



# Securities and Exchange Commission of Pakistan

## Adjudication Division Adjudication Department-I

Before

Amir M. Khan Afridi- Director/ Head of Department

In the matter of Show Cause Notice issued to Shadman Cotton Mills Limited

Dates of Hearing

April 27, 2022

### Order-Redacted Version

Order dated May 9, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Shadman Cotton Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated April 11, 2022
2. Name of Company	Shadman Cotton Mills Limited
3. Name of Individual*	The proceedings were initiated against the Company and its Directors
4. Nature of Offence	<p>Proceedings were initiated in terms of the Section 183 and Section 134 and Section 479 of the Companies Act, 2017</p> <p>Brief facts of the case are that review of the annual audited financial statements of the Company for the year ended June 30, 2020 (FY2020) transpired, <i>inter alia</i>, following disclosures as given in Note 19 to the aforesaid Accounts:</p> <p><i>Investment Property</i> (Note 19)      Rs. 120,153,516 (2020)                      Nil (2019)</p> <p>19.3 During the year a part of building is rented out. Therefore, it is transferred from property, plant and equipment to investment property and accounted for as per requirements of IAS-40 under cost model.</p> <p>As per the aforesaid disclosures, the Company had rented out part of its building having carrying value of Rs. 120.153 million, which represents 32% of the class of that assets i.e. building and, therefore, constitute the sizeable part in terms of Section 183(3)(a) of the Act.</p> <p>Review of the statement of material facts under Section 134 of the Act annexed with notice of the AGM dated October 3, 2019 transpires that the Company, <i>prima facie</i>, did not disclose information contrary to the requirements of clause B(5)(I) of the</p>



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	<p>SRO read with Section 134 of the Act. In view of the above, the Company, <i>prima facie</i>, has failed to:</p> <ul style="list-style-type: none"><li>a) obtain prior approval of its members for renting out the building having carrying value of Rs. 120.154 million during FY2020, contrary to the requirements of Section 183(3)(a) of the Act;</li><li>b) disclose specified information in the AGM's notice dated October 6, 2020, contrary to the requirements of clause B(5)(I) of the SRO read with section 134(3) of the Act; and</li><li>c) disclose specified information in the AGM's notice dated October 03, 2019, contrary to the requirements of clause B(5)(I) of the SRO read with section 134(3) of the Act</li></ul> <p>Hence, proceedings were initiated against the Respondents through the SCN under Sections 183, 134 and 479 of the Act read with the SRO, advising them to show cause within fourteen (14) days of the date of the SCN for the aforesaid non-compliances.</p>
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have reviewed the facts of the case, written submissions by the Respondents and arguments made during the hearing proceedings and state that:</p> <ul style="list-style-type: none"><li>(i) As per the available information, the Company had leased/rented out part of its building having carrying value of Rs. 120.153 million, which represents 32% of the class of that assets i.e. building; therefore constitutes sizeable part in terms of para (ii) of the explanation given in Section 183(3)(a) of the Act. The Authorized Representative during the hearing and the Company in written submissions also admitted the non-compliance. It was submitted by the Authorized Representative that the Company in subsequent AGM held for the year 2020 passed special resolution under Section 183 of the Act to lease out the building. In this context, I am of the view that the aforesaid special business, could not be considered as statutory shareholders' approval in term of Section 183(3)(a) of the Act as it does not provide the necessary details of the assets which were to be leased or rent out along the requisite disclosures and was not taken prior to lease/rent out part of building having carrying value of Rs. 120.153 million, which represents 32% of the class of that assets. Therefore, I, am of the view that provisions of Section 183(3)(a) of the Act have</li></ul>



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	<p>been violated, and claim of the Respondents that, subsequently authorization of members was obtained, is not tenable.</p> <p>(ii) With regard to the lease or rent out of any building and machinery; the Company in its notice of AGM dated October 6, 2020; did not disclose information in the statement of material facts as required to be disclosed in terms of Section 134(3) of the Act read with clause B(5)(I) of the S.R.O. The disclosure requirements of SRO are mandatory in nature and details are required to be provided in statement of material facts which is annexed with the notice of meeting. The Respondents in the AGM of 2020 proceeded to obtain authority of members to lease the building with deficient information in the statement of material facts, therefore, deprived the shareholders of having complete information about the renting/leasing out of the building. Hence, I am of the view that the Respondents have violated the requirements of Section 134 of the Act read with the SRO.</p> <p>(iii) As regards to notice of AGM of 2019, the special business for disposal of assets was that: <i>“To consider and if thought fit, approve the disposal of any assets of the company by passing the following resolutions as an ordinary resolution, with or without any modification, addition or deletion in terms of Section 183(3) (a) of the Companies Act, 2017.”</i> However, the aforesaid special business did not pertain to lease of company’s land and building. The Authorized Representative during the hearing proceedings also admitted that the Company did not ensure compliance as at the time of AGM for the year 2019, and approval of members to lease out the building was not obtained. Moreover, the Company with regard to aforesaid special business, did not disclose information in the statement of material facts, annexed with the notice of AGM of 2019, as required to be disclosed in terms of Section 134(3) of the Act read with clause B(5)(I) of the S.R.O, hence, violated the Section 134 of the Act read with the SRO.</p> <p>Keeping in view, I am of the considered view that the provisions of clause (a) of sub-section (3) of Section 183 of the Act; Section 134 ibid and the SRO have been contravened and, therefore, the Respondents are liable to be penalized. Hence, in exercise of the powers conferred under the aforesaid provisions of the Act, I hereby impose penalty of <b>Rs. 250,000/- (Rupees Two Hundred and</b></p>
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	<p><b>Fifty Thousand only)</b> on *** and warn other Respondents to be careful in future.</p> <p>The aforesaid fine must be deposited in the designated bank account maintained with MCB 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 law including Section 485 of the Companies Act, 2017 will be initiated for recovery of the same as arrears of land revenue.</p> <p>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.</p>
6. Penalty Imposed	Rs. 250,000/- (Rupees Two Hundred and Fifty Thousand only)
7. Current Status of Order	No Appeal was filed.