

***Before Tahir Mahmood,
Executive Director (Enforcement)***

In the matter of

Saleem Sugar Mills Limited

Number and date of show cause notice EMD/233/359/2002/1297 dated August 8, 2003

Date of hearing October 24, 2007

Present: Mr. Muhammad Azeem, Director
 Mr. Fazal Muhammad, Company Secretary

ORDER

Under Sub-section (b) of Section 309 read with Section 305 of the Companies Ordinance, 1984

Saleem Sugar Mills Limited (the "Company") is a listed company, previously named as Charsada Sugar Mills Limited, was incorporated in 1955. Its shares are quoted on Karachi Stock Exchange. It is located at Charsada (NWFP). The principal activity of the Company is production and sale of refined sugar from sugar cane and beet. The authorized and paid up capital of the Company as per the annual accounts for the year ended September 30, 2006 stood at Rs.50 million and Rs.17.016 million respectively.

2. The Additional Registrar of Companies, Companies Registration Office, Lahore has vide his letter dated August 07, 2003 approached the Commission for grant of sanction in terms of Proviso (b) of Section 309 of the Ordinance in order to enable him to present a petition before the Honorable High Court for winding up of the Company which has been based on the ground that the Company has suspended its business since the year 1995 in contravention of Clause (c) of Section 305 of the Ordinance, which provide that a company may be wound up by the Court if it suspends its business for a whole year.

3. Under the provisions of Section 309 of the Ordinance the registrar shall not be entitled to present a petition for the winding up of a company unless the previous sanction of the Commission has been obtained for presentation of the petition provided that no such sanction shall be given unless the Company has first been afforded an opportunity of making a representation and of being heard.

4. Accordingly, before granting the requisite sanction, a show cause notice under the provisions of Section 309 read with Section 305 of the Ordinance was served on August 8, 2003 to the Company. In response to aforesaid notice, a letter from Mr. Mujeeb-ur-Rehman (on behalf of major shareholders)



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received, in which he requested for deferment of proceedings on the grounds that they now seem to be in a position of revival. It was also stated that the company has recently re-commissioned the factory for manufacture of sugar from beet during May 2003 after carrying out the necessary repairs and maintenance of the plant and machinery as the Company has firmly decided to continue its operations. All the creditors including financial institutions have been taken into confidence to clear their outstanding dues.

5. In order to provide an opportunity of making a representation and of being heard, the case was fixed for hearing on September 1, 2003, but no one appeared on the date of hearing. Finally hearing was held on October 12, 2003 and was attended by the authorized representatives, on behalf of Company, namely Mr. Muhammad Abdul Qayyum, Barrister at Law and requested to defer the instant proceedings initiated under Section 309 (b) read with Section 305 of the Ordinance as the new management has taken over the affairs of the company vide agreement dated August 13, 2003 from the previous management and have also injected huge amounts of money to improve the production of the Company. He also assured to submit a comprehensive plan by the new management crucial to the revival of the Company. Correspondence from old management i.e. representing the Mr. Mujeeb-ur-Rehman and his team was also received indicating that the so called new management inducted through agreement dated April 19, 2003 have been removed as it has totally failed to comply with the contents of the agreement and has also failed to clear the liabilities of the Company as already accepted through above agreement. At the end, it was averred that the old management i.e. the present management holding 63% shareholding through special resolution revoked the said agreement and have also taken over the management. It was also informed that a suit for specific performance of the above said agreement filed by the outgoing management is also pending in Civil Court, Lahore.

6. The case was again re-fixed for hearing on September 22, 2004. Mr. Muhammad Azeem, Director along with Mr. Fazal Muhammad, Company Secretary appeared on behalf of the Company and explained that the management is seriously considering the re-commissioning of the mills for which they have also invested huge amount. Further, directors are working in the interest of the Company and are not claiming any remuneration. The mills were previously closed due to investigation started by NAB and now huge liabilities of Islamic Investment Bank, Suigas, WAPDA etc. have been settled. Certain employees have also been inducted and operations of the mills will be started soon. On their request, the then Commissioner (CL) allowed time till December 31, 2004 to the management for revival of the Company.



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7. Thereafter, the Company neither started its operations nor came up with any revival plan, the hearing was again fixed for December 21, 2005. Mr. Muhammad Azeem, Director and Mr. Fazal Muhammad, Company Secretary appeared and explained that re-commissioning of mills could not be possible due to poor cane crops. Further, the available crop is utilized by the “Gur” making factories as there is not tax /excise duty is imposed on the Gur. It was also emphasized that all the sugar mills in the area are closing down their operations due to non-availability of raw material. However, the management is thinking on the option of Buy- Back of shares from minority shareholders. A time of four weeks was granted for submission of revival plan/buy-back of shares as proposed by the management of the Company. The Company on inquiry of Commission through their letter dated April 28, 2006 apprised that they are in process of finalizing the option of Buy-back of shares. However, the Company failed to come up with any proposal for revival of the Company even after lapse of considerable time. Finally, the case was fixed for hearing on October 24, 2007 on which date Mr. Muhammad Azeem, Director and Mr Fazal Muhammad, Company Secretary appeared before me and argued the case. They did not raise any new grounds and mostly repeated the arguments already advanced at the time of previous hearings. They, however, could not give any concrete proposal indicating the intention of the management to restart the suspended business.

8. Before proceeding further, it would be necessary to look at certain important facts regarding this Company. As per latest available annual accounts of the Company for the year ended September 30, 2006, it has been revealed that due to closure of the mills operation, the income is mainly generated from the sale of trees, scrap and rent from the mills property. Moreover, the aforesaid accounts also indicate the accumulated losses of Rs. 310.514 million, which has fully eroded its equity of Rs. 19.8 million. The fixed assets of the Company stood at Rs.18.892 million, current assets stood at Rs. 18.376 million while current liabilities were Rs. 18.892 million.

9. Available operational data of the Company also shows that there was no production and mill remained closed from 1991-92 to date excluding the years 1993-94 to 1994-95, where mills operated at very low capacity. Moreover, auditors have also given adverse opinion in their reports for the years 2003-2004, 2004-2005 and 2005-2006 on the following grounds:

- *The company is not in operation for the last many years and also suffered losses when it was in operation as explained in note 1.3 of the financial statements, resulting in an accumulated loss of Rs 310.514 million as at September 30, 2006, which exceeded the shareholders’ equity and as of that date its total liabilities exceeded the total assets by Rs 290.639 million. These factors indicate the existence of material uncertainty which cast significant doubt about the company’s ability to continue as a Going Concern, whereas these financial statements have been prepared on a Going Concern assumption based on the management assertions made in note 1.3.*



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- *The figures of the year 2003 remained unverified being un-audited; on the stated reasons that the ousted/removed management of the company failed to return the books of account as well as statutory books and records. This had impeded the updating of accounts of that period as well as the audit thereof that might affect the figures of the succeeding years.*
- *As in the past, fresh inventories of fixed assets and stores & spares were not prepared/updated at the terminal date for the stated reasons that the factory was closed and staff laid off, leaving a skeleton strength. Inventories of these assets were also not physically verified by the company's staff at the year end and thus were not made available/ ready for our physical witness purposes at that date. Certain item of these inventories were removed by the ousted / removed management of the company in the year 2003, as stated in note 1.2 of the financial statements, which remained unlisted and unaccounted for. Accordingly, the values of such inventories (including impairment/obsolesce factor, if any) as appearing in notes 10 and 11 of these statements unverified.*
- *The debit and credit balances from various suppliers, customers and other parties as appearing in note 7 and 12 respectively of these statements remained unconfirmed as balance confirmation requests were not circulated to them by the company at the terminal date. Accordingly, these balances remained unverified to that extent.*

10. Reverting to the arguments of the Company, I have noted that the Company has been seeking extensions in all the previous hearings on the plea of submission of a plan for the rehabilitation of the Company. However, after lapse of considerable time, the management has failed to give any proposal in this respect. The company's operations were suspended in the year 1991 and now it has been more than a decade since the Company has failed to restore its operations or come up with any other valid alternative. Its current status is merely that of a shell Company. In the circumstances, I am of the considered view that the Company and its directors including the Chief Executive have completely disregarded the provisions of law and suspension of business since 1995; attract the provisions of Section 305 of the Ordinance.

11. Section 305 of the Ordinance provides that a company may be wound up by the Court if the company does not commence its business within a year from its incorporation or suspends its business for a whole year and if the company is run and managed by persons who fail to maintain proper and true accounts, or commit fraud, misfeasance or malfeasance in relation to the company. In the instant case, the Company's business had been suspended since 1995 and auditors' of the Company have given a qualified opinion on the annual accounts for the years ended September 30, 2004, 2005 and 2006. The failures of the Company's management to start its business or to make efforts to revive the Company indicate that the management has no intention of carrying on its business / operations. Winding up of such companies becomes necessary so that available assets of the companies could be distributed among the shareholders before such companies become empty shells in hands of inefficient and imprudent management.



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12. Under the present circumstances and based on the aforementioned facts, I am of the opinion that it would be appropriate to initiate winding up proceedings against Saleem Sugar Mills Limited. I, therefore, in exercise of the powers conferred on me under Section 309 of the Ordinance, hereby authorized the Additional Registrar, CRO, Lahore to file a winding up petition in the Honorable High Court for winding up of M/s Saleem Sugar Mills Limited.

Tahir Mahmood
Executive Director

Announced
November 15, 2007
Islamabad