BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/RM/2022-23/16813-16819]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND RULE 4(1) OF THE SECURITIES CONTRACTS (REGULATIONS) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of –

1. **Mr. Madhav Sapre (AEYPS3860E)** having address at A-903, Seawoods Garden,Plot No.4&6, Sector-17, Sanpada,Navi Mumbai 400705.
2. **Mr. Harish Palecanda (AFGPP6149A)** having address at Flat No. 101, Runwal Grandeur, Plot No 175 CST, 1023, 18th Road DK Sandu Marg Chembur, Mumbai- 400077
3. **Ms. Nivedita Patil (AGHPP6632Q)** having address at 13/101, Garden Estate, Gladys Alwaris Road Extn, Off Pokhran Ro Ad 2, Thane- 400610
4. **Mr. V N Badoni (AAJPB6139N)** having address at C/5,Bldg, No.24,3rd,Floor,Room N0.3, Nilgiri Apartment, CBD Belapur 400614
5. **Ms. Drunal Shah (AOKPS6410G)** having address at A/403, Ruby Classic Chs Ltd, Mahavir Nagar,Near To Jain Temple, Kandivali (W), Mumbai-400067
6. **Mr. Sanjay Shah (AMZPS2911B)** having address at F/6, Goyal Plaza, Premchand Nagar Road,Vastrapur, Satelite, Ahemedabad, Gujarat-380015
7. **Statutory Auditor M/s.Shyam C Agarwal** (AAAPA9728P) having address at 3/63, Sahar Road, Nitayanand Nagar Vibhag IV Opp Vaibhav Hotel, Andheri East, Mumbai, Maharashtra- 400059

In the matter of M/s. Sharon Bio- Medicine Limited

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') initiated adjudication proceedings in the matter of M/s. Sharon Bio- Medicine Limited (hereinafter referred to as "Sharon/Company") :

i. under Section 15HA and 15 HB of the SEBI Act 1992 read with Section 23H of SCRA, 1956, against Mr. Madhav Sapre (“**Noticee-1**”), Mr. Harish Palecanda (“**Noticee-2**”), Ms. Nivedita Patil (“**Noticee-3**”), Mr. V N Badoni (“**Noticee-4**”), Ms. Drunal Shah (“**Noticee-5**”) and Mr. Sanjay Shah (“**Noticee-6**”), for the alleged violations of Regulation 4(2)(f) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations 2003 (hereinafter referred as ‘**PFUTP Regulations’**), SEB Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred as ‘**LODR Regulations 2015’**), Section 21 of SCRA, and Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1) and (2) of Listing Agreement.

ii. under Section 15HA of SEBI Act, 1992 against Statutory Auditor M/s.Shyam C Agarwal (“**Noticee-7**”), for the alleged violations of Section 4(1), Section 4(2),(f) and (r) of the PFUTP Regulations .

APPOINTMENT OF ADJUDICATING OFFICER

2. The undersigned was appointed as Adjudicating Officer *vide* Order dated April 30, 2021 to inquire into and adjudge under Section 15HA & 15HB of the SEBI Act, 1992 read with Section 23H of SCRA, 1956 the aforesaid alleged violations against the Noticees. The appointment of the AO was communicated *vide* order dated May 07, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

3. Show Cause Notice No. EAD5/MC/RM/37448/2021 dated December 15, 2021 (hereinafter be referred to as, the “**SCN**”) was served upon the Noticees under Rule 4(1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (‘Adjudication Rules’) and Rule 4(1) of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, (‘SCR Adjudication Rules’) read with Section 15I of the SEBI Act and Section 23-I of the SCRA to show cause as to why an inquiry should not be held and penalty not be imposed against Noticees under Sections 15HA and 15HB of SEBI Act upon Noticees for the aforesaid alleged violations.

4. The allegations levelled against the Noticees in the SCN are summarized as below:

5. Sharon is a listed pharmaceutical company incorporated on June 19, 1989 and having its registered office W-34 34/1MIDC, Taloja, Raigad, Maharashtra-410208. FCCB holders of Sharon in the capacity of the financial creditor filed a petition under Insolvency and Bankruptcy Code 2016 with National Company Law Tribunal (NCLT) against Sharon. The case was admitted by NCLT and it ordered for commencement of Corporate Insolvency Resolution Process (CIRP) and appointed Mr. Dinkar Venkatasubramanian as Interim Resolution Professional (further appointed as the Resolution professional by the Committee of Creditors (COC) on 1st COC meeting held on May 22, 2017) for the Company. Mr. Dinkar Venkatasubramanian (RP) appointed Haribhakti & Co. LLP to conduct Forensic Audit with larger agenda of assessing cash flow movement during the audit period from July 01, 2011 to June 30, 2014.

6. The forensic audit report of Sharon Bio-Medicine carried out by Haribhakti & Co. LLP was received from Union Bank of India by SEBI. Subsequently on perusal of the Forensic audit report, investigation in the matter was undertaken by SEBI.

Role of Independent Directors:

7. The Board of directors of company during the period of investigation were as follows:

FY 2011-12

Name	**Designation**
Savita Satish Gowda	CEO & Managing Director
Lalit Misra	Whole Time Director
Vijay Kirpalani	Whole Time Director
Mohan P Kala	Director
V N Badoni	Independent and Non-Executive Director
Nivvedita Patil	Independent and Non-Executive Director

Drunal Shah	Independent and Non-Executive Director
Sanjay Shah	Independent and Non-Executive Director
Harish Palecanda	Independent and Non-Executive Director

Source: Data from BSE and annual report

FY 2012-13

Name	**Designation**
Savita Satish Gowda	Chairman & Executive Director
Lalit Misra	Executive Director
Vijay Kirpalani	Executive Director
Mohan P Kala	Non-Executive Director
V N Badoni	Independent and Non-Executive Director
Nivvedita Patil	Independent and Non-Executive Director
Drunal Shah	Independent and Non-Executive Director
Sanjay Shah	Independent and Non-Executive Director
Harish Palecanda	Independent and Non-Executive Director

Source: Data from BSE and annual report

FY 2013-14

Name	**Designation**
Savita Satish Gowda	Chairperson & Managing Director
Lalit Misra	Whole Time Director
Vijay Kirpalani	Whole Time Director
M P Kala	Non-Executive Director
V N Badoni*	Independent and Non-Executive Director
Sanjay Shah*	Independent and Non-Executive Director
Nivedita Patil	Independent and Non-Executive Director
Drunal Shah*	Independent and Non-Executive Director
Harish Palecanda	Independent and Non-Executive Director
Madhav Manohar Sapre**	Independent and Non-Executive Director
Asif Taiyab Rangwala**	Independent and Non-Executive Director

* Mr. Sanjay Shah, Dr. V.N. Badoni and Mr. Drunal Shah have been resigned during the year

** Mr. Madhav Sapre and Mr. Asif Rangwala was appointed during the year.

Source: Data from BSE and annual report

FY 2014-15

Name	Designation
Savita Satish Gowda	Chairperson & Managing Director
Lalit Misra	Executive Director
Vijay Kirpalani*	Executive Director
Mohan P. Kala	Non-Executive Director
Nivedita Patil	Independent and Non-Executive Director
Madhav Manohar Sapre	Independent and Non-Executive Director
Asif Taiyab Rangwala *#	Independent and Non-Executive Director
Harish Palecanda	Independent and Non-Executive Director

*Mr. Vijay Kriplani and Mr. Asif Rangwala have resigned during the year

Mr Asif Rangwala expired on 10.04.2019

Source: Data from BSE

FY 2015-16

Name	Designation
Savita Satish Gowda	Chairperson & Managing Director
Lalit Misra	Executive Director & CFO
Nivedita Patil	Independent Director
Harish Palecanda	Non-Executive - Independent Director
Madhav Sapre*	Non-Executive - Independent Director
Mohan Kala*	Non-Executive Director

*Resigned w.e.f. 31/12/2015

Source: Data from BSE and annual report

FY 2016-17

Name	Designation
Harish Palecanda	Non-Executive - Independent Director
Lalit Misra	Executive Director
Nivedita Patil	Non-Executive - Independent Director
Savita Gowda	Executive Director, Chairperson, CEO

Source: Data from BSE

FY 2017-18

Name	Designation
Lalit Misra	Executive Director
Savita Satish Gowda	Executive Director, Chairperson, MD

Source: Data from BSE

8. As per the Annual report of the company for the FY 2011-12 to FY 2015-16 the details of meetings of the Audit Committee and attendance is as follows:

Name of directors	**Category**	**FY 2011-12**		**FY 2012-13**		**FY 2013-14**		**FY 2014-15**		**2015-16**	
		Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
V N Badoni*	Independent Director	5	5	5	5	4	4	NA	NA	NA	NA
Nivvedita Patil	Independent Director	5	5	5	5	4	4	4	4	3	3
Mohan P.Kala**	Non-Executive director	5	5	5	5	4	4	4	4	3	2
Asif Rangwala #	Independent Director	NA	NA	NA	NA	NA	NA	4	3	NA	NA
Madhav Sapre**	Independent Director	NA	NA	NA	NA	NA	NA	4	1	3	2
Lalit Mishra	Executive Director	NA	NA	NA	NA	NA	NA	NA	NA	3	3
Harish Palecanda	Independent Director	NA	NA	NA	NA	NA	NA	NA	NA	3	3

***Dr V.N. Badoni resigned as director on 15.05.2014.**

**** Mohan P.Kala and Madhav Sapre resigned w.e.f. 31.12.2015**

 # Expired on 10.04.2019

9. The details of composition of the audit committee of the company for the period FY 2011-12 to FY 2015-16 is as follows :

Name of directors	**Category**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**	**2015-16**
V N Badoni*	Independent Director	Yes - Chairman	Yes - Chairman	NA	NA	NA
Nivvedita Patil	Independent Director	Yes	Yes	Yes - Chairman	Yes - Chairman	Yes - Chairman

 # Expired on 10.04.2019

Mohan P.Kala	Non-Executive director	Yes	Yes	Yes	Yes	Yes
Asif Rangwala #	Independent Director	NA	NA	Yes	Yes	NA
Lalit Mishra	Executive director	NA	NA	NA	NA	Yes
Harish Palecanda	Independent Director	NA	NA	NA	NA	Yes
Madhav Sapre	Independent Director	NA	NA	NA	Yes	NA

10. The details of compliance officers of Sharon as obtained from annual report, exchanges and ROC, Mumbai are as follows:

Name of the compliance officer	**Date of Appointment**	**Date of cessation**
Samsad Alam Khan	24.10.2011	10.10.2014
Archana Hemant Andhare	10.10.2014	02.02.2015
Viral Dilip Vora	02.02.2015	31.05.2016
Deepali Deepak Bhatia	21.09.2016	29.08.2018

11. The Noticee 1-6 were Non-executive Independent Directors in the company for different durations as per the details given in the tables above. Noticee-3 and Noticee-4 were chairman of the audit committee as detailed above.

12. Roles, duties, functions, of Independent Directors, Audit committee members have been specifically outlined in Companies Act, 2013, which are detailed below.

13. As per the Role and functions (II) listed under Schedule IV, of the Companies Act, 2013, the independent directors shall:

    (1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct.

    (2) bring an objective view in the evaluation of the performance of board and management;

(3) scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;

(4) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

14. In respect of the Duties (III) listed under Schedule IV, of the Companies Act, 2013, the independent directors shall—

(1) undertake appropriate induction and regularly update and refresh their skills, knowledge and familiarity with the company;

(2) seek appropriate clarification or amplification of information and, where necessary, take and follow appropriate professional advice and opinion of outside experts at the expense of the company;

(3) strive to attend all meetings of the Board of Directors and of the Board committees of which he is a member;

(4) participate constructively and actively in the committees of the Board in which they are chairpersons or members;

(5) strive to attend the general meetings of the company;

(6) where they have concerns about the running of the company or a proposed action, ensure that these are addressed by the Board and, to the extent that they are not resolved, insist that their concerns are recorded in the minutes of the Board meeting;

(7) keep themselves well informed about the company and the external environment in which it operates;

(8) not to unfairly obstruct the functioning of an otherwise proper Board or committee of the Board;

(9) pay sufficient attention and ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interest of the company;

15. As per section 177(2) of Companies Act 2013, *majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.*

16. Section 177(4),(5), and (6) of Companies Act 2013, states that

    (4) Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

    (i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company

    (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;

    (iii) examination of the financial statement and the auditors' report thereon;

    (iv) approval or any subsequent modification of transactions of the company with related parties

    (v) scrutiny of inter-corporate loans and investments;

    (vi) valuation of undertakings or assets of the company, wherever it is necessary;

    (vii) evaluation of internal financial controls and risk management systems;

    (viii) monitoring the end use of funds raised through public offers and related matters.

    (5) The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

    (6) The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.

17. Thus as per Section 177 of Companies Act 2013 (Section 292A of Companies Act 1956) duty of the audit committee specifically includes examination of the financial statement and the auditors' report thereon and approval or any subsequent modification of transactions of the company with related parties. Further it also states that the audit committee shall review the financial statements and have power to obtain professional advice from external sources to investigate into any matter. Thus the independent directors who attended the audit committee meetings had the duty to review the financial statements and were expected to be persons with the ability to read and understand the financial statements (especially the chairman).

18. During investigation, on perusal of the minutes of the audit committee as provided by the company for FY 2011-12 to FY 2015-16, the following points were noted :

19. In minutes of the meetings it was stated that audited financial statements were placed before that audit committee, analysis of financial conditions of the company, related party transactions was discussed which is contrary to the details provided by independent directors in their statement recording.

20. On examination of annual report and minutes of meetings, certain discrepancies were also observed. During FY 2011-12, it was stated in annual report that 5 audit committee meetings were held, however the minutes were provided only for 4 audit committee meetings. For FY 2015-16 it is stated in Annual report (page no. 34) that Mr. Harish Palecanda and Mr. Lalit Mishra have attended 3 audit committee meetings, however as per the minutes they have only attended 1 meeting each.

21. Issues with respect of date and signing of minutes were also observed during examination which are detailed below:

    i. For FY 2016-17, the attendance sheet of audit committee minutes for meeting held on February 13, 2017 are not signed by Noticee-3 and Noticee- 2. The minutes of audit committee meeting held on 29.08.2015 for FY 2015-16 are not signed by Noticee-1.

ii. It is noticed that the signature of Noticee-3 on the minutes for audit meetings dated May 30, 2016, November 10, 2016, February 13, 2017 and August 11, 2017 and differs from her signature for previous meeting minutes and her signature on the attested copy of identity proof provided by her during statement recording.

iii. The minutes of meeting dated November 10, 2016 is signed dated February 13, 2016 whereas the minutes of meeting February 13, 2017 is not dated. It is also noted that all the minutes of the audit committee from FY 2011-12 to FY 2015-16 are signed on the same date on the date of the meeting which is highly unusual.

iv. Each page of the audit committee minutes is not initialed by the chairman as stated in Secretarial standard 1 issued by ICSI. The minutes of meeting dated August 28, 2014 are only initialed however the last page is not signed (only initialed) which is not in line with the secretarial standard.

v. In the minutes of meeting dated February 12, 2016, only the copy of 1st page is provided, which is followed by the page of attendance sheet instead of continuation of the minutes which is highly unusual since the documents are printed back to back.

vi. In the minutes of meeting dated November 12, 2012 it is stated in point no 5 that " The audit committee reviewed the management discussion and analysis of financial conditions and result of operations for the quarter ended December 31,2012 and the same to its satisfaction" which is highly unusual. Also the same para is carried forward to minutes of the next meeting dated February 14, 2013

22. Thus, in view of the aforesaid observations, it was alleged that the minutes of these meetings were a postscript and afterthought, which is supported by the recorded statements of independent directors and compliances officers

confirming that the most of the audit committee meetings never happened and were only on paper.

23. For the period FY 2011-12 to FY 2016-17, Noticee-1 to 6 and Mr. Asif Rangwala were the independent directors. The **educational qualification** of these independent directors is as follows :

Sr. No.	Name of the ID	Educational Qualification
1.	Ms. Nivvedita Patil	MBBS – DOMS
2.	Mr. V N Badoni	M Sc (Chemistry), PHD
3.	Mr. Asif Rangwala #	B Tech (Chemical Engineering)
4.	Mr. Madhav Sapre	B Tech (Chemical Engineering)
5.	Mr. Harish Palecanda	B. Com
6.	Mr. Sanjay Shah	MSc – Research – Organic Chemistry
7.	Mr. Drunal Shah	B. E, (Chemistry)

 # Expired on 10.04.2019

24. From the tables above, it was observed that Noticee-3 and Noticee-4 had attended majority the audit committee meetings and were chairperson of the audit committee. They also confirmed in their statement recording that they were financially illiterate. Further Noticee-4 being the chairman of the audit committee stated in his statement recording that he was unaware of being the independent director of the company. He attended one-two audit committee meetings, and Mr Mohan Kala made him sign all the minutes including back dated minutes.

25. Section 177(2) of Companies Act 2013, states that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement. As detailed above, Noticee-1 and Noticee-2 had also attended few of the audit committee meetings. However, considering their educational background, the independent directors were not able to

comprehend the financial irregularities in the financial statements and were not able to discharge their duty as defined in Companies Act stated above.

26. Further, it was noted that Noticee-6 and Noticee-5 have not attended any audit committee meetings. However Noticee-6 had attended meetings of the board for FY 2011-12 and FY 2012-13. On analysis of minutes of meetings of the board, it was noted that they have attended the following Board meetings where financial results/statements were placed before the board for discussion. However, considering their educational background they were not able to discharge their responsibilities of independent director.

Financial Year	Date of Board Meeting	Financials discussed
FY 2011-12	25/07/2011, 24/10/2011 03/11/2011 14/02/2012 03/05/2012	Financial results - June 2011 Annual accounts - June 2011 Financial results - Sept 2011 Financial results - Dec 2011 Financial results - March 2012
FY 2012-13	22/10/2012 12/11/2012 14/02/2013 15/05/2013	Financial results – June 2012 Financial results - Sept 2012 Financial results - Dec 2012 Financial results – March 2013

27. Noticee-6, in his reply, vide email dated 12 December 2020 has stated that due to covid situation, he is in USA and not in a position to return back. He also replied that he is not in possession of any documents and the promoters would be in a position to submit the data/ documents sought by SEBI.

28. As per IV. Manner of appointment in Schedule IV, of the Companies Act, 2013, the appointment process of the independent directors shall be independent of the company management, while selecting the independent directors the board shall ensure that there is appropriate balance of skill, experience and knowledge in the board to enable the Board to discharge its functions and duties effectively.

29. During investigation it was observed that the independent directors (Noticee 1 to 6) were associated with the company/ its promoters. Ms. Nivedita (Noticee-3), Ms. Savita Satish Gowda (Chairperson & MD/ Promoter), Mr. Drunal Shah (Noticee-5) and Mr. Lalit Misra (Whole Time Director) are college friends; Mr. V.N.Badoni (Noticee-4), Mr. Madhav Sapre (Noticee-1) are previous employees of the company, (Mr. Harish Palecanda (Noticee-2), and Mr. Sanjay Shah (Noticee 6) worked for marketing by conducting exhibitions together. Noticee-1 was in charge of setting up the plants in Dehradun and Taloja for the company. Further, Noticee-4 is the relative of Mr. Mohan Kala (Promoter) i.e. cousin's husband (brother in law). In all cases, they were related to the company and its promoters in personal capacities as mentioned below :

Sr. No.	Name of the ID	Nature of relation
1.	Ms. Nivvedita Patil	College friend of Ms. Savita Gowda
2.	Mr. V N Badoni	Relative of Mr Mohan Kala i.e cousin's husband (brother in law)
3.	Mr. Madhav Sapre	Past employee (in charge of setting up the plants in Dehradun and Taloja)
4.	Mr. Harish Palecanda	Worked for marketing by conducting exhibitions abroad together
5.	Mr. Drunal Shah	College friend of Mr. Lalit Mishra
6.	Mr. Sanjay Shah	Met promoters at trade exhibition

30. Hence, it was questionable that whether their appointment as independent directors served the purpose of providing equitable and independent judgment to the board, to secure and promote the interests of all stakeholders, especially minority investors and also to report concerns about any unethical behavior, suspected fraud or violation of code of conduct.

31. From the statement recording of the independent directors, it was also understood that they were approached by the promoters to become Independent Director and the promoters had ensured that the cooling off period of three years is complied with.

32. It was also observed that the manner of selection of Independent Director and maintenance of databank of Independent Director (Section 150 of Companies Act, 2013) has not been complied with and the same has not been followed in letter and spirit. Independent directors can only be effective if they are independent of the promoters. Also majority of the independent directors were chemical engineers and one was doctor and have stated in their statement recording regarding their inability to understand financial statements as well as the fact that no financial discussions happened in audit committee meeting. The Independent Directors were not truly independent considering their manner of appointment.

33. It is also observed that the independent directors did not receive any sitting fees from the company. This was also confirmed by the statement of Compliance officers and promoters in their statements.

34. Thus, it was the duty of the independent directors to know about their duties and responsibilities as mentioned above before accepting their appointment. Considering the role of independent directors in the backdrop of their educational qualification, non-receipt of remuneration from the company and their manner of appointment, it is observed that the Noticees 1-6 were used by promoters to carry out misrepresentation of financials which could not be detected by them in view of their educational background and their relation with the promoters/company.

35. Thus **considering the educational background of the independent directors (Noticee 1-6), failure to conduct audit committee meetings, failure to discuss financials in audit committee meetings and negligence in carrying out their statutory responsibilities, and non-reporting of non-compliances the Noticees 1 to 6 were alleged to have failed to exercise duty as independent directors and thereby alleged to have violated provisions of Regulation 4(2)(f) of the SEBI (PFUTP) Regulations, 2003, Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of LODR 2015 and Section**

21 of SCRA; and Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1)and (2) of Listing Agreement. Regulation 4(2)(f) of the SEBI (PFUTP) Regulations, 2003, Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of LODR 2015 and Section 21 of SCRA; and Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1)and (2) of Listing Agreement are reproduced as follows:

> **SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003**
>
> ***4. Prohibition of manipulative, fraudulent and unfair trade practices***
>
> *(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—*
>
> *… (f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;*
>
> **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**
>
> ***Principles governing disclosures and obligations.***
>
> *4.(1) The listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:*
>
> *….(c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.*
>
> *(e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language*
>
> *(g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable*

4. (2) The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below.

(f) Responsibilities of the board of directors:

The board of directors of the listed entity shall have the following responsibilities:

(ii) Key functions of the board of directors:

(7) Ensuring the integrity of the listed entity 's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

(iii) Other responsibilities:

(3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

Securities Contracts (Regulation) Act, 1956

Listing of Securities

Conditions for listing.

21. Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.

Clause 49 of the Listing Agreement

CORPORATE GOVERNANCE

The company agrees to comply with the following provisions:

I. Board of Directors

(A) Composition of Board

(i) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

(ii) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

"Explanation-For the purpose of the expression "related to any promoter" referred to in subclause (ii) :

a. If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;

b. If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it"

(iii) For the purpose of the sub-clause (ii), the expression 'independent director' shall mean a nonexecutive director of the company who:

a. apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;

b. is not related to promoters or persons occupying management positions at the board level or at one level below the board;

c. has not been an executive of the company in the immediately preceding three financial years;

d. is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:

i) the statutory audit firm or the internal audit firm that is associated with the company, and

ii) the legal firm(s) and consulting firm(s) that have a material association with the company.

e. is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director.

f. is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

g. is not less than 21 years of age.

Explanation

For the purposes of the sub-clause (iii):

a. Associate shall mean a company, which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India.

b. "Senior management" shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

c. "Relative" shall mean "relative" as defined in section 2(41) and section 6 read with Schedule IA of the Companies Act, 1956.

(iv) Nominee directors appointed by an institution, which has invested in or lent to the company shall be deemed to be independent directors.

Explanation: *“Institution’ for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956 or a “corresponding new bank” as defined in section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts].”*

(B) Non executive directors’ compensation and disclosures

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.

(C) Other provisions as to Board and Committees

(i) The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure– I A.
(ii) A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act shall be excluded.

2. For the purpose of reckoning the limit under this sub-clause, Chairmanship/ membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.

(iii) The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of noncompliances.

(iv) An independent director who resigns or is removed from the Board of the Company shall be replaced by a new independent director within a period of not more than 180 days from the day of such resignation or removal, as the case may be:

Provided that where the company fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director within the period of 180 days shall not apply.

(D) Code of Conduct

(*i) The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.*

(ii) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

Explanation: *For this purpose, the term "senior management" shall mean personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would* *comprise all members of management one level below the executive directors, including all functional heads.*

49 (D) Role of Audit Committee

The role of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:

> *a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956*
>
> *b. Changes, if any, in accounting policies and practices and reasons for the same*
>
> *c. Major accounting entries involving estimates based on the exercise of judgment by management*
>
> *d. Significant adjustments made in the financial statements arising out of audit findings*
>
> *e. Compliance with listing and other legal requirements relating to financial statements*
>
> *f. Disclosure of any related party transactions*
>
> *g. Qualifications in the draft audit report.*

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

6. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

8. Discussion with internal auditors any significant findings and follow up there on.

9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions / features as is contained in this clause.

49 (E) Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;

2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;

Role of Statutory Auditor:

36. It was noted from the report of the forensic auditor that Sharon has misrepresented / misused its financials / books of accounts for the period of audit i.e. FY 2011-12 till FY 2016-17(annual reports available till 2015-16). The following observations were made against the company:

vii. Inflation of sales and purchases (trading and non-trading) by the company.

viii. Non reporting on related party transactions in financial statements leading to violation of AS 18- Related party disclosures.

ix. Sales and purchases from related parties not commensurate with the corresponding receipts and payments.

x. Incorrect reporting of assets in the financial statements – based on incidence of fire.

xi. Lack of documentation for loans from related parties (preference share warrants issued against it/netted off against debtor's balances).

xii. Misstatement of receivables and payables mentioned in the financial statements - Prior period debtors written off without any supporting documentation or effort for recovery, common debtors and creditors and inter se adjustment of debtors and creditors.

xiii. Expenses incurred in cash not backed by appropriate supporting documents.

xiv. Mismatch in depreciation as per books and financial statements and non-maintenance of proper fixed asset register by the company.

xv. Non reporting of lack of controls over recording of financial transactions (transactions not booked in accounts and closing balance incorrectly carried over).

xvi. Non maintenance of books of accounts by company at its registered office.

37. Non reporting on related party transactions in financial statements leading to violation of AS 18- Related party disclosures and SA 550 related parties:

During the investigation it was found that the majority of the business of Sharon during July 2014 to March 2016 was derived from trading activities only. During the period July 2014 to June 2015 trading sales and purchases constituted 84% an 89% of the total sales and total purchases respectively. Similarly during July 2015 to March 2016 trading sales and purchases constituted 55% and 70% of the total sales and total purchases respectively.

38. On analysis of top 5 trading debtors and creditors for the period July 2014 to March 2017, following was observed:

    i. 4 debtors were connected parties (parties under management control). The sales to these connected parties during the period were Rs.543.44 crores (61.15% of total trading sales).

    ii. 4 creditors were connected parties (parties under management control). The purchases from these connected parties during the review period were Rs. 581.68 crores (63.37% of total trading purchases).

39. Thus, during the period July 2014 to March 2016 majority of the sales and purchases were trading sales and trading purchases out of which approx. 60% were transactions with connected parties.

40. However, these related party transactions were not disclosed in the financial statements of FY 2014-15 and FY 2015-16; thus violating AS 18- Related Party Disclosures. This was alleged to be in violation of 4(2) (a) and (b) of SEBI (LODR) Regulations, 2015. Also, the statutory auditor (Noticee-7) has failed to report the same in the financial statements and violated SA 550 – Related parties.

41. Non maintenance of audit documentation for the audit conducted leading to violation of SA 230 Audit Documentation:

The trading sales decreased from Rs.138.80 crores in July 2015-March 2016 to Rs. 00.00 in FY 2016-17 whereas trading purchases decreased from Rs.148.52 crores in July 2015- March 2016 to Rs.00.00 in FY 2016-17 which is unusual. The total sales and total purchases reported in the financial results for FY 2016-17 were Rs. 138 crore and Rs. 78.43 crore which consisted entirely of non-trading sales and purchases.

Comparison of trading sales and purchases (Amount in Cr.)

Particulars	**Jul-2014 to Jun-2015**	**July 2015-March 2016**	**Apr-2016 to Mar-2017**	**Total purchases in financial results (FY 2016-17)**	**Total sales in financial results (FY 2016-17)**
Trading sales	697.74	138.80	00.00		
Trading purchases	700.20	148.52	00.00		
Non Trading Sales	136.22	114.66	134.97		
Non-Trading purchases	82.2	62.31	78.43	138.00 (non trading)	78.43 (non trading)

42. This sudden reduction of 80% from 14-15 to 15-16 and to nil in 16-17 seems to be a deviation from normal business practice. Considering the fact that majority of these trading sales and purchases were from related parties and the forensic auditor was not provided with any proof of movement of goods, purchase and sales agreements, balance confirmations from customers for these transactions, it indicates that the trading sales and trading purchases made by the entity from July 2014 to March 2016 have been inflated and does not represent true and fair view of the financial position of the company and hence misleading to the investors.

43. Similarly absence of adequate supporting documents were observed for the transactions during period July 2011 to June 2014.

Inadequate purchase and sales documentation **Amount in cr.**

Category	Total Amount	Total Sample		No documents received			Documents Partially received		
		Total Sample	**No. of Samples**	**Amt.**	**No of Sample**	**% of total sample**	**Amt.**	**No of Sample**	**% of total sample**
Sales	2370.31	987.05	125	974.61	117	94%	12.43	8	6%
Purchases	2501.22	951.2	175	950.69	170	97%	0.51	5	3%
Total		1938.3	300	1925.3	287		12.94	13	

Note : All documents were received in none of the transactions

44. In Forensic Audit it was observed that invoices were not available in 53% of the non-trade purchases amounting to Rs. 28.29 crore and GRN, Delivery Challan & Transporter Copy was not available for 21% of the non-trade purchases transactions worth Rs. 39.5 crore. This raises doubt over the genuineness of these transactions as well as the amount of purchases recorded in the balance sheet for the said period.

45. Further on analysis of the non-trading debtors and creditors during forensic audit it was observed that Sharon has sold goods worth Rs. 13.68 crores to Perrigo Company plc (Irish–registered manufacturer of private label over-the-counter pharmaceuticals). Basis data available on public domain it was noted that Perrigo is legally headquartered in Ireland for tax purposes. In 2013, Perrigo completed the 6th-largest U.S. corporate tax inversion in history when it reregistered its tax status to Ireland to avoid U.S. corporate taxes. On 21 December 2018, Perrigo suffered its biggest one-day share price fall in its history after the Irish Revenue Commissioners issued a tax claim against Perrigo that equated to half of its market value. Thus the sales transactions amounting to Rs. 13.68 crore to a company facing tax related issues raises doubt about the collectability of the receivables as well as genuineness of these transactions.

46. It was observed that the non-trading sales and purchases reported in the financial statements were not backed by supporting documents and hence inflated to give

a healthy picture to the investors and users of financial statements for the period July 2011 to March 2017.

47. The total sales and purchases mentioned in the financial statements from FY 2011-12 to FY 2016-17 is as follows:

Table 15 : Purchases/Sales reported in financial statements (Amount in lacs.)

FY	**Sales**	**Increase/ (Decrease)**	**Purchases**	**Increase/ (Decrease)**
2011-12	80,431.78	-	71,457.68	
2012-13	1,05,949.65	25,517.87	96,609.93	25,152.25
2013-14	1,31,376.82	25,427.17	1,17,496.19	20,886.26
2014-15	83,395.46	**-47,981.36**	78,747.06	**-38,749.13**
2015-16 (9 M)	25,345.48	**-58,049.98**	21,081.84	**-57,665.22**
2015-16 (12 M)	39,004.78	-44,390.68	32,577.63	-46,169.43
2016-17	13,880.59	-25,124.19	7,843.43	-24,734.2

48. As per director's report (FY 2013-14), the company has stated that the fire that occurred in June 2014 has caused loss of stock of Rs. 2215.65 lacs and capital loss (plant and machinery) of Rs. 1458.69 lacs (WDV basis). Further, it is also stated that "*having a sharper view and associated with experience professionals, the management of your company expanded in formulation unit and research & development activities. Rs. 85 Crores (Rupees Eighty Five Crores) had already been deployed in expansion of formulation plant located at Uttarakhand. It is our pride to let the owners know that your company has successfully invested more than Rs. 85 Crores (Rupees Eighty Five Crores) in the expansion of formulation plant located at Uttarakhand. The outcome of which can even be evaluated by a layman. In term of production quantity enhancement, the expanded plant can now produce more than double as compared to one year back, with hardly any room left for any sort of wastage or damage. It was again the timely completion of our project work which gave us the upper hand and helped us battle the sales and other opportunities which got demolished after one of our old API's plant was disturbed by the fire, which took place in the month of June, 2014*."

49. However in the directors report (FY 2014-15), the company has mentioned that, "*The main reason for loss for FY 2014-15 is the fire in Taloja plant in June 2014 and subsequent to that there were rejection of goods from customers due to quality issues*". It is pertinent to note from table above that the amount of decrease in sales and purchases are not commensurate with the loss of stock and capital loss mentioned in directors' report. Also there is inconsistency in statements mentioned in director's report for both the years. As mentioned in Table below, majority of trading transactions (with connected parties) were executed during the period FY 2013-14.This corroborates to the evidence that the purchases and sales mentioned in financials for FY 2013-14 have been inflated by fake transactions with connected parties.

Year wise summary of purchase and sale **Amount in Cr.**

Particulars	Sales			Purchases		
	Financials	Trading Parties	%	Financials	Trading Parties	%
Jul'11 –Jun'12	785.06	469.52	60%	696.98	537.73	77%
Jul'12 – Jun'13	1059.50	822.07	78%	966.10	852.00	88%
Jul'13-Jun'14	**1291.61**	**1,078.72**	**84%**	**1174.96**	**1,111.49**	**95%**
Total	3136.17	2370.31		2838.04	2501.22	

50. Thus there was no coherence between the figures mentioned in the financial statements and the directors report for FY 2013-14 and FY 2014-15, which does not give a true/clear picture of the affairs of the company to the investors.

51. This indicates that the statutory auditor (Noticee-7) overlooked these grave differences. The statutory auditor (Noticee-7) has not provided any documents verified by him to certify the sales/purchases mentioned in the financial statements. SA 230 Audit Documentation states that "*the auditor shall prepare audit documentation on a timely basis. The standard defines Audit documentation as "The record of audit procedures performed, relevant audit evidences obtained and conclusions the auditor reached*". However, the statutory

auditor (Noticee-7) failed to maintain such documentation and hence violated SA 230.

52. The statutory auditor (Noticee-7) failed to verify whether the assets disclosed by the company in the balance sheet reflect the true and fair picture as per AS 10 - Fixed Assets.

53. Following is the summary of Fixed Assets as disclosed in its financial statements from FY 2014-15, FY2015-16 and provisional financial statements for FY 2016-17.

Summary of Fixed Assets Amount in Cr.

Particulars	Jun-2015		Mar-2016		Mar-2017	
	Gross Block	Additions	Gross Block	Additions	Gross Block	Additions
Electricals fittings	13.04	1.64	13.04		17.44	
Building	74.02	2.99	74.03	0.01	74.39	
Computer	2.41	0.06	2.46	0.05	2.00	0.07
Delhi office	-		0.08		-	
Furniture & fixtures	4.02		4.16	0.13	2.60	0.07
Lab equipment	18.16	0.31	18.32	0.16	12.83	0.56
Land	12.03		12.03		11.57	
Motor car	2.00	0.03	2.08	0.08	0.75	
Office Equipment	2.49	0.48	2.50	0.01	2.85	0.04
Office premises	33.01	3.09	32.93		28.47	
Plant & machinery	245.48	17.72	246.51	1.03	256.39	0.90
Gross assets	406.66		408.14		409.29	
Accumulated depreciation	74.58		89.60		119.65	
Grand total	332.08	26.33	318.54	1.47	289.64	1.63

54. As per financials of FY 2013-14, a fire had occurred at the company's premises located at W-34 a W-34/1 MIDC Taloja location on June 2014 resulting into plant and machinery loss (on WDV basis) of Rs. 14.59 Cr. However, FA schedule in financials of FY 2013-14 revealed there was deletion of assets amounting to Rs.5.55 Cr. only (on WDV basis) and there was no major asset deletion during

the review period. Further assets of Rs. 4.30 Cr. (on gross block basis) were written of during the year 2016-17 and the Forensic Auditor was informed that these were written off on account of loss by fire. However, all these assets were appearing as steel in Fixed asset register. The forensic auditor had asked for asset wise details for asset lost by fire and asset written off on account of fire but same were not provided to the forensic auditor. Hence the forensic auditor could not verify extent of overstatement of Fixed assets.

55. On basis of data available on public domain, it is noted that the fire had occurred in the premises on June 03, 2014. On perusal of the directors' report for FY 2013-14, the company had mentioned that "*Your directors had opted for the replacement insurance policy instead of normal insurance policy on capital goods. Thereby, you will be pleased to know that your company will be receiving the current replacement value of plant & machinery that has been lost due to fire and not the Written Down Value of Plant & Machinery lost in fire. Keeping uncertainty on mind your company have taken the loss of profit policy, in case the profit of company is hampered in any form. Your company has put up the total claim of approx. Rs.40,00,00,000 (Rupees Forty Crores) including the loss of factory building and some furniture & fixtures. Further, it would be worth noting that because the fire had occurred in the last month of the financial year 2014, therefore, there was negligible operational loss of production and sales pertaining to the reporting period ending as on 30 June, 2014. To refrain the impact of production & sales loss that would have had surely been casted on the future months on production & sales, the management of your company took the immediate corrective steps by making the tie-ups with some of the job work at some other factory sites so as to carter the production & marketing demand.*"

56. Further, in the directors' report for FY 2014-15, the company had mentioned that they had applied for insurance claim of Rs. 3869.57 lacs, however, only Rs 1000 lacs have been received from the insurance company and it has been fully adjusted towards loans availed from various banks. Thus the company utilized

the amount received for replacement of plant and machinery towards repayment of loans from banks.

57. In financials of FY 2013-14 the company had stated that fire had occurred at the company's premises located at W-34 a W-34/1 MIDC Taloja location on 3rd June 2014 resulting into plant and machinery loss (on WDV basis) of Rs. 14.59 Cr. However, Fixed Assets schedule in financials of FY 2013-14 revealed there was deletion of assets amounting to Rs. 5.55 Cr. only (on WDV basis) and there was no major asset deletion during the review period. Thus the fixed assets reflected in the Fixed Assets schedule do not reflect the true position of assets available with the company and this has led to overstatement of assets by 9.04 crores.

58. The company replied that balance 9.04 Cr has been shown under "Re instatement of Fixed Asset Reserve". However loss of machine due to fire cannot be shown as profit during the year under reserves and surplus and amounts to misrepresentation of the amount of reserves and surplus mentioned in the financial statements of FY 2013-14.Thus there is inflation of reserves and surplus by Rs. 9.04 crore.

59. Further, assets of Rs. 4.30 Cr.(on gross block basis) were written off during the year 2016-17 and the Forensic Auditor was informed that these were written off on account of loss by fire. However, all these assets were appearing as steel only in Fixed asset register. It is to be noted that fire had occurred in the premises on June 2014 hence the assets should have been written off during the year 2014-15 (July 2014 - June 2015) and not 2016-17.The company has stated in its reply that the following assets have been written off:

Location	Assets	Opening Gross Block as on 1.4.16	Written Off / Deletion	Remarks
Alternate Promoter Office	Computers	0,614	20,614	Note -1
Alternate Promoter Office	Furniture & Fixtures	2,78,110	2,78,110	Note -1
Alternate Promoter Office	Office Equipment	,02,990	1,02,990	Note -1
Alternate Promoter Office	Office Premises	24,81,077	24,81,077	Note -1
W-34	Electricals	50,72,769	50,72,769	Note -2
W-34	Furniture & Fixtures	92,33,725	92,33,725	Note -2

W-34	Lab Equipment	84,04,645	84,04,645	Note -2
W-34	Office Equipment	47,17,558	47,17,558	Note -2
W-34	Plant & Machinery	1,27,47,061	1,27,47,061	Note -2
	Grand Total	**4,30,58,549**	**4,30,58,549**	

Note - 1 : Use of Alternate Promoter Office discontinued, hence assets appearing in the Fixed Assets Register Written Off.

Note - 2 : Assets appearing in the Fixed Assets Register post fire and of no use has been Written Off during the year.

60. Thus fixed assets mentioned in the financials for FY 2014-15 and FY 2015-16 have been overstated by Rs. 4.30 Cr. The statutory auditor (Noticee-7) in his reply has mentioned that the "*The management verified the assets which were damaged due to fire and the same were written off and reflected in the balance sheet.*" However, it is the duty of the statutory auditor (Noticee-7) to ensure that the assets stated in the balance sheet reflect the true and fair picture as per AS 10 - Fixed Assets.

61. Also documentary evidence for samples of fixed assets additions for Rs. 2.86 Cr out of Rs.7.08 Cr and deletions of Rs.0.15 Cr out of Rs.0.52 Cr were not furnished to the forensic auditor. Out of these it is pertinent to note that (assets of Rs.40 lacs was purchased from Devraj Multitrade Pvt Ltd which is party under management control.

62. <u>Non reporting of prior period write offs and net offs in the financial statements.</u>
The forensic auditor observed that out of Rs. 245 crores receivables written off during the review period, Rs. 232.66 crores pertaining to 277 debtors were prior period balances (i.e. prior to July 2014) and there were no transactions in these accounts during the review period. As these balances were carried forward balance from previous period the forensic auditor was unable to ascertain whether these were against genuine business transactions which were not recoverable or fictitious balances subsequently written off. The forensic auditor has not received any response from the management on reasons for such write offs, further there was no documentation provided regarding follow up process for collections and legal actions taken against these debtors. High amount of

write offs indicate that practice of inflating revenues appears to have been prevalent in the period prior to July 2014 as well. Following are the top 5 debtors:

Top debtors write offs Amount in Cr

Party Name	Opg Bal. July 2014	Sales	Purchases	Receipts	Drs W/Off	Clg Bal Mar' 2017
Kuber Exports	10.88	0	0	0	10.88	0
Syncom Healthcare Ltd	10.82	0	0	0	10.82	0
Aryan Pharma	7.94	0	0	0	7.94	0
Gladrags Exports	7.9	0	0	0	7.9	0
Shirish Polychem Pvt.Ltd.	6.34	0	0	0	6.34	0
Cromatics India Pvt Ltd	4.93	0	0	0	4.93	0
Total	**48.81**	**0.00**	**0.00**	**0.00**	**48.81**	**0.00**

63. Further, purchases and sales were recorded in same party accounts which resulted in receivables and payables balances being netted off. The Forensic Auditor observed total 6 trading parties being involved in both purchase and sales transactions for the period July 2014 to March 2017 and 9 such parties for the period July 2011 to June 2014.

Common Debtors and Creditors Amount in Cr.

Party Name	Period	Opening Balance	Sales	Purchases	Receipt	Payment	LC Payments	Net off adjustments with other party accounts	Other Adjustments	Clg Bal	Net Inflow /Outflow of funds
Emerald Alchymicus Pvt Ltd	Jul'11 - Jun'14	-	10.42	-19.39	-11.11	24.31	-	-	-	4.24	13.21
Enam Organics India Ltd	Jul'11 - Jun'14	-	2.97	-5.95	-	-	-	-	-	-2.98	-
Impressive Trading Pvt Ltd	Jul'11 - Jun'14	15.76	76.47	-764.19	-6.5	261.63	3.95	13.21	-0.83	-400.51	255.13
Kunal Enterprises	Jul'11 - Jun'14	-1.85	0.34	-16.27	-5.88	11.53	9.72	-	-0.72	-3.12	5.65
Sovin Trading Pvt Ltd	Jul'11 - Jun'14	231.18	12.51	-615.05	-6.05	159.12	5.13	10.92	-0.42	-202.66	153.07

Alchemist Multitrade Pvt Ltd	Jul’14 – Mar’17	0.48	108.02	-69.25	-0.54	25.77	0	-65.7	1.26	0.05	25.23
Alchemist Multitrade Pvt Ltd	Jul'11 - Jun'14	-42.17	170.39	-324.85	-	110.74	-	9.08	-	-76.8	110.74
		-41.69	**278.41**	**-394.1**	**-0.54**	**136.51**	**0**	**-56.62**	**1.26**	**-76.75**	**135.97**
Arvind Remedies Ltd	Jul’14 – Mar’17	-4.8	30.2	-40.27	-1.21	0	0	16.08	0	0	-1.21
Devraj Multitrade Pvt Ltd	Jul’14 – Mar’17	2.43	48.53	-110.13	0	0	0	58.87	0.29	0	0
Devraj Multitrade Pvt Ltd	Jul'11 - Jun'14	168.05	374.4	-163.73	-3.9	123.62	-	10.24	-0.13	508.55	119.73
		170.48	**422.93**	**-273.86**	**-3.9**	**123.62**	**0**	**69.11**	**0.16**	**508.55**	**119.73**
Idol MultitradePvt Ltd	Jul’14 – Mar’17	-3.13	63.46	-130.86	0	26.44	0	41.53	2.62	0.05	26.44
Idol Multitrade Pvt Ltd	Jul'11 - Jun'14	-37.61	186.48	-399.75	-	96.63	-	8.66	-	-145.59	96.63
		-40.74	**249.94**	**-530.61**	**0**	**123.07**	**0**	**50.19**	**2.62**	**-145.54**	**123.07**
Lakeland Chemicals India Ltd	Jul’14 – Mar’17	-1.98	42.22	-25.28	0	28.39	0	-85.14	41.79	0	28.39
Lakeland Chemicals India Ltd	Jul'11 - Jun'14	27.12	12.28	-118.31	-8.25	57.71	-	-	0	-29.46	49.45
		25.14	**54.5**	**-143.59**	**-8.25**	**86.1**	**0**	**-85.14**	**41.79**	**-29.46**	**77.84**
Sunrath Trading Pvt Ltd	Jul’14 – Mar’17	6.45	217.33	3.05	69.2	0	0	134.78	8.01	8.73	-69.2
TOTAL		**359.93**	**1356.02**	**-2800.23**	**25.76**	**925.89**	**18.8**	**152.53**	**51.87**	**-339.5**	**813.26**

64. Also there was inter se adjustment of debtors and creditors. Balance of debtors accounts adjusted amounted to Rs. 336.91 Cr. and creditor accounts amount to Rs.314.54 Cr. for the period July 2014 to March 2017. During July 2011 to June 2014 balances of 26 trading parties were adjusted amongst each other through

book entries and also with additional 26 parties/individual ledgers/ expense ledgers (like Interest-Others) / fictitious ledger (like Receivables).The total value of these adjustment entries amounted to Rs.20.44 Cr. in debtors accounts and Rs.25.87 Cr. in creditor accounts.

Party-wise Adjustment / Netting off (July 2011 to June 2014) Amount in Cr.

Party Name	Classification	Netting off against other parties
Sundry Debtor	Sovin Trading Pvt Ltd	10.92
	Sunrath Trading Pvt Ltd	-31.36
Sundry Creditor	Devraj Multitrade Pvt Ltd	10.24
	Gaurang Enterprises	-10.66
	Idol Multitrade Pvt Ltd	8.66
	Alchemist Multitrade Pvt Ltd	9.08
	Impressive Trading Pvt Ltd	13.21
	Aarey Drugs & Pharmaceuticals Ltd	-4.68
	Anshul Life Sciences	0.01

65. Further on ledger scrutiny, the Forensic Auditor observed that outstanding balances are adjusted amongst debtors and creditors also in the following accounts:

Instances of balance adjustment between debtors and creditors Amount in Rs.

Particulars	Opening Balance as on 1stJuly 2014 (A)	**Debit (B)**	**Credit (C**	**Closing balance as on 31 March 2017 (D)**	**Closing Stock as per working (A+B-C=D)**	**Comments from client**
Win Chemicals	61,87,157	0.00	61,42,616	0.00	44,541	Adjusted in excel format with receivable
Devraj Multitrade Pvt Ltd	0.00	1418,56,815.48	1432,29,682.18	0.00	(13,72,866.70)	Adjustment between debtors and creditors

66. High amount of write offs along with no effort for recovery indicate that practice of inflating revenues appears to have been prevalent in the period prior to July

2014 as well. Write offs done by the company without appropriate documentation and effort for recovery indicate that the shareholders' funds are not prudently utilized by the company.

67. Further, purchases and sales were recorded in same party accounts which resulted in receivables and payables balances being netted off. Inter se adjustment of debtors and creditors does not signify prudent accounting practice. It also indicates that the purchases and sales were inflated considering non availability of supporting documents and miniscule amount of receipts and payments.

68. The statutory auditor (Noticee-7) stated in his reply to SEBI that, *"Some Companies supplied material and also received material from Sharon. Accordingly, only balance amount payable or receivable were paid or received by Sharon. Some companies exchanged letters with each other & accordingly entries were passed in the respective companies.*" Further regarding prior period net off he has stated that, *"Over a period of time there were numerous complaints made by the parties regarding the quality of the stock supplied by Sharon and also there were payment problems while making the payments by the Debtors. Sharon issued several letters and notices to various Debtors. We requested to Sharon to get the back dated cheques from the debtors or take legal action. But we were told that parties are not giving back dated cheques and in case Sharon goes legally against the customers then chances are Sharon may not get the amount due to quality problem & other issue and may rather spend huge amount on legal expenses. Accordingly, the balance of debtors were written off in the books of accounts & affect given on Profit & Loss A/c by the company*."

69. Thus the statutory auditor (Noticee-7) had knowledge of set-off of debtors by company and efforts of non-recovery on the part of the company while conducting the audit. However, he did not qualify the report based on above material facts and hence violated SA 700 forming an Opinion and Reporting on Financial

Statements and SA 705 Modifications to the opinion in the independent auditor's report.

70. Copy of supporting vouchers not maintained as per SQC 1 (Standard on quality control) and SA 230- Audit documentation prescribed by ICAI.

71. The Forensic Auditor conducted a review of the expenses recorded by company during the review period. The Forensic Auditor observed that Sharon had incurred expenses in cash to the tune of Rs.7.56 cr. Out of the total cash expenses, Forensic Auditor had selected samples to the tune of Rs.3.04 cr. However, supporting documents for these expenses were not provided to the Forensic Auditor for verification.

Cash Expenses Amount in Cr.

Expense Head	2016-17	2015-16	2014-15	Total
Administration	0.23	1.02	0.36	1.62
Other	0.41	0.59	0.97	1.97
Power Water & Fuel	0.01	0.00	0.02	0.03
Salaries (Includes employee reimbursement, staff welfare etc)	0.82	0.91	1.28	3.02
Travel	0.16	0.16	0.60	0.92
Total	1.63	2.70	3.24	7.56

Summary of Total Expenses Amount in Cr.

Expenses	Jun'15	Mar'16	Mar'17
Employee benefit expenses	19.83	16.55	21.02
Other Expenses	40.01	38.50	39.00
TOTAL	59.84	55.04	60.02

Summary of Top 10 heads classified under Other Expenses

Amount in Cr.

Particulars	Jun'15	Mar'16	Mar'17
Power & Fuel Expenses	9.14	6.83	9.55
Factory Expenses	10.33	7.28	7.84
Brokerage & Commission	0.76	2.46	4.64
Repairs Maintenance	3.62	3.76	2.93

Rent ,Rates & Taxes	2.09	1.65	2.65
USFDA Fees	0.55	8.17	2.33
Legal & Professional Charges	3.44	2.01	2.31
Freight & Transportation Charges	1.53	1.94	1.57
Administrative Expenses	0.56	0.38	1.14
Directors Remuneration	1.13	0.50	0.66
TOTAL	**33.16**	**34.97**	**35.63**

72. On analysis of the expenses incurred by the company for the said period following observations are made:
    iii. For the period from June 2015 to March 2017, Rs. 7.56 Cr. has been spent as cash expenses of which for no supporting documents were provided to the forensic auditor for expenses amounting to Rs. 3.04 Cr. (approx. 40%).
    iv. Also, of these cash expenses, substantial amount constitutes employee benefit expenses (approx. 40%)
    v. Hence, lack of supporting documents for expenses in cash creates doubt regarding the genuineness of the cash expenses incurred by the company.

73. Also, the promoters, in their statement recording, have admitted that contract workers and employee benefit expenses were paid in cash which was also confirmed by the statutory auditor (Noticee-7).

74. The statutory auditor (Noticee-7) stated in his reply to SEBI that, "*From June 2015 till 31.03.2017 all the details of expenses/vouchers/supporting were provided by the company. We have not found any unusual expenditure during the period which was not supported by expenses vouchers. We do not have the copy of the supporting vouchers in our office as we generally to not carry the supporting vouchers to our office once supporting are verified and leave the same to client's office once audit is over*." This indicates that the statutory auditor (Noticee-7) has overlooked these grave differences and not checked whether cash expenses are accompanied by appropriate supporting documents. Also, the

statutory auditor (Noticee-7) has not maintained audit working papers as required by SQC 1 (Standard on quality control) and SA 230- Audit documentation prescribed by ICAI.

75. <u>Non verification of whether fixed asset register maintained by the company.</u> The Forensic Auditor observed that in case of depreciation for Mar'17 the figures do not reconcile with the books of accounts to the tune of Rs.4.31 Cr in Gross Block accumulated depreciation and Rs. 0.01 Cr in Net Block.

76. Inadequate details maintained in Fixed asset register: Fixed asset register was furnished only for FY 2016-17. Many asset description stated in Fixed asset register of 2016-17 were found to be generic in nature like Cement & Steel (Rs. 29 Cr}, Construction work (Rs.2.66 Cr), WIP capitalized (Rs.142.34 Cr) etc. As company did not maintain Fixed Asset Register for FY 2014-15 and FY 2015-16, the total block wise additions made during the period could not be traced down to the individual asset level. Also the statutory auditor Shyam C Agarwal (Noticee-7) had no comments to offer during statement recording when asked about non maintenance of Fixed Asset Register AR pointed out by forensic auditor.

77. The statutory auditor (Noticee-7) has stated in his reply to SEBI that, "*Depreciation of the Tangible Assets was provided on Straight Line Method. Life expectancy of the Tangible Assets was determined and based on that Depreciation was provided. During the period 2016-17, Tangible Assets which were in dilapidated condition were written off. Those Tangible Assets were very old and were almost not in use. Accordingly, Sharon Management made a list of those Assets and was deleted from the list of the Fixed Assets. The Gross value of those Tangible Assets was Rs.4.31 Crore whereas depreciation charged on these Tangible Assets was Rs.3.82 Crore Accordingly entries were made in the Book of Accounts. As per your statement there is a difference of Rs.1 Lakh (One Lakh) in net Block of tangible assets which we are not in a position to find since we cannot access the books of accounts of the company and it is difficult to make*

out from the balance sheet". Further, with reference to fixed asset register he has stated that, "*fixed asset register was maintained by the company and most of the fixed asset were physically verified by us. We have not found any major discrepancy except which are already reported in the Auditors report*." The reply of statutory auditor (Noticee-7) regarding difference of Rs. 1 lakh can be considered appropriate considering the materiality of the amount. However, the reply regarding maintenance of fixed asset register is not in consonance with the observations of forensic auditor. Further, clarifications were sought from the statutory auditor (Noticee-7), however no reply were received.

78. Reply was sought from the statutory auditor vide email dated July 14, 2020 regarding above observations. The statutory auditor replied as given below vide email dated August 13, 2020:

Sr. No.	Particulars	Queries asked to statutory auditor	Reply by statutory auditor
01.	Sales and Purchases (Trading as well as non-trading)	1. Provide proof of movement of goods, purchase and sales agreements/ invoices for trading transactions for the period July 2011 to March 2017 along with the amounts checked by you for the entities mentioned in Annexure 1. Also provide details receipts/payments against these transactions verified by you in the said annexure. 2. Balance sought from customers for these sales and purchases transactions (external confirmation)- for receivables and payables from these customers	I am no more auditor of the company and cannot access the details of the Account of the Company as I do not have the Sales / Purchase details as required by you. While doing audit we do not record details of purchase / sales/payments receipts etc of every transaction. It is not possible to have record of every transaction. At the time of audit all the information were provided by the company which were in the records with the company and we have verified the same.
02.	Analysis of cash expenses booked	Copy of Supporting verified for cash expenses from June 2015 to March 2017.	From June 2015 till 31.03.2017 all the details of expenses/vouchers/supporting were provided by the company. We have not found any unusual

			expenditure during the period which was not supported by expenses vouchers. We do not have the copy of the supporting vouchers in our office as we generally to not carry the supporting vouchers to our office once supporting are verified and leave the same to client's office once audit is over.
03.	Reporting of assets based on incidence of fire	1. Accounting treatment of plant and machinery loss (on WDV basis) of Rs. 14.59 Cr. due to fire as stated in financial statement and claim received of Rs. 10 Cr. 2. Methods adopted to verify deletion of assets, whether properly reflected in balance sheet and reporting of assets in FY 2013-14 and subsequent years. 3. Depreciation calculation of FY 16- 2017-difference between gross block and net block.	In the month of June 2014, in one of the main Plant at W34, MIDC, Taloja there was a major fire due to which the mother Plant was totally gutted. Company made the claim of Rs.27.70 Crore from the Insurance Company against which the stock loss was Rs.22.16 Crores and Capital Loss was Rs.5.55 Crore Including building and Plant & Machinery. Out of Rs.5.55 Crore of Capital Loss, Plant & Machinery WDV loss was Rs.5.25 Crore. During the year 2014-15 the Company received Rs.10 Crore from Insurance Company as an adhoc amount which was against stock and capital Loss. The management verified the Assets which were damaged due to fire and the same were written off and reflected in the Balance Sheet. The List of the Assets was given to Insurance Company. In March 2017, when Insurance Claim amount was settled for Rs.15 Crore. The Balance amount of Rs.12.70 Crore was shown as loss

			and reflected in the Profit & Loss A/c. In March 2017 some Fixed Assets were identified by the Company which were of no use and were very old which cannot be used & were in a dilapidated condition and same were deleted from the Fixed Assets. Accordingly depreciation of these Assets was also written off from the Books of Accounts.
04.	Analysis of borrowings /Unsecured loans and preference share warrants issued against it.	Documents verified by you to check unsecured loans i.e. Inter corporate deposits and loans from related parties for the period July 2011 to March 2017	The preferential Share warrants were issued against the borrowings which were borrowed by Sharon over the period of time. Since, after the fire in June 2014, Sharon was unable to pay back the unsecured loan/ Advances the same was converted into share warrants. We have checked banking transactions Ledgers of the parties to whom Preferential share warrants were issued and the Board Resolution of the same. Confirmation entries from the companies to whom preferential share warrants were issued was also checked from July 2011 to March 2017 which was lying in the records of the Company.
05.	Debtors balances being netted off against liabilities (Unsecured Loan)	It is noted that unsecured loans were taken from related parties (Revon Finance & Invt. Pvt Ltd, Ramco Properties Pvt. Ltd., Bagulvani Trading & Invt Pvt Ltd and Venus Global Management Consultancy) whereas these balances were set off against	We have checked up the ledgers of the parties such as Revon Consultancy & Management Services Pvt Ltd/Ramco Properties Pvt Ltd/ Bagulvani General Trading Pvt Ltd.& Venus Global Management & Consultancy Services Pvt Ltd and found that their

		debtor Sunrath Trading Private Limited which is a party under management control. Specify whether documentary evidence checked for such net offs including confirmations from the parties.	balance are netted off. We have also seen and checked the letters received from each of the party wherein parties wanted to settle their account with each other. The Board Resolution to that affect was also passed. All the records were with Sharon at the time of Audit.
06.	Analysis of Bank Balance mentioned in the financial statement	Supporting documents for verification of balances of cash and bank in the financial statements for the period July 2011 to March 2017.Also provide details of bank accounts being adjusted against receivable or non-banking accounts grouped under banking accounts (if any).	Confirmation of Bank Balance & Cash Balance were received from the company. Bank transaction were checked & we did not find any irregularity.
07.	Valuation of Stock	Supporting documents relied upon by you for verification of stock stated in the financial statements for the period July 2011 to March 2017	We had checked the Stock records of the Company with quantities and valuation. The Valuation of stock was taken on First in First Out (FIFO) basis. Random checking with quantity and purchase bills with stock register were done and we did not find any irregularity except very minor. Apart from that during this period of 2011 to 2017. The Company has also done stock valuation through the many independent agencies which were appointed by the Bankers and we believe no serious irregularity was pointed. Apart from that at regular intervals Bankers had checked stock of the Company every quarter. Also every year, Banks use to appoint the Stock Auditor and in his report also

			only minor stock variance were noticed. Further, during 2014-15 Forensic Audit was also done by the Bankers through some independent agency after which CDR was done. Also there was report made by SBI Caps and others which has supported CDR of the Company. While doing CDR Bankers had appointed many agencies to check whether CDR of the Company is possible or not as per the guidelines of CDR. Since there were no major irregularities, the company was eligible for CDR.
08.	Depreciation calculation for March 2017 (Gross block and net block)	It was observed that there is a difference of Rs. 4.31 crs in Gross Block accumulated depreciation and INR 0.01 crs in Net Block as per financial statements and books of accounts for year ending March 2017.Provide clarifications and calculations regarding the same.	Depreciation of the Tangible Assets was provided on Straight Line Method. Life expectancy of the Tangible Assets was determined and based on that Depreciation was provided. During the period 2016-17, Tangible Assets which were in dilapidated condition were written off. Those Tangible Assets were very old and were almost not in use. Accordingly, Sharon Management made a list of those Assets and was deleted from the list of the Fixed Assets. The Gross value of those Tangible Assets was Rs.4.31 Crore whereas depreciation charged on these Tangible Assets was Rs.3.82 Crore Accordingly entries were made in the Book of Accounts. As per your statement there is a difference of Rs.1 Lakh (One Lakh) in net Block of Tangible Assets which we are not in a position to find

			since we cannot access the Books of Accounts of the Company and it is difficult to make out from the Balance Sheet.
09.	Fixed Asset register	Clarify whether fixed asset register maintained by the company is accurate and adequate to reflect the true and fair picture of the assets stated in the financial statements for the period July 2011 to March 2017.Please provide details of any discrepancy noticed by you along with the supporting evidence.	Fixed Asset register was maintained by the Company and most of the Fixed Asset were physically verified by us. We have not found any major discrepancy except which are already reported in the Auditors report.
10.	Common debtors and creditors and inter se adjustment of debtors and creditors	Balance of debtors accounts and creditor accounts were adjusted amongst themselves for the period July 2011 to June 2014.Also purchases and sales were recorded in same party accounts which resulted in receivable and payable balances being netted off. Provide rationale/supporting documents for such adjustments checked by you as it is not in line with accounting standards.	Some Companies supplied material and also received material from Sharon. Accordingly, only balance amount payable or receivable were paid or received by Sharon. Some companies exchanged letters with each other & accordingly entries were passed in the respective companies.
11.	Preferential Dividend Warrants	It was observed that Preferential Dividend warrants have been converted into equity in FY 2014-15 and these warrants were issued against unsecured loans. Provide rationale/supporting documents for such conversion as well as provide agreement for unsecured loans against which such warrants were issued verified by you.	The Company issued 16111000 Convertible Share Warrants and not preferential Dividend Warrants

12.	Write off of carried forward debtors.	It was observed that out of Rs. 245 crores receivables written off during the July 2014 to March 2017, Rs. 232.66 crs. pertaining to 277 debtors were prior period balances (i.e. prior to July 2014) and there were no transactions in these accounts during the review period. Provide reasons for such write offs, documentation regarding follow up process by company for collections and legal actions taken against these debtors checked by you.	Over a period of time there were numerous complaints made by the parties regarding the quality of the stock supplied by Sharon and also there were payment problems while making the payments by the Debtors. Sharon issued several letters and notices to various Debtors. We requested to Sharon to get the back dated cheques from the debtors or take legal action. But we were told that parties are not giving back dated cheques and in case Sharon goes legally against the customers then chances are Sharon may not get the amount due to quality problem & other issue and may rather spend huge amount on legal expenses. Accordingly, the balance of debtors were written off in the books of accounts & affect given on Profit & Loss A/c by the company.

79. In view of the above, the following non compliances/failures/non-reporting have been observed on the part of the statutory auditor:

   i. Non reporting on related party transactions in financial statements leading to violation of AS 18- Related party disclosures and SA 550 related parties.

   ii. Non maintenance of audit documentation for the audit conducted leading to violation of SA 230 Audit Documentation.

   iii. The statutory auditor has failed to verify whether the assets disclosed by the company in the balance sheet reflect the true and fair picture as per AS 10 - Fixed Assets.

   iv. Non reporting of prior period write offs and net offs in the financial statements.

v. Copy of supporting vouchers not maintained as per SQC 1 (Standard on quality control) and SA 230- Audit documentation prescribed by ICAI.

vi. Non verification of whether fixed asset register maintained by the company.

vii. The statutory auditor had knowledge of set-off of debtors by company and efforts of non-recovery on the part of the company while conducting the audit. However, he did not qualify the report basis on above material facts and hence violated SA 700 forming an Opinion and Reporting on Financial Statements and SA 705 Modifications to the opinion in the independent auditor's report.

80. Further, summons dated November 20, 2020 were issued to the statutory auditor (Noticee-7) and he was asked to appear before the investigation authority on December 04, 2020 and produce the documents sought via summons. Noticee-7 has stated that all the accounts were prepared by Mr.Mohan Kala, and he checked all the invoices for random 2 months, however Noticee-7 did not maintain copy of the same.

81. The role of auditors is very important and they owe a duty to the shareholders and are required to give a correct picture of the financial affairs of the company. An investor is likely to be guided by the audited balance sheet of the company and would presume that the facts incorporated in the Balance sheet are true and correct.

82. A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards while providing professional services.

83. The requirement to have the annual and consolidated accounts of companies audited by a qualified professional, through the Accounting Directives, is designed to protect the public interest. The assurance offered by audited accounts should enhance the confidence of all parties which are concerned with the affairs of companies. The increased transparency resulting from the harmonisation of the financial information published by companies together with the increased reliability of that information as a result of the audit by an independent and qualified professional were regarded as an important contribution to the completion of the single Market.

84. In view of the above, it was alleged that the statutory auditor was not careful while certifying the financial statements. Such certification of financial statements by statutory auditor has resulted in not only the shareholders but also the public being misled about the financial health of the company. Thus, the Noticee-7 was alleged to have violated **Regulation 4(1), 4(2)(f) and (r) of the PFUTP Regulations 2003.** Regulation 4(1), and Regulation 4(2)(r) of the SEBI PFUTP Regulations, 2003 are reproduced as follows:

Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

4. ***Prohibition of manipulative, fraudulent and unfair trade practices***

(*1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities*

2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

… (r) planting false or misleading news which may induce sale or purchase of securities.

85. The aforesaid alleged violations, if established, make the Noticees-1-6 liable for monetary penalty under Section 15HA and 15HB of SEBI Act, 1992 read with Section 23H of SCRA,1956 and Noticee-7 liable for monetary penalty under Section 15HA of SEBI Act, 1992, which read as under:

SEBI Act, 1992-

Penalty for fraudulent and unfair trade practices.

15HA. *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.*

Penalty for contravention where no separate penalty has been provided.

15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

Securities Contracts (Regulation) Act, 1956

Penalty for contravention where no separate penalty has been provided.

23H. *Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

86. Noticees were therefore, called upon to show cause as to why an inquiry should not be held against them in terms of Rule 4(1) of the Adjudication Rules and Rule 4(1) of the SCR Adjudication rules read with Section 15-I of the SEBI Act and Section 23-I of the SC(R)A; and why penalty should not be imposed under Sections 15HA and 15 HB of SEBI Act and 23H of SCR(A) as applicable upon them for the aforesaid alleged violations.

87. The aforesaid alleged violations, if established, make the Noticees liable for monetary penalty under Section 15HA and 15HB of the SEBI Act and 23H of SCR(A).

88. In response to SCN dated December 15, 2021 Noticees filed their reply, inspected documents and attended personal hearing before undersigned as follows:

<table>
<tr><th>Noticee No.</th><th>Filed reply vide letter dated</th><th>Date of inspection of documents</th><th>Personal Hearing Date</th><th>Represented by</th></tr>
<tr><td>1</td><td>27.12.2021,
12.01.2022,
30.04.2022</td><td>NA</td><td>09.02.2022</td><td>Self</td></tr>
<tr><td>2</td><td>27.05.2022</td><td>07.03.2022</td><td>17.05.2022</td><td rowspan="4">Advocate Usha Rahi and Advocate Saurabh Bachawat</td></tr>
<tr><td>3</td><td>27.05.2022</td><td>07.03.2022</td><td>17.05.2022</td></tr>
<tr><td>4</td><td>27.05.2022</td><td>07.03.2022</td><td>17.05.2022</td></tr>
<tr><td>5</td><td>27.05.2022</td><td>07.03.2022</td><td>17.05.2022</td></tr>
<tr><td>6</td><td>28.01.2022,
23.02.2022</td><td>NA</td><td>09.02.2022,
20.04.2022</td><td>Self</td></tr>
<tr><td>7</td><td>Written Reply not received</td><td>07.03.2022</td><td>17.05.2022</td><td>Advocate Bhagwati Raghani and Advocate Saurabh Bachawat</td></tr>
</table>

89. Further, the Noticees were also provided with relevant excerpts of Investigation report in the matter vide email dated April 07, 2022.

90. The submissions of the Noticees are summarized as below:

Noticee 1

91. Noticee is Senior Citizen (69 years) with B.Tech in Chemical Engineering, with experience in pharmaceutical companies, joined Sharon between 2006 to 2009 as Corporate Head Technical for assisting Sharon in establishing its plant in Dehradun and Navi Mumbai.

92. Pursuant to request from Promoter of Sharon, acted as Non-Executive Independent Director (w.e.f 17.12.2014) to aid management on account of Noticee's expertise in chemical engineering. No sitting fees or other remuneration was received. Further, after about an year Noticee resigned on 31.12.2015. During this, only two meetings were attended by Noticee on 14.05.2015 and 10.11.2015.

93. There is significant delay of 6 years in issuance of SCN and is barred by limitation. The details/report of independent investigation undertaken by SEBI and the documents referred to and relied upon for the adjudication proceedings has not been shared with the Noticee.

94. The report of the forensic auditor cannot be relied upon as evidence to arrive at any finding /conclusion for following reasons:
    a) Report prepared at the instance of SBI and other creditors, meant to be used by them as set out in the disclaimers thereto.
    b) Report prepared in limited time with limited data/material, sample verification by auditor.
    c) Report not undergone scrutiny and NCLT did not take action against any person basis the report
    d) NCLT approved the resolution plan against Sharon despite adverse finding in the report

95. The alleged manipulation of the accounts unearthed in forensic auditor was not of nature that could be prima facie discovered or ascertained especially by a person lacking in depth knowledge in the field of finance. The forensic audit report is subject to scrutiny and undersigned cannot be treated in breach of duty for failing to discover or highlight the alleged illegal acts on part of the management of the company.

96. In terms of Section 177(2) of the Companies Act, 2013 not all persons of audit committee needed ability to read and understand financial statements, and

Noticee was part of such a minority. Noticee merely attended 2 audit meetings in 1 year, whereas other non-executive directors who remained in officer for far longer tenure were also unable to discover any malpractice or manipulation of records. Noticee was not chairman of the committee, and to a large extent dependent on other directors of the company and auditor, chartered accountants for advise on financial matters related to the company. Noticee had no reason to doubt the judgment and integrity of promoters and financial experts such as auditors, accountants and other managerial personnel of Sharon and acted out of utmost trust and good faith in relation to matters where they obviously had better knowledge and expertise than Noticee.

97. The meetings attended by Noticee took place and financial discussions were held and these minutes are not backdated or post scripted.

98. Noticee cannot be treated as related to Sharon merely on the basis of being employed with Sharon in the past.

99. Noticee just because was an independent director cannot be held responsible for the affairs of the company since he had no role to play in the alleged misreporting by the company. Noticee is not involved in dealing with securities of Sharon in any manner and deny being guilty of violating any provision under SEBI PFUTP Regulation 2003. Noticee has not been assigned any role and there are no specific allegations of wrongdoing against Noticee in the extract of investigative report.

100. As per Section 149(12) of the Companies Act, 2013 an independent director shall be held liable only in respect of such acts of omission or commission by a Company which had occurred with his knowledge, attributable through a Board process, and with his consent or connivance or where he had not acted diligently. Applying the aforesaid statutory provision to the facts of the present case, Noticee should not and ought not to be held liable or guilty for the aforesaid reasons.

Noticee 2

101. Noticee is a B.Com graduate and was in the field of Marketing and Merchandising in the textile industry. Mr. Lalit Mishra who was a Director in Sharon approached Noticee for seeking his professional help in the field of marketing and conducting exhibitions abroad for Sharon. Thereafter Noticee was appointed in the Company in or around 31st December, 2009 and was a Non-Executive Independent Director in the Company until he resigned i.e. till 01st April, 2017 . Noticee used to attend most of the Board Meetings of the Company, however on some occasions he did not.

102. Noticee became part of the Audit Committee only on in the financial year 2015-16. (table in para 7 of the SCN). Noticee did not hold any shares of the Company. In or around October 2014 Sharon went under the Corporate Debt Restructuring, which was later finalised in March 2015. Sharon later went into insolvency in April 2017 and moratorium under Section 14 of Insolvency and Bankruptcy Code, 2016 was made effective.

103. Pursuant to the said order, the IRP took over the management and business affairs of Sharon as a going concern basis to carry out the functions as mentioned in the Insolvency and Bankruptcy Code, 2016 and rules and regulations made thereunder. Noticee resigned from the Company on 01st April, 2017. As on date neither does Noticee have complete documents or information to give a detailed response to the SCN nor holds any key position in the company.

Noticee 3

104. Noticee is a Consultant Eye Surgeon, MMBS DOMS PGDCR and is an eye specialist. Noticee is college friend of Ms. Savita Gowda who was the Managing Director and CEO of Sharon.

105. So based on the education and professional qualification and the relation with Ms. Savita Gowda, Noticee was appointed as one of the Independent Directors

of Sharon on 07th September, 2006. Noticee used to attend most of the Board Meetings of the Company, however on some occasions did not. Noticee was also forming part of the Audit Committee of the Company. Noticee did not hold any shares of the Company.

106. In or around October 2014 Sharon went under the Corporate Debt Restructuring, which was later finalised in March 2015. Sharon later went into insolvency in April 2017 and moratorium under Section 14 of Insolvency and Bankruptcy Code, 2016 was made effective. Pursuant to the said order, the IRP took over the management and business affairs of Sharon as a going concern basis to carry out the functions as mentioned in the Insolvency and Bankruptcy Code, 2016 and rules and regulations made thereunder.

107. Noticee resigned from the Company on 01st April, 2017. As on date neither does Noticee have complete documents or information to give a detailed response to the SCN nor holds any key position in the company.

Noticee 4

108. Noticee is a PHD in Chemistry from Kanpur University and based on his educational background he had joined Sharon in September 1995 product manager till 1998. Thereafter Noticee was appointed as a Non Independent Non-Executive Director of the Company. Later Noticee resigned from the Company because of the work pressure but his name continued to be shown as a Director of the Company till 15th May, 2014.

109. On request to the then management of the Company Noticee's name was removed. Noticee knew Mr. Mohan Kala before he joined Sharon, as he was a distant relative of him. Noticee used to attend most of the Board Meetings of the Company, however on some occasions did not.

110. Considering the period of investigation in the matter, Noticee was part of the Audit Committee only for the period F.Y. 2011-12 and 2012-13.

Noticee 5

111. Noticee is a B Tech Chemical Engineer and was classmate of Mr. Lalit Mishra during his college education. Mr. Lalit Mishra who was a Director in Sharon invited Noticee to join Sharon based on Noticee's educational background. Noticee joined Sharon September 2009. Thereafter Noticee was appointed as a Non Independent Non-Executive Director of the Company.

112. Noticee resigned from the Company in the F.Y. 2013-14 because Noticee was unable to attend the Board Meetings of the Company and also wanted to start his own business. Noticee used to attend most of the Board Meetings of the Company, however on some occasions did not.

113. Considering the period of investigation in the matter, Noticee was an Independent Non-Executive Director in Sharon only for the period F.Y. 2011-12, 2012-13 and 2013-14. It is important to note that it is an admitted position that Noticee was never part of the Audit Committee of the Company.

Common submissions of Noticee 2, 3 4, and 5:

114. The violations alleged in the SCN relates to the period Financial Year 2011-12 to 2016-17 and the SCN has been issued in December 2021 i.e. after a period of more than 4 years along with the fact that the Company is in insolvency since 2017. Therefore the SCN is liable to be disposed of on this ground alone without imposition of any penalty. In support judgment passed by the Hon'ble Securities Appellate Tribunal in the matter of Ashlesh Gunvantbhai Shah vs. SEBI (Appeal No. 169 of 2019, Date of decision 31st January, 2020) is referred.

115. Whatever data was produced before the Audit Committee, Noticee believed it to be true and therefore never raised any issue regarding the accuracy of the same. Even in the SCN it is stated that Noticees were used by the promoters of the company. The relevant part of the SCN reads as thus:

“33… it is observed that the Noticees 1-6 were used by the promoters to carry out misrepresentation of financial which could not be detected by them in view of their educational background and their relation with the promoters / company.”

116. Noticee was appointed as independent director in professional capacity and was not involved in the day to day operations and financials of the Company. Noticee had no role in preparation of the financial statement of the Company until being part of Audit Committee. For the period Noticee was part of the Audit Committee, Noticee performed his duties and responsibilities of being an Independent Director of the Company and member of the Audit Committee to the fullest. Noticee relied upon the expertise of the Statutory Auditor of the Company and the accounts department of the Company. In Noticee’s understanding all the information/data provided to Noticee (before the Audit Committee) was true and correct, he had no reason to disbelieve the same.

117. In such cases a higher degree of proof is required to prove that Noticee actively participated in the alleged misrepresentation or wrongdoings by the company. The present SCN cannot be sustained on the basis of such vague allegations.

118. In the SCN, most of the obligations of the company have been put on the shoulders of Noticee and thereby Noticee has been alleged to have violated several provisions of securities law. If in normal course the SCN would have been issued (the company not going into insolvency), the SCN would not have been issued to Noticee. In this regard attention was drawn to the judgment passed by the Hon’ble Securities Appellate Tribunal in the matter of Dewan Housing Finance Corporation Ltd. vs. SEBI (Appeal No. 206 of 2020, Date of decision 09th October, 2020).

119. Further in regard to role of Non-executive independent directors following Judgments are referred, Rajesh Shah vs. SEBI (Appeal No. 433 of 2021, Date of Decision 05th July, 2021), Prafull Anubhai Shah vs. SEBI (Appeal No. 389 of

2021, Date of Decision 28th June, 2021), Kaushik Bhatt vs. SEBI (Appeal No. 298 of 2021, Date of Decision 25th March, 2022).

120. Dealing with the specific provisions of law alleged to have been violated by Noticees, it was submitted:

PFUTP Regulations

i. 4(2)(f) – it is denied that Noticee knowingly published or caused to publish or report or cause to report any information relating to securities, including financial results, financial statements, merger and acquisitions, regulatory approvals, which is not true or which Noticee does not believe to be true prior to or in the course of dealing in securities. Noticee believed the information presented to him to be true and correct.

LODR Regulations

i. Regulation 4(1)(c)(e) & (g) – the said regulations cast a responsibility on the listed company and not the directors. As mentioned above the company was not in control of Noticee and therefore Noticee cannot be held liable for the violation of the said regulations.

ii. Regulations 4(2)(f)(ii)(7) – Noticee has always ensured the integrity of Sharon's accounting and financial reporting systems, including the independent audit and that appropriate systems of control are in place.

iii. Regulations 4(2)(f)(iii)(3)(6) & (12) –Noticee acted on a fully informed basis, in good faith with due diligence and care, in the best interest of the Company i.e. Sharon while being its Independent Director.

SCRA

i. Section 21 – It is denied that Noticee has not complied with the conditions of the listing agreements with the stock exchange. It is again reiterated that Noticee was merely a Non-executive Independent Director of the Company and was not in control of day to day operations of the Company.

Listing Agreement

ii. Clause 49(1)(A) – it has nowhere been alleged in the SCN that the composition of Board of Directors of Sharon was not proper. The Board of Sharon consisted of appropriate number of Independent Directors at the relevant period. It is submitted that Noticee was not related to the promoters or person occupying management positions at the board level or at one level below the board as per the Companies Act 1956 or 2013 whichever is applicable.

iii. Clause 49(1)(B) – it is submitted that the Clause under reference is attracted when any fees/compensation is being paid to the non-executive director. In the present case no remuneration / fees / compensation was being paid to Noticee. Therefore non-compliance with Clause 49(B) does not arise.

iv. Clause 49(1)(C) – the SCN fails to allege non-compliance with the clause under reference by Noticee. The board meetings did take place, the board reviewed all the compliance reports of all laws applicable to the company. Appointment of independent directors did take place according to law and requirement.

v. Clause 49(1)(D) – it has nowhere been alleged in the SCN that there was no code of conduct for board members and senior management of the company. Noticee as an independent director did comply with such code of conduct on annual basis.

vi. Clause 49(D) (1) to (13) - it is denied that Noticee has violated any of the said clauses of the Listing Agreement. It was always the endeavor of Noticee to comply with the listing requirements and regulatory compliances including that of SEBI and stock exchanges. It has nowhere been alleged in the SCN as to how the said clauses of the listing agreement have been violated by Noticee.

vii. Clause 49(E) – Noticee was part of the Audit Committee only from financial year 2015-16 and did review the information provided by the management of the company to the best of his ability.

Noticee 6

121. Noticee was introduced to the promoters of the company at an exhibition at Mumbai, and on account of domain expertise was invited to join the Sharon's Board as Independent Director.

122. Noticee was non-executive director of Sharon from November 15, 2006 to May 15, 2014. Noticee never held any shareholding in Sharon or traded in its shares. Noticee is not related to the company directors, promoters and has not performed any functions except performing as Independent Director. One meeting at Trade exhibition cannot be said to be an association for violation of concerned provisions.

123. Noticee did not receive any remuneration from the Company. Company at the time already had the Managing Directors and other Senior Key Managerial Personnel. Noticee's appointment was made in November 2006, there was no provision for creation of databank for Independent Directors under the Companies Act, 1956.

124. The Companies Act, 2013 was introduced w.e.f. April 01, 2014. Accordingly, the relevant provisions of the act were attracted except for brief period of 45 day, which was more of a gestation period.

125. Noticee was neither a member of the Audit Committee nor a part of any decision making process except as an Independent director in board meetings. Notice denies for having indulged in any alleged violations. Noticee being a non-finance person, did not know much about financial statements and whatever was placed before the Board, were deliberated and collective decisions were taken.

126. Noticee being a technical person is not expert in analyzing the financial statements, however as Independent Director attended the Board Meetings as per records of the Company and participated and contributed to the best of knowledge and experience on all relevant issues.

127. Noticee as Independent Director cannot interfere in the day to day management of the company. It was being looked after by the management. Any non-coherence in figures or any other non-compliance in financial statement and Directors report, could only be answered by the management.

128. Further, the scope of the Forensic Audit was period from July 01, 2014 to March 31, 2017, whereas Noticee ceased to be an independent director on May 31, 2014.

Noticee 7

129. During Hearing Proceedings Noticee inter alia referred to several judgments of Bombay High Court, Hon'ble SAT, in regard to the Auditor PriceWaterhouseCoopers; SEBI AO order in the matter of Zylog Systems Limited in regard to the role of auditor.

130. Authorised Representative (AR) of the Noticee submitted that the reply of Noticee on technical queries is already part of SCN.

131. Further, the AR of the Noticee undertook to submit the post hearing submissions in the matter by May 24, 2022. However, the AR/Noticee failed to submit the written reply despite the reminder email dated May 26, 2022.

132. As the inquiry in the matter has been completed, I now proceed to decide the case on the basis of SCN issued, replies made by the Noticees and material available on record.

CONSIDERATION OF ISSUES AND FINDINGS

133. The issues that arise for consideration in the instant matter are:

Issue No. I Whether (i) Noticees 1,2,3,4,5,6 are in violation of Regulation 4(2)(f) of the PFUTP Regulations 2003, Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of LODR Regulations 2015, Section 21 of SCRA, Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1) and (2) of Listing Agreement; and (ii) whether Noticee 7 is in violation of Section 4(1), Section 4(2),(f) and (r) of the PFUTP Regulations 2003.

Issue No. II If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA, 15HB of SEBI Act, 1992 and Section 21 of SCRA? And

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15J of the SEBI Act and Section 23J of SCR(A)read with Rule 5(2) of the Adjudication Rules and Rule 5(2) of SCR Adjudication Rules?

Issue No. I Whether (i) Noticees 1,2,3,4,5,6 are in violation of Regulation 4(2)(f) of the PFUTP Regulations 2003, Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of LODR Regulations 2015, Section 21 of SCRA, Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1) and (2) of Listing Agreement; and (ii) whether Noticee 7 is in violation of Section 4(1), Section 4(2),(f) and (r) of the PFUTP Regulations 2003.

134. Before proceeding with the consideration of issues, there is need to address the preliminary issue raised by the Noticees regarding delay in initiation of the proceedings. In this regard, I note that SEBI received letter dated November 25, 2019 from Central Economic Intelligence Bureau along with copy of the CBI FIR against Sharon and others. Pursuant to the same, investigation was carried out

by SEBI in the matter, and subsequently, the investigation was completed in February, 2021. Undersigned was appointed as AO in the matter in May, 2021 and SCN was issued on December 15, 2021. From the above, I note that no inordinate delay occurred in the matter in initiation of proceedings and no prejudice is caused to the Noticees by continuing the proceedings. Further no limitation has been prescribed in SEBI Act for initiating proceedings for violation of securities laws. In view of the same, the aforesaid contention of the Noticees is not acceptable.

135. It was alleged that the independent directors (Noticee 1 to 6) were associated or were related to the company and its promoters, and the manner of their appointment was improper and hence it is questionable that their appointment as independent directors, served the purpose of providing equitable and independent judgment to the board, to secure and promote the interests of all stakeholders, especially minority investors and also to report concerns about any unethical behavior, suspected fraud or violation of code of conduct.

136. In this regard, Noticees have contended that merely being college friend or acquaintance or employee in past, working together in some exhibitions, does not make them related with promoters or company.

137. In this regard, *Regulation 2(zb) of SEBI LODR Regulations, 2015* is referred, which is as follows:

"related party" means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party……

Companies Act, 2013

(76) —"related party", with reference to a company, means—

(i) a director or his relative;

(ii) a key managerial personnel or his relative;

(iii) a firm, in which a director, manager or his relative is a partner;

(iv) a private company in which a director or manager is a member or director;

(v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;

(vi) any body 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 manager;

(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any company which is—

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary;

(ix) such other person as may be prescribed;

Further, as per IAS 24, A related party is a person or an entity that is related to the reporting entity:

i. A person or a close member of that person's family is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel.

ii. An entity is related to a reporting entity if, among other circumstances, it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.

138. In view of the above, it is noted that the Noticees were either college friends with Promoters, or acquaintance or employee in past to the company/promoters, or worked together in some exhibitions or were distant relative, a fact not disputed by the Noticees in their submissions. When the connection outlined above

between the Noticees, is evaluated in light of the definition of related party in Companies Act, 2013 and Indian Accounting Standards, it emerges that there is insufficient evidence to establish that the Noticees were related to promotors/company. In view of the same, the allegation that the Noticees working as Independent Directors of Sharon were related to the company and the promoters and were appointed in a manner which undermined the independence of the Independent Directors from the company is not established.

139. In respect of the allegation that the Section 150 of Companies Act, has not been complied with and the same has not been followed in letter and spirit, it is noted that the responsibility of exercising such due diligence is with the Company and the prescribed manner of selection of independent director from the data bank is optional to the Company and is effective from April 01, 2014 i.e. after the appointments of the Noticees as independent directors.

140. It is stated in the SCN that Noticees, being Independent Director and or part of Audit Committee of the Company, were obligated to carry out their role, functions and duties in a manner specified in Companies Act, 2013, which inter alia included examination of the financial statement, auditors' report, approval or any subsequent modification of transactions of the company with related parties, review the financial statements. The Noticees being part of Audit Committee had power to obtain professional advice from external sources to investigate into any matter. It is mandated that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

141. After the forensic audit, forensic auditor stated that Sharon had misrepresented / misused its financials / books of accounts for the period of audit i.e. FY 2011-12 till FY 2016-17. The following observations were made against the company:
    a) Inflation of sales and purchases (trading and non-trading) by the company.

b) Non reporting on related party transactions in financial statements leading to violation of AS 18- Related party disclosures.
c) Sales and purchases from related parties not commensurate with the corresponding receipts and payments.
d) Incorrect reporting of assets in the financial statements – based on incidence of fire.
e) Lack of documentation for loans from related parties (preference share warrants issued against it/netted off against debtor's balances).
f) Misstatement of receivables and payables mentioned in the financial statements - Prior period debtors written off without any supporting documentation or effort for recovery, common debtors and creditors and inter se adjustment of debtors and creditors.
g) Expenses incurred in cash not backed by appropriate supporting documents.
h) Mismatch in depreciation as per books and financial statements and non-maintenance of proper fixed asset register by the company.
i) Non reporting of lack of controls over recording of financial transactions (transactions not booked in accounts and closing balance incorrectly carried over).
j) Non maintenance of books of accounts by company at its registered office.

142. Further, it is noted that audited financial statements for year FY 2011-12 to FY 2015-16 were placed before the audit committee, and as per the minutes of the audit committee meetings, during these meetings the financial results of the company, analysis of financial conditions of the company, Auditors' report, related party transactions, Annual Accounts of the Company, functioning of internal audit department etc. were discussed. The SCN states that Noticees 1 to 4 were members of the audit committee and attended audit committee meetings at various points of time as given below:

Name of directors	FY 2011-12		FY 2012-13		FY 2013-14		FY 2014-15		2015-16	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
V N Badoni* (Noticee 4)	5	5	5	5	4	4	NA	NA	NA	NA
Nivedita Patil (Noticee 3)	5	5	5	5	4	4	4	4	3	3
Madhav Sapre** (Noticee1)	NA	NA	NA	NA	NA	NA	4	1	3	2
Harish Palecanda (Noticee 2)	NA	NA	NA	NA	NA	NA	NA	NA	3	3

***Dr V.N. Badoni resigned as director on 15.05.2014. ** Madhav Sapre resigned w.e.f. 31.12.2015**

143. SCN also states that Noticee-6 and Noticee-5 have not attended any audit committee meetings. However Noticee-6 had attended meetings of the board for FY 2011-12 and FY 2012-13. I note that the findings in the SCN pertain mainly to the role of the Audit Committee in examination and approval of the financial statements. In this context, I find that as Noticee 5 did not attend any Audit Committee meetings and Noticee 6 was not a member of the Audit Committee, the findings related to role and duties of Audit committee are applicable only to Noticee 1 to 4.

144. During the instant adjudication proceedings, Noticee 1-5 have submitted that the financials of the company were discussed during the meetings attended by them, however, being non-finance person lacking the domain knowledge, they did not know much about financial statements and whatever was placed before the Board, was deliberated and collective decisions were taken. The Noticees have also contended that in Noticee's understanding all the information/data provided to them was true and correct, and they had no reason to disbelieve the same,

and the Noticees acted on a fully informed basis, in good faith with due diligence and care, in the best interest of the Company.

145. I note that the role of the Audit Committee of a listed company is of paramount importance to ensure that the company makes true and correct disclosures pertaining to its finances in its Annual Reports for the benefit of the shareholders of the company and its other stakeholders. It is in this direction that Clause 49(II)(A)(iii) the Equity Listing Agreement has mandated that the Chairman of the Audit Committee of a listed company should be an independent director in order to rule out any bias in such financial reporting. Similarly the requirement that the majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement, is to ensure impartial true financial reporting. In view of the same, while assuming role of independent director or a becoming a member of audit committee, one assumes a very important role in safeguarding the interests of investors, and promoting fair and efficient working of securities market.

146. The role and functions and duties of independent directors are listed under Schedule IV, of the Companies Act, 2013, and it was the duty of the independent directors to be familiar with their duties and responsibilities as mentioned above before accepting their appointment. Further, as per section 177(2) of Companies Act 2013, *majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement* . As per Section 177 of Companies Act 2013 (and Section 292A of Companies Act 1956) duty of the audit committee specifically includes examination of the financial statement and the auditors' report thereon and approval or any subsequent modification of transactions of the company with related parties. Given that the role of audit committee required evaluation of veracity and sufficiency of financial statements and records of the company, Noticees were expected to be aware of their capabilities for executing these roles vis-à-vis their education and expertise for the same. Noticees have accepted in their submissions that they were not

expert in financial domain and mainly contributing their technical know-how regarding pharmaceutical processes or industry.

147. The contention of the Noticees 1- 4 who attended the Audit Committee meetings that in meetings attended by them they acted with an understanding that all the information/data provided to them was true and correct, and had no reason to disbelieve the same, and acted on a fully informed basis, in good faith with due diligence and care is not acceptable the role of the Audit Committee is to evaluate the issues before them independently and not to merely rely on the face value of the records and documents submitted before them. As accepted by Noticees 1 - 4, with their lack of expertise in financial domain, they were aware that they could not provide effective oversight over the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations. But they accepted the positions offered by the Company, attended the meetings, signed the minutes and approved the financials placed before them. Noticees 1 - 4, being Independent Directors, were empowered to seek appropriate clarification or amplification of information and, where necessary, take and follow appropriate professional advice and opinion of outside experts. However, Noticees being themselves lacking financial domain expertise did not seek any professional advice or opinion of outside experts to conduct their role with the diligence expected from them in the role.

148. Further, there were certain discrepancies and anomaly observed in the audit committee meeting minutes like non signing of the minutes of certain meetings by Noticee 1, 2 and 3; difference in signature of Noticee-3, signing of minutes of meeting on the same date of meeting, minutes only initialed by Noticees etc., which if read with the assertions made by Noticees and Compliance officers in their recorded statement, point towards the conclusion that the minutes of these Audit meetings were a postscript and afterthought. However, Noticees in their reply to SCN have refuted the assertions made by them in statements recorded in the investigation, and there is insufficient evidence to conclude that these minutes were post transcript or after thought.

149. Without going into whether the minutes were signed as an afterthought, from the findings of misrepresentation and the non-reporting observed in the Forensic Audit Report, as brought out in preceding paragraphs, I find that the Noticees 1 to 4 failed to exercise duty as members of the Audit Committee, to conduct audit committee meetings and discuss financials in audit committee meetings; and were negligent in carrying out their statutory responsibilities and reporting of non-compliances. In view of the above, I find that Noticee 1-4 violated provisions of Clause 49(D)(1),(2),(4),(5),(6),(7), and (8), Clause 49(E) (1)and (2) of Listing Agreement read with Section 21 of SCRA.

150. While Noticee-6 and Noticee-5 did not attend any audit committee meetings, as per SCN, they attended the following Board meetings where financial results/statements were placed before the board for discussion during 2011-12 and 2012-13. In this regard I take note of their submission that they were brought on the Board for their technical expertise, and that they relied upon the records placed before them to evaluate the performance of the company. I also take note of the judicial precedent cited by them regarding role of independent directors. I also note that SCN refers to role duties and function of Independent Directors specified in Schedule IV of Companies Act, 2013, which was not applicable for the duration when Noticee 5 and 6 were on the Board of the Company. Thus I find that allegation of violation of Regulations 4(1),(c),(e),(g), 4 (2) (f) (ii)(7), 4(2)(f) (iii) (3)(6) (12) of LODR 2015 and Section 21 of SCRA; and Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1)and (2) of Listing Agreement is not established in the case of Noticee 5 and 6.

151. With regard to the Regulations 4(1),(c),(e),(g) of LODR 2015, it is noted that the onus of complying with the aforesaid regulations is on the listed company i.e. Sharon. Noticees 1-6, being non-executive independent directors, cannot be held responsible for the compliance of the same as they were not responsible for the day to day functioning of the Company. In view of the above, I find that the

material on record does not establish that the Noticees 1-6 violated Regulations 4(1),(c),(e),(g) of LODR 2015.

152. While it is established that Noticees should have been more diligent performing their role in the of audit committee, and that they should have been more careful and sought outside experts help for carrying out their role and duties properly, failure to do so amounts to negligence. However, negligence or professional failure cannot be equated with fraud. I find that the element of fraudulent practice as stated in Regulation 4(2)(f) of PFUTP Regulations, i.e. publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities is missing in the instant matter, as it is not established that the Noticees were aware of the fact that financial statements were not true or were misleading.

153. In view of the above, I find that the material on record does not establish that the Noticees violated Regulation 4(2)(f) of the SEBI (PFUTP) Regulations, 2003.

154. I note that Noticee-1 worked till 2012 with Sharon as Corporate Head Technical, and joined Board of Sharon as Non-Executive Independent Director in 2013-14, which is in violation of the Clause 49(1)(A)(iii)(c) of Listing Agreement. However, the onus of complying with the Regulation Clause 49(1) of listing agreement is on the listed company i.e. Sharon. Noticees 1-6 being non executive independent directors, cannot be held responsible for the compliance of the same as they were not responsible for the day to day functioning of the Company. In view of the above, I find that the material on record does not establish that the Noticees 1-6 violated Clause 49(1) of listing agreement.

155. In regard to the Noticee-7, the following non compliances/failures/non-reporting have been allegedly observed on the part of the statutory auditor:

i. Non reporting on related party transactions in financial statements leading to violation of AS 18- Related party disclosures and SA 550 related parties.
ii. Non maintenance of audit documentation for the audit conducted leading to violation of SA 230 Audit Documentation.
iii. The statutory auditor has failed to verify whether the assets disclosed by the company in the balance sheet reflect the true and fair picture as per AS 10 - Fixed Assets.
iv. Non reporting of prior period write offs and net offs in the financial statements.
v. Copy of supporting vouchers not maintained as per SQC 1 (Standard on quality control) and SA 230- Audit documentation prescribed by ICAI.
vi. Non verification of whether fixed asset register maintained by the company.
vii. The statutory auditor had knowledge of set-off of debtors by company and efforts of non-recovery on the part of the company while conducting the audit. However, he did not qualify the report basis on above material facts and hence violated SA 700 forming an Opinion and Reporting on Financial Statements and SA 705 Modifications to the opinion in the independent auditor's report.

156. The allegation against Noticee-7 is that being statutory auditor was not careful while certifying the financial statements, and that such certification of financial statements by statutory auditor resulted in not only the shareholders but also the public being misled about the financial health of the company. In this regard, it is noted that during forensic audit, auditor had limited data/records/documents availability, and placed a disclaimer that if the data which was not available with forensic auditor is made available to the forensic auditor, the impact/categorization of the observations may change. I note that Noticee-7 during investigation stage had replied that all its observations were backed by the verification of relevant documents, which were provided by the Company to it during preparation of the financial statements and reports by it.

157. While the SCN lists various non-compliances by Noticee 7 with regard to accounting standards, the case of fraud is derived from the conclusion that failure by Noticee 7 to comply with the said accounting standards amounted to giving misleading information. I note from the SCN that Noticee 7 had given point –wise response to the observations of the forensic auditor. Noticee 7 stated during hearing that they rely upon the same submissions and that their certification was based on the material/documentation/information provided to them by the company. I also note that the forensic auditor has stated that he did not have access to all records and that his findings may change if records were made available.

158. The charge of fraud is a serious allegation and to establish the same, there should be preponderance of probability indicating fraudulent actions such as giving misleading information. I find that given the disclaimers submitted by forensic auditor and the fact that statutory auditor has claimed to certify financial statements based on material made available to it, there is no material on record to establish on the principle of preponderance of probability that Noticee 7 knowingly certified financial statement/reports which were false or misleading, even though it could be said that Noticee 7 did not follow accounting standards as alleged by the forensic auditor.

159. I note that the Hon'ble Supreme Court in the matter of **SEBI & Ors. vs Kanaiyalal Baldevbhal Patel & Ors.**, (2017) 15 SCC 1, has held that *the element of 'inducement" must exist and should be proved before holding that a person is guilty of fraud.* I also find that the element of inducement in the definition of fraud in Regulation 2(c) the PFUTP Regulations or in fraudulent practice as stated in Regulation 4(2) (f) and (r) of PFUTP Regulations, i.e. the element of inducing to trade or deal in securities or of impacting the price of securities of Sharon is missing in the findings related to the Noticee 7. While Noticee 7 may have failed to follow certain accounting standards, or may have acted in a manner amounting to negligence, that is not the charge before me. Hence, I find that the material

before me is not sufficient to establish that Noticee-7 acted in a fraudulent manner when auditing the financial statements of the Company. Therefore, violation of Regulation 4(1), 4(2)(f) and (r) of the PFUTP Regulations 2003 by Noticee 7 is not established.

Issue No. II If yes, whether the failure, on the part of the Noticees would attract monetary penalty under Section 15HA & HB of SEBI Act,1992 and Section 23H of SCRA, 1956? And

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15J of the SEBI Act and Section 23J of SCR(A)read with Rule 5(2) of the Adjudication Rules and Rule 5(2) of SCR Adjudication Rules?

160. As it is established that the Noticee-1 – 4 violated Clause 49(D)(1),(2),(4),(5),(6),(7), and (8), Clause 49(E) (1)and (2) of Listing Agreement read with Section 21 of SCRA as brought out in the foregoing paragraphs, the Noticees 1 to 4 are liable for monetary penalty under Section 23H of SCRA which states as follows:

> ***Penalty for contravention where no separate penalty has been provided.***
>
> ***23H.*** *Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

161. While determining the quantum of penalty under 23H of SCRA,1956 , the following factors stipulated in 23J of the SCRA have to be given due regard:

SECURITIES CONTRACTS (REGULATION) ACT, 1956

Factors to be taken into account while adjudging quantum of penalty.

23J. *While adjudging the quantum of penalty under section 12A or section 23-I, the Securities and Exchange Board of India or the adjudicating officer shall have due regard to the following factors, namely:—*

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

162. The material on record does not bring out the quantum of disproportionate gain made or loss caused to investors by the actions of Noticee-1 to 4 or any repetitive nature of violation by them. I take note of the fact that the matter pertains to 2011-16. I also note that as per SCN independent directors did not receive any sitting fees from the company. Taking into account the role of the Noticee 1 to 4 as members of statutory committee, and the fact that they failed to perform this role adequately due to lack of knowledge of financial statements, I am of the view a penalty of Rs. 1,00,000/- each on Noticee 1 to 4, under Section 23H of SCRA, 1956 will be commensurate with the violations committed by the Noticees.

ORDER

163. After taking into consideration all the facts and circumstances of the case, in exercise of powers conferred upon me under Section 23-I of SCR Act read with Rule 5 of SCR(A) Rules, I hereby impose a penalty of Rs. 1,00,000/- (Rupees One Lakh only) under Section 23H of SCRA, 1956 on Mr. Madhav Sapre (Noticee-1), Mr. Harish Palecanda (Noticee-2), Ms. Nivedita Patil (Noticee-3) and Mr. V N Badoni (Noticee-4) each for violation of Clause 49(D)(1),(2),(4),(5),(6),(7), and (8), Clause 49(E) (1)and (2) of Listing Agreement read with Section 21 of SCRA.

164. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link

ENFORCEMENT → Orders → Orders of AO → PAY NOW

165. The Noticees shall forward said Demand Draft or the details / confirmation of penalty so paid to the Enforcement Department – Division of Regulatory Action – III of SEBI. The Noticees shall provide the following details while forwarding DD/ payment information:

a) Name and PAN of the entity (Noticee)
b) Name of the case / matter
c) Purpose of Payment – Payment of penalty under AO proceedings
d) Bank Name and Account Number
e) Transaction Number

166. Copy of this Adjudication Order is being sent to the Noticees and also to SEBI in terms of Rule 6 of the Adjudication Rules and Rule 6 of SCR(A) Rules.

MANINDER CHEEMA

Digitally signed by MANINDER CHEEMA
Date: 2022.05.31 22:25:49 +05'30'

DATE: May 31, 2022 **MANINDER CHEEMA**

PLACE: MUMBAI **ADJUDICATING OFFICER**