

Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division
7th Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad.

Before Rashid Sadiq, Executive Director

In the matter of
QUALITY STEEL WORKS LIMITED

Number and date of show cause notice	19 (197) CF/ISS/2001 dated February 12, 2002
Date of hearing	April 30, 2002
Present	Mr. Mohammad Ziauddin, Chief Executive

ORDER

This order will dispose of the proceedings initiated against M/S Quality Steel Works Limited (the “Company”) for failure to hold Annual General Meeting for the calendar year 2001 and to lay therein a balance sheet and profit and loss account for the year ended June 30, 2001.

2. The relevant facts for the disposal of this case are very simple. The Company was required to hold its Annual General Meeting (the “AGM”) for the calendar year 2001 and to lay therein its balance sheet and profit and loss account for the year ended June 30, 2001 on or before December 31, 2001 as required under Sub-section (1) of Section 158 and Sub-section (1) of Section 233 of the Companies Ordinance, 1984 (the “Ordinance”).

The failure of the Company to comply with the aforesaid mandatory requirements necessitated action under the relevant provisions of the Ordinance. A show cause notice No.19 (197)/CF/ISS/2001 dated February 12, 2002, therefore, was issued to the Company, its Chief Executive and directors calling upon them to show cause in writing within fourteen days as to why penalties as provided under Clause (a) of Sub-section (4) of Section 158 read with Section 476 of the Ordinance may not be imposed and prosecution proceedings may not be initiated under Sub-section (6) of Section 233 read with Sub-section (7) of Section 230 of the Ordinance.

3. The Company acknowledged the aforesaid show cause notice through its letter dated February 20, 2002. A request was also made for personal hearing. The reply to the show cause notice was received on March 01, 2002 through the Company's letter dated February 28, 2002. In order to give personal hearing, the case was fixed on March 19, 2002, which at the request of the Company was adjourned. On April 30, 2002, the Chief Executive of the Company appeared and desired this case to be heard. I, therefore, heard him. He also represented the Company and other directors in these proceedings.

4. During the course of hearing and also in the reply to the show cause notice, it was contended that severe depression in the market, non-availability of orders and heavy mark-up on borrowings resulted in severe paucity of funds and cash flow constraints. Consequently, the staff was laid off and the operations of the Company remained suspended for almost two years. The Chief Executive stated that, in view of the aforesaid difficulties, it was not possible to hold the AGM. He also informed that the management was able to commence operations last year by arranging funds from various sources. He

also talked about bright future of the Company due to anticipated demand of construction material from neighboring country and said that this was the only project in the private sector qualified to manufacture high-powered transmission lines towers/structures. He also assured to comply with the legal requirements in the shortest possible time.

5. I have given careful consideration to the arguments advanced by the Company for not being able to hold AGM and lay therein balance sheet and profit and loss account. I am of the view that none of the reasons advanced by the Company justify the delay in holding of AGM and presentation of balance sheet and profit and loss account therein. At this point, it is necessary to note the past history of compliance by the Company of the aforesaid provisions of the Ordinance. The Company is in default for holding of AGMs for the calendar year 1999 and 2000. A fine of Rs. 20,000/- for each of the aforesaid years was imposed on every director including the Chief Executive for contraventions of the provisions of Section 158 of the Ordinance. On the assurance given by the Chief Executive during the course of hearing of the said case, the Company was allowed to hold its over due AGMs for the calendar year 1999 and 2000 before December 31, 2001. In utter disregard to the assurance given by the Chief Executive, the Company has neither held the over due AGMs nor any notice has been issued for convening of these meetings till the writing of this Order. This clearly indicates inappropriate and unreasonable conduct of the directors/ Chief Executive of the Company. They have failed to take reasonable steps to comply with the mandatory provisions of Section 158 and 233 of the Ordinance. They have been recklessly careless in the performance of their statutory obligations. The contention that Annual General Meetings were not held due to closure of the factory is not a valid reason for delaying the holding of Annual General Meetings. In

the absence of any activity, it was all the more easier for the directors to have prepared the accounts and held AGM within prescribed time limit.

6. In the aforesaid circumstances, the Chief Executive was asked to explain as to why directors had failed to hold AGMs for the last three calendar years and present balance sheets and profit and loss accounts therein of the relevant years. He was not able to give any satisfactory explanation for the default. The shareholders of the Company are not aware of the financials of the Company for the last three years due to non- holding of Annual General Meetings and non-presentation of accounts therein for the year ended June 30, 1999, 2000 and 2001. The directors have disregarded their commitments, the direction of the Commission and the mandatory provisions of Section 158 and 233 of the Ordinance. This is a serious violation, which may lead to winding up of the Company in terms of Section 305 of the Ordinance.

7. From the aforesaid discussion, it is quite obvious that the Chief Executive and directors of the Company have failed to take necessary steps to carry their statutory obligations. As they had knowledge of legal provisions and consequences of the violations and further they were also penalized for similar violations during previous year, therefore, I consider that the default was committed willfully and deliberately.

8. In view of the foregoing, the default under Sub-section (1) of Section 158 of the Ordinance is established and the Company, its directors and Chief Executive have made themselves liable under Clause (a) of Sub-section (4) of Section 158 of the Ordinance. As the Company is continuously violating the provisions of Section 158 of the Ordinance for the three consecutive calendar years and no serious attempt has been made to rectify the

default, therefore, it leaves no room for me to take a lenient view in this case. I, therefore, impose a fine of Rs 20,000 (Rupees twenty thousand) on the Company and every director including its Chief Executive for default in complying with the provisions of Sub-section (1) of Section 158 of the Ordinance. I also impose further fine amounting to Rs 286,000/- (Rupees two hundred eighty six thousand) on each of the Company, its Chief Executive and directors calculated @ Rs 2,000 per day from January 01, 2002 to May 23, 2002 (143 days) for continuous default in holding of Annual General Meeting under Sub-section (1) of Section 158 of the Companies Ordinance, 1984. The Company, its directors and Chief Executive shall also be liable to further fine @ 2,000 per day from May 24, 2002 till the date the Annual General Meeting is held. The directors and Chief Executive of the Company are advised to take immediate steps to hold overdue Annual General Meetings of the Company.

9. The Company, its Chief Executive namely, Mr. Mohammad Ziauddin and directors namely, Mr. Muhammad Farooq, Mr. Ahsan Ahmad, Mr. Irshad Ahmad, Mr. Saeed Khan, Mr. Mushtaq Ahmed, Mr. Muhammad Ismail Mukaddam are hereby directed to deposit the fine amounting to Rs 306,000/- each (aggregating Rs. 2.448 million) in the following head of account within 30 days of the receipt of this order:

Account No. 10464-6
Habib Bank Limited
Habib Bank Plaza, I. I. Chundrigar Road,
KARACHI.

10. The Commission has already filed a complaint in the Court of Session, Karachi for prosecution of directors for non- presentation of balance sheets and profit and loss

accounts for the years ended June 30, 1999 and 2000 before the Company in its Annual General Meetings for the calendar year 1999 and 2000. As the Company has also failed to lay its balance sheet and profit and loss account for the year ended June 30, 2001 before the Company in its Annual General Meeting for the calendar year 2001, therefore, the Directors including the Chief Executive of the Company have made themselves liable under Sub-section (6) of Section 233 read with Sub-section (7) of Section 230 of the Ordinance. I, therefore, direct my office to take necessary steps to bring the default for the calendar year 2001 to the notice of the Court of Session where a similar complaint for the year 1999 and 2000 is already pending.

RASHID SADIQ

Executive Director (Enforcement and Monitoring)

Announced
May 23, 2002
ISLAMABAD