Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division

[Islamabad]

Before Rashid Sadiq, Executive Director

In the Matter of
M/S SAHRISH TEXTILE MILLS IMITED

Number and date of notice	Co.265/243/ISS/CL/98 Dated November 20, 1998
Date of final hearing	July 24, 2002
Present	Mr. Rana Rashid Ahmed Khan, CEO Mr. Ayaz Mahmood Shahid,GM (Finance)

ORDER UNDER SECTION 265 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against M/S Sahrish Textile Mills Limited (Formerly M/S Friends Spinning Mills Limited) (the "Company") under the provisions of Section 265 of the Companies Ordinance, 1984 (the "Ordinance") through show cause notice dated November 20, 1998.

2. In order to dispose of the aforesaid matter, a brief narration of the background facts leading up to the issue of show cause notice is necessary. The Company was incorporated in 1991 under the Ordinance as a private company limited by shares. It was converted into a public company and was listed on the Karachi and Lahore Stock Exchanges in 1992. The Company is engaged in the manufacture and sale of yarn. The manufacturing facility of the Company is located at 40-KM, Jhang-Faisalabad Road, Nia Lahore, Distt.T.T.Singh and comprises of 13,680 spindles.

3. The Company was making profits till 1995, however, it started incurring losses from the year 1996 and its financial position has continued to deteriorate since then. The accumulated losses as on September 30,1997 stood at Rs.50.237 million as compared to its paid up capital of Rs. 72.600 million. The current liabilities of the Company were more than double its current assets and it has failed to pay any dividend to its shareholder since 1995. Year-wise highlights of the Company's financial position since its listing till the year 1997 are given below:

	1993	1994	1995	1996	1997
	Rupees in Million				
Sales	105.6	169.4	173.8	120.7	100.7
Cost of Sales	89.4	130.5	139.6	115.9	120.3
Gross Profit/(Loss)	16.4	38.9	34.2	4.8	(19.6)
Financial Charges	10.3	11.5	13.7	18.5	20.5
Net Profit/(Loss)	2.2	22.2	15.1	(17.6)	(43.4)
Current Assets	39.7	68.0	82.4	76.3	69.8
Current Liabilities	40.2	53.5	76.1	116.7	140.3
Unappropriated Profit/ Accumulated Loss	2.2	22.2	10.8	(6.8)	(50.2)

4. As is evident from the above figures the sales of the Company in 1997 recorded decrease of about 17% as opposed to this cost of sales increased from 96% of the sales in 1996 to 119.7% in 1997 so much so that the Company was even unable to meet its cost of production and incurred gross loss in the said year.

5. The auditors of the Company namely, M/S Raja Saleem & Co., Chartered Accountants have given disclaimer of opinion, in their report to the shareholders, signed by them on August 07, 1997, on the annual accounts of the Company for the year ended September 30, 1996 in the following manner:

Quote

- *"The fire took place on November 20,1996 at registered office of the Company. This fire damaged the record of the Company not only for the year under audit but also of previous years. Thus the Company faced difficulties and problems in restructuring/in built up of the accounts of the Company."*
- *"The balance confirmation letters were sent to all the persons grouped under the heads Creditors, debtors and advances to suppliers remain unverified."*
- *"Fixed assets of the Company were not physically checked by us. Moreover, register of fixed assets was not provided for our checking. Thus the fixed assets of the Company remained unverified."*
- *"Additions in building of Rs. 2,964,800 Plant and Machinery of Rs. 21,095,400 and deletion in Generator of Rs. 6,268,166 remained unverified and unconfirmed due to non availability of vouchers, purchase bills, notes, documents, records and minutes of meeting of Board of directors."*
- *"Capital work in progress amounting to Rs. 14,931,750 referred to in Note No.12 remained unverified and unconfirmed due to non availability of vouchers, purchase bills, notes, documents, records and minutes of meeting of board of directors."*
- *"We were not facilitated to physically examine the Stocks of the Company. Thus the same remained unverified."*
- *"The sale of the raw material referred to in Note 20.1 remained unverified." (The raw material amounted to Rs. 39.553 million was sold in cash.)*
- *"Most of the transactions of sale and purchase are in cash."*

Unquote

6. Furthermore, adding a para emphasis to the aforesaid report the auditors stated that:

Quote

"Subject to the above qualifications we draw attention that results shown in the half yearly printed accounts of the company are not in agreement with the books of accounts of the Company."

Unquote

7. M/S Raja Saleem Co., Chartered Accountants were subsequently changed and M/S M.Ather & Co., Chartered Accountants were appointed as auditors of the Company. The new auditors did not raise any of the issue raised by the previous auditors and have qualified their subsequent audit reports for the year ended September 30,1997 and 1998 only on the following issue:

Quote

"Fixed Asset register of the Company was not provided to us as the same was under preparation."

Unquote

8. As regard to the qualification on the status of books of accounts kept by the Company, the Directors' Report for the year 1996 categorically and unequivocally admitted that the whole record was burnt. The relevant excerpts from the Directors' Report are reproduced as follows:

Year Ended September 30,1996

Quote

"The fire took place at our registered office due to electric short circuit. This damaged the record of the Company. Thus we faced various problems in preparation of accounts."

"Due to fire the fixed asset register of the Company was burnt. It will take some time to rewrite and complete the same."
"As mentioned earlier, the whole record was burnt. However, we provided certain detail to the auditors but the same was not upto their satisfaction."

Unquote

Year Ended September 30,1997

Quote
"The fixed asset register, which was completely damaged by fire in 1996,is being re-written, since it requires the record of the past many years."

Unquote

Year Ended September 30,1998

Quote
"The fixed asset register, which was completely damaged by fire in 1996,is being re-written, since it requires the record of the past many years, its completion is taking time. However, we are sure the same will be completed and provided to the auditors during the next year's audit."

Unquote

9. In view of the aforesaid state of affairs i.e. loss of books of accounts, non-verification of creditors, debtors, advances to suppliers, non-verification of additions to fixed assets amounting to Rs. 32.724 million due to availability of vouchers and purchase bills, notes and other documents, it was apprehended that the affairs of the Company might not have been managed in accordance with prudent commercial practices. It was also apprehended that the affairs of the

Company were being conducted in a manner oppressive of its members and to deprive them of a reasonable return. *Prima facie*, this was a case where the company was being managed in a manner, which was unfairly prejudicial to the interest of the minority shareholders of the Company.

10. In view of the aforesaid situation, a notice dated November 20, 1998 was issued to the Chief Executive of the Company calling upon him to show cause as to why inspector, under Clause (b) of Section 265 of the Ordinance may not be appointed to investigate into the affairs of the Company.

11. In response to the show cause notice the Company vide its letter dated December 12,1998 requested for more time to reply which was allowed uptill December 25, 1998 which was extended further on the request of the Company to January 25, 1999. In its written reply dated January 29, 1999 the Company attributed its poor performance to the factors:

- High borrowing costs
- High raw material costs
- Inflatory trends in the economy
- High and numerous taxes
- Violent fluctuations in foreign exchange conversion rate
- Crisis in the industrial sector in general and textile sector in particular

It was also submitted that during the year 1996 all the records of the Company was burnt due to fire in its registered office and all the qualifications regarding raised by the auditors are due to non-production of record lost in the fire. This was, however, also the cause of the late holding of Annual General Meeting. It was requested that the proceedings under Section 265 of the Ordinance initiated against the Company may be discontinued.

12. In order to give an opportunity of being heard, hearing of the case was fixed on March 10, 1999, which was adjourned and re-fixed on March 26, 1999 on the request of the Chief Executive of the Company. The Chief Executive of the Company appeared on the date of the hearing and argued that the Company had shown some sign of improvement which were evident from the half yearly accounts for the year ended March 31, 1999 and assured that the Company was on the path to recovery and will be able to pay some dividend during the half year ended March 31, 2000. The proceedings were deferred with the instructions to provide draft accounts of the Company for the year ended September 30, 1999.

13. The draft accounts submitted by the Company on September 30, 1999 were examined and were not found satisfactory and therefore, a hearing was fixed on January 25, 2000. The Chief Executive of the Company appeared and explained that the management of the Company had changed and requested for six months time to improve the operating results of the Company. The request was acceded to and another six months till October 2000 were granted to the Company to improve its financial performance.

14. The accounts for the year September 30, 2000 were examined and it was revealed that the Company was still incurring losses and that no dividend had been declared as committed by the Company. A hearing was, therefore, again fixed on April 10, 2001 but no one appeared. Another hearing was fixed on April 23, 2001 but was adjourned, on the request of the Company, to April 30, 2001. On the date of the hearing, the Chief Executive of the Company appeared and informed that the financial position of the Company was improving and the Company would be able to pay some dividend to the shareholders. The Company was advised to submit the forecasted financial position for next three years along with expected dividend payout to the shareholders. The forecasted financial statements furnished by the Company, not being satisfactory, a hearing was fixed on May 29, 2001 when no one appeared.

15. Subsequently, adequate opportunity was provided to the management of the Company, to present its submissions and the case was fixed several times, the last opportunity was given on July 24, 2002. In the written submissions as well as verbal arguments at the time of hearings, the following contentions were raised:

i. Fire occurred due to short circuit at the registered office of the Company which burnt all the previous and current record hence could not be produced to the auditors.
ii. The Company was in financial crises hence the sale and purchase was conducted in cash to meet certain emergent requirements.
iii. As far as channalizing the transactions through banks is concerned there was a dearth of working capital hence the management resorted to channalize the transactions through cash.
iv. The fire burnt all the record of the Company and therefore it was not possible to rewrite the fixed asset register in short span of time and also because of absence of previous record. However, the register was subsequently reproduced and got verified during subsequent audits.

16. As regards the losses incurred by the Company the following contentions were presented:

i. The prices of cotton as well as yarn fluctuated beyond expectation due to which the Company incurred heavy losses.
ii. The Company earned profits in the year 1994 and 1995 and declared 10 % dividend in both years. In the later years due to countrywide crisis in the textile sector, bad political situation and increase in cotton prices due to viral condition the situation did not

remain under the control of the management and Company started suffering heavy losses.

iii. The yarn prices also stayed on decreasing trend during 1996 to 1999 as compared to increasing trend in cotton prices.

iv. Due to losses the Company negotiated with the banks and short term loans were converted to long term loan thereby increasing the financial expense which ultimately swallowed the profits of the Company.

v. Due to shortage of working capital the Company was forced to buy and sell on day-to-day basis, which affected the profit margins. Moreover, the day to day buying also forced to buy on higher rates, which ultimately resulted in losses.

17. Before discussing the contentions and reasons given by the Company for its adverse financial position it would be beneficial to review the current financial position of the Company. The financial statements of the Company for the year ended September 30, 2001 received at the Commission in terms of Sub-section (5) of Section 233 of the Ordinance also portrayed a dismal financial picture of the Company. It has been noted that the Company has reported a loss of Rs. 11.6 million for the year. Moreover, its accumulated losses at the end of the said accounting year amounted to Rs. 131.54 million, which exceeded its total equity comprising of paid up capital and general reserves of Rs. 92.60 million, by Rs. 38.94 million. The review depicted that the management, had taken no remedial measures even after the lapse of considerable time, to improve the deteriorating financial condition of the Company and avert the trend of losses.

18. In order to fully appreciate the decline in the financial position of the Company an overview of the figures appearing in the audited annual accounts of the Company from the year 1996 to 2001 is also necessary. The same is as under:

Year	1996	1997	1998	1999	2000	2001
	Rupees in millions					
Sales	120.7	100.6	146.5	139.6	161.9	184.7
Gross Profit /(Loss)	4.8	(19.5)	(10.0)	2.0	4.7	10.4
Net Profit / (Loss)	(17.5)	(43.4)	(32.1)	(20.1)	(15.9)	(11.6)
Accumulated Profit / (Loss)	(6.8)	(50.2)	(82.3)	(103.6)	(119.9)	(131.5)
Dividend	-	-	-	-	-	-
Gross Profit/(Loss) Ratio	4%	(19)%	(7)%	1%	3%	6%
Net Profit/(Loss) Ratio	(15)%	(43)%	(22)%	(14)%	(10)%	(6)%
EPS	(2.42)	(5.98)	(4.42)	(2.93)	(2.25)	(1.60)

19. The auditors' of the Company namely, M/s M. Ather & Company, Chartered Accountants, in their report dated February 25, 2000, on the accounts for the year ended September 30, 1999, have drawn attention of the shareholders towards the susceptibility of the Company to continue as a going concern. A similar statement has been given by them in their report dated March 03, 2001, on the accounts for the year ended September 30, 2000.

20. The auditors' report dated February 19, 2002 on the accounts of the Company for the year ended September 30, 2001 once again draws attention of the members on the validity of the going concern assumption. The auditors are of the view that the precarious financial position of the Company raises substantial doubt about its ability to continue as going concern. The remarks in the auditors report are being reproduced hereunder:

Quote

"Without qualifying our opinion, we draw attentions to the fact that the Company has incurred accumulated losses of Rs.131,546,827 and its current liabilities have exceeded its current assets by Rs. 78,287,923.The management is making efforts to arrange sufficient funds for the Company on long term basis in order to enhance working capital to overcome financial problem. Validity of the going concern basis use by the Company in preparations of its financial statements is dependent on the prospect of

operating profitability in the future and the availability of adequate working capital."

Unquote

21. Now I revert back to contentions made by the Company and its Chief Executive at the time of the hearings and in their various replies. With reference to the submission that records of the Company were destroyed due to fire at its registered office, which also caused the delay in holding of Annual General Meeting, it has been observed that the Annual General Meeting of the Company wherein the accounts of the Company for the year ended September 30, 1996 were presented to the members for approval, was held with substantial delay. The Company applied for extension in time for holding of the AGM vide his letter dated February 02, 1997, and provided the following reason for the delay:

Quote

"Our Manager Accounts had resigned in the last month. The new Manager Accounts will join in March 1997 and the details relates to the accounts for the year ended September 30, 1996 are in process. For the reason, the accounts of the Company for the year are still pending for finalization and audit and we are not in a position to call the AGM in time i.e. March 31, 1997."

Unquote

22. The Commission did not agree with the reasons provided for the delay and thus the Company's application was rejected. Thereafter, the Company went into appeal against the Commission's decision and in its letter dated May 07, 1997 it contended that:

Quote

"Moreover, due to Ramazan and election we could not able to complete accounts statements for audit. Now we are in the process of audit of accounts and expecting to be finalise upto May 31, 1997."

Unquote

The Commission did not find the pleas of the Company tenable and the appeal for relief was, therefore, denied.

23. The Annual General Meeting was finally held on August 30, 1997 i.e. with a delay of almost five months. Even after the delay the accounts presented for approval in the subject meeting remained unverified by the auditors as they issued a disclaimer of opinion in their report thereon.

24. Moreover, while examining the accounts of the Company for the year 1996 and 1997, insurance claim, in respect of property damaged because of fire, did not appear. The Company also did not mention the fact that fire broke out resulting in destruction of its records in its application for extension in time for holding the Annual General Meeting. It appears that the company provided different reasons for non-holding its Annual General Meeting in time, non-preparation the annual accounts and for not maintaining proper books of accounts. It has also been observed that the Auditors have not quantified the alleged fire loss.

25. In order to examine the contention made by the Company and its Chief Executive that the present state of the Company is due to the general recession and inflationary trend of the economy of the country in general and the crisis in the textile sector in particular, it is appropriate to look at the general conditions of the industry and to compare the performance of the Company with average competitor in the spinning sector irrespective of the quality and type of production. For this purpose, ten companies were selected, at random, which had also been the victim

of general recession in the textile industry, high cotton prices etc. However, they have improved their performances gradually on account of managing these companies in accordance with the sound business principles and prudent commercial practices.

	Company	Number of Spindles	Sales						Cost of Goods Sold					
	(2)	(3)	(4)						(5)					
			Rupees in Million											
			1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
1	Ahmed Hassan	14,544	440.8	455	533.4	594.2	659.4	801.1	379.5	389.1	489.4	524	487.7	713.2
2	Brothers Textile	16,800	358.2	470.5	484.2	485.7	515.2	479.0	339.4	437	468	454.3	433.0	462.1
3	Chenab Fibres	19,200	378.7	451.9	523.9	584.5	478.6	503.8	328.4	392.7	484.4	502.5	370.7	450.4
4	Dar-es-Salaam Tex.	16,320	353.7	449.4	433.2	463.8	451.1	519.7	311.2	366.5	375.9	403	304.7	427.8
5	Fawad Textile	14,400	84.4	247.1	456.2	533	499.2	452.2	97.1	215.7	413.7	485.5	400.5	452.2
6	Ideal Spinning	14,400	586.2	562.1	481.2	522.3	536.5	563.9	518.5	493	435.3	460.3	461.4	499.5
7	J.K. Spinning	15,360	370.8	434.7	407.6	448.8	491.4	484.5	356.8	401.8	351.9	389.2	350.6	385.9
8	Maqbool Textile	18,672	399.5	480.4	530.1	644.1	640.7	786.2	352	412	485.4	563.8	505.2	708.7
9	Shadab Textile	20,160	283.8	266.4	251.5	293.9	305.9	346.7	262.3	238.9	232	267.1	258.4	298.9
10	Baig Spinning	15,592	349.3	390.4	409.8	432.9	433.9	491	335.5	356.6	382.2	395.5	379.5	431.2
11	Sahrish Textile	13,680	120.7	100.7	146.5	139.6	161.9	184.7	115.9	120.3	156.5	137.7	157.1	174.3

	Company	Gross Profit/(Loss)						Net Profit/(Loss) Before Tax					
		(6)						(7)					
		Rupees in Million											
		1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
1	Ahmed Hassan	61.1	65.9	44	70.2	171.6	88.0	14.3	25.1	7.4	28.6	129.2	38.6
2	Brothers Textile	18.8	33.4	16.2	31.4	82.2	16.8	2.6	10.4	5.5	14.7	51.8	-20.7
3	Chenab Fibres	50.3	58.7	39.5	82.3	107.9	53.4	3.0	7.8	-1.6	19.7	55.1	4.5
4	Dar-es-Salaam Tex.	42.5	82.9	57.3	60.8	146.3	92	0.3	27.2	7.9	16.0	91.3	28.9
5	Fawad Textile	-12.7	31.4	42.5	47.5	98.7	67.3	-21.1	4.1	4.2	3.9	36.2	19.5
6	Ideal Spinning	67.6	69.1	46	62	75.1	64.4	20.8	24.6	7.2	20.7	31.8	23.3
7	J.K. Spinning	14	32.9	55.7	59.6	140.8	98.6	-20.9	-6.3	2.6	2.7	61.3	-7.2
8	Maqbool Textile	47.5	68.5	44.6	80.3	135.6	77.5	3.0	20.7	2.4	40.8	40.5	23.5
9	Shadab Textile	21.5	27.5	19.5	26.8	47. 6	47.8	9.4	5.7	2.1	6.2	27.0	26.4
10	Baig Spinning	13.8	33.8	27.6	37.5	54.4	59.8	-44.1	17.0	-27.8	-9.7	11.2	14.7
11	Sahrish Textile	4.8	-19.6	-10.1	2.0	4.8	10.5	-17.6	-44.0	-30.8	-19.2	-15.1	-10.6

26. A positive trend is abundantly clear from the above facts and figures and the companies hard hit by the general recession in the textile industry have started coming out of woods. The performance of the Company, however, remained unsatisfactory when compared with an average competitor in the textile sector.The Company has been unable to justify the financial irregularities reported by the auditors and the deteriorating trend of its performance. This state of affairs reasonably suggest that the results of the Company may not be negative just because of the general recession in the textile sector industry but there could be some other reasons. The above stated facts led me to form an opinion that affairs of the Company were not being managed in accordance with sound business principles and prudent commercial practices but are being conducted in a manner prejudicial to the interest of its members and to deprive them of reasonable return on their investment in the Company.

27. It would be pertinent to add here that the audit depends on the integrity and independence of the auditors. It has been held that where there is a doubt that statuary auditors are under some obligation to the management and not acting independently, it could *prima facie* be a case for investigation. It has been observed that M/s Raja Saleem & Co., Chartered Accountants, were repeated reappointed as auditors the Company during the period 1994 to 1996 and the reports issued by them on the accounts of the Company upto the year 1995 were unqualified whereas the report on the accounts for the year ended September 30, 1996 contained a disclaimer of opinion. Thereafter, the Company changed its auditors and the new auditors did not qualify their report on the accounts for the subsequent year on the issue raised in the previous report, which gives rise to the apprehension that the auditors, namely M/S Ather & Co., might have discharged their responsibilities during the course of audit too indulgently.

28. The directors in their report, with reference to the auditors observations regarding the going concern issue, have explained that in order to bring the Company out of losses, the management of the Company is concentrating on the improvement of quality and quantity of products, reduction in financial charges and arrangement of working capital. The aforesaid disclosures in the director's report seems insufficient and these too have not been implemented which is apparent from the fact that the Company has outstanding long-tem debt to the tune of 41.595 million and in addition fine amounting to Rs. Rs.11.310 million as at 30 September 2001 has been imposed by M/S IDBP for late payment of lease rentals which is being negotiated by the Company since 1999.

29. The above stated facts and figures clearly establish that the performance of the Company has been far from satisfactory; it is in danger of being declared insolvent. Moreover, the aforesaid irregularities also bring home the fact about management's non-serious attitude towards the Company. They are not paying any heed to the issues raised by the Commission to protect the interest of minority shareholders of the Company. They have, thus, failed to act in the interest of the Company and its shareholders. In the circumstances, the true financial position can only be ascertained by the detailed examination of the books of accounts of the Company.

30. The continuous decline in the performance of the Company coupled with financial irregularities discussed above gave rise to apprehension that the affairs of the Company are not being conducted in accordance with sound business principles and prudent commercial practices and are being conducted in a manner oppressive to its members and to deprive them of the reasonable return on their investment. This state of affairs also reasonably suggest that the results of the Company might not be negative just because of the general recession in the industry but there could be some other reasons including deliberate attempts on the part of the management to siphon off funds of the Company. This view is further

reinforced by serious qualification raised by the auditors regarding sales and purchases transactions being conducted on cash basis coupled with non-verification of the same indicates that the Company is not being run as a corporate entity and in accordance with the generally accepted business principles.

31. In view of the aforesaid discussion it is apparent that the Company has been unable to provide satisfactory replies to the issues raised by the Commission. It is apprehended that the affairs of the Company are not being managed with sound business principles and prudent commercial practices and the shareholders are being deprived of a reasonable return, which is evident from the following:

- Non-maintenance of proper books of accounts in view of the doubt regarding the incidence of fire in the registered office and auditors qualifications.
- Non-verification of the value of capital work in progress and additions/deletion in fixed assets
- Conduct of sales and purchase transaction on cash basis
- Disclaimer/Qualifications by the auditors
- Change of auditors on issuance of disclaimer of opinion in their report
- Doubts about independence of the subsequent audit reports
- Doubts about the annual account of the year 1996 and onwards and the auditors representations thereon.
- Doubts about the books of accounts which have supposedly been rewritten
- Continuous losses being sustained by the Company
- Non-payment of dividend

32. What emerged from the above discussion is that the Company has committed serious irregularities and that the directors have not fulfilled their fiduciary responsibility towards its shareholders. Minority shareholders are the

medium, which could genuinely contribute towards economic growth through their savings if those are channelized for productive purposes giving them reasonable returns and assuring the safety of their investments. In this case, the interest of the minority shareholders appears to have been seriously jeopardized. In the circumstances, it is the responsibility of the Commission to ascertain factual position through competent inspector(s) whose report can bring to light as to whether the affairs of the Company were managed in conformity with the accepted principles and standards of good and efficient management. If the inspector holds that the directors were not responsible for the current state of affairs of the Company, the report will be helpful to them rather than detrimental to their interests. The Commission can protect the interest of the investors only through timely initiating of a fact-finding exercise.

33. It would also be pertinent to discuss here the spirit of Section 265 of the Ordinance. It is not possible for the minority shareholders to act jointly to protect their interest. Moreover, they are not able to collect evidence where management is acting prejudicial to their interest to bring the same before the appropriate forums for appropriate action. It was because of this difficulty that the legislators have enacted Section 265 of the Ordinance to prevent the managements of companies from acting in a manner prejudicial to the interest of the minority shareholders. The object of this Section, thus, is to safeguard the interest of the shareholders, creditors and those dealing with the company to provide for investigation into its affairs where the affairs of the company are conducted to jeopardize those interests.

34. I, therefore, in exercise of the powers conferred on me **Mr. Fakhar Naseem Afzal, ACA, 245-F, Ghulshan-e-Ravi Scheme, Lahore** to act as Inspector to investigate into the affairs of M/s Sahrish Textile Mills Limited on a remuneration of Rs.250,000/- to be paid by the Company.

35. Without limiting the scope of investigation, the inspector shall conduct investigation on all aspects of the operations of the Company and shall, after scrutiny of all the records and books of accounts, furnish a report, *inter alia*, on the following matters:

a) Reasons of heavy losses sustained after public offering. Whether these losses were due to mismanagement imprudent policies or some other reasons, particularly when the comparable units as mentioned in the order have shown improvement.

b) Whether or not the Company has kept proper records as required by Section 230 of the Ordinance.

c) Compliance with the provisions of Section 234 relating to disclosure made in the financial statements.

d) Diversion of funds to unauthorized objects.

e) Sales / revenues of the Company with particular reference to prices of the comparable units.

f) Investigation of cash transaction made by the Company with particular reference to unusually huge amounts being transacted and/or items incurring repeatedly without proper documentation.

g) Investigation of Expenditures incurred by the Company with particular reference to the following:

- Expenditures versus sales /revenues/production
- Energy consumption versus capacity utilization

- Expenses of the Company versus expenses of the comparable companies
- Expenditure analysis in terms of:

    1. Organization
    2. Personal
    3. Production
    4. Selling overheads
    5. Financial charges

h) Whether or not adequate system of internal controls has existed as to prevent misappropriation and misapplication of Company's assets and resources.

i) Reasons for the failure of the Company in context to:
- Over capitalization
- Bad management practices
- Leakage of sales
- Over spending in expenditures
- Assessment of capital expenditures of the company in respect of Company's requirements.
- Excessive borrowings

j) Reasons for and events leading upto change in management of the Company.

k) Determination of any false and incorrect statement in directors' report.

l) Compliance with statutory requirements in the operation of the Company.

m) To report any lapses or other delinquency detected during the course of investigation.

n) In-efficiencies in production.

o) In-out record of the Company particularly relating to sales and purchases.

p) Statutory books including particularly minutes books of the Board and general body meetings.

q) To suggest future course of action in the interest of the shareholders of the Company.

r) Results of circularization to lenders, legal advisors, trade debts, advances, receivables and bank balances as at September 30, 2002.

36. The inspector shall submit his report along with supporting documents to the Commission, highlighting violations of the relevant provisions of the Ordinance, within sixty days from the date of this order.

37. The inspector, for the purpose of his investigation, shall have the same powers as are vested in a Court under the Code of Civil procedure, 1908 while trying a suit in respect of the matters enumerated under Section 266 of the Ordinance and every proceeding before the inspector shall be deemed to be judicial proceeding within the meaning of Section 193 and 228 of the Pakistan Penal Code, 1860. Any contravention or non-compliance with any orders, direction or requirement of the inspectors shall entail the consequences under the Code of Civil Procedure, 1908 and Pakistan Penal Code, 1860.

38. It shall be the duty of all the officers, employees and agents and other persons having dealing with the Company to provide all assistance to the inspector

in connection with the investigation, and any default whereof shall be punishable under Section 268 of the Ordinance.

RASHID SADIQ
Executive Director (Enforcement & Monitoring)

Announced
January 3, 2003
ISLAMABAD