



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s. Pakistan Paper Products Limited
Show Cause Notice No. & Date:	CSD/ARN/565/2018-511 dated May 27, 2025
Noticee(s):	(i) M/s. Pakistan Paper Products Limited; (ii) Mr. Abbas Syeed, Director; (iii) Mr. Abid Syeed, Director; (iv) Mrs. Muleika Syeed, Director; (v) Mr. Sayeed Imran, Director; (vi) Dr. Asadullah Sayeed, Director; (vii) Ms. Aisha Fariel Salahuddin, Director; and (viii) Mr. Matiullah Siddiqui, Director.
Date(s) of Hearing(s):	July 22, 2025
Case represented by:	Mr. Dawood Ahmed Mapara – Company Secretary [Authorized Representative on behalf of all Noticee(s)]
Provision of law involved:	Section 166 read with Sections 169 and 479 of the Companies Act, 2017
Date of Order:	July 29, 2025

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/565/2018-511 dated May 27, 2025 (“SCN”) issued to M/s. Pakistan Paper Products Limited (the “Company”) and its Board of Directors (the “BOD”), hereinafter collectively referred to as the “Noticee(s)”, under Section 166 read with Sections 169 and 479 of the Companies Act, 2017 (the “Act”).

2. The provisions of sub-section (2) of Section 166 of the Act defines an independent director as a director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the company, its associated companies, subsidiaries, holding company or directors; and he can be reasonably perceived as being able to exercise independent business judgment without being subservient to any form of conflict of interest. Moreover, clause (h) of proviso to sub-section (2) of Section 166 of the Act provides that no director shall be considered independent director if he/she has been nominated as a director under Section 164 of the Act. Section 164(1) of the Act further provides that a company, in addition to the directors elected or deemed to have been elected by shareholders, may appoint directors nominated by its creditors or other special interests by the virtue of contractual arrangement.

3. The non-compliance of the aforementioned provisions of Section 166(2)(h) of the Act attracts a penal action under Section 169 read with Section 479 of the Act which provides that whoever contravenes or fails to comply with any of the provisions of Section 166 of the Act or is a party to the contravention of the said provisions shall be liable to a penalty of level 2 on the standard scale and may also be debarred by the authority which imposes the penalty from becoming or continuing a director of the company for a period not exceeding three years.

4. Review of the Annual Report/ Annual Audited Financial Statements of the Company for the year ended June 30, 2024 (the “Accounts”) revealed that the Company appointed Mr. Matiuddin Siddiqui, a Nominee Director representing the special interest of M/s National Investment Trust Limited (the “NIT”), as an Independent Director on its Board in the Extraordinary General Meeting held on May 11, 2023 (the “EOGM”), in contravention of Section 166(2)(h) of the Act.

5. In order to probe the matter, the Commission vide letter dated February 26, 2025 sought a clarification from the Company as regards to its compliance status with the provisions of Section 166 of the Act and in its response the Company vide letter dated April 08, 2025, *inter-alia*, submitted that:

“As per Clause 164(1) of Companies Act, 2017, A director is nominated either by Company’s creditor or has other special interests by virtue of contractual arrangements. Here NIT is neither our creditor nor it has any special interest in our company rather it has common interest just like all other members. Also, the concerned director was properly elected by members in the

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previous election of directors. The confusion may have arisen due to mentioning of word NIT Nominee in our financial statements, which we will rectify in the upcoming interim financial statement”.

6. Having being not satisfied with the aforesaid response cognizance in the matter was taken and SCN was issued to the Noticee(s) to show the cause in writing as to why a penal action may not be taken against them for non-compliance of the requirements of the Act. In response to SCN, the Company Secretary of the Company, vide letter dated June 11, 2025, inter-alia, submitted that:

- (i) The Company recognizes that certain aspects of Mr. Matiuddin Siddiqui's classification as an independent director, particularly reference related to his nomination by M/s National Investment Trust Limited ("NIT") and the timing of his shareholding have raised regulatory concerns which appear to involve interpretational nuances within the regulatory framework. The Company remains committed to address the same in a manner consistent with the applicable statutory provisions.
- (ii) Mr. Siddiqui has expressed his willingness to fulfill any compliance requirements, including acquisition of qualification shares. However to avoid any inconsistency with the regulatory requirements, the Company has deferred any action till resolution/ closure of the instant matter.
- (iii) The Company undertakes to immediate steps to review, align and restructure the composition of its Board to comply with the requirements stipulated under Section 166 of the Act. Furthermore, internal governance and compliance protocols are being strengthened to mitigate the risk of future interpretational discrepancies.
- (iv) Lenient view in the instant matter is requested with assurance of future compliance.

7. In order to provide opportunity of personal representation to the Noticee(s) and to meet the ends of justice, hearing in the matter was fixed for July 22, 2025; where Mr. Dawood Ahmed Mapara – Company Secretary appeared on behalf of all the Noticee(s) as their “**Authorized Representative**”, reiterated the reply to SCN and, inter-alia, stated that National Investment Trust (“NIT”) holds 7.8% shares in the Company and as per the Articles of Association of the Company (“AoA”) NIT has the right to appoint one director of the Company. The Authorized Representative further informed that the Company has been designating the director from NIT as independent director since long; mainly on the basis of its understanding developed in light of an opinion from SECP obtained by NIT in 2012 whereby the directors elected through election process by virtue of shareholding of financial institutions (not more than 10%) could have been treated as independent directors on fulfillment of prescribed test of independence. He further stressed that there is no willful neglect on part of the Company and while assuring full compliance with the legal and regulatory requirements, requested for lenient view.

8. I have gone through the relevant provisions of Section 166(2) of the Act which in-turn refer to the provision of both Section 164 and 165 of thereof. I have also considered the facts of the case along with the available record of the Company as well as written and verbal submissions of the Noticee(s) through their Authorized Representative, including the relevant extracts of the AOA of the Company. I have also perused Section 169 of the Act, which stipulates penal provisions for contravention of the afore-referred provisions of law. It is observed that in the context of Section 166 of the Act which is a critical element of the overall corporate governance framework, inclusion of eligible and qualified independent directors in the Board is essential to enhance its transparency, accountability and effectiveness of the governance structure. It also ensures that the board members offer a diverse range of perspectives, particularly by such individuals who are not directly tied to the company's management or solely looking after the interest of any specific shareholder. This arrangement is envisaged as a safeguard against potential conflicts of interest and to foster decision-making in an objective manner. Inclusion of independent directors, therefore, remains key for boosting investor confidence where independent directors are likely to provide oversight that is crucial for protecting minority shareholders and promoting corporate responsibility.

9. It is further observed that the appointment/ election of independent directors of the board of a company in accordance with the eligibility criteria prescribed through Section 166(2) of the Act plays a crucial role in reinforcing corporate governance framework and accordingly nominated directors

representing a specific shareholder cannot be construed as independent directors to preserve the intention of the law to ensure that independent directors remain truly independent, untainted by any personal or external influence. Directors, nominated by shareholders carry inherent biases towards the interests of their nominating authorities which essentially dilute their ability to objectively oversee company's decisions and protect the interests of other shareholders, particularly the minority shareholders. Independent directors are envisaged to act impartially, ensuring that company decisions are made in the best interest of all shareholders, provide stronger oversight without undue influence from any single party and the prohibition is rooted to maintain integrity, transparency, and accountability within the board to safeguard it against potential conflicts of interest and promote sound decision-making of the company. This principle is also affirmed in PLD 1992 SC 602, which resolves that *statutes must be interpreted in light of their objectives*.

10. The argument of the Authorized Representative relating to reliance of the Company on Commission's erstwhile opinion of 2012 to designate a NIT-nominated director as an independent director is neither tenable nor valid under the contemporary legal framework. The Act and the Listed Companies (Code of Corporate Governance) Regulations 2019 (the "CCG Regulations") have significantly strengthened the criteria for independence; where the CCG Regulations emphasizes both actual and perceived independence, and explicitly discourages classification of directors nominated by shareholders as independent. Accordingly, in the instant matter a director nominated by NIT/NIUT, where such appointment is a compulsive action as enshrined in Company's AoA and the Director so elected also enjoys the exception as given in proviso (i) to clause (i) of Section 153 of the Act, by not being a member himself, clearly represents a single shareholder's interest and, therefore, does not meet the criteria of independence.

11. Wisdom on the matter of restriction on designating nominee directors as independent directors and drawing of a clear wedge between the two can be borrowed from the judgment passed in 2022 PLC (CS) 1035 of 2022 Islamabad where it was held that "...Legislative intent in S. 166 of Companies Act, 2017 and R. 3(4) of Public Sector Companies (Corporate Governance) Rules, 2013, is to ensure managerial/administrative independence of such Corporation so that they operate through their Board and not by direct intervention of Federal Government---Concept of managerial independence inculcated in Public Sector Companies (Corporate Governance) Rules, 2013, reflects that majority of directors of Board of directors are to be independent directors to maintain balance amongst nominee directors of Federal Government [which has the authority to nominate director(s)]". In the same manner, by appointing a person who is nominated by a shareholder, i.e., NIT/NIUT in the instant matter, as an independent director clearly defeated the overall spirit of the provisions of Section 166.

12. In view of the above, the aforesaid contravention with the requirements of Section 166 of the Act has been established beyond doubt and the same has also been admitted by the Authorized Representative which attract penal actions in terms of Section 169 of the Act. Due consideration has also been given to Company's willingness to comply with the provisions of the Act which shows its good compliance behavior. I, therefore, in exercise of the powers conferred upon me under Section 169 read with Section 479 of the Act read with SRO 1545(I)/2019 dated December 06, 2019, hereby conclude the proceedings initiated through SCN by strict WARNING to the Noticee(s). The Noticee(s) are advised to ensure immediate compliance with the provisions of Section 166 of the Act in true letter and spirit and report the same to Supervision Division of the Commission accordingly.


1-29-07-2025

(Sohail Qadri)
Director/ Head of Department
Adjudication Department-I

Announced:

Dated: July 29, 2025

Islamabad.

