



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Before

Shahzad Afzal Khan – Director/Head of Department

In the Matter of

Hira Textile Mills Limited

Number and Date of SCN: CSD/ARN/532/2018-144 dated March 12, 2024

Dates of Hearings: April 25, 2024 and May 03, 2024

Present: Mr. Imran Bashir

ORDER

**UNDER SECTION 512 OF THE COMPANIES ACT, 2017 AND REGULATION 36 OF
THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE)
REGULATION, 2019 READ WITH REGULATION 37 THEREOF**

This Order shall dispose of the proceedings initiated against Hira Textile Mills Limited (the Company), its Board of Directors and its Company Secretary (collectively referred to as the Respondents) through Show Cause Notice CSD/ARN/532/2018-144 dated March 12, 2024 (the SCN) issued under Section Regulation 36 of the Listed Companies (Code of Corporate Governance) Regulation, 2019 read with Regulation 37 thereof.

2. Brief facts of the case are that examination of the Annual Financial Statements of Hira Textile Mills Limited (the Company) for the year ended June 30, 2022 (the 2022 Accounts) transpired that the Company has not annexed Auditor's Review Report on Statement of Compliance with Accounts contrary to the requirements of Regulation 36 of Listed Companies (Code of Corporate Governance) Regulations, 2019 (the CCG Regulations).

3. The Securities and Exchange Commission (the Commission) sought clarification from the Company vide letter dated October 19, 2023 and the Company in its response dated December 27, 2023 inter alia stated that:

"The Company currently has an ongoing dispute regarding fees and other matters with their previous auditors. Even though a draft of the Auditors Review Report on Statement of Compliance was finalized, due to the aforementioned dispute, the Auditor restricted the management from accessing any documents. The Company is in negotiations with them to mitigate any future problems and we hope to provide this to your good office as soon as we can."

4. The response of the Company was not tenable as regulation 36 of the CCG Regulations requires a Company to publish and circulate the statement of compliance with



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the CCG Regulations, reviewed and certified by the statutory auditor. Therefore, taking cognizance of the alleged non-compliance, proceedings were initiated against the Respondents through serving the SCN requiring them to show cause in writing, as to why action, as provided, should not be initiated against them.

5. On behalf of the Respondents, Mr. Imran Bashir, as their Authorized Representative (the **Representative**), through letter dated May 02, 2024, submitted as follows:

- The Company under Regulation 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 is under an obligation to publish and circulate the auditors review report on statement of compliance alongwith annual report. The Company had dispute with outgoing auditors regarding payment of fees and some other matters owing to which they have un-necessarily withheld issuance of report on statement of compliance. The Company is trying its best to resolve the matter amicably.*
- The circumstances were beyond the control of the management and abrupt separation of key staff members which led to mishandling of the respective staff with the auditors and resultantly the matter led to non-compliance to provisions of Regulation 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019.*

6. To provide opportunity of personal representation, hearing in the matter was fixed for April 25, 2024, however, the hearing was adjourned. Subsequently, hearing was re-fixed for May 03, 2024, wherein, the Representative appeared before the undersigned and submitted that:

- The dispute with the Auditor still persists
- New Auditor has been appointed
- Requested to condone the proceedings in the light of the afore narrated facts giving a binding assurance to resolve the matter at the earliest.

7. Relevant provisions of the law are reproduced hereinunder:

"36. Compliance Statement and Auditor Review.-

*(1) It is **mandatory** that the company shall publish and circulate a statement, as given under Annexure A to these Regulations, along with their annual reports to set out the status of their compliance with the requirements of these Regulations and the said statement shall be specific and supported by necessary explanations.*



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(2) It is mandatory that the company shall ensure that the statement of compliance is reviewed and certified by statutory auditors as per relevant Regulations specified by Commission."

"37. Penalty.- 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."

"512. Power to make regulations. —

(1)

(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."

8. I have considered the facts of the case in light of the relevant provisions of the Act, and the information available on record and state that:

- (i) The annexation of the Auditor's Review Report on the Statement of Compliance with the Code of Corporate Governance holds pivotal significance in ensuring transparency, accountability, and the credibility of corporate governance practices within listed companies. This report serves as a critical tool for stakeholders, providing assurance regarding the company's adherence to established governance standards and the accuracy of financial disclosures. By annexing this report, companies not only fulfill their regulatory obligations but also demonstrate a commitment to upholding best practices in corporate governance. Moreover, it facilitates effective oversight by regulatory authorities, enabling them to evaluate and address any potential shortcomings in corporate governance frameworks. Thus, the annexation of the Auditor's Review Report serves as an indispensable mechanism for promoting trust, accountability, and the overall health of the corporate ecosystem.
- (ii) In conclusion, it is imperative to underscore the paramount importance of adherence to regulatory frameworks and statutory obligations within the corporate landscape. The regulatory framework, as established under the Companies Act, 2017, serves as a cornerstone for fostering transparency, accountability, and investor confidence in the functioning of companies. In light of the company's failure to comply with the provisions stipulated under Regulation 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019, by not annexing the Auditor's Review Report on the Statement of Compliance, the imposition of penalties under Section 512 of the Companies Act, 2017 becomes necessary.



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9. In view of the preceding facts, I am of the considered view that by failing to annex the Auditor's Review Report on Statement of Compliance, the Company is in contravention of regulation 36 of the CCG Regulations, which renders it liable to penal action under regulation 37 of the CCG Regulations read with Section 512 of the Act. Therefore, in exercise of the powers conferred under Section 512 of the Act, I hereby impose a penalty of **Rs.100,000 (Rupees One Hundred Thousand Only)** on the Company, and Warn the remaining Respondents.

10. The Company is, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue.

11. Nothing in this Order may be deemed to prejudice the operation of any provisions of the Act providing for imposition of penalties on the Respondent in respect of any default, omission or violation thereof.

Shahzad Afzal Khan
Director/ HOD
Adjudication Department-I

Announced:
May 29, 2024, Islamabad