

Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Pak Leather Crafts Limited

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Date of Hearing

March 5, 2020, March 10, 2020

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**Order-Redacted Version**

Order dated April 21, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Pak Leather Crafts Limited. Relevant details are given as hereunder:

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show cause notice dated February 07, 2020
2. Name of Company	Pak Leather Crafts Limited
3. Name of Individual*	The proceedings were initiated against the directors of the Company i.e. Pak Leather Crafts Limited
4. Nature of Offence	Violation of section 166 and Listed Companies (Code of Corporate Governance) Regulations, 2019 read with section 512 and section 479 of the Companies Act, 2017
5. Action Taken	Key findings of default were reported in the following manner:  2. I have analyzed that the facts of the case, submissions made in writing and relevant arguments made by the Authorized Representative during the hearing proceedings. Further, I have reviewed notice of AGM 2019 and statement of material facts published along with annual audited financial statements for the year ended June 30, 2019, which revealed, <i>inter alia</i> , following details about election of directors:  <i>Selection of independent directors</i> <i>In compliance of section 166(3) of the Companies Act, 2017 for an independent director, consent paper will be accepted from those persons who are compliant of section 166(2) of the Companies Act, 2017.</i>



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In terms of section 166(3) of the Act, statement of material facts annexed to the notice of the general meeting called for the purpose needs to indicate the justification for choosing the appointee for appointment as independent director. It is relevant to highlight that the objective of statement of material facts is to provide specific information to the members, so that they may get relevant information about the proposed business and they make a well informed decision by using their rights effectively. In case of the Company, statement of material facts as published along with the Accounts 2019, however, did not specifically indicate the justification for choosing the appointee i.e. \*\*\*, for appointment as independent director. In view of explanations and stance taken by the Authorized Representative that statement of material facts, as published, mentioned compliance requirements given in section 166 of the Act is however tenable.

3. The Authorized Representative have furnished copy of Form 29 showing \*\*\*\* appointed as director of the Company with effect from December 9, 2019 and such appointment was made before the issuance of aforementioned SCN. In terms of regulation (7) of the Regulations which specifies that subject to section 154 of the Act, it is mandatory that the board shall have at least one female director when it is reconstituted after the expiry of its current term. The board of the Company was reconstituted in AGM held on October 28, 2019, however, female director was appointed on occurrence of a casual vacancy and such appointment was made with a delay of 41 days.

4. As per information shared by the Company, \*\*\* was elected as independent director in AGM of 2019. However, as per confirmation of PICG, he was not registered in its databank. Later on, in order to fill casual vacancy, \*\*\*\* was appointed, however, he was also not registered in the databank of PICG. The argument of the Authorized Representative that the Respondents were unaware of the requirements of the Regulations 2019 and the requirements specified through the Companies (manner and selection of independent directors) Regulations, 2019 bears no ground as the Respondents were responsible to carry due diligence for selecting a person, to be elected as independent director, in terms of section 166(1) of the Act. In terms of section 166(1) of the Act, eligibility and willingness of persons to act as independent directors, has been provided. The Authorized Representative argued that due to financial problems faced by the Company and agreed fee was required to be paid to independent directors selected from databank were major hurdles due to which



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	<p>independent directors of the Company were not selected from databank of a notified institute. In terms of regulation 6(1) and 6(2) of the Regulations, the Company was required to have at least two independent directors out of seven directors and such requirements were applicable for its election of directors held in AGM of 2019. The Company, however, preferred to elect only one independent director, and he was even not selected from databank of notified institute i.e. PICG. The non-compliance of the requirements of regulation 6 and section 166 of the Act is therefore evident in the case of the Company.</p> <p>5. Keeping in view of the cited non-compliances, I hereby impose a penalty of 140,000/- (Rupee one hundred and forty thousands only) on the Respondents.</p> <p>6. The Respondents are hereby, directed to deposit the aforesaid 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 furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under the Land Revenue Act, 1967 will be initiated for recovery of the fines as arrears of land revenue.</p> <p>7. Before parting this Order, I in terms of section 475 of the Act, hereby direct the Respondents to appoint two independent directors in upcoming general meeting and comply with the requirements specified in Regulations and as provided in terms of section 166 of the Act. The Chairman of the board is directed to submit a compliance report within 30 days from the date of the said general meeting, failing which proceedings in terms of the requirements of the Act may be initiated.</p> <p>Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties on the Respondent in respect of any default, omission, violation of the Act.</p> <p>Penalty order dated April 21, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A penalty of Rs. 140,000/- (One hundred and forty thousands) was imposed on the Respondents.
7. Current Status of Order	No Appeal has been filed by the respondents

Redacted version issued on June 08, 2021 for placement of website of the Commission.