

INTRODUCTION

This Electronic Quarterly Review Covers the period
October – December 2007

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HIGHLIGHTS

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Regulatory Issues

Amendment to the Capital Markets (Prospectus Requirements) (Amendment) Regulations 1999

CMA has amended Part IV of the Capital Markets (Prospectus Requirements) (Amendment) regulations 1999 to incorporate a fee structure for additional/rights issues of listed companies. These are as follows;

Main Investment Market Segment

0.1% of the market value of additional securities to be listed subject to a minimum of US\$ 2,000,000 and a maximum of US\$ 20,000,000.

Alternative Investment Market Segment

0.1% of the market value of additional securities to be listed subject to a minimum of US\$ 1,000,000 and a maximum of US\$ 10,000,000.

Market Development

Approval of Bond issue by Housing Finance Bank (HFB)

HFB applied to Capital Markets Authority (CMA) for approval to issue a UGX 30 Billion Bond in tranches over a period of 12 months. The proceeds of each issue will be used to fund the development of HFB's mortgage business. The application received approval from the CMA Board and the issue will be open in January 2008.

HFB is a public limited liability company which was incorporated in 1967 as Housing Finance Company Limited. The company then changed its name to Housing Finance Bank Limited and on November 26, 2007 was granted a licence by Bank of Uganda to operate a commercial bank (Class 1).

Uganda Clays Limited (UCL) Rights Issue

In August 2007, Uganda Clays Limited published a cautionary announcement about an intended rights issue. CMA has since received an application from UCL seeking approval of the rights issue. The company seeks to raise US\$ 10,600,000,000 for the construction of a new kiln in Kamonkoli, Eastern Uganda. UCL

will hold an extraordinary general meeting of shareholders to seek their approval in January 2008.

East Africa Breweries Ltd (EABL) Bonus Issue

EABL applied to CMA Kenya for approval of a bonus issue in which it sought to give its shareholders one bonus share for every five ordinary shares held. Following CMA, Kenya's approval of EABL's application, CMA (U) gave a no objection.

New Vision Printing and Publishing Company Ltd (NVPPCL)

Rights Issue

On 15th November 2007, the shareholders of New Vision Printing and Publishing Company Ltd (NVPPCL) approved the company's proposal to undertake a rights issue. This rights issue is intended to raise capital for purchasing equipment and expanding the company's operations.

International Finance Corporation (IFC) Efficient Securities Markets Institutional Development (ESMID) Consultancies

Five teams of ESMID consultants conducted stakeholder

consultations on three areas for which the International Finance Corporation, through the ESMID Project, will be providing technical assistance. These are the regional certification program, the regional integration program and capacity building for the region's securities regulator for improving the ability to finance infrastructure and housing through local and regional bonds. Their initial reports will be ready for discussion in the first quarter of 2008 before they can be finalised.

Financial Markets Development Plan (FMDP)

CMA is participating in the development of the country's Financial Markets Development Plan. A Financial Markets Development Committee (FMDC) including various players from the financial sector was established. Various sub committees are established there under. CMA is represented on three of the sub committees; Infrastructure, Investment and Information sub committees. The

others are Issuers, and Intermediaries Sub Committees. Each sub committee has developed a five year work plan against various Terms of Reference. The mandate to develop the FMDP was derived from a decision of the Monetary Affairs Committee (MAC), which is comprised of EAC central bank governors. MAC developed a common framework that will enable consolidation of the country plans into an East African Community (EAC) FMDP.

The country FMDP plans will be discussed in January 2008 after which the central banks will work towards harmonising them. The consolidated plan will then be discussed by the Monetary Affairs Committee (MAC) of the EAC in May 2008 to agree on various issues and to map a way forward for EAC financial markets integration. This will be a major milestone towards attaining a monetary union and a single currency in the region.

Public Education

University Challenge

The Annual Capital Markets University Challenge was concluded in October 2007. The finals in which three universities competed for an all expenses paid trip to the South African securities industry were won by Makerere University Business School. Makerere University and Kampala International University were the runners up. The visit to South Africa was hosted by the Financial Services Board, with whom CMA has a Memorandum of Understanding for cooperation and information sharing. The establishment of the various investment clubs at the universities, the prize giving ceremony and the trip to South Africa were captured in a reality show that was aired in a 6 week series on national television. It is hoped that the series will provide learning for other youth, parents and teachers on the practical ways in which investment clubs can be established and sustained.

Post Graduate Bar Course Students Seminar

The CMA has been keen to co-operate with the Law Development Centre in the training of its Bar course students every academic year. On November 7th, the CEO, Mr. Japheth Katto delivered a presentation to the students on the promotion, development and regulation of the capital markets industry in Uganda. The CMA Legal and Compliance team also participated in this academic discussion and delivered a paper on the capital markets regulatory framework. Over 600 students participated in the seminar.

Regional and International Co-operation

MOU with Reserve Bank of Zimbabwe

CMA (U) signed a Memorandum of Understanding (MOU) with the Reserve Bank of Zimbabwe (RBZ) during the last Committee for Insurance Securities and Non Bank Financial Authorities (CISNA) meeting. The CISNA meeting took place in Arusha between 1-2 November 2007. The MOU will enable cooperation and information sharing with the RBZ, which is the primary regulator for Renaissance Capital Ltd. Renaissance Capital Ltd is licensed in Uganda as fund manager, broker/dealer and investment advisor. This MOU with RBZ brings to 6 the number of MOUs that have been signed with regulators from other jurisdictions. The others are Nigeria, South African, Zambia, Mauritius and Swaziland.

Malaysia Securities Commission Training Program

CMA in partnership with the Uganda Law Society hosted a delegation from the Malaysia Securities Commission from 22nd to 25th October 2007. The delegation conducted two training programs for all capital markets licencees, and another for members of the Uganda Law Society. The delegation also met with staff members from the Uganda Securities Exchange to discuss their experience with the planned establishment of the Central Depository System. The workshops provided a forum for the exchange of best practice in the development and regulation of capital markets. The major areas of discussion included regulation of intermediaries, entry criteria, licensing requirements, supervision activities and major offences committed by capital markets intermediaries. The two resource people also explored corporate governance as a

concerted effort of the government, the regulator, agencies, companies and their directors, managers and shareholders and the galvanised efforts of embedding best standards of corporate governance in Malaysia.

Changes in Capital Markets Authority Kenya

During the period under review, the Chief Executive of CMA, Kenya, Mr Edward Ntalami completed his contract of service at the Authority. At the same time, Mrs Christine Mwet, Manager, Legal Affairs and Enforcement resigned and joined Renaissance Capital Limited, an investment bank in Nairobi. Mrs Stella Ngusye Kilonzo, Head Compliance is currently acting in the Chief Executive position. The CMA Kenya Board has advertised both positions and is seeking suitable candidates.

Outlook

EASRA Meeting

The next East African Securities Regulatory Authorities (EASRA) meeting will be hosted by CMA (U) in March 2008. The meeting will review the preliminary results and recommendations of the ESMID consultancies that are mentioned above, review the compliance of listed companies and licensed persons with International Financial Reporting Standards and discuss the role of eth regulator in the Initial Public Offering Valuation. The member states will also conduct a self-assessment of their legal and regulatory framework against the remaining 27 International Organisation of Securities Commissions (IOSCO) principles of securities regulation. The assessment against the 3 core principles was completed..

'The role of derivatives for managing risk through the financial markets is frequently misunderstood. Yet these instruments-futures, options and a multitude of variations – are packages of the basic components of risk: they more than anything else traded come close to the theoretically ideal instruments for the trading of risk. Derivatives can turn stocks into bonds and vice versa, and can pinpoint, very precisely, specific risks and returns that are packaged within a complex structure. Risk management is essential in a modern market economy'

From the Ultimate Investor

Home News

Mr Japheth Katto Appointed to IFAC Board

The Chief Executive Officer, Mr Japheth Katto has been appointed board member of the International Federation of Accountants (IFAC). The IFAC Board is comprised of twenty two members from all over the world, who represent the worldwide accountancy profession. Mr Katto is the only member from Sub Saharan Africa. Prior to his appointment to the Board, Mr. Katto served on the IFAC Compliance Advisory Panel. IFAC is the global organisation for the accountancy profession. It works with its 158 members and associates in 123 countries to protect public interest by encouraging best practice, international standards and the highest quality by the world's accountants. The IFAC Board is responsible for developing international standards on ethics, auditing and assurance, education, and public sector accounting standards.

Recruitment of Staff

CMA is in the process of recruiting a Human Resource Manager (HRM) and an Accounts Assistant. The HRM position is a new senior management position in the organisation. The jobholder will report directly to the Chief Executive Officer. One of the main tasks of the HRM will be the enabling the implementation of the 3 year strategy for capital markets development. The Accounts Assistant will work in the Finance and Planning Department. The department works in liaison with the Board Finance Committee to provide quarterly reports to the Ministry of Finance and is responsible for all financial planning for procurement, office running, capital expenditure, licencee remittances (payments) and grants management. The jobholder will report to the Finance Officer.

QUOTES

'Risk is the chance of loss, and for most of history it was viewed as that. There is a chance I'm going to lose. But in the capitalist system, risk is also an opportunity. Nothing ventured, nothing gained is as important to keep in mind as the fear that if I don't manage my affairs, I can get wiped out'

Peter L. Bernstein, b. ~1919, Investment Manager and Economic Commentator.

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Capital Markets in the Press

Important Trait In Equity Investment

By Peter Mushangwe,

Daily Monitor, 8th October 2007

I will not say that these are only traits that are important in investment management. Investor's objectives, ability to carry on risk willingness to assume risk, moral, religious and other unique circumstances differ from client to client. As a result, some may not be able to stick to the important principles that I will talk about here. They remain important though.

Discipline

The most important trait for any investor is discipline. The investor should develop a sacred strategy to manage his investments. Develop your approach of valuing companies and unless necessary do not change it. Also make sure you subject all the companies to the same valuation procedure, except where it is necessary to improvise.

For example, BATU currently does not pay dividends, so it will be difficult for an investor to value the company using dividend valuation models, unless someone has significant insight in the industry and company operations and can forecast long-term dividend payout ratios.

Discipline also means that you stick to your strategy. Are you going to invest in blue-chip companies only (SBU)? Are you going to invest in penny stocks only (SBU)? Are you going to buy distressed firms (BATU)? Are you going to invest in small-cap only (UCL, BATU, NVPPCL)?

Are you going to diversify or you will make a portfolio of 2-3 stocks only, and in the same industry? After making the decision, stick to it and avoid mistakes of keeping reviewing the strategies too frequently.

Stay informed

You will then need to get and stay informed. You should stay up-to-date with economic, industry and company news. If you do not understand the data, invest a bit in some investment books. Keep the information you get so that you can use it for times series analysis. Also make sure you stay informed of other market developments, especially the property markets, the money markets and the foreign exchange markets. The performance of the other market may not only affect the performance of your company or the exchange as a whole, but is also a source of opportunity.

When you make the decision to invest, be patient. The stock market is not a weighing machine, and in many cases its performance may be a result of sentiments. Be ready to ride the tides as long as your investment horizon is not running out. Be willing to invest long term. Do not invest on the stock market if your investment horizon is six months, unless you are a speculator.

Speculation is not bad, but you will need times five the amount of information and ability to interpret it than you would need to be an investor.

Focus on the future

For an investor, it's important to focus on the future. Investing is about capturing value that is yet to happen, and this is what makes it difficult. Past data is important but it can't tell what will happen to the company tomorrow. That is the more important reason why you will need to stay informed. Will last year's top performer remain the top performer this year? What's the impact of technology to an industry and the companies? What are the chances of the labour laws getting revised and what will be the impact on the company whose shares you own? What will be the impact of increased money flows to the market and the share price of the one you hold?

Have guts

I believe an investor should have guts. Guts to take on risk and to cut losses when necessary. If you analyze a company and your opinion is that it will struggle in the future, it is better to cut your losses. If you analyze a company and reckon it will perform better in the future, despite the market's opinion, you should have the guts to contradict the market.

Finally, don't be greedy. Once you have earned significant capital gains in the shares you own, it is important to realize profits and reinvest in other stocks that may be under-valued.

Holding on to a share that has made significant gains already because one is expecting further gains may work against you. Be satisfied with what you will have made and move on. Off course the realization of profits should fall within the grand strategy.

This is a list of persons licensed by the Capital Markets Authority to offer various services related to the capital markets industry in Uganda as at December 2007

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*Please note that only members of USE are allowed to transact business on the Stock Exchange