



Corporate Supervision Department
Company Law Division

Before Ali Azeem Ikram – Executive Director (Corporate Supervision)

In the matter of

Hajra Textile Mills Ltd

Number and date of notice: EMD/233/130/2002-1554-1560 dated April 9, 2014
Date of hearings: November 12, 2015
Present: Mr. Ahmed Ellahi –Chief Executive

ORDER

UNDER SECTION 495 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated vide show cause notice dated April 9, 2014 issued to following chief executive and directors (“respondents”) of Hajra Textile Mills Ltd. (“Company”) for default made in complying with the provisions of Section 495 read with Section 476 of the Companies Ordinance, 1984 (“Ordinance”).

S.#	Names of Respondents
1	Mr. Ahmed Ellahi, Chief Executive
2	Mr. Muhammad Shafique Bhatti, Director
3	Mr. Muhammad Nawaz, Director
4	Mr. Muhammad Zulfiqar, Director
5	Mr. Muhammad Asim, Director
6	Mr. Rana Muhammad Saeed, Director
7	Mr. Shahid Aziz (NIT), Director

2. The facts leading to this case, briefly stated, are that, that Securities & Exchange Commission of Pakistan (“the Commission”) had passed an order against the Company on August 27, 2012 under provisions of Section 492 of the Ordinance for providing false and misleading information in annual accounts for the year ended June 30, 2011 as highlighted by the auditor by qualifying their report. In the said order the respondents were also given directions under Section 473 of the Ordinance to take steps to remove qualifications of auditors by the close of the financial period ended December 31, 2012.

3. Record available with the Commission reveals that the statutory auditors of the company in annual audited accounts for the year ended June 30, 2012 and June 30, 2013 has raised observations identical to the annual audited accounts for the year ended June 30, 2011. It is evident from the above that respondent by not presenting the requisite information to the satisfaction of



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 1 -

statutory auditors thereby enabling them to remove the qualification in their subsequent reports to the members have prima facie, failed to comply with the directions of the Commissions given in term of Section 473 of the Ordinance. The said, prima facie, non-compliance attracts the provisions of subsection 1 of Section 495 of the Ordinance, therefore, show cause notice dated April 9, 2014 was issued to the respondent for *prima facie*, contravention of Section 495 of the Ordinance.

4. In response to the SCN the respondents 1-6 vide letter dated May 9, 2014 and June 7, 2014 made the following submissions.

- The Company is not operational for last two years due to shortage of funds and non-availability of working capital from the commercial banks and financial institutions. Except few security guards all the workers and officials, including head office staff have already been terminated.
- The top management is trying its best to settle with banks and to arrange funds from their own sources so that the Company may be operated in future. When the Company will start its operation, all the audit observations will be removed one by one.
- The inventory is pertaining to stores and spares at mills and as there is no staff at factory as well as head office and therefore, we could not facilitate the auditors for stock taking.
- As the company's fixed assets, revaluation of fixed assets are carried in the financial statements on the written down value basis and all the addition and deletions to fixed assets have been recorded whenever transaction took place is booked/accounted for on year basis which are updated on yearly basis. All other record is updated except the fixed asset register which is not updated for last some years.
- The auditor's qualification pertaining to bank loans which remained unconfirmed due to the pending litigation with the concern banks. The reason for major qualification was that the company's operation suspended and staff had left their jobs and therefore the company could not properly pursue the confirmations form the concerned institutions and parties. The loan from Silk Bank Ltd has been rescheduled with terms and conditions and payment of instalments is being made on due dates which shows that the management is confident to restart the operational activities of the Company.
- The auditor's qualification pertaining to non-confirmation of leasing liabilities, insurance claims which did not get confirmed due to the pending litigation with the concerned

Qam



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 2 -

leasing company. The reason for major qualification was that the company's operation suspended and staff has left their jobs and therefore, the Company could not properly pursue the confirmations from the concerned institutions and parties.

- The auditor's qualifications pertaining to non-confirmation of liability due to the Bank of Punjab which did not get confirmed due to the pending litigation with the concerned bank. The reason for major qualification was that the Company operation suspended and staff had left their jobs and therefore, the Company could not properly pursue the confirmations from the concerned institutions and parties.
- The creditors were remained unconfirmed as the Company not remained operational and the parties did not respond to the auditor's confirmation request.
- The insurance claim receivable and reserve for restoration of building are accounted for as receivable and reserve in the financial statements on the basis of case filed against EFU Insurance Company as well the Bank of Punjab for damages of stocks and building which is pending adjudication. The Company has hired services of very professional lawyer who has confirmed the present status of the case as well as given legal advice regarding likelihood of the decision by the Insurance Tribunal would be in Company's favor. Therefore, the Company has recognized claim receivable and restoration of building reserve has rightly been disclosed in the financial statements in accordance with their substance and reality.

5. The respondent no. 7 Mr. Sahid Aziz vide its letter dated February 2, 2015 submitted that the Company is not holding board meetings in spite of his best efforts and he has repeatedly reminded them to hold meetings, through telephone as well as written correspondence. He submitted correspondence with the Company dated May 30, 2014, July 3, 2014 September 26, 2014 and October 13, 2014, and requested to drop the proceedings against him as he is not involved in the matters of the Company.

6. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on November 12, 2015. Mr. Ahmed Ellahi, chief executive of the Company appeared appeared on behalf of respondents 1-6 before the undersigned and reiterated the earlier stance taken by the respondent in the written reply and requested a lenient view in the matter.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 3 -

7. Before proceeding with the order, I feel it necessary to quote the mandatory provisions of Section 495 of the Ordinance which states that:

“Where any directive is given or order is issued by the Court, the officer, the Commission, the registrar or the Federal Government under any provision of this Ordinance, non-compliance thereof within the period specified in such direction or order shall render every officer of the company or other person responsible for non-compliance thereof punishable, in addition to any other liability, with fine not exceeding fifty thousand rupees and, in the case of a continuing non-compliance, to a further fine not exceeding two thousand rupees for every day after the first during which such non-compliance continues.”

8. In terms of the Commission’s notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 495 have been delegated to Executive Director (Corporate Supervision).

9. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the respondent and representative, auditor report to the members of the Company dated December 10, 2013 and observed the following;

- As per Section 230 of the Ordinance it is responsibility of directors to maintain proper books and accounts of the company and such books are necessary to give a true and fair view of the state of affairs of the Company. The company failed to maintain fixed asset register and relevant supporting record for verification of property plant and equipment by auditor, due to which auditor failed to verify and satisfy themselves regarding existence and conditions of the property plant and equipment.
- As per Section 255 of the Ordinance every auditor of the company shall have a right of access at all times to the books, papers, accounts and vouchers of the company, whether kept at the registered office of the company or elsewhere, and shall be entitled to require from the company and the directors and other officers of the company such information and explanation as he think necessary for the performance of the duties of the auditors. The auditor was not facilitated for the counting of the physical inventories of stores and spares of the Company due to which auditor failed to verify existence, valuation and conditions of the quantities of the stores and spares.

Rever



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 4 -

- The respondent argument that due to shortage of staff direct confirmation from banks and creditors was not possible is not tenable. As per Section 255 of the Ordinance it is responsibility of respondents to facilitate the auditor in the course of audit.
- As per audit report the Company had recognized insurance claim receivable in the financial year 2009 against the loss of stock and building by fire to Rs. 115,577,100 which is against the applicable standard.
- The Company as per its accounting policy has not carried out any review of the carrying amount of its tangible assets in spite of existence of indication of impairment loss, as of balance sheet date, therefore, the carrying amounts of these assets could not be compared with their recoverable amount to estimate the impairment loss.
- As per auditor's report there are conditions which indicate existence of material uncertainty which cast significant doubt about the company's ability to continue as a going concern and it may be unable to realize its assets and discharge its liability in normal course of business and therefore going concern assumption used in the preparation is not appropriate.
- The record available with the Commission reveals that the statutory auditors of the company in the annual audited accounts for the year ended June 30, 2012 and June 30, 2013 has raised the observations identical to the annual audited accounts for the year ended June 30, 2011. From above it can be concluded that no serious efforts were made by the respondent to remove qualifications of the auditor as directed through order dated August 12, 2012.

10. For the foregoing reasons, I am of the firm opinion that the respondents have failed to make concrete efforts to rectify the information given in the financial statements and hence the statutory auditors are constrained to make out a qualified report to the members, apart from Mr. Shahid Aziz who reminded the Company through his letters to fulfill the regulatory requirements. Therefore, in exercise of the powers conferred by Section 495 of the Ordinance, I hereby impose a fine of Rs.60,000/- (Rupees sixty thousand only) in aggregate on respondent 1-6 for contravening the provision of Section 495 of the Ordinance. The respondents are directed to deposit the fine in the following manner:

Name of Respondents	Amount in Rupees
Mr. Ahmed Ellahi, Chief Executive	10,000
Mr. Muhammad Shafique Bhatti, Director	10,000
Mr. Muhammad Nawaz, Director	10,000

7th Floor, NIC Building, 63-Jinnah Avenue
Islamabad, Pakistan

PABX: + 92-51-9207091-4, Fax: +92-51-9100454, 9100471, Email: webmaster@secp.gov.pk, Website: www.secp.gov.pk

Qureshi



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 5 -

Mr. Muhammad Zulfiqar, Director	10,000
Mr. Muhammad Asim, Director	10,000
Mr. Rana Muhammad Saeed, Director	10,000
	Rs.60,000

The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of fine, proceedings for recovery of the fines as arrears of land revenue will be initiated. It may also be noted that the said fines are imposed on the respondents in their personal capacity; therefore, they are required to pay the said amount from personal resources.

Ali Azeem Ikram

Executive Director (Corporate Supervision)

Announced:

December 1, 2015

Islamabad