**Before**

**Amir M. Khan Afridi- Director/ Head of Department**

**In the matter of Show Cause Notice issued to Faisal Spinning Mills Limited**

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| Dates of Hearing | December 15, 2021 |

**Order-Redacted Version**

Order dated July 22, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Faisal Spinning Mills Limited. Relevant details are given as hereunder:

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| **Nature** | **Details** |
| 1. Date of Action | Show cause notice dated September 06, 2021 |
| 1. Name of Company | Faisal Spinning Mills Limited |
| 1. Name of Individual | The proceedings were initiated against the board of directors of the Company |
| 1. Nature of Offence | Proceedings were initiated in terms of Sections 205 and 207 of the Companies Act, 2017 (**the Act**) read with Section 479 thereof  Brief facts of the case are that review of the annual audited financial statements of the Company for the year ended June 30, 2020 (**the 2020 Accounts**) transpired that the Company had undertaken transactions, including sale and purchase of yarn, fabric & cotton, sale of stores and spares, dividend income, and purchase of electricity, with its associated companies as disclosed in note 38 to its 2020 Accounts. The Securities and Exchange Commission of Pakistan (**the Commission**) vide letter dated April 28, 2021 sought from the Company, detail of the aforesaid transactions made with its associated companies. The Company vide letter dated May 21, 2021 submitted its response which transpired that some of the directors of the Company despite being interested, due to common directorships and/or shareholding, in the aforesaid transactions with the associated companies namely Bhanero Textile Mills Limited (**BTML**), Blessed Textile Limited (**BTL**) and Bhanero Energy Limited (**BEL**) had participated in the proceedings of the Board meeting held on September 29, 2020 (**the Board Meeting**), wherein the related party transactions including transactions with the aforesaid associated companies were discussed and approved. Review of the minutes also transpired that interested directors did not disclose nature of their interest in the said associated companies. |
| 1. Action Taken | Key findings were reported in the following manner:  I have reviewed the facts of the case and considered the written submission and the oral arguments put forth by the Representatives, in light of the afore-mentioned legal provisions and state that:  (i) the Respondents did not deny the fact that the transactions pertaining to BTML, BTL and BEL, all the related parties, were unanimously approved in the meeting of the Board held on September 29, 2020;  (ii) the aforesaid transactions were related to:  (a) BTML amounting to Rs. \*\*\*\*\* (2019: Rs.\*\*\*\*);  (b) BTL amounting to Rs. \*\*\*\* (2019:\*\*\*\*); and  (c) BEL amounting to Rs. \*\*\*\* (2019: \*\*\*\*); and  (iii) the said transactions were executed during the financial year 2020 and were material in nature.    Keeping in view the fact that in terms of the proviso to sub-section (1) of Section 205 of the Act, all the Respondents were interested in the aforesaid transactions executed with BTML, BTL and BEL, owing to their common directorships and/ or shareholding in the associated companies/ related parties but the Respondents neither disclosed their interest (direct or indirect) in the aforesaid transactions or arrangements nor abstained from the proceedings of the Board Meeting on the said transaction rather they participated therein and unanimously approved the said transactions. The interested directors in their capacity as directors of the Company were duty bound to give disclosure of their interest in the said transactions. However, they failed to do so, thereby violated Section 205(1) of the Act. Moreover, the interested directors, owing to their common directorship and shareholding in associated companies, were required to abstain from the proceeding on the said transactions and should not participate in consideration and approval of these transactions. By participation in the proceedings of the aforesaid transactions, the interested directors have contravened the provisions of Section 207 of the Act.  In view of the above, I am of the considered view that the Respondents have contravened:  (i) Section 205(1) of the Act by not disclosing their interest in the transactions executed with BTML, BTL and BEL; and  (ii) Section 207 of the Act by not abstaining from the proceeding on the said transaction during the Board Meeting and rather participating and approving the said transactions with BTML, BTL and BEL.  Keeping in view the fact that provisions of Section 205(1) and Section 207 of the Act are contravened hence, I, in terms of the powers conferred under Section 205(6) and Section 207(4) of the Act, hereby, impose aggregate penalty of **Rs. 162,000/- (Rupees One Hundred and Sixty Two Thousand only**) on the Respondents.  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 | **Rs. 162,000/- (Rupees One Hundred and Sixty Two Thousand only**) |
| 1. Current Status of Order | No Appeal filed and the imposed penalty has been deposited by the respondents |