

ANNEXURE NO.4

GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION :

PREFERENTIAL ISSUES *

- 1 Of late, the practice of making preferential allotments of share etc. at a price unrelated to the prevailing market price of such instruments seems to be on the increase. This development is particularly undesirable as the allotment are made to select persons, who are considered to be the promoters or persons for the time being in charge of the affairs of management of the company. Besides, companies have also been issuing warrants to select persons with a right to obtain shares in future at a price not bearing a fair relation to the market. Therefore there appears to be a need for protecting the interest of the investors, who do not receive such preferential treatment by ensuring that the pricing of the preferential allotment is market related.
- 2 SEBI therefore issues the following guidelines governing the issue of shares or warrants / FCDs / PCDs or other financial instruments made on a preferential basis to a select group of persons under section 81(1A) of The Companies Act 1956. These guidelines are being issued in terms of section 11(1) read with section 24 of the SEBI Act 1992 for orderly development of the securities market and to protect the interest of the investors at large.
- 3 All issues of capital by listed company by way of shares / FCDs / PCDs / Warrants / any other financial instruments on preferential basis to any select group of persons, shall hence forth be subject to fulfilment of the requirements mentioned in the following paragraphs
4. Pricing of the Issue. The issue of shares on preferential basis can be made at a price not less than the higher of the following

The average of the weekly high and low of the closing price of the related shares quoted on the stock exchange during the six months preceding the relevant date

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The average of the weekly high and low of the closing price of the related shares quoted on the stock exchange during the two weeks preceding the relevant date

Explanation

(a) "Relevant date" for this purpose means the date thirty days prior to the date on which the meeting of general body of shareholders is convened, in terms of section 81(1A) of the Companies Act 1956 to consider the proposed issue.

(b) "Stock Exchange" shall mean any of the stock exchange in which the shares are listed and in which the highest trading volume in respect of the shares of the company has been recorded during the preceding six months prior to the relevant date

5. Pricing of Shares arising out of warrants etc.:

Where warrants are issued on preferential basis with an option to apply for and get allotted shares, the issuer company shall determine the price of the resultant shares in accordance with para 4 above. However, the relevant date for this purpose may, at the option of the issuer be either the one referred in explanation (a) to para 4 above or a date thirty days prior to the date on which the holders of the warrants become entitled to apply for the said share

6. (Not Relevant)

7 Where PCDs/FCDs/other instruments are issued on a preferential basis providing for the issuer to allot shares at future date, the issuer shall determine the price at which the shares could be allotted either by conversion or otherwise in the same manner as provided for pricing of share allotted in lieu of warrants as indicated in para 5 above