



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

Ali Asghar Textile Mills Limited

Show Cause Notice No. & Date: No. CSD/ARN/15/2015-35 dated May 12, 2023
Date of hearing: June 12, 2023, July 27, 2023 and August 9, 2023
Hearing attended by: Mr. Zahid Hussain Zahid, Authorized Representative

ORDER

Under Section 227 of the Companies Act, 2017 read with Section 227(6) and 479 thereof

This order shall dispose of the proceedings initiated through Show Cause Notice No. CSD/ARN/15/2015-35 dated May 12, 2023 (the SCN) issued under Section 227 of the Companies Act, 2017 (the Act) read with Section 227(6) and 479 thereof against the board of directors of Ali Asghar Textile Mills Limited (the Company), hereinafter collectively referred to as the Respondents.

2. The brief facts of SCN are that review of annual accounts for year ended June 30, 2022 (the Accounts) of the Company revealed that the Directors' Report dated October 3, 2022 is only signed by Chief Executive, contrary to the requirement of Section 227(5) of the Act, which states that, "the directors' report and statement of compliance must be approved by the board and signed by the chief executive and a director of the company."

3. The Company also failed to state following information in the Directors' Report, *prima facie*, in contravention of Section 227 of the Act:

- (a) The names of the persons who, at any time during the financial year, were directors of the company;
- (b) The earning per share;
- (c) disclosure with respect to remuneration package of each of the directors and chief executive including but not limited to salary, benefits, bonuses, stock options, pension and other incentives; and
- (d) the legitimate reasons for not declaring dividend under section 240 despite earning profits and future prospects of dividend, if any.



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4. In response to the Securities and Exchange Commission of Pakistan (**the Commission**) query, the Company asserted that while the Directors' Report complied with Section 227 of the Act by addressing the material facts, the report was inadvertently not signed by the chairman or any other director due to an oversight and time constraints.

5. From the aforesaid it appeared that the Company, *prima facie*, failed to comply with the requirements of Section 227 of the Act. Therefore, taking cognizance of the alleged non-compliance proceedings under Section 227 of the Act read with Sections 227(6) and 479 thereof were initiated against the Respondents through serving the Show Cause Notice (**the SCN**) requiring them to show cause in writing, as to why penalty, as provided, may not be imposed on them.

6. Although no response to the aforementioned SCN was submitted by the Company, hearing in the matter was fixed for June 12, 2023, which was adjourned on the request of the Company vide its letter dated June 08, 2023. Subsequently, hearing was re-scheduled for July 27, 2023, however, no one appeared. Another opportunity of personal representation was then fixed for August 9, 2023, wherein Mr. Zahid Hussain Zahid, the Authorized Representative of the Respondents (**AR**) appeared and submitted that:

- The report was inadvertently not signed.
- Lenient view in the matter be considered.

7. Subsequent to the hearing, the AR submitted the response vide letter dated August 23, 2023 wherein following submissions were made:

- Due to oversight director report could not be signed by a director, statement of compliance is signed by CEO and a director.
- Information about the board of directors during the financial year has been given in the "Company information" and in the Statement of Compliance attached with the financial statements.
- Earning per share has been declared in "Key operation" and in "Profit or Loss Account".
- Disclosure about remuneration package of directors and CEO and non-payment of dividend were omitted due to oversight.

8. Before proceeding further, it is necessary to refer to relevant legal provisions, which are reproduced as under:

Section 227 of the Act provide:

"227. Contents of Directors' Report and Statement of Compliance. –

(5) *The directors' report and statement of compliance must be approved by the board and signed by the chief executive and a director of the company.*

(6) *Whoever contravenes any of the provisions of this section shall--- (a) in respect of a listed company, be punishable with a penalty of level 2 on the standard scale; and"*



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9. I have gone through the facts of the case and considered both the written and verbal submission of the Representatives in light of the relevant provisions of law and state that the requirements of Section 227 are explicit. The AR acknowledged non-compliance of Section 227 of the Act. The AR further stated that the non-compliance was not willful and assured that the same will not be repeated in future, therefore, requested to condone the default.

10. The compliance to the provisions of Section 227 (5) of the Act is imperative as the purpose of having two signatures on the Directors Report and the Statement of Compliance is to provide additional assurance that the contents of the reports have been reviewed and approved by board members and to prevent fraudulent or unauthorized actions. This helps to ensure the accuracy and integrity of the information presented in the aforementioned documents.

11. Keeping in view the above, it is stated that the contravention of the provisions of Section 227 of the Act, at the relevant point of time, has been established and the same has been admitted by the AR. However, keeping in view the assurance of compliance in future by the AR, I hereby conclude the proceeding initiated through the SCN by imposing penalty of Rs. 10,000/- (Rupee Ten Thousand Only) on Mr. Nadeem Elahi Sheikh, Chief Executive. I also Warn the other Respondents to be careful and ensure compliance with the relevant provisions in letter and spirit in future.

12. The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited/United Bank Limited in the name of the Securities and Exchange Commission of Pakistan within thirty days of the date of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of the said penalty, proceedings under Section 485 of the Act will be initiated for recovery of the same as arrears of land revenue.

13. 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: September 6, 2023

Islamabad