

SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
ENFORCEMENT & MONITORING DIVISION
NIC Building, Jinnah Avenue, Blue Area, Islamabad.

IN THE MATTER OF
M/S ASSOCIATED INDUSTRIES LIMITED

No. and date of notice
No.19 (237) CF/ISS/2001
dated August 08, 2001

Date of final hearing
September 12, 2001

Present
Mr. Ijaz Akbar, FCA

ORDER UNDER SUB-SECTION (1) OF SECTION 472
OF THE COMPANIES ORDINANCE, 1984

The facts leading to this case, briefly stated, are that the annual accounts of M/s. *Associated Industries Limited* (the “Company”) for the year ended June 30, 2000 revealed that a sum of Rs.30.127 million has been shown as receivable by the Company under the head “loans and advances others” from its associated company namely M/S Quality Food Products (Private) Limited. While examining this issue, it was noticed that the auditors of the company M/S Ijaz Tabassum & Co., Chartered Accountants, without qualifying their report, have drawn attention of the members to the note 23.1 of the aforesaid annual accounts which stated that “interest on balance due from associated concern on non-trading transactions has not been charged: had the interest been charged at the borrowing cost, loss would have been effected to the same extent”.

2. Since the advances in question provided by the Company to its associated company *prima facie* violated the provisions of clause (c) of Sub-section (1) of Section 195 of the Companies Ordinance, 1984 (the “Ordinance”) a show cause notice was issued to the company and its directors including the Chief Executive for contravention of the provisions of the Ordinance.

3. In response to the aforesaid show cause notice, Mr. Ijaz Akbar, FCA of M/S Ijaz Tabassum & Co. Chartered Accountants, vide letter dated June 13, 2001, on behalf of the Company, has submitted that the advance of Rs 30.127 million as shown in the annual accounts

was not a loan but a trading balance between the two companies. It was further contended by the learned counsel of the Company that the balance represented advance to the associated company for supply of raw edible oil and, therefore, it was normal business transaction. The company was directed to provide copies of the current account ledger of the associated company for the year ended June 30, 2000, which were supplied on July 11, 2001.

4. On scrutiny of the current account of the associated company, it was revealed that the Company has provided an amount of Rs 50.946 million to M/S Quality Foods Products (Private) Limited on July 02, 1999. The said amount was, however, reduced to Rs 30.127 million as at June 30, 2000 through various expenses incurred by the associated company on behalf of the Company and receipt of small amounts from time to time till June 30, 2000. No documentary evidence was, however, provided to substantiate the contention that the balance due from the associated company was a normal business transaction. To discuss this issue, the case was fixed several times and on July 27, 2001 the learned counsel appeared and admitted the default. He agreed to rectify the same in accordance with the direction of the Commission. In order to ensure the return of shareholder's money with mark up thereon, a notice dated August 08, 2001 under Sub-section (1) of Section 472 of Ordinance was served on the company calling upon to make good the default within 30 days by arranging refund of Rs. 30.127 million along with mark up thereon, which shall not be less than the borrowing cost of the company.

5. In response to the aforesaid notice, the Company vide letter dated August 17, 2001 requested that six months period may be allowed to recover the amount due from Quality Food Products (Private) Limited. Subsequently, the Company also provided the working of the borrowing cost of the Company, which was determined at 19.42%. The company has further assured that the amount due from associated company would be recovered along with mark up.

6. The case was finally heard on September 12, 2001 on which date the learned counsel appeared on behalf of the company and submitted a written reply. He informed that the Company has already recovered a sum of Rs 26.354 million from the associated company, and an amount of Rs 3.773 million was outstanding as on September 12, 2001, which alongwith markup @ 19.42% may be allowed to be recovered within three months time. On the basis of the borrowing cost of the Company, the markup on daily product basis worked out to be Rs. 14.567 million till

September 12, 2001. The total amount recoverable from the associated company, therefore, comes to Rs.44.694 million out of which Rs.26.354 million has already been recovered by the company after issuance of notice under Sub-section (1) of Section 472 of the Ordinance. The balance amount of Rs.18.340 million is still recoverable for which it was requested to allow three months period. Keeping in view the fact that the company has already recovered a substantial amount of Rs.26.354 million from the associated company after the service of notice, I am inclined to allow further time till December 12, 2001 to the company to recover the amount of Rs 18.340 million alongwith markup for the period till actual receipt of money from the associated company.

7. For the foregoing reasons, I hereby direct the Company and its directors including Chief Executive to recover the balance amount of Rs 18.340 million due as on September 12, 2001 alongwith markup till actual payment from the associated company namely Quality Foods Products (Private) Ltd., before December 12, 2001 and submit documentary proof for recovering of Rs 44.694, duly authenticated by the auditors to the Commission within ten days thereof.

8. In case of non-compliance of the above directive within the period specified, the Commission shall be constrained to proceed to take action under Section 495 of the Ordinance.

9. This order is being issued without prejudice to any other provisions under which action may be taken in respect of the default as aforesaid.

RASHID SADIQ
Executive Director (Enforcement & Monitoring)

Announced
October 09, 2001
ISLAMABAD.