

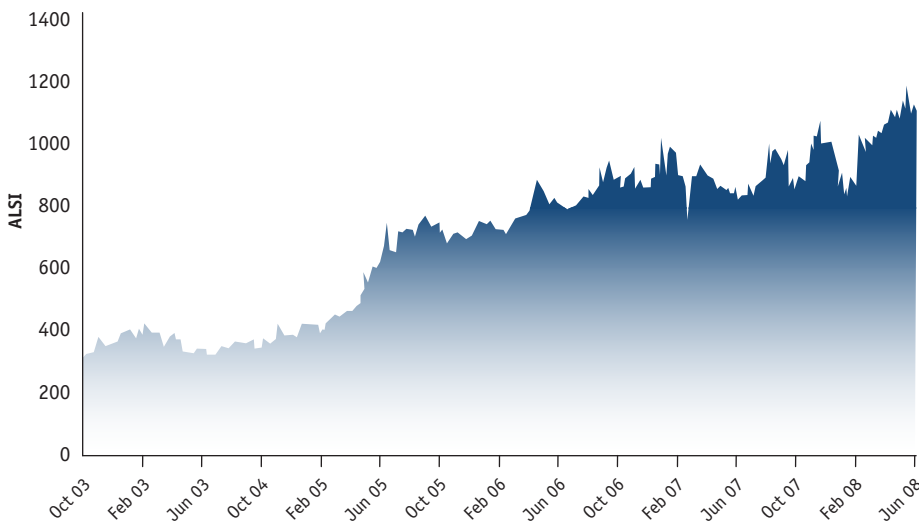
Uganda Securities Exchange QUARTERLY BULLETIN

Vol.10 Issue 2

April – June 2008

Activity Report

USE ALSI Trend map - October 2003 - June 2008



Source: USE Trading Department

Equities

Trading results for the second quarter show a decline in performance with the total turnover falling to Ushs 13,601,282,840 from Ushs 36,408,954,790. Volume dropped to 38,912,489 shares from 67,104,615 shares.

Number of deals recorded is 3,901 down from 3,979. April recorded the highest levels in activity with a turnover of Ushs 5,944,094,690, accounting for 44% of the quarter's turnover.

Stanbic Bank (U) Ltd maintained its number one position in trading activity, trading 66.19% of the total turnover, and 94.99% of the volume. UCL was next with 10.82% of the turnover and 0.51% of the total volume. NVL and BOBU accounted for 12.02% and 4.57% of the turnover while volume stood at 1.71% and 0.45% respectively. DFCU posted 4.08% of the total turnover and 1.76% of the total volume, while BATU closed with a posting of 2.31% of the total turnover and 0.58% of the volume.

INSIDE THE MARKET REPORT

- Economic and Financial Indicators
- Market Developments
- Market Report
- Budget Highlights FY 2008/09
- Educational Column

USE All Share Index

The ALSI registered a slight decline at the start of the quarter but later rose to 1,037.92 at the end of April. Levels fluctuated at between 1,061.01 and 1,090.28 for the rest of May and further on to record a high of 1,162.49 in June before dropping to 1,096.41 at the end of the quarter.

Fixed Income Securities Market Activity (April – June 2008)

Government Bonds

The FISM segment registered six more listings bringing the total number of Government Bonds listed on USE to thirty one, and additional Ushs 215,087,100,000 in secondary market activity. (Refer to Bond Schedule on next page for secondary market government bond activity)

Corporate Bonds

The Corporate Bonds Segment remained inactive during the quarter.

TRADING VOLUMES AND ACTIVITY ON A MONTHLY BASIS: APRIL – JUNE 2008

	April	May	June
No. of Shares Traded	16,663,091	13,367,018	8,882,380
Turnover (Ushs)	5,944,094,690	4,085,659,995	3,571,528,155
No. of Deals	1,562	1,269	1,070
Trading Days	13	12	11
Daily Avg. Turnover (Ushs)	457,238,053	340,471,720	324,684,378
Daily Avg. no. of trades	120	106	97
USE All Share Index	1,037.92	1,067.64	1,095.87

Source USE Trading Department

Economic and Financial Indicators

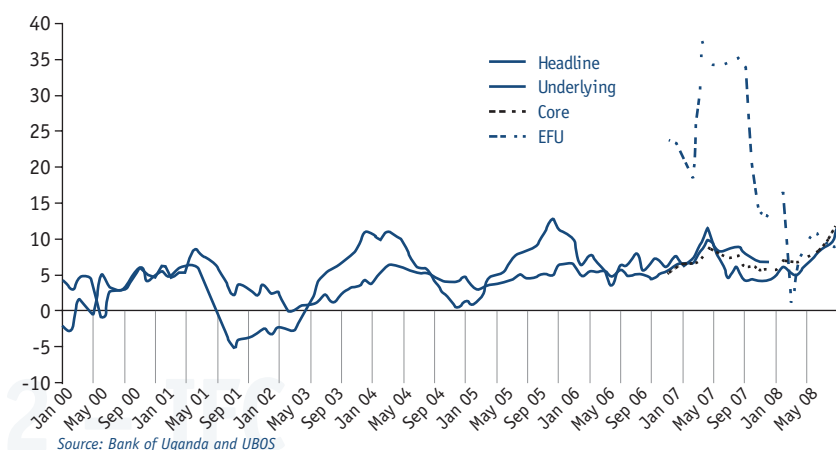
Increasing inflation, upward interest rates and a growing shilling against the dollar characterized the period under review. Despite an increase in foreign inflows as investors fled from the tumbling dollar to other jurisdictions; there was need for concern as the price of oil surged on causing local inflation to rise to three year highs.

Inflation – on the rise

Headline inflation rose to a three year high of 12.4% in June 2008 (it last crossed the 12% mark at 12.6% in April 2005). Core inflation rose from 10.4% in April to 12% in June while Energy, Fuel Utilities rose to 10.1% in the same period.

Analysts have attributed the rise in inflation to a combination of surging food prices (partly due to the continued high regional demand for food items especially in Southern Sudan) and increasing petroleum product prices which have in turn led to higher transport and fuel costs; and the general cost of production.

Headline and Underlying Inflation Rate Jan 2000 - June 2008

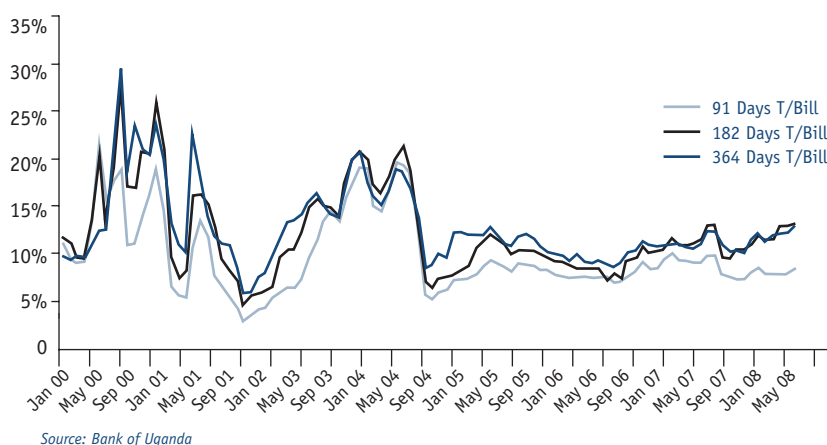


Interest rates – marginal upturns

The interest rates exhibited a marginal upward tendency with rates consistently moving from an opening 7.84%, 12.93% and 12.22% for the 91 day, 182 day and 364 day bills respectively in April; to a higher 8.35%, 13.16% and 12.97% respectively in June.

Analysts attribute the rise to increased T/Bill issuance, especially between May and June, without a corresponding shift in demand; which in turn created a buyers' market. Low demand has been attributed to generally low levels of UGX liquidity.

Interest Rates Jan 2000 - June 2008

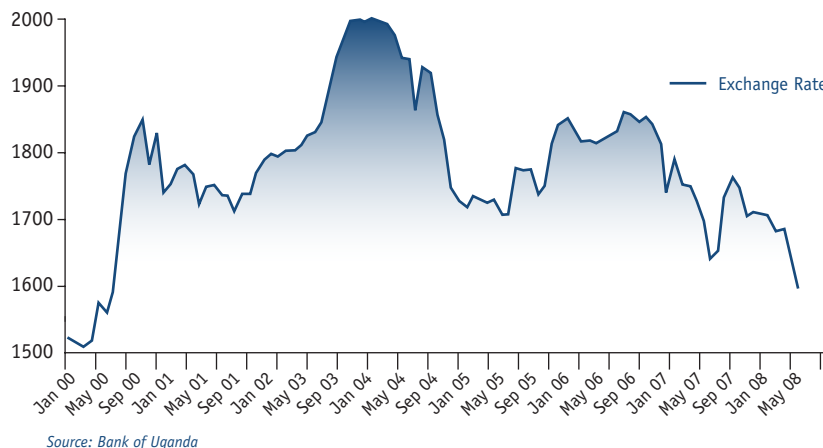


Foreign Exchange rates – rising shilling or falling dollar?

The UGX continued to rally against the dollar with the Inter-bank foreign exchange monthly average falling to as low as 1600 in June – the lowest since July 2000.

While some may argue that shilling gains are typical of June (as the market prepares for fiscal year end commitments); others have contended that 1600 is just too low. They attribute the June lows to an influx of foreign funds as international investors seek to reduce their dollar-based exposures and pack their money in other jurisdictions - including Uganda's.

Inter bank Foreign Exchange Mid - Rate Jan 2000 - June 2008



Corporate Announcements

BOBU

Bank of Baroda Uganda Limited declared a dividend of Ushs 70 per ordinary share to all its shareholders on the register at the close of business on 2 June 2008. The dividend will be paid on 1st August 2008.

DFCU

DFCU Limited announced a final dividend of Ushs 13.09 per ordinary share to all its shareholders on the register at the close of business on 30 May 2007. It was agreed at the AGM that the shareholders will be paid dividend on 1 August 2008.

UCL

The Uganda Clays Limited Board of Directors recommended the payment of a final dividend of Ushs 56 per share for each of the 9 million ordinary shares held after the rights issue. The rights issue resulted in the issuance of 4 million new ordinary shares at a ratio of four (4) ordinary shares for every five (5) ordinary shares held. The company's annual general meeting will be held Friday, 29th August 2008.

KA

Due to the level of profitability Kenya

Airways achieved in the year, the Board recommended an unchanged first and final dividend of Kshs 1.75 per share, for approval by the shareholders at the Annual General Meeting to be held on Friday 26th September 2008.

SBU

Stanbic Bank Uganda Limited released its financial year results, and recommended a final dividend of Ushs 6.64 per share to all its shareholders on the register. The Bank held its Annual General Meeting on Thursday 15th May 2008.

Uganda Clays Rights Trade on USE

Uganda Clays Limited commenced trading of the rights issue on the 24th April 2008 at the Uganda Securities Exchange (USE). The additional shares were oversubscribed recording as much as Ushs 11.6 billion from Ushs 10.6 billion which was what Uganda Clays intended to raise. The Uganda Clays saw the share price rise slightly to close the session at Ushs 7,000 per share from the previous session's Ushs 6,920 per share approximately 1.2% price change.

New Vision Rights Issue

New Vision Limited announced a rights issue to its shareholders, where 25.5 million new ordinary shares will be issued at a price of Ushs 1,100 per share at a rate of one (1) new ordinary shares for two (2) shares held as at June 26th, 2008. Issue proceeds according to management will be used to finance the expansion of the company.

EASEA Conference Held in Rwanda

EASEA held its 10th Conference on 25th April 2008 in Kigali, Rwanda. Key on the Conference's agenda was the admission of Rwanda's Capital Markets Advisory Council into the Association. Other issues discussed included issues pertaining to capacity building in the region, the planned regional training institute, and the Recommended Technological and Business Framework for the Regional Market.

USE BERI FORUM

During the quarter, USE held its 5th BERI Forum on 15th April 2008. The Forum under the theme "Sovereign Ratings Process: Sub-Saharan Africa Credit Issues" attracted

several participants from various stakeholder groups. Key note speaker for the day was Dr. Veronica Kalema, Director, Fitch Ratings for Africa. Representatives from Standard Bank, London also made a presentation on Ratings, bond issues and Advisory (Uganda). For more information on the BERI Forum please visit the BERI section of the USE website at www.use.or.ug.

Corporate Social Responsibility Drive

In a bid to transform people's lives in and around the community, USE embarked on its corporate social responsibility drive by visiting two communities living with HIV/AIDS in Kisenyi and Kawempe. USE remains committed to identifying and actively providing assistance to the vulnerable and less advantaged communities in and around Kampala.

Fact Behind the Figures Conference – BOBU, UCL

In the month of May and early June, Bank of Baroda (U) Ltd. and Uganda Clays held their facts behind the figures media conferences at the Uganda Securities Exchange. The two companies used the conference as a platform to interact with the broker/dealers, Investment Advisers and the press. During the conference, the two companies relayed their good results to the participants and gave detailed report on their future plans.

Training and Capacity Building

During the quarter under review, USE staff participated in several training programmes, among which included; Risk Controls and Regulation of the Industry; the Securities Market Development and Operations and securities.

SCHOOLS PUBLIC EDUCATION OUTREACH

USE hosts Kampala University

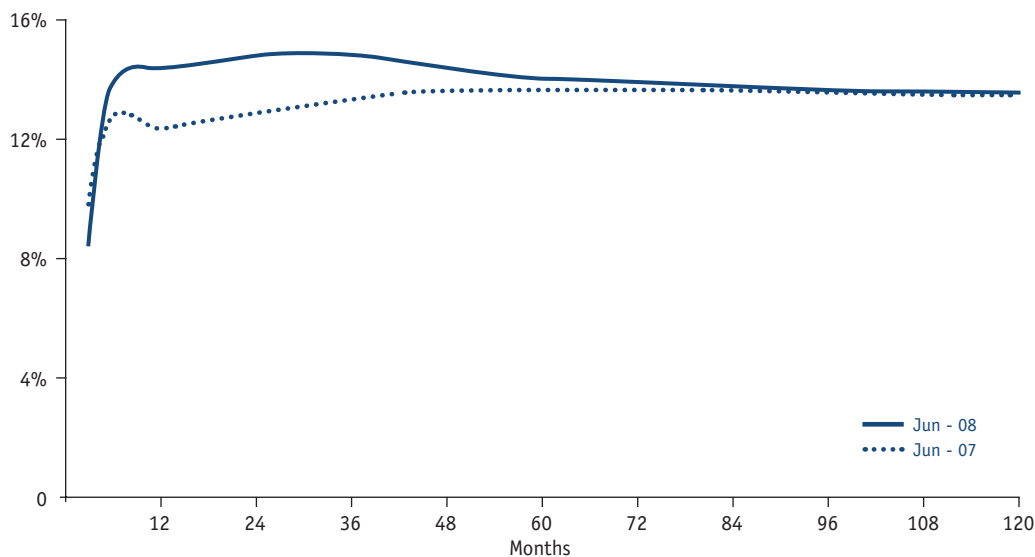
Kampala University undergraduate students visited the Exchange to familiarize themselves with the USE market activities, during their visit, the students managed to witness the opening session of trading on the trading floor and witnessed broker/dealers executing deals. The students were later given a lecture by the USE staff on the roles and functions of the Exchange.

Secondary School's Educational Programme – Agakan International School

USE hosted secondary schools students from Agakan International School. The O'Level students were interested in discovering how the Securities Exchange operated, and what it takes to participate in the Industry. The students were given a background of the Industry and were able to witness the trading on the trading floor.

Market Report

Government Bond Yield Curve as at 30th June 2008



Compiled by: USE Trading Department

GOVERNMENT BOND SCHEDULE APRIL – JUNE 2008

Issue No	Value (Ushs)	Turnover	Issue Date	Maturity Date	Rate	Days to Maturity
FXD 3/2004/5	60bn	-	24/03/2004	19/03/2009	10.75 FIXED	262
FXD 4/2004/10	15bn	-	19/05/2004	08/05/2014	11.00 FIXED	2,138
FXD 4/2005/3	50bn	-	28/07/2005	24/07/2008	10.25 FIXED	24
FXD 5/2005/3	40bn	-	22/09/2005	18/09/2008	10.25 FIXED	80
FXD 2/2006/3	45bn	50,500,000	08/02/2006	05/02/2009	10.25 FIXED	220
FXD 3/2006/3	50bn	1,126,800,000	10/03/2006	05/03/2009	10.25 FIXED	248
FXD 5/2006/5	40bn	30,010,000,000	31/05/2006	26/05/2011	10.75 FIXED	1,060
FXD 6/2006/3	50bn	306,100,000	04/07/2006	25/06/2009	10.25 FIXED	360
FXD 7/2006/3	50bn	-	28/08/2006	20/08/2009	10.25 FIXED	416
FXD 8/2006/2	20bn	900,000,000	20/09/2006	18/09/2008	10.00 FIXED	80
FXD 9/2006/2	60bn	-	18/10/2006	16/10/2008	10.00 FIXED	108
FXD 10/2006/3	90bn	-	20/11/2006	12/11/2009	10.25 FIXED	500
FXD 11/2006/2	60bn	-	18/12/2006	11/12/2008	10.00 FIXED	164
FXD 1/2007/3	30bn	1,162,800,000	03/05/2007	29/03/2010	10.25 FIXED	364
FXD 2/2007/2	40bn	-	22/10/2007	15/10/2009	10.00 FIXED	472
FXD 3/2007/5	40bn	-	26/07/2007	19/07/2012	10.75 FIXED	1,480
FXD 4/2007/3	45bn	-	22/08/2007	19/08/2010	10.25 FIXED	780
FXD 5/2007/2	55bn	-	20/09/2007	17/09/2009	10.00 FIXED	444
FXD 6/2007/3	67bn	-	04/10/2007	30/09/2010	10.25 FIXED	822
FXD 7/2007/5	60bn	-	15/11/2007	08/11/2012	10.75 FIXED	1,503
FXD 8/2007/3	60bn	3,000,000,000	30/11/2007	26/11/2010	10.25 FIXED	879
FXD 9/2007/2	60bn	3,500,000,000	12/12/2007	10/12/2009	10.00 FIXED	528
FXD 1/2008/2	20bn	17,997,000,000	09/10/2008	07/01/2010	10.00 FIXED	191
FXD 2/2008/3	60bn	20,886,000,000	06/03/2008	03/03/2011	10.25 FIXED	976
FXD 3/2008/2	60bn	59,395,000,000	07/04/2008	01/04/2010	10.00 FIXED	640
FXD 4/2008/3	60bn	31,077,900,000	05/05/2008	29/04/2011	10.25 FIXED	1033
FXD 5/2008/3	40bn	24,675,000,000	14/05/2008	12/04/2011	10.25 FIXED	1016
FXD 6/2008/2	60bn	21,000,000,000	02/06/2008	27/05/2010	10.00 FIXED	696
FXD 8/2008/3	30bn	-	30/06/2008	23/06/2011	10.25 FIXED	1,088

Compiled by: USE Trading Department

Budget Highlights FY 2008/09

The 2008/9 Budget under the theme “Strategic Priorities to Accelerate Prosperity-for-all” highlighted among other issues the following;

Economic Growth

Government continued to register stable macroeconomic growth with the last five years posting an average growth of 7.9% over the last five years. The economy grew above target at 8.9% in 2007/8. This GDP growth is an indication of increased consumption, investment, government spending and a favorable balance of trade due to increase in exports. The next fiscal year’s real GDP growth according to the budget speech is projected to grow by 8.1% from revenue from better revenue from export products like coffee, fish and tea as well as continued strong demand for regional exports mainly foodstuffs.

Pension Sector Reforms

Government plans on providing sufficient funding to clear pension arrears and transform the current system into a contributory scheme. The Pension Regulatory Framework was approved by cabinet, and it is expected that the Regulatory Authority which will be established at the end of this Year, will be tasked with supervision of all pension and retirement benefit schemes in the country. The medium and long term objectives of the reforms in the pension sector is to protect funds of pensioners and retirees, while at the same time utilizing these resources for mobilizing domestic investment capital.

Anti-Money Laundering Bill

The Minister announced that the Anti Money Laundering Bill will be presented to parliament during the coming fiscal year. The Anti-Money Laundering legislation will among other things facilitate financial crime prevention, the fight against terrorism, and enhance corporate governance and accountability.

Other Bills Mentioned;

The Micro Finance Institution Regulatory Bill is due for submission to parliament once stakeholder consultations are finalised. This legislation is essential for the non deposit taking which fall outside of regulation by Bank of Uganda.

East African Highlights

Kenya – Capital Markets

The minimum paid up Capital for brokers and investment banks increased to Kshs 50 million and Kshs 250 million respectively over three years. No single shareholder will control more than 25% of the brokerage firm’s or investment bank’s share capital.

Insurance

The Investment limits by general insurance companies in any one financial institution increased from 5% to 10% of admitted assets. Insurance companies are required to settle claims within 90 days of liability determined in court.

KEY HIGHLIGHTS FROM THE KENYA, UGANDA AND TANZANIA ECONOMIES

Key indicators of the performance of the East African economies are set out below. where applicable, comparatives have been included in brackets

	Kenya	Uganda	Tanzania
Real GDP growth	*7% (6.4%)	*8.9% (7.4%)	7.1 (6.7%)
Inflation			
Underlying	5.7% (5.5%)	8.6% (5.9%)	**na
Overall	9.8% (14.5%)	11.2% (5.6%)	7% (7.3%)
91 day TB rates	6.87% (5.83%)	8.2% (9.3%)	11.4% (14.9%)
	KShs	UShs	TShs
Exchange rate to the dollar (Local currency = US\$1)	66 (69)	1,679 (1,729)	1,244 (1,261)
Budget spend (billion)	759.8 (693.5)	6,143 (5,025)	7,216 (6,067)
Recurring	563.6 (491.9)	3,372 (2,378.5)	4,726 (3,866)
Development	196.2 (201.6)	2,771 (1,745.7)	2,489 (2,201)
* Estimate			
** Not available			

Source: PriceWaterHouseCoopers 2008/09 Budget Brief

UNDERSTANDING RIGHTS ISSUES

How a Shareholder may Approach Equity Rights Issues

A Rights Issue is fast becoming a usual terminology in the capital markets of Uganda. Both individual and institutional investors have had a taste of Rights Issues when Uganda Clays became the first listed company to offer Rights to existing shareholders. Today we explore how a shareholder should approach an offer of rights and the possible implications of their actions.

An appropriate starting point is defining a Rights Issue so we can take off from the same platform. A Rights Issue is an issue of new shares for cash to existing shareholders in proportion to their existing holdings at a discounted price (Usually 20-30% of the market price). It is therefore, a way of raising new cash from shareholders - an important source of new equity funding for publicly quoted companies. It is important to note that it is an offer of new shares for cash and this offer is only made to existing shareholders. There are other offers for new shares that may be offered to existing shareholders, but not for cash; these do not form part of today's discussion and are defined differently. What is the implication of this?

The first important implication to a shareholder is that one will need to pay cash in order to acquire the new shares being offered. As a shareholder you have to be able to pay for these shares and thus you need to have money for this. The amount of money that one pays depends on the number of shares one is entitled to. The entitlement is calculated based on ones' level of shareholding at the cut off date.

Another important implication is that Rights are offered to existing shareholders only. Does this mean those who do not own shares in that particular company can not participate at all? This is because existing shareholders have the "right of first refusal" (otherwise known as a "preemption right") on the new shares. By taking these preemption rights up, existing shareholders can maintain their existing percentage holding in the company. However, shareholders can, and often do, waive these rights, by selling them to others. Shareholders can also vote to rescind their preemption rights. Existing shareholders, who are entitled to exercise their rights, may exercise their rights in one of two ways. They may choose to buy their rights at the offer price or renounce their rights and sell them to the market. It is when these existing shareholders sell to the market that any one can buy these shares. However it is important to note that these shares will be sold at a market determined price and not the rights offer price.

When a Rights Issue is announced dates are set to inform existing and prospective shareholders. These dates and terms are described in more detail below:

Book closure date: This is the date when the shareholder register is closed. This means that the rights offer/issue will only be applicable for shareholders who are recorded in the register as at the closure date.

Offer period: This is the period within which rights are offered to the existing shareholders.

Offer ratio: Shares are normally issued in ratios, that is to say, for example 3 shares for every 5 shares held. This would mean that for someone who holds 500 shares, they would benefit 300 additional shares.

Let us say for argument sake that one buys 5 shares trading at UGX3, 000 and the rights are being offered at a 30% discount. The ratio is 3 new shares for every 5 held:

5 existing shares at a market price of UGX3, 000	15,000
3 new shares for cash at UGX 2,100	6,300
Total for 8 shares	21,300
Value of 1 share post rights issue	21,300 /8
Effective cost per share	2,662.50

The difference between the market price per share of UGX3, 000 and the effective cost per share of UGX2, 662.50 is your profit. The post rights issue price cannot be determined as situations differ but the principle holds true. It is therefore advisable to follow your rights and take advantage of the fact that the shares are being offered below the market price but it is not mandatory.

At this point I find it relevant to explore the possible direction of a share price post a Rights Issue and the reasons thereof. The share price is usually expected to fall after the Rights Issue. This is not necessarily the case although it is very common. The share price may fall not because the market's views about the company have changed but merely because the market is absorbing the new shares just issued. Since the number of shares will have increased in some instances by a huge percentage, the price would need to be adjusted to match the new number of shares. However in some cases the post rights issue price has actually gone up. This could be as a result of many reasons.

Which ever direction the post Rights Issue takes it is important for investors to pay attention to the fundamental features of any stock. One has to be satisfied that the company's growth potential is significant, the cash flows are healthy and that the business will continue to be profitable and deliver value to shareholders. Investment advisors and stockbrokers can be useful in explaining these issues and assist would be investors. It is very important to avoid being carried away by following what others are doing. Fundamental analysis is very important and should be an important consideration before making any investment in shares.

In conclusion however, investors should treat any rights issue as a fresh equity issue, as they would be increasing their exposure to a company. Therefore, all the necessary precautions of a fresh investment should be taken.

For further clarification regarding Rights Issue please contact your investment advisor. Tambudzai Maswaya is the Operations Manager at ReNnaissance Capital Limited. She can be contacted at tambudzaim@renaissance.co.ug