CMA FORUM

A Quarterly Newsletter of Capital Markets Authority (Kenya)

Vol. 1, Issue 1 June, 2005

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UP-COMING EVENTS

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- *CMA inaugural participation at the Mombasa Show—August*
- *CMA inaugural participation at the Nairobi International Trade Fair—September*
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FROM THE CHIEF EXECUTIVE

Edward H. Ntalami
Chief Executive

Corporate governance is very much in the news today, in government policy discussions, in the minds of investors, and in public and private corridors. What is corporate governance and why has it been put under the microscope? Why is corporate governance occupying more and more time in the boardrooms?

Put simply, it is about how accountability towards shareholders is exercised. It is about systems that ensure shareholders are kept well informed about their company's financial performance and prospects. It is about prompt and full disclosure of events and factors which materially affect shareholder interests. It is also about checks and balances to prevent abuse of power by those who have been placed in positions of responsibility.

It is now generally recognized that lapses in corporate governance can have serious economic consequences, causing loss of confidence and upheaval in financial and capital markets. Sound corporate governance is in the interest not only of investors, but of the company itself.

The perceived quality of a company's corporate governance can influence its share prices as well as the cost of raising capital. Domestic and foreign investors prefer to use markets whose standards of corporate governance are seen to be high. And quality issuers are drawn to markets of good reputations . A market that scores low in terms of transparency can regard its days numbered. That is why CMA is such a zealous apostle of sound governance.

Corporate governance is also about good leadership. It is about leadership that is transparent and accountable, responsible and conscious of its obligations. It is about leadership that is rooted in old fashioned integrity, and is ready to give account of its stewardship. The ideals which we stand for as economic, political and social leaders should be reflected in uncompromising integrity of our ethos■

NEWS

MINISTER ANNOUNCES INCENTIVES FOR THE CAPITAL MARKETS

Minister for Finance, Hon. David Mwiraria

Cognizance that the capital markets offer an important alternative source of financing for business expansion and development and that huge opportunities exist for raising large sums of corporate and development finance through issuance of equity and debt securities, such as corporate bonds, stocks and shares; the Minister for Finance, Hon. David Mwiraria introduced tax incentives to encourage investments through the capital markets.

First, the minister announced that newly listed companies offering at least 40% of their shares to the Kenyan public will pay corporation tax at the rate of 20% for a period of 5 years from the date of listing. This is in addition to similar existing incentives; those newly listed companies offering 30% of share capital to the public will continue to be taxed at a lower rate of 25% compared to standard rate of 30% for 5 years from date of listing while those offering over 20% will still be taxed at 27%.

Secondly, to encourage setting up of Special Purpose Vehicles (SPVs) for purposes of issuing of asset backed securities, the Minister announced the exemption of investment income of the SPVs from income tax.

Thirdly, effective 1 January 2006 the minister increased the mortgage interest deduction limit by 50% to KShs 50, 000 per annum. This change is expected to impact on the demand within the mortgage industry which should precipitate demand for mortgage bonds especially so within the environment of the asset backed securities

It now incumbent upon entrepreneurs to take advantage of the incentive to raise capital and expand businesses to cater for the increasing demand that has been triggered by renewed economic growth projected at close to 5% the financial year 2006/2007■

MARKET WITNESSES INCREASED INFRASTRUCTURAL DEPTH

There has been a steady growth of the capital markets in terms of quality of services offered by various intermediaries. As a result the list of licensees and approved institutions gazetted by the Authority on the 1st of April this year was typified by a number of realignment by market players and entry of a number of key players. Principal in this regard is the upgrading of firms from stock brokerage to Investment Banks and from Investment Advisers to Fund Managers.

Additionally, this quarter also witnessed the approval of British American Unit trust fund on June 7th as a collective investment scheme and that of Zimele Asset Management limited as a fund management company on 16 of June. Of particular note in this development is the continuous rise in the number of investment banks and collective investment schemes among other markets players over the last ten years

The capital markets now boast of eleven investment banks compared to none in 2001. Most of this investment banks have come to be as a result of upgrading by stockbrokerage firms leaving the latter category with 10 players only. This development has been hailed as a major milestone towards modernizing our market.

Another area that is receiving tremendous growth is that of collective investment schemes. The market is now manifest with 5 collective investment scheme (CIS). It is hoped that this will be a good destination for small scale and risk-averse individuals who have been wanting to invest in shares and bonds but fear the risk associated with this. This is especially because Unlike stocks, whose prices are subject to change at each trade, the CIS's net asset value (NAV) is calculated at the close of each day's trading and the unit price is quoted in major newspapers on the following Business Day and that One can sell off there stakes at a CIS at any time in short notice. CISs also offer professional management, economies of scale, flexibility, diversification among other benefits

The table below shows the infrastructural growth of the capital markets over the last ten years. It is instructive that the growth that 1n i195 the market only had the NSE and stock brokers as the only players compared to 10 categories that exist today. A lot of this growth has been achieved in the last five years. This is a good sign that the market has reached its take stage. Additional impetus is expected to be achieved with the automation of the trading at the Nairobi stock Exchange. (*see list of current licensees back page*) ■

Year /licensees	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Securities Exchange (NSE)	1	1	1	1	1	1	1	1	1	1	1
Central Depositories (CDSC)									1	1	1
Investment Banks								3	4	11	11
Stockbrokers**	12	20	20	20	18	18	18	15	14	10	10
Investment Advisers*			19	19	22	22	26	25	18	17	13
Fund Managers									7	14	15
Collective Investment Schemes								2	2	2	5
Authorized Depositories/ Custodians			5	5	5	5	5	4	4	6	6
Credit Rating Agencies									1	1	1
Venture Capital			1	1	1	1	1	1	2	2	2

** Investment Adviser – up to 2002 there was no distinction between investment adviser and fund manager.*
*** Stock brokers began converting to Investment banks from 2002*

BENEFITS OF LISTING ON THE STOCK EXCHANGE

We present here an excerpt of some of the benefits that were discussed during one of the Authority's seminars.

Whether one is seeking to list to raise new equity & reduce debt or to grow business & create wealth or in bid to ensure that they remain a going concern or indeed to provide shareholders with a ready exit strategy one needs to consider a number of benefits which includes;

Policy Incentives

To date, the Government has implemented no less than 20 fiscal and tax incentive measures to address impediments to market growth. In addition, relevant institutional and market infrastructure reforms have been initiated to enable capital markets play a significant role in economic growth.

The Government is also committed to the privatization of non-strategic state enterprises

Source of Cheap Long-term Capital

The stock market serves as a valuable source of long-term capital for listed companies. Through the Exchange, a company may raise funds to finance its expansion plans, enhance its competitiveness, and establish appropriate financial structure. Apart from issuing and listing of common shares, a listed firm can also raise additional capital by issuing and listing other types of securities such as preferred shares and different forms of fixed income (debt) securities.

- With regard to equity, the cost of capital is the dividend return adjusted for growth; dividend policy is in the control of the firm. It is the firm therefore which decides what dividends to give
- With regard to Debt, the cost capital is interest payments adjusted for tax; Coupon interest payments are lower than commercial rates because of the relatively higher interest rate regimes pertaining in the region and subsequently higher commercial lending rates

Ability to leverage corporate strength

In a global economic order, building a strategic alliance with complementing strength can greatly enhance the competitiveness of a company. Being a listed company can help enhance strategic strength of the company thereby contributing to continuous business expansion and the strengthening of it operations. A listed company will be viewed to be more competitive than a none listed one. It will generally have a board of directors that transcend all the strategic sectors and geographical zoning

Optimization of Capital Structure

- Far too many firms are too heavily geared. Bank debts are therefore increasingly becoming the cause of bankruptcies or other insolvency interventions
- Bank debts compromise operating flexibility on management inhibiting their entrepreneurial space due to covenants placed by commercial banking lending
- There is in need to consider marginal cost of funds when borrowing and to diversify sources of funding from short term commercial bank financing
- By optimizing: Capital structure, Dividend policy, and Investment policy, a firm can significantly lower its cost of capital.

Positive Public Image

Because the CMA and the NSE scrutinize listed companies before approving listing status, they generally present a positive public image. To a certain extent, listed companies are also perceived as being financially healthy as well as carrying out transparent information disclosure. This image may play an important role in boosting the firm's credibility, increasing its bargaining power, and indirectly building awareness and popularity with regard to its products and services.

Employee Pride

Another benefit of being a listed company, which is generally overlooked, is the pride of its employees. Employee goodwill will occur if the firm they work for has sound business operations, a good image, a well-respected reputation, and public acceptance. Establishing shared value within the organization (especially through employee share ownership schemes) can be an important tool employed by management to impel individual employees to be aware of and participate in building the firm's reputation and glory.

Shareholder Protection

To ensure the benefits of investors are protected, the CMA and NSE have implemented rules and regulations with regard to securities trading and disclosure of listed companies' information to ensure transparency, sufficiency, and timeliness, of the information and equal access by investors.

Other benefits include

- Provision of a ready market for securities.
- Greater liquidity/transferability of securities reduces risk of holding the asset.
- Objective valuation of securities by market forces.
- Greater efficiency due to more rigorous disclosure requirements.
- Greater public profile and awareness of the institution and its products.
- Ability to leverage corporate strength
- Ready succession and exit strategy

The above list is by no means exhaustive but it is representative enough to highlight the benefits of listing. However, there exist some perceived disadvantages that must be analyzed critically and viewed against the benefits that listing accrues to a company. This includes; potential loss of control, rigorous disclosure requirements coupled with susceptibility to the vagaries of the market■

POLICY AND TAX INCENTIVES FOR THE CAPITAL MARKETS

One of the most critical water-way that policymakers use to facilitate advances in innovation and investments is policy incentives both for corporations and individuals. This is in recognition of the fact that the more money that remains in the hands of the private sector, the more they will be available to investors. Indeed there is arguably a strong correlation between a strong economy and good policy incentives.

In particular studies have shown that economies grow fastest when taxes are low. In an economy that is increasingly dependent on the flow and size of the capital stock, a fiscal system that is hostile to economic growth must be changed. Again globalization of capital markets has continuously forced governments to reduce taxes, in bid to create a more hospitable environment for investors, and lure more capital to their country.

Cognizance to the above, the government of Kenya in consultation with the Capital markets Authority and stakeholders has provided a policy framework for the capital markets, which is largely considered conducive for capital market development. This is manifest in a wide range of fiscal and other incentives to encourage capital market activities which include but are not limited to the following:.

- As an incentive to encourage more investors at the Nairobi Stock Exchange, the Minister proposed that newly listed companies pay corporation tax at a lower rate of 20%, for a period of 5 years, provided these companies offer at least 40% of their shares to the Kenyan public (2005)
- Securitization based on bankable assets and ability to generate cash has become a viable alternative in most emerging markets, particularly for institutions providing infrastructural services to raise long term capital. In this regard, the Minister proposed to exempt investment income of Special Purpose Vehicles (SPVs) from income tax. This is to encourage institutions providing infrastructural services to set up SPVs for purposes of issuing asset backed securities. (2005)
- Foreign investors can now acquire shares freely in the stock market subject to a minimum reserved ratio of 25% for domestic investors in each listed company. (2002)
- Investment ceiling by retirement benefits schemes in fixed income securities (e.g. bonds and commercial papers) was raised from 15% to 30%. (2002)
- To encourage savings, collective investment schemes set up by employers on behalf of employees to invest in listed shares, will be exempted from income tax. (2002)
- Effective 1 January 2003, newly listed companies are to pay a lower corporation tax of 25% (i.e. 5 percentage points lower than the standard corporation tax of 30%) for a period of 5 years following their listing. The new legislation applies to companies that float at least 30% of their issued share capital to the public.(2002)
- New and expanded share capital by listed companies or those seeking listing exempt from stamp duty (2000/2001)
- Transfers of assets involved in the issuance of asset-backed securities shall be exempt from stamp duty (2000/2001)
- Newly listed companies to be taxed at a lower rate of 27% as compared to the standard rate of 30% for a period of three years following the date of listing. This is also dependent on such companies offering at least 20% of the share capital to the public (2001)
- Companies that apply and are listed shall get a tax amnesty on their past omitted income, provided they make a full disclosure of their assets and liabilities and undertake to pay all their future due taxes (2001)
- Income accruing to registered collective investment schemes tax-free (1999)
- Licensed dealers to enjoy tax benefits, as long as they turn their portfolios within 24 months and according to laid down guidelines (1999)
- To encourage the transfer of technology and skills, foreign investors allowed to acquire up to 49% of local brokerage firms; and up to 70% of local fund management companies (1999)
- Investments by Insurance companies on listed securities exempted from tax arising out of capital gains on sale of shares (1996/97)
- Expenses incurred by companies in having their financial instruments rated by an independent rating agency are tax deductible. (1997/98)
- Registered venture capital funds have been accorded major tax incentives including tax holidays of up to ten years on the funds income (1997/98)
- Policy decision to facilitate the participation of foreign investors in listed securities subject to a maximum of 40% of the share capital in aggregate and 5% for individual investors, or such higher amount held by foreign investors at the time of promulgation of the regulation (1995/96)
- Reduction of withholding tax applicable to dividend income arising from investment on listed securities for both local and foreign investors. Foreign 10%; Local 10% to7.5% to 5%. (1995/96/97)
- Exemption of stamp duty and value added tax on the transfer of listed securities (1995)
- Costs of IPOs were made tax deductible (1995)
- 35% Capital Gains Tax introduced in 1975 suspended (1985)

The government of Kenya has therefore yielded to over 20 fiscal and tax incentive measures to address impediments to market growth. In addition, relevant institutional and market infrastructure reforms have been initiated to enable capital markets play a significant role in the economic recovery effort.

The Capital Markets Authority is further committed to continue consulting with the Government to put in place any additional appropriate measures to support the development and deepening of the Capital Markets as a critical pillar for effective long-term resource mobilization and allocation to the productive sectors of the economy.

The challenge now is for the private sector to take advantage of the Government's goodwill and play an active role in the development of the capital markets in Kenya. Again the Capital Markets Authority welcomes suggestions of some of the policy incentives that needs to be put in place for consideration in the Authority's annual submission to the government■

NEWS IN PICTURES

AUTHORITY HOST WINNERS OF THE CMA –UGANDA INVESTOR EDUCATION SCHOOL QUIZ

Above, The Authority's Chief Executive Mr. Edward Ntalami gives a word of wisdom to the 'Capital Markets Authority-Uganda annual secondary schools challenge' winning team of Okullu Henry and Kasajja Joel of St. Henry's College Kitovu.

The Capital Markets Authority-Uganda (CMA-U) conducts an annual secondary schools challenge. This is an initiative of the Authority in partnership with other sponsors. It is an education tool for secondary school students on financial matters. It is aimed at creating a knowledgeable pool of potential investors and private sector practitioners among the student who would also be in a position to transfer knowledge and information to their parents and local communities. The challenge is organized as a two-stage competition; an essay completion and a quiz contest, involving final year students from secondary schools.

The winners of the essay competition, the winners of the quiz competition and the first runners up receives UShs 100,000 worth of shares in companies of their choice listed on the Uganda stock exchange. In addition, the winning team of Okullu Henry and Kasajja Joel of St. Henry's College Kitovu in Uganda, who emerged as the overall winners of the competition, their patron teacher, together with two accompanying officials of CMA-U visited Kenya 's capital markets and were able to meet a number of the stakeholders including the CMA the NSE the CDSC and a brokerage firm.

The Authority is also keen to see that Kenyan students are engaged early about investment within the capital markets. In this regard we are currently pursuing initiatives towards a similar programme to the Ugandan one. The program when finally in place will be rolled out to all the facets of this country with a view to not only reaching the student but the general public through their sons and daughters■

The team from Uganda poses for a photo with a number of senior staff members of the Authority after the latter had run them through the function of the Authority. Their discussions also centered on areas of possible shared knowledge

IOSCO CONFERENCE IN COLOMBO TOUCHES ON KEY ISSUES THAT AFFECT KENYAN CAPITAL MARKETS

Mr. Ranjit Ajit Singh of Malaysia chairing the meeting of one of the working group of the Emerging markets committee with Ms. Neetasha Rauf

In early April this year the city of Colombo, Sri Lanka, was the setting for the 2005 IOSCO Annual Conference as the world's securities regulators came together to discuss a range of topics and to set important new strategic directions for the Organization. The chief executive of the Authority attended the conference. CMA is an active member of the IOSCO

In the lead up to the Conference international news coverage acknowledged that in recent years IOSCO had demonstrated enormous success in raising the quality of securities market regulation and in strengthening consultation and cooperation among regulators. In keeping with this success and in recognition of the important international role which IOSCO plays, representatives of securities regulators came together at the Conference to debate measures that will ensure its continued effectiveness.

Key among the waterways that were adopted are the proposals to provide more training and technical assistance to members so that progress is made in capacity building within member agencies.

Further, among other things the Emerging Markets committee (EMC) working groups discussed a number of areas that impact directly of the Kenyan capital markets including:

- The progress of emerging market jurisdictions in implementing demutualization as well as a review of related strategic issues for regulators in relation to the demutualization process.
- The state of development of collective investment schemes (CIS), including the related regulatory framework in EMC jurisdictions. One of the aims of this initiative is to assess the growth and development of the mutual fund industry in emerging markets■

THE ABCs OF INVESTING WITHIN THE CAPITAL MARKETS

The Origin of Stock Markets

The origin of stock markets goes back a couple of centuries. The roots of stock markets are to be found at the beginnings of the Industrial Revolution that began in Europe about four centuries ago. Many of the pioneer merchants of the industrial age wanted to start huge businesses, which no single merchant could raise alone. It therefore became inevitable for them to come together, pool their savings and start these businesses as partners or co-owners. The contribution of each partner to the enterprise was to be represented by a unit of ownership. This was the precursor to what we call shares. And through this, 'joint stock' companies were born.

Initially, trading in shares began as informal "hawking" in the streets of London. As the volume of shares increased with more companies floating shares (giving people opportunities to buy their shares), the need for an organized marketplace for the exchange of these shares escalated. As a result, these traders decided to be meeting at a coffeehouse, which they used as the marketplace. Eventually, they took over the coffeehouse and changed its name to 'stock exchange'. This was in the year 1773, and the first stock exchange, the London Stock Exchange, was founded. Financial intermediaries (brokers, fund managers, investment advisers investment banks etc) and other instruments like bonds were then to follow suit as an inevitable consequence.

Share and bonds

Shares are financial instrument where one acquires ownership stakes of a company rather than an IOU. Returns are neither fixed nor guaranteed one acquires voting rights and benefits from exceptional performance. Bonds on the other hand are financial instruments that serve as an IOU; an investor loans an issuer, and returns are fixed and guaranteed, no voting rights and no benefits from exceptional performance by a company.

One can acquire shares or bonds in the primary market (when the company is issuing them) or in the secondary market (which is more common) –by buying from an investor who has bought them. Much of what is predominant at the Nairobi stock exchange is the latter. When one buys a share he/she owns a fraction of the company; while when ones buy a bond he/she becomes a creditor of the company. While the shareholder is allocated a fraction of the profits in terms of dividends, bond holders will be paid a percentage interest on their bond value in agreed interval until the bond reaches maturity when the principal will also paid back by the company. *Shares and bonds are collectively referred to as securities*

How to buy and sell Shares/bonds (securities)

The first step when buying securities (shares/bonds) is to decide what company to buy in. When selecting a company to invest in, one should make sure the company is in a strong industry, and/or that it is strong or growing. Choosing the company to invest in is no easy job, and there are many different methods people have come up with to select one. These include:

- Fundamental analysis; which is a method, in which you study the company's current management and position in the market.
- Technical analysis; this is a method which is totally based on charts, in which you identify trends the company has, and invest accordingly.

After one decides what company to invest in, you need to select a stockbroker/investment bank to use. The two are the only ones that can make an order to buy or sell securities. Potential customers contact stockbrokers/investment banks either by mail, telephone, personal visits or regional agents and give their buying or selling orders. When one gives a stockbroker/investment bank an order, they relay the order to the floor traders. The floor traders do all the actual buying and selling, since they hold a seat on the stock exchange. After one finds a stockbroker/investment bank and buys the securities, the stockbroker/investment bank does the rest of the work to seal the transaction.

Types of Orders

- The most basic order is the market order, where one just ask the stockbroker/investment bank to buy or sell securities at the best price it can get its hands on.
- Another type of order, which takes more research and predicting on one's part, is a limit order. In a limit order, one tell the broker to trade only when the stock is at a certain price or better.
- A stop order is an order, which can save an investor from extreme loss. In a stop order, an investor tells the broker to sell his/her securities if the price drops below a certain specified level.

Categories of investors

- Many investors invest in anticipation of capital appreciation as they expect prices to rise in the long run thereby enabling them to make capital gains.
- There are also those who buy shares for investment income, and they therefore rely on dividends. An investor who invest for this purpose should invest in firms with a concrete dividend declaration policy or history
- Investors with substantial financial resources may buy shares with a view to control a company by owning over 50% of the issued capital.
- Since shares and stocks are easily marketable and transferable, some people buy them for use as a means of exchange.
- There are also those who buy shares as a collateral security for raising loans - on the strength of the share certificate/account at the current market prices, a bank can at short notice work out the amount of money that can be loaned to a customer.
- A number people also buy shares for speculative purposes hoping to get short-run profits. They buy when the share prices are low and sell when they are high. Chances of one burning their fingers here are very high. Only investors who are well versed on market movements can afford to do this effectively.
- There are investors who would like to invest with a bias towards safety of their investments. These investors go for corporate and government bonds and shares of very solid firms.
- Finally there are the risk-averse individuals who want to invest in shares and bonds but fear the risk. This investor are advised to invest through collective investment schemes (CIS) like Unit trust and Mutual funds; *a CIS is a professionally managed investment fund which pools ones money with that of many other investors with similar investment objectives. The aggregate sum is then used by the fund to build a diversified investment portfolio, which comprises shares, bonds and other investments. Unlike stocks, whose prices are subject to change at each trade, the fund's NAV is calculated at the close of each day's trading and fund's unit price is quoted in major newspapers on the following Business Day. One can* sell off there stakes at a CIS at any time in short notice.

What to look out for when choosing selecting securities

- One needs to identify the reason for which they are investing in securities
- One must also consider the state of management in the company. The Board of Directors and other key management personnel in the company ought to be people of repute. They must be reliable people who can be trusted to run the company honestly and successfully.
- To be considered also is the nature of the product dealt in and its market share. Is the product vulnerable to weather conditions and is it subject to international trade restrictions? Is the organization a monopoly or an oligopoly? Is the future of the company clear or blurred?
- The marketability/liquidity of the shares/bonds is another important consideration. One has to find out whether the shares from a particular company can readily be sold or bought.
- Again it is always advisable not to put all one's eggs in one basket. In this regard, when it comes to buying securities, the buyer needs to finds out if the company concerned has diversified its operations. All other things equal, a company with multi-products is preferable to one without, since not all products can fail at the same time.
- Other considerations will be the company's trading partners both local and abroad, competitors and possible changes in people's life styles.
- The company's development and expansion programmes should be looked into. If a company has the capacity for future growth, then it is a good company to invest in.

In conclusion, it is important to re-emphasize the essentiality of consulting a licensed stockbroker/investment banker, investment advisor, and/or fund manager when one is in doubt about where to invest as these institutions have the requisite professional expertise and experience, which should be taken advantage of■

(THIS ARTICLE IS AN ADAPTATION FROM A CONTRIBUTION BY NAIROBI STOCK EXCHANGE)

QUARTERLY MARKET STATISTICS

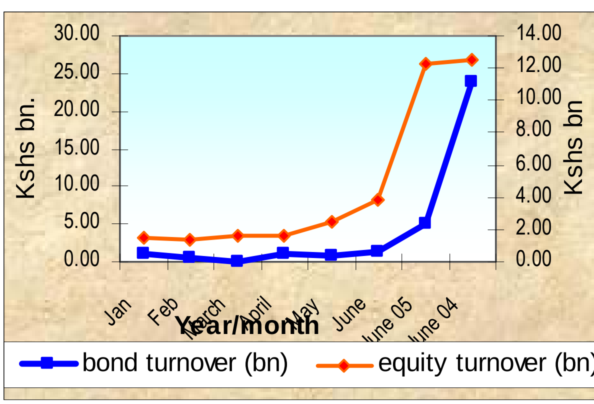
Market performance for 2nd Quarter of 2005

Activity during the first six months of the year was stable for the equities market with a turnover of Kshs 12.29 billion, slightly lower than the previous half-year's figure of Kshs 12.50 billion. The trend was different for the secondary bonds market with the Kshs 5 billion traded turnover 377% lower than the corresponding period last year when Kshs 23.8 billion worth of bonds where as transacted.

YEAR	MONTH	EQUITY TURN-OVER	SHARE VOL-UME	NSE 20-SHARE INDEX	MAR-KET CAP	BOND TURN-OVER
		(Kshs bn)	(mn)		(Kshs bn)	(Kshs bn)
2004	Oct	1.68	22.28	2804	295.80	2.25
	Nov	1.69	61.50	2918	331.27	1.52
	Dec	1.45	32.15	2946	314.15	0.77
2005	Jan	1.54	38.40	3094	330.88	1.15
	Feb	1.35	41.77	3213	330.04	0.64
	March	1.64	31.99	3126	326.92	0.13
	April	1.63	36.79	3228	335.80	1.01
	May	2.52	54.24	3505	372.14	0.80
	June	**3.83**	**102.00**	**3972**	**420.7**	**1.27**
	Jan to June	**12.29**	**298.57**	**3972**	**420.7**	**5.00**
2004	Jan to June	12.50	319.37	2640	274.41	23.85

The equities turnover of Kshs 3.83 billion in June 2005, was the highest ever achieved in the history of the NSE, the closest having been Kshs 3.4 billion recorded in February 2004. The general rise in turnover from April 2005 indicates that the performance in the second half of the year will be better and that, the turnover for the calendar year ending December 2005 will be higher than that of 2004, going by the current daily mean turnover of Kshs 300 million.

Trends in equity vs. t-bond turnover



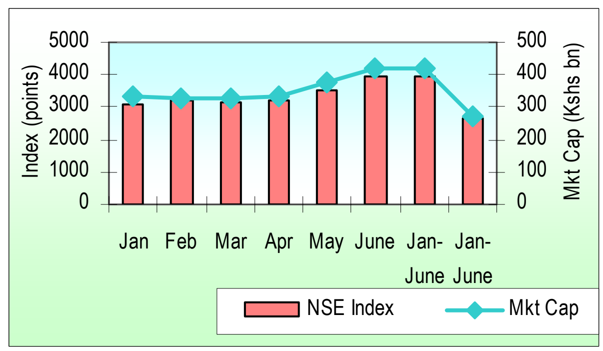
Share volume rose substantially in June by 88.05% to 102 million shares compared to the previous month's figure of 54.24 million. This performance was the best in a month in the NSE's trading history, was mainly driven by substantial volumes of 10 million and 41 million shares transacted by Kenya Airways and Mumias respectively, representing 50% of the total number of shares traded during the month.

Top ten highest Share price changes for the period January to June 2005

SECURITY	HIGH	LOW	% CHANGE
Kenya Airways	59.00	17.15	244.02
Mumias Sugar	25.25	8.00	215.63
E.A. Cables	152.00	50.00	204.00
Car & General	31.00	13.00	138.46
Rea Vipingo	21.25	9.15	132.24
KENOL	123.00	55.00	123.64
E.A.Portland Cement	99.50	46.00	116.30
SERENA	90.00	42.00	114.29
Express Kenya	16.00	7.80	105.13
UNGA	20.00	10.55	89.57

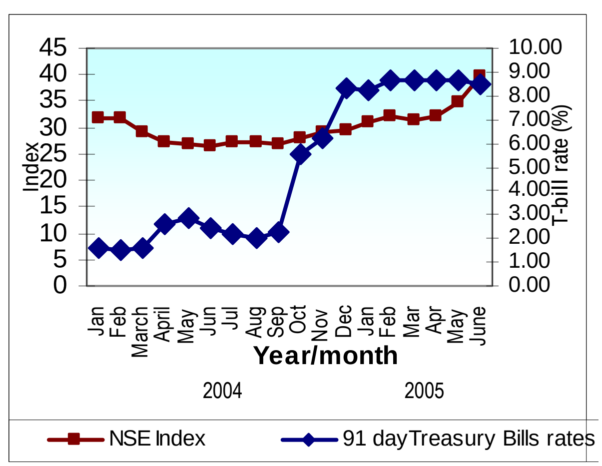
The astronomical rise in prices led to an increase in the NSE Index to Kshs 3972 points, 50.45% higher than the first half of 2004

Table 10. NSE Index vs. Market Capitalization



NSE 20- share index continued its upward trend as the T-bill rate continued to rally around the 8.60%mark, over the six-month period to June 2005. In the coming months the NSE is expected to maintain its lofty trend, albeit at a lower rate, while the T-bill rate will most likely stabilize as witnessed in the performance of the treasury bonds.

Table 10. NSE Index vs. 91-Day T-bill



CMA LISENSEES AS AT APRIL 1ST 2005

Approved Institutions:

Name of the Company	Address	Nature of Operation
The Nairobi Stock Exchange	P.O. Box 43633-00100, Nairobi	Securities Exchange.
Global Credit Rating Company	P.O. Box 76667, Wendywood 144, South Africa	Credit Rating Agency.
Acacia Fund Limited	P.O. Box 43233-00100, Nairobi	Venture Capital.
Aureos East Africa Fund (K) Ltd	P.O. Box 40111-00100, Nairobi	Venture Capital.
Central Depositories and Settlement Corporation Limited	P.O. Box 43633-00100, Nairobi	Central Depository.

Approved Collective Investment Schemes:

African Alliance Kenya Unit Trust Scheme.	P.O. Box 27639–00506, Nairobi. Tel:0202710978
Old Mutual Unit Trust Scheme.	P.O. Box 30059–00100, Nairobi. Tel: 0202829333
British American Unit trust Fund	P.O. Box 30375–00100, Nairobi. Tel: 0202710927
Stanbic Bank Unit trust Fund	P.O. Box 30550–00100, Nairobi Tel: 020335888
Commercial Bank of Africa Unit Trust Fund	P.O. Box 30437–00100, Nairobi Tel: 020228801

Annual Licensees (for the period January 1, 2005 to December 31, 2005)

Stockbrokers:

Name	Address	Telephone
Sterling Securities Limited	P.O. Box 45080–00100, Nairobi	020213914
Ashbhu Securities Limited	P.O. Box 41684–00100, Nairobi	020210178
Crossfied Securities Limited	P.O. Box 34137–00100,Nairobi	020246036
Discount Securities Limited	P.O. Box 42489–00100, Nairobi	020219552
Faida Securities Limited	P.O. Box 45236–00100, Nairobi	020243811
Francis Thuo and Partners Ltd	P.O. Box 46524–00100, Nairobi	020228498
Ngenye Kariuki and Company Ltd	P.O. Box 12185–00400, Nairobi	020220052
Nyaga Stockbrokers Ltd	P.O. Box 41869–00100, Nairobi	020332783
Reliable Securities Ltd	P.O. Box 50338–00200, Nairobi	020241350
Solid Investment Securities Ltd	P.O. Box 43046–00200, Nairobi	020244272

Investment Banks:

Name	Address	Telephone
African Alliance Kenya Limited	P.O. Box 27639–00506, Nairobi	0202710978
Apex Africa Investment Bank Limited	P.O. Box 43646–00100, Nairobi	020242170
Barclays Financial Services Limited	P.O. Box 30120–00100, Nairobi	020313364
CBA Capital Limited	P.O. Box 30437–00100, Nairobi	020228801
CFC Financial Services Limited	P.O. Box 44074–00100, Nairobi	0203741861
Dyer and Blair Investment Bank Limited	P.O. Box 45396–00100, Nairobi	020227803
Kestrel Capital Limited	P.O. Box 40005–00100, Nairobi	020251758
Standard Investment Bank Limited	P.O. Box 13714–00800, Nairobi	020220225
Suntra Investment Bank Limited	P.O. Box 74016–00200, Nairobi	020223330
Francis Drummond & Co. Limited*	P.O. Box 45465–00100, Nairobi	020334533
First Africa East Africa Limited*	P.O. Box 56179–00200, Nairobi	0202711279

Authorised Depositories

Name	Address	Telephone
Barclays Bank of Kenya Limited	P.O. Box 30120–00100, Nairobi	020332230
National Bank of Kenya Limited	P.O. Box 72866–00200, Nairobi	020339690
Stanbic Bank Limited	P.O. Box 30550–00100, Nairobi	020342771
Kenya Commercial Bank Limited	P.O. Box 30664–00100, Nairobi	020244939
National Industrial Credit Bank Limited	P.O. Box 44599–00100, Nairobi	0202888000
Co-operative Bank of Kenya*	P.O. Box 48231–00100, Nairobi	02032076100

Investment Advisers:

Name	Address	Telephone
Veritas Financial Services Limited	P.O. Box 4–00621, Nairobi	0207120361
Bridges Capital Limited	P.O. Box 62341–00100, Nairobi	0202714372
B.A. Financial Management Limited	P.O. Box 555–00606, Nairobi	02086820800
Cititrust (Kenya) Limited	P.O. Box 30711–00100, Nairobi	0202711221
Co-operative Consultancy Limited	P.O. Box 48231–00100, Nairobi	020228711
Covenant International Limited	P.O. Box 931–00606, Nairobi	020513532
Dry Associates Limited	P.O. Box 684–00606, Nairobi	0204450520
Executive and Corporate Advisory Services Limited	P.O. Box 72216–00200, Nairobi	020444913
Inter-Alliance International (K) Limited	P.O. Box 44249–00100, Nairobi	020252989
Iroko Securities (Kenya) Limited	P.O. Box 66249–0800, Nairobi	0203740497
Jani Consultancy Services Limited	P.O. Box 40583–00100, Nairobi	0203740640
J.W. Seagon Limited	P.O. Box 63420–00619, Nairobi	020513600-6
Loita Asset Management Limited	P.O. Box 39466–00623, Nairobi	020219015

Fund Managers:

Name	Address	Telephone
British American Asset Managers Limited	P.O. Box 30375–00100, Nairobi	0202710927
African Alliance Kenya Management Company Ltd	P.O. Box 27639–00506, Nairobi	0202710978
Aureos Kenya Managers Limited	P.O. Box 43200–00100, Nairobi	020228870
Co-optrust Investment Services Limited	P.O. Box 48231–00100, Nairobi	02032076000
Genesis (K) Investment Management Limited	P.O. Box 79217–00200, Nairobi	020251012
Investeq Capital Limited	P.O. Box 56977–00200, Nairobi	
Old Mutual Investment Services (K) Limited	P.O. Box 30059–00100, Nairobi	0202829333
Royal Investment Management Services	P.O. Box 9480–00100, Nairobi	020313356
Stanbic Investment Management Services (E.A.) Ltd	P.O. Box 30550–00100,Nairobi	020335888
Standard Chartered Investment Services Limited	P.O. Box 30003–00100, Nairobi	02032094000
AIG Global Investment Co. (E.A.) Limited	P.O. Box 67262–00200, Nairobi	020249444
ICEA Investment Services Limited	P.O. Box 46143–00100, Nairobi	020340365
Old Mutual Asset Managers (E.A.) Limited	P.O. Box 46143–00100, Nairobi	0202711309
Old Mutual Asset Managers (K) Limited	P.O. Box 11589–00400, Nairobi	0202711309
Zimele Asset Management Company Limited	P.O. Box 76528–00508, Nairobi	0202722953

We will appreciate any remarks/comments from our readership emailed or Faxed to:

CAPITAL MARKETS AUTHORITY, REINSURANCE PLAZA, 5TH FLOOR – TAIFA ROAD,P O BOX 74800 – 00200 NAIROBI. KENYA ,
TEL. 254-2-221910, 221869, 226225, FAX; 254-2-228254 ,
EMAIL; NEWSLETTER@CMA.OR.KE , WEBSITE: WWW.CMA.OR.KE

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