



Before

Abid Hussain - Head of Department (MS & SID)

In the matter of Show Cause Notice issued to Dandot Cement Company Limited

Under Section 22 of the Securities and Exchange Ordinance 1969

Date of Hearing

January 27, 2015

Present at the Hearing

- a. Mr. Muhammad Kamran, Chief Financial Officer and Company Secretary
Authorized Representative of Chief Executive Officer

Assisting Head of Department (MS & SID)

- a. Mr. Amir Saleem – Deputy Director (MS & SID)

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice ("SCN") No. SMD/MSW/DNCC/96/2014-1118, dated January 13, 2015 ("SCN") issued to Dandot Cement Company Limited (the "Company") by Securities and Exchange Commission of Pakistan ("Commission") under Section 22 of the Securities and Exchange Ordinance, 1969 ("Ordinance").

2. The brief facts of the case are that the Company is a public limited company listed on Karachi Stock Exchange Limited ("KSE") and Lahore Stock Exchange Limited ("LSE"). Note 1.2 to the Financial Statements for the year ended June 30, 2013 of the Company states that due to non-availability of financial support from any source, the Company was unable to manage its working capital requirement resulting the temporary closure of the mill operation since October 2012. However, to resume the operations of the Company, the management is working on various options to inject adequate funds for the necessary maintenance of the plant to restart the operations of company in near future.

3. The Company later on, in the Directors' Report dated January 16, 2014 attached with quarterly accounts for the period ended September 30, 2013 stated that the management has arranged funds from an investor for necessary maintenance of the plant. However, the terms and conditions of such investment/loan have not yet been finalized. Due to this injection of funds, operation of the Company has been resumed in December 2013. Furthermore, Note 1.1 to the Financial Statements for the said quarter stated that due to non-availability of financial support from any source, the Company was unable to manage the working capital requirement, resulting temporary closure of the mill operation in October 2012. However, to resume the operations of the Company, the management has arranged funds from an investor for the necessary maintenance of the plant. The terms and conditions of such investment/loan



have not yet been finalized. Further, operations of the company have been resumed in December 2013.

4. Moreover, following disclosures were made in the half year financial statement for the period ended December 31, 2013:

- a. Note 1.2: Bank of Punjab has also rescheduled/restructured its loans subsequent to condensed interim balance sheet date as referred in Note 5.1. This would also be helpful to the company to come out from the financial crunch.
- b. Note 8.3: This includes loan of Rs. 402.514 million received from an investor which is arranged by the management for necessary maintenance of the plant. Total amount of this loan would be approximately Rs.430.00 million up to year ending on June 30, 2014. The terms and conditions of loan have not yet been finalized.

5. Corporate announcements made by the Company during the year 2014 were analyzed in order to observe as to whether these price sensitive material information were disclosed to the shareholders in terms of Section 15D(1) of the Ordinance and it been observed that no such disclosure was made by the Company during the year. The Company therefore, *prima facie*, failed to follow the requirements of the law with regard to the dissemination of the said information to the Stock Exchanges, thus violated the provisions of Section 15D(1) of the Ordinance, and Regulation 5.19.13(c) of the KSE Regulations.

6. The Company, in this regard was advised to furnish the evidence of compliance of disclosure of above mentioned material price sensitive information to the Stock Exchanges. The Company in reply through its letter dated December 30, 2014 informed that the Company has arranged a loan of Rs 427 million during the year to resume the operations of the Company which is properly reflecting in the financial statements. Amount was not so material which could affect the price of the share of the Company in the Stock Exchanges.

7. The reply of the Company was not found satisfactory therefore a SCN was issued to the Company under Section 22 of the Ordinance, for violation of Regulation 15D (1) and Regulation 5.19.13 (c) of the KSE Regulations. The Company was advised to submit its written reply within seven days from the date of the said SCN. The Chief Executive Officer of the Company was also required to appear either in person or through an authorized representative before the undersigned on January 26, 2015. Later on, hearing fixed on January 26, 2015 was adjourned and CEO of the Company was advised to appear on January 27, 2015.

8. In this regard, it is observed that the Company did not submit the reply to the said SCN. However, on January 27, 2015, Mr. Muhamad Kamran, Chief Financial Officer and Company Secretary appeared on behalf of the Chief Executive Officer.

9. During the hearing proceedings, Mr. Kamran was asked to furnish the rationale for non-disclosure of the above stated material price sensitive information to the Stock Exchanges. Mr. Kamran in reply submitted the arguments brief of which is as follows:



- Suspension and resumption of operations of the Company does not constitute the material information, which is required to be disseminated to the Stock Exchanges. Therefore, it is not essential to disclose such information to the Stock Exchanges.
- The Company used to disclose such information in its periodic accounts for the information of the members of the Company, which suffice the purpose.
- It is the routine phenomena that the operations of the Company remain suspended on account of union strikes which after some time period are resumed. Besides, operations of the Company remain suspended a number of times in the past due to financial reasons.
- Such disclosure of information does not affect the market price of the shares of the Company, so we feel that it is not necessary to disclose such information.
- Arrangement of working capital of Rs 427 million for resumption of operation of the Company does not constitute material information which requires disclosure.
- Company believes that suspension of operation, arrangement of working capital for resumption of operation, resumption of operations is not material information.
- I am not fully aware of the provisions of Section 15D of the Ordinance and Regulation 5.19.13(c) of the KSE Regulations.

10. Later on, Mr. Muhammad Kamran through his letter dated January 27, 2015 requested for another opportunity of hearing to explain the matter properly. I am of the view that he has explained his view point during the hearing proceedings that disclosure in the financial statement is considered sufficient by the Company and disclosure as required under Section 15D of the Ordinance is not required. His request for another hearing opportunity is only to gain further time and to delay for the conclusion of the matter. Therefore, I have decided to conclude the matter based on facts available on record and submissions made during the hearing held on January 27, 2015.

11. I have gone through the facts of the case and the arguments submitted during the hearing proceedings. At the outset, I would like to emphasize that the person appearing for hearing before any adjudicating authority must be fully prepared and should have at least read and understood the relevant provisions of the Law. In the instant case Mr. Kamran, who is CFO and Company Secretary, does not seem to have the appropriate understanding of the requirement of the Ordinance. The Company is listed on Karachi and Lahore Stock Exchanges and it is of utmost importance that Company Secretary, who by virtue of his position is chief regulatory officer of the Company, should be well aware of the requirement of the Ordinance and KSE Regulations. Mr. Kamran was inept to understand importance of the disclosure of material price sensitive information to the Stock Exchanges. Mr. Kamran categorically stated that he has not read the relevant provisions of the Ordinance and he believes that such disclosures are not necessary.

12. As regards the Company statement that Rs 427 million is not a material amount which could have impacted the market price of the share. In this regard, I would like to add that Rs 427 million may not be material amount for the Company however due to injection of this



amount as a working capital, the operations of the Company were resumed which makes it material information. The Company in the Directors' Report attached with the quarterly accounts for the period ended September 30, 2013 categorically stated that "Due to this fund injection, operations of the Company have been resumed in December 2013". Therefore importance of this amount can be gauged from the disclosure made by the Company in its said Directors Report.

13. Considering the fact of the case, I would like to mention here that suspension of operation, arrangement of working capital and resumption of operation is material and price sensitive information which has impact on the market price of the share of the Company. Investors are very cautious about the performance of the Company and they closely monitor the announcements made by the Company. The Company suspended its operations in October 2012. This information was not disclosed to the Stock Exchanges, at that point of time. Later on the Company arranged the working capital of Rs 427 million for resumption of plant operations. The Company in its financial statements for the quarter ended September 30, 2013, which were announced on January 17, 2014, disclosed that the Company arranged the funds for resumption of operation and operations of the Company have been resumed in December 2013.

14. It may be noted that the Company disseminated the information of resumption of operation of plant in its financial result for the quarter ended September 30, 2013. These financial results were disclosed on January 17, 2014. The Company in the Directors Report of said financial results disclosed that the operations of the Company have been resumed. Due to this announcement, the share price of the Company, which was Rs 8.71 on January 17, 2014, increased to Rs 15.18 per shares on January 31, 2014. This shows that the announcement of the Company which revealed that the operations of the Company had been resumed generated interest of the investors and share price increased by 74.28% in eleven trading days. This announcement of financial results contains material information pertaining to the resumption of operation of the Company which was not disseminated to the Stock Exchanges at the time of resumption of operations of the Company.

15. I would like to reproduce here the relevant provision of the Ordinance and KSE Regulations, which are as follows:

15D. Listed companies responsibilities to disclose inside information

(1) Listed companies shall inform the public, in the manner specified by the Commission, as soon as possible of inside information which directly concerns the listed securities.

Regulation 5.19.13(c) of the KSE Regulations

"Every listed company shall immediately disseminate to the SECP and the stock exchange on which its shares are listed all material information relating to the business and other affairs of the listed company that will affect the market price of its shares. The mode of dissemination of information shall be prescribed by the stock exchange on which shares of the company are listed."

Sub section (c) of Section 22 of the Ordinance



"If any person - Contravenes or otherwise fails to comply with the provisions of this Ordinance or any other rules or regulations made thereunder; the Commission may if it is satisfied after giving the person an opportunity of being heard that the refusal, failure or contravention was willful, by order direct that such person shall pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order and, in the case of continuing default, a further sum calculated at the rate of two thousand rupees for every day after the issue of such order during which the refusal, failure or contravention continues."

16. Before concluding the matter, it is necessary to discuss the requirements of law and its importance. Provisions of Section 15D (1) of the Ordinance and Regulation 5.19.13(c) of the KSE Regulations requires that every listed company shall immediately disseminate any inside information which directly concerns the listed securities. Non-disclosure of material information is a threat to the integrity of stock markets. It is the right of the investors and shareholders to received timely, reliable, readily accessible and complete information from the management of the Company. The Company being a listed company is expected to be well conversant with the relevant provisions and fully complied with the regulatory requirements, in letter and spirit. In any event, listed company is required to ensure timely disclosure of the price sensitive information.

17. In view of the above mentioned, I am of the considered view that suspension of plant operation and resumption of plant operation constitute material and price sensitive information and the Company has failed to comply with the relevant provisions of the Ordinance with regard to dissemination of material price sensitive information at relevant times as required by the law.

18. Keeping in view of the above and in exercise of the powers under Section 22 of the Ordinance, I hereby impose a penalty of Rs 500,000/- (Rupees Five hundred thousand only) on the Company. I further direct the Company to ensure that care and cautious be exercised while announcing any price sensitive information and ensure the full compliance be made of all rules, regulations and directives of the Commission in the future for avoiding any punitive action under the law.

19. The matter is disposed of in the above manner and the Company is directed to deposit the penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days from the date of this Order and furnish the copy of the deposit challan to the undersigned.

ABID HUSSAIN

Director/HOD (MSSID)

Announced on February 19, 2015

Islamabad