



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Company Law Division
(Enforcement Department)

[Islamabad]

Before Ejaz Ishaq Khan, Executive Director

Order

In the matter of
Service Fabrics Limited

(Under Sub-section (3) of Section 245 of the Companies Ordinance, 1984.)

Number and date of show cause notices	(i). EMD/Enf-II/231/2003-6520-6526 dated April 08, 2004 (ii). EMD/Enf-II/231/2003-276-282 dated July 06, 2004
Date of hearing	July 28, 2004
Present	Mr. Ralph Nazirullah, Company Secretary
Date of Order	August 26, 2004

This is a case of violation of the provisions of Section 245 of the Companies Ordinance, 1984 (the “Ordinance”) by M/s. Service Fabrics Limited (the “Company”).

2. The facts leading to this case, briefly stated, are that in terms of the provisions of Section 245 of the Ordinance read with Commission’s Circular No. 9 of 2003, the Company was required to prepare and transmit to the members and simultaneously file with the Registrar and the Commission its quarterly accounts for the 1st and 2nd quarters ended on December 31, 2003 and March 31, 2004 by January 31, 2004 and May 31, 2004 respectively. The failure of the Company to comply with the aforesaid mandatory requirement necessitated action against the responsible directors of the Company in terms of Sub-section (3) of Section 245 of the Ordinance. Consequently,



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Company Law Division
(Enforcement Department)

two show cause notices dated April 08, 2004 and July 06, 2004 were served on all the directors including the Chief Executive of the Company calling upon them to show cause as to why penalties as provided under Sub-section (3) of Section 245 read with Section 476 of the Ordinance may not be imposed on them.

3. The Chief Executive and directors of the Company failed to respond to the show cause notice dated April 08, 2004. However, show cause notice dated July 06, 2004 was responded by Mr. Farooq Hameed, the Chief Executive of the Company who contended through his letter dated July 12, 2004 that late appointment of new auditors delayed the audit of the annual accounts for the year ended 30-09-03 and consequently the accounts for the quarters ended 31-12-03, 31-03-04 and 30-06-04 could not be prepared within the prescribed time. It was further submitted that the previous auditors due to their internal problems were delaying the audit of accounts for the last 2/3 years, therefore, the Company has changed its auditors and it is hoped that such delay will not occur in future. It was further stated that the said quarterly accounts are ready and will be published and filed with the Commission as soon as the accounts for the year ended 30-09-03 are audited. He requested for one month period to file the said accounts and also promised that in future all the requirements will be fulfilled within time prescribed.

4. In order to provide an opportunity of personal hearing the matter was fixed on July 28, 2004, on which date, Mr. Ralph Nazirullah, the Company Secretary appeared and argued the case on behalf of all the respondents. Mr. Nazirullah admitted the default and reiterated almost the same arguments as were earlier offered by the Chief Executive in his written reply. He assured to be careful and compliant in future and prayed for a lenient view in the matter.

5. I have given due consideration to the written as well as verbal submissions of the respondents advanced for defaults, however, the circumstances and facts placed



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Company Law Division
(Enforcement Department)

before me do not prove that the defaults were beyond the control of the management. The track record of the Company with regard to holding of AGMs and filing of annual and interim accounts is also very poor. The Company is committing defaults in holding of AGMs and filing of annual accounts since September 2000 and in filing of quarterly accounts since December 2002. When Mr. Nazirullah was asked as to why timely action was not taken against the auditors for delaying the audit of the accounts, he failed to give any justifiable excuse. This led me to believe that the directors have intentionally deprived the shareholders of their statutory right to receive the quarterly accounts of the Company. Had there been serious efforts on the part of the directors to manage the timely finalization and audit of accounts, there would have been no delay in preparation/circulation of annual and interim accounts. The responsibility for preparation/circulation of quarterly accounts rests with the directors of the Company and in case they do not take appropriate action at appropriate time the default is considered willful. For the foregoing reasons, the default under Sub-section (1) of Section 245 of the Ordinance stands established.

6. However, in view of the assurance given by the respondents for timely compliance in future, I am inclined to take a lenient view in the matter and, instead of imposing the maximum fine of Rs. 100,000 on every director and a further fine of Rs. 1,000 per day for the continuous default, impose the fines under Sub-section (3) of Section 245 of the Ordinance on the Chief Executive and the directors of the Company as per details given hereunder: -



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Company Law Division
(Enforcement Department)

S.#	Name	Penalty (Rupees)		
		For the period ended		Total
		31.12.2003	31.03.2004	
1.	Mr. Farooq Hameed, Chief Executive	5,000	5,000	10,000
2.	Mr. Muhammad Hameed, Director	5,000	5,000	10,000
3.	Mr. Ijaz Hameed, Director	5,000	5,000	10,000
4.	Mr. Sajid Salim Minhas, Director	5,000	5,000	10,000
5.	Mr. Aamer Hameed, Director	5,000	5,000	10,000
6.	Mr. Tariq Hameed, Director	5,000	5,000	10,000
7.	Mr. Muhammad Salim, Director	5,000	5,000	10,000
	Total	35,000	35,000	70,000

7. The Chief Executive and directors of the Company are hereby directed to deposit the aforesaid fines in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with Habib Bank Limited within thirty days from the receipt of this order and furnish receipted challans to the Commission failing which proceedings for recovery of the fines as arrears of land revenue will be initiated. It should also be noted that the said penalties are imposed on the Chief Executive and the directors in their personal capacity and they are required to pay the said amounts from their personal resources.

Ejaz Ishaq Khan
Executive Director

Announced:
August 26, 2004
ISLAMABAD