



OFFSITE – II DEPARTMENT  
SUPERVISION DIVISION

835

**Order Under Section 474 of the Companies Act, 2017 in the matter of Dadabhoy Sack Limited**

**Number and Date of Notice:** EMD/233/524/2002-92 dated March 29, 2022

**Date of Company's reply:** June 21, 2022

**Dates of Hearings Fixed:** i) June 8, 2022  
ii) July 28, 2022  
iii) September 22, 2022

This Order shall dispose of the proceedings initiated against Dadabhoy Sack Limited (the "Company") and Board of Directors of the Company (together referred to as the "Respondents") through the Notice dated March 29, 2022 (the "Notice") issued under the provisions of Section 474 of the Companies Act, 2017 (the "Act").

2. The brief facts of the case are that the statutory auditor of Dadabhoy Sack Limited (the "Company") Reanda Haroon Zakaria & Co. Chartered Accountants (the "Auditor") has given adverse opinion on the annual audited accounts for the year ended June 30, 2021 (the "Accounts 2021"). The basis of adverse opinion as stated in the Auditors' Report are reproduced as follows:

*"a) During the current year, the Company has incurred loss after taxation amounting to Rs.10.059 (2020: Rs. 11.035) Million, rising its accumulated losses to Rs. 29.531 (2020: Rs. 27.464) Million. Further, current liabilities of the Company exceeded its current assets by Rs. 3.016 (2020: Rs. 2.588) Million. The operations of the company are closed since financial year 2008 due to which the company is facing financial and operational difficulties and is unable to discharge its liabilities in due course of business. The company is reporting nil sales since then and is totally dependent on the financial support of its Directors and Sponsors to fulfill its operational and financial obligations.*

*These factors indicate the existence of material uncertainty that may cast doubts regarding the Company's ability to continue as a going concern and accordingly, the company may not be able to realize its assets and settle its liabilities at stated amounts in the normal course of business. The financial statements do not disclose this fact. Further, mitigating factors disclosed by the management in note. 1.2 of the financial statements reflect only tentative steps planned by the management for restarting the operational activities of the Company which have not been materialized till the issuance of these financial statements.*

*b) The Company has not carried out Revaluation of items of Property, plant and equipment the same is required to be carried out every three to five years in accordance with the requirements of IAS 16. The last revaluation was carried out for the year ended June 30, 2016. We could not determine the amount of adjustment that may have arisen had the revaluation being carried out."*

**SECURITIES AND EXCHANGE  
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3. Moreover, adverse opinion was also given on the basis of qualification at Para 2(a) above, by the statutory auditor in their report to the members on the annual audited accounts for the year ended June 30, 2020. Furthermore, the statutory auditor of the Company has been giving an adverse opinion on the annual audited accounts of the Company since June 30, 2016.

4. The statutory financial statements of companies are required to be prepared in accordance with the approved accounting standards comprising IFRS/IAS, as applicable in Pakistan, in addition to the requirements of the Act and should reflect the true state of affairs of the Company. However, the Company in its financial statements for the year ended June 30, 2021, has, *prima facie*:

- a) failed to maintain its books of accounts to give true and fair view of the state of affairs of the Company as required by Section 220(1) of the Act; and
- b) failed to prepare and present its financial statements to give a true and fair view of the state of affairs of the Company as required by Section 225(1) of the Act.

5. Consequently, a Notice under Section 474 of the Act dated March 29, 2022 (the "Notice") was served on the Respondents requiring them, to make good the default in terms of Section 225 and Section 220(1) of the Act and all other enabling provisions of the Act to ensure true and fair view in the financial statements and remove Auditors' observations/ qualifications as required under the aforesaid Sections within thirty days of the date of the Notice as the directors have deprived the shareholders of the Company from correct information on the financial statements of the Company.

6. The Respondents failed to submit a reply within thirty days. This office vide letter dated May 11, 2022 required the Respondents to provide evidence of compliance with the Notice within seven days and inform if they wish to seek a hearing opportunity. However, the Respondents did not submit any response to the letter dated May 11, 2022.

7. Hearing in the matter was fixed on June 8, 2022 through hearing notice dated May 31, 2022. However, the Company through letter dated June 6, 2022 informed that they have not received the Notice and are unaware of its content, and therefore requested to resend the Notice. This office through letter dated June 13, 2022 resent a copy of the Notice to the Respondents and allowed two weeks' time for submission of written response.

8. The Company failed to submit any response to the Notice despite passage of ample time. Subsequently another hearing in the matter was fixed on July 28, 2022 through hearing notice dated July 22, 2022. The Company through email dated July 27, 2022 submitted that the CEO of the Company is out of country and desired to reschedule the hearing. This office through email dated July 27, 2022 replied to the Company that the hearing will take place on the fixed time and the Respondents may authorize and issue power of attorney to any person well versed with the matter to attend the hearing on their behalf. However, no one attended the hearing on July 28, 2022. It is pertinent to mention that the hearing was fixed through Zoom, therefore, the hearing could be attended from the Company's office.

9. A final hearing opportunity was provided to the Respondents through hearing notice dated September 16, 2022. The hearing was fixed on September 22, 2022. However, legal counsel of the



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Company, K.D. Rajani & Co., vide letter dated September 20, 2022 submitted that a response dated June 21, 2022 to the Notice was submitted to this office. A copy of the response to the Notice was attached to the aforesaid letter. The legal counsel further submitted that if a hearing is still required, the same should be scheduled on October 12, 2022. The Respondents have not availed any of the three hearing opportunities afforded to them. The response to the Notice is reproduced as follows:

**a) "Content of the auditor's report with respect to adverse opinion:**

*In your notice, you have alleged that the books of accounts and financial statements of the company are not giving a true and fair view. Firstly, your attention is invited to international standards on auditing (IAS 705) wherein it is clearly mentioned that in case of an adverse opinion the statutory auditor is required to follow a prescribed format for the auditor's report. The relevant extract of the said ISA is produced below for your ready reference:*

*"when the auditor expresses an adverse opinion, the auditor shall state the I the auditor's opinion, because of the significance of the matter(s) described in basis for adverse opinion section:*

*When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]."*

*This is further substantiated by various illustrations provided under ISA 705. As such your questioning of the content of the audit report is very surprising. With this in mind, it is important to give you background of the company. It is a matter of public record that the operations of the company have been suspended with nil revenue for the past several years. As such the question of "material uncertainty" or "not presenting a true and fair view" does not arise whatsoever. As far as the element of the "going concern" is concerned, our client fails to understand that you are not aware of the recent announcements in PSX and intimation to SECP with respect to the untiring revival efforts of the company by the sponsors which by the grace of Almighty have materialized. The minutes of the last EOGM of the company along with business revival plan have already been submitted to SECP vide letter dated May 23, 2022 (attached and marked as annexure A for your refence and record). The notice of material information by Modaraba-Al-Mali is also being attached for you reference and record (attached and marked as Annexure B).*

*In regard to the revaluation of property, plant and equipment, it is submitted that the same will be conducted in the upcoming financial year.*

**b) Compliance certificate:** *you have directed to provide a compliance certificate under section 225, however there is no such requirement in the said section. As such this direction is not tenable in the eyes of law. Also, as mentioned above, the revival plan has already been submitted."*

10. Before proceeding to decide this case, I deem it necessary to advert to the following relevant provisions of Act, under which the notice to undo the default was served on the Respondents:

**474. Enforcing compliance with provisions of Act:** (1) *If a company, having made default in complying with any provision of this Act or committed any other irregularity fails to make good the default or undo the irregularity, as the case may be, within thirty days after the service of a*



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*notice on the company requiring it to do so, the Commission may, of its own motion or on an application made to it by any member or creditor of the company or a reference by the registrar and, in the case of a listed company, besides other persons as aforesaid, on a reference by the securities exchange, make an order directing the company and any officer thereof, as the case may be, to make good the default or undo the irregularity or otherwise make amends, as the circumstances may require, within such time as may be specified in the order.*

11. In terms of the Commission's notification SRO 380(I)/2021 dated March 31, 2021, the powers to adjudicate cases under section 474 (1) of the Act have been delegated to Head of Offsite Department, Supervision Division.

12. I have carefully considered the circumstances of the case, available record and applicable legal provisions. The written response from the legal counsel of the Company dated June 21, 2022 does not appear to be cogent due to the following reasons:

- a) The submission about the prescribed format for adverse opinion by the Auditor as required under ISA 705 is not relevant to the Notice.
- b) The submission in the reply relies on the revival plan approved by the Company in the EOGM held on April 29, 2022. However, the Notice is based on the adverse opinion of the Auditor, therefore, the argument of revival of the Company is irrelevant in the context of the Notice.
- c) Furthermore, the Company was asked to submit a compliance certificate under section 474 of the Act. No compliance certificate was required under section 225 of the Act as mentioned in the reply.

13. The compliance certificate was required under section 474 of the Act to review whether the Company has rectified the default within thirty days of the Notice as is required under section 474(1) of the Act. It is pertinent to mention that the financial statements of a company shall present true and fair view of the affairs of the company irrespective of the operational status of the company. There is no relaxation or exemption from the requirements of section 225 of the Act vis-à-vis the true and fair view of the affairs of the Company as presented in the financial statements.

14. I have also considered that the Respondents were allowed more than ample time to attend a hearing, however, they did not avail the opportunities. The basis for the Notice was the adverse opinion issued by the Auditor on the annual audited accounts for the year ended June 30, 2021 and the Respondents were required to rectify the same. In terms of provisions of section 225 read with Section 220 of the Act, listed companies are required to prepare their financial statements and maintain its books of accounts to give a true and fair view of the state of affairs of the Company. It is the responsibility of directors of the Company to keep proper books of accounts in conformity with the requirements of the Act and complied with the financial reporting standards notified by the Commission. The Respondents have committed a default by not complying with the requirements of section 225 read with section 220 of the Act with regard to preparation of its Accounts for the year ended June 30, 2021.



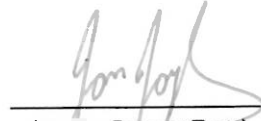
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15. Therefore, in exercise of the powers conferred by section 474 of the Act, I hereby direct the Respondents to rectify the above-mentioned defaults affecting true and fair view to the satisfaction of the Company's auditor in the financial statements for the period ending December 31, 2022.

16. It is emphasized that in case of non-compliance of the direction given through this order, the directors and the chief executive of the Company shall be liable for action under section 499 of the Act.

17. This Order is being issued without prejudice to any other action that may be required to be taken or is being taken by the Commission or its authorized officer in respect of any default, omission or violation of any provision of the Act or other administrated legislation by the Company or its directors/officers.



(Imran Inayat Butt)  
Executive Director

**Announced**  
October 19, 2022  
Islamabad.

