

Capital Market Understanding

WHAT IS STOCK EXCHANGE?

A stock exchange, share market or bourse is an organization which provides "trading" facilities for stock brokers and traders, to trade shares of the listed companies and other financial instruments such as Term Finance Certificates and Derivatives. Stock exchanges also provide facilities for the issue (listing), redemption (delisting) of securities and other capital events including the payment of income and dividends. Karachi Stock Exchange (KSE) is a modern market where trading takes place with electronic trading system called Karachi Automated Trading System (KATS), which gives the Exchange advantages of speed and minimum cost of transactions. Trades on an exchange are by members only.

WHY DO COMPANIES GO PUBLIC?

The primary purpose for companies to be publicly listed at the exchange is to cost-effectively raise capital. It reduces the company's reliance on the traditional financiers such as financial institutions and individuals. Listing allows business expansion without increasing borrowings or draining the company's cash reserves. History of listed companies indicate that companies that convert to public ownership are more likely to become successful than control companies that remain private. Companies that go public are also more likely to become acquirers than control companies. IPO companies grow faster than control companies after going public. However, both public and private companies must disclose financial information to regulators.

WHAT ARE SHARES?

Shares, as the name says, are shares in a limited company. Each shareholder is a partial-owner of the company in which they have bought shares and investors can buy and sell their shares on the stock exchanges. Companies on incorporation issue shares, (also called equities) and later perhaps when they are building up a business. The original shareholders might still own them, or they may have sold them to someone else through the stock market. If the company makes a profit, the shareholders normally have some of it passed to them in the form of dividends. The amount paid in dividends varies year by year, depending on how profitable the company has been and how much money the directors and the company management want to keep in reserve for future expansion.

BROKER / TRE CERTIFICATE HOLDER

“Broker” means a Trading Right Certificate (TRE) Holder of the Exchange engaged in the business of executing transactions in Securities for his own account or on account of his clients and is registered with the Commission as a Broker under the Brokers and Agents Registration Rules, 2001;

TRE Certificate Holder means any person who is issued a TRE Certificate by the Exchange upon Corporatization under Section 5 of the Act, or purchases or acquires such TRE Certificate under Section 16 of the Act or is issued a fresh TRE Certificate in accordance with the provisions of the Act;

EQUITY MARKET

Equity market refers to the market where equity instruments such as shares are freely tradable in secondary market. In 1991, the secondary market was opened for foreign investors on an equal basis with the local investors. This measure along with the government policy of privatization has resulted in rapid growth of the market since 1991. It may also be mentioned that "privatization" has been adopted as a philosophy and most of the business & finance activities which were previously reserved for the public sector have now been opened for the private sector. The change of policy is most visible in the financial sector where a number of commercial banks, investment banks, discount houses, leasing companies, modarabas, life insurance companies and mutual funds have been allowed in the private sector.

Liberalization policy has led to rapid deregulation of the national economy and the impediments to private initiative have been speedily removed. Foreign exchange holdings and transfers have been liberalized, industrial sanctioning has been done away with except for few sectors where, for strategic reasons, prior permission of the government is necessary.

THE REGULATOR

The regulatory authority for the securities market and corporate sector in Pakistan is the **Securities and Exchange Commission of Pakistan**. The Commission was established on January 01, 1999 by dissolving the Corporate Law Authority which was formed in 1981 under a Special Law. The Commission administers the compliance of the corporate laws in the country. The Commission is run by the Commissioners under a Chairman.

LEGAL FRAMEWORK

The securities market and the corporate sector are regulated by the provisions of the **Companies Ordinance, 1984**. Other key Rules / Regulations are:

- **The Securities and Exchange Ordinance 1969 and Securities and Exchange Rules, 1971.**
- **Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non- Banking Finance Companies and Notified Entities Regulations, 2008.**
- **Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980.**
- **Insurance Companies Ordinance, 2000.**
- **Companies (Issue of Capital) Rules, 1996.**
- **Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002 and Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008.**
- **Guidelines for Insiders Trading.**

In addition to above, the listed companies are also subject to the **Listing of Companies and Securities Regulations** prescribed under Rule Book of the Karachi Stock Exchange (KSE). The Rule Book is available on the website of KSE. Listing of Companies and Securities Regulations is a set of Regulations applicable to all listed companies / listed securities. It covers the matters such as:

- ✓ Listing of companies and related matters i.e., issuance of capital, clearance of prospectus, public subscription and requirements relating to listing of company at the KSE;
- ✓ Holding of board meeting, extra ordinary general meetings and annual general meetings and related matters / compliances;
- ✓ Submission of periodical returns to the Karachi Stock Exchange Limited such as shareholders list, details of free float;
- ✓ Dissemination of material information to the KSE and consequences on non-compliance of the requirements;
- ✓ Delisting of companies / securities;
- ✓ Requirements relating to Code of Corporate Governance applicable for listed companies;
- ✓ Document Checklist along with prescribed forms for listing of companies.
- ✓ Guidelines for issue / offer of shares through Book Building mechanism.

COMPANY LISTING

THE INITIAL OFFERING OF STOCKS (IPO):

The initial offering of stocks and bonds to investors is by definition done in the primary market (IPO) and subsequent trading is done in the secondary market. Initial Public Offering (IPO) is the initial sale by a company of shares of its stock to the public in the financial market.

“Issuer”, shall mean a public limited Company or a body corporate which intends to issue shares to the public through prospectus under section 57 of the Companies Ordinance, 1984.

OFFER FOR SALE OF SHARES:

A person who holds more than ten percent of the shares of a company may offer such shares for sale to the public subject to the conditions as mentioned under Rule 9 of the Companies (Issue of Capital) Rules, 1996.

“Offeror”, shall mean a person who directly or indirectly holds more than 10% of any shares of a public limited company or a body corporate and offer for sale such shares, in full or in part, to the General Public.

BOOK BUILDING:

“Book Building”, shall mean a mechanism of price determination through which indication of interest for investment in the shares offered by an Issuer/Offeror is collected from Institutional Investors and HNWI and a book is built which gives a picture of demand for the shares at different price levels. The Strike Price is determined based on the price at which demand for the share at the end of Book Building period is sufficient to raise the minimum capital required.

“High Net Worth Individual Investor (HNWI)”, shall mean an individual investor who applies or bids for shares of the value of Rs.1,000,000/- or above in the Book Building process.

“Institutional Investor”, shall mean an investor who is not an individual and includes both local and foreign institutional investor.

“Book Building Offer”, shall mean the offer made under the Book Building process.

“Book Runner”, shall mean a Corporate Brokerage House, appointed as Book Runner by the Issuer/Offeror.

GENERAL PUBLIC:

“General Public”, shall mean all individual and Institutional Investors including both Pakistani (residents & non-residents) and foreign investors.

HOW TO LIST AT KARACHI STOCK EXCHANGE

Ways of Listing

- 1) **An initial public offering (IPO)**, referred to simply as an "offering" or "flotation", is when a public limited company (called the *issuer*) issues shares to the public for the first time. In an IPO the issuer may obtain the assistance of Advisor / Arranger / Consulting Firm, which help it determine how much capital to issue, best offering price and time to bring it to market.
The quantum of IPO shall be in accordance with the Regulation No. 5.4 of the Listing of Companies & Securities Regulations under the Rule Book of the KSE.
- 2) **An Offer for Sale** referred to disinvestment / offering of shares by one or more of the existing shareholders of a public limited company (called the Offeror) intended to list at the Exchange
- 3) Combination of Initial Public offering and Offer for Sale.

Quantum of Public Offering

- 1) In case of Offer of capital by the issuing company by way of IPO or offer for sale, the allocation to general public shall be as under:
 - i. In case post-issue paid-up-capital of the company is up to Rs.500 million, the allocation of capital to the general public, excluding premium amount and Pre-IPO placement, if any, shall not be less than 25% of the post-issue paid up capital of the company.
 - ii. In case post-issue paid-up-capital of the company is above Rs.500 million, the allocation of capital to the general public, excluding premium amount and Pre-IPO placement, if any, shall be at least Rs.125 million or 12.5% of the post-issue paid up capital, whichever is higher. Such company, except a public sector company, will however, be required to subsequently enhance the quantum of public shareholding to 25% within next four years of its listing through:
 - i. issuance of shares to public through prospectus; or
 - ii. offer for sale of shares held by the promoters to public through prospectus; or
 - iii. sale of shares held by the promoters through the secondary market; or
 - iv. sale of shares to employees under the Employees Stock Option Schemes; or
 - v. any other method as may be allowed by the Exchange with the approval of the Commission.

Explanation: For the purpose of this clause:

- i. “public shareholding” means the equity shares of the company held by persons other than the promoters and subsidiaries of the company;
- ii. “public sector company” means a company or a body corporate constituted through any special enactment and includes a government company; and
- iii. “Government company” means a company in which not less than fifty-one per cent of the share capital is held by the Federal Government, Provincial Government(s) and/or local government(s).

- 2) The Issuer or the Offeror, as the case may be, may allocate share capital up to twenty percent (20%) of the public offer to overseas Pakistanis. The amount should be subscribed through proper banking channel.

Provided that in case of under subscription in either of the categories i.e., the quota allocated to resident or non-resident Pakistanis, the unsubscribed portion will be allocated to the applicants of other category.

- 3) The Issuer or offeror, as the case may be, may allocate share capital up to five percent (5%) of the public offer to its employees of the company whose shares are offered.
- 4) In the case of a Modaraba applying for listing on the Exchange, thirty percent (30%) of the total Paid-up capital shall be subscribed by the sponsors or their associates or friends, relatives and associated undertakings and the balance of seventy percent (70%) shall be offered to the General Public.

Provided that the stock exchange, if it is satisfied that it is not practicable to comply with the requirements of 1 to 4 above in a particular case or class of cases; the Exchange may, for reasons to be recorded, relax the regulations subject to approval of the Commission.

Book Building is the process of price discovery of a share issue. The process by which an issuer attempts to determine, at what price to issue / offer the shares of a company based on demand from institutional investors and High Net-worth Individuals. Under Book building, a Company or a body corporate or an Offeror may offer shares through Book Building process subject to the following conditions:

- (a) not more than 75% of the total offer shall be allocated for offer through book building process to institutional investors and HNWI; and
- (b) not less than 25% of the total offer shall be allocated for offer to the general public.

Documents / Information required for Listing of Company

Submission of documents / information to the Exchange as detailed in Appendix – 1 to the Listing of Companies & Securities Regulations under the Rule Book of the Exchange. This Appendix is attached as **Annexure – A** to this Document.

In case where the shares of the company are issued /offered through book building process, it shall comply with the requirements as set out in Appendix-2 of Chapter 5 “Listing of Companies & Securities Regulations” of the Rule Book. This Appendix is attached as **Annexure – B** to this document. The copy of Rule Book containing all the regulations of Exchange can be accessed through website of KSE: www.kse.com.pk

Listing Fee

Rates of Initial Listing Fee Payable by the Companies with Listing Application:

(i) Initial Listing Fee

A company applying for listing on the Exchange, shall pay an initial listing fee equivalent to one tenth of one percent (1/10 of 1%) of the Paid up Capital subject to a maximum of Rs. 2.5 million.

(ii) Annual Listing Fee:

Every listed company shall pay, in respect of each financial year of the Exchange, commencing from 1st July and ending on 30th June next, an annual listing fee calculated on the basis of the company's *market capitalization, which shall be payable by or before the 30th September in each calendar year, as per slabs given under regulation No. 5.18, subject to a maximum of Rupees one million and five hundred thousand:

(iii) Service Charges:

Further a company applying for enlistment on the Exchange shall, in addition to other fees, pay a sum of Rs. 50,000 as non-refundable Service Charges.

Pricing Mechanism

Issue of capital is mainly governed by the Companies Ordinance 1984, Companies (Issue of Capital) Rules, 1996 and Listing Regulations.

A company that is planning an IPO / Offer for Sale of shares may appoint lead managers / advisors and arrangers for the purpose of public offering / listing and other allied matters. There are two ways in which the price of an IPO can be determined: either the company, with the help of its lead managers, fixes a price based on the valuation or the price is arrived at through the process of book building.

Fixed Price Mechanism

Under a fixed price mechanism, an issuer fixed the price at which shares are issued to the investors. In case issuer seek premium above the face value of shares, the whole issue shall be underwritten and it has to comply with the requirements as contained under the Companies (Issue of Capital) Rules, 1996.

Book Building Mechanism

Book Building is the process of price discovery and pricing a new share issue. The process by which an underwriter attempts to determine, at what price to offer an IPO based on demand from institutional investors for its efficient price discovery based on actual supply and demand by informed investors.

Major Requirements for Listing of Company on the Karachi Stock Exchange

- Minimum paid up capital of Rs. 200 million inclusive of public offering.
- To succeed public offer of shares, it has to be subscribed by at least 500 applications.
- The company seeking listing is required to fulfill the relevant requirement of the Exchange under the Listing of Companies & Securities Regulations of the Rule Book of KSE and the disclosures required under Second Schedule of the Companies Ordinance, 1984 & Companies (Issue of Capital) Rules, 1996.
- The offering document has to be cleared by KSE before it is submitted to the Securities & Exchange Commission of Pakistan for approval. The Exchange may require additional information, data, certification or requirement to be included in the prospectus or the offer for sale. If any applicant fails to comply with such requirements, the Exchange may refuse to issue clearance under these Regulations.
- The prospectus or offer for sale with the proforma application form shall be published by the company in at least one widely circulated English and Urdu daily newspaper each at Karachi, Lahore and Islamabad or as the Exchange may in addition require, at least 7 (seven) days in advance but not more than 30 (thirty) days before the date of the opening of the subscription list.
- Submission of documents / information as detailed in Appendix – 1 to the Listing of Companies & Securities Regulations under the Rule Book of the Exchange. (*Attached as Annexure - A to this Document*).

The Exchange shall not entertain listing application of a company:

- Whose Chief Executive has been found to have violated the Listing of Companies and Securities Regulations of any others/listed company on the Exchange in which he had been the Chief Executive.
- Whose promoters/sponsors/controlling directors are in the defaulters list of State Bank of Pakistan either in their individual capacity or in the capacity of directors of other companies. Or there is an overdue payment reflected against the name of promoters/ sponsors/ controlling directors in the latest CIB report. Provided that such person will be allowed if he clears his name after settling his dues. However, this will not apply to nominee directors of the Government and Financial Institutions. The company shall also provide a list of Controlling Directors.
- Whose promoters sponsors/controlling directors are also promoters/ sponsors/controlling directors in other listed companies, which are in default of any Listing of Companies and Securities Regulations of the Exchange. Further, no person shall be allowed to act as sponsor/controlling director of a company which was delisted during last five years and non-compliant of any Listing of Companies and Securities Regulations at the time of its delisting. However, this will not apply to nominee directors of the Government and Financial Institutions. The company shall also provide a list of Controlling Directors.
- Which is a wholly owned subsidiary company, of a listed company which has violated Listing of Companies and Securities Regulations of the Exchange and is still in default of these Regulations.
- Which is an associated company of any other listed company which has violated the Listing of Companies and Securities Regulations of the Exchange and is still in default of these Regulations. However, this will not apply to nominee directors of the Government and Financial Institutions.
- A running company for one full year or more, reflecting losses in their last audited accounts, shall not qualify for listing if its equity is eroded by 40% or more.

SUBSCRIPTION PROCESS:

- The Company shall inform the Exchange of the subscription received which information shall be communicated in writing under the hand of an authorized person with certificate(s) from bankers to the issue, within five (5) working days of the closing of subscription.
- The Company shall take a decision within ten (10) days of the closure of subscription list as to which applications have been accepted or are successful through Computer Ballot, in case of over subscription of number of applications or otherwise Proration .
- The company shall refund the application money in case of unaccepted or unsuccessful applications within ten (10) days of the date of such decision.
- In case of over-subscription, the Company shall immediately submit to the Exchange copies of the ballot register of successful applications.

AFTER SUBSCRIPTION REQUIREMENTS:

- All shares shall be credited into Central Depository System (CDS) of Central Depository Company (CDC) / certificates shall be dispatched in marketable lots, within thirty (30) days of the closing of subscription list to all the successful applicants.
- The Company shall, within thirty (30) days of closing of subscription list, submit to the Exchange all the allotment register and CDC letter for induction of shares into CDS along with other information / documents as required by the Exchange in order to formally list the Company.

TRADING OF SHARES

HOW DOES KSE REGULATE TRADING ACTIVITIES?

The regulatory authority for the securities market and corporate sector in Pakistan is the Securities and Exchange Commission of Pakistan (SECP). The SECP administers the compliance of the corporate laws in the country and is run by commissioners under a chairman.

The Securities and Exchange Commission of Pakistan, is an autonomous regulatory authority, and at the same time provides an accountability mechanism through establishment of a Securities and Exchange Policy Board. All policy decisions are made by the board on the recommendations of the commission and the board is directly answerable to the Parliament.

THE REGULATORY INFRASTRUCTURE OF KARACHI STOCK EXCHANGE

Trading Rights Entitlement Certificate Holders (TREC Holders) of the stock exchanges and trading at the Exchange are also subject to the discipline of self-regulation under KSE Rule Book of the Stock Exchanges.

Trading activities are being monitored through the surveillance terminal to ascertain that, there are no illegal postings and dealings made in any of the issues listed in the Exchange. Through the Compliance and Surveillance Group, compliance of TREC Holders with applicable regulatory framework is monitored.

TRADING CAN ONLY BE DONE THROUGH BROKERS OF STOCK EXCHANGE

For the purpose of trading i.e., to purchase or sell of shares / other securities, an investor is required to open a trading account with any of the registered broker / TREC Holder. Trading in securities can only be done in de-mat form i.e., scrip less form. No trading is allowed in physical form. If a person holding shares of a company in physical form, then, he/she has to convert his/her shares certificates into scripless form into CDC.

HOW ARE SETTLEMENT AND CLEARING DONE?

Clearing and settlement of all stock exchange transactions are provided by National Clearing Company (NCCPL), which acts as go between for KSE and Central Depository Company (CDC) which is the share depository company. Shares move between share-accounts held by the different participant-brokers of the Central Depository Company (CDC).

Stock market transactions are settled on the second day after the trade. Transfers are based on trades done at KSE. Shares are transferred on settlement date (T+2) to the buyer, and the buyer pays the seller through the clearing banks within the same settlement period. This means that transactions done on Monday must be settled by Wednesday. Settlements of accounts are done in the clearing house through National Clearing & Settlement System (NCSS), which is a fully automated electronic settlement system. Visit NCCPL website for further details regarding clearing and settlement, www.nccpl.com.pk.

WHAT IS THE CENTRAL DEPOSITORY COMPANY (CDC)/CENTRAL DEPOSITORY SYSTEM (CDS)?

The CDC is a company that operates an electronic share register called the Central Depository System (CDS). The CDS eliminates the need for physical movement of share certificates. CDC electronically manages book entry system for custody and transfer of securities. CDS was introduced to replace the manual system of physical handling and settlement of shares at the stock exchange and is managed by the Central Depository Company (CDC), which is incorporated under the Central Depositories Act 1997. Investors can open their accounts directly with CDC called Investor Accounts or open sub accounts with a brokerage firm. It has also solved investor problems related to stock handling on the settlement date, registration of shares, and exercise of corporate action benefits. Visit CDC website for further details regarding shares safe keeping. (www.cdcpakistan.com).

The KSE website <http://www.kse.com.pk> includes a wide range of information about investing, including information on various market data and Rules & Regulations of the Exchange.

INVESTMENT IN SECURITIES

WHY SHOULD I INVEST IN SECURITIES?

Almost everyone worldwide has an interest in shares, whether they realize it or not. Millions of people around the world own shares directly. However, many millions more have an indirect stake in the stock market through pension schemes, life insurance policies, NIT units, and other mutual funds. All of these, invest in shares traded on the stock market.

Today, increasing number of people own shares around the world, while many more invest in pension schemes, have an insurance policy, National Saving Schemes (NSS) or another form of collective savings invested in shares traded in stock markets.

However, investing in shares is different from saving in a bank or National Saving Scheme. There is more risk - but there is the opportunity for better reward over the longer term. With deposit accounts, you earn interest on your capital. When you take your cash back, you get back exactly the same amount that you first deposited (plus the interest it has earned). With shares, you may receive dividends but when you sell those shares, you might get back more than you bought them for, which is your reward for taking a risk.

Nevertheless, because shares can go up as well as down in value, it is important to understand that taking a risk means you might get back lesser than you had invested initially. You can minimize your risk by investing in different shares or a collective fund. There is, however, the possibility of greater rewards. Funds invested in equities in the long term (five or more years) have outperformed regular saving accounts.

You should remember that saving through the stock market should be seen as a long-term investment. Historically, money invested in shares over the long term (ten or more years) has almost always outperformed regular saving accounts.

Before investing in stocks and shares, you should understand your own financial position and what you hope to achieve with your investments. Your regular financial obligations should be protected and preparation should be made for unexpected expenses.

Having done this, you are ready to consider investing the surplus in stocks and shares. The three main rationales for owning shares are summarized below:

- a. Ownership in a Company - when an individual invests in the stock market, he automatically becomes a shareholder of that company. As a stockholder, he is entitled to the following benefits: 1) voting rights; 2) dividends to be declared by the corporation and 3) share of the remaining assets of the company if it is to be liquidated.
- b. Liquidity of Funds - a stock market investor has easier access to funds. Compared to banks, which have a high minimum balance requirement for deposits and credit, as an individual, you can start an investment with very low capital, and can expect high yields for your initial investment. You can always cash in or out your funds anytime, during trading hours, through your broker.
- c. Make Money - investors in the stock market make money through dividends and capital appreciation. When a listed company declares dividends, it increases the shareholders' investing power. An investor who buys into the company at a low market price and sells it at a higher price will gain capital appreciation.

WHAT ARE THE RISKS OF INVESTING IN STOCKS?

While it is true, that stock investment is the most volatile of all securities, investors might well recall the fact that uncertainty, is a permanent feature of any investing perspective. This means that risk is always a part of any investment. A better attitude would be to limit and manage your risk. A maximum level of gain or loss should be set, and calculated decisions should be made when this level is reached.

WHAT IS THE MINIMUM AMOUNT OF INITIAL INVESTMENT?

Some brokers may require a minimum initial investment to open an account depending on their requirement or may charge or waive other fees depending on the amount you initially invest.

If you are just getting started with a small investment, look for an investment firm that would not penalize you based on the size of your investment.

The minimum amount of money needed to invest in the stock market depends on the minimum number of

shares to be traded for the stock. The minimum shares will be determined by the prevailing market price of a particular stock, as each stock, the minimum number of shares to be traded is fixed, called the market-lot, which depends on the price range of the stock.

The market lot is calculated biannually by NCCPL, keeping the lot size to 500 shares for scrip which are priced less than Rs. 50 and lot size of 100 shares for scrip priced above Rs. 50

HOW CAN I BUY AND SELL SHARES?

You can buy shares when a company first comes to market - that is at flotation or privatization; or you can buy them through the stock market once they are in circulation and being traded.

Companies which are about to issue shares often advertise in a daily newspaper. If you decide to buy these shares, you can seek more information from the company's website or you can fill up the application form at the affiliated bank or ask the company for a prospectus. Fill out the application form and submit it with your pay order, at the bank. There is nothing more to pay. Alternatively, you can go to a stockbroker who will buy them for you.

Most share dealings take place in what is called the secondary market. This is where existing shareholders sell and new investors buy.

Today, buying shares is easy. You can buy and sell shares by making contact with a stockbroker, bank or investment adviser, either in person or over the internet or telephone.

HOW CAN I DECIDE WHICH SHARES TO BUY?

- A stockbroker carries out buying and selling on his propriety accounts and on behalf of his clients as individuals cannot deal for themselves in the market. A list of stockbrokers is available from the Stock Exchange on KSE website www.kse.com.pk. Stockbrokers offer a variety of services but if you know exactly what you want, simply call the broker for an 'execution only' service and ask them to buy the shares of your choice. KSE offers three market segments
 - a) Cash market based on two day clearing and settlement
 - b) Continuous Funding system (CFS) MKII where cash market's net purchases can be carried over for another 22 working days
 - c) Deliverable Future Contracts allow investors to purchase or sale on a forward contract basis clearing and settlement of these contract takes place on last Friday of the months and new contract starts on the following Monday Cash settled Future Contract where contract is for 90 days, but investor has a choice to enter into any of the three contracts that are always open for end of the month expiry based of cash settlement with under line cash market price of the scrip.
- After having instructed your broker to buy shares, the broker will draw up contract notes, which typically are sent to your address or mobile phone number within next 24 hours. This will show details of the transaction carried out on your behalf.
- You must send payment for your shares immediately upon receiving your contract note. In June 2007 the Stock Exchange adopted a two-day settlement system called T+2 system, under which transactions are due for settlement 2 working days after dealing.
- Upon receipt of payment, the purchased shares are transferred in your name in your Central Depository Company (CDC) account electronically. You are now the proud owner of a portfolio.
- At this stage you can sell your shares if you wish. You are now entitled to attend the company's Annual General Meeting (AGM). Talk to the other shareholders, especially representatives from the institutional investors. Just one sizeable disinvestment could make all the difference to the outcome of your overall operation.

- A stockbroker or financial adviser can help you choose which shares to buy, and advice on the best time to sell. You will need to decide:
- Will I need the money soon?
 - On the other hand, can I leave my money to grow over a number of years?
 - Alternatively, Do I want a combination of both?
 - How much money can I afford to invest?
 - Will I spread this over a small number of shares, or a larger number?
 - Do I want to invest directly in shares?
 - Do I want shares in blue chip companies, medium-sized companies or new, small companies (which can be less secure)?
 - On the other hand, do I want the relatively safe government backed investment schemes available through National Saving System (NSS), or Pakistan Investment Bonds (PIBs)?
 - Am I interested in indirect ways of investing, through closed end Mutual Funds or through Term Finance Certificates available at the Stock Exchange?

HOW CAN I FIND A STOCK BROKER?

Stockbrokers today have a range of services tailored for the needs of the growing numbers of small shareholders. Some operate from the Stock Exchange Building, some from Queens Road and other similar locations around the city, and some only by telephone.

Before choosing a stockbroker, contact several of them and ask how much they will charge. They expect you to compare their fees with those of other brokers.

An individual investor should choose a retail broker, preferably one that meets his requirements in terms of services needed. When he lacks the time to analyze individual companies and stocks, then a full service broker is recommended. In choosing a broker, the investor should see to it that the broker is a member of good standing at the Karachi Stock Exchange. It is important that the investor should trust his broker and that he is satisfied by the services it is giving him, such as market reports, quality of advice regarding stock selection and timing of purchases and sales, quality of trade executions, on-time delivery of important documents and other services.

There are three levels of service you can take:

DEALING OR EXECUTION ONLY:

You simply call the broker and instruct them to buy or sell the shares you want. They carry out your instructions, but will not give you any advice on your decision. You can always take advice from any other properly qualified financial adviser.

ADVISORY:

With this service you will get the benefit of the broker's expert advice. They will discuss with you their views on various companies and recommend whether you should buy, sell or keep hold of your shares. Make sure you feel comfortable with and understand what your broker is saying to you.

DISCRETIONARY:

The broker will take all the buying and selling decisions, contact you regularly to keep you informed, and tell you how much your portfolio is worth.

YOU CAN GET A LIST OF STOCK BROKERS FROM:

The Member's Info section of the Karachi Stock Exchange (www.kse.com.pk)

WHEN YOU BUY

Once you instruct your broker to buy shares, he/she buys the shares for you at the best price available at the time. By the end of day's trading, you will receive a confirmation-note. This shows the details of the transaction. Your broker will indicate when he/she needs to have your money to pay for the shares.

WHEN YOU SELL

Immediately you give your broker an order to sell, he/she again negotiates the best possible price. By the end of day's trading, you receive a contract note confirming the deal. If you hold the share certificate, you must send this to your broker in accordance with his/her instructions. If your shares are held in Central Depository Company (CDC), you will not have a share certificate to worry about.

HOW DO YOU SAFE KEEP THE ACQUIRED SHARES?

Once you have bought your shares, there are two ways to hold them: as a certificate or electronically (via CDC account). Your stockbroker can advise which option depending on individual company's shares.

Traditionally shares have been held in paper form, known as certificates. A share certificate is a piece of paper that is evidence that you are the owner of the shares. Your name will appear on the company's share register and this entitles you to receive directly all the benefit of share ownership including dividends, the right to vote at a company's annual meeting and to receive company reports twice a year.

If you decide to sell your shares you will normally need to deliver the certificate to the broker in time for the transaction to be completed.

Today you can choose to hold your shares as an electronic record, receiving a statement from time to time. This is similar to your bank statement, which shows your cash balance as held by the bank.

If you choose to hold your shares electronically they are placed in a nominee account with the Central Depository Company (CDC). These accounts are often run by stockbrokers who administer the shareholding on your behalf. You do not have a certificate to keep safe or deliver to your broker in time for the transaction to be completed. You remain the real owner of the shares and you shall receive the dividends, even though the shares are registered in the name of the nominee.

Your company also provides you with copies of the company reports and with the right to vote at general meetings.

When you have bought or sold the shares, your transaction is completed (or settled) electronically through a service known as National Clearing & Settlement System (NCSS). This system links banks, stockbrokers and Central Depository Company (CDC).

HOW MUCH DOES IT COST TO BUY SHARES?

Costs of trading in stocks vary according to the level of service you get from your broker. You should select the service that meets your needs. Execution-only will generally be the cheapest service. You will pay more for research base advice. The most important figure to ask your broker is about the minimum commission you will be charged. You should also ask whether there are any other charges for their services. Ask if there are any ongoing costs, other than dealing commission, each time you buy or sell.

You should note that you will pay a tax, known as CVT, when you buy shares but not when you sell. This is currently 0.002% percent of the price of the shares.

The way you choose to hold your shares will also vary in cost. If you decide to hold a certificate, there may be an additional charge as it will be necessary to transfer it to you or the new owner.

HOW CAN YOU KEEP TRACK OF YOUR SHARES?

Once you have bought shares, you can put them away for a long term or short term, you can keep an eye on how the price is moving. Details of share prices are published in most national newspapers every day. The daily price is also available on our website www.kse.com.pk.

The newspapers' financial pages will comment on companies that are in the news - perhaps because they have published their profit figures, or they are subject to a takeover bid, or they have opened a new factory.

Every piece of information about your company helps you build a clear picture of how it is doing and is expected to do. In addition, there are several specialist magazines to assist private investors. As a shareholder, and therefore part owner, of a business, you can contact the company if you want further information. Alternatively, your stockbroker might keep you informed through a regular newsletter.

Financial Reporting & Disclosure Requirements

for Listed Companies

DISCLOSURE OF MATERIAL INFORMATION TO THE EXCHANGE:

- 1) Every listed Company and Issuer of a listed Security shall advise and keep advising the Exchange all decisions of its Board of Directors relating to cash dividend, bonus issue, right issue or any other entitlement or corporate action and any other price sensitive information in the manner prescribed by the Exchange from time to time. The said information is required to be communicated to the Exchange prior to its release to any other person or print / electronic media.
- 2) Whenever a listed Company becomes aware or is made aware of any rumor or report containing material information that is likely to affect market price of its listed Securities or trading volume, which is in any form whatsoever and howsoever, including that of being broadcasted/presented through the electronic media and not limited to an article/news or otherwise, published in a newspaper, newswire, magazine, or any other publication, the Company should clarify / confirm or deny the rumor or false information and set forth the facts sufficient to clarify the same in writing to the Exchange, within one (1) day of such publication / broadcast.
- 3) In the event that the Exchange enquires from the Issuer concerning unusual movements in the price or trading volume of its Securities or any related matters, the Issuer shall respond promptly to the Exchange by giving sufficient information as is available to the Issuer in order to clarify its position.
- 4) Where any director, or Executive of a listed Company or their spouses sell, buy or take any beneficial position, whether directly or indirectly, in shares of the listed Company of which he/she is a director, or Executive, as the case may be, he/she shall immediately notify in writing to the Company Secretary. Such director, Executive, as the case may be, shall also deliver a written record of the price, number of shares, form of share certificates, (i.e., whether physical or electronic into Central Depository System), and nature of transaction to the Company Secretary within four (4) days of effecting the transaction. The Company Secretary shall immediately forward the same to the Exchange for its dissemination to all concerned.

NON COMPLIANCE WITH DISCLOSURE OF MATERIAL INFORMATION TO THE EXCHANGE:

- 1) In case a listed Company or Issuer of a listed Security fails to communicate timely, the complete financial results, or any other price sensitive information, it will make the Company liable to pay penalty at a minimum of Rs.100,000/- (Rupees one hundred thousand only) and maximum up to Rs.1,000,000/- (Rupees One million only) to be determined by the Exchange.
- 2) In case a listed Company or Issuer of a listed Security fails to communicate the accurate / complete financial results, or any other price sensitive information, the Chief Executive Officer (CEO) as well as Chief Financial Officer (CFO) of such listed Company or Issuer will be liable to pay a penalty to be determined by the Exchange. Provided that the amount of such penalty shall not be less than Rs.100,000/- (Rupees one hundred thousand only) and shall not exceed Rs.1,000,000/- (Rupees one million only).

HOLDING OF MEETING:

- 1) All listed companies shall obtain prior approval of the Exchange in respect of the date and time of holding of its annual general meetings.
- 2) A listed Company shall hold its annual general meetings and lay before the said meetings its financial statements within four (4) months following the close of financial year. Each Modaraba shall hold an annual review meeting of its certificate holders and lay before the said meeting its financial statements within four (4) months following the close of its financial year.

Provided that it shall be mandatory for a Company to notify the Exchange of any extension in time of holding the Annual General Meeting by furnishing to the Exchange a copy of the letter of approval from the Commission allowing such extension, within 48 hours of receipt of the same.

FURNISHING OF MINUTES OF MEETING AND OTHER INFORMATION:

- 1) The Company shall furnish certified true copies of minutes of its annual general meeting and of every extraordinary general meeting to the Exchange within sixty (60) days of such meeting.
- 2) The Company shall furnish to the Exchange a complete list of all its security holders as at 31st December in each calendar year, duly affirmed to be correct as and upto that date, within thirty (30) days thereof.
- 3) Every Listed Company or Issuer of Listed Security shall submit in such form and manner as may be prescribed by the Exchange from time to time the number and break-up of their Free-Float shares on quarterly basis i.e. as on March 31, June 30, September 30 and December 31 each year. Such information shall be submitted to the Exchange within fifteen (15) days of close of each quarter.
- 4) A company or an issuer of a listed security which fails to communicate the correct details of free-float of shares shall be liable to pay a penalty of Rs.5,000/- per day from the date of first communication of such details till the correct details are communicated.

PROVISION OF STATUTORY REPORTS, AUDITED ACCOUNTS, NOTICE, RESOLUTION & QUARTERLY REPORTS TO THE EXCHANGE:

- 1) The Company shall send to the Exchange such number of copies of its statutory report, annual report and audited accounts as may be prescribed by the Exchange not later than twenty one (21) days before a meeting of the shareholders is held to consider the same.
- 2) The Company shall send to the Exchange copies of all notices as well as resolutions prior to their publication and dispatch to the shareholders and also file with the Exchange certified copies of all such resolutions as soon as these have been adopted and become effective.
- 3) The Company shall send to the Exchange such number of copies of its quarterly accounts as prescribed by the Exchange from time to time and within the time stipulated under the Ordinance.

CORRESPONDENCE MANUAL:

KSE has prescribed the means of communications by listed companies with the Exchange through Correspondence Manual, available on the website of KSE. The Manual prescribed 28 Forms for different purposes, which are required to be followed by the listed companies.

In order to facilitate the listed companies to follow time bound requirements of the Listing of Companies & Securities Regulations under the Rule Book, the Correspondence Manual will help in exchanging correspondence on various related issues with this Exchange such as Board Meeting, Approval of Date and Time for Holding Annual General Meeting, Financial Results for the Year Notice of Annual General Meeting Dispatch of Annual Report, Minutes of Annual General Meeting/Extraordinary General Meeting, Financial Results for the Quarter Dispatch of Quarterly Accounts, Dispatch of Interim Dividend Warrants Dispatch of Final Dividend Warrants, Dispatch / Credit of Bonus Shares, Extension in time for holding the Annual General Meeting, Declaration of Interim Cash Dividend/Interim Bonus Shares/ Any Other Entitlement, Declaration of Right Shares, Dispatch of Letters of Right, Delivery of Shares Certificates - Right Issue, Notice of Extraordinary General Meeting, Change of Registered Office/Share Registrar/Contact Details, Appointment of Chairman/Chief Executive/Managing Director/ Director(s)/ Company Secretary, Change of Chairman/Chief Executive/Managing Director/Director(s)/ Company Secretary, Change of Management, Payment of Annual Listing Fee, Payment of Additional Listing Fee, Material Information List of Shareholders Loss of Certificates(s) Free-Float of Shares

A Correspondence Manual is attached as **Annexure – C** to this Document.