

Significance and Importance of Prospectus:

A prospectus has significance and importance by virtue of section 92 of the company's ordinance.

This section states that no person can issue prospectus unless it is registered by the registrar and no registrar can register prospectus unless it complies with the statutory provisions. As to

- a) Contents
- b) Matters and Reports
- c) Signature
- d) Consents

Contents of Prospectus:

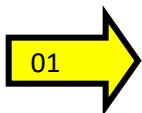
Prospectus is the very basic document of public limited company. As we know that public limited company get finance from general public, and general public invest in a company in the form of buying bonds and shares of company. But everyone shall put his/her investment after getting some basic information of the company. So, contents of prospectus provide that basic information of company an investor want to know before investment. It includes

1. Who are the directors and what benefit they get from the company
2. Profit made by promoters
3. Capital required by the company in cash
4. Past financial records of the company
5. Preliminary contracts, commission and preliminary expenses
6. Voting and dividend rights of each clause of shares

Matters and Reports of prospectus

The following matters are to be stated in the prospectus:

1. General information
2. Memorandum of association
3. Directors, CEO, Secretary
4. Particulars of issue to public
5. Meetings and voting
6. Financial matters



General Information:

1. Date and time of opening and closing of subscription list
2. Names and address of auditors and legal advisers
3. Names of underwriters along with the report of directors in respect of the efficiency of underwriters and amount paid as commission

4. Preliminary expenses
5. All expenses of issue
6. Amount given within two preceding years to promoters
7. In case of an existing company the length of time during which the business has been carried on
8. Pending legal proceedings other than of routine nature

02

Memorandum of Association

1. Names and addresses of signatories and number of shares held by them
2. Number of parties who have claims of right in the profits of company
3. Description of business

03

Directors, CEO, Secretary

1. Provisions of articles regarding the remuneration of Directors, CEO and Secretary
2. Procedure for the appointment of above mentioned authorities
3. Interest of directors, chief executive and secretary other than remuneration

04

Particulars of Issue to public

1. Minimum subscription- purchase price of property, preliminary expenses, repayment of money borrowed, working capital
2. Amount provided for such matters other than issue of shares
3. Amount payable along with application of share
4. Substance of contract in which someone else has preference over newly subscribers
5. Particulars of all shares issued within last two years regarding price, number of shares, subscribers and premium on shares etc
6. Information about those shares which were issued by company other than cash, purpose of issue and basis of compensation

05

Meeting and voting

1. Restrictions in articles in respect of
2. Right to attend meeting
3. Right to speak in meeting
4. Right to vote in meeting on the matters
5. Right to transfer of shares
6. Director's powers of management
7. Right on capital and right on profit

06

Financial Matters

1. Particulars of any reserves or profits capitalized

2. Surplus from revaluation of assets
3. Reasonable time for inspection of financial reports
4. Principal purpose for utilization of net proceeds of issue
5. Summary of last three financial years earnings

The section under discussion is matters and reports and we have learned all details about the matters of company stated in the prospectus. So, now we shall little discuss about the reports of company. When we say reports we mean audit reports by an external auditor so auditor shall provide report in following situations

1. Report on the financial statements of company if it has no subsidiary
2. Reports on the financial statements of company and subsidiary of company if it has subsidiary company
3. Report when proceed of shares is applied in the purchase of business
4. Reports when proceed of shares is applied in the purchase of shares of any other company.

Liability of directors regarding Prospectus

All directors are liable and responsible for the information provided in the prospectus. However, if the director and promoter prove one of the following situations can save him/her self from liability.

1. Before the issue of prospectus he withdrew his consent to act as director
2. Prospectus was issued without his knowledge and on becoming aware he gave immediately public notice
3. He had reasonable grounds to believe that the statement was true up to the time of allotment
4. This statement was provided by an expert having proper knowledge on the issue and statement was not personal
5. Statement was based on the documented proof and statement is not wrong, maybe someone had misunderstanding in reading the statement.

Statement in lieu of prospectus:

A Statement in lieu of prospectus may be defined as “*a public document prepared in prescribed form by every such company which does not issue a prospectus.*”

Statement in lieu of prospectus is required where the company is able to raise the capital without inviting the public to subscribe.

Features of Statement in lieu of prospectus:

- a) Statement in lieu of prospectus is filed by a public company which doesn't invite subscription from the general public and arranges the minimum subscription from its own sources.

- b) Filing a statement in lieu of prospectus is pre-requisite for obtaining certificate for commencement of business.
- c) Statement in lieu of prospectus is filed with the registrar at least 3 days before the allotment of shares.
- d) Return of allotment of minimum subscription is to be filed within 30 days of allotment.
- e) Certificate from schedule bank showing deposit of minimum subscription is to be provided.
- f) Statement in lieu of prospectus must be accompanied with articles of association and other documents required by the registrar.

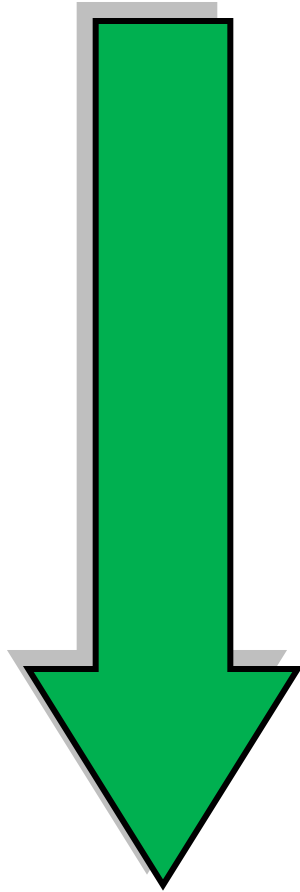
Consequences of misstatement

- ✚ The companies ordinance is silent as to effect of misstatement in a Statement in lieu of prospectus, but it would appear that if a person applying for shares inspects the Statement in lieu of prospectus becomes the basis of contract and if contains a false statement a person applying for shares can claim damages for compensation.
- ✚ And if a person willfully makes misstatement in the Statement in lieu of prospectus shall be guilty of criminal offence.
- ✚ There is need to make one point clear that an outsider later on if read out the Statement in lieu of prospectus and invest in the company on the basis of this document and later on finds that there was wrong information in the Statement in lieu of prospectus cannot make any claim.

Difference between Prospectus and Statement in lieu of prospectus

1. Prospectus has been defined in the companies' ordinance but Statement in lieu of prospectus is not defined in the companies' ordinance.
2. Prospectus is invitation to general public but Statement in lieu of prospectus is not an invitation to general public.
3. Directors and promoters are liable to general public for misstatement in prospectus but not liable to general public in case of misstatement in Statement in lieu of prospectus.
4. Prospectus is general and free there is no specified form to make prospectus but Statement in lieu of prospectus must be made according to the forms specified by the registrar.

5. Prospectus may be in the form of booklet and circular but Statement in lieu of prospectus is just a statement along with required documents.
6. Prospectus is not obligatory for company to issue but if a public company not issuing prospectus has obligation to issue Statement in lieu of prospectus.



Assignment

1. Define share
2. Types of shares
3. Difference between ordinary share and preference share