



Message

Nepal Stock Exchange Limited (NEPSE) is publishing a newsletter, NEPSE Newsletter, every two

months from now on. The newsletter will provide much needed information about the Nepali Stock Exchange, which will benefit both investors and the general public. Therefore, I would first like to extend my appreciation to the NEPSE management for its endeavor.

Significant developments have been made in the secondary market in recent years, especially after the Nepal Government decided to reform the capital market. The computerized trading system has replaced the open-out-cry system. NEPSE has implemented the wide area network (WAN) system to enable brokers to trade from their own offices. The process of recruiting new brokers is also in progress. Since the last couple of months, NEPSE has started posting trading activities on its website in order to provide investors and the general public with real-time information. Furthermore, the Nepal Government has made commitments to improve and develop the secondary market to enable it to encompass more corporate organizations, investors and financial instruments.

A cog in the wheel of these developments the NEPSE newsletter will try to provide the right and reliable information about the Nepali financial market at the right time. The right and reliable information will help investors to tap into the virtually endless capital resources of the secondary market. It will also prevent the possibility of price manipulation at the secondary market and reduce the chances of fraud and malpractices. So investors and the general public should find this newsletter beneficial.

Bimal Prasad Wagle
Chairman

Dr. Mahat Inaugurates the Automated Trading System

Finance minister Dr. Ram Sharan Mahat inaugurated the automated trading system (ATS), an internationally compatible trading system, on 24 August 2007. In order to adopt the ATS, NEPSE had made an agreement with the British Company Comdaq Limited in November 2006 under the Asian Development Bank (ADB) loan assistance project, Corporate and Financial Governance (CFG). The ATS cost US dollar 300 thousand.

The ATS is a fully automated screen-based trading system. Trading on equities takes place on all weekdays, except on public holidays. Only odd-lot trading is done on Fridays between 12 pm to 3 pm. The Stock Exchange may also extend, advance or reduce trading hours depending on the situation.

The price range is applicable to individual securities. The trading of individual securities is not halted but allowed within a certain price range. The price band is 10 percent of previous close on either way. During the "at the opening" (ATO) session the range is five percent on either way of the previous close price. After the ATO session the price band is two percent on either way of the last traded price till it reaches 10 percent of the previous close.

The ATS adopts the principles of order-driven market. The best-buy order is matched with the best-sell order. An order may match partially with another order producing

multiple trades. For the order matching the best-buy order is the one with the highest price and the best sell-order is the one with the lowest price. This is because the system views that all buy-orders are available from the point of view of the sellers and all sell-orders are available from the point of view of the buyers in the market. So of all the buy-orders available in the market at any point of time, a seller would obviously want to sell his shares at the highest possible buy-price that is being offered. Hence, the best-buy order is the order with the highest price and the best-sell order is the order with the lowest price.

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1, and the buying brokers have to submit bank vouchers for settlement. At T+2, the selling brokers must



Finance Minister Dr. Ram Sharan Mahat (Far Right) during the inauguration of the ATS on 24 August 2007. Also seen in the picture are (L to R) GM Revat Bahadur Karki, Act. DGM Pramad Bhattarai and Chairman Bimal Wagle.

submit share certificates. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank.



Foreword

The role of the stock exchange is to facilitate the marketability and liquidity of securities through market intermediaries. To fulfill this role, the Nepal Stock Exchange needs to make the securities market competitive, modern, efficient and reliable. NEPSE have taken some measures toward that end.

In recent years NEPSE has introduced the circuit breaker, halted trading on stock exchanges, improved the quality of brokers' services, etc. in order to reform the secondary market and promote the welfare of investors.

In the beginning of the 2007/08 fiscal year, NEPSE replaced the old open-out-cry system of securities trading, which was in place since the beginning of secondary trading in 1994, with the automated trading system (ATS). The ATS has not only mechanized securities trading, but also reduced the manipulation of prices and human errors.

NEPSE has also reformed its organizational structure, right-sized its human resources, outsourced its cleaning and security services, started online trading through WAN, disseminated real-time information and extended the trading hours to make stock exchanges efficient. The Securities Exchange Act-2063 and new regulations formulated under the act have further ensured the efficiency of trading. NEPSE is bringing this newsletter out to reduce uncertainty in the market and to make the market more efficient by providing information about secondary market activities and by carrying market reviews.

This newsletter, we hope, will benefit investors in particular and students, researchers, analysts, securities businesspersons and even the common people in general.

Informed investors are the pillars of the stock market. So dissemination of market-related information contributes to the sustainable development of the capital market.

Rewat Bahadur Karki
General Manager/CEO

NEPSE Turns 15

NEPSE has completed 14 years of its operations, despite many ups and downs in the securities market. The Nepal Government, under a program initiated to reform the capital market, converted the Securities Exchange Center into Nepal Stock Exchange Limited in 1993. The main objective of the conversion was to promote a specialized secondary market in Nepal.

Secondary market indicators show that NEPSE has grown tremendously, especially after the People's Movement of 2006. The number of market participants and transactions has increased. The volume of trade has gone up. Market capitalization has grown considerably. And the NEPSE index has shot up. These are encouraging signs. At present 145 companies are listed in NEPSE. The number of investors is estimated to cross one million. The last year's turnover was Rs. 8.36 billion and paid-up capital was Rs. 21.74 billion. Similarly, market capitalization crossed the Rs. 300 billion mark and the NEPSE index has reached the unprecedented height of 1064.09 points. The shares of only 16 companies were traded in 1993, the year when NEPSE was started. Turnover, paid-up

capital and market capitalization at that time were Rs. 441.56 million, Rs. 2182.20 million and Rs. 13872.00 million respectively.

A not-for-profit organization till now, NEPSE is operating under the Securities Exchange Act-2063. The Government of Nepal (58.66%), the Nepal Rastra Bank (34.60%), the Nepal Industrial Development Corporation (6.12%) and Licensed Members (0.62%) are its shareholders.

The government introduced a program to privatize this institution in this year's budget, following NEPSE's suggestion that it be privatized on the basis of the corporatization and demutualization models.

NEPSE Recruits New Staff

NEPSE recruited 14 new staff at different levels under the open recruitment system on 2 September 2007. Four each are 6th and 7th level officers and six others are 5th level officers. Of the 14 new recruits, six are with the Surveillance, Listing and Finance Departments while eight are with the Human Resource Department.

New Employees		
SN	Name	Position
1	Nirnjan Phuyal	Senior Officer
2	Samjhana Baral	Senior Officer
3	Krishna Prasad Pokharel	Senior Officer
4	Harish Pokharel	Senior IT Officer
5	Pravin Pandak	Officer
6	Murahari Parajuli	Officer
7	Sagar Dhungel	Officer
8	Suresh Joshi	Officer
9	Sanju Kandel	Senior Assistant
10	Giri Raj Dahal	Senior Assistant
11	Siddhinath Mishra	Senior Assistant
12	Sharmila Pathak	Senior Assistant
13	Jagadish Rijal	Senior Computer Operator
14	Balkrishan Koju	Senior Computer Operator

In order to make its core business more efficient and smooth, NEPSE has reformed its organizational structure, introduced a new organizational chart and the Voluntary Retirement Scheme. Forty five percent staff have already left NEPSE after opting for the scheme. It has also started outsourcing its non-core activities like security and cleaning services.

Nine More Companies Categorized as Class A

NEPSE has promoted nine more companies to the category of A-rated companies because of their better performance and compliance with the existing rules in the last year. Details of these companies have been given in the table below.

All A-rated companies have been earning a

profit during the last three fiscal years, have a shareholder base of more than 1,000 shareholders, have a paid-up capital of well over Rs. 20 million and the value of their shares is not less than the book value. They also had their financial statements audited within six months after the end of each fiscal year; the need to audit one's financial status is the most important criterion for promoting the companies. However, in the last fiscal year, four companies were demoted from the A category for

failing to fulfill certain requirements. These companies are Paschimanchal Vikas Bank, Prudential Insurance, Fewa Finance and Union Finance. The number of A-rated companies now stands at 71. Last year, there were 66 companies in the A class.

SN	Name of Companies	Paid-up Capital (Rs. in million)	Book Value Per Share	No. of Shareholders	Profit in the last three years (Rs. in million)		
					04/05	05/06	06/07
1.	Chhimek Vikas Bank	30.00	192.93	1553	5.56	12.83	13.41
2.	Business Development Bank	60.00	111.78	1179	1.98	5.76	5.76
3.	Sanima Vikas Bank	320.00	108.68	12330	0.26	8.79	18.45
4.	Sahayogi Vikas Bank	20.00	117.84	3465	0.11	1.47	3.40
5.	Nepal Insurance Company	102.70	188.75	1046	17.36	0.02	21.82
6.	Annapurna Finance	168.00	161.76	1086	24	30.87	37.38
7.	Everest Finance	20.00	125.88	1815	1.78	0.86	2.00
8.	Prudential Finance	50.00	113.29	1255	1.53	4.00	7.51
9.	Bhajuratna Finance and Savings	35.00	140.36	1450	1.90	2.58	5.03

profit during the last three fiscal years, have a shareholder base of more than 1,000 shareholders, have a paid-up capital of well over Rs. 20 million and the value of their shares is not less than the book value. They also had their financial statements audited within six months after the end of each fiscal year; the need to audit one's financial status is the most important criterion for promoting the companies. However, in the last fiscal year, four companies were demoted from the A category for

Among 71 A-rated companies, 12 are commercial banks, eight are development banks, 11 are insurance companies, 38 are finance companies and the remaining two are related to manufacturing and hydropower.

The A category companies now account for 55.75 percent of the total paid-up capital, 50.88 percent of the shares and 79.41 percent of the market capitalization of all the listed companies. At present, the shares of 144 companies are being traded in NEPSE.

New Regulations in place to Govern the Capital Market

The Government of Nepal has issued three new Regulations, namely, Securities Businessperson (Stock Broker, Dealer and Market Maker) Regulation-2007, Securities Board Regulation-2007 and Stock Exchange Licensing Regulation-2007. These Regulations which came into effect from 4 November 2007, among other things, paved the way for opening a new stock exchange, increase the number of stock brokers and reduce the brokerage commission.

The Rates of Commissions on Common Stock		
SN	Amount (Rs. in thousand)	Commission rate
1	Upto 50	1 %
2	50-500	0.9 %
3	500-1000	0.8 %
4	More than 1000	0.7 %

As per the Securities Businessperson Regulation, the stock broker's commissions on common stock, government bonds and the rest of the stock have been reduced to the 1.0-0.7, 0.20-0.05 and 0.75-0.40 percent ranges respectively. Earlier brokers used to charge 1.5 percent to 1.0 percent on common stock and 0.15 to 0.75 percent on government bonds depending on the amount of transactions done. The new regulations will contribute to the development of the capital market and the welfare of small investors.



Pandey: New Director of NEPSE

Mr. Rabindra Prasad Pandey, Executive Director of the Nepal Rastra Bank, has been appointed to NEPSE's Board of Directors on 3 February 2008. He replaced Mr. Lila Prakash Sitaula, Executive Director of the Bank, as a board member.

New Measures to Reform the Market

NEPSE introduced a string of measures to stabilize the volatility of the stock market. Previously, NEPSE used to halt transactions of individual companies by imposing the circuit breaker whenever the share prices of companies moved up or down over 10 percent on a single day. With the new measures in place, it can now suspend the whole market trading. It can also halt the trading floor for 15 minutes if the index moves up or down by 15 points or three percent (whichever happen to be lower) during the first half an hour. After the resumption of trading if the index moves up or down by 20 points or four percent, NEPSE can suspend trading for another half an hour. It can suspend trading for the rest of the day if, after the resumption of the trading, the index moves up or down by 25 points or five percent.

The new measures also require brokers to post clearly shares they want to buy or sell and place orders for transactions on a priority basis. This provision has been enforced to address the rising concerns of small investors.

Trading Hours Extend

NEPSE extended the trading hours by one hour from 19 December 2007 due to an increasing trading pressure. The trading floor had been opening from 12 pm to 2 pm since NEPSE started in 1994, but now the trading floor will remain open till 3 pm. The increase in trading hours will benefit small and big investors alike.

Real-time Information Dissemination

NEPSE has started providing real-time information to investors from 28 November 2007 through the WAN system. Investors now can check share prices online from anywhere during the trading hour by using the WAN system. Brokers can also find about top-gainers, top-lossers, imposition of a trading halt, resumption of trading and even place orders without being present in the trading floor

Share Trading through WAN Begins



Staff of Nepal Investment and Securities Ltd. (Broker No.19) posting orders from their office. Broker No.19 is the first company to adopt WAN.

Trading through WAN has formally started from 13 October 2007. Now stock brokers do not have to come to the NEPSE's office to sell or buy shares; they can do that sitting in their own offices. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited to trade through WAN. Presently, 18 brokers transact from their office via WAN. All the brokers with the following infrastructures can get access to WAN: a price board, separate rooms with computers to post clients' orders or settle shares and provide up to date information to clients.

NEPSE Starts a Process to Induct 27 Brokers

NEPSE has started a process to induct 27 stock brokers. With this induction, the total number of brokers has reached 50, the maximum number that the trading floor can accommodate.

NEPSE had invited applications from eligible companies on 28 November 2008 so that they could apply to the Security Board of Nepal for a broker's license according to the Securities Businessperson Regulation-2007 Act. As per the criteria set by NEPSE, only those private or public companies that have at least two promoters with a graduation in commerce or economics are eligible to apply for a broker's license. Private companies must have the paid-up capital of at least two million rupees while public companies must have the paid-up capital of ten million rupees.

Some 334 companies had applied for the license, out of which 316 passed through the technical evaluation phase. These companies were called for an objective exam, which was later postponed because of the forthcoming CA elections.

Market Review

Primary Market

The Security Board of Nepal has registered capital mobilization of Rs. 4.05 billion by 20 different companies in the first six months of the current fiscal year. Eight of these companies have issued ordinary shares worth Rs. 1.77 billion and the remaining 12 companies have issued rights share worth Rs. 2.28 billion.

Secondary Market

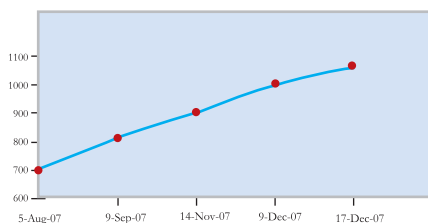
The Nepal Stock Exchange, the only secondary market of the country, witnessed a remarkable growth in trading activities in the first six month of the 2007/08 fiscal year. The amount of shares traded, the number of listed shares, the number of transactions, turnover, the total market capitalization of listed shares, which are the major indicators of the vibrancy of the secondary market, all have increased in the review period.

The total trading volume of the listed shares in NEPSE recorded an upsurge of 217.11 percent during the review period. The trading volume increased to Rs. 11.86 billion—from Rs. 3.74 billion in the same period last year.

NEPSE Hits a Historic High

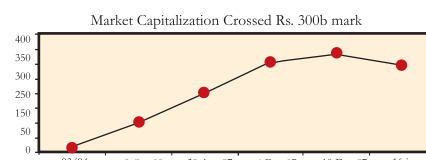
Propelled by the capital plans of all commercial and development banks and financial institutions, the NEPSE index touched a historic high of 1064.09 points on 17 December 2007. The index had closed at 1052.81 points the previous day. The stock market opened with the NEPSE index at 696.58 points at the beginning of the FY 2007/08.

The NEPSE index almost doubled in the review period because of a tremendous increase in the share prices of banks, financial institutions, hydropower companies and development banks. The restoration of peace, improvement in the financial performance of the listed companies and, most importantly, the directive that the Central Bank gave to banks and financial institutions on 26 March 2007 to double their paid-up capital also contributed to a remarkable increase in share prices and subsequently the stock market indices.



Market Capitalization Crossed the Rs. 300b mark

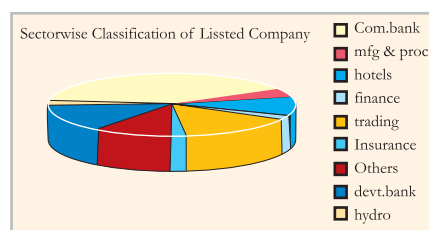
The market capitalization of the listed companies crossed the 300-billion-rupee mark on 4 December 2007. It touched the height of Rs. 334.62 billion on 16 December, but then started to slide down gradually. The market capitalization of the listed companies remained above Rs. 301.86 billion till 14 January 2008, but it slid down to Rs. 293 billion on 16 January.



It took almost 12 years for NEPSE's market capitalization to reach Rs. 100 billion, and then another year to cross Rs. 200 billion. As mentioned earlier, at the end of the first six months of the current fiscal year (that is, 14 January 2008), market capitalization remained at Rs. 301.86 billion, an increase of 119.83 percent. With a significant rise in the share prices of commercial banks and other financial institution the total market capitalization moved up.

Listing

The number of listed companies was 135 in the beginning of the current fiscal year, but the number increased to 144 in the first six months. At the end of the review period, 15 companies were listed under the commercial bank group, 23 under the development bank group, 16 under the insurance group, 55 under the finance group, 21 under the manufacturing and processing group, four under the hotel group, five under the trading group and two in the others group.



The paid-up value of the listed shares also rose to Rs. 23.90 billion, up from Rs 20.85 billion a year ago. It is mainly due to the issuance of bonus shares, rights shares and some initial public offerings. A total of 16.2 million shares worth Rs. 1635.90 million were listed during the review period. Among them, 10 companies listed their 4.74 million ordinary shares amounting Rs.474.26 million, 11 companies listed 5.9 millions bonus shares amounting Rs. 589.66 million and 7 companies listed 5.56 million rights shares amounting Rs. 556.44 million.

Apart from that, government bond worth Rs. 1.12 billion and corporate debenture worth Rs. 250.00 million were listed for transactions in the secondary market.