



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director (CSD)

In the matter of

Dewan Salman Fibre Limited

Number and date of SCN: CSD/ARN/210/2015-3599 dated May 3, 2017

Date of hearing: May 29, 2017 & June 23, 2017

Present for Respondent: S. M. Raza, Munir & Associates
(Authorized Representative)

ORDER

UNDER SECTION 495 (1) READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against the Company Secretary (the "Respondent") of Dewan Salman Fibre Limited (the "Company"). The proceedings against the respondent were initiated through show cause notice dated May 3, 2017 (the "SCN") issued under the provisions of section 495 (1) read with section 476 of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that examination of annual audited financial statements of the Company for the year ended June 30, 2015 (the "Accounts - 2015") filed under the Ordinance revealed that joint auditors of the Company, Feroz Sharif Tariq & Company, Chartered Accountants and Faruq Ali & Company, Chartered Accountants (the "Auditors") in their audit report to the members of the Company for the year ended June 30, 2015 had expressed an adverse opinion on the accounts due to material and pervasive effect of the following matters:

- i. *The financial statements of the company for the year ended June 30, 2015 reflect loss after taxation of Rs.0.939 billion and as of that date it has accumulated losses of Rs.15.903 billion which resulted in net capital deficiency of Rs.11.888 billion and its current liabilities exceeded its current assets by Rs.15.383 billion and total assets by Rs.8.953 billion. The operations of the company are closed since December 2008 due to working capital constraints. Furthermore, the Company has been unable to ensure timely repayments of debts owing to financial institutions due to liquidity problems and short term finance facilities have expired and not been renewed by banks. Following course, certain lenders have gone into litigation for*



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repayment of liabilities through attachment and sale of company's hypothecated / mortgaged properties and certain lenders have also filed winding up petitions. These conditions lead us to believe that the going concern assumption used in preparation of these financial statements is inappropriate; consequently, the assets and liabilities should have been stated at their realizable and settlement amounts respectively.

- ii. The Company has not made provision of markup for the period amounting to Rs.1.843 billion (up to June 30, 2014: Rs.12.514 billion) (refer note 28.1) on account of restructuring proposal offered to the lenders as described in note 2 to the financial statements. Non-provisioning of markup is based on management's hope that the restructuring proposal will be accepted by lenders in the proposed manner. In our opinion, since the proposal has not been accepted by the lenders so far and the lenders, instead of accepting the restructuring proposal, have preferred filing suits against the company, therefore the provision of markup should be made in these financial statements. Had the provision of markup been made in the financial statements, the loss after taxation for the year would have been higher by Rs.1.843 billion and markup payable would have been higher and shareholders' equity would have been lower by Rs.14.357 billion.
- iii. Investment in associate Dewan Petroleum Private Limited is disclosed as non-current assets held for sale (refer note 23 to the financial statements) although the resolution for the permission to sell the same has been expired during prior financial year. This investment is to be shown / valued at equity method as prescribed in International Accounting Standard 28 'Investment in associates'. We are unable to quantify the effect of the same as latest audited accounts of Dewan Petroleum Private Limited were not made available.
- iv. Trade Debts amounting to Rs.2.083 billion are stagnant, not being recovered, against which a provision of Rs.499.163 million has been made so far. Since these trade debts are doubtful of recovery therefore, the provision should be made there against. Had the provision been made, loss for the year would have been further higher by Rs.1.583 billion.
- v. The revaluation of certain classes of operating fixed assets of the Company was carried out in the year ended June 30, 2010. A per requirements of International Accounting Standard 16 "Property, Plant and Equipment", revaluation is required to be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date, whereas no revaluation has been conducted since then. The carrying amount of said classes of operating fixed assets may not reflect their fair value as at the balance sheet date. In the absence of further revaluation, we are unable to quantify the effect that such a revaluation would have on the said assets

3. The Commission after initiating proceedings in terms of the notice under section 472 of the Ordinance dated November 20, 2015, issued an order dated May 27, 2016 wherein it was directed as under:

"To resolve above mentioned issues, affecting true and fair view of its financial statements to the satisfaction of the Company auditors in the annual audited accounts for the ensuing year i.e. June 30, 2016."

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4. It was further held in the order, as under:

"In the end it may be emphasized that in case of non-compliance of this order, the directors of the Company shall be liable to action under section 495 (1) of the Ordinance."

5. The examination of ensuing annual audited accounts of the Company for the year ended June 30, 2016 (the "Accounts - 2016") revealed that the Company has not complied with the aforementioned directions of the Commission, as the auditors have again given adverse opinion on the Accounts-2016 with the same qualifications, as were mentioned in their auditors report for the year ended June 30, 2015.

6. Consequently, the SCN was issued to the respondent wherein he was called upon to show cause in writing as to why penal action may not be taken against them under sub-section (1) of section 495 of the Ordinance.

7. Hearings in the matter were fixed for May 29, 2017 however, no one appeared on the date of the hearing. Next hearing was fixed on June 23, 2017 which was attended by S. M. Raza of Munir & Associates (the "Authorized Representative"). During the hearing the respondent submitted that the issues will be settled in the accounts for the year June 30, 2017. It was decided to hold up the matter until the annual audited accounts of the Company for the year ended June 30, 2017 (the "Accounts-2017").

8. In terms of the Commission's notification SRO 751(I)/2017 dated August 2, 2017, the powers to adjudicate cases under section 495 (1) of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

9. I have gone through the facts of the case and submissions of the respondent. The auditors' report for the year ended June 30, 2017 have also been reviewed. I have observed that the Company has carried out revaluation on June 30, 2017 as per Note 7 to the Accounts- 2017 thus removing one of the auditors' qualifications from the Accounts-2015 whereas the remaining auditors' observations still exist. The auditors have yet again given an adverse opinion and stated that the accounts of the Company do not conform with the approved accounting standards as applicable in Pakistan and the accounts do not give the true and fair view of the state of the Company's affairs as at June 30, 2017. Therefore, I am of the considered view, that the default in compliance with direction of the Commission has been committed and the respondent is liable to be penalized under the provisions of



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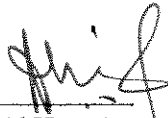
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section 495(1) of the Ordinance. I hereby impose a penalty of Rs.50,000 on the company secretary of the Company, Mr.Muhammad Hanif German, the respondent to the SCN.

10. Further, while invoking the provisions of section 475 of the Companies Act, 2017, I hereby issue a direction to the directors of the Company to undo the irregularities and ensure that the qualifications/observations of the auditors as stated in their auditors' reports of the year ended June 30, 2017 are duly addressed and issues related thereto are resolved in the annual audited accounts for the year ended June 30, 2018.

The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and receipted bank vouchers must be furnished to the Commission. In case of non-deposit of the fine, proceedings for recovery of the fines as arrears of land revenue will be initiated. It may also be noted that the aforesaid fines are imposed on the respondent in his personal capacity; therefore, he is required to pay the said amount from personal resources.


Abid Hussain
Executive Director

Announced:
June 20, 2018
Islamabad