



# Securities and Exchange Commission of Pakistan

Adjudication Division  
Adjudication Department-I

Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Bilal Fibres Limited

Dates of Hearing

October 15, 2020

## Order-Redacted Version

Order dated November 13, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Bilal Fibres Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated May 8, 2020
2. Name of Company	Bilal Fibres Limited
3. Name of Individual*	The proceedings were initiated against the directors of the Company i.e. Bilal Fibres Limited
4. Nature of Offence	Proceedings were initiated in terms of section 499 of the Companies Act, 2017 for non-compliance of directions of the Commission.
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through the facts of the case, reply furnished and stance taken during the hearing and arguments made by the Authorized Representative. Following points are relevant to the aforesaid proceedings:</p> <p>(i) Auditors' in his report annexed with Accounts 2019 has again given adverse opinion and qualifications, inter alia, highlighting following points, which reflect that following are the qualifications which form the basis of adverse opinion still exist in Auditors' report of 2019:</p> <p>(a) At the balance sheet date, the Company's accumulated losses stand at Rupees 422.14 million and its current liabilities exceed its current assets by Rupees 753.56 million. This situation may be further deteriorated if the possible effects of matter discussed in paragraph (a) to (d) above all accounted for in the</p>



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financial statements. The Company has suspended its operations since June 16, 2016 and has leased out the factory. Further the financial results show key adverse financial ratios and the Company's court cases are decreed in favour of the banking companies, due to its inability to comply with loan agreements. The Company is also unable to pay long term financing from banking companies amounting to Rupees 473.33 million and the related finance cost, Liabilities against assets subject to finance lease amounting to Rupees 155.582 along with the finance cost, short term borrowings amounting to Rupees 143.855 million along with the related finance cost, accrued mark-up amounting to Rupees 97.52 million if the execution applications filed by the banking companies are decided by the courts. At present, there is no formal approved business plan for future periods. These conditions and events indicate material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. However, as described in Note 1.2, these financial statements have been prepared under the going concern assumption.

(b) We did not observe the counting of the physical inventory of stock in trade amounting to Rs. 57.87 million and physical inspection of the mills plant and machinery as of June 30, 2019;

(c) Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from IFRSs as applicable in Pakistan.

(d) As fully explained in note 25, the Company is in litigation with the banking companies. The Company had not worked out and provided the amount of mark-up on long term financing from financial institutions, Liabilities against assets subject to finance lease and short term borrowings in these financial statements.

(ii) It has been submitted that the relevant financial statements were prepared on going concern basis as against the directions of the Commission. The reasons cited were that for restructuring of the bank's loans, it was necessary that financial statements be prepared on going concern basis otherwise the banks would have initiated liquidation process. As stated, the directors have taken steps for revival of the Company. Moreover, status of litigations with banking companies have also been provided in terms of which (i) Lahore High Court passed a decree of Rs. 419.608 million in favor of Bank of Punjab, against which appeal was filed by the Company (ii) The NIB Bank has filed a suit of recovery of Rs. 297.403 million and consent decree was passed on September 16,



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2013 by the Court in favor of the bank and the bank has filed execution application. (iii) Silk Bank Limited has filed a suit before Lahore High Court for recovery of Rs. 80.890 million. The Company has also filed a counter suit claiming of Rs. 89.156 million. Perusal of relevant information given in Accounts 2019 reveals that following information with regards to outstanding loans of FIs, is relevant:

(Rs. in million)

Particulars	2019	2018
Accrued interest/mark-up payable	97.520	97.520
Short term borrowings from banks	143.855	143.855
Long term borrowings from banks	473.336	472.297
Liabilities against assets subject to finance lease	108.306	108.306
Total FIs related liabilities	823.017	821.978

The aforesaid reveals that the Company has frozen its liabilities related to FIs. The Auditor also made qualifications in his report to members about preparation of Accounts 2019 going concern assumption basis was inappropriate and non-confirmation of FIs related liabilities. The Company instead to prepare its financial statements on NRV basis or on alternate basis, prepared its Accounts 2019 on going concern basis.

(iii) For counting of physical stock of the amount of Rs. 57.87 million, no relevant correspondence of the Company or Auditors have been made available, rather it has been confirmed that stocks were in the custody of FIs and there was no movement in the stocks.

(iv) The Auditors in his report to members for the year 2019 has not made qualifications for non-compliance of IAS 16 (for revaluation of PPE) and IAS 36 (for impairment of assets) and IAS 19 (for employee benefits), whereas the same qualifications were present in relevant Accounts of 2017. The aforesaid highlights that steps were taken to remove the Auditors' qualifications.

2. I am of the view that the Company was required to prepare its Accounts 2019 reflecting true and fair view in accordance with applicable IFRS/IAS and as per the requirements of the Act, as per the direction given by the Commission. Inappropriate use of going concern assumption, not reporting loans and mark-up of FIs as per agreements, for not carrying NRV of its inventory and physical stock taking of stocks are material and significant events and have



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	<p>resulted that financial statements were not prepared in compliance with applicable financial reporting, and does not reflect true and fair view. Therefore, Accounts 2019 were prepared in non-compliance of the direction given by the Commission in terms of section 474 of the Act vide order passed dated January 17, 2019, the Respondents are thus liable for action in terms of section 499(1) of the Act. Therefore, I, in terms of section 499(1) of the Act, hereby impose an aggregate penalty of Rs. 140,000/- (Rupees one hundred and forty thousand) on the Respondents.</p> <p>Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties in respect of any default, omission or violation of the Act.</p> <p>Penalty order dated November 13, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A Penalty of Rs. 140,000/- (Rupees one hundred and forty thousand) was imposed on the Respondents.
7. Current Status of Order	No Appeal has been filed by the respondents.