Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Olympia Mills Limited

Dates of Hearings	February 25, 2021, March 10, 2021, March 19, 2021 and April 9, 2021

Order-Redacted Version

Order dated April 27, 2021 was passed by Director/Head of Department (Adjudication-I) in the matter of Olympia Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated December 23, 2020
2. Name of Company	Olympia Mills Limited
3. Name of Individual*	The proceedings were initiated against the directors of the Company i.e. Olympia Mills Limited
4. Nature of Offence	Violation under Section 492 and Section 476 of the Companies Ordinance, 1984 for misstatement in financial statements.
5. Action Taken	Key findings were reported in the following manner: I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the Authorized Representative and replies submitted in writing. In this regard, following has been observed: (i) As per available information, the Company's spinning plant and machinery was acquired jointly by *** and *** vide agreement dated October 27, 2015, by way of enforcement of security, in partial settlement of outstanding loan liabilities under Debt Assets Swap Agreement. Sale consideration was agreed at Rs. 290 million, which was to be recovered within six months through disposal of plant and machinery. Consequent to aforesaid, **** was appointed as arranger/ purchase for disposal of assets. ***, *** and *** entered into agreement dated October 28, 2015 by virtue of which assets were acquired by *** from *** and *** for a cumulative purchase consideration of Rs. 290 million. As per terms of the agreement, payment was to be made within six months of the date of agreement through sale of assets and minimum price was set for each asset. ***, was required to pay minimum amount for these assets and take delivery through ***'s and ***'s appointed

	muqadims. Since *** was arranger for subject assets disposal, however, *** subsequently, during the financial year 2016, failed to dispose of all the assets in stipulated time period of six months and approached *** and *** through the Company for reduction in sale amount of remaining assets from Rs. 159.55 million to Rs. 110 million. In this regard, Company and *** entered into first supplemental agreement dated June 30, 2016 and second supplemental settlement arrangement dated October 1, 2016. *** and *** agreed to ***'s proposal extended through Company and shortfall in sale consideration amounting to Rs. 49.55 million was made good by the Company by treating it as "Term Finance" as extended to the Company, which was payable within 18 months with cost of funds till December 31, 2018. Shortfall amounting to Rs. 49.55 million made good by the Company was expensed and charged to Profit & Loss account in year 2017. Subsequent to aforesaid, also adjustments were made in the Accounts of the Company, incurring losses against such arrangement of disposal. The aforesaid clearly reveals that the Company continuously retained the control and related risk and rewards, despite its agreement of October 27, 2015 and in view of the fact that arranger failed to ensure sale at the tentative price and the period of sale was extended by the lenders. I, am therefore of the view that the Company had retained the ownership of the assets and risk and reward rest with the company. The Company had been continuously involved with disposal of assets and indemnified *** by making good shortfall in the amount of sale consideration. The Company, hence, recognized pre-mature disposal of assets and sale of Rs. 290 million in Accounts 2016 despite not relinquishing ownership and control of assets. The Company recorded sale as per agreement dated October 27, 2015 despite the fact that it had not handed over the assets to *** for disposal and did not relinquish the ownership of the assets. (ii) The Company recognized incorrect disposal of plant and machinery and resultant gain on such disposal, thereon amounting to Rs.26.68 million in its Accounts for the year 2016, whereas, in actual there was no disposal of plant and machinery owing subsequent agreements executed in this regard which included first supplemental agreement dated June 30, 2016, second supplemental agreement dated October 1, 2016 and third supplemental agreement of May 2, 2017 reflected that terms were subsequently extended evidencing that sale had not taken place, pursuant to Agreement dated October 27, 2015. I, have also noticed that charge on the assets of the Company was still recorded and the banks were involved in the process of disposal of asset owing to the agreements while the control and ownership was in the name

of the Company. Moreover, the Company had arranged ***, who as per agreement had to purchase the assets of the Company, and Banks were not in actual the acquirers of the PPE. The aforesaid and the information available at the time of issue of Accounts 2016 was material and significant that such disposal could not had been recorded in Accounts 2016 however the Company recorded sale and resultant gain in its Accounts 2016 for such arrangement, which is not correct, in view of substantive subsequent agreements, and the Company having continuous risk and reward and control of such assets, hence Accounts 2016 were materially misstated in terms of section 492 of the Ordinance.

(iii) In terms of Para 69 of IAS 16- Property, plant and equipment states that "The date of disposal of an item of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15." Whereas para 31 of the IFRS 15- Revenue from contract from customers describe satisfaction of performance obligations as follows: "An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset". In terms of requirements of para 69 of IAS 16 and para 31 of IFRS 15, Company was required to recognize disposal of assets only when it transferred control to buyer. The Company retained the ownership & control on assets despite the agreement with the banks for sale of assets, which is demonstrated by following:

(a) Inter-creditor agreement between ***, *** and *** states that Company shall arrange third party for disposal of assets i.e. *** was appointed by Company as purchaser/ arranger who acquired some assets for itself and sold remaining assets to third parties by paying minimum amount set by the Banks; and

(b) The Company twice made good shortfall in the amount of sale consideration and took over liability of ***/indemnified banks to the tune of Rs. 79.52 million.

(iv) In view of the aforesaid, I, of the view that the constant modification of agreement as elucidated above clearly shows that the assets of spinning plant and machinery of the Company were not disposed of as per the conditions for disposal of property, plant and equipment (PPE) provided in the standards. Hence, in view of applicable requirements of aforesaid IAS/IFRS, the Company's de-recognition of assets and accounting treatment was not in compliance, resulting material misstatements in Accounts of 2016.

	In this context, Accounts of the Company for the year 2016 are materially misstated as the Company incorrectly recorded disposal of assets amounting to Rs. 290 million despite retaining ownership inclusive of risk and rewards associated with the assets by making Accounts 2016 materially misstated. (v) As regard to recognition, measure and disclosure of the investment property in accordance with requirements of IAS 40 despite leasing out sizeable part of undertaking as Company has leased out factory premises without consent of general meeting, the Authorized Representative have furnished a copy of order passed in this regard. I, am of the view that for leasing of Company's PPE, recognition and disclosures in terms of requirements of IAS 40 (investment property) were required and reliance of the Company that compliance of section 196(3) of the Ordinance was not required, is not substantive evidence. Hence, the Company did not comply with the given requirements of IAS-40 in its respective Accounts for respective recognition, treatment and disclosure requirements as given in the relevant standard. (vi) As regards to the assets which were carried at amount significantly above their recoverable amounts as evidenced by recognition of impairment loss on spinning plant and machinery amounting to Rs 396.67 million in Year 2016 to write down carrying amount of spinning plant & machinery from Rs 663.88 million to Rs 263.32 million. The Authorized Representative agreed to the fact that impairment was required to be charged. It is relevant to highlight that the Company's Accounts for the year 2015 disclosed that negotiations for restructuring with the banks were in process and consent decree was also made. Moreover, in terms of note 6.1 it was also disclosed that: "*The company revalued its Land, Factory Building and Plant and Machinery on market value basis by an independent value M/S Consultancy Support & Services, Management Consultant on 21st February 2012. The revaluation resulted in a cumulative surplus of Rs. 45.306 (M). The company revalued its Land, Factory building & plant & machinery in 2009 which resulted in surplus of 223.989 (M), 50.941(M) & 49.515 (M) respectively. The revaluation was carried out under market value basis by an independent value Messer ***. The company revalued its leasehold land in 2008 & in 2005 by Messer ***& Messer ***respectively which resulted in net surplus of 252.122 (M) & 151.635 (M) respectively. The company has further revalued its factory building in the year 2006 by Consultancy Support & Services, Management Consultants, which resulted increase in net surplus of Rs. 122.681 (M)*". The aforesaid reflects that valuation of Property, Plant and Equipment was not carried in the year 2015 and there were significant indications of impairment i.e. (i) earlier valuations

	were carried in 2005, 2006, 2009 and 2012 (ii) consent decree of the Court (iii) the Company's assets were under forced sale due to restructuring agreements and an agreement with banks was entered on October 27, 2015 and in terms of which FSV resulted significant subsequent loss to the Company on such arrangements. Hence, I, am of the view that decline in value of the Property, Plant and Equipment as recorded in year 2016, was not reported due to some major incidents, and indications of such impairment were also in existence in the year 2015 as well. Hence, I, am of the view that Accounts 2015 were materially misstated due to non-recognition of impairment, as per applicable requirements, against PPE which was subsequently recorded of the amount of Rs. 396.67 million, hence, the aforesaid was material and significant in this context.

(vii) As regards to directors' loan obtained from sponsor Directors to the tune of Rs 23.67 million with Breakup (as at June 30, 2013) is as follow is as follow:

Name of Director	**June 30, 2013 (Rs.)**
***	(4,504,981)
***	(21,241,000)
***	(693,056)
***	50,138,529
	23,699,492

The Authorized Representative informed that the matter was not taken up during the course of inspection and the issue was not raised in LOF. He was also of the view that auditors did not highlight any irregularity in this regard. Nevertheless I, am of the view that despite given show cause opportunity, no supporting evidences against the aforesaid loans were placed before me.

(viii) The Authorized Representative have placed before me extract of board resolution passed in board meeting held in first quarter of financial year 2016 and informed that such resolutions were submitted with the financial institutions. I have considered the copy of board resolution dated August 31, 2015 provided by the Company and no further action is warranted in this regard.

(ix) With regard to the matter that the Company had written-off creditors amounting to Rs.191.82 million during the year 2016 and 2017 and claimed that it paid cumulative Rs.28.65 million to settle creditors having book value of Rs.219.25 million. the Authorized Representative vide letter dated March 19, 2021 submitted that *"on the request of the creditors, the amount was paid in*

	accordance with the settlement agreement duly executed under their signatures, Company stamp and thumb impressions were verified by SECP team". However, the Authorized Representative did not provide any document in support of his arguments. I, am therefore of the view that in absence of supporting evidence in support by the Company against the given allegation, including settlement agreements and bank statements reflecting such payments, Accounts 2016 in this regard were materially misstated on account of recognition of write off of creditors as at June 30, 2016. (x) As regards to relevant quarterly accounts for the period ended December 31, 2016, observations are relevant for misstatements in terms of section 492 of the Ordinance as stipulated in the aforesaid paras. Keeping in view a penalty of Rs. 450,000/- (Rupees four hundred and fifty thousand) was imposed on the Respondents. Penalty order dated April 27, 2021 was passed by Director (Adjudication-I).
6. Penalty Imposed	A Penalty of Rs. 450,000/- (Rupees four hundred and fifty thousand) was imposed on the Respondents.
7. Current Status of Order	No Appeal has been filed by the respondents till date.