

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
State Life Building, 7-Blue Area,
Islamabad

**IN THE MATTER OF INVESTIGATION INTO THE AFFAIRS OF
M/S POLYRON LIMITED.**

Date of show cause notice: 08-12-1998

Date of hearing : 10-03-1999

Present : Mr. Bashir Ismail,
Chief Executive,
Polyron Limited

Date of Order : 19th May, 1999.

ORDER UNDER SECTION 265 OF THE COMPANIES ORDINANCE, 1984.

M/s. Polyron Limited was listed on the Karachi Stock Exchange in July, 1994. The paid up capital of the company as on 30.06.1998 is Rs.172.00 million. The main object of the company is manufacturing and sale of polyester filament yarn.

2. On examination of the annual accounts for the year ended 30.06.1998 of M/s. Polyron Limited (hereinafter referred to as the company), it was revealed that no dividend has been declared by the company since its listing in the year 1994 till to-date. The financial position of the company which was satisfactory upto the public offer (public offer was made at a premium of Rs. 15/- per share i.e., 150% premium) has deteriorated badly in last four years. The company has suffered from loss of Rs. 51.504 million in the year 1998 whereas accumulated losses as on 30.06.1998 stood at Rs. 317.173 million against the total paid up capital of Rs. 172.000 million. The current liabilities amounting to Rs. 473.793 million were more than 248% of

current assets of Rs. 190.867 million.

3. In view of the aforesaid state of affairs there was an apprehension that affairs of the company are not being managed in accordance with the sound business principles and prudent commercial practices and the solvency of the company is endangered. Accordingly a show cause notice dated 08.12.1998 was served on the company as well as on its chief executive calling upon them to show cause in writing as to why an Inspector should not be appointed to investigate into the affairs of the company. The company furnished its reply vide its letter dated December 16, 1998. In his reply the chief executive tried to attribute poor performance of the company to general crises in the filament yarn industry. It was also stated that although the company, suffered from losses yet it is paying regularly, within due dates, the loan installments to its lenders i.e., PICIC and MCB and has never defaulted. The explanation furnished by the company was not considered to be satisfactory and, therefore, the chief executive was provided with an opportunity of hearing on 27.02.1997 which was adjourned to 01.03.1999 and was further adjourned to 10.03.1999 on Company's request. On the date of hearing, the chief executive appeared and repeated same arguments as advanced in reply to the show cause notice and requested for adjournment of the hearing till finalization of the next account i.e., accounts for the period 30.06.1999 with the assurance that the company would show better operational results during current period. Therefore, it was decided to pend proceedings till August, 1999 as till then the draft annual accounts for the period ending 30th June, 1999 shall be available to gauge the improvement. This was conveyed to the company vide Commission's letter dated March 16, 1999. In response to the said letter, the chief executive vide his letter dated April 13, 1999 informed that he did not promise that the company will show better results during the period ending 30.06.1999, which means that either explanations offered by him at the time of hearing were incorrect or the management does not realize and accept any responsibility to improve affairs of the company in the interest of the minority shareholders who have not

been paid any dividend in the past 5 years.

4. To look into the affairs of the company more deeply, the half-yearly and annual accounts for past few years were analysed and it has been observed that there are alarming inconsistencies in the working results declared by the company specially relating to gross profit margins which ranges between minus 0.7% (account ended on 31.12.1996) to 11.5%, [accounts ended on 30.06.1995 (derived)].

5. After going through the reply of the company and company's past performance particularly analysis of half yearly and annual accounts as discussed in foregoing, I am of view that affair of the company should be investigated so as to ascertain whether the affairs of the company are managed in accordance with the sound business principles or not and whether prudent commercial practices are being followed or not. Besides financial position of the company shall be investigated to ascertain if its solvency is endangered.

6. I, therefore, in the public interest and in exercise of the powers conferred by section 265 (b) of the Companies Ordinance, (XLVII of 1984) hereby appoint M/s. A.F. Ferguson & Co., Chartered Accountants State Life Building No. 1 - C, Off, I.I Chundrigar Road, P.O. Box, 4716, Karachi, to act as Inspector to investigate into the affairs of M/s. Polyron Limited on a remuneration of Rs. 150,000/- which shall be paid by the company.

7. Without in any way limiting to the scope of investigation, the Inspector shall conduct investigation on all aspects of the operations of the company and shall after scrutiny of the entire record and books of accounts furnish reports, inter alia, on the following:-

(i) Reasons for heavy losses.

(ii) Whether or not funds raised through public offer were

utilized in the manner as undertaken in the Prospectus.

- (iii) Whether or not proper record have been kept by the company as required by section - 230 and section-234 of the Companies Ordinance, 1984.
- (iv) Whether or not an adequate system of internal controls exist so as to prevent misappropriation and misapplication of company's assets.
- (v) Whether or not internal audit department is functioning properly, is it competent enough and independent to perform its functions. Evaluation internal audit reports and report that how these are disposed of by the Board i.e., whether or not immediate required actions are taken.
- (vi) Is there some effective budgetary and cost control system and are any special studies carried out to improve workings of the company if so comment.
- (vii) Whether or not the purchase and sales rates of materials and products respectively are comparable with the market rates generally reported.
- (viii) Whether or not expenses have been properly incurred, sanctioned, vouched and allocated and these were for exclusive purpose of the company.
- (ix) Whether or not proper storage system has been maintained and stocks, stores, raw material and finished goods quantitatively reconcile and have been correctly valued, provision and have been correctly valued, provision against dead stocks, slow moving spare & stores have been made and the production and wastage rates are comparable with other units.
- (x) Ascertain the frequency of meeting of board of directors,

role of non-executive and executive directors, the over all comprehension of board of directors, their experiences to determine their ability to run this business in which company is engaged.

- (xi) To examine and report the reasons of inconsistencies in operating results as pointed out in the Annex.
- (xii) Compliance with statutory requirements in the operations of the company indicating that the business was conducted and expenditure were incurred in accordance with the objects and for purposes of the company.
- (xiii) To report in respect of any lapse or other delinquency detected during the course of investigation.
- (xiv) Determine the trend of the business of the company and discuss the plans of company's management to come of the present crisis. For this, the projections and business plans produced by the management will be evaluated and summarized with an opinion by the Inspector.

8. The Inspector shall submit a detail report alongwith supporting documents/evidences to the Commission (in quadruplicate) within 60 days from the date of this order.

(M. Zafar - ul - Haq Hijazi)
Commissioner (Enforcement)

Subject: IN CONSISTENCIES IN THE WORKING RESULTS POLYRON LIMITED

| | Half yearly | | %age | Half yearly | %age | yearly | | |
|--------------------------------|-------------|-------------|-----------|-------------|----------|--------|----------|--|
| | %age | Half yearly | %age | Half yearly | %age | Year | | |
| | %age | Half Yearly | %age | | | | | |
| | 31.12.96 | | 30.6.97 | | 30.06.97 | | 31.12.97 | |
| | 30.06.98 | | 30.06.98 | | 31.12.98 | | | |
| | | | (Derived) | | | | | |
| | Derived | | | | | | | |
| Sales | 185.572 | | 156.836 | | 372.408 | | 237.883 | |
| | 229.147 | | 467.030 | | 263.526 | | | |
| Gross Profit | (1.321) | (0.7) | 7.392 | 4.0 | 6.071 | 1.6 | 13.604 | |
| | 5.7 | 26.419 | 11.5 | 40.023 | 8.6 | 47.097 | 17.9 | |
| Admn & Selling Exp. | 3.544 | 1.9 | 4.840 | 2.6 | 8.384 | 2.3 | 3.453 | |
| | 1.5 | 4.792 | 2.1 | 8.245 | 1.8 | 4.054 | 1.5 | |
| Financial Exp. | 38.859 | 20.9 | 43.379 | 23.2 | 82.238 | 22.1 | 43.063 | |
| | 18.1 | 38.446 | 16.8 | 81.509 | 17.5 | 22.728 | 8.6 | |
| Operating Profit | (2.223) | (1.2) | (0.090) | 0.0 | (2.313) | (0.6) | 10.151 | |
| | 4.3 | 21.627 | 9.4 | 31.778 | 6.6 | 43.043 | 16.3 | |
| Net Profit | (41.809) | (22.5) | (43.997) | (23.5) | (85.806) | (23.0) | (33.896) | |
| | (14.2) | (17.609) | (7.7) | (51.505) | | (11.0) | 19.316 | |
| | 7.3 | | | | | | | |