

## Chapter 5A: REGULATIONS GOVERNING LISTING AND TRADING OF EQUITY SECURITIES OF SMALL AND MEDIUM ENTERPRISES (SMEs)

### 5A.1. DEFINITIONS:

5A.1.1. In this chapter, unless the subject or context otherwise requires:

- (a) "Advisor and Consultant to the Issue" means an advisor and consultant to the issue as defined in the Rules made under section 175 of the Securities Act, 2015;
- (b) "Bid Price" means the price a Market Maker is willing to pay for the purchase of equity securities of an SME;
- (c) "Designated Institution" means an institution as defined in the Book Building Regulations, 2015;
- (d) "High Net Worth Individual Investor (HNWI)" means an individual investor who applies or bids for shares of the value of rupees one million or above;
- (e) "Information Memorandum" means a document outlining the salient features, risks and terms of equity securities offered/issued to QIBs and HNWIs through private placement;
- (f) "Market Maker" has the same meaning as defined in chapter 12 of the PSX Regulations relating to the Market Makers Regulations;
- (g) "Market Making" means the continuous tender of two-way quotes by a Market Maker i.e. Bid Price and Offer Price for the purchase and sale of the equity securities of an SME;
- (h) "Offer Price" means the price a Market Maker is willing to receive for the sale of the equity securities of an SME;
- (i) "Qualified Institutional Buyers (QIBs)" for the purpose of these regulations means:
  - (i) Any of the following entity:
    - a. a financial institution as defined in the Companies Ordinance, 1984.
    - b. an insurer as defined in the Insurance Ordinance, 2000.
    - c. a company licensed by the Commission as securities broker under the Securities Act, 2015.
    - d. a fund established under the Collective Investment Scheme under the Non-Banking Companies (Establishment and Regulation) Rules 2003.
    - e. a pension fund as defined in the Voluntary Pension System Rules, 2005.
  - (ii) Any other company as defined in section 2(1)(7) of the Companies Ordinance, 1984 meeting the criteria prescribed by the Exchange with prior approval of the Commission.
- (j) "Small and Medium Sized Enterprise (SME)" means a public company, registered under the Companies Ordinance, 1984, having a post issue paid up capital not less than Rs. 25 million and not more than Rs. 200 million;
- (k) "SME Board" means the board developed by the Exchange for listing and trading of equity securities of SMEs;
- (l) "Spread" means the difference between the Offer Price and the Bid Price of an equity security to be quoted by a Market Maker.

5A.1.2. Words and expressions used but not defined in this chapter shall, unless there is anything repugnant in the subject or context, have the same meanings as are assigned to them in the Companies Ordinance, 1984 and the Securities and Exchange Ordinance, 1969.

### 5A.2. ELIGIBILITY CRITERIA FOR LISTING OF EQUITY SECURITIES OF SMEs:

An SME shall be eligible to apply for listing of its equity securities under this chapter provided that:

- (a) the Memorandum and Articles of Association of the SME authorize it to list its equity securities/raise capital on/through stock exchanges;
- (b) not less than 20% of the post issue paid-up capital of the SME is offered only to QIBs and HNWIs entirely through private placement by circulation of Information Memorandum;
- (c) the offer is made through fixed price method, the book building method or any other method acceptable to the Exchange.

Provided that the book building method shall only be allowed in case the post issue paid up capital of the SME is not less than Rs. 100 million and the offer size is not less than 2 million shares and 20% of the post issue paid up capital of SME.

For the book building of equity securities of SMEs, book building system of the Designated Institution shall be used in accordance with the criteria prescribed by the Exchange in Annexure-II of this Chapter.

- (d) the number of initial subscribers in private placement is not less than five (05);
- (e) the bid size for each initial subscriber is not less than rupees one million;
- (f) its sponsors hold not less than 25% of the post issue paid up capital of the SME for a lock-in period of not less than three years;
- (g) its sponsors retain their entire shareholding in SME and subsequent right and bonus shares issued thereon for a lock-in period of not less than twelve months.
- (i) For the purpose of clause (f) and (g) above, the lock-in periods shall start from the date of listing of the SME or from the date of commencement of commercial operation or production by the SME whichever is later, or till such additional period as may be specified by the Exchange;

- (ii) Subject to clauses (f) and (g) above, the sponsors may sell their shareholding through block-sale and shall report the sale of shares, on same day, to the Exchange and notify to the Commission change in particulars of their shareholdings in the form and manner as specified in section 103 of the Securities Act, 2015 and regulations made thereunder.
- (h) The equity securities to be listed are issued only in Book-Entry form through CDS and this information is disclosed in Information Memorandum;
- (i) It has appointed at least one Advisor and Consultant to the Issue to perform functions in accordance with this chapter;
- (j) It has developed its own website and disseminated the basic information about the SME and its business activities including the Information Memorandum, its annual and half-yearly financial statements and quarterly accounts and monthly progress report on implementation of the project, where required. The monthly progress report shall also be submitted to the Exchange for public dissemination;
- (k) The promoters/sponsors/controlling directors are not also promoters/sponsors/ controlling directors in other listed companies, which are in default of any Listing Regulation of the Exchange. None of its promoters, sponsors, or controlling directors is sponsor/controlling director of a company which was delisted during last five years due to non-compliance with any of the Listing Regulations. However, this will not apply to nominee directors of the Government and Financial Institutions. The company shall also provide a list of Controlling Directors;
- (l) The company is not an associated company of any other listed company which has violated the Listing Regulations of the Exchange and is still in default of any Listing Regulation. However, this will not apply to nominee directors of the Government and Financial Institutions;
- (m) its Chief Executive has not served or is not serving as Chief Executive of a listed company which has significantly violated and/or failed to comply with any provision of chapter 5 relating to "Listing of Companies and Securities Regulations" during his tenure as the Chief Executive; and
- (n) its Promoters/sponsors/controlling directors are not in the defaulters list of the State Bank of Pakistan either in their individual capacity or in the capacity as directors of other listed companies. This will not apply to the directors nominated by the Federal Government or any Provincial Government and the Financial Institutions.

### 5A.3. ISSUE OF EQUITY SECURITIES AT PREMIUM:

An SME may issue its equity securities at premium subject to the following conditions:

- (a) The SME has commenced commercial operations and based on its latest audited financial statements for not less than twelve months, it has earned:
  - (i) profit from its principal operations; and
  - (ii) positive earnings per share.
- (b) The premium on offer to QIBs and HNWIs shall not exceed the amount of premium charged on placements with foreign or local Investors/institutions, if such placement has been made within a period of six months preceding the commencement of the subscription/bidding period and the names and addresses of such Investors/institutions shall be disclosed in Information Memorandum;
- (c) The SME shall justify the amount of premium and such justification shall be disclosed in the Information Memorandum;
- (d) The sub-clauses (a) and (b) shall not apply where the equity securities are issued/offered through book building process.

### 5A.4. LISTING PROCEDURE:

- 5A.4.1. An SME that fulfils the eligibility criteria specified in clause 5A.2. may apply for listing of its equity securities on the SME Board by making an application to the Exchange on Form-I attached to this chapter accompanied with such information and documents as mentioned at Annexure-I to Form-I along with payment of initial listing fee as prescribed under this chapter.
- 5A.4.2. The Exchange may reject a listing application, at its sole discretion if it deems that listing of the SME is not in the interest of the market or the SME does not meet any of the eligibility criteria prescribed above.

Provided that the SME shall be given an opportunity of hearing by the Exchange before the listing application is rejected.

### 5A.5. CONTENTS OF INFORMATION MEMORANDUM:

- 5A.5.1. The Information Memorandum, to be circulated to QIBs and HNWIs for issuance/offer of equity securities of an SME, shall contain at least such information as provided in Schedule-I of this chapter.
- 5A.5.2. The SME shall place the Information Memorandum on its own website and ensure that the Information Memorandum is also placed on the websites of the Exchange and the Advisor and Consultant to the Issue.
- 5A.5.3. The SME shall not use the Information Memorandum as a document inviting the general public for subscription of equity securities and shall include a statement to this effect on the cover page of the Information Memorandum.

#### **5A.6. APPOINTMENT AND DUTIES OF ADVISOR AND CONSULTANT TO THE ISSUE:**

Prior to applying for listing on the Exchange, the SME shall, through an agreement in writing, appoint an Advisor and Consultant to the Issue till the date of its formal listing. The Advisor and Consultant to the Issue shall perform the following duties:

The Advisor and Consultant to the Issue shall appraise the SME and its project, either on its own or in consultation with other expert(s), and submit a feasibility report containing financial plan, if required, and at least five years financial projections to the Exchange and state in the feasibility report that the Advisor and Consultant to the Issue:

- (i) has examined the technical, managerial, commercial, economic and financial aspects of the project and/or the SME;
- (ii) has reviewed all the material contracts/agreements relating to issue/offer of equity securities by the SME;
- (iii) has reviewed all the contents of the Information Memorandum and found them true and complete to the best of its knowledge and belief;
- (iv) is satisfied that the SME has or will have the necessary operational infrastructure to carry out its business;
- (v) is satisfied that the SME and its project are viable and investment worthy;
- (vi) ensures that the SME complies with its obligations under this chapter;
- (vii) shall act honestly, impartially and with due care and skill; and
- (viii) shall comply with the applicable regulatory and contractual obligations.

#### **5A.7. APPOINTMENT AND FUNCTIONS OF MARKET MAKERS:**

##### **5A.7.1. APPOINTMENT OF MARKET MAKER:**

The SME may, through an agreement in writing, appoint a Market Maker for a period of not less than three years from the date of listing of the SME.

In case a Market Maker is not available at any time or discontinues to act as Market Maker upon completion of initial period of three years or due to any reason, the SME may immediately appoint another person eligible to act as Market Maker and shall notify the same to the Exchange and through its website on the same day.

##### **5A.7.2. FUNCTIONS OF MARKET MAKER:**

The Market Maker shall be responsible for performing the following functions:

- (i) The Market Maker shall provide two-way quotes in all equities securities of SMEs for which it is appointed as a Market Maker.
- (ii) The Market Maker shall not quote beyond the maximum Spread of 10% which shall be disclosed in the Information Memorandum.
- (iii) Market Maker shall hold a minimum inventory per security equivalent to 5% of free float of the security.
- (iv) Market Maker shall purchase or arrange purchase of the equity securities of respective SME from any holder that tenders such equity securities for sale.
- (v) Market Maker shall sale or arrange sale of the equity securities of respective SME to any Investor who intends to purchase such securities.

#### **5A.8. TRADING OF SECURITIES ON EXCHANGE, RISK MANAGEMENT AND ALLIED MATTERS:**

##### **5A.8.1. TRADING THROUGH KATS:**

- (i) Any Broker can trade under SME Board either on his own account or on account of his clients subject to prior notification in writing to the Exchange and payment of basic deposit as per Deposits, Fee, Contribution and other Sums Schedule.
- (ii) Trading in SME Board shall take place through KATS.

##### **5A.8.2. MINIMUM ORDER SIZE (MARKETABLE LOT):**

The minimum order size for trading in equity securities of SME on the Exchange shall be Rs. 100,000/-

##### **5A.8.3. CIRCUIT BREAKERS OR MARKET HALT:**

- (i) There shall be a security-wise circuit breaker or market halt in SME Board in a manner as may be prescribed by the Exchange from time to time.
- (ii) No trade in any equity security of an SME shall be allowed beyond the above prescribed upper and lower limits.

##### **5A.8.4. MINIMUM FREE FLOAT:**

The SME shall maintain at all times the minimum Free Float of 20% of its post issue paid up capital.

##### **5A.8.5. EXPOSURE MARGINS:**

Exposure margin on equity security of an SME shall be 25% or VaR, whichever is lower, of the total Exposure.

5A.8.6. **TRADING FEE (LAGA):**

The Exchange shall prescribe, from time to time, trading fee on the value of the transaction and other contribution/charges payable by the Broker. However, there shall be no trading fee for 1 year from the applicability of this chapter.

5A.8.7. **CLEARING AND SETTLEMENT:**

Clearing and settlement of the transactions executed at the SME Board shall be done under T+2 settlement system through the NCCPL.

5A.8.8. **PROHIBITION OF SHORT SALE AND BLANK SALE:**

Short Sale and Blank sale of equity securities of SMEs shall not be permissible.

**5A.9. NON-APPLICABILITY OF THE LISTING OF COMPANIES AND SECURITIES REGULATIONS OF THE EXCHANGE:**

An SME listed under this chapter shall not be subject to compliance with the provisions of chapter 5 relating to "Listing of Companies and Securities Regulations" of the PSX Regulations including the Code of Corporate Governance (CCG). The SME shall be required to disclose this fact in the Information Memorandum and all the subsequent annual and half-yearly financial reports.

**5A.10. APPLICABILITY OF SUBSTANTIAL ACQUISITION LAWS:**

Any person who, directly or indirectly, intends to acquire voting shares of an SME, shall be subject to compliance with the provisions of the Securities Act, 2015 and with all the relevant requirements laid therein including the requirements laid in the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008.

**5A.11. AUDITED FINANCIAL STATEMENTS AND INFORMATION REQUIREMENT:**

- 5A.11.1. The SME shall prepare its periodic financial statements as required under the applicable laws and shall get the same audited by a QCR rated chartered accountant.
- 5A.11.2. The SME shall place its periodic financial statements on its website. The SME shall also immediately notify the Exchange about the placement of such information on its website.

**5A.12. REPORTING AND DISCLOSURE BY SME:**

An SME listed under this Chapter shall be required to disseminate the following information:

(a) **DISCLOSURE OF PRICE SENSITIVE INFORMATION:**

Every listed SME shall communicate to the Exchange any non-public material information about the SME such as all decisions of its Board of Directors relating to cash dividend, bonus issue, right issue or any other entitlement or corporate action, change of management, significant change in its financial condition, sphere of activity and current and expected business performance or any other price-sensitive non-public information which if made public will likely cause a substantial change in the market price of its equity securities. Such information must be notified without delay to the Exchange according to the procedure laid down in the Exchange's Correspondence Manual.

(b) **DISCLOSURE OF RELATED PARTY TRANSACTIONS:**

Every listed SME shall communicate to the Exchange all related party transaction, without delay as soon as the terms of a transaction with a related party are agreed, according to the procedure laid down in the Exchange's Correspondence Manual. Such information should including the following:

- (i) Nature of the transaction and amount involved;
- (ii) Name of the related party(ies) and the nature and extent of their interest in the transactions;
- (iii) Effect of the transaction on the SME;
- (iv) Any other information necessary to enable Investors to evaluate the effect of the transaction on the SME; and
- (v) A statement that the directors, excluding those who are involved in the transaction as a related party, consider that the terms of the transaction are fair and reasonable in so far as its shareholders are concerned.

(c) **REPORTING OF REGULATORY COMPLIANCE:**

The Chief Executive Officer/Managing Director of the SME shall:

- (i) be responsible for ensuring compliance by the SME with all the requirements of these Regulations and all other applicable rules, regulations, notices, guidelines, orders and the directives issued by the Commission or the Exchange from time to time;
- (ii) report status of the compliance mentioned in sub-clause (i) above to the Board of Directors of the SME and the Exchange within 15 days from the end of each half year;
- (iii) act with due skills, diligence and care at all times.

(d) **DISCLOSURE OF MISCELLANEOUS INFORMATION:**

An SME shall notify, without delay, to the Exchange the information relating to:

- (i) change of its Market Maker (if any);
- (ii) any change in its accounting reference date;
- (iii) any change in its registered address;
- (iv) the resignation, dismissal or appointment of any director giving the date of such occurrences; and;
- (v) any other information in such form and within such timeframe as may be required by the Exchange.

#### **5A.13. SUSPENSION OF TRADING:**

The Exchange may suspend trading in the equity securities of an SME in case:

- (a) trading in the shares is not being conducted in an orderly manner;
- (b) the SME fails to comply with any provision of this chapter;
- (c) it is required to do so in the best interest of the market and the protection of Investors; or
- (d) the integrity and reputation of the market has been or may be impaired by dealings in the equity security of SME.

#### **5A.14. DISCIPLINARY ACTIONS:**

If the Exchange considers that an SME has contravened any of the provisions of this chapter, it may take one or more of the following measures:

- (a) Censure the SME;
- (b) Impose a fine on the SME or the promoters/ sponsors/directors/CEO of the SME;
- (c) Publicly disclose the fact that the SME has been fined or censured;
- (d) Disclose the names of the directors and CEO of the SME through its website;
- (e) Place the SME in the defaulters' segment; or
- (f) Suspend trading in the shares of the SME.

#### **5A.15. EXIT FROM THE SME BOARD:**

An SME may be excluded from the SME Board in the following events:

- (a) Voluntary de-listing
- (b) Compulsory de-listing
- (c) Migration from SME Board to the Exchange's main board.

#### **5A.16. VOLUNTARY DE-LISTING OF SME FROM THE SME BOARD:**

- 5A.16.1. The SME may apply to the Exchange for delisting from the SME Board supported by reasons thereof and the proposed purchase price of equity security to be delisted after obtaining approval in general meeting of the SME by not less than  $\frac{3}{4}$  of the security holders present in person or by proxy at such general meeting.

The purchase price may be determined either through the reverse book building process, to be prescribed by the Exchange, or through the mechanism given in the following clause.

- 5A.16.2. The purchase price proposed by the sponsors will be the highest of the benchmark price based on any of the following:
- (a) Current market price as of the date the Exchange receives the intimation under para 5A.16.1. above;
  - (b) Average Market Price: calculated based on the daily closing price of the three years preceding the date the Exchange receives the intimation under para 5A.16.1. If the SME has been in existence less than three years, the average shall be based on the period since the listing of the SME on the SME Board;
  - (c) The intrinsic value per share: determined on the basis of revaluation of assets, carried out by professional evaluator approved by Pakistan Banks' Association (PBA) or any Investment Bank. The revaluation of assets carried out by the evaluators shall not be older than six months from the date the Exchange receives the intimation under para 5A.16.1. above;
  - (d) The maximum price at which the sponsors had purchased these shares from the open market in the preceding one year.
- 5A.16.3. While evaluating the SME application for the delisting, the Exchange may require the SME to take precautions in order to avoid the infringement of the investors' rights. In any case voluntary de-listing of an SME shall be subject to compliance by the SME with the prescribed procedure, guidelines/criteria and other terms and conditions as may be laid down by the Exchange.
- 5A.16.4. The Exchange may for any reason whatsoever refuse to accept the proposal of the company, the purchase price and/or the request to de-list the securities.

#### **5A.17. COMPULSORY DE-LISTING OF SME FROM THE SME BOARD:**

- 5A.17.1. An SME may be delisted from the SME Board, if:

- (a) Disciplinary action has been taken against the SME by the Exchange under para 5A.15. and the SME fails to rectify the default for a period of six months;
- (b) The independent audit report on the annual financial statement of the SME sets forth an adverse opinion or the disclaimer of opinion by an auditor for two consecutive periods.

Provided that the Exchange shall issue a warning to the SME for correcting the problems prior to taking a decision to delist the SME from the SME Board.

- 5A.17.2. If it fulfills the criteria for migration to the main board and its application for the listing to the main board is accepted by the Exchange;
- 5A.17.3. Where an SME is delisted under clause 5A.18.1.(a) above, no company promoted by promoters and directors of such delisted company shall be permitted to be listed on SME board for a period of five years from the date of such delisting.

#### 5A.18. MIGRATION FROM SME BOARD TO THE MAIN BOARD:

- 5A.18.1. Where paid-up capital of an SME exceeds Rs200 million or its equity, excluding surplus on revaluation of fixed assets, exceeds Rs300 million, such SME shall, within twelve months of such increase, seek its listing on main board of the Exchange.

Provided that at least three annual audited financial statements are published before SME could migrate to the Main Board.

**Explanation:** In case of paid up capital, the time period of twelve months shall be reckoned from the date of issue of shares causing increase in the paid up capital beyond Rs.200 million and in case of equity it shall be reckoned from the last date of the closing of the financial year in which the equity has exceeded the threshold of Rs300 million;

- 5A.18.2. An SME applying for listing on the main board of Exchange shall, in addition to the requirements laid down in chapter 5 of PSX Regulations, comply with the additional requirements as may be prescribed by the Exchange with the approval of the Commission.
- 5A.18.3. The Exchange, with prior approval of the Commission, may waive any listing requirements of chapter 5 of PSX Regulations for an SME migrating to the main board.
- 5A.18.4. The Exchange shall waive initial and annual listing fee for listing on main board in the first year of migration of an SME to the main board.

#### 5A.19. INITIAL AND ANNUAL LISTING FEE:

- 5A.19.1. An SME applying for listing of its equity securities under this chapter shall be required to pay an initial listing fee equivalent to 0.05% of its post issue paid-up capital subject to a maximum of Rs. 50,000/-.
- 5A.19.2. Whenever the SME increases its paid-up capital, it shall be required to pay to the Exchange an additional listing fee equivalent to 0.05% of increase in the paid-up capital subject to a maximum of Rs. 50,000/-.
- 5A.19.3. The SME shall pay an annual listing fee for each subsequent financial year of the Exchange, commencing from 1st July and ending on 30 June , which shall be payable by or before the 30th September in each calendar year, as per the following schedule:

S.#	SMEs having Paid-Up Capital	Amount of fee
(i)	Upto Rs. 50 million	Rs. 20,000/-
(ii)	Above Rs. 50 million & upto Rs.100 million	Rs. 30,000/-
(iii)	Above Rs.100 million	Rs. 40,000/-

Provided that the Exchange may relax/revise the above fees or any of the slabs or add new slabs as it may deemed appropriate, subject to prior approval of the Commission.

Provided further that every SME applying for listing shall pay annual listing fee for the entire financial year of the Exchange along with listing application irrespective of the date of its listing during the financial year.

**FORM I**

**FORM OF APPLICATION FOR SEEKING LISTING OF AN SME ON THE EXCHANGE UNDER SECTION 9 OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969**

To:

The Secretary,

Pakistan Stock Exchange Limited,

Karachi.

Dear Sir,

1. We hereby apply for the listing of our (Name of the SME) \_\_\_\_\_ on your Stock Exchange.
2. Necessary information and documents as required under the Regulations and mentioned at Annexure-I to Form I are enclosed herewith.

Yours faithfully,

\_\_\_\_\_

SIGNATURE & ADDRESS

**c.c. to:**

The Securities & Exchange Commission of Pakistan  
ISLAMABAD - as required under Sub-Section (1) of Section 9 of the Securities & Exchange Ordinance, 1969.

**Annexure-I**

**LIST OF DOCUMENTS REQUIRED TO BE SUBMITTED ALONGWITH APPLICATION FOR SEEKING LISTING OF AN SME ON THE EXCHANGE UNDER SECTION 9 OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969**

An SME along with application on Form-I for listing under section 9 of the Securities and Exchange Ordinance, 1969 shall furnish the following documents/information:

1. Memorandum and Articles of Association containing copy of the certificate of incorporation and copy of the certificate of commencement of business.
2. A brief history of the SME since incorporation giving names of the sponsors/promoters and all directors, details of its activities including any re-organization, changes in its capital structure and borrowings.
3. Names and addresses of the directors and persons holding ten per cent or more of any class of equity security as on the date of application together with the number of shares and other securities convertible into ordinary shares held by each of them.
4. A statement showing cash dividends and bonuses paid (if any) during the last 3 years or such shorter period as the company may have been in existence.
5. A statement containing particulars, dates of and parties to all material contracts, agreements (including agreements for technical advice and collaboration), concessions and similar other documents except those entered into in the normal course of the company's business or intended business together with a brief description of the terms of such agreements.
6. Particulars of the security listing of which is sought.
7. An undertaking on the format as prescribed in Form-II.
8. Auditors' Certificates on the SME's latest balance sheet, five years income statement containing EPS as well, paid up capital and the break-up value per share on the basis of latest audited accounts. The certificate must contain calculation of the Break-up value.
9. Copy of the resolution passed by the Board of Directors of the SME with respect to issue and listing of the shares.
10. Copy of the appraisal report prepared by the Market Advisor and Consultant to the Issue.
11. Consent of Market Maker appointed by the SME under this Chapter.
12. Undertaking by the Market Maker, on the format provided in Form-III, for compulsory Market Making in the share of the SME, in case the SME has appointed the Market Maker.
13. Copies each of Information Memorandum, audited annual accounts of the SME for the last 5 years or for a shorter period if five years of the commencement of business are not completed.
14. Copy of application submitted to the CDC for declaration of the share of the SME as an eligible security for its CDS.
15. Report of State Bank of Pakistan that name of the SME as well as names of other companies in which directors of the SME are holding directorship and name of promoters/sponsors/controlling directors, of the SME are not in the Defaulter's List of SBP either in their individual capacity or in the capacity of Directors of other companies. (This will not apply to nominee Directors of the Federal Government, Provincial Governments and Financial Institutions).
16. Pay Order/Bank Draft/Cheque in favour of the Exchange for payment of initial listing fee, annual listing fee and service charges as prescribed under the Regulations.



**Annexure-II**

**CRITERIA FOR ISSUE/OFFER OF SHARES OF SMALL AND MEDIUM ENTERPRISES (SMEs)  
THROUGH BOOK BUILDING.**

Under Regulation 5A.2(c) of the Regulations Governing Listing and Trading of Equity Securities of Small and Medium Enterprises (SMEs), it is required that “the offer is made through fixed price method, the book building method or any other method acceptable to the Exchange”.

For the purpose of above Regulation, Privately Placed Book Building will be conducted amongst the Institutional Investors and HNWI's subject to following conditions:

- i. The post issued paid up capital of the SME is not less than Rs. 100 million, and the offer size is not less than two million shares and 20% of the post issue paid up capital of SME.
- ii. Under Book Building mechanism, bids are collected from the QIBs and HNWI's and a book is built which depicts demand for the shares at different price levels. Price at which shares are issued is based on Dutch Auction method.
- iii. Dutch Auction method means the method through which price is determined by arranging all the bid price in descending order along with the number of shares and the cumulative number of shares bid for at each bid price. The strike price is determined by lowering the bid price to the extent that the total number of shares offered under the Book Building portion is subscribed.
- iv. The Book Runner shall be appointed to perform the function of Book Building.
- v. The Issue is being made through the Book Building process at a floor price.

**BOOK BUILDING PROCEDURE:**

A bid by an Eligible Investor can be a “Limit Bid” or a “Step Bid”.

**Limit Bid:** Limit bid is at the Limit Price, which is the maximum price an investor is willing to pay for a specified number of shares.

**Step Bid:** A series of Limit Bids at increasing prices. The aggregate amount of Step Bid shall not be less than PKR 1,000,000/- and the amount of any individual step shall not be less than PKR 1,000,000/-.

- An eligible investor shall not make more than one bid severally or jointly.
- The Book Runner to the Issue shall be responsible to:
  - i. ensure that necessary infrastructure and electronic system is available to accept bids and to undertake the whole Book Building in a fair, efficient and transparent manner;
  - ii. use the software provided by the Designated Institution for the Book Building on such terms and conditions as may be agreed through an agreement in writing;
  - iii. ensure that the software used for Book Building is based on Dutch Auction Method for display of the order book and determination of the strike price;
  - iv. ensure that the bidders can access to the System and can revise their bids electronically using the user ID and the password;
  - v. maintain record of all the bids received;
  - vi. the Book Runner has established bid collection centers.

**ELIGIBILITY TO PARTICIPATE IN BIDDING:**

Eligible Investors who can place their bids in the Book Building shall be those whose Bid Amount is not less than PKR 1,000,000/- (Rupees One Million only).

**INFORMATION FOR BIDDERS:**

- The bids should be submitted on the prescribed bidding form in person or through fax numbers.
- Investors can place, revise or withdraw their bids by accessing the Designated Institution's online portal for book building by using the user id and password communicated to them.

**PROCEDURE FOR BIDDING:**

- i) Bids can be placed at “Limit Price” or “Step Bid”. In case of Limit Bid the minimum size of the bid is not less than PKR 1,000,000/- (one million rupees) and in case of a Step Bid, the amount of any step shall not be less than PKR 1,000,000/- (one million rupees).

- ii) The persons at the Bid Collection Centers shall vet the bid applications and accept only such bid applications that are duly filled in and supported by pay order, demand draft or a bank receipt evidencing transfer of the bid money into the Issuer's designated bank account;
- iii) The bidding shall commence from 09:00 a.m. and close at 05:00 p.m. on all days of the Bidding Period. The bids shall be collected and entered into the system by the Book Runner till 05:00 p.m. on the last day of the bidding period; and
- iv) The Book Runner shall collect full amount of the bid money as margin money in respect of bids placed by the individual investors and institutional investors.
- v) Once the Strike Price is determined, all those bidders whose bids are found successful shall become entitled for allotment of shares.
- vi) The bidders who have made bids at prices above the Strike Price shall be allotted shares at the Strike Price and the differential shall be refunded.
- vii) The bidders who have made bids below the Strike Price shall not qualify for allotment of shares and their margin money shall be refunded within five working days of the close of the bidding period.
- viii) The successful bidders shall be issued shares only in the form of book-entry to be credited in their respective CDS accounts. All the bidders shall, therefore, provide their CDC account numbers in the bid application.

**Schedule-I**

**CONTENTS OF INFORMATION MEMORANDUM**

The Information Memorandum (IM) prepared with respect to issue of shares for listing under this Chapter shall contain at least the following information/disclosures:

- i. On cover page, the following shall be disclosed:
  - a) A disclaimer in bold letters stating that, “This is not a prospectus for issue of shares to the general public but a document prepared for the purpose of offering shares of an SME only to Qualified Institutional Buyers(QIBs) and High Net Worth Individual Investors (HNWIs). This IM has not been approved by the Securities & Exchange Commission of Pakistan (the Commission) or the Pakistan Stock Exchange Limited (the Exchange)”;
  - b) A disclaimer in bold letters stating that, “This is an IM by ... [Name of the issuing SME which is an SME. SMEs being small capital based companies exposed to the risk of high volatility in its share market price at the Exchange after listing. The investors are strongly advised to evaluate their risk tolerance and sustainability capability prior to investing in the equity of this company. PSX or SECP shall not be held responsible for any direct or indirect losses incurred due to investment in the equity of this SME.”
  - c) A statement in bold letters stating that, “The SME Board is designed primarily for emerging of small capital based companies. Companies listed at SME Board are comparatively exposed to higher investment risk as compared the companies listed at the main Board of the Exchange. The prospective investor should, therefore, be aware of the risk of investing in such companies and should make the decision to invest only after careful diligence of the issue and consideration. It is advisable to consult any independent investment advisor before making investment in the equity of this SME.”
  - d) A statement in bold letters stating that, “The Board of Directors of ... (Name of the issuing SME) ... accepts responsibility for accuracy of the information contained in this document”; and
  - e) Name of the SME, name of the entity that has prepared the IM and date of the IM.
- ii. Table of contents, Executive summary by the entity that has prepared the IM, purpose of preparation of the IM and their scope of work;
- iii. Glossary of technical terms and acronyms should be provided after the table of contents;
- iv. The capital structure of the SME.
- v. Information about the SME like its name, date of its incorporation, registration number, addresses of its registered & head offices, names of its sponsors, major shareholders and associated companies/undertakings etc.;
- vi. Organization structure of the SME and its principle business;
- vii. Latest pattern of shareholding of the SME.
- viii. Names of the directors of the SME and their directorships in other companies;
- ix. Profile of the management of the SME including all the members of the Board of Directors excluding the nominee directors, the Chief Financial Officer and the Company Secretary;
- x. Future outlook/ business strategy of the SME.

- xi. Highlights of major restructuring, if any, like merger, demerger, amalgamation, acquisition, reorganization, financial restructuring etc.;
- xii. Five years financial highlights relating to cash flows and financial & operating position of the SME including key financial ratios like debt/equity ratio (pre & post issue), current ratio, return on equity, return on assets, earning per share, Break-up value per shares (pre & post issue) etc. in tabular form;
- xiii. Salient features of the Issue like issue size, face value of share, offer price etc.
- xiv. Justification for premium, if any;
- xv. Terms & conditions for investment in the SME's shares;
- xvi. Rights of the shareholders like right to vote, dividend etc.;
- xvii. Purpose of the issue & breakup of the utilization of the proceeds of the Issue;
- xviii. In case the proceeds of the Issue are to be utilized for project financing, detail of such project like project cost & means of financing (i.e. Financial Plan), project implementation schedule, latest status of the implementation of the project, expected date of completion of the project, expected date of trial & commercial production etc.;
- xix. Five years financial projections (i.e. Balance Sheet, Income Statement, cash flow statement and statement on changes in equity) including key financial ratios;
- xx. All the risk factors associated with the investment in the shares of the SME and their mitigants;
- xxi. Basic information about the industry the SME belongs to, key players in the industry, basic raw material used by the SME, if any, and list of supplier thereof, main clients of the SME, competitors of the SME, etc.;
- xxii. Summary of all the material contracts relating to the Issue and the project, if any;
- xxiii. Any other material fact, information and disclosure as required under any agreement, rules, regulations or the law for the time being enforced which may affect the investor's decision to invest;
- xxiv. Names of all the stock exchange(s) where the SME will be listed;
- xxv. Tentative subscription dates;
- xxvi. Tentative date of allotment of shares to the investors.

**FORM II**

**FORM OF UNCONDITIONAL UNDERTAKING BY THE SME**

Date: \_\_\_\_\_

The Board of Directors,  
Pakistan Stock Exchange Limited,  
Karachi.

**UNDERTAKING**

We undertake, unconditionally, to abide by the Regulation(s) of the Pakistan Stock Exchange Limited applicable to the company which presently are, or hereinafter may be in force.

We further undertake:

1. That our shares shall be quoted on the \_\_\_\_\_ at the discretion of the Exchange;
2. That the Exchange shall not be bound by our request to remove shares from the \_\_\_\_\_;
3. That the Exchange shall have the right, at any time to suspend or remove the said share for any reason which the Exchange consider sufficient in the interest of the market;
4. That such provisions in the Articles of Association of our company or in any declaration or agreement relating to any other security as are or otherwise not deemed by the Exchange to be in conformity with the Listing of Companies and Securities Regulations of the Exchange shall, upon being called upon by the Exchange, be amended to supersede the Articles of Association of our company or the nominee relating to the other securities to the extent indicated by the Exchange for purposes of amendment and we shall not raise any objection in relation to a direction by the Exchange for such amendment; and
5. That our company and/or the share may be delisted by the Exchange in the event of non-compliance and breach of this undertaking.

Yours sincerely,

\_\_\_\_\_  
SIGNATURE OF AUTHORIZED PERSON

Common Seal of the Company

**FORM III**

**FORM OF UNCONDITIONAL UNDERTAKING BY THE MARKET MAKER**

To:

The Head of Operations,  
Pakistan Stock Exchange Limited,  
Karachi.

**UNDERTAKING**

We (Name of Market Maker), have been appointed by ... (Name of SME) ... as the Market Maker for Market Making in its shares applied for listing at SME Board of the Exchange.

We the Market Maker hereby undertake as under:-

1. That we shall abide by all the applicable provisions of the Regulations Governing Listing and Trading of Equity Securities of Small and Medium Enterprises (SMEs) which presently are, or hereinafter may be in force.
2. That we will compulsorily make market in the scrip of the SME at least for a period of three years from the date of commencement of trading on the Exchange i.e. from the date of listing and shall not withdraw from such Market Making obligation until another Market Maker is appointed under the Regulations and the Exchange has given its consent for such withdrawal.
3. That we will quote bids and offer in the share of the SME within the spread which shall not be more than 10%.

Yours faithfully

\_\_\_\_\_

(Signature of Authorized Person)

Common Seal of the company