



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

Before

Shahzad Afzal Khan - Director/ Head of Department

In the matter of

Premium Textile Mills Limited

Show Cause Notice No. & Date CSD/ARN/355/2016-201 dated April 08, 2024

Date of Hearing: June 03, 2024

Hearing attended by: Mr. Hammad Ullah Khan, Company Secretary; and Mr. Muhammad Iqbal Chapprsa, Ex-Company Secretary; as Authorized Representatives

ORDER

Under Sections 205 & 207 of Companies Act, 2017 read with read with Sections 479 thereof

This order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the Commission) through Show Cause Notice No. CSD/ARN/355/2016-201 dated April 08, 2024 (the SCN) issued under sections 205 and 207 of the Companies Act, 2017 (the Act) read with section 479 thereof to the following directors of Premium Textile Mills Limited (the Company), herein after collectively referred to as the Respondents:

- i. Mr. Abdul Kadir Adam, CEO/Director;
- ii. Mr. Mohammad Yasin Siddik, Executive Director; and
- iii. Mr. Mohammad Aslam Parekh, Non-Executive Director;

2. Brief facts of the case are that note 36 of the audited financial statements of the Company for the year ended June 30, 2023 (Accounts 2023) revealed that the Company entered into Related Party Transactions (RPTs) during Financial Year (FY) 2022 and FY 2023 with M/s Premium Knits and Pinnacle Fiber (Pvt) Ltd, without, *prima-facie*, complying to the provisions of section 205 and 207 of the Act. M/s Premium Knits and Pinnacle Fiber (Pvt) Ltd are associated companies by virtue of common directorship.

3. The Commission vide letter dated February 22, 2024 advised the Company to submit minutes of the Board of Directors (BoD) meetings held during FY 2022 and FY 2023 along with attendance sheet and to provide details of common directorships w.r.t the RPTs as disclosed in Accounts 2023. The Company vide its letter dated February 29, 2024 provided the minutes of BoD meeting held on October 29, 2021, February 28, 2022 and April 28, 2022 along with respective attendance sheets. The response of the Company revealed that the Company had following directors in common (Interested Directors) with M/s Premium Knits and Pinnacle Fiber (Pvt) Ltd:



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Sr. No.	Company Name	Common (Interested) Directors
1	M/s Premium Knits	Abdul Kadir Adam
		Muhammad Yasin Siddik
2	Pinnacle Fiber (Pvt) Ltd	Abdul Kadir Adam
		Muhammad Aslam Parekh

4. The analysis of the minutes of three BoD meetings submitted by the Company revealed that the directors of the Company including Interested Directors discussed and approved RPTs with M/s Premium Knits and Pinnacle Fibers, however, the minutes of the said board meetings did not present any disclosure of interest by common directors nor they abstain from the proceedings of the board meetings. Furthermore, it was observed that the following directors attended the aforesaid board meetings and approved RPTs:

- i. Mr. Muhammad Yasin Siddik
- ii. Mr. Muhammad Aslam Parekh
- iii. Mr. Abdul Kadir Adam
- iv. Ms. Lubna Asif
- v. Mr. Mohammad Ali Jaliawalla
- vi. Mr. Tufail Sattar
- vii. Mr. Tanzeel Abdul Sattar
- viii. Mr. Iqbal Chappra

5. The Interested Directors, by virtue of their respective directorship, were interested in the transactions with M/s Premium Knits and Pinnacle Fibers, and failed to disclose their interest, *prima facie*, in contravention to the provisions of section 205 of the Act. Moreover, the interested directors failed to abstain from participating in proceedings and passing resolution in the board meetings held on October 29, 2021, February 28, 2022 and April 28, 2022 approving RPTs, *prima facie*, in contravention of the provisions of sub-section (1) of section 207 of the Act.

6. In view of aforesaid, the Interested Directors of the Company, *prima facie*, have contravened the provisions of:

- (i) Sub-section (1) of section 205 of the Act by not disclosing their interest in the transactions despite being concerned and interested due to common directorships and/or shareholdings;
- (ii) Subsection (1) of section 207 of the Act as the interested directors have participated and voted to approve the transactions with the said associated/related companies, despite being concerned and interested.

7. In order to take cognizance of the aforesaid contraventions, the SCN was served upon the Respondents seeking justification for the aforesaid violations. In response to the SCN, Mr. Hammad Ullah Khan, Company Secretary and Mr. Muhammad Iqbal Chappra, Ex-Company Secretary, acting as Authorized Representatives of the Respondents (**the Representatives**) vide dated April 26, 2024 submitted that the Commission vide order dated November 30, 2022 penalized the relevant Respondents for violation of same sections i.e. sections 205 and 207. Subsequently the Board ensured the application of provisions of sections 205 and 207 of the



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Act in all the board meetings held after the issuance of referred order dated November 30, 2022.

8. In order to provide opportunity of personal representation, hearing in the matter was fixed for June 03, 2024 wherein Mr. the Representatives appeared and while reiterating reply to SCN dated April 26, 2024 submitted that after the imposition of penalty on the relevant respondents on same non-compliances by the Commission vide order dated November 30, 2022, there has been no violation of the requirement of the law and it will be double jeopardy if penalty is imposed for the same non-compliance.

9. Subsequent to the hearing, the Representatives vide letter dated June 07, 2024 informed that six meetings of the board of directors of the Company were held after passing of above-referred order dated November 30, 2022 by the Commission and in five such meetings, related party transactions were discussed and the directors interest therein left the meeting when the agenda relating to related parties was taken up. They also submitted copies of minutes of all five meetings as evidence to compliance of sections 205 and 207 of the Act.

10. Relevant legal provisions are reproduced as hereunder:

"205. Disclosure of interest by director.—(1) Every director of a company who is in any way, whether directly or indirectly, concerned or interested in any contract or arrangement entered into, or to be entered into, by or on behalf of the company shall disclose the nature of his concern or interest at a meeting of the board:

Provided that a director shall be deemed also to be interested or concerned if any of his relatives, is so interested or concerned.

(6) Any contravention or default in complying with requirements of sub-sections (1) or (2), shall be an offence liable to a penalty of level 1 on the standard scale.

207. Interested director not to participate or vote in proceedings of board.— (1) No director of a company shall, as a director, take any part in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the company, if he is in any way, whether directly or indirectly, concerned or interested in the contract or arrangement, nor shall his presence count for the purpose of forming a quorum at the time of any such discussion or vote; and if he does vote, his vote shall be void:

Provided that a director of a listed company who has a material personal interest in a matter that is being considered at a board meeting shall not be present while that matter is being considered.

(2)...

(4) Any contravention or default in complying with requirements under this section shall be an offence liable to a penalty of level 1 on the standard scale."

11. I have gone through the facts of the case, and considered the written submissions made through various letters and the arguments made during the hearings by the Representatives, in light of the aforesaid legal provisions and the record placed before me and state as under:



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(i) Disclosure of interest of directors under Section 205 of the Act:

The Board of Director of the Company in its meetings held on October 29, 2021, February 28, 2022 and April 28, 2022 approved RPTs. It is hereby pointed out that section 205 of the Act provides for disclosure of nature of direct as well as indirect interest in any contract or arrangement entered or to be entered at the meeting of the board. Therefore, in context of the Company, the interested directors namely; (i) Mr. Abdul Kadir Adam, (ii) Muhammad Yasin Siddik, and (iii) Mr. Muhammad Asalam Parekh, were required to disclose their interest in the meetings of the board of directors held on October 29, 2021, February 28, 2022 and April 28, 2022 w.r.t. the RPTs, in terms of the requirements of section 205 of the Act. However copy of the minutes of the Board meetings provided by the Company did not state any such disclosure by the subject directors.

It is, therefore, noted that the Respondents namely; (i) Mr. Abdul Kadir Adam, (ii) Muhammad Yasin Siddik, and (iii) Mr. Muhammad Asalam Parekh were interested in the aforementioned RPTs due to their directorship and shareholding in the related associated companies, and by not disclosing the same during the board meetings held on October 29, 2021, February 28, 2022 and April 28, 2022 wherein RPTs were approved; these three Respondents, being directors of the Company contravened the provisions of section 205 of the Act and the same has been admitted by the Representatives.

(ii) Interested director not to participate or vote in terms of Section 207 of the Act:

With regard to the provision of section 207 of the Act, it is an established fact that the three interested directors were present in the meetings held on October 29, 2021, February 28, 2022 and April 28, 2022. The minutes of the Board's stated meeting, however did not disclose that the interested directors recused from discussion and voting, when the matter of RPTs was being considered and approved. It may be noted that in view of requirements of sub-section (1) of section 207 of the Act, interested directors of a company are prohibited to participate in discussion and vote on any contract/ arrangement entered or to be entered where such director is directly or indirectly concerned. For listed companies, the requirements are further stringent as to the presence of a director having material personal interest is prohibited to be present in such meeting of the board while considering the said matter.

Hence, it is noted that the Respondents namely; (i) Mr. Abdul Kadir Adam, (ii) Muhammad Yasin Siddik, and (iii) Mr. Muhammad Asalam Parekh had interest in RPTs of the Company due to their directorship and shareholding in the associated companies, and by participating in the consideration and approval of the aforementioned RPTs; these three Respondents, being directors of the Company contravened the provisions of section 207 of the Act and the same has been admitted by the Representatives.



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(iii) Compliance of sections 205 and 207 of the Act after passing of Order dated November 30, 2022:

The Respondents submission that compliance of sections 205 and 207 of the Act is being ensured since the Commission penalized the relevant respondents on the same non-compliance vide order dated November 30, 2022 is only correct to extent of compliance with the requirements of section 207 of the Act and not for section 205 of the Act. The minutes of all five board meetings held after November 30, 2022, where related party transactions were discussed only reflects that the interested directors left the meeting when agenda of related party transactions was discussed but did not present that the interested directors disclosed their interest before the board members with regards to related parties during the said meetings.

(iv) Directors exonerated from their responsibilities through Subsequent Compliance:

Subsequent compliance with the provisions of sections 205 and 207 of the Act does not exonerate the Respondents from their responsibilities relating to non-compliance with the applicable legal and regulatory framework at relevant point in time.

12. It is however noted that the board meetings of October 29, 2021, February 28, 2022 and April 28, 2022 wherein non-compliance of sections 205 and 207 of the Act are alleged through the SCN, were held before the order dated November 30, 2022 passed by the Commission through which the Respondents were penalized for similar non-compliance. The Respondents, since then, have taken measures to ensure compliance with the provisions of applicable legal framework.

13. Taking cognizance of the aforesaid and considering that the Company had taken measure to ensure compliance after the passing of aforementioned order dated November 30, 2022, I, in exercise of the powers conferred under sections 205(6) and 207(4) of the Act, hereby conclude the proceedings by warning all the Respondents and advise them to ensure compliance to the applicable regulatory framework in future in letter and spirit.

14. 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.

(Shahzad Afzal Khan)
Director/ HOD
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Announced: July 15, 2024
Islamabad

