

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I Adjudication Division

Before

Shahzad Afzal Khan - Director Head of Department Adjudication Department-I

In the matter of

Frontier Ceramics Limited

Show Cause Notice No. & Date:

No. CSD/ARN/308/2016-34 dated May 11, 2023

Date of hearing

June 12, 2023 and August 3, 2023

Hearing attended by:

Khawaja Mushtaq Ahmed, Chief Financial Officer and

Rahman Khan, Company Secretary

ORDER

Under Section 218 & 219 of the Companies Act, 2017 read with Section 479 thereof

This order shall dispose of the proceedings initiated through the Show Cause Notice (the SCN) No. CSD/ARN/308/2016-34 dated May 11, 2023 issued under Section 218 of the Companies Act, 2017 (the Act) read with Section 219 and Section 479 thereof against Frontier Ceramics Limited (the Company) through the Chief Executive, hereinafter referred to as the Respondent.

2. The brief facts of the case are that the review of annual audited financial statements for the year ended June 30, 2022 (the Accounts) of the Company at note 29.3 disclosed that against total provident fund payable amounting to Rs. 22.881 million (2021: 6.34 million), only amount of Rs. 11.838 million (2021: 6.34 million) was invested there against. In this regard, disclosures made in the respective Accounts are reproduced here under:

Provident fund payable Note 29.3

Rs. 22.881 million (2021: 6.34 million)

Saving account:

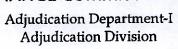
Rs. 11.838 million (6.334 million)

20.1: This represents investment in First Habib Islamic Income Fund against employee provident fund balance.

3. The Securities and Exchange Commission of Pakistan (the Commission) vide letter dated March 09, 2023 sought explanation from the Company. The Company through letter dated March 27, 2023, inter alia, submitted that: "The total amount against provident fund is Rs. 22.881 million, out of which Rs. 11.838 million has been deposited in the First Habib Islamic Fund. The remaining contribution Rs. 11.043 million is due from the Company."



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- 4. The directors' report annexed with the Accounts and in note 27.1 to the Accounts it has been disclosed that the Company operates contributory provident fund scheme for all its permanent employees. From the aforesaid, it appears that the Company has failed to deposit/invest the full contributions of provident fund amount within 15 days of contribution in the manner stipulated under Section 218 of the Act and an amount of Rs. 11.044 million was payable by the Company. Hence, proceedings were initiated against the Respondent, under Section 218 of the Act read with Section 219 and Section 479 thereof. Through the SCN the Respondent was called upon to show cause in writing, within fourteen (14) days of the date of the SCN, as to why penalty may not be imposed in term of the requirements of the Act for the aforesaid violation. In this regard, the Company Secretary through letter dated May 25, 2023 sought seven days extension to furnish a reply. However, no reply was received thereafter.
- 5. In order to provide opportunity of personal representation, hearing in the matter was fixed for June 12, 2023. On the date of hearing Khawaja Mushtaq Ahmed, Chief Financial Officer and Rahman Khan, Company Secretary appeared before me. It was, inter alia, submitted that as soon the Company pays, the amount which is payable to provident fund, it would be transferred. He was advised to furnish a schedule of such payments to be made to employee's provident fund. Thereafter, no reply was received from the Respondent. Therefore, in order to provide another opportunity of hearing, the matter was again fixed for August 3, 2023. On the date of hearing, Khawaja Mushtaq Ahmed, Chief Financial Officer and Rahman Khan, Company Secretary appeared and informed that the aforesaid amount of Rs. 11.044 million on account of provident fund would be paid in quarterly installments starting from October 16, 2023 till October 16, 2024.
- 6. In this regard, the Company through its reply dated August 3, 2023, *inter alia*, submitted the following schedule of payments for an amount of Rs. 11.044, which is payable to the provident fund:

Date of Payment	Amount in PKR
16-Oct-23	1,840,605
16-Jan-24	1,840,605
16-Apr-24	1,840,605
16-Apr-24	1,840,605
16-Jul-24	1,840,605
16-Oct-24	1,840,605
Total	11,043,632

I have gone through the facts of the case, the submissions made in writing and during the hearing proceedings, and it is observed that as per disclosures given in the Accounts an amount of Rs. 11.044 million is payable by the Company on account of the employees provident fund. In terms of the requirements of Section 218 of the Act, the Company is bound to collect the contribution of the employees concerned and pay such contributions as well as its own contributions with in fifteen days as stipulated in Section 218 of the Act, and for which there is no exception provided therein. The Respondent has not cited any reason for the delay, however, have assured that the payable amount of Rs. 11.044 million would be contributed latest by October 16, 2024. I am of the view that the provisions of the Section 218 are clear and unambiguous. The objective of these provisions is to secure the amounts collected as contributions for the benefits of the employees and the said amounts are in the nature of trust moneys in the hand of the company and the same must be paid or deposited or paid within stipulated time. In view of the aforesaid that an amount of Rs. 11.044 million was not paid within the stipulated time of fifteen days, hence, violation of Section 218 of the Act is attracted.





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- 8. Keeping in view that the Respondent have contravened the provisions of Section 218 of the Act and, therefore, is liable to be penalized under Section 219 of the Act. I, therefore, in exercise of powers conferred on me in terms of Section 219 of the Act, hereby, impose a penalty of Rs. 20,000/(Rupees Twenty Thousand only) on the Respondent Company. The Respondent is also advised to ensure compliance of the given requirements of the Act in future.
- 9. The aforesaid Respondent is, hereby, directed to deposit the amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue.
- 10. Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties in respect of any default, omission or violation of the Act.

Shahzad Afzal Khan Head of Department Adjudication Department-I

Announced:

Dated: August 4, 2023

Islamabad