9	9,665,841	9,206,027
Exploration Expenditure	7(b)	323,208	-
Other Financial Assets	8	15,830,242	-
		162,626,964	114,179,318
Current Assets			
Receivables	3	1,269,320	15,159,586
Inventory	6	1,037,838	1,470,350
Letters of Credit	5	-	3,081,294
Bank and Cash Balances	4	14,443,852	12,178,595
		16,751,011	31,889,824
Assets Held For Sale	2	-	16,156
TOTAL ASSETS		**179,377,975**	**146,085,298**
EQUITY & LIABILITIES			
Equity			
Capitalisation grants	10	182,218,866	143,511,199
Retained Earnings	11	(32,607,568)	(23,683,854)
Equity Attributable to Owners of the Corporation		149,611,297	119,827,345
Non-controlling interests	13	(2,681,589)	(3,509,649)
Total Equity		146,929,708	116,317,696
Long term Liabilities			
Government Grants - Non-current portion	14	28,279,209	27,595,991
		28,279,209	27,595,991
Current Liabilities			
Government Grants - current portion	14	3,769,228	1,556,121
Trade payables & other payables	15	399,831	615,490
		4,169,059	2,171,612
TOTAL EQUITY & LIABILITIES		**179,377,975**	**146,085,298**

The financial statements were approved by the Board of Directors on 18/12/ 2020 and were signed on its behalf by:

For **Director** **Director**

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2020

	NOTE	June 2020	June 2019
		USHS '000	USHS '000
Revenue	16	166,311	-
Cost of Sales	17	(2,641,681)	-
Gross Profit		**(2,475,370)**	-
Government Subvention*	18	5,438,096	986,132
Other Income	19	164,171	3,480
Finance Income	9	459,814	459,814
Grant income (KOICA Grant)	14	732,655	1,480,116
Grant income (Tea Planting)	14	855,662	-
		7,650,398	**2,929,542**
Operating Costs	20	(411,422)	-
Sales and Distribution	21	(224,975)	-
Finance & Administration Costs	22	(9,018,212)	(7,307,784)
Research and Development Costs	23	67,456	(965,787)
Transfer to other government institutions		-	(1,712,158)
Trial runs and commissioning costs	24	795,276	(795,276)
Capacity building and facilitation to farmers	25	3,541,590	(511,056)
Infrastructure Costs	26	3,447,592	-
Share of profit (loss) of Associates	7(c)	1,976,179	(793,550)
Tea planting expense	14	(855,662)	-
Gain/loss on disposal/de-consolidation of subsidiary	11	(13,340,272)	9,533,438
Foreign Exchange losses/gains	27	237,187	6,451
Profit (loss) from operations		**(8,610,235)**	**383,820**
Income tax expense		-	-
Profit (loss) for the period		**(8,610,235)**	**383,820**
Profit (loss) attributable to owners of the Corporation		(7,016,345)	1,599,247
Non-controlling interests	13	(1,593,889)	(1,215,427)
		(8,610,235)	**383,820**

* Figures exclude subventions for Development projects recognized as Capitalisation Grants in the Balance Sheet

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE, 2020

		Attributable to owners of the Corporation				
	Note	Corporation Capitalisation Ushs '000	Retained Earnings Ushs '000	Total Ushs '000	Non-controlling Interests Ushs '000	Total Equity Ushs '000
As at July 1, 2019		143,511,199	(23,683,854)	119,827,345	(3,509,649)	116,317,696
Gain on revaluation of old assets	11	32,677	-	32,677	-	32,677
Capitalisation (Dev Projects)	10	38,707,667	-	38,707,667	-	38,707,667
Realisation of gain on asset revaluation	11	(32,677)	32,677	-	-	-
Prior year adjustments – recognized in period		-	9,336,238	9,336,238	2,421,949	11,758,187
Profit for the period	11&13	-	(4,952,359)	(4,952,359)	(1,593,889)	(6,546,248)
De-recognition of Amber House	11	-	(13,340,272)	(13,340,272)	-	(13,340,272)
As at 30 June, 2020		**182,218,866**	**(32,607,568)**	**149,611,297**	**(2,681,589)**	**146,929,708**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE, 2020

	NOTES	June 2020	June 2019
		USHS '000	USHS '000
Operating surplus/deficit		(8,610,235)	383,820
Adjustment for:			
Depreciation for Property, plant and equipment	2	1,961,408	1,945,234
Non-cash government grant	14	(1,720,066)	(1,556,121)
Gain on disposal of old assets	19	(17,132)	-
Loss/gain on partial disposal of Subsidiary	11	13,340,272	(9,533,438)
Fixed deposit interest income	19	(143,559)	-
Share of profit/loss of equity accounted investees net of tax	7 (c)	(1,976,179)	793,550
		2,834,509	**(7,966,955)**
Decrease/(Increase) in Inventory	6	432,511	(1,350,613)
Increase in Receivables	3	269,217	(115,686)
Decrease/(increase) Increase in trade and other payables	15	65,117	172,744
Increase in Letters of Credit	5	3,081,294	455,489
Net cash flows from operating activities		**6,682,648**	**(8,805,021)**
INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	2	(11,451,215)	(1,155,687)
Purchase of Shares	7(c)	(23,103,853)	(45,000,000)
Development Projects	7(a)	(3,991,413)	5,227,710
Exploration Costs	7(b)	(298,460)	-
Disposal of old assets	19	65,965	-
Fixed deposit interest income	19	143,559	-
Decrease/(increase) in Finance Lease Receivables	9	(459,814)	(9,206,027)
Increase in other financial assets	8	(8,516,147)	-
Net cash flows from investing activities		**(47,611,379)**	**(50,134,004)**
FINANCING ACTIVITIES			
Capital contribution for Development Projects	10	37,728,427	57,730,892
Subvention for Property, Plant and Equipment	18	465,561	63,719
Conditional Grant income (KHTL)	14	5,000,000	-
Net cash flows from Financing activities		**43,193,988**	**57,794,611**
Net increase/(Decrease) in cash and cash equivalents		2,265,257	(1,144,414)
Cash and cash equivalents at beginning of year		12,178,595	13,323,009
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,443,852**	**12,178,595**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: ACCOUNTING POLICIES

1.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

1.2 Functional Currency

The consolidated financial statements are presented in Uganda shillings which is the Corporation's functional and presentation currency rounded to the nearest thousand.

1.3 Investments in Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.4 Non-controlling interests (NCIs)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

1.5 Loss of control

The assets and liabilities of a subsidiary and any other related NCIs and OCI are derecognized when the Group loses control over the subsidiary. Any resulting gain or loss is recognized in profit or loss.

1.6 Investments in Associates

Associates are those entities in which the Group has significant influence but not control over its financial and operating policies. The shareholding is usually between 20% and 50% of voting rights. The investments are accounted for using the equity method. They are initially recognized at cost and thereafter adjusted for Group's share of post-acquisition profits (losses) until the date significant influence is lost.

1.7 Foreign currency

Foreign currency transactions are recorded in Uganda Shillings at the prevailing rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency exchange differences are recognised in the statement of profit or loss in accordance with IAS 21. No foreign currency Bank Account was held during the year.

1.8 Government Grants

The Group recognizes an unconditional government grant related to salaries and operational costs in profit or loss and other comprehensive income. Other government grants are recognized as deferred income if there is reasonable assurance that they will be received and the group will comply with the conditions associated with the grant. These are then recognized in profit or loss on a systematic basis over the useful life of the asset.

1.9 Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Defined contribution plans
The employees of the Group are members of defined contribution plan. Contributions to the plan are recognized in profit or loss in the year to which they relate.

1.10 Property, Plant and Equipment

Items of property, plant and equipment are recognized as assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably in accordance with IAS 16.

Items of Property, Plant and Equipment are measured at cost less accumulated depreciation. Cost includes expenditure that directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Corporation. Ongoing repairs and maintenance are expensed as incurred.

Items of Property, Plant and Equipment are depreciated for twelve months in the year of acquisition and no depreciation is charged in the year of disposal as follows:

Motor Vehicles	20%
Office Equipment	12.5%
Plant & Equipment	5% - 20%
Computers	33.3%
Furniture and Fittings	12.5%
Buildings	5%
Other assets	5% - 20%

Depreciation is calculated using Straight Line method. Assets in the course of construction (capital work-in-progress) are not depreciated.

An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is recognized in the statement of profit or loss and other comprehensive income in the year the asset is derecognized.

1.11 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost comprise of all purchase costs including taxes, transport, handling and other costs incurred in bringing the inventories to the present location and condition, net of trade discounts received, on a First-In-First-Out basis. The replacement cost of inventories is considered as the net realisable value.

1.12 Research and Development Costs

Research and Development Costs are recognized as an asset if it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably in accordance with IAS 38.

Other Research and Development costs are expensed through the statement of profit or loss and other comprehensive income in accordance with IAS 38.

1.13 Provisions

Provisions are recognized in accordance with IAS 37 when; the group has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

1.14 Contingent Liabilities

A contingent liability is a possible obligation that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation. Contingent liabilities are not recognized in the statement of financial position of the Corporation but are disclosed in the notes in accordance with IAS 37.

1.15 Accounting for Exploration costs

The Corporation adopts IFRS 6 to account for expenses incurred in the Exploration for and evaluation of mineral resources. Exploration for and evaluation of mineral resources means the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource is demonstrable.

The Corporation recognizes the exploration and evaluation expenditures as assets and these are presented as a separate class of assets as required in accordance with IFRS 6.

1.16 Finance Lease accounting

The Corporation applies IFRS 16 when accounting for finance leases where the Corporation is the lessor. Upon lease commencement, the corporation recognizes assets held under a finance lease as a receivable at an amount equal to the net investment in the lease where the net investment in the lease is the present value of the lease payments plus the unguaranteed residual value.

The Corporation recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

NOTE 2: PROPERTY, PLANT AND EQUIPMENT (figures in thousands of shillings)

DESCRIPTION	FURNITURE & FITTINGS	COMPUTERS	ICT & DATA NETWORK	OFFICE EQUIPMENT	FOLKLIFTS	MOTOR VEHICLES	BOREHOLE	WATER TANKS	MAINTENANCE & ELECTRICAL EQUIPMENT	PLANT & MACHINERY	INFRA-STRUCTURE	BUILDINGS	LAND	TOTAL
COST														
July 1, 2019	585,252	384,938	183,009	184,035	300,363	554,657	93,676	587,528	139,150	17,277,190	-	14,171,714	1,139,008	35,605,570
Prior year adjustments	116,780	42,827	79,277	101,310	-	-	6,356	10,161	-	6,219,778	3,536,000	10,629	(1,030,512)	9,092,606
Additions in the period	15,840	49,712	-	27,761	-	1,175,887	-	-	-	119,634	-	-	-	1,388,834
June 30, 2020	717,872	477,527	267,287	313,106	300,363	1,730,543	100,033	597,688	139,150	23,616,603	3,536,000	14,182,343	108,496	46,087,010
ACCUMULATED DEPRECIATION														
July 1, 2019	316,601	316,128	175,300	38,962	60,073	422,271	9,759	146,832	55,660	863,860	-	831,233	-	3,286,728
Prior year adjustments	(43,705)	(88,715)	(169,954)	(17,004)	-	(29,686)	(5,601)	(87,223)	(50,094)	(241,266)	212,146	(498,102)	-	(1,019,204)
Charge for the period	58,969	94,507	87,226	34,992	48,058	267,952	4,794	26,901	26,717	1,471,842	166,192	692,461	-	2,980,611
June 30, 2020	331,866	321,921	92,572	106,950	108,131	660,537	8,952	86,561	32,283	2,094,436	378,338	1,025,592	-	5,248,136
NET BOOK VALUE														
June 30, 2020	386,007	155,606	174,715	206,157	192,232	1,070,007	91,081	511,128	106,867	21,522,167	3,157,661	13,156,751	108,496	40,838,874
June 30, 2019	268,651	68,860	12,709	95,073	240,290	132,386	83,917	440,646	83,490	16,413,331	-	13,340,480	1,139,008	32,318,841

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Note 3	ACCOUNTS RECEIVABLE	June 2020 USHS '000	June 2019 USHS '000
	Accountable advances	183,035	180,858
	Trade and other receivables (i)	22,500	1,307,480
	Current Tax – VAT Receivable	62,428	-
	Accountable advance – Tea planting (ii)	988,915	-
	Amber House Receivables(iii)	-	13,621,048
	Receivables (NCI)	2,000	41,800
	Lake Katwe Salt Project Rent Debtors	10,442	8,400
		1,269,320	**15,159,586**

(i) On 27th April 2018, Uganda Development Corporation (UDC) entered into a contract with Vikram India Limited for the supply, installation and commissioning of a 600kg/Hr CTC Tea processing equipment (3rd line) for Kayonza Tea Factory at a total contract sum of Shs. 4,358,265,911 (Four Billion Three Hundred Fifty Eight Million Two Hundred Sixty Five Thousand Nine Hundred Eleven Shillings Only). 30% of the total contract sum which amounts to UGX 1.3bn was previously prepaid to Vikram and recognised as a receivable in the financial year ended June 2019.

All machinery was delivered and installed at Kayonza tea factory site in the financial year ended June 2020 resulting in the retirement of the prepayment.

(ii) On 5th December 2019, UDC entered into a Strategic Intervention Agreement with Kigezi Highland Tea Limited (KHTL) for implementation of a grant by GOU to facilitate tea planting in Kigezi sub-region. The grant is aimed at increasing green leaf supply in the area in order to secure sustainability of the UDC investment in KHTL.

By 30th June 2020, the tea planting exercise was still ongoing and a total of UGX 988.9m was still the outstanding balance on the advance.

(iii) Amber House Limited was handed over to UDC on August 8, 2017. Before handover however, the winding up process of the company had already been commenced. UDC halted the liquidation process so as to fulfill the intention of Parliament under the UDC Act 2016.

However by the time Amber House Limited was handed over to UDC by the liquidator the core business of the company i.e Amber House building had been transferred by a Cabinet Directive to Ministry of Energy (MEMD).

The remains of the company that were handed over included UGX 13,621,048,061. Efforts of UDC to wind up the company and therefore collect the receivables through the liquidator were not successful as legal ownership of the company has never been transferred to UDC. The receivables have therefore been de-recognized until legal ownership is acquired

Note 4 CASH AND BANK BALANCES

	June 2020 USHS '000	June 2019 USHS '000
Bank of Uganda	3,284,304	12,174,099
SOFTE Bank balance	1,408,285	-
Fixed Deposit Account	9,745,098	-
Cash at hand	6,165	4,496
	14,443,852	**12,178,595**

For the purpose of the cash flow statement, cash and cash equivalents comprise of the above cash and bank balances.

* The UDC Board resolved to invest funds that were not immediately required due to their respective projects still undertaking studies into a fixed deposit facility in line with the UDC Act 2016 under Section 24 (2). The total amount of the fixed deposit account is maintained in two banks and is broken down below:

Breakdown of Fixed deposit amount	DFCU Bank USHS '000	Centenary Bank USHS '000	Total USHS '000
Amount fixed by UDC	6,420,536	3,315,968	9,736,504
Bank balance on investment accounts	7,590	1,004	8,594
Totals	**6,428,126**	**3,316,972**	**9,745,098**

Note 5 LETTER OF CREDIT

	June 2020 USHS '000	June 2019 USHS '000
Opening balance	3,081,294	3,536,783
Additional during the year**	-	3,081,294
Payments under the LC*	(3,081,294)	(3,536,783)
Closing balance	-	**3,081,294**

**On 27th April 2018, UDC entered into another contract with Vikram India Limited for supply, installation and commissioning of a 600kg/hr capacity CTC tea processing equipment to be installed at Kayonza Growers Tea Factory situated in Butogota Town Council, Kanungu District at a total contract sum of UGX 4,358,265,911 (Four Billion Three Hundred Fifty Eight Million Two Hundred Sixty Five Thousand Nine Hundred Eleven only). The payment structure was 30% advance payment and 70% to be fixed under LC.

The supply, installation and commissioning of the machinery was completed in the financial year ended June 2020. The payment under the LC agreement was therefore retired upon handover of the equipment to UDC.

Note 6 INVENTORY	June 2020	June 2019
	USHS '000	USHS '000
Soroti Fruits Limited*	1,006,426	1,359,797
UDC Operations**	31,412	110,552
	1,037,838	**1,470,350**

*The inventory majorly relate to packaging materials and additives that were still in stores by end of the financial year.

**The amount relates to stationery, pantry and cleaning items in store by end of the year.

Note 7 DEVELOPMENT PROJECTS & INVESTMENTS

	June 2020 USHS '000	June 2019 USHS '000
(a) **DEVELOPMENT PROJECTS**		
Luwero project (i)		
Opening balance	367,142	367,142
Additions during the period	8,925	-
Closing balance (Luwero Project)	**376,067**	**367,142**
Tea Project (Kayonza, KHTL) (ii)		
Opening balance	356,860	5,584,570
Additions during the period	4,388,774	6,599,797
Less: Transfer to finance lease (KHTL)	-	(8,746,213)
Less: Transfer to fixed deposit under LC (Kayonza)	-	(3,081,294)
Less: Dev't project costs expensed to R&D	(387,367)	-
Closing balance (Kayonza CTC Machinery)	**4,358,266**	**356,860**
Zombo project (iii)		
Opening balance	-	
Prior Year Adjustment	63,826	-
Additions in the year	2,133	-
Closing Balance (Zombo project)	**65,959**	-
Lake Katwe Salt Project (iv)		
Opening Balance	-	-
Prior Year Adjustment	979,240	-
Additions in the year	-	-
Closing Balance	**979,240**	-
Lake Victoria - Sheet Glass Project (v)		
Opening Balance	-	-
Prior Year Adjustment	246,995	-
Additions in the year	(24,748)	-
Closing Balance	**222,247**	-

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Moroto Ateker – Cement Project (vi)		
Opening Balance	-	-
Prior Year Adjustment	266,937	-
Additions in the year	3,698	-
Closing Balance	**270,634**	-
Total Closing balance	**6,272,413**	**724,002**

(i) **Luwero Fruit Factory project**

The Luwero project is a proposed factory to produce pineapple and other fruits in the greater Luwero Region.

A feasibility study was completed in October 2013, is being re-validated following budget allocation to the Corporation for implementation of Luwero Fruit Factory Project.

(ii) **Tea Factory Project**

On 27th April 2018, Uganda Development Corporation (UDC) entered into a contract with Vikram India Limited for the supply, installation and commissioning of a 600kg/Hr CTC Tea processing equipment (3rd line) for Kayonza Tea Factory at a total contract sum of Shs. 4,358,265,911 (Four Billion Three Hundred Fifty Eight Million Two Hundred Sixty Five Thousand Nine Hundred Eleven Shillings Only).

All machinery was delivered and installed at Kayonza tea factory site in the financial year ended June 2020 and the funds spent have been recognised under development projects pending finalization of the form of engagement.

(iii) Zombo project

UDC is in the process of undertaking viability studies to inform decision making regarding the Zombo project. The prior year adjustment relates to the adjustment for the initially expensed development expenditure for Zombo project spent in the year ended June 2018

(iv) Lake Katwe Salt Project

UDC owns property in Kasese District. This property is located in Katwe Kabatooro town council. It comprises of: the remains of the dilapidated Lake Katwe Salt Factory; dilapidated Senior quarters (12 Bungalows) and junior quarters (10 blocks).

To avoid vandalism at the quarters, a total of 8 houses which were still in a fairly habitable condition were rented out to tenants.

Land titles for 3 plots of land were acquired with land valued at UGX 979.2m. The process of acquiring land titles for the remaining two plots was on-going by close of year.

(v) Lake Victoria Glass Works Limited – Sheet Glass Project

LVGW was incorporated in 2015 with a mandate to carry on the business of mining, extracting, manufacturing, processing, of all types of glass & mirror from white silica sand. UDC holds 70% of the shares of the limited liability company with the remaining shares being held by KIMU Investments Ltd.

Due to the fact that the project is still in development stage, the investment has been classified under Development Projects until the project is flagged off.

A provisional exploration license no. EL 00047 was granted to UDC for 3 years effective 2nd July 2020. The costs relating to prospecting activities leading to the granting of the exploration license have been capitalised in accordance with IFRS 6.

(vi) Moroto Ateker Cement Company

This is a company incorporated in 2016 with a mandate to produce, manufacture, treat, process, and refine all kinds of cement, lime and marble products. At the time of incorporation, UDC held 51% shares and the remaining 49% held by Savanah Mines Ltd.

Due to the fact that the project is still in development stage, the investment has been classified under Development Projects until the project is flagged off.

The costs relating to exploration activities have been capitalised in accordance with IFRS 6. By the reporting date, exploration studies were on-going.

(b) EXPLORATION EXPENDITURE	June 2020 USHS '000	June 2019 USHS '000
Moroto Ateker – Cement Project (i)		
Opening Balance	-	-
Additions in the year	292,057	-
Closing Balance	**292,057**	-
Lake Victoria- Sheet Glass Project (ii)		
Opening Balance	-	-
Additions in the year	31,151	-
Closing Balance	**31,151**	-
Total Exploration Expenditure	323,208	-

(i) & (ii) See narrative in 8 (a) above on Moroto Ateker Cement and Lake Victoria Glass Works.

(c) INVESTMENTS IN ASSOCIATES	June 2020 USHS '000	June 2019 USHS '000
Kalangala Infrastructure Services Ltd(i)		
Opening balance	6,718,640	7,512,191
Additions during the period	-	-
Prior year adjustments (reclassification of preference shares to other financial assets)*	(7,314,095)	-
Prior year adjustments (post acquisition profits)**	2,930,795	-
Share of post-acquisition profits for the period	(954,616)	(793,550)
Closing Balance (KIS)	**1,380,724**	**6,718,640**
Uganda National Commodity Exchange (ii)		
Opening balance	400,000	400,000
Additions during the period	-	-
Share of post-acquisition profits	-	-
Closing Balance (UNCE)	**400,000**	**400,000**
Horyal Investment Holding Company Limited (HIHC) - Equity (iii)		
Opening balance	64,811,808	19,811,808
Additions during the period	15,483,853	45,000,000
Share of post-acquisition profits	-	-
Closing Balance HIHC	**80,295,661**	**64,811,808**
Mabale Growers Tea Factory (iv)		
Opening balance	-	-
Additions during the period	7,620,000	-
Closing Balance (Mabale Growers Tea factory)	**7,620,000**	**-**
Total investment in Associates	**89,696,385**	**71,930,449**

(i) Kalangala Infrastructure Services Project

GOU, through UDC acquired 3,373,500 shares at Ushs. 5,000 each. This represents 45.7% ordinary shares amounting to UGX 9.6bn resulting into 1,910,681 shares; and 45.7% convertible preference shares amounting to UGX 7.3bn resulting into 1,462,819 shares in Kalangala Infrastructure Services Ltd (KIS). The other shareholders that invested in KIS together with UDC are: InfraCo with 54.7% ordinary shares and convertible preference shares; and Industrial Development Corporation (IDC) of South Africa with 100% redeemable preference shares.

UDC, as a holder of convertible preference shares is entitled to receive dividends payable from distributable cash on the stated value of the convertible preference shares at the dividend rate of 14% per annum. This shall be cumulative and have priority in payment over any distributions paid or payable to holders of ordinary shares. No dividends have been accrued for

UDC's convertible preference shares as there was no distributable cash as at the Company's year ended December 31st, 2019.

* The prior year adjustment of UGX 7.3bn relates to UDC's investment in the convertible preference shares which should be recognised as a financial asset in accordance with IFRS 9.

** The prior year adjustment of UGX 2.93bn relates to an adjustment of UDC's share of the profits in KIS reported in the previous periods up to the year ended June 2019.

(ii) Uganda National Commodity Exchange

GOU, through UDC acquired 40% of Ordinary Shares in Uganda National Commodity Exchange Limited. The other shareholders include: The Grain Council of Uganda Ltd; Uganda Coffee Traders Federation Ltd; Uganda Commercial Farmers Association Ltd; Uganda Cooperative Alliance Ltd; and Uganda National Farmers Federation Ltd. The process of operationalizing the Company was still under way.

(iii) Horyal Investment Holding Company Limited

On 29th May 2018, GOU, through UDC acquired 10.1% of Ordinary Shares in Horyal Investment Holding Company Limited (HIHC) whose main business is the establishment and running of the Atiak Sugar factory. UDC acquired an additional 21.9% in FY 2018/2019 and during the financial year (2019/20) under review, UDC acquired an additional 8% of Ordinary Shares in HIHC bringing its total shareholding to 40%.

By the close of FY 2019/2020, the company was undertaking trial runs of the machinery and full commercial operations was to commence in the FY 2020/2021.

(iv) Mabale Growers Tea factory

UDC entered into a Memorandum of Agreement with Mabale Growers Tea Factory Limited in March 2020 to aid implementation of Government's strategic decision to intervene and invest in Mabale Growers Tea Factory Limited. A total of UGX 7.62bn was invested in Mabale Growers Tea Factory during the financial year ended June 2020.

The process of acquisition of shares in Mabale tea factory was on-going by close of period.

		June 2020 USHS '000	June 2019 USHS '000
Note 8	**FINANCIAL ASSETS**		
	(a) Horyal Investment Holding Company Limited		
	Opening balance	-	-
	Additions during the period	8,516,147	-
	Closing Balance	**8,516,147**	-

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(b) Kalangala Infrastructure Services Ltd – Preference Shares		
Opening balance	-	-
Additions during the period	7,314,095	-
Closing Balance	**7,314,095**	-
	15,830,242	-

(i) **Shareholders' Loan to Horyal Investment Holding Co. Ltd (HIHC)**
UDC offered a Shareholders loan amounting to UGX 8.5bn to HIHC. The shareholders' loan has a tenure of 5 years with a grace period of 3 years at 10% interest.

(ii) **Investment in preference Shares in KIS**
UDC holds convertible preference shares in Kalangala Infrastructure Services Limited attracting a dividend of 14% per annum payable from distributable cash on the stated value of the convertible preference shares.

A total of UGX 7.3bn relates to UDC's investment cost in the convertible preference shares which have been re-classified from Investment in Associates to a financial asset in accordance with IFRS 9.

No dividends have been accrued for UDC's convertible preference shares as there was no distributable cash as at the Company's year ended December 31st, 2019.

Note 9 **FINANCE LEASE RECEIVABLES**	**June 2020 USHS '000**	**June 2019 USHS '000**
	Present value of minimum lease payments	
Within one year	-	-
In the 2nd to 5th year inclusive	6,448,301	3,224,150
After 5 years	6,448,301	9,672,451
PV of minimum lease payments receivable	12,896,602	12,896,602
Less: un earned finance income	(3,690,575)	(4,150,389)
Finance income for the period - receivable	459,814	459,814
	9,665,841	**9,206,027**
Analyzed as:		
Non-current finance lease receivables	**9,665,841**	**9,206,027**
Current finance lease receivables	-	-
	9,665,841	**9,206,027**

UDC bought CTC tea processing equipment and auxiliary equipment which were installed and commissioned in August 2018. The equipment was leased to Kigezi Highland Tea Limited effective 1st August 2018. The lease has been recognised as a finance lease in accordance with IFRS 16.

Note 10	CAPITALISATION GRANTS	June 2020 USHS '000	June 2019 USHS '000
	Opening balance	143,511,199	85,780,306
	Additions during the period	37,728,427	57,730,892
	Transfer from Government Grant*	979,240	-
	Closing Balance	**182,218,866**	**143,511,199**

Capitalization grants are funds received from Treasury (through Ministry of Trade, Industry and Cooperatives) for Development Projects and Investments.

* The transfer from Government Grants relate to re-classification of property from Government Grants to Capitalisation Grants for the fair presentation of the nature and purpose of the property.

Note 11	RETAINED EARNINGS	June 2020 USHS '000	June 2019 USHS '000
	Opening balance	(23,683,854)	(15,592,840)
	Prior year adjustment SOFTE (i)	9,027,204	-
	De-consolidation of L.Victoria Glass Works (ii)	172,897	-
	De-consolidation of Moroto Ateker (iii)	136,138	-
	Group profit (loss) on disposal of subsidiary (iv)	(13,340,272)	9,930,664
	Additions during the period	1,415,228	(11,795,390)
	Share of post-acquisition profits (loss)	(6,367,587)	(6,226,289)
	Realisation of gain on asset revaluation	32,677	-
	Closing Balance	**(32,607,568)**	**(23,683,854)**

(i) Prior Year Adjustments on SOFTE

Prior year adjustments relate to previously expensed items which were capitalized on different assets of the fruit factory in the company's accounts for the period ended June 2019.

(ii) Lake Victoria Glass Works Limited

LVGW was incorporated in 2015 with a mandate to carry on the business of mining, extracting, manufacturing, processing, of all types of glass & mirror from white silica sand. UDC holds 70% of the shares of the limited liability company with the remaining shares being held by KIMU Investments Ltd.

Due to the fact that the project is still in development stage, the investment has been re-classified from a Subsidiary to Development Projects until the project is flagged off therefore de-consolidating Lake Victoria Glass Works from the group.

(iii) Moroto Ateker Cement Company Limited

This is a company incorporated in 2016 with a mandate to produce, manufacture, treat, process, and refine all kinds of cement, lime and marble products. UDC holds 51% shares and the remaining 49% held by Savannah Mines Ltd.

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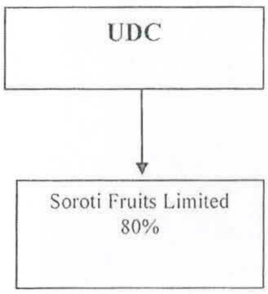
Due to the fact that the project is still in development stage, the investment has been classified under Development Projects until the project is flagged off therefore de-consolidating Moroto Ateker Cement Company Limited from the group.

(iv) Amber House Ltd – De-recognition

Amber House is among the list of companies included in schedule 2 of the UDC Act (No. 10) of 2016, which UDC is required to take-over. Consequently, on August 8, 2017, Amber House Limited was handed over to UDC. Before handover however, the winding up process of the company had already been commenced. UDC halted the liquidation process so as to fulfill the intention of Parliament under the UDC Act 2016. However by the time Amber House Limited was handed over to UDC by the liquidator, the core business of the company i.e Amber House building had been transferred by a Cabinet directive to Ministry of Energy (MEMD).

Efforts of UDC to wind up the company and therefore collect the receivables through the liquidator were not successful as legal ownership of the company has never been transferred to UDC. The subsidiary was de-recognized from the Group until legal ownership is acquired.

Note 12 SUBSDIARIES



Soroti Fruits Limited (SOFTE)

SOFTE is a limited liability company incorporated under the Laws of Uganda. UDC owns 80% of the shares in SOFTE with the remaining 20% owned by Farmers through their umbrella body Teso Tropical Fruit Growers Cooperative Union (TEFCU). The mandate of SOFTE is to construct and operate the fruit processing facility in the Teso Region.

The factory produces juice and concentrates from mangoes and oranges. A USD 8m grant from the Korean Government through its development agency, KOICA was received for a Turnkey factory. Specifically, the Grant relates to the construction of the factory buildings and supply and installation of processing machinery and equipment for the factory.

By the reporting date, construction and installation of equipment by KOICA were completed and the factory was launched by H. E. the President of Uganda on 13th April 2019. By close of the year, the factory had commenced commercial production.

		June 2020 USHS '000	June 2019 USHS '000
Note 13	**NON-CONTROLLING INTERESTS**		
	Opening balance	(3,509,649)	(2,691,448)
	Prior year adjustments (SOFTE)	2,256,851	-
	De-consolidation of L.Victoria Glass Works (	44,099	-
	De-consolidation of Moroto Atcker	120,999	-
	Additions during the period	-	-
	Share of post-acquisition profits (losses)	(1,593,889)	(1,215,427)
	De-recognition of NCI upon disposal of subsidiary	-	397,227
	Closing Balance	**(2,681,589)**	**(3,509,649)**

Details of NCI (figures in thousands of shillings)

The table below summarizes the information relating to each of the Group's Subsidiary that has Non-controlling interests.

	Soroti
NCI Percentage	**20%**
Non-current assets	40,392,065
Current assets	6,586,874
Non-current liabilities	-
Current liabilities	(44,125)
Net assets	**46,934,814**
Net assets attributable to NCI	6,731,390
Revenue	166,311
Profit/loss	(7,969,445)
OCI	-
Total comprehensive income	**(7,969,445)**
Profit allocated to NCI	(1,593,889)
Cashflows from operating activities	(7,676,667)
Cashflows from investment activities	(923,274)
Cashflows from financing activities	10,014,382
Net increase (decrease) in cash and cash equivalents	**1,414,441**

Note 14 GOVERNMENT GRANTS (Re-stated)

	GOU Grants (related to Tea Planting)	GOU Grants (related to UDC Fixed assets)	KOICA Grant (Soroti Fruit Factory)	Total
	June 2020 USHS '000	**June 2019 USHS '000**	**June 2020 USHS '000**	**June 2019 USHS '000**
Opening Balance	-	1,159,978	28,122,204	29,282,182
Prior year adjustments (transfer of LKSP land to Capitalisation)	-	(979,240)	-	(979,240)
Additions during the period	5,000,000	465,561	-	5,465,561
Total	**5,000,000**	**646,299**	**28,122,204**	**33,768,503**
Deffered grant income (grant amortisation - P/L)	(855,662)	(131,750)	(732,655)	(1,720,066)
Closing Balance June 30, 2020	**4,144,338**	**514,549**	**27,389,549**	**32,048,437**
Closing Balance June 30, 2019	-	**1,159,978**	**28,122,204**	**29,282,182**

Analyzed as:

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Grant - current portion	3,769,228	1,556,121
Grant - non-current portion	28,279,209	27,726,061
Total	**32,048,437**	**29,282,182**

UDC receives subventions from Government of Uganda through Ministry of Trade, Industry and Cooperatives. Subventions received and used to purchase Assets are recognized as Government grants in accordance to IAS 20. The grants are amortized through profit and loss over the useful life of the asset.

Also included in the grant is UGX 5bn GOU grant to farmers of Kigezi region aimed at supporting production of green leaf in order to secure sustainability of the UDC investment in KHTL. UGX 855.7m has been realized in the year ended June 2020 and the balance will be realized upon completion of the tea planting exercise in the financial year 2020/21.

In addition, the group has a USD 8m grant from the Korean Government through its development agency, KOICA. The Grant was for a Turnkey factory in Soroti District which produces Orange and Mango juice and concentrates. Specifically, the Grant relates to the construction of the factory buildings and supply and installation of processing machinery and equipment for Soroti Fruit Factory. By close of the year, the factory had commenced commercial production.

UDC has so far fulfilled most of the conditions of the grant and there is no indication of default that may lead to cancellation of the grant.

The re-statement was aimed at better presentation of the Government Grants per category.

Note 15 **TRADE AND OTHER LIABILITIES**

	June 2020 USHS '000	June 2019 USHS '000
Trade payables	219,303	548,233
Employee Benefits	64,800	64,800
Prepayments from LKSP tenants	2,237	2,457
Amber House Old Furniture disposal proceeds	1,041	-
BOD member retainer	63,000	-
	350,381	**615,490**
Provision for Legal Fees (Rock trust Case)	**49,450**	-
Total Trade and Other Liabilities	**399,831**	**615,490**

Note 16 **REVENUE**

	June 2020 USHS '000	June 2019 USHS '000
Sales Revenue (SOFTE)	166,311	-
	166,311	-

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Note 17 COST OF SALES

	June 2020	June 2019
	USHS '000	USHS '000
Opening Stock	1,359,797	-
Purchases	1,228,583	-
Closing Stock	(1,006,426)	-
	1,581,954	-
Direct costs	1,059,726	-
	2,641,681	**-**

The cost of sales relate to Soroti Fruits Limited

Note 18 GOVERNMENT SUBVENTION

During the year under review, UDC operated as a subvention under Ministry of Trade, Industry and Cooperatives. For the moment, UDC is solely funded by GOU and received subventions. The subventions have been adjusted for government grants, capitalisation for Development Projects and amortization of government grants as follows:

	June 2020	June 2019
	USHS '000	USHS '000
Government releases	48,500,334	58,704,737
Subvention used for capital items	(465,561)	(63,719)
Subvention Capitalised on Development Projects	(37,728,427)	(57,730,892)
Adjustment for conditional Govt grant for Tea planting	(5,000,000)	-
Deferred grant income (amortisation)	131,750	76,005
	5,438,096	**986,132**

Subvention for Development Projects have been shown under Capitalization Grants in Note 10.

Note 19 OTHER INCOME

	June 2020	June 2019
OTHER INCOME	USHS '000	USHS '000
Rent from LKSP quarters*	3,480	3,480
Gain on disposal of old assets**	17,132	-
Fixed Deposit Interest Income***	143,559	-
	164,171	**3,480**

*The income relates to rent collections from Lake Katwe Salt factory, junior and senior quarters. Most of the tenancy agreements were terminated due to the inhabitable state of the houses.

However, to avoid vandalism at the quarters, tenancy agreements for a total of 8 houses which are still in habitable conditions were not terminated. UDC has commenced on the investment journey for the Salt plant and prospecting activities were completed.

UDC applied to the Directorate of Geological Surveys and Mines for the exploration license. However, the license was granted to a private investor. The Corporation is pursuing other options available for development of the project.

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**Gain on disposal of the old assets
UDC disposed of old assets which included old furniture, old computers and scrap from Lake Katwe defunct factory and UDC Headquarters. The gain on the sale of the old assets was as follows:

DESCRIPTION	AMOUNT USHS '000
Gross disposal proceeds	74,900
Less: Commission to auctioneer and newspaper advert	(8,935)
Net disposal proceeds	**65,965**
Less: Carrying Value for assets (based on revaluation report)	(48,833)
Gain on disposal of old assets	**17,132**

***The fixed deposit interest income was earned in the Financial year ended June 2020 on the fixed deposit facility. The UDC Board resolved to invest funds that were not immediately required due to their respective projects still undertaking studies into a fixed deposit facility in line with the UDC Act 2016 under Section 24 (2).

Note 20 **OPERATING COSTS**

	June 2020 USHS '000	June 2019 USHS '000
Maintenance –machinery & equipment	44,326	-
Waste garbage disposal & fumigation	32,880	-
Insurance costs	289,453	-
Uniforms & protective gear	44,763	-
	411,422	-

The operating costs relate to Soroti Fruits Limited.

Note 21 **SALES & DISTRIBUTION COSTS**

	June 2020 USHS '000	June 2019 USHS '000
Advertising & Public Relations	209,858	-
Carriage, haulage, freight & transport hire	15,117	-
	224,975	-

The sales and distribution costs relate to Soroti Fruits Limited.

Note 22 **FINANCE & ADMINISTRATION COSTS**

	June 2020 USHS '000	June 2019 USHS '000
Staff Costs	4,362,063	2,505,970
Operations and Administrative costs	2,694,742	2,856,580
Depreciation	1,961,408	1,945,234
	9,018,212	**7,307,784**

Staff costs include net salaries, PAYE, NSSF, Gratuity, training and allowances and staff welfare.

Note 23	RESEARCH & DEVELOPMENT COSTS	June 2020	June 2019
		USHS '000	USHS '000
	Short-term consultancies and due diligence	153,390	493,627
	Prior year adjustment (SOFTE)*	(813,002)	
	Project Development costs	592,156	472,160
		(67,456)	**965,787**

* The prior adjustment on SOFTE relate to capitalisation of expenditure on feasibility study, EIA and business plan initially expensed as R&D costs. These have been capitalised on plant, equipment and machinery on which they relate.

Research and Development Costs relate to due diligence, appraisal and other pre-liminary project development costs on new projects on which the Corporation has not yet established viability.

Note 24	TRIAL RUNS AND COMMISSIONING COSTS	June 2020	June 2019
		USHS '000	USHS '000
	Generator fuel	-	254,213
	Raw-materials - fruits	-	178,781
	Packaging materials	-	98,143
	Sugar and additives	-	162,641
	Cleaning chemicals and laboratory consumables	-	54,808
	Spare parts	-	46,692
	Prior year adjustments*	(795,276)	-
		795,276	**795,276**

*The prior adjustment on relate to capitalisation of expenditure on trial runs initially expensed.

Note 25	CAPACITY BUILDING & FACILITATION TO FARMERS	June 2020	June 2019
		USHS '000	USHS '000
	Mobilisation & Training of fruit farmers (Prior year adjustments Fruit Factory)	(3,541,590)	-
		(3,541,590)	**-**

Note 26	INFRASTRUCTURE COSTS	June 2020	June 2019
		USHS '000	USHS '000
	Prior year adjustments Fruit Factory	(3,447,592)	-
		(3,447,592)	**-**

** The prior year adjustment relate to capitalisation of expenditure on connection of water, Electricity and roads which had initially been expensed. These have been capitalized on Infrastructure in property, plant and equipment.

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Note 27	FOREIGN EXCHANGE GAIN/LOSS	June 2020	June 2019
		USHS '000	USHS '000
	Foreign Exchange gain/loss	237,187	(6,451)
		237,187	**(6,451)**

Note 28 FINANCIAL RISK MANAGEMENT

Foreign Exchange Risk

This is the risk that adverse changes in exchange rates may cause a reduction in the Corporation's future earnings or in the value of its equity investments.

Due to its investment in Kalangala Infrastructure Services Ltd (KIS), the Corporation faces an exchange rate risk due to the fact that the borrowings to KIS are denominated in US Dollars yet the Company's revenues are in Uganda Shillings.

However, KIS is minimizing this risk by exchanging Uganda Shillings revenues immediately upon receipt into US Dollars and maintaining cash balances in foreign currencies to match the obligations in foreign currencies.

Liquidity Risk

Liquidity risk is the risk that UDC will not be able to meet its obligations as they fall due. This mainly arises due to the fact that the Corporation wholly relies on Government Subvention for funding at the moment. This poses a risk that projects started may not receive adequate funding due to the uncertainty associated with releases from Government or that they may not receive funding due to change in Government policy.

Management is minimizing this risk by entering into contracts only when funds are available to avoid failure to meet obligations. Efforts to obtain capitalization for UDC have also been intensified by engaging the different stakeholders responsible to curb the risk of uncertainty in releases.

Furthermore, the Corporation is looking out for Development partners to partner with in the investments to break away from reliance on one source of funding.

Investment Risk

The Corporation faces a risk of loss of funds invested in case the companies in which UDC invests make losses. This is being minimized through representation on the Board of those companies to ensure proper governance. In some instances UDC retains the right to recruit key management positions. There is a critical investment analysis at the planning stage aimed at ensuring success of the ventures.

Credit Risk

This is the risk that could arise due to default of counter-parties to honor their obligations. In the case of UDC, the credit risk may arise from financial assets such as Bank balances, finance lease and Shareholders loan.

The credit risk has been minimized by the Corporation obtaining Bank guarantees for prepayments. The Corporation also uses Letters of Credit especially in dealing with foreign suppliers to reduce the consequences of breach of contracts by suppliers. The Corporation retains a legal ownership of the leased assets until the end of the finance lease period. The corporation only gives loans at a minimal level and only to the companies where UDC has equity shareholding.

Note 29 CONTINGENT LIABILITY (LITIGATIONS)

On April 30, 2018, Rocktrust Contractors Ltd filed a claim with the Center for Arbitration and Dispute Resolution (CADER) vide CAD/Arb/No.12 of 2018 for recovery of UGX. 1,277,029,989/=, with respect to a contract for the Supply, Installation and Commissioning of two separate sets/units of Electrical Accessories & Equipment for the two Kigezi Highland Tea Limited Factories in the Districts of Kabale and Kisoro for the contract price of UGX. 899,543,358 /= executed on January 18, 2017.

Following grant of an arbitral award against UDC, the Corporation applied to the High Court to set aside the award. Currently, the arbitral award is not enforceable as UDC has applied to have it set aside. Therefore it has been recognized as a contingent liability.

Attotti Village Restaurant sued UDC for non-payment for supply of oranges weighing 175 tons. The supply was done before completion of the procurement process and therefore there is no document sanctioning the supply. The matter is still in court and therefore has been treated as a contingent liability.

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