



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Before
**Shahzad Afzal Khan – Director/
Head of Department**

In the Matter of

Safa Textiles Limited

Number and Date of SCN: CSD/ARN/148/2015-377 dated December 20, 2023
Dates of Hearing: January 24, 2024, February 7, 2024, February 28, 2024
Present: Mr. Muhammad Salman, Manager Corporate Affairs

ORDER

Under Section 132 of the Companies Act, 2017 and Section 479 thereof

This Order shall dispose of the proceedings initiated through the Show Cause Notice bearing No. CSD/ARN/148/2016-377 dated December 20, 2023 (**the SCN**) issued under Section 132 of the Companies Act, 2017 (**the Act**) and Sections 479 thereof against the Board of Directors and Safa Textiles Limited (**the Company**) through its Chief Executive, hereinafter referred to as **the Respondents**.

2. The brief facts of the case are that the Company has failed to hold its Annual General Meeting (**the AGM**) for the financial year ended June 30, 2023 within the stipulated time i.e. latest by October 28, 2023, a period of one hundred and twenty (120) days following the closure of its financial year, *prima facie*, contrary to the requirements of Section 132(1) of the Act. Hence, taking cognizance of the alleged non-compliance, the proceedings were initiated against the Respondents through the SCN requiring to show cause in writing within fourteen (14) days, as to why penalty in terms of Section 132(5)(a) of the Act, may not be imposed on the Respondents.

3. In this regard, the Chief Executive, through letter dated February 27, 2024, *inter alia*, submitted that:

- The Company is in non-compliance of Section 132 of the Act as AGMs since the year 2018 are overdue.
- Due to disclaimer in opinion in the auditor's report of 2017, the subsequent audits are facing difficulty in auditor's procedural requirements.
- The auditors are reluctant to continue as auditors for subsequent years i.e. 2018 onwards as in terms of ISA 210, the auditor should not accept audit engagement if the auditor believes that associated limitation would result in disclaimer of opinion on financial statements.
- Now the auditors have been engaged to carry financial audits for all financial years from 2018 to 2023. The auditors are carrying extensive procedures.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 1 -

- The Company is expected to announce its AGM for the year 2018 by end of March 2024. After holding AGM of 2018, the remaining AGMs (for the years 2019, 2020, 2021, 2022 and 2023) would be held with 10 to 15 days gaps to complete the required compliance.

4. In order to afford the Respondents an opportunity of personal representation, a hearing in the matter was fixed for January 24, 2024 and February 7, 2024, however, no one appeared. The next hearing was fixed for February 28, 2024 and the Respondents were informed that in case of non-appearance *ex parte* order would be issued. On the date of said hearing Mr. Muhammad Salman, Manager Corporate Affairs, appeared as Authorized Representative of all the Respondents. During the hearing, he reiterated the reply as was given in writing through letter dated February 27, 2024 and it was, *inter alia*, submitted that:

- The auditor was not accepting the engagement due to disclaimer of opinion in auditors' report of 2017.
- AGM for the year 2023 is expected to be held in June 2024.

5. Subsequent to the hearing, the Authorized Representative through email dated March 1, 2024 submitted minutes of board meeting held on February 28, 2024, wherein, it was, *inter alia*, resolved that:

"RESOLVED that the Board of Directors shall act to revive the operations of the Company and trading in its shares on the PSX Board by satisfactorily resolution of all the non-compliances including holding of past Annual General Meetings and submission of audited financial statements."

"FURTHER RESOLVED that the revival process shall be completed with period of three months from the end of the current month. It means all the compliances will be made before the June 30, 2024."

6. I have considered the facts of the case in light of the relevant provisions of the Act, submissions made, and the information available on record and state that:

- (i) the holding of AGM is a vital statutory requirement as it provides opportunity to the members to participate in the discussion and vote on agenda items of the general meeting which includes consideration and approval of the company's financial statements. Moreover, the Company being a listed company, and in case of a listed company essence of timely holding of AGM is essential for the informed decision making of the shareholders.
- (ii) holding of AGM with delay may deprive the shareholders of their statutory right, to know about the affairs of the company and to participate in decision making;



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division


Continuation Sheet - 2 -

- (iii) in order to ensure transparency and protect the shareholders' rights, the Company must meticulously adhere to the law by following the procedure prescribed under the Act for holding of AGM;
- (iv) the Company cannot absolve itself from its statutory duties pertaining to holding of AGMs, as specified under the law;
- (v) as per the available information, the Company did not disseminate through the Pakistan Stock Exchange any information about the affairs of the Company since 2018. Moreover, the directors in their board meeting held on February 28, 2024 resolved to ensure compliance of the provisions of Section 132 of the Act latest by June 30, 2024. I am of the view that failure to hold AGM for the year 2023 is not acceptable as the non-compliance of given requirements of Section 132(1) of the Act is established owing to the fact that the said AGM is still overdue despite lapse of four months from the due date i.e. October 28, 2023. The assurance of the Respondents to hold overdue AGM for the year 2023 does not exonerate them from the aforesaid non-compliance.

7. In view of the preceding facts, I am of the considered view that by failing to hold its AGM for the year ended June 30, 2023 within the stipulated time i.e. latest by October 28, 2023, the Company is in contravention of sub-section (1) of Section 132 of the Act, which renders the Respondents liable to penal action under sub-section (5)(a) of Section 132 thereof. Therefore, in exercise of the powers conferred under sub-section (5) of Section 132 of the Act, I hereby impose a penalty of **Rs. 200,000/- (Rupees Two Hundred Thousand only) on the Company i.e. Safa Textiles Limited**. I also warn remaining Respondents to be careful and to ensure compliance of the provisions of Act in letter and spirit.

8. The aforementioned penalty must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the **Securities and Exchange Commission of Pakistan within thirty (30) days from the receipt of this Order**, and receipted bank vouchers must be furnished to the Commission. In case of non-deposit of the penalty, proceedings under Section 485 of the Act will be initiated for recovery of the same as arrears of land revenue.

9. Nothing in this Order may be deemed to prejudice the operation of any provisions of the Act providing for imposition of penalties on the Respondent in respect of any default, omission or violation thereof.


Shahzad Afzal Khan
Director/Head of Department
Adjudication Department - I
Announced: March 6, 2024, Islamabad