

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

In the matter of Show Cause Notice issued to Shadab Textile Mills Limited

Date of Hearing

May 05, 2020, May 12, 2020, June 09, 2020

Order-Redacted Version

Order dated June 19, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Shadab Textile Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated July 25, 2019
2. Name of Company	Shadab Textile Mills Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Shadab Textile Mills Limited
4. Nature of Offence	In view of alleged violations Under sub-regulation (1) of Regulation 6 and Regulation 41 of the Listed Companies (Code of Corporate Governance) Regulations, 2017 read with Section 166 of the Companies Act, 2017.
5. Action Taken	Key findings of default of regulations were reported in the following manner: I have analyzed that the fact of case, relevant provisions of the law and the record placed before me. Based on the aforesaid, it is evident that the Company has contravened the requirements of Sub-regulation (1) of Regulation 6 of the CCG Regulations read with subsection (3) of Section 166 of the Act by failing to elect an independent director on its board in its election held on March 28, 2019. While the Company has not argued on the responsibility of board however it is important to mention that in terms of Section 158 of the Act, on expiry of terms of directors, the directors so



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retiring continue to perform their functions until their successors are elected and therefore the such retiring director are required to hold elections. Therefore, it was the responsibility of the Respondents to take steps to enable independent directors to be elected on board that is inclusive of approaching the databank of independent directors maintained by PICG. Moreover, the CCG Regulations were effective from January 01, 2018 and databank was operational from July 2018 giving ample time to Respondents, being directors, to take appropriate steps prior to elections scheduled on March 28, 2019 to enable inclusion of two independent directors through the subject elections. It is pertinent to mention that in terms of Section 159 of the Act, any person intending to contest election is required to file notice of intention at least 14 days prior to elections. Thereafter, the Company is required to send such notice of intention to shareholders and publish the same in newspaper at least seven days prior to elections. The submissions however reflect that while the Company approached PICG merely 7 days before the elections, the access was granted to Company two days before the elections. Thus the Respondents failed to proactively enable inclusion of independent directors on board and elected board without any independent directors. In addition, subsequent appointment of independent directors, in June and December 2019, against casual vacancy does not obviate the Respondents from the responsibility of compliance with requirements of CCG Regulations and the Act.

2. It is important to mention that purpose of inclusion of independent directors on boards is to provide strategic guidance, unbiased and objective judgment which is independent of view of representatives of controlling interest/ shareholders. The CCG Regulations therefore requires that board comprises of higher of two or one third of directors as independent directors. The mode of inclusion of such independent directors is also prescribed as



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	<p>through elections. It is therefore important that the intent and legal form of statute is appropriately complied by board of directors at the relevant time enabling inclusion of independent directors.</p> <p>3. From the above discussion and after careful consideration of all the facts of this case, I am of the view that the provisions of sub-regulation (1) of Regulation 6 of CCG Regulations read with Section 158 and Section 166 of Act have been contravened and the Respondents are liable under the Regulation 41 of the CCG Regulations.</p> <p>Penalty order dated June, 2020 was passed by Executive Director (Adjudication-I).</p>
2. Penalty Imposed	A penalty of Rs. 50,000/- (Fifty thousands) was imposed on the Company.
3. Current Status of Order	No Appeal has been filed by the respondents

Redacted version issued on August 28, 2020 for placement of website of the Commission.