**SECURITIES AND EXCHANGE COMMISSION PAKISTAN**
(Enforcement & Monitoring Wing)
State Life Building, 7- Blue Area
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**ORDER UNDER SECTION 265 OF THE COMPANIES ORDINANCE, 1984 IN CASE OF M/S ADOS PAKISTAN LIMITED.**

M/s Ados Pakistan Limited was incorporated as a private limited company on 5th March, 1986 and was converted into a public limited company on 4th April, 1989. The company floated its public issue on 28th June, 1994 which was heavily subscribed. The company which was listed in 1994 never paid any return to its shareholders and its accumulated losses up to 30-6-1998 stood at Rs. 10.146 million against its paid up capital of Rs. 43.884 million. Accordingly a show-cause notice under section 265 of the Companies Ordinance, 1984 was served upon the company in December, 1998. The company replied in detail through its letter dated January 12, 1999, to this show-cause notice which was considered and a hearing was held on 10-02-1999 in which Mr. Zia Akbar Ansari, Chief Executive of the company and Mr. Shabber H. Naqvi, Financial Controller/Company Secretary appeared. They repeated the same arguments for bad performance of the company till June, 1998 as had already been explained through company's letter dated January 12, 1999 in the following manner:-

(i) **Year ending June 30, 1994.**

ADOS was set up to repair, refurbish and manufacture specialized equipment used by oil & gas sector. Bankers Equity Limited, the main financier of the project forced ADOS to declare its commercial Production w.e.f. January 01, 1994 whereas in fact it started its actual Production in July, 1994 when OGDC placed the first order. By declaring January 01, 1994 as commencement date for Commercial Production, the company had to declare a loss of Rs. 6.258 million comprising of admin, financial and depreciation charges with no sales.

(ii) **Year ending June 30, 1995**

Being the actual first year of commercial operations, a profit of Rs. 1.654 million was earned during the financial year 1994-95 against a total turnover of Rs. 18.246 million while contracts worth over Rs. 110 million were in hand.

(iii) **Year ending June 30, 1996**

Company earned a profit of Rs. 3.121 million as against a forecasted profit of Rs. 12 million. The drop in expected profits was due to uncertain economic conditions prevailing in the country and massive devaluation of Pak. Rupee which adversely affected the profitability of the company. Claims to the tune Rs. 15 million approximately resulting from imposition of regulatory duty and evaluation are still pending with the customers.

(iv) **Year ending June 30, 1997**

In the month of November, 1996 on a complaint of a foreign competitive agent, a reference was brought against the company under Ehtesab ordinance, 1996 for obtaining an unreasonable advantage on award of contract. Chief Executive of the company remained behind bars for a period of six months and was only released after recording of evidence in the Honorable Lahore Court providing that as the ADOS was indeed the lowest bidder and no wrong as lost was caused by the Honorable Supreme Court with the observation that nothing had been proved against he accused. However, due to this most unfortunate event, the company and the sponsors suffered a tremendous financial and personnel loss respectively. As a result of this unfortunate event during the year. the company could not maintain its positive trend and sustained massive loss of Rs. 10. 464 million of no fault on the part of the Management.

(v) **Year ending June 30, 1998**

In spite of the unfortunate event which happened during the preceding year and prevailing economic conditions, the management of the company tried its best to revive the company which resulted in reducing the net loss for the year to Rs. 3.631 million as compared to Rs. 10.752 million sustained during immediate preceding year. As a result of prior year and unusual items the accumulated loss was reduced by Rs. 4.901 million.

2. At the time of hearing on 10th February, 1999, the Chief Executive of the company pleaded that the company is recovering from losses and in support of this claim, he submitted un-audited half yearly accounts for the half year ended 31-12-1998, which had shown profit of Rs. 1.949 million against loss of Rs. 6.702 million in the corresponding six months period. He assure that the operational results for the next six months ended on 30th June, 1999 would be still better and management reasonably believes that on the basis of the full year's operation the company will be able to make some pay-out/return to the share-holders of the company this year.

3. Although the circumstances of the case as discussed in the following, justified that an investigation be carried out into the affairs of the company in which investment of Rs. 20 million by the poor public has sunk and there was no return of even a penny to shareholder and shares of which are being quoted at stock exchange at a price of Rs. 1.00 per share only, yet the Securities and Exchange Commission of Pakistan decided to give an opportunity to the company to improve its affairs, as assured at the time of hearing on 10 Feb, 1999. Accordingly hearing was adjourned to 20th July, 1999. The management of the company was asked to appear on this date with un-audited accounts for the full year for a final order by the Commission. The hearing has been held on 4th August, 1999 in which Mr. Zia Akbar Ansari, Chief Executive of the company and Mr. Shabber H. Naqvi, Financial Controller/Company Secretary again appeared and

filed un-audited accounts for the full year which surprisingly show worst operational results contrary to the assurance given at the time of previous hearing. These accounts show a loss of Rs. 2.472 million for full year which means that profit of Rs. 1.949 million earned during the first half of the year has also been eaten up, the sales during the first half of the year were Rs. 16.392 million, whereas sales for full year have been shown at Rs. 21.240 million only, which means that during the second half year, the company's sale were of Rs. 5 million only. The Chief Executive of the company has now stated that there is acute recession in the country and there is no work, hence there is no possibility of the company's early recovery.

4. The explanations offered by the Chief Executive have been considered. The company in its letter dated January 12, 1999 has explained that it had started its commercial production in July, 1994, when OGDC placed the first order by Bankers Equity Limited had forced the company to declare the date of its commercial production as 1st January, 1994 and due to this factor, the company had to declare a loss of Rs. 6.258 million comprising of admin, financial and depreciation charges with no sales for that period. During the year ended on 30-6-1995, the company declared sales of Rs. 18.246 million on which GP of 9.267 was earned which gives GP rate of 50.78%. In the year ended on June 30, 1996 the company declared sale of Rs. 46.931 million on which GP of Rs. 11.687 million was earned which gives GP rate of 24.90%. In the year ended June 30, 1997 the sales of the company increased to Rs. 87.793 million on which GP of Rs. 1.164 million only was declared which gives G.P rate of

2.1% only. In the year 1998 sales of the company dropped to Rs. 25.028 million against which GP of Rs. 4.135 million was declared which gives GP rate of 16.52%. As such there are alarming inconsistencies in the sales and G.P rate of the company. The company attributes the deteriorated results for the year 1996 to uncertain economic conditions prevailing in the country and massive devaluation of Pak. Rupees and the imposition of regulatory duty. Regarding the year 1997, it has been stated that on a false complaint, a reference was brought against the company under Ehtesab Ordinance and the Chief Executive of the company remained behind bars. Due to this unfortunate event the company suffered a tremendous loss and it could not maintain its positive trend. As regards the year 1998, it has been explained that unfortunate events during the preceding year continued affecting the performance of the company but the management of the company succeeded to avert losses. The management has also pleaded that the sponsors of the company have injected interest free loans of Rs. 17.366 million which have been utilized to repay interest bearing loans of the company, which proves that the management of the company is making sincere efforts to over-come the crises in which the company has fallen due to none of default of the management. It has been pleaded that the business of the company is being run on sound business principles and practices and pleaded that notice under section 265 of the Companies Ordinance, 1984 to the company deserves to be withdrawn.

5. The explanation offered by the Chief Executive of the company have some merit but a perusal of the record indicates serious mis leading statements in the Prospectus

regarding commencement of commercial production which make the integrity of the management of the company highly doubtful. The company in its letter dated 12.01.1999 has stated that it started its commercial production in July, 1994 when first order was received from OGDC but para 4.6 of Part- IV of the Prospectus narrates a different situation. This para is reproduced below:-

**"MARKET POTENTIAL"**

The project officially went into commercial production with effect from 1st January, 1994. However, due to excessive demand it completed an order of Rs. 2.621 million even in the period of trial run for Oil and Gas Development Corporation. At present a work order of manufacturing and supply of mounted 8 men living caravans of the value of Rs. 8.97 million has been received from OGDC; whereas an order for manufacture and supply of wellhead Equipment of the value of about Rs. 14.03 million is at present under negotiation with OGDC.

6. Again in para 4.15 of the Prospectus this position was confirmed in the following manner:-

"The project has already commenced commercial production from January 1st, 1994. During the trial run an order amounting to Rs. 2.621 million for manufacturing of man-portable seismic drilling rigs was completed for OGDC. OGDC has also placed an order of Rs. 8.97 million for manufacturing of 8-men Living Caravan which is presently under execution"

7. A reference to the annual accounts for the year ended on 30th June, 1994 also indicates that the company did not make any sales during the period from 1st January, 1994 to 30th June, 1994. Note 20 to the accounts to the year ended on 30.06.1994 shows that raw material of Rs. 0.375 million was consumed during this period. So it is an established fact (as has also been confirmed by the company vide its letter dated 12-1-1999) that the company had not started commercial production w.e.f January 1, 1994 but a false statement regarding commencement of commercial production was made in the Prospectus and also a very exaggerated statement about market potential was made as under:-

"Due to excessive demand it completed an order of Rs. 2.621 million even in the period of trial run."

When we refer to the director's report for this year, we find that directors attribute bad performance to the followings:-

(i) Long lead times required to secure work and develop market confidence; and
(ii) Shortage of working capital.

8. In the director's report for the year ended 30.06. 1994, it was further stated that orders exceeding Rs. 60 million have been booked over the last few months but the audited accounts for the next year ended on June 30, 1995 reveal that total sales during the year were of Rs. 18.246 million only. All these false and exaggerated statements make the conduct of the management highly doubtful.

Furthermore, when the accounts submitted by the company for the last five years were analyzed, these indicate number of inconsistencies and raise many questions. It may be seen from the annexed statement that in one period the GP rate is 50% while in other period it is 36.510% and so on. The management has claimed that it has injected huge funds into the company during the last five years to keep the company a going concern but fact remains that the funds raised through the public issue were mainly utilized for liquidating director's loans to the company. As mentioned in the foregoing, the directors attribute the poor performance to lack of working capital but the audited accounts for the year 1995, indicates that even the available working capital was diverted to the associated companies and note 24 of the notes to accounts for the year ended 30th June, 1995, indicates that maximum balance receivable from associated undertakings at a month end was Rs. 6.44 million which even as per un-audited accounts for the year ended 30th June, 1999 was Rs. 4.367 million.

9. The Chief Executive of the company, has failed to convince as to why investigation into affairs of the company in which the poor public has lost almost their entire investment and whose Prospectus and accounts contains alarming min-statements/inconsistencies should not be carried out. The sponsors of this company were / are already in same business from many other platforms also i.e. Akbar Associates (Pvt) Ltd, Petrolog (Pvt) Limited, Air Drilling Services Pakistan (Pvt.) Ltd., and Akbar Petroleum (Pvt) Limited etc., it appears necessary that workings of this company should be got investigated with a reference to the activities of these associated undertaking

as the un-expected total collapse of this company has caused a very serious set back to the investment climate in the country, shattering the confidence of the public in corporate set up.

10. Therefore, in view of the deteriorated performance after public offer and alarming inconsistencies in operational results outlined in the foregoing. I, in the public interest and in exercise of the powers conferred by section 265 (b) of the Companies Ordinance (XLVII of 1984) here by appoint M/s M. Yousuf Adil Saleem & Co., Chartered Accountants, Islamabad to act as Inspector to investigate into the affairs of M/s. ADOS Pakistan Limited on a remuneration of Rs. 75,000/- which shall 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:-

(i) Reasons and genuineness of the heavy losses after public offer. Inspector will also report if any wrong statement was made in the prospectus regarding commercial production, market potential and profitability of the business of the company to lure to public to make investment in the company.

(ii) Whether or not funds raised through public offer were utilized in the manner as undertaken in the Prospectus.

(iii) Whether or not proper record have been kept by the company as required by section-230 and section-234 of the Companies Ordinance, 1984.

(iv) To report about the nature and workings of associated undertaking particularly indicating if there is any violation of Section 203 of the Companies Ordinance, 1984.

(v) Whether or not an adequate system of internal controls exist so as to prevent mis-appropriation and mis-application of company's assets.

(vi) Whether or not internal audit department is functioning properly, is it competent enough and independent to perform its functions. Evaluate internal audit reports and report that how these are disposed of by the Board i.e. whether or not immediate required actions are taken.

(vii) Company if so comment.

(viii) Whether or not expenses have been properly incurred, sanctioned, vouched and allocated and these were for exclusive purposes of the company.

(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 experiences to determine their ability to run this business in which company is engaged.

(x) To examine and report the reasons of inconsistencies in operating results as pointed out in the Annex.

(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) To repot in respect of any 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 crises. 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 along with supporting documents/evidence to the Commission (in quadruplicate) within 60 days from the date of this order.

**(M. Zafar – ul – Haq Hijazi)**

**Commissioner (Enforcement)**