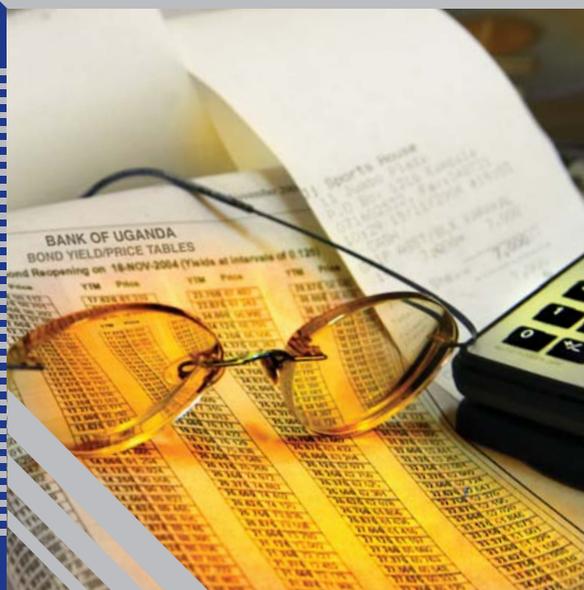


UGANDA SECURITIES EXCHANGE LIMITED.



Annual Report
2004

“ Since inception of USE in January 1998, the USE has been and continues to be relevant key infrastructure in the challenge of deepening Uganda’s financial system in enabling the efficient mobilisation, allocation and monitoring of medium-long-term capital in whatever form, small or big, towards investment in productive enterprise ”

USE Governing Council Members



Mr. Andrew Owiny
Executive Director
MBEA Brokerage Services (U) Ltd



Mr. Robert Warlow
Managing Director
Crane Financial Services Ltd



Mr. Micheal Opagi
Director
Privatisation Unit



Mr. Geoffrey A. Onegi-Obel
Chairman, USE

Managing Director
Geoffrey A. Onegi-Obel & Co Ltd



Mr. Simon Rutega
Chief Executive
Uganda Securities Exchange Ltd



Dr. Ram Jass Yadav
Director
Baroda Capital Markets (U) Ltd.

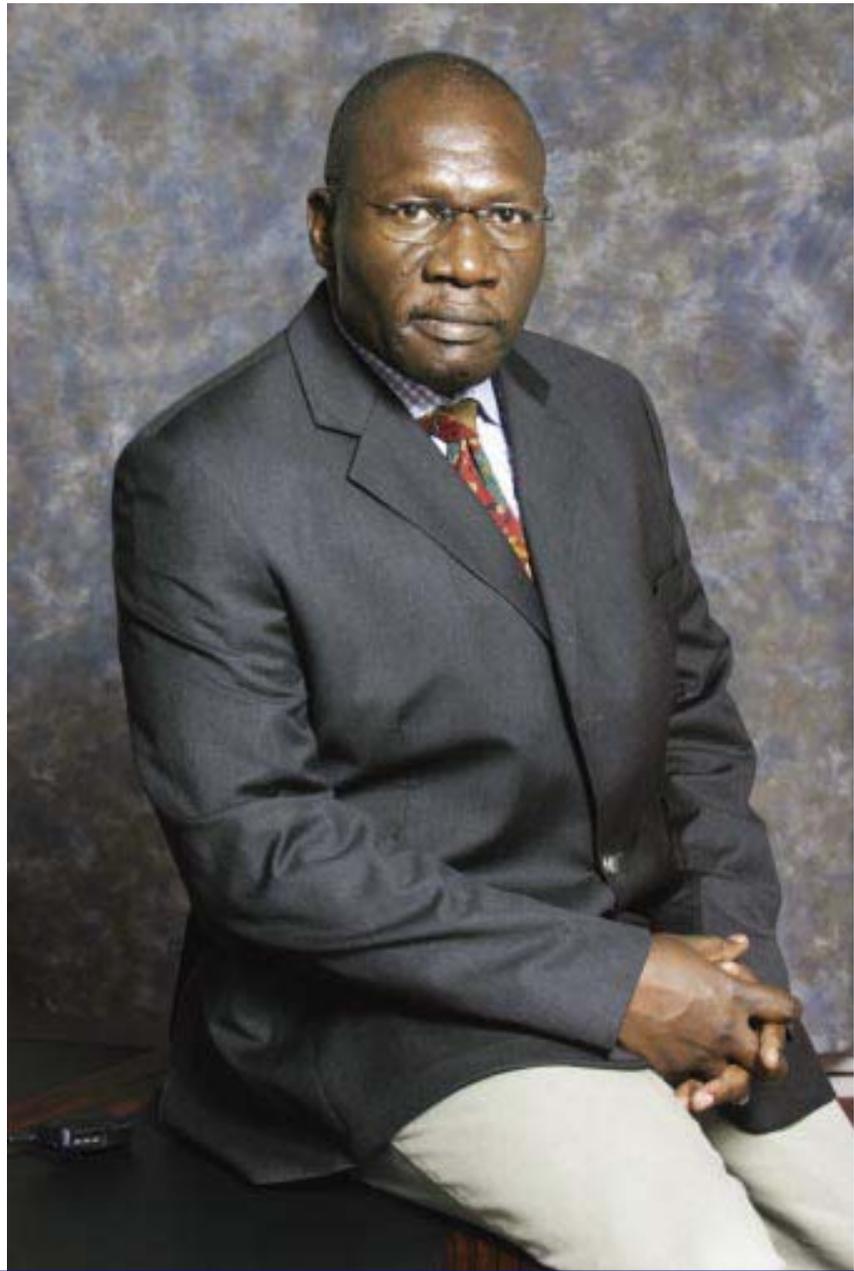


Mr. Samwiri Njuki
Director
Equity Stock Brokers (U) Ltd.

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Mr. Geoffrey Onegi-Obel
Chairman.

Chairman's Statement

On behalf of the Governing Council of the Uganda Securities Exchange Limited, it is my pleasure to present to you our Annual Report and Accounts for the 2003/2004 financial year - and to share with you some of the notable sector events that took place at the Securities Exchange and in the economy during the period.

The BOU Long Bond Series and the ability to price well into the future.

Since the inception of the USE in January 1998, the USE has been and continues to be relevant as a key infrastructure promoting the ability of Uganda's economy to price for goods and services well into the medium and long term.

In particular, the USE continues to demonstrate its ability to marshal institutional synergies for the much needed deepening of the Uganda Financial Sector. The period under review has been no exception.

The period under review was another year of solid growth across all the key parameters of instruments and new

products on the USE. However the BOU Long Bond Series takes the milestone tag - as a key monetary policy tool and benchmark [through the yield curve] - for medium to long term pricing in the Uganda economy.

stakeholders, I wish to thank the Governor of the Central Bank for responding to the market and signalling a new direction and movement towards a deepening of the financial sector.

“For any country in need of transforming the social and economic indicators of its citizens, the ability to price well into the future is everything.”

The Milestone Treasury Bond Signal, launched January, has over the past six month period successfully evolved in tenors ranging from the 2yr, 3yr, 5yr and 10 year.

This first BOU Bond Series, also signalled a recognition of Uganda’s continuously stable macroeconomic variables, our relatively successful Minimum Recovery Program and the real possibilities of engineering an additional 4-5 points to current GDP growth rates - through a new dedicated monetary and fiscal policy regime founded on domestic savings and domestic direct investment.

To the domestic and foreign investors, the signal received from this initiative by the Bank of Uganda went beyond the continued aggressive monetary policy stance on the management of liquidity.

It was a sign of confidence in the future of the economy measured by the long position Ugandans have continuously taken on their own Economy.

It is hoped that the resulting Yield Curve – however inverted in some areas, will in time become the benchmark for pricing instruments in the financial sector. At any rate, the inversions can be straightened out by continuous reopenings of the 3, 5, and 10 year bonds.

On behalf of the Governing Council of the USE and other private sector

Interest Rate Regime.

The future of the general interest rate regime looks positive as banks now strategize for the reality of a financial sector with markedly reduced short term treasuries to play with – because the issuance of the treasury bonds led to a dramatic decline in interest rates in the treasury bills market.

The downward pressure on interest rates exerted by the entry of the long term bond series caused interest rates on the 91, 182, 273 and 364 days t/bills to plunge from the old all time highs of 21.44%, 23.65%, 23.28%, and 22.33% respectively recorded at the close of December 2003 to 6.39%, 7.93%, 9.70% and 11.40% respectively at the close of June 2004.

As expected Prime Lending Rates on the contrary remained unchanged despite the decline in money market interest rates. However continuous reopening at the longer tenors [3, 5 and 10 years] will put sustained pressure on the prime rate – and this is good for the capital markets industry.

Looking Forward – Financing Infrastructure and the Future.

For any country in need of transforming the social and economic indicators of its citizens, the ability to price well into the future is everything.

The BOU Long Bond Series and the subsequent evolving Benchmark Yield

Curve [however inverted] is generating, for the first time, the ability to price well into the future of Uganda’s economy.

Because of this BOU action, I believe that the structuring of financing for Uganda’s underdeveloped infrastructure [covering energy, water, health, education and roads] is now possible- and the USE has been preparing for this event since January 1998.

Let me conclude by once again congratulating the Government for the wise decision to issue Government Bonds through Bank of Uganda. In the same spirit, I wish to formally record my appreciation to the Bank of Uganda, Ministry of Finance, Privatisation Unit, The British Council, DFID, SIDA, GTZ and USAID for their continued moral and material support, encouragement and cordial relationship.

Finally, I would like to record my sincere appreciation and recognise the support of all members of the USE Governing Council and the entire management and staff of the USE for their important contribution to furthering the continuous growth of the USE as an important piece of infrastructure for the transformation of Uganda’s economy.



Geoffrey A. Onegi-Obel
Chairman



Mr. Simon Rutega
Chief Executive.

Chief Executive's Statement

The year under review witnessed more important steps in USE's accomplishments and objectives. It was quite an exhilarating year to say the least, where USE is beginning to emerge from the pioneering shadows of a start up entity. In principle, as believers that the stock exchange is the face of a deep and well

functioning financial system, it is evident that we are on the right track in tackling the entry points of these required fundamentals. I want to assure you that we have clear and defined objectives at the USE which will include regional integration in the very near future. USE business as we should all be aware is not a quick fix,

it is a reflection of our financial system and it's about promoting the deepening of the financial system, which should in the long term take us away from the perpetual crisis of a lack of medium to long term domestic finance for productive enterprise. The biggest challenge in our economy as I see it is strengthening the linkages

between growing the economy, fighting poverty and job creation. The critical issue at hand is ensuring conditions for financial system deepening through sustainable economic development. I am a strong believer that the solution for financial deepening has to come from consistent economic growth of the economy. Growth will lead to more savings and more savings will lead to productive investment. It is critical though that the structures required to mobilize long term savings are put in place at the earliest opportunity to expedite this process.

The year under review witnessed for the first time in Uganda the issuance and listing of Government paper with tenors of two, three, five and ten years. This was a tremendous achievement which will go a long way in providing the benchmark yield curve for the private sector long term borrowing moving forward. Let me take this opportunity on behalf of the USE to thank Bank of Uganda for their stewardship in this productive initiative.

During the year under review, some of our major achievements included completion of our five year strategic business plan. In addition, USE approved the listing of the DFCU Group which will add an additional product to the main investment market segment in October 2004. Meanwhile, USE continues to promote regional integration, investment clubs and continues to structure successful modules of securities courses for a broad spectrum of professionals including the banking, insurance, auditing, and legal fraternity.

While we understand that the marginalization of our stock market in Uganda is understandable given that the market is still small and shallow; nevertheless African stock markets on average outperformed the markets

elsewhere in the world in the last calendar year. Uganda having the third highest returns in the world this year is a reflection of how well investors can perform in our economy.

Appreciation

Let me extend my appreciation to all individuals and organizations, which have supported USE's efforts in developing the capital markets industry. Special tribute is extended to the Bank of Uganda, the Privatization

“The biggest challenge in our economy as I see it is strengthening the linkages between growing the economy, fighting poverty and job creation.”

Unit, USAID and especially GTZ/ SIDA which has provided enormous support to our programs this financial year. I am grateful for the guidance and support extended to me by the Chairman and Governing Council members and of course special appreciation goes to the USE staff for their continued dedicated efforts, diligence and hard work.



Simon Rutega
Chief Executive
Uganda Securities Exchange



Ms. Judy Obitre-Gama
Legal & Surveillance Manager

Legal & Surveillance Report

During the year under review, a number of developments took place. The Uganda Securities Exchange Limited (USE) Listing Rules and the USE Rules were reviewed by the First Parliamentary Counsel, as required by the Capital

Markets Authority (CMA), and took effect during 2003. USE is now governed by a dispensation that seeks to apply the recent developments in the securities industry. Rules review and development is an on-going process especially so in the securities industry.

The Rules are available on the USE website. The Listing Rules will during the next financial year be simplified to enable a broader understanding about the role of the USE, the mechanism of listing and the obligations that a listed company has.

Electronic Securities

USE held discussions with the CMA with regard to the Central Depositories Bill proposed by the CMA. USE eagerly awaits developments in this area to propel the advent of a paperless securities system in Uganda. Kenya and Tanzania are already applying similar laws. In the same regard, the progress of the Companies Bill that makes provision for electronic securities is being followed by USE. The Bill has been forwarded by the

Association (EASEA). The brokers/dealers resolved to form a similar association for stockbrokers to be called the East African Stock Brokers Association (EASBA). EASEA will formally come into being during the course of the next financial year.

New Listings

The close of the year saw USE approving the application of DFCU Limited to list its shares on the Exchange. DFCU will be the sixth

“DFCU will be the sixth equity to be listed on the Exchange and the fourth product from the public enterprises divestiture programme.”

Uganda Law Reform Commission to the ministry responsible for further action. USE urges the speedy promulgation of a modern Companies Act that would engender development in the private sector and bring Uganda up to speed with her East African partner states.

Regional Integration

At the regional level, the East African Securities Regulatory Association (EASRA) that encompassed the regulatory authorities and stock exchanges in the region came of age. At the 16th EASRA Consultative Meeting, it was agreed that a Special Committee look at the modalities of the various market players cooperating at the regional level. At a subsequent meeting held in March 2004, it was resolved that EASRA remain a regulator’s forum while the stock exchanges agreed to form an association to be known as the East African Securities Exchanges

equity to be listed on the Exchange and the fourth product from the public enterprises divestiture programme. The initial public offer (IPO) will close in the next financial year. USE looks forward to further equity listings from eligible companies. A number of Government Bonds have been listed during the year enabling USE apply the provisions of that portion of the Listing Rules that had hitherto been unutilized.

New Membership

Dyer & Blair (Uganda) Limited joined USE membership as a broker/dealer and investment advisor firm during the second half of the reporting period. USE hopes that Dyer & Blair will be an active participant in the market as it joins the four already existing broker/dealer firms and one investment advisory member firm which have played and continue to play a role in the development of the market.



Ms. Harriet Kiwanuka

Research & Market Development Manager

Research and Market Development Department

Economic Review

Global Economy

Global recovery strengthened and broadened since the last World Economic Outlook in

September 2003, with a significant increase in the baseline forecast in global GDP growth for 2004 and 2005 being projected at about 4.5% reports the World Economic Output Report 2004 issued by the IMF. Recovery was mainly attributed to sharp

increases in industrial production, accompanied by a strong rebound in global trade, business, to a lesser extent strengthened consumer confidence and investment growth recorded in almost all regions. The report further notes that while recovery

appeared to be underway in all regions, its pace and nature varied significantly with faster recoveries recorded in emerging Asia, particularly China, and in the United States, while recovery was slower in the euro area where consumption remained weak and some key forward indicators had fallen back. Emerging markets and developing countries also saw a rebound in activity with GDP growth projections for 2004 marked up to varying extents in most major regions with strong momentums of 7.2% recorded in emerging Asia. In Latin America, GDP growth for 2004 was expected to improve from the growth rate recorded in 2003 while in the Middle East growth was expected to fall back from the relatively high levels of 2003 mainly owing to slower growth in oil production.

Africa

GDP growth in Sub-Saharan Africa (excluding South Africa) jumped to 4.4% in 2003 aided by surging oil production in Nigeria. GDP growth in the region is however expected to strengthen further in 2004, reflecting a combination of improving macroeconomic fundamentals; higher commodity prices; better weather conditions; and last but not least – rising oil and gas production in several countries.

Uganda

GDP Growth

Growth in real GDP for the year was higher at 6% compared to the 5.2% growth in the previous year although it was still below the medium term growth target of 7%. Uganda's GDP growth also remains higher than the average growth achieved by the rest of Africa, which is estimated at 4.4% for 2003. GDP growth for next fiscal year

is projected at 5.9%. The GDP growth increase for the previous year is attributed to the improved performance in the agricultural sector, which grew by 5.2% from 2.3%, registered in the previous fiscal year.

Inflation

Inflation averaged 5% in the 2003/2004 fiscal year. Although inflation started off high at the beginning of the fiscal year, it continuously declined throughout the year. Maintaining low

“Recovery was mainly attributed to sharp increases in industrial production, accompanied by a strong rebound in global trade, business, to a lesser extent strengthened consumer confidence and investment growth recorded in almost all regions.”

inflation at the 5% level continues to be the cornerstone of Government's macroeconomic policy, because low inflation is essential to a stable economic climate, in which the private sector can make long term investment plans and the purchasing power of the poor is protected.

Exchange Rate

The exchange rate experienced appreciation pressures for a large part of the fiscal year registering an overall appreciation of 2.8% in the first half of 2003/04, compared to a depreciation of 8.3% in the last half of 2002/03. This appreciation was largely on account of strong dollar inflows from donor inflows, portfolio investment inflows and the export sector. Further appreciation of the shilling resulted from the persistent weakening of the US dollar on the world market.

Market Performance

Bond Market

The fiscal year under review, witnessed a major highlight in the history of Uganda's capital markets; the introduction of Long Term Government paper to the Fixed Income Securities Segment (FISMS) of the USE List.

To date the following bonds have been listed on the Exchange:

- The first of the series, FXD 1/2004/2, a 10% fixed coupon bond which was listed in January 2004 and raised a total of Ushs 50 bn from its initial auction and subsequent reopenings.
- FXD 2/2004/3, a 10.25% three year bond, which raised a total of Ushs

50bn from its initial auction in February and subsequent reopenings, all of which were oversubscribed.

- The UShs 20bn 10.75% fixed coupon five year bond, FXD 3/2004/5, that was listed in March 2004.
- Uganda's first ten year bond, FXD 4/2004/10, a Ushs 15bn 11.00% fixed coupon bond that was auctioned in May 2004 and oversubscribed by 67.7% which, according to market analysts sent a signal that investors, both local and foreign had given the economy's long term outlook a vote of confidence.

As at 30th June 2004, i.e. five auctions and 2 bond reopenings totalling to

Ushs 225 bn had been raised from the public under the system. The fact that all the offers were oversubscribed gives a clear representation of the appetite in the marketplace for long term government paper.

Secondary Market Treasury Bond Activity

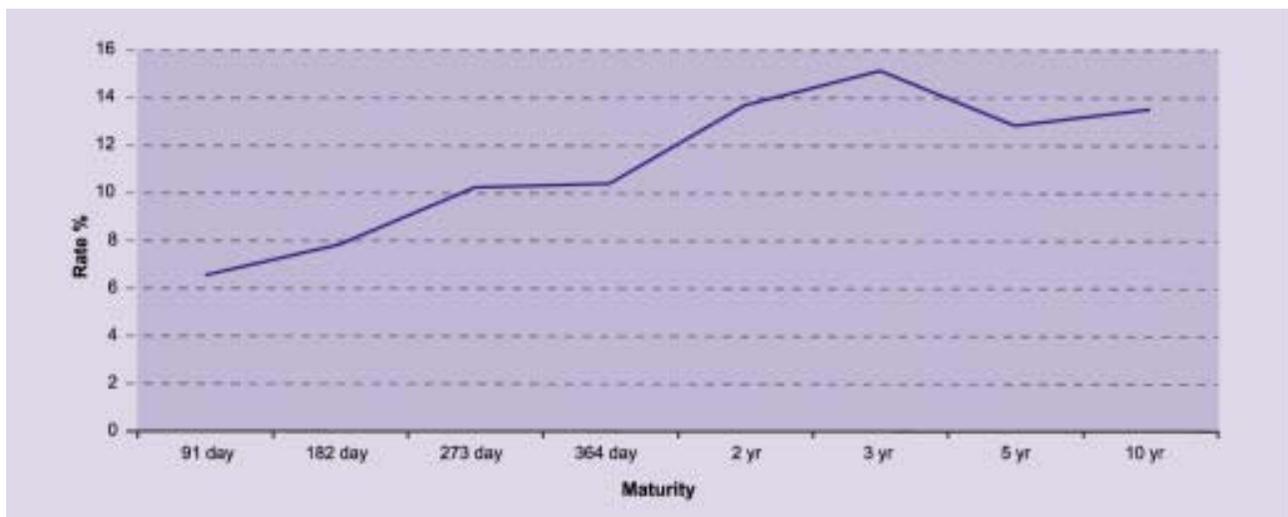
Since the issuance of the first bond in January 2004, secondary market activity for treasury bonds reached a total of Ushs 13,063,400,000 in turnover across all tenors. Outstanding yields at the close of June 2004 ranged from 11.50% to 13.75%; refer to the table below.

Table 1 —Government bond schedule as at 29th June 2004

Issue No	Issue Size (Ushs)	Maturity Date	Current Coupon	Total turnover to date	INDICATIVE		
					YTM (%)	Price (Clean)	
						High	Low
FXD 1/2004/2	50bn	17/01/2006	10.00%	503,100,000	13.750	93.631	83.143
FXD 2/2004/3	50bn	22/02/2007	10.25%	20,200,000	12.500	94.532	86.709
FXD 3/2004/5	20bn	23/03/2009	10.75%	12,540,100,000	11.500	97.207	84.644
FXD 4/2004/10	15bn	18/05/2014	11.00%	-	13.375	87.412	60.241

Compiled by: USE Research Department

Government Securities Yield Curve as at end of June 2004



Compiled by: USE Research Department

Equities Market

In the 98 trading sessions held during the year, an aggregate turnover of Ushs 321,446,920 was recorded representing

approximately one third of the Ushs 1,108,154,731 recorded in the preceding year. Similarly, the number of deals fell to 226 from 437 while the volume was reported at 470,836 shares for FY2003 /

2004 down from 584,484 shares in FY 2002/2003. Some have attributed this reduction in secondary market activity in equities to the improved appetite for government paper.

Trading volumes and activity on a quarterly basis: 2003/2004 Fiscal Year

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
No. of Shares Traded	186,507	9,794	259,014	15,521
Turnover (Ushs.)	184,973,745	42,709,955	76,518,195	17,242,025
No. of Deals	86	31	68	44
Trading Days	27	22	24	26
Monthly Avg. Turnover (Ushs.)	61,657,915	14,236,652	25,506,065	5,747,342
Monthly Avg. no. of trades	29	10	23	15

Source: USE Trading Department

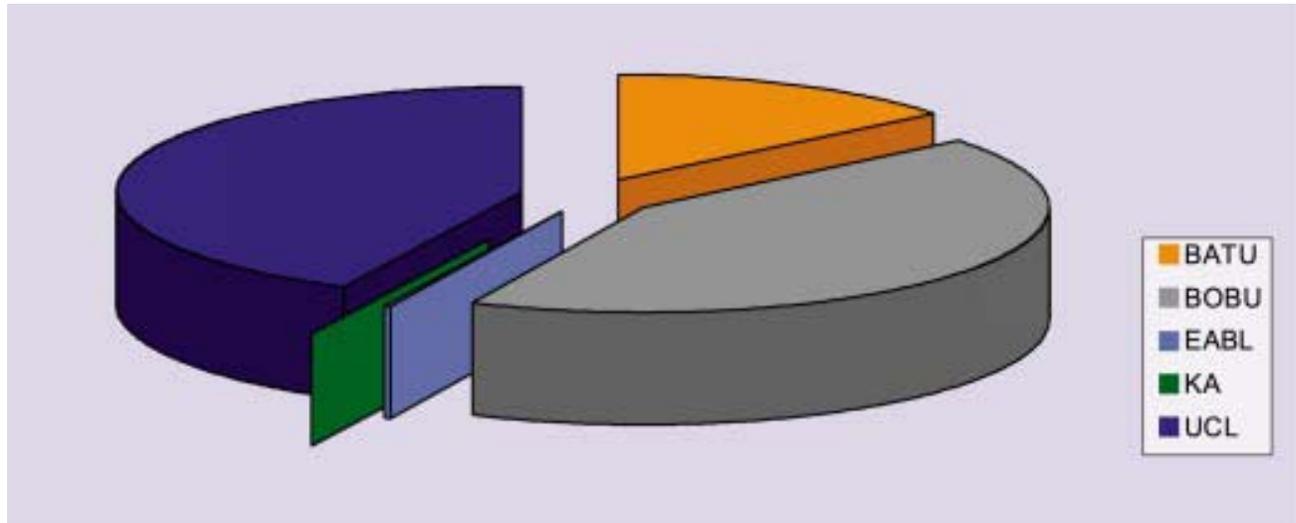
Activity per Counter

For the local listings, the BOBU and UCL counters recorded the highest turnover figures with both counters registering over Ushs 137 million while

the BATU counter recorded Ushs 45 million. The BATU counter registered the highest volume at 263,703 shares while the 186,519 and 19,564 shares exchanged hands on the BOBU and UCL counters respectively. The cross

listed stocks, EABL and KA recorded a total volume of 11,050,488 shares and 67,128,306 shares respectively in 4,220 and 8,844 deals respectively on both bourses.

Turnover per Counter



Source: USE Trading Department

USE All Share Index

August 2003 witnessed the official launch of the USE All Share index which gradually rose to a high of

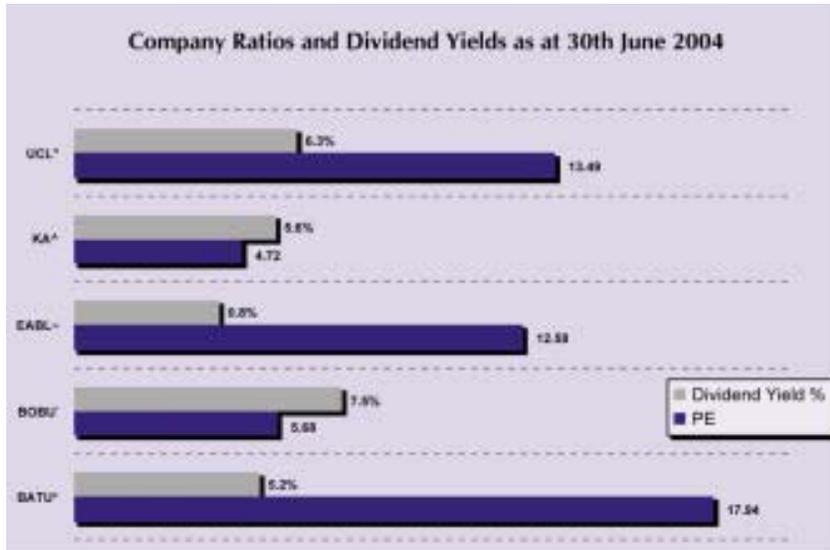
412.19 in March 2004 before declining to a low at the 348.32 level in mid April. The trend was then reversed with the index rising to a peak of 383.14 in early May 2004 before declining to the 334.87

levels at which it closed the quarter. A graphical presentation of the movements as depicted below.

USE All Share Index Movement as at end of June 2004



Source: USE Research Department



Note:
 EABL and KA closing price = NSE closing price for 30/6/2004
 Exchange Rates = Prevailing rates as at 30/6/2004

*BATU audited accounts for year ending 31st December 2003
 ~EABL audited results for the year ending 30th June 2004
 ^KA audited accounts for year ending 31st March 2004
 'UCL audited accounts for the year ending 31st December 2003
 'BOBU audited accounts for the year ending December 2003

Source: USE Research Department

Trading Statistics - July 2003 to June 2004

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
No. of Shares Traded	29,201	2,798	154,508	6,995	2,002	797	3,782	3,800	251,432	11,890	800	2,931
Turnover (Ushs)	49,586,930	12,056,490	123,333,325	32,253,300	4,476,365	5,980,290	21,628,910	14,779,550	40,109,735	10,297,800	624,000	6,387,725
No of Deals	30	26	30	13	11	7	5	26	11	32	3	10
Trading Days	10	8	9	9	7	6	8	8	8	9	8	8
Daily Avg. Turnover (Ushs)	4,958,693	1,507,061	13,703,703	3,583,700	639,481	996,715	2,703,614	1,847,444	5,013,717	1,144,200	78,000	798,466
Turnover Ratio (turnover/market cap%)	0.01318	0.00331	0.03222	0.00262	0.00030	0.00041	0.00137	0.00095	0.00522	0.00067	0.00005	0.00048
Market Cap (Ushs Billion)	376.2	364.4	382.8	1,231.1	1,477.0	1,453.0	1,583.8	1,555.3	768.7	1,532.4	1,283.3	1,342.2
BATU closing price(Ushs)	1,200	1,200	1,180	1,180	1,180	1,180	1,180	1,175	1,170	1,150	1,150	1,150
BOBU closing price (Ushs)	760	760	760	760	750	750	750	700	700	800	795	800
EABL closing price(Ushs)	7,062	7,906	8,659	9,638	11,825	11,633	12,675	12,441	11,817	11,994	9,645	10,172
KA closing price(Ushs)	177	171	232	191	208	202	239	235	246	286	302	305
UCL closing price(Ushs)	6,220	6,280	6,310	7,500	7,505	7,505	7,505	7,505	7,505	8,000	8,000	8,000
Exchange/USD	2,010	2,015	2,005	1,995	1,975	1,995	1,930	1,920	1,940	1,925	1,850	1,810

Source: USE Trading Department

Note: Exchange Rate – Citibank Exchange rate as at close of the Month

Closing Price – Share Price as at the close of the Month

Market Developments



Mr. George S. Anderson Executive President of Ginnie Mae, USA rings the bell to commence trading during the 10 year Government Bond Listing Ceremony

New Developments

Long Term Government Paper

During the Fiscal Year, two-year Treasury bond with a coupon rate of 10% was listed on the 15th January 2004; this was followed by the three-year Treasury bond with a coupon rate of 10.25% which was listed on the 26th February 2004; the five-year Treasury bond with a coupon rate of 10.75% was listed during the following month on 25th March 2004; on 20th May 2004, the ten-year Treasury bond was listed on the USE with a coupon rate of 11.00%. According to government, the purpose for the above issuances is to manage the transmission of the monetary policy over a longer period of time.

STG released Progress Report

In December 2003, the Social Security Stakeholders Transition Group (STG) released a Progress Report following the accomplishment of the first phase of its work. The group was commissioned to make recommendations on the reform of the social security sector as a whole. This mile stone is an important one for USE given that reform of the social sector is fundamental for the achievement of promoting domestic savings and capital formation as a way of triggering economic transformation in the country.

PTA Bank Corporate Bond Matures

During the period under review, the 5 year PTA Corporate Bond that was listed on 8th March 1999 at the Uganda Securities Exchange matured on 8th March 2004.

Public Education

Launch of the Communication Strategy

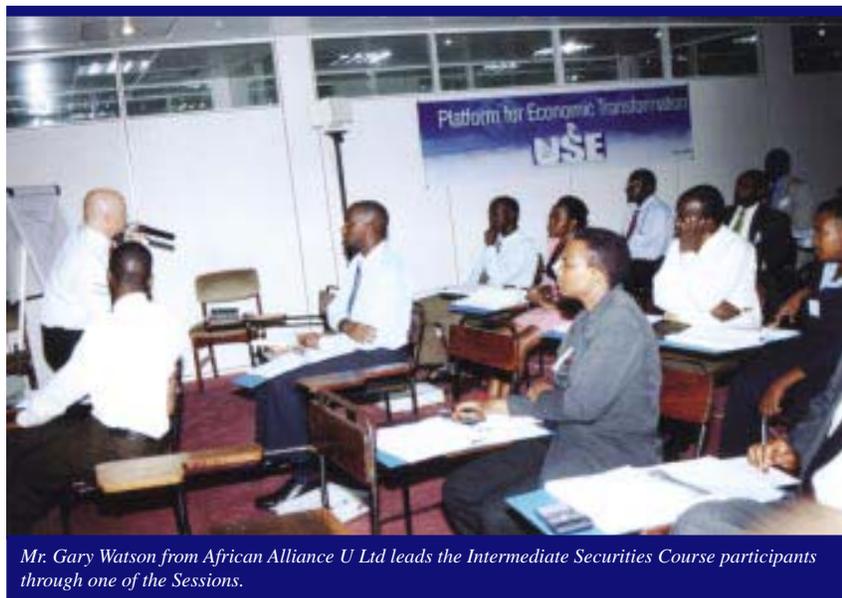
The period under review saw the successful launch of a joint Communication Strategy involving all the players in the Ugandan Capital Markets Industry. The Communication Strategy, which is funded by the GTZ/ SIDA programme, will cover the period 2003 – 2006 and is aimed at increasing public awareness and understanding of Capital Markets in Uganda with a view to enhancing a vibrant and efficient market. Activities under this strategy mainly consisted of educational talks and workshops, lectures and seminars, the use of both electronic and print media to disseminate educational materials and several other activities.

Securities Courses

USE successfully conducted two Modules of its Securities Courses. The courses which run between 27th August to 30th August 2003 for the 1st Module, and 30th March to April 3rd 2004 for the 2nd Module attracted a lot of interest from a broad spectrum of professionals.

Open Day Events

USE together with the Broker/Dealer and Investment Advisor fraternity organised an open day event at the constitutional square which attracted several people from the public, who were interested in acquiring knowledge on how to invest in securities.



Mr. Gary Watson from African Alliance U Ltd leads the Intermediate Securities Course participants through one of the Sessions.

Facts Behind the Figures Workshop

USE successfully launched its “Facts Behind the Figures” initiative aimed at giving top executives from listed companies a chance to explain their financial statements to the Broker/Dealers, Investment Advisors, Fund Managers and the Media. The initiative was launched with a session for Bank of Baroda (U) Ltd on 4th May 2004, and later held one for Uganda Clays Ltd on 13th May, 2004.

Journalists Workshop

During the fiscal year, USE organised a successful one-day Journalist’s Seminar Under the theme, “Developing Financial Reporting Skills” at the Lion Center, Sheraton Hotel. The function, which brought together Business Journalists from the Country’s various media houses and representatives from the broker fraternity, was funded under the GTZ/SIDA programme. The day’s Guest

speaker was Mr. Mureithi Mutahi, the Public Relations Officer, PTA Bank.’

Capital Markets Theme Week

In an effort to create awareness about the importance of the Stock Market in the economic development process, USE participated in a 5-day Capital Markets Theme Week organised by British Council.

Privatization Unit Workshop

USE Participated in a two-day workshop organized by Privatization Unit held at Nile Hotel, in Kampala from 31st October – 1st November 2003. The workshop which was under the theme “Privatization and You” attracted various institutions around the Country.

International Trade show Exhibitions

USE participated in the two annual events that were organised by Uganda

Manufactures Association held in Kampala and Mbarara respectively.

University Students visit the Exchange

Under the Tertiary Institutes’ Educational Programme (TIEP), USE hosted 3rd Year Business Students of Uganda Martyrs University at the Exchange. The students visited the Exchange’s Trading Floor, and were taken through trading Operations and procedures at the Exchange.

Rotary Club Visits

Visits were made to the Rotary Club of East Kampala to educate the Rotarians on the operations and functions of the Securities Exchange.

Regional Integration

15th EASRA Meeting held in Kampala

During the fiscal year, USE participated in the 15th meeting of the Stock Exchanges and the Capital Markets Regulatory Authorities of the three East African Member States. This consultative meeting was held in Kampala, Uganda from 17th to 21st February 2004.

Harmonization of Tax Incidence in East Africa

The above meeting was held in Arusha, Tanzania to consider the consultant’s study report on the “Harmonization of tax rates and tax incidence within the East African Community”. Among the participants were officials from the Finance Ministries and the Capital Markets of the three East African states.

UNECA Conference

USE participated in a 3-day workshop on African Capital Markets Development held in Sandton, South Africa from 27th to 29th October 2003. Participants from various countries, with different levels of development and experiences attended this workshop, whose objective was to promote capital markets development in Africa at national and regional levels.

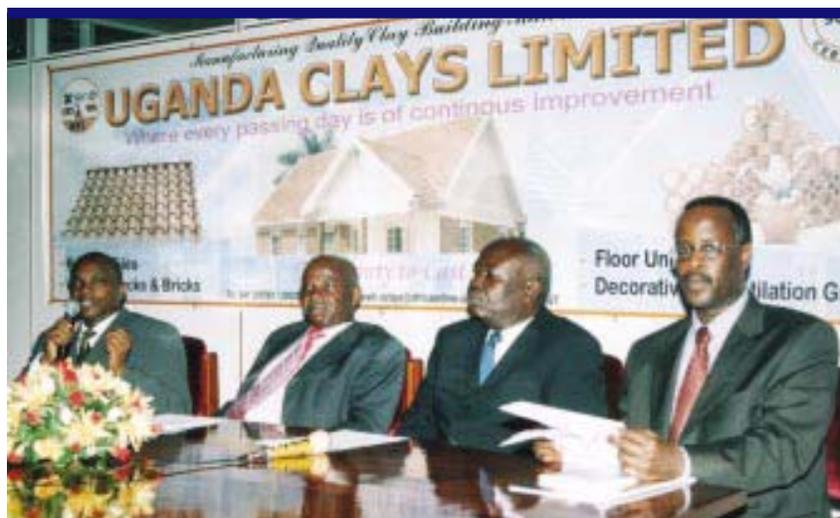
Capacity Building

ANNA Workshop

During the fiscal year, USE participated in the ANNA workshop and General Meeting that was held in Cairo, Egypt from 13th to 14th November 2003. The workshop which was attended by ANNA partners and members mainly dealt with the development and support of members and partners of the Association of National Numbering Agencies (ANNA). ANNA Numbering is now recognised by IOSCO as the recommended Securities Numbering System under G30.

Annual IOSCO Conferences

During the year in review, USE participated in the 28th and 29th Annual Conferences of the International Organization of Securities Commissions that were held in Seoul Korea and Amman Jordan, in October 2003 and May 2004 respectively. The conferences brought together several participants from financial regulatory agencies and private sector bodies from all over the world.



Executives from Uganda Clays Ltd and USE address journalists during the UCL Facts Behind the Figures Conference.

MEFMI Participants attended an in house Workshop at the USE

USE organized an in-house workshop for participants representing various Financial Institutions from different countries in Africa. Representatives were from Namibia, Tanzania, Botswana, Swaziland, Malawi, Zimbabwe, Lesotho, Zambia, and Angola. The workshop was conducted to give the visiting participants an understanding of the operations of the USE and an overview of Uganda's Capital Markets Industry.

Developing Liquidity in Secondary Market Operations

USE participated in a 10-day workshop organized by MEFMI on Developing Liquidity in Secondary Markets held at Grand Imperial Hotel, Kampala from 7th to 18th July 2003. The workshop mainly focused on Secondary Markets Development in Africa, under the theme "Development of Bond Markets and Financial Market Operations".

RTGS Demonstration

USE participated in a one-day workshop on the acquisition and implementation of a Real Time Gross Settlement System in Uganda. The workshop, which was organised by the Bank of Uganda's National Payment Settlement Systems Department, was organised to highlight the System's operations and functions, which will facilitate the safe and efficient transfer of large value payments between transacting parties.

Back Office Training

Training and capacity building for the USE Staff continued to take priority throughout the Year. GTZ-SIDA under its Financial Systems Development Programme continued to sponsor training programmes, and this financial year saw the USE Staff train with the Ghana Stock Exchange and Nairobi Stock Exchange.

Information Technology Report

In appreciation of the role of information technology (IT) in today's average enterprise, establishment of a fully fledged IT department was endorsed by USE Governing Council and effected in June 2004 as spelt out in USE's 2003-2007 4 year strategic business plan. This therefore means that the period under review was majorly a formation phase for IT at USE.

Over-all IT strategy:

The USE business strategy is changing focus towards use of technology to securely handle delivery, clearing and settlement. Information Technology at USE is viewed as critical to business, and an essential enabler of business.

To this end, the IT department, in conjunction with all the departments at USE and stakeholders in the capital market, kickstarted the process of basic office automation in preparation for an automated central depository system described below.

In order to build a strong foundation for the requirements of electronic dealing (read as e-commerce), the department was, during the period under review, involved in developing and consolidating policies, procedures and best practices that will stand the test of time.

The Central Depository System:

A Central Depository System is one in which stocks belonging to a particular entity are deposited in the custody of a central depository such that transactions or transfers including such stocks are executed in book entry

form. It can be compared to the bank system where each customer has an account that reflects all transactions relating to the customer.

Below is an outline of the pros of an electronic CDS:

- Ease and speed of transfer of shares;
- Reduced risks of loss, theft and

a key element in promoting informed investment decision-making, by maintenance of the USE's website, <http://www.use.or.ug>.

The future:

The future holds a challenging requirement for the department to

“Information Technology at USE is viewed as critical to business, and an essential enabler of business.”

mutilation of certificates;

- Enhanced efficiency;
- Reduced paper work;
- Building of investor confidence in the market;
- Enforcement of trading rules.

The key challenges facing the CDS implementations thus far range from:

- High implementation costs (Systems– Production & Backup, Resources, Consultancy, Training);
- Risk management (Market integrity, system manipulation);
- Managing the transition from manual to automated environment;
- Low technology levels (penetration) in the East African region.

consolidate the operations of the CDS system with a need to connect and integrate with broker/dealers, registrars and custodians as external users; and to create a virtual regional CDS by linking with the other East African stock markets to enable cross-boarder trading. This will directly translate into the greater USE vision: An efficient and transparent market that matches international standards.

General Office Automation:

During its infancy, the department developed plans and strategies to support day to day office activities through installation and maintenance of office systems. This was also extended to supporting of information dissemination to the general public, as

UGANDA SECURITIES EXCHANGE LIMITED
(A Company Limited by Guarantee)

FINANCIAL STATEMENTS

30 June 2004

(A Company Limited by Guarantee)

Company Information

Year ended 30 June 2004

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Workers' House

Plot 1 Pilkington Road, 2nd Floor, Northern Wing
P.O. Box 23552
Kampala

BANKERS

Stanbic Bank Uganda Limited

Corporate Banking Division
45 Kampala Road
P.O. Box 7131
Kampala

Citibank Uganda Limited

Corporate Banking Division
Plot 4 Ternan Avenue
P.O. Box 7505
Kampala

SECRETARY

Simon Rutega

P.O. Box 23552
Kampala

AUDITORS

Ernst & Young

Ernst & Young House
18 Clement Hill Road
Shimoni Office Village
P. O. Box 7215
Kampala

(A Company Limited by Guarantee)

Directors' Report and Financial Statements

Year ended 30 June 2004

The directors submit their report and the audited financial statements for the year ended 30 June 2004, which show the state of the company's affairs.

1. PRINCIPAL ACTIVITIES

The company continues to provide, maintain and regulate suitable premises and facilities for conducting all the business of securities exchange.

2. RESULTS

The results for the year are set out on page 27.

3. RESERVES

The reserves of the company are set out on page 28.

4. DIRECTORS

The directors who served during the year and to the date of this report were:-

Baroda Capital Markets (U) Ltd.
Crane Bank Financial Services Limited
Equity Stock Brokers (Uganda) Ltd.
Geoffrey A. Onegi-Obel & Co. Limited
MBEA Brokerage Services (Uganda) Ltd.
Michael Opagi- Privatisation Unit.

5. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with section 159(2) of the Companies Act.

By Order of the Board

29th September 2004

(A Company Limited by Guarantee)

Statement of Directors' Responsibilities Year ended 30 June 2004

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.



.....
Director

29th September 2004



.....
Director

21st September 2004



Report of the Independent Auditors to the Members of Uganda Securities Exchange Limited

We have audited the financial statements on pages 26 to 35, which have been prepared on the basis of the accounting policies set out on page 30. We obtained all the information and explanations, which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 24, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of the affairs of the company and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain a reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the company at 30 June 2004 and of the deficit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Companies Act.

A handwritten signature in blue ink that reads "Ernst & Young".

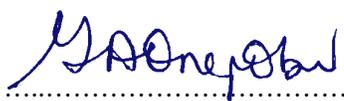
KAMPALA

30th September 2004

Balance Sheet as at 30 June 2004

ASSETS	Note	2004 Ushs	2003 Ushs
Intangible assets	1(h)& 2	<u>1,655,303</u>	<u>2,360,417</u>
NON-CURRENT ASSETS			
Property and equipment	1(c) & 3	107,798,394	135,221,946
Investments	4	<u>64,329,950</u>	<u>28,442,584</u>
		<u>172,128,344</u>	<u>163,664,530</u>
CURRENT ASSETS			
Trade and other receivables	5	87,123,389	11,886,943
Short-term investments		-	47,923,000
Cash and bank balances	6	<u>120,255,659</u>	<u>179,088,971</u>
		<u>207,379,048</u>	<u>238,898,914</u>
TOTAL ASSETS		<u>381,162,695</u>	<u>404,923,861</u>
SHAREHOLDERS' FUNDS AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	7	-	-
Capital grant		17,854,144	28,000,791
Reserves		<u>352,668,426</u>	<u>365,421,187</u>
		<u>370,522,570</u>	<u>393,421,978</u>
CURRENT LIABILITIES			
Trade and other payables	8	<u>10,640,125</u>	<u>11,501,883</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>381,162,695</u>	<u>404,923,861</u>

The financial statements were approved by the Board of Directors on 21st September 2004 and signed on its behalf by: -



 Director



 Director

Income and Expenditure Statement For the Year ended 30 June 2004

INCOME	Note	2004 Ushs	2003 Ushs
Listing fees		464,654,044	445,557,293
Membership fees		6,000,000	6,000,000
Revenue grants		152,460,000	141,500,000
Capital grants transferred		10,146,647	2,796,976
Interest on investment		7,178,061	4,446,541
Application and entrance fees		8,000,000	-
Miscellaneous income	1 f (iii)	<u>20,757,180</u>	<u>10,796,638</u>
		<u>669,195,932</u>	<u>611,097,448</u>
EXPENDITURE			
Staff costs		276,912,009	253,054,485
Finance cost		2,169,848	1,746,601
Administrative expenses	9	268,634,443	234,981,390
Other operating expenses	10	<u>134,232,393</u>	<u>138,259,327</u>
		<u>681,948,693</u>	<u>628,041,803</u>
DEFICIT FROM CONTINUING OPERATING ACTIVITIES BEFORE TAXATION	11	(12,752,761)	(16,944,355)
TAXATION	12	-	-
NET DEFICIT FROM CONTINUING OPERATIONS AFTER TAXATION		<u>(12,752,761)</u>	<u>(16,944,355)</u>
NET DEFICIT FOR THE YEAR		<u>(12,752,761)</u>	<u>(16,944,355)</u>

Statement of changes in Equity Year ended 30 June 2004

	Share Capital Ushs	Capital Grants Ushs	Retained Earnings Ushs	Total Ushs
At 1 July 2003	-	1,431,307	375,003,042	376,434,349
Deficit for the year	-	-	(16,944,355)	(16,944,355)
Capital grants during the period	-	29,366,460	-	29,366,460
Amortisation of grants	-	<u>(2,796,976)</u>	-	<u>(2,796,976)</u>
As previously stated	-	28,000,791	358,058,687	386,059,478
*Prior year adjustment	-	-	<u>7,362,500</u>	<u>7,362,500</u>
Reinstated amount as at 30 June 2003	-	<u>28,000,791</u>	<u>365,421,187</u>	<u>393,421,978</u>
At 1 July 2003	-	28,000,791	365,421,187	393,421,978
Deficit for the year	-	-	(12,752,761)	(12,752,761)
Amortisation of grants	-	<u>(10,146,647)</u>	-	<u>(10,146,647)</u>
At 30 June 2004	-	<u>17,854,144</u>	<u>352,668,426</u>	<u>370,552,570</u>

* This relates to the listing fees from BATU for the financial year 2003.

Cash Flow Statement

Year ended 30 June 2004

	Note	2004 Ushs	2003 Ushs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net deficit before taxation		(12,752,761)	(16,944,355)
Adjustments for: -			
Depreciation	3	40,242,504	31,849,939
Amortisation of intangible assets		895,317	214,583
Amortisation of capital grants		<u>(10,146,647)</u>	<u>(2,796,976)</u>
Operating profit before working capital changes		<u>18,238,413</u>	<u>12,323,191</u>
(Increase)/ decrease in trade and other receivables		(75,236,446)	2,645,238
Decrease/(increase) in short-term investments		47,923,000	(47,923,000)
(Decrease)/increase in trade and other payables		<u>(861,758)</u>	<u>339,265</u>
Net cash out flow from operating activities		<u>(9,936,791)</u>	<u>(32,615,306)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	3	(12,818,952)	(68,505,893)
Purchase of software	2	(190,203)	(2,575,000)
Long-term investment in Central Depository System/treasury bonds		<u>(35,887,366)</u>	<u>(28,442,584)</u>
Net cash flow from investing activities		<u>(48,896,521)</u>	<u>(99,523,477)</u>
Net decrease in cash and cash equivalents		(58,833,312)	(132,138,783)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
	13	<u>179,088,971</u>	<u>311,227,754</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	13	<u><u>120,255,659</u></u>	<u><u>179,088,971</u></u>

Notes to the Financial Statements

30 JUNE 2004

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting.

(b) Revenue Recognition

Membership fees and other income are recognised on an accrual basis.

(c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives at the following rates:

The annual depreciation rates in use are:

Office partitions	33 1/3%
Office equipment	12 1/2%
Furniture, fixtures & fittings	12 1/2%
Motor vehicles	25%
Computers	33 1/3%

(d) Foreign Currency Transactions

Transactions during the year are converted into Uganda Shillings at rates ruling at the transactions dates. Monetary assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income and expenditure account.

(e) Bad and Doubtful Debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

(f) Revenue and Capital Grants

- (i) Revenue Grants are recognised in the income and expenditure account in the year in which they are received and utilised.
- (ii) Capital Grants are credited to a special capital grants reserve and written back against the income and expenditure statement over the useful lives of the assets financed by the grants.
- (iii) The miscellaneous income relates mainly to the Securities course conducted during the year.

(g) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(h) Intangible Assets

Where software is not an integral part of the related hardware, computer software is treated as an intangible asset. Intangible assets are measured initially at cost less any accumulated amortisation. Intangible assets are amortised at 33 1/3% annually, on straight-line basis.

2. INTANGIBLE ASSETS

These comprise of computer software reclassified from properties and equipment, for separate disclosure as required by IAS 38, "Intangible Assets".

	2004 Ushs	2003 Ushs
Cost at 1 July 2003	2,360,417	-
Additions	190,203	2,575,000
Amortisation	<u>(895,317)</u>	<u>(214,583)</u>
Net book value at 30 June 2004	<u>1,655,303</u>	<u>2,360,417</u>

3. PROPERTIES AND EQUIPMENT

	Office Partitions Ushs	Computer Equipment & Accessories Ushs	Vehicles Ushs	Fixtures, Fittings & Equipment Ushs	Total Ushs
Cost					
At 1 July 2003	14,000,000	56,456,398	58,011,327	87,904,468	216,372,193
Reclassification	-	(2,575,000)	-	-	(2,575,000)
Additions	<u>-</u>	<u>360,000</u>	<u>-</u>	<u>12,458,952</u>	<u>12,818,952</u>
At 30 June 2004	<u>14,000,000</u>	<u>54,241,398</u>	<u>58,011,327</u>	<u>100,363,420</u>	<u>226,616,145</u>
Depreciation					
At 1 July 2003	14,000,000	20,328,295	22,028,541	22,432,994	78,789,830
Reclassification	-	(214,583)	-	-	(214,583)
Charge for the year	<u>-</u>	<u>14,159,592</u>	<u>13,961,165</u>	<u>12,121,747</u>	<u>40,242,504</u>
At 30 June 2004	<u>14,000,000</u>	<u>34,273,304</u>	<u>35,989,706</u>	<u>34,554,741</u>	<u>118,817,751</u>
Net Book Value					
At 30 June 2004	<u>-</u>	<u>19,968,094</u>	<u>22,021,621</u>	<u>65,808,679</u>	<u>107,798,394</u>
At 30 June 2003	<u>-</u>	<u>33,767,686</u>	<u>35,982,786</u>	<u>65,471,474</u>	<u>135,221,946</u>

In order to comply with the International Financial Reporting Standards, intangible assets have been reclassified from computer equipment & accessories. As a result, separate disclosures of intangible assets have been made on the face of the balance sheet.

	2004 Ushs	2003 Ushs
4. INVESTMENT		
Government Treasury Bond for 731 days	24,905,400	-
*Central Depository System	<u>39,424,550</u>	<u>28,442,584</u>
	<u>64,329,950</u>	<u>28,442,584</u>

*This relates to investment in East African Central Depository System up to 2.5% shareholding bought on behalf of the company by the Nairobi Stock Exchange.

5. TRADE AND OTHER RECEIVABLES

Listing fees	74,699,460	7,362,500
Interest receivable	1,170,852	935,791
Advances to staff	5,590,000	1,200,000
Brokerage commission	262,725	288,652
Membership fees	2,000,000	2,000,000
Other receivables	3,300,352	-
Refundable deposit	<u>100,000</u>	<u>100,000</u>
	<u>87,123,389</u>	<u>11,886,943</u>

6. CASH AND BANK BALANCES

Cash at bank - Stanbic Bank	482,879	589,878
Cash at bank - Citibank Ushs	80,314,370	136,349,237
- Citibank US\$	39,449,710	42,012,206
Petty cash	<u>8,700</u>	<u>137,650</u>
	<u>120,255,659</u>	<u>179,088,971</u>

7. SHARE CAPITAL

The company is limited by the guarantee of its members who are licensed broker / dealer firms.

8. TRADE AND OTHER PAYABLES

Refundable listing fees	3,084,032	3,084,032
Accruals	<u>7,556,093</u>	<u>8,417,851</u>
	<u>10,640,125</u>	<u>11,501,883</u>

	2004 Ushs	2003 Ushs
9. ADMINISTRATIVE EXPENSES		
Advertising	1,287,000	2,358,300
Printing and stationery	8,780,485	5,078,570
Membership	3,050,000	2,133,333
Telephone, fax and postage	23,062,525	21,453,657
Maintenance of equipment	3,007,010	1,802,629
Depreciation	40,242,504	31,849,939
Amortisation of software	895,317	214,583
Vehicle maintenance and fuel expenses	25,872,508	19,353,615
Venture capital initiative	14,013,399	22,463,580
Office rent	77,213,765	73,774,081
Insurance	3,366,932	1,333,818
Electricity and water	1,884,835	1,438,166
Subscriptions	6,769,000	6,025,000
Statutory contribution	27,543,950	25,821,650
Office general expenses	19,138,360	15,577,969
Audit fee and expense	3,300,000	3,300,000
Consultancy	4,064,973	-
Sundry	<u>5,141,880</u>	<u>1,002,500</u>
	<u>268,634,443</u>	<u>234,981,390</u>

10. OTHER OPERATING EXPENSES

Education, training, and travel	98,022,366	96,180,854
CDS operational expenses	13,979,658	22,236,250
Foreign Exchange loss	3,685,849	0
News papers, magazines, and publications	<u>18,544,520</u>	<u>19,842,223</u>
	<u>134,232,393</u>	<u>138,259,327</u>

11. DEFICIT FROM CONTINUING OPERATING ACTIVITIES BEFORE TAXATION

The deficit before taxation is stated after charging: -		
Depreciation	40,242,504	31,849,939
Auditors' remuneration	<u>3,300,000</u>	<u>3,300,000</u>

12. TAXATION

Though the tax status of the company remains unresolved, no provision for taxation has been made in the financial statements, because of tax losses brought forward.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2004 Ushs	2003 Ushs
Cash at hand	8,700	137,650
Bank balances	<u>120,246,959</u>	<u>178,951,321</u>
	<u>120,255,659</u>	<u>179,088,971</u>

14. COMMITMENTS

There were no capital commitments as at 30 June 2004.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2004.

16. CURRENCY RISK

The company operates within Uganda and its assets and liabilities are reported in the local currency. It held no significant foreign currency assets and liabilities as at 30 June 2004.

17. EMPLOYEES

The average number of employees for the company during the year was thirteen against eleven in 2003.

18. INCORPORATION

The company is incorporated in Uganda under the Companies Act.

19. CURRENCY

These financial statements are presented in Uganda shillings (Ushs). The exchange rate applied at the close of the year for Balance Sheet items was \$1: 1,810/=.

Member Firms

1. Baroda Capital Markets (U) Ltd.

18 Kampala Road
P. O. Box 7197 Kampala
Tel: 233680/3
Fax: 230781
Email: bobho@spacenet.ug.com
Broker/Dealer, Investment Advisor

2. Crane Financial Services Ltd.

20/38 Kampala Road
P. O. Box 22572 Kampala
Tel: 341414 or 345345
Fax: 231578
Email: Cranebnk@imul.com
Broker/Dealer, Investment Advisor

3. Equity Stock Brokers (U) Ltd.

Orient Plaza, Plot 6/6A K'la Rd.
P.O. Box 3072, Kampala
Tel: 236012/3/4/5
Fax: 348039
Email: equity@orient-bank.com
Broker/Dealer, Investment Advisor

4. Dyer & Blair (U) Ltd.

Christeve House, Suite8, 3rd Floor
Plot 29 Nkrumah Road
P.O. Box 1610, Kampala
Tel: 256-41-233050
Fax: 231813
Email: abdillahi@dyerandblair.com
Broker/Dealer, Investment Advisor.

5. Geoffrey A. Onegi - Obel & Co. Ltd.

Suite 1, Theater House,
5 Dewinton Road
P. O.Box 1610 Kampala, Uganda
Tel: 256-41-233843
Fax: 256-41-233849
Email: negiobel@utlonline.co.ug
Investment Advisor

5. MBEA Brokerage Services (U) Ltd.

44 Lumumba Avenue
Nakasero
P. O. Box 24613 Kampala
Tel: 031-260011 / 041-231960
Fax: 342045
Email: info@mbea.net
Website: www.mbea.net
Broker/Dealer, Investment Advisor