



Securities & Exchange Commission of Pakistan

Company Law Division
(Enforcement Department)

[Islamabad]

Before Mr. Ashfaq Ahmad Khan, Director-Enforcement

**In the matter of
M/s. General Tyre & Rubber Company of Pakistan Limited**

Under Sub-Section (1) and (2) of Section 218 of the Companies Ordinance-1984

Number & Date of the Show Cause Notice: EMD/233/430/2001-9906-07
Dated April 17, 2006

Date of Hearing: May 16, 2006

Present: S. Ehtesham Taqi, Company Secretary
Sarfray A. Zahid, Group Resident Manager

Date of the Order: May 19, 2006

ORDER

This order shall dispose of the proceedings initiated under Section 218 of the Companies Ordinance 1984 (Hereinafter referred to as the "Ordinance") against M/s. General Tyre & Rubber Company of Pakistan Limited (the "Company") and its Secretary for failure to circulate to the shareholders, abstract relating to increase in Chief Executive's remuneration.

2. The facts leading to this case, briefly stated, are that the Enforcement Department, while examining the financial statements of the Company for the year ended June 30, 2005, noticed that the remuneration of Chief Executive of the Company have been increased from Rs.4.059 million to Rs.6.330 million without intimation to the shareholders as per the requirements of Sub Section (1) and (2) of Section 218 of the Ordinance.
3. The provisions of Sub-Section (1) and (2) of Section 218 of the Ordinance provides that;
 - (1). *"Where a Company;*
 - a. *appoints or enters into a contract for the appointment of, a chief executive, managing agent, whole-time director or secretary of the Company, in which appointment or contract any director of the Company is in any way, whether directly or indirectly, concerned or interested; or*
 - b. *varies such contract already in existence;*



Securities & Exchange Commission of Pakistan

Company Law Division
(Enforcement Department)

the Company shall make out and attach to the report referred to in section 236 an abstract of the terms of the appointment or contract or variation, together with a memorandum clearly specifying the nature of the concern or interest of the director in such appointment or contract or variation.”

(2). “ Where a Company appoints or enters into a contract for the appointment of a chief executive of the Company, or varies any such contract already in existence, the Company shall send an abstract of the terms of the appointment or contract or variation to every member of the Company within twenty-one days from the date of the appointment or of entering into the contract or varying of the contract, as the case may be,”

4. The directors’ report annexed to the annual accounts of the Company for the year ended June 30, 2005, circulated among the shareholders did not include abstract relating to variation in the remuneration of the Chief Executive as required under Sub-Section (1) of Section 218 of the Ordinance. The Company also failed to circulate the aforesaid abstract, within twenty-one days from the date of the increase as required by Sub-Section (2) of Section 218 of the Ordinance.
5. In view of the above, the Enforcement Department got concerned with regard to compliance of Sub-Section (1) and (2) of Section 218 of the Ordinance and called for explanation from the Company. The Company in response contended that there was no major variation in the existing terms of appointment of the Chief Executive and it was a normal annual increase, therefore, the matter did not require reporting under Section 218 of the Ordinance. The reply was not considered satisfactory and consequently a show cause notice was issued on April 17, 2005 to the Company and its Secretary pointing out non-compliance observed in the accounts. The reply to the show cause notice was received on April 28, 2006 in which the Company reiterated the same arguments and requested for condonation of the default. To provide an opportunity of personal hearing, the case was fixed for May 16, 2006, on which date Mr. S. Ehtesham Taqi, Company Secretary & Mr. Sarfraz A. Zahid, Group Resident Manager (representing the Company) appeared before the undersigned. They took the same plea that the increase in Chief Executive’s remuneration was only an annual increment. However, as there was more than 50% increase (from Rs. 4.059 million to Rs.6.300 million), they were asked to provide the documentary proof i.e. contract evidencing such a huge increase as annual increment. They failed to do so and finally admitted that Company has made default of the aforementioned provision of the Ordinance.



Securities & Exchange Commission of Pakistan

*Company Law Division
(Enforcement Department)*

6. The default is established however, keeping in view of Company's past track record, I am inclined to take a lenient view in the matter and instead of imposing fine of Rs.5,000/- (Rupees Five Thousands Only) each on the Company and its Secretary, I impose a fine of Rs.5000/- (Rupees Five Thousands only) on the Company only.

7. The Company is hereby directed to deposit aforesaid fine in the designated bank account maintained in the name of the Securities & Exchange Commission of Pakistan (SECP) with Habib Bank Limited and to furnish receipted Challan to the Commission or pay through a Demand Draft in favor of Securities & Exchange Commission of Pakistan (SECP) within thirty days from the receipt of this order.

Ashfaq Ahmad Khan
Director-Enforcement

Announced:
May 19, 2006
Islamabad