

Before Dr. Sajid Oureshi, Executive Director (Company Law)

In the matter of

M/s. Service Fabrics Limited

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

No. & date of show cause notice	EMD/Enf-II/231/2003 dated June 16, 2006
Date of hearing	August 09, 2006
Present	M/s. Muhammad Pervaiz Tahir, G.M Finance & Ahmir Siddique, Company Secretary
Date of Order	August 16, 2006

Order

This Order shall dispose of the proceedings initiated against the directors of M/s. Service Fabrics Limited (hereinafter referred to as the "Company") for default made in complying with the provisions of Sub-section (1) of Section 245 of the Companies Ordinance, 1984 (the "Ordinance").

2. The facts leading to this case, briefly stated, are that in terms of the provisions of Section 245 of the Ordinance, 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 2nd quarter ended March 31, 2006 by May 31, 2006. Failure of the Company to comply with the aforesaid mandatory requirements within the prescribed time necessitated action against the responsible directors of the Company in terms of Sub-section (3) of Section 245 of the Ordinance. Consequently, show cause notice dated June 16, 2006 was 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 for the aforesaid contravention. The Chief Executive and other directors, however, did not respond to the show cause notice.

3. In order to provide an opportunity of personal hearing the matter was fixed for August 09, 2006. On the date of hearing M/s. Muhammad Pervaiz Tahir, G.M Finance & Ahmir Siddique, Company Secretary appeared for hearing on behalf of the directors of the Company. They while admitting the



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default also filed written explanation from the Chief Executive of the Company vide letter dated July 28, 2006. In the written as well as verbal submissions it was contended that the quarterly accounts for the 2nd quarter ended March 31, 2006 could not be transmitted to the Commission due to the reason that the operations of the Company were suspended since October 2004. He added that, consequent upon the deteriorated conditions, some staff members of the accounts department also left the job at the critical moment; hence the maintenance of the accounts was badly disturbed resulting thereby delay in the audit of accounts by auditors and preparation of quarterly accounts. Mr. Pervaiz, promised that the aforesaid quarterly accounts will be submitted to the Commission within a week. He also assured to be careful and compliant in future and prayed for a lenient view in the matter.

4. I have given due consideration to the written as well as verbal submissions of the respondents advanced for non filing of quarterly accounts, however, the circumstances and facts placed before me do not prove that the default was beyond the control of the management. The track record of the Company with regard to filing of annual and interim accounts is also not satisfactory. The Company is committing defaults in filing of annual accounts since September 2000 and in filing of quarterly accounts since December 2002 for which the Directors were penalized earlier also. It has been noticed that the Directors have also failed to deposit the amount of penalties imposed for the previous defaults. This led me to believe that the Directors have no respect for the law and they have again deprived the shareholders of their statutory right to receive the quarterly accounts of the Company within the prescribed time limit. The responsibility for preparation/circulation of quarterly accounts rests with the Directors of the Company and they have to take appropriate action at appropriate time. Moreover, at the time of hearing held for the previous defaults under the same provisions of the Ordinance, the directors' representative had promised that no default would occur in future. The repetition of default clearly shows that the Company is not making any serious efforts to comply with the provisions of the law.

5. Before proceeding to decide this case, I consider it necessary to highlight the importance of the strict observance of the aforesaid mandatory provisions of the law. The protection of the investors/shareholders is one of the primary objectives of the Ordinance. It is investors/shareholders who provide seed for capital formation. If the interest of the investors is protected, they will save and invest more. Their interest is protected by transmission of timely, adequate and meaningful information to them. It is the annual and interim accounts, which provide information to the investors about the affairs of the companies. It has unfortunately been noted that the directors of M/s. Service Fabrics Limited are not observing these compulsory requirements of law. For the foregoing reasons, the default under Sub-section



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(1) of Section 245 of the Ordinance regarding non- submission of quarterly accounts for the 2nd quarter ended on March 31, 2006 stands established.

6. However, in view of the undertaking given by the directors that the profit and loss account and balance sheet of the Company for the 2nd quarter ended March 31, 2006 will be filed on or before August 21, 2006 and their assurance for taking necessary measures to make strict compliance of Law and timely submission of accounts in future, 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, I impose following token penalties on the Chief Executive and responsible directors of the Company under Sub-section (3) of Section 245 of the Ordinance:-

S. No	Name	Penalty (Rs.)
1.	Mr. Farooq Hameed, Chief Executive	5000
2.	Mr. Ijaz Hameed, Director	5000
3.	Mr. Muhammad Hameed, Director	5000
4.	Mr. Aamer Hameed, Director	5000
5.	Mr. Tariq Hameed, Director	5000
6.	Mr. Bilal Mustafa, Director	5000
7.	Mr. Abid Hussain, Director	5000
Total		35,000

7. However, no penalty is imposed on Mr. Muhammad Salim and Mr. Sajid Salim Minhas since they had resigned as directors with effect from April 26, 2006. The Chief Executive and directors of M/s. Service Fabrics Limited are hereby directed to deposit the aforesaid fines aggregating to Rs.35,000/- (Rupees thirty five thousand only) 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 vouchers or pay by a DD/pay order issued in the name of Commission for information and record, failing which proceedings under the Land Revenue Act,1967 will be initiated which may result in the attachment and sale of movable and immovable property. It may also be noted



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that the said penalties are imposed on the Chief Executive and other Directors in their personal capacity who are required to pay the said amount from their personal resources.

Dr. Sajid Qureshi
Executive Director (CLD)