

Before
Amir M Khan Afridi, Director/Head of Department (Adjudication-I)

In the matter of Show Cause Notice issued to Kohinoor Spinning Mills Limited

Dates of Hearing	April 8, 2019; September 16, 2020; November 25, 2020; March 15, 2021; April 26, 2021
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Order-Redacted Version

Order dated June 30, 2021 was passed by Director/Head of Department (Adjudication-I) in the matter of Kohinoor Spinning Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated January 31, 2019
2. Name of Company	Kohinoor Spinning Mills Limited (the Company)
3. Name of Individual*	The proceedings were initiated against directors of the Company.
4. Nature of Offence	Violations of Under Section 199 read with Section 479 of the Companies Act, 2017
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through the fact of the case and I have observed the following:</p> <p>a) The Company has acknowledged that trade debt receivable amounting to Rs. 23.993 million was due from its associated companies in year 2018. It is also noted that as per note 18 to financial statements for the year ended June 30, 2020, the aforesaid amount of receivable remains due from the associated companies.</p> <p>b) The Respondents have contested that the said receivables were in nature of normal trade credit thus provisions of section 199 of the Act are not applicable. The Respondents however failed to justify as to how allowing extended trade credit period of 1522 days to associated companies can be considered as normal trade credit as compared to 24 days credit period to other companies in the year 2017 with similar pattern in year 2015 and 2016. Thus, it is clear that aforesaid extended trade credit allowed to associated companies were not in nature of normal trade credit and hence attract provisions of section 199 of the Act which prohibit</p>

	<p>investment in associated companies/ undertaking without the authority of special resolution. In terms of explanation to section 199 of the Act, the term 'investment' shall include equity, loans, advances, guarantees, by whatever name called, except for the amount due as normal trade credit, where the terms and conditions of trade transaction(s) carried out on arms-length and in accordance with the trade policy of the company. The Company therefore has violated the provision of section 199 of the Act by extending trade credit not in nature of normal trade credit without authority of special resolution.</p> <p>c) The Company vide its letter dated March 12, 2021 has provided evidence i.e. general ledger report of recovering the receivable from associated companies total amounting to Rs. 23,993,367 in year 2021 as below:</p> <ul style="list-style-type: none"> • Recovered from CSML, the outstanding amount of Rs.2,061,974 by January 20, 2021 • Recovered from YWML, the outstanding amount of Rs.21,931,392 by February 24, 2021. <p>From the above discussion and after careful consideration of all the facts of this case, it is evident that the respondents have failed to comply with requirements of subsection (1) of section 199 of the Act and therefore are liable under subsection (6) of section 199 of the Act. Taking cognizance of the submissions of the respondents and in exercise of the powers conferred under aforesaid provisions of the Act.</p> <p>Penalty order dated June 30, 2021 was passed by Director/HoD (Adjudication-I).</p>
6. Penalty Imposed	A Penalty of Rs.200,000/- was imposed on all the respondents.
7. Current Status of Order	No Appeal has been filed by the respondents.