

No. Co. 265/27/EM/2000-
Securities & EXCHANGE COMMISSION OF PAKISTAN
(Monitoring & Enforcement Division)
State Life Building, 7-Blue Area,
Islamabad

ORDER UNDER SECTION 265 COMPANIES ORDINANCE, 1984
IN THE MATTER OF M/S. ABSON INDUSTRIES LIMITED

M/s. Abson Industries limited (herein-after referred to as the company) was listed on the Karachi Stock Exchange in the year 1993. The paid up capital of the company as on 30.06.1999 is Rs. 31.000 million. The principal activity of the company is to manufacture and sale of "Multi-Wall Poly Propylene Kraft Paper Bags". The Factory is located at Gadoon Amazai industrial Estate in N.W.F.P.

2. On examination of the annual accounts of the company for the year ended 30.06.1998 and earlier years, it was revealed that the company paid no return to its shareholders since its listing in 1993. The company suffered from losses continuously after its listing except in 1998 as follows:-

<u>Year ended</u>	<u>Loss (Profit)</u> (Rs. in million)
30.06.1993	2.041
30.06.1994	15.402
30.06.1995	7.728
30.06.1996	6.044
30.06.1997	8.347
30.06.1998	(0.813)
30.06.1999	<u>19.099</u>
	<u>57.848</u>

The accumulated losses would have been Rs. 81.973 million, had the depreciation been charge on the basis of generally accepted accounting principles.

3. The current liabilities of the company as on 30.06.1999 stood at Rs.101.225 million against the current assets of Rs. 28.277 million as on 30.06.1999. Further, analysis of its published accounts for the preceding years indicate alarming inconsistencies relating to gross profit, operative profit, administrative and selling expenses and net profit given as at Annex "A".

4. In 1998 the company earned a meager profit of Rs. 0.814 million, though it showed an accumulated losses of Rs. 38.749 million which increased to Rs. 57.848 million as on 30.06.1999.

5. In view of the aforesaid state of affairs there was an apprehension that affairs of the company are not being managed in accordance with the sound business principles and prudent commercial practices, the members of the company have been deprived of a return on their investment and solvency of the company is endangered. Accordingly, a show cause notice under Section 265 of the Companies Ordinance, 1984 was served upon the company on 20.07.1999 to show cause in writing by 12.08.1999 as to why an Inspector should not be appointed to investigate into the affairs of the company.

6. In response to the said show cause notice, the Chief Executive of the company vide his letter No. Nil dated August 26, 1999 furnished the following explanation :-

- (i) that the accumulated losses of Rs. 38.749 million were mainly due to project loans and advances and financial charges of Rs. 27.289

million during the period 1993 to 1998 and an amount of Rs. 5.182 million recovered by WAPDA on their arbitrary withdrawal of 50% concessionary power tariff for their Gadoon Factory. After writing off Rs. 4.900 million bad and doubtful debts, the operating losses have been stated Rs. 1.37 million.

- (ii) that the dividend could not be paid for the last five years because their project at Gadoon was established under a lucrative financial incentives package of the Government which were subsequently withdrawn.
- (iii) Inconsistent duty tariffs,
- (iv) significant rise in raw material prices; and
- (v) inadequate working capital.

7. The explanation furnished by the company was considered but was not found cogent. The case was heard on January 14, 2000 and on Chief Executive's request to perform better was pended till receipt of the next annual accounts ended on 30-06-1999.

8. The latest annual accounts of the company for the period ended 30.06.1999 were received which showed abnormally bad performance. The company even showed gross loss which means that company was even unable to meet the costs of the goods, produced. A net loss of Rs.19.099 million was shown as compared to a profit of Rs.0.814 million in the last year. The accumulated losses increased to Rs.57.848 million as on 30.06.1999 as compared to Rs. 38.749 million in 1998. The current liabilities have also increased from Rs. 93.796 million in 1998 to Rs. 101.225 million in 1999 against current assets which were only Rs. 28.277 million in the year 1999.

Current liabilities show fast increasing trend instead of improvement and have overcome current assets by 4 times as compared to last year when current liabilities stood at two and a half times of current assets making the company

more and more working capital deficient.

9. The latest half-yearly accounts for the period ended on 31.12.1999 also indicated that the accumulated loss has further increased to Rs. 67.479 million against the paid up capital of Rs. 31 million. Accordingly in view of the extremely poor performance the hearing in the case was fixed on 20.05.2000 Mr. Saifullah A. Paracha, Chairman and Chief Executive of the company appeared and stated that he is doing everything possible to improve the performance of the company he even has filed appeal in the Supreme Court of Pakistan against the withdrawal of financial incentives package by the Government and expects that the case in the Supreme Court of Pakistan will be decided in favour of the company. Mr. Saifullah A Paracha, further submitted that he had no objection for carrying out an investigation by an Inspector appointed by Securities and Exchange Commission of Pakistan, for the satisfaction of its shareholders who, because of bad performance due to circumstances, could not be paid any return.

10. I, therefore, in the public interest and in exercise of powers conferred upon me under Section 265 of the Companies Ordinance, 1984 (XLVII of 1984) hereby appoint M/s. Sidat Hyder Qamar Maqbool & Co., Chartered Accountants, Karachi to act as an Inspector to investigate into the affairs of M/s. Abson Industries Limited on remuneration of Rs. 100,000/- to be paid by the company

11. Without in any way limiting to the scope of investigation, the Inspector shall conduct investigation on all aspects of the operations of the company and shall after scrutiny of the entire record and books of accounts furnish reports, inter alia, on the following matters :-

- (i) Reasons of consistent heavy losses since listing.

- (ii) Whether funds raised through public offer were utilized in the manner as undertaken in the Prospectus of the company.
- (iii) The impact of concessions withdrawn by the Government in regard to Gadoon Amazai Industrial Estate, N.W.F.P.
- (iv) Whether or not an adequate system of internal controls exist so as to prevent misappropriation and misapplication of Company's assets.
- (v) Whether or not internal audit department is functioning properly, is internal auditing staff competent enough and independent to perform its functions? Evaluate internal audit reports to find out that how these are disposed off by the Board i.e., whether or not immediately required actions are taken.
- (vi) Whether or not some effective budgetary and cost control system exists. Whether or not proper inventory system has been maintained and stocks, stores, raw material and finished goods quantitatively reconcile and have been correctly valued, provision against dead stocks, slow moving spare & stores have been made and production and wastage rates are comparable with other units.
- (vii) Whether or not the purchase and sales rates of materials and products are comparable with the market rates generally reported.
- (viii) Whether or not expenses, have been properly incurred, sanctioned, vouched and allocated.
- (ix) Ascertain the frequency of meeting of Board of Directors, role of non-executive and executive directors, the over all comprehension

of Board of Directors, their experience/ability to run the business in which company is engaged.

- (x) Reasons of inconsistencies in operating results as pointed out.
- (xi) Compliance with statutory requirements in the operations of the company indicating that the business was conducted and expenditure were incurred in accordance with the objects and for purposes of the company.
- (xii) Lapse or other delinquency detected during the course of investigation.
- (xiii) Determine the trend of the business of the company and discuss the plans of company's management to come out of the present crisis. For this, the projections and business plans produced by the management will be evaluated and summarized with an opinion by the Inspector.

12. The Inspector shall submit a detailed report alongwith supporting documents/ evidence to the Commission (in quadruplicate) within 60-days from the date of this Order.

(M. Zafar – ul – Haq Hijazi)
Commissioner (Enforcement)

Place: Islamabad
Dated: 31-05-2000