



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s Suraj Cotton Mills Limited
Show Cause Notice No. & Date:	CSD/ARN/419/2017-975, dated March 05, 2025
Name(s) of Noticee(s):	(i) M/s Suraj Cotton Mills Limited, the Company; (ii) Mr. Nadeem Maqbool, Chief Executive/ Executive Director; (iii) Mr. Khalid Bashir, Chairman/Non-Executive Director; (iv) Mr. Ahsan Bashir, Executive Director; (v) Mr. Adil Bashir, Executive Director; (vi) Mr. Mohammad Iqbal, Non-Executive Director; (vii) Mr. Shams Rafi, Independent Director; (viii) Ms. Maheen Hisham Adamjee, Independent Director; and (ix) Mr. Humayun Maqbool, Non-Executive Director
Date(s) of Hearing(s):	March 20, 2025
Case Represented by:	Mr. Naeem Sheikh, CFO as the Authorized Representative
Provision of Law Involved:	Section 512 of the Companies Act, 2017 and Regulation 27(1) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 read with Regulation 37 of the CCG Regulations, 2019.
Date of Order:	May 20, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “Commission”) through the Show Cause Notice No. CSD/ARN/419/2017-975 dated March 05, 2025 (SCN) against M/s Suraj Cotton Mills Limited (the “Company”) and its Board of Directors, including the CEO, hereinafter collectively referred to as the “Noticee(s)” under Section 512 of the Companies Act, 2017 (“the Act”) and Regulation 27(1) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 (“the CCG Regulations”) read with Regulation 37 of the CCG Regulations.

2. The provisions of Regulation 27(1) of the CCG Regulations, specified that:

27.(1) It is mandatory that the audit committee shall be constituted by the Board keeping in view the following requirements, -

(i) the Board shall establish an audit committee of at least three members comprising of non-executive directors and at least one independent director;

3. Brief facts of the case are that as per the Statement of Compliance with regards to the CCG Regulations published as part of the Annual Report by the Company for the year ended June 30, 2024, it was revealed that Mr. Ahsan Bashir, who is an Executive Director of the Company, has been appointed as member of the Board Audit Committee (the “BAC”) by the Board of Directors of the Company. In light of clear provisions of Regulation 27(1) of the CCG Regulations, this *prima facie* constituted contravention of the same. Furthermore, it has been revealed that Mr. Ahsan Bashir (Executive Director) has been a member of the Board Audit Committee since 2022, i.e., for three years (2022–2024), and attended twelve (12) meetings of the BAC as well.

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4. In view of the above stated, the Company and its Directors, *prima facie*, contravened with the requirements of Regulation 27(1) of the CCG Regulations which attract penal provisions under Regulation 37 of the CCG Regulations read with Section 512(2) of the Act. The relevant provisions of the Act and the CCG Regulations are hereunder:

"512. (2) Any regulation made under sub-section (1) may provide that a contravention thereof shall be punishable with a penalty which may extend to five million rupees and, where the contravention is a continuing one, with a further penalty which may extend to one hundred thousand rupees for every day after the first during which such contravention continues."

Regulation 37. "Whoever fails or refused to comply with, or contravenes regulation 3, 6, 7, 8, 27, 32, 33 and 36 of these Regulations, shall be punishable with penalty as provided under sub-section (2) of section 512 of the Act".

5. The Commission vide letter dated January 27, 2025 sought clarification from the Company. The Company in its response dated February 13, 2025, *inter alia*, submitted that:

"With regard to the non-compliance in the composition of the audit committee as per the requirement of Regulation 27(1) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the "Regulation"), the Company inadvertently failed to comply. In light of the highlighted observations, the Company will rectify this matter in the forthcoming board meeting by adjusting the composition of the Audit Committee in accordance with the Regulation. Additionally, the company will ensure compliance in the future."

6. The Company did not provide any plausible justification for this contravention, especially in light of the criticality of the responsibilities of the BAC to review scope and extent of internal audit, audit plan, reporting framework and procedures, consideration of major findings of internal investigations of activities characterizes by fraud, corruption and abuse of power and management's response thereto and review of annual and interim financial statements of the company, prior to approval of the Board.

7. Taking cognizance of the alleged violation of law, SCN was served upon the Noticee(s) on March 05, 2025 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 512 of the Act read with the Regulation 27 of the CCG Regulations. In response to the SCN, the Company Secretary vide letter dated March 19, 2025 submitted *inter alia* that *Mr. Ahsan Bashir, in light of his extensive experience was appointed as member of the Audit Committee. We acknowledge that this appointment did not align with the Code of Corporate Governance, 2019. The election of Directors is scheduled for March 27, 2025, and we will rectify this in accordance with the regulations.* The Company also sought leniency and assured to ensure strict regulatory compliance.

8. In order to provide an opportunity for personal representation and to meet the ends of justice, a hearing in the matter was fixed for March 20, 2025. On the date of hearing, Mr. Naeem Sheikh, CFO appeared online on behalf of all the Noticee(s) as the **Authorized Representative**. During the hearing, the Authorized Representative reiterated the stance taken vide letter dated March 19, 2025 and further submitted that this was an oversight and assured that compliance shall be achieved at the next election of directors dated March 27, 2025, where after they would have sufficient non-executive directors. Further assured for strict future regulatory compliance and requested leniency.

9. Subsequently, the Company Secretary vide letter dated April 10, 2025 submitted that BoD meeting of the Company was held on April 07, 2025, subsequent to the election of directors. The BoD constituted (re-constituted) the Audit Committee in compliance with Regulation 27 of the CCG

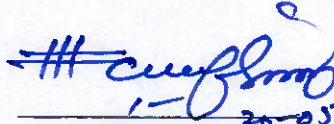
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Regulations. The Audit Committee is comprised of (i) Mr. Shams Rafi (Independent Director), (ii) Mr. Asif Bashir (Non-Executive Director), and (iii) Mr. Muhammad Iqbal (Non-Executive Director).

10. I have reviewed the facts of the case and also considered the written and verbal submissions made by the Noticee(s) and the Authorized Representative. I have also reviewed the provisions of Section 512(2) of the Act in the context of the provisions of Regulation 27 and 37 of the CCG Regulations. At this juncture, it is important to discuss the following legal and factual elements:

- (i). The Company BAC is a cornerstone of corporate accountability. Independent and non-executive directors safeguard the integrity of financial reporting, prevent conflicts of interest, ensure effective risk management and compliance, and boost investor and stakeholder confidence. In view of the same, it is envisaged in the regulatory framework that the audit BAC shall be headed by an independent director and there shall be no executive director as its members. It is important to observe that the BAC is the effective forum where not only the internal audit function of the entity culminates but also is the body vested with the responsibility to engage with the external auditors and to review the financial statements of the company prior to consideration of the same by the BOD; where its effectiveness lies in the fact that it is completely independent of the management.
- (ii) It is also important to observe that Regulation 27 of the CCG Regulations is a mandatory provision of the law with no exception available to it and therefore a public listed company does not have any option to walkaway from requirements of having independent and non-executive directors on the audit committee. Such requirement of law is not optional or discretionary at all and therefore the initial argument by the Noticee(s) in respect of the members prior experience do not hold any valid grounds.
- (iii) The Company admitted the oversight and made subsequent compliance by constituting the Audit Committee comprising of one Independent Director and two Non-Executive Directors.
- (iv) It has also been observed that the BoD took necessary rectification steps and constituted/re-constituted its BAC after the fresh election of the Directors, albeit after the initiation of adjudication proceedings through SCN.

11. In light of the foregoing and the subsequent compliance achieved by the Company by constituting the Audit Committee in compliance with Regulation 27 of the CCG Regulations after the fresh election of directors, shows a positive effort by the Company to adhere with regulatory compliance. Moreover, I have also considered the assurance provided by the Authorized Representative on behalf of the Noticee(s) for exercising greater vigilance in adhering to the legal/regulatory requirements in future. I, therefore, in exercise of powers conferred upon me under Section 512(2) of the Act read with S.R.O. 1545(I)/2019 dated December 6, 2019, hereby conclude the instant proceedings with a strict **WARNING** to the Noticee(s). The Noticee(s) are also advised to ensure meticulous compliance with all applicable laws in the future.


15-05-2025
Sohail Qadri
Director/ HOD
Adjudication Department-I

Announced:
May 20, 2025
Islamabad

