



**SECURITIES AND EXCHANGE COMMISSION  
OF PAKISTAN**  
[Islamabad]

*Before Ali Azeem Ikram, Director (Enf)*

**In the matter of**

**Mian Textile Industries Limited**

Number and date of notice:

No.EMD/233/269/2002-3091  
dated May 7, 2009

Date of Hearing:

June 26, 2009

Present:

Mian Muhammad Jehangir  
Chairman/Chief Executive

Order

**Under Section 235 read with Section 476 of the Companies Ordinance, 1984.**

This order shall dispose off the proceedings initiated through Show Cause Notice No.EMD/233/269/2002-3091 dated May 7, 2009 under the provisions of Section 235 of the Companies Ordinance, 1984 (the "Ordinance") served on the directors of Mian Textile Industries Limited (the "Company").

3. It has been noticed from the annual audited accounts of the Company for the period ended June 30, 2008 that the Company has been transferring incremental depreciation from "Surplus on Revaluation of Fixed Assets Account" to un-appropriated profit / accumulated loss through profit and loss account in contravention of Section 235 of the Ordinance read with S.R.O. 45(1)/2003 dated January 13, 2003 (the "SRO"), which requires the transfer of amount of incremental depreciation from the surplus on revaluation of fixed assets account to un-appropriated profit / accumulated loss account through statement of changes in equity. The auditors of the Company, M/s. Horwath Hussain Chaudhury & Co., also qualified their report to the shareholders on the aforesaid issue in the following manner:

*Quote:*

*Surplus on property plant and equipment realized on incremental depreciation and disposal of plant and machinery during the year has been included in arriving at the figures of loss after tax as contrary to the requirements of IAS-16(Property, Plant and Equipment) and Section 235 of the Companies Ordinance, 1984. Had the surplus realized been transferred directly to retained earnings, net loss for the year would have been higher by Rs. 29.713 million.*

*Unquote*

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4. Consequently, a show cause notice dated May 7, 2007 ("SCN") was issued to the directors of the Company to explain as to why action may not be taken against them for the aforesaid violation. The SCN was responded by Mian Muhammad Jehangir, Chief Executive/Chairman of the Company who made following submissions:

- i. Regarding treatment accorded to surplus in books, we have to look a few years back when all the cotton industry was in crises and the State Bank of Pakistan (SBP) in order to support the industry, granted the permission to the industry to revalue its assets and get finances from banks and financial institutions. Like others, we also got our assets revalued for obtaining some finances, which otherwise has no relation with Company's profitability and operations.
- ii. Unlike the whole industry we then decided to eliminate revaluation surplus and adopted this method to bring the books closer to true and fair position as soon as possible, while the whole industry was writing back the surplus when it was realized in the year of sale of fixed assets. There is also accounting convention to record all the assets, liabilities; profit and loss items at its cost i.e. par value. We followed the same concept and if the incremental depreciation is charged to profit and loss account, the profit/(loss) so computed is not true for the simple reason that no money was spent or cost was incurred on acquisition of capital assets and depreciation was charged on fictitious/revalued figure of revaluation surplus recorded by book adjustment. As all of us know that revaluation surplus has nothing to do with Company's operations, it was just a way to obtain finances.
- iii. As far as taxation authorities are concerned, they also reject the revaluation surplus at first instance and it is never recognized for allowing depreciation in computing taxable income.
- iv. In view of the above facts, we feel that the treatment of revaluation surplus adopted by us is logical and correct and also in-line with the taxation laws of the country.

5. Explanation furnished in response to the SCN was not found satisfactory therefore the case was fixed for hearing on June 26, 2009. On the date of hearing Mian Muhammad Jehangir, Chief Executive/Chairman appeared before the undersigned to argue the case. He referred to his written submissions and stated that in his opinion the treatment adopted by the Company does not affect the true and fair view of the state of affairs of the Company. He argued that proper disclosures have been made in the accounts and the Company has not tried to conceal any thing from the shareholders or other stakeholders. He, however, admitted non-compliance with the requirements of Section 235 of the Ordinance read with SRO and assured to rectify the default in financial statements of the Company for the year ended June 30, 2008.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Enforcement Department

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6. The default is established and same has also been admitted. However, in view of assurance given by the Chief Executive for future compliance, I, taking a lenient view, instead of imposing a maximum penalty of Rs.20,000/- on each director, impose a fine of Rs.10,000/- (Rupees ten thousand only ) on the Chief Executive of the Company only, for the aforesaid default, as provided under Sub-section (5) of Section 235 of the Ordinance. The other directors are strictly warned to be careful in future. I hope that the directors will respond positive to this lenient view by ensuring compliance with the requirements of the Ordinance.

7. The Chief Executive of the Company is hereby directed to deposit the aforesaid fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited or pay through a demand draft in the name of Securities and Exchange Commission of Pakistan within thirty days from the receipt of this order and furnish receipted bank voucher to the Commission, failing which proceedings for recovery of the fines as an arrears of land revenue will be initiated. It may also be noted that the said penalty is imposed on the Chief Executive in his personal capacity; therefore, he is required to pay the said amounts from his personal resources.



**Afiz Azeem Ikram**  
Director (Enforcement)

**Announced**  
July 3, 2009  
Islamabad.