**Before**

**Amir M. Khan Afridi, Director/HOD (Adjudication-I)**

**In the matter of Show Cause Notice issued to The National Silk & Rayon Mills Limited**

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| Date of Hearing | August 30, 2021, October 27, 2021 |

**Order-Redacted Version**

Order dated March 15, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of The National Silk & Rayon Mills Limited. Relevant details are given as hereunder:

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| **Nature** | **Details** |
| 1. Date of Action | Show cause notice dated December 31, 2020 |
| 1. Name of Company | The National Silk & Rayon Mills Limited |
| 1. Name of Individual\* | The proceedings were initiated against The National Silk & Rayon Mills Limited and its directors. |
| 1. Nature of Offence | Under sub-regulation (1) of regulation 6 clause (iii) of sub-regulation (1) of regulation 27 and regulation 37 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 read with Section 512 (2) of the Companies Act, 2017. |
| 1. Action Taken | I have gone through the facts of the case relevant provisions of the law and the record placed before me and observed that election of the directors of the Company was held on June 30, 2020 wherein the Company was required to elect at least two independent directors in terms of regulation 6 of the Regulations. However, the Company elected only one independent director namely Mr. \*\*\*\* therefore, the Company failed to elect the required number of independent directors. Further, composition of the Board's audit committee was incomplete due to non-appointment of at least one of its members being ''financial!" literate", contrary to the requirements of regulation 27 of the Regulations. The Respondents have acknowledged both the aforesaid non-compliances. It is important to mention here that in terms of Section 158 of the Act, on expiry of terms of directors, the directors so retiring shall continue to perform their functions until their successors are elected and, therefore, such retiring director are required to hold elections. Therefore, it was responsibility of the Respondents to ensure appointment of the required number of the independent directors. The Company has now ratified the aforementioned defaults by appointing Mr. \*\*\*\*, as independent director on its Board and by appointing him as chairman of audit committee. It has been stated that Mr. \*\*\*\* is financially literate in terms of regulation 27 of the Regulations.  Keeping in view the above, I am of the considered view that the Respondents had failed to appoint (i) the required number of independent directors in its election of directors held on June 30, 2020, and (ii) a financially literate individual on the Board's audit committee, hence, regulations 6 and 27 of the Regulations are contravened. The aforesaid two failures on part of the Respondent attract applicability of the penal provisions contained in regulation 37 of the Regulations. While considering the fact that both the aforesaid non-compliances are ratified subsequent to the date of the SCN, a lenient view is being taken and in exercise of the powers conferred under Section 512 (2) of the Act, I hereby conclude this matter with warning to Respondents to ensure timely compliance of law in true letter and spirit in future.  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. |
| 1. Penalty Imposed | Nil |
| 1. Current Status of Order | No appeal has been filed by the Company. |