



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Enforcement Department
Company Law Division

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**Before Abid Hussain
Director (Enforcement)**

In the matter of

Bannu Woollen Mills Limited

Number & date of the notice: EMD/233/292/2002-3145-46 dated March 7, 2008
Date of hearing: June 9, 2008
Present: Mr. Ashfaq Ahmed Khan, Corporate Consultant
Ashfaq Ahmed Khan & Associates

Order

**Under S.R.O. 865(I)/2000 dated December 6, 2000 read with Sections 246 & 476 of the
Companies Ordinance, 1984**

This order shall dispose of the proceedings initiated against Bannu Woollen Mills Limited (“the Company”) through show cause notice dated March 7, 2008 under the provisions of S.R.O. 865(I)/2000 dated December 6, 2000 read with Sections 246 & 476 of the Companies Ordinance, 1984 (“the Ordinance”).

2. The Company is a public limited company and has been incorporated in Pakistan under the Ordinance. Its shares are presently listed on the Karachi and Islamabad Stock Exchanges. The Company is principally engaged in manufacture and sale of woollen yarn, cloth, and blankets. Authorized share capital of the Company is Rs.100,000,000 divided into 10,000,000 ordinary shares of Rs.10.00 each and its paid up capital is Rs.50,700,000 divided into 5,070,000 ordinary shares of Rs.10.00 each as per the latest annual audited accounts for the year ended June 30, 2007.

3. The brief facts of the case are that the Company had obtained shareholders’ approval on October 30, 2006 under the provisions of Section 208 of the Ordinance for making equity investment of Rs.22.818 million in Janna De Malucho Textile Mills Limited (“JDTML”), an associated company, through subscription of 1,140,900 ordinary shares offered to the Company as rights at a price of Rs.20.00 per share including a premium of Rs.10.00 per share.



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4. For this specific purpose, the Company had made payment of Rs.22.818 million to JD'TML, an associated company, on November 14 and December 6, 2006. However, after lapse of more than one and half year, the aforesaid rights shares of JD'TML had not been issued in the name of the Company which is evident from its financial statements for the year ended June 30, 2007 and half yearly accounts for the period ended December 31, 2007. Further, on perusal of the Company's record as maintained in the Commission, it was observed that the Company had failed to comply with the requirement of S.R.O. 865 (I) / 2000 dated December 6, 2000 ("the Notification") by non-providing the required information to its shareholders in the subsequent Annual General Meeting ("AGM") of the Company held on October 31, 2007.

5. In view of the foregoing, a show cause notice under S.R.O. 865 (I) / 2000 dated December 6, 2000 read with Sections 246 & 476 of the Ordinance was issued to following officers of the Company in order to explain as to why penalties in terms of Sub-section (2) of Section 246 of the Ordinance may not be imposed on them:

- (i) Mr. Muhammad Azhar Khan, Chief Executive; and
- (ii) Mr. Amin-ur-Rasheed, Company Secretary.

6. In response to the show cause notice, Mr. Ashfaq Ahmed Khan, Corporate Consultant of M/s Ashfaq Ahmed Khan & Associates ("the Counsel") submitted the following reply on behalf of the aforementioned directors of the Company:

- The Company had obtained approval of its shareholders in its Annual General Meeting ("AGM") held on October 30, 2006 under Section 208 of the Ordinance to make equity investment of Rs.22.818 million in JD'TML by way of subscription of 1,140,900 ordinary shares offered to the Company as rights at a price of Rs.20.00 per share;
- JD'TML was incurring losses at that time, accordingly, it was required to make underwriting arrangements from two financial institutions alongwith due diligence report as per the requirements of the Companies (Issue of Capital) Rules, 1996 ("the Rules"). As the JD'TML was unable to make the said arrangements, therefore shareholders of JD'TML had cancelled their earlier decision of right issue in the AGM held on October 31, 2007;
- The shareholders of the Company in the AGM held on October 31, 2007 considered the matter of cancellation of right issue and decided to authorize the Board either to take back the money advanced for issue of right share or make suitable arrangements with JD'TML to purchase shares from them as otherwise than right at an appropriate price against the money already advanced to them;
- The Board in the meeting held on Feb 29, 2008 decided to request JD'TML to adjust the share deposit money against issue of 761,000 shares of JD'TML at a price of Rs.30.00 per share;



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- The same matter was approved by the shareholders of the Company in the Extraordinary General Meeting (“EOGM”) held on March 26, 2008;

7. In order to provide an opportunity of personal hearing, the case was fixed on June 9, 2008. The Counsel appeared before me on behalf of Chief Executive and company secretary of the Company on the given date. He reiterated earlier stance as was given through written submission in response to the show cause notice. However, during the course of hearing he admitted that the Company should have complied with the requirements of the Notification for the subsequent meeting held on October 31, 2007.

8. Before proceeding further, it is necessary to advert to the relevant provisions of law. Para 4 of the Notification issued in exercise of the power conferred by Sub-section (1) of Section 246 of the Ordinance read with Clause (o) of Sub-section (4) of Section 20 of the Securities & Exchange Commission of Pakistan Act, 1997 provides that in case any decision to make investment under authority of a resolution is not implemented till the holding of subsequent general meeting, its status including the following must be explained to the shareholders through a statement under Sub-section (1) of Section 160 of the Ordinance:

- (i) reasons for not having made investment so far; and
- (ii) major change in financial position of Investee Company since date of last resolution.

9. I have analyzed the facts of the case, provisions of S.R.O. 865 (I) / 2000 dated December 6, 2000, arguments put forth by the Counsel and observed that the shareholders of the Company in the AGM held on October 30, 2006 had passed a resolution under Section 208 of the Ordinance to make equity investment of Rs.22.818 million in JDTML, an associated company, through subscription of 1,140,900 ordinary shares offered to the Company as rights at a price of Rs.20.00 per share including a premium of Rs.10.00 per share. However, after lapse of more than one and half year, the aforesaid rights shares of JDTML had not been issued in the name of the Company which is evident from its financial statements for the year ended June 30, 2007 and half yearly accounts for the period ended December 31, 2007. Whereas, the Company had failed to comply with the requirement of the Notification by non-providing the required information to its shareholders in the subsequent AGM of the Company held on October 31, 2007.

10. The aforesaid provisions of law are clear and explicit. The management of the Company is duty bound by the law to keep the shareholders informed and provide them complete details of the decisions



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approved by them in order to safeguard their interest. In the instant case the shareholders should have been informed in the general meeting held on October 31, 2007.

11. Considering the circumstances of the case, I am of the view that the concerned officers namely Mr. Muhammad Azhar Khan, Chief Executive and Mr. Amin-ur-Rasheed, Company Secretary have failed to clarify their position with respect to compliance with the requirement of the Notification. However, I, instead of imposing penalty hereby warn both the officers of the Company to observe the compliance of law in letter and spirit, in future.

Abid Hussain

Director (Enforcement)

Announced

September 24, 2008

Islamabad