



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director

In the matter of

Ahmad Hassan Textile Mills Limited

Number and date of notice: No. CSD/ARN/23/2015-508 dated September 15, 2017

Date of hearing: February 21, 2018

Present: Mr. Adil Shabbir, Advocate
(Authorized Representative)

ORDER

Under Section 214, 216, 193 and 196 read with Section 476 of the Companies Ordinance, 1984

This order shall dispose of the proceedings initiated against the directors (*the "Respondents"*) of Ahmad Hassan Textile Mills Limited (*the "Company"*) through show cause notice dated September 15, 2017 (*the "SCN"*) issued under the provisions of Section 214, 216, 193 and 196 read with Section 476 of the Companies Ordinance, 1984 (*the "Ordinance"*).

2. Brief facts of the case are that examination of the annual audited accounts of the Company for the year ended June 30, 2016 (*the "Accounts"*) and subsequent information provided by the Company revealed that the Company made sale of cotton seed amounting to Rs.78.790 million (2015: Rs. 73.736 million) to Ahmad Cotton Industries ("*ACI*"), a related party in which four of the Respondents were partners. It was observed that Mr. Mian Muhammad Javed, Mr. Muhammad Pervez, Mr. Muhammad Haris and Mr. Muhammad Aurangzeb are directors of the Company while simultaneously they are also partners in ACI.

3. The Respondents were *prima facie* interested in the transactions stated above with ACI and had not disclosed their interest in light of section 214 and 216 of the ordinance while participating in the proceedings of the Board of Directors (*the "BOD"*) to approve the above mentioned related party transactions. Further, as the interested directors should not have participated in the proceedings of BOD for approval of above referred transactions, the quorum of the BOD meeting was not complete as per the provisions of section 193 of the Ordinance and transactions should have been referred to the shareholders for approval in a general meeting in accordance with section 196



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of the Ordinance. Accordingly, the SCN was issued to the respondents wherein the respondents were called upon to show cause in writing as to why penal action may not be taken against them for default under of section 214, 216, 193 and 196 of the Ordinance.

4. The Respondents through their authorized representative; Mr. Adil Shabbir (*the "Authorized Representative"*) submitted a written response dated October 24, 2017. The authorized representative submitted that, *"the Company enter into transactions with related party on an arm's length basis. Price for transaction with related parties determined using admissible valuation method. Moreover, the sale of cotton seed not fall in associated transactions. It is normal business transaction. The rates available in the market was less whereas the Company sold cotton seed to the associated undertaking with higher rate calculating to the profit of the Company without any personal interest of directors. Due to this transaction Company has not suffered any loss. That no shareholder or member filed a single complaint at any forum against the Company or directors."*

5. In order to provide opportunity of personal hearing, the case was fixed on February 21, 2018. The authorized representative appeared on the date of the hearing and reiterated the earlier submissions made in the written reply. The authorized representative was advised to provide copies of prevalent market rates for cotton seed at the time of transactions of the Company with ACI. The rate sheets were accordingly provided vide Company's letter dated February 28, 2018. The rates of the Company for sale of cotton seed in relation to the market rates taken from the verified rate sheets of *"Market Committee Shehr Sultan"* submitted by the Company with the aforesaid letter were analyzed and a brief of the same is given hereunder:

Date	The Company's sales rate	Market Committee rate
30.09.2015	Rs.1100/maund	Rs.1100- 1100/maund
15.10.2015	Rs.1370/maund	Rs.1350- 1370/maund
31.10.2015	Rs.1370/maund	Rs.1350- 1370/maund
04.11.2015	Rs.1350/maund	Rs.1340- 1350/maund
27.11.2015	Rs.1300/maund	Rs.1290- 1300/maund
30.11.2015	Rs.1350/maund	Rs.1300- 1350/maund



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6. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under sections 214, 216, 193 and 196 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

7. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth in writing and during the hearing by the authorized representative. In my view four of directors namely Mr. Mian Muhammad Javed, Mr. Muhammad Pervez, Mr. Muhammad Haris and Mr. Muhammad Aurangzeb had to abstain from the BOD meeting while disclosing their interest in the transaction of sale of cotton seed to ACI as they were also partners of ACI. Their abstention from the proceedings of BOD render the quorum incomplete under section 193 of the Ordinance. Thus due to lack of quorum of the BOD, transactions with ACI had to be approved in a general meeting under section 196 of the Ordinance. I am therefore of the opinion that the provisions of sections 214, 216, 193 and 196 of the Ordinance have been contravened. I have, however, observed that the sales to related parties are less than 3% of the total sales of the Company. The sale of cotton seed to ACI has been made on the prevailing market price substantiated by certified rate sheets. The respondents have assured future compliance of laws, rules and regulations. I have observed that there is no complaint on record in this regard. I am, therefore, inclined to take a lenient view of the matter and in exercise of the powers conferred by aforesaid provisions of the Ordinance, hereby, warn the respondents to ensure meticulous compliance of law in future.

Abid Hussain
Executive Director

*Announced:
March 8, 2018
Islamabad*