



## **POLICY ON TRANSACTIONS OR CONTRACTS WITH ASSOCIATED COMPANIES AND RELATED PARTIES OR INTERNAL CONTROL POLICY**

### **1. INTRODUCTION**

#### **1.1. Objective and content of this manual**

- 1.1.1. The Listed Companies (Code of Corporate Governance) Regulations, 2019 issued by the Securities and Exchange Commission of Pakistan (SECP) requires that the Board of Directors (the "Board") of a listed company shall define and adopt policy for review and reporting of transactions with associated companies and related parties.
- 1.1.2. A structured approach with regard to the Related Party Transactions that shall ensure to provide senior management with a systematic approach to discern related parties, for approved types of the Related Party Transactions, and for proper documentation of such transactions.
- 1.1.3. The policy meets all the basic requirements of the management. Its aims at to ensure that an effective control environment is established in the Company comprising the desired internal controls, checks and other forms of control.
- 1.1.4. This policy is intended to ensure the proper recording, approval and reporting of transactions between the Company and its related parties, subsidiary, associated undertakings, directors, alternate director, key management personnel, or significant class of members or certain entities or persons related to them as required under the Companies Act, 2017 (the Act), Listing regulations of the Pakistan Stock Exchange, Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Code), Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018 and International Financial Reporting Standards.
- 1.1.5. Related party transactions are appropriate only if they reflect economic substance and are executed to conduct the normal course of business. These transactions should be at arm's length; however, if in case the Company is required to enter into an agreement which is not at arm length, the Company must ensure that the terms are in the best interest of the Company. The Company is required to disclose the related party relationship and transactions in Company's financial statements and publish an annual statement of compliance under the Code.

### **2. SCOPE OF APPLICABILITY**

- 2.1. This policy shall be applicable to transactions made by Company with:-
  - a) Members of the Board of Directors & their Relatives;
  - b) Key Managerial Personnel (KMP) of the Company & their Relatives; and
  - c) Associated Companies and Other Related Parties



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### **3. RESPONSIBILITY OF BOARD**

The board shall ensure:

- i. to educate and train management and relevant employees so that they can identify and report the related party transactions to the board or other authorized persons;
- ii. to provide direction as to whom a director or employee can consult, in case where they are uncertain if a transaction is a related party transaction or not;
- iii. to set general criteria to approve transactions or arrangement with related parties at various levels;
- iv. to identify and determine whether a related party transaction requires members' approval;
- v. that any related party transactions that require members' approval are put before members;
- vi. to fix the responsibility for identification and disclosure of related party transactions on CFO and Company Secretary; and
- vii. that the company meets its legal and regulatory obligations in relation to related party transactions.

### **4. OTHER ROLES AND RESPONSIBILITIES**

Following is the roles and responsibilities of various stakeholders of the Company for managing the Related Party Transactions.

#### **4.1. Audit Committee (AC):**

- 4.1.1. The details of all related party transactions shall be placed periodically before the audit committee of the company and upon recommendations of the audit committee, the same shall be placed before the Board for review and approval.
- 4.1.2. Approving 'related parties transactions' as per following matrix:



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Type of Transactions	Recommending Authority	Approving Authority
investment in associated companies, any increase in the amount or any change in the nature of investment or the terms and conditions attached thereto	Board Audit Committee / Board of directors	Members (through a special resolution)
sale, purchase or supply of any goods or materials;	Board Audit Committee	Board of directors (transactions under normal course of business u/s 208 of the Companies Act, 2017) except where majority of the directors are interested in any of these transactions, the matter shall be placed before the general meeting for approval as special resolution.
selling or otherwise disposing of, or buying, property of any kind;		
leasing of property of any kind;		
availing or rendering of any services;		
appointment of any agent for purchase or sale of goods, materials, services or property		
such related party's appointment to any office or place of profit in the company, its subsidiary company or associated company:		

**4.2. CEO:**

- 4.2.1. Providing support to the Accounts Function in implementing the policy;
- 4.2.2. Providing guidance to employees, and addressing any queries related to the disclosure of related parties transactions; and
- 4.2.3. Approving related parties' transactions as per the above authority matrix.

**4.3. Accounts Function:**

- 4.3.1. Creating awareness and communicating the importance of complying with the related parties transactions guidelines, through workshops and trainings;
- 4.3.2. Reviewing the Company's transactions and identifying any potential 'related parties transactions' that would require an exceptional review, approval and disclosure;
- 4.3.3. Reporting potential 'related parties transactions' to Chairman/ Chairperson Board and Audit Committee (AC), for review and approval as per the Delegation of Authority; and
- 4.3.4. Monitoring the adherence to the guidelines, and reporting breaches or misuse of information to the Chairman/ Chairperson Board and the AC.



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4.3.5. Recording/documenting, reporting and disclosing related parties' transactions as per the Company's Accounting Policy.

### **4.4. Employees within other supporting functions:**

4.4.1. Strictly abiding by the applicable guidelines, with regards to the identification and disclosure of related parties transactions;

4.4.2. Immediately reporting any failure to report potential 'related parties transactions' to the Accounts Function or to the Chairman/ Chairperson Board, if required; and

4.4.3. All Directors and senior executive officers are required to disclose related parties transactions, in accordance with the Company's Code of Conduct.

### **4.5. Internal Audit Function:**

4.5.1. Before placing to Board's Audit Committee, all the related party transactions must be reviewed and verified by the internal audit department to ensure accuracy and completeness.

## **5. DETAILS REQUIRED FOR ASCERTAINING RELATED PARTY**

5.1. Following declaration / disclosure of interest by all the Directors and KMPs' will be required in written:

5.1.1. Declaration of relatives by all Directors and KMPs'.

5.1.2. Declaration about a firm in which a Director / KMP or his relative is a partner.

5.1.3. Declaration about a private Company in which a Director or Manager or his relative is a member or director.

5.1.4. Declaration regarding a public company in which a Director or manager is a Director and holds along with the relatives more than 10% of the paid-up share capital.

5.1.5. Notices from Directors of any change in particulars of Directorship or in other positions during the year.

5.1.6. Details of anybody corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or KMP of the Company.

5.1.7. Details of any person on whose advice, directions or instructions a director or KMP is accustomed to act.



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### **6. RELATED PARTY TRANSACTIONS POLICY**

6.1. The Board has approved the policy for Related Party Transactions in compliance with the requirements of section 208 of the Act, clause 15 of the Code, International Accounting Standard (IAS) 24 Related Party Disclosures) and any subsequent amendments made therein, in order to ensure the transparency and procedural fairness of such transactions, the Company has adopted the following policy:

#### **6.2. *Transactions at Arm's Length***

6.2.1. The details of all related party transactions shall be placed before the AC and upon recommendations of the AC the same shall be placed before the Board for review and approval / ratification.

#### **6.3. *Transactions not at Arm's Length***

6.3.1. The related party transactions which are not executed at arm's length shall also be placed separately at each Audit Committee (AC) meeting along with necessary justification for consideration and approval of the Board on recommendation of the AC.

### **7. REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS**

7.1. All transactions identified as related parties transactions must be reviewed by the Accounts Function to ensure the following:

- a) A conflict of interest does not exist;
- b) A contract with the related party exists;
- c) An improper valuation of such transaction has not been performed; and
- d) Information necessary to disclose the related party transaction are documented.

7.2. The details of all related party transactions shall be placed before the AC and upon recommendations of the AC the same shall be placed before the Board for review and approval.

7.3. All related parties transactions may only be approved, if the Chairman/ Chairperson Board determine the following:

7.3.1. Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;



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- 7.3.2. Whether the Related Party Transaction would impair the independence of an independent director or non-executive director;
- 7.3.3. Whether the Related Party Transaction would present a conflict of interest for any director, Key management personnel or other Related Party of the Company, taking into account the size of the transaction, the overall financial position of the director, Key management personnel or other Related Party, the direct or indirect nature of the director's, Key management personnel or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the AC deems relevant.
- 7.3.4. The transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party; and
- 7.3.5. The term of the transaction does not exceed 1 year and/ or the agreement reflecting the related parties' transactions is terminable by the both parties' mutual consent upon giving reasonable notice.
- 7.4. All recurring related party transactions that have an agreement term that exceeds 1 year must be reviewed and approved on an annual basis to determine whether to continue/renew the agreement.
- 7.5. In the event of transactions involving a related party who is the Chairman or a member of the AC, the identified related party must abstain from voting on the approval of the transaction.
- 7.6. The related party transactions which are not executed at arm's length price shall also be placed separately at each board meeting along with necessary justification for consideration and approval of the board on recommendation of the AC of the Company.
- 7.7. The board of directors of a company shall approve the pricing methods for related party transactions that were made on the terms equivalent to those that prevail in arm's length transaction, only if such terms can be substantiated.
- 8. REPORTING OF TRANSACTIONS WITH ASSOCIATED COMPANIES & RELATED PARTIES**
- 8.1. Following minimum information shall be circulated and disclosed to the directors along with agenda for board's meeting called for approval of transactions with Associated Companies and related parties by the Accounts Function on a quarterly basis. It should include the following details about the transactions, at a minimum:



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- 8.1.1. The identification of the related party;
  - 8.1.2. names of the interested or concerned persons or directors, if any;
  - 8.1.3. nature of relationship, interest or concern along with complete information of financial or other interest or concern of directors, managers or key managerial personnel in the related party, if any;
  - 8.1.4. detail, description, terms and conditions of transactions;
  - 8.1.5. the amount of the transaction;
  - 8.1.6. timeframe or duration of the transactions or contracts or arrangements;
  - 8.1.7. pricing policy;
  - 8.1.8. recommendations of the AC, where applicable; and
  - 8.1.9. Supporting evidence to support the arm's length nature of the proposed transaction including the terms and manner of settlement had the parties not been related;
  - 8.1.10. any other relevant and material information that is necessary for the board to make a well informed decision regarding the approval of related party transactions; and
  - 8.1.11. The anticipated impact on the company's financial statements and disclosure;
- 8.2. The Accounts Function has the sole responsibility to discuss, attain final approval from the AC and Board of Directors on above transactions and disclosing all transactions with Associated Companies and related parties as per the Company's Accounting Policy.

### **9. DOCUMENTATION**

- 9.1. The Company shall maintain a party wise record of transactions, in each financial year, entered into with all related parties in that year along with all relevant documents and explanations in accordance with the Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018. The record of related party transactions shall include the following particulars in respect of each transaction:



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- a) Name of related party;
- b) Nature of relationship with related party;
- c) Nature / description of transaction;
- d) Date of transaction;
- e) Terms and conditions of transaction, including the amount of transaction;
- f) Detail of method(s) used to calculate value of transaction;
- g) Date of approvals; and
- h) Information regarding cost justifications, appraisals, etc., used in arriving at the value of the transaction.

9.2. All documentation will be maintained by the Company.

9.3. Following record to be maintained of related party transactions and contracts or arrangements in which directors are interested subject to the requirements of sections 208 and 209 of the Act, every company shall maintain at its registered office, one or more registers with regards to transactions undertaken with related parties and contracts or arrangements in which directors are interested:

- i. contracts or arrangements, in which any director is, directly or indirectly, concerned or interested, as mentioned under section 205 of the Act; and
- ii. contracts or arrangements, with a related party with respect to transactions to which Section 208 of the Act applies.

9.3.1. The entries in the register shall be made in chronological order and shall be authenticated through signatures by the Company Secretary or by any other person authorised by the board in this behalf.

9.3.2. The company shall keep all the contracts, agreements and instruments in respect of transactions or arrangements with related parties at its registered office.

9.3.3. The register and record shall be kept in the custody of the company secretary or any other person authorised by the board in this behalf and it shall be preserved in good order.





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- 9.3.4. The company shall provide extracts from such register to a member of the company on his request, within seven days from the date on which such request is made upon the payment of such fee as may be specified in the articles of the company but not exceeding twenty rupees per page.
- 9.4. Pursuant to the provisions of sub-section (2) of Section 209 of the Act, a director shall provide following information to the company.
- 9.4.1. The director giving notice of the interest shall cause it to be disclosed at the meeting of the board held immediately after the date of the notice
- 9.4.2. All such notices shall be kept at the registered office in the custody of the company secretary or any other person authorised by the board in this behalf and shall be preserved in good order.

### **10. MODIFICATIONS**

- 10.1. The Board shall upon the recommendation of the CFO annually review the provisions of Transactions with Associated Companies and Related Parties and shall propose amendments to it as and when deemed necessary.

### **11. VERSION CONTROL**

- 11.1. This version shall supersede the previously adopted criteria, if any, for review and approval of Transactions with Associated Companies and Related Parties as adopted by the Board of Directors.