

No. Co. 265/93/ISS/CL/94
SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN
State Life Building,
7-Blue Area, Islamabad

Islamabad, the May 03, 2000

**ORDER UNDER SECTION 265 OF THE COMPANIES ORDINANCE, 1984 IN
THE MATTER OF M/S. PAKISTAN PVC LIMITED.**

M/s. Pakistan PVC Limited (hereinafter referred to as the company) was listed on the Karachi and Lahore Stock Exchanges in the year 1965. The paid up capital of company as on 30.06.1999 is Rs. 49.860 million. The principal activity of the company is to produce and sale of PVC resin, PVC pipes and fittings, PVC compound and caustic soda.

2. On examination of the annual accounts of the company for the year ended 30.06.1999 and earlier years, it was revealed that the company paid no return to its shareholders since its privatization in 1992. The company which earned net profit of Rs. 20.347 million during the year ended 30.06.1991, suffered losses continuously after its privatization as follows:-

<u>Year ended</u>	<u>Net loss (Rs. in million)</u>
30-06-1992	81.787
30-06-1993	18.940
30-06-1994	72.408
30-06-1995	72.063
30-06-1996	45.782

30-06-1997	39.306
30-06-1998	45.807
30-06-1999	65.305

The current liabilities of company as on 30.06.1999 stood at Rs. 493.619 million against the current assets of Rs. 45.253 million as on 31.06.1999. Further, analysis of its published accounts for the preceding years indicate alarming inconsistencies relating to gross profit and loss and administrative and selling expenses given as Annex "A".

3. 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 12.02.1999 to show cause in writing by 27.02.1999 as to why an Inspector should not be appointed to investigate into the affairs of the company.

4. In response to the said show cause notice, the Chief Executive of the company vide his letter No. PVC/HO/99/491 dated February 18, 1999 furnished the following explanation:

- i) The company was privatized in February, 1992 but the production facilities were not handed over to the new management until June, 1992. During this period the plant was shut down by the labour

without following proper procedures which damaged the plant extensively. It took us a year to repair the damage and operate the main plant again.

- ii) The Government also coerced us into accepting 50% of the Golden Hand Shake which was also major drain on company's resources. The Bank withdrew the old facilities and therefore, all imports of raw material came to a halt.
- iii) In January, 1995 the Chairman/Chief Executive of the company was arrested by the previous Government in a case registered against General Saeed Qadir, Chairman of Privatization Commission and involved along with other in that case and about one year he was detained in this case in which he was not at all directly or indirectly involved but was a clear case of victimization on political reasons. In these circumstances, not only the normal functioning of the company suffered and the Directors of the Company were unduly made to involve themselves in the enforcing and uncalld - for litigation. Now, the case has been decided and he has been released from above case. Instead of restoring the financial limits bank has filed a suit for recovery of its outstanding amount in Banking Tribunal. Management of the Company is trying their best for the restoration of financial limits as early as possible.

iv) KESC has also disconnected the electricity supply of Plant at Gharo on over billing due to which Gharo Plant remains inoperative since last four years.

5. On the basis of reply given by the company, it was decided to pend the proceeding till receipt of accounts for the year ended on 30.06.1999 and meantime company was directed to send quarterly report showing efforts of the management for revival of the company.

6. On receipt of the accounts for the period ended on 30.06.1999 it was observed that there is no improvements in the operating results. Accordingly a hearing in the case was fixed on 24.04.2000 when Mr. Reyaz Shaffi, Chairman and Chief Executive of the company appeared along with Company Secretary and explained the same position as mentioned in the proceeding paras and stated that he has done every thing possible for the company and the project can not be revived unless banks give working capital for which he has even seen present Finance Minister who asked/advised to approach the concerned committee for revival of sick units. He also filed copies of the Company's letter No. PVC/MD/11 dated November 22, 1999 and No. PVC/MD/11 dated March 3, 2000 addressed to chairman, National Accountability Bureau and Finance Minister with copies endorsed in favour of SECP. These letters carry nearly similar matter as contained in company's earlier letter addressed to this Commission.

Mr. Reyaz Shaffi, Chairman and Chief Executive of the company stated that his hands are clean and in past he has done everything possible to revive the company and keep it working in his own interest and in

interest of other shareholders and he would welcome investigation by Inspector appointed by SECP, for its satisfaction and for satisfaction of all other shareholders.

7. Therefore, I, in the public interest and in exercise of powers conferred by section 265 of the Companies Ordinance, 1984 (XLVII of 1984) hereby appoint M/s. Majeed Uddin & Co., Chartered Accountants, 608-610, Paradise Chambers, Near Passport Office, Saddar, Karachi to act as an Inspector to investigate into the affairs of M/s. Pakistan PVC Ltd., on remuneration of Rs.100,000 to be paid by the company.

8. 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 of heavy losses after privatization.
- ii) Whether or not proper records have been kept by the company as required by section 230 and section 234 of the Companies Ordinance, 1984.
- iii) Whether or not an adequate system of internal controls exist so as to prevent misappropriation and misapplication of Company's assets.

- iv) 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 of by the Board i.e. whether or not immediately required actions are taken.

- v) 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 the production and wastage rates are comparable with other units.

- vi) Whether or not the purchase and sales rates of materials and products are comparable with the market rates generally reported.

- vii) Whether or not expenses, have been properly incurred, sanctioned, vouched and allocated.

- viii) 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/ability to run the business in which company is engaged.

- ix) Reasons of inconsistencies in operating results as pointed out.
 - x) 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 purpose of the company.
 - xi) Lapse or other delinquency detected during the course of investigation.
 - xii) 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.
9. 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 (E&M)

Pakistan PVC limited

	<u>Half</u> <u>yearly</u>	<u>%age</u>	<u>Half</u> <u>yearly</u>	<u>%age</u>	<u>yearly</u>	<u>%age</u>	<u>Half</u> <u>yearly</u>	<u>%age</u>	<u>Half</u> <u>yearly</u>	<u>%age</u>	<u>Year</u>	<u>%age</u>	<u>Half</u> <u>Yearly</u>	<u>%age</u>	<u>Half</u> <u>yearly</u>	<u>%age</u>	<u>Year</u>	<u>%age</u>
	<u>31.12.96</u>		<u>30.6.97</u>		<u>30.06.97</u>		<u>31.12.97</u>		<u>30.06.98</u>		<u>30.06.98</u>		<u>31.12.98</u>		<u>30.06.99</u>		<u>30.06.99</u>	
			<u>(Derived)</u>						<u>Derived</u>						<u>Derived</u>			
Sales	8.859		5.925		14.784		7.534		5.897		13.431		5.684		2.100		7.784	
Gross Profit	(1.986)	(22.4)	(4.815)	(81.3)	(6.801)	(46.0)	3.675	(48.8)	(3.312)	(56.2)	(6.984)	(52.0)	(2.579)	(45.4)	(3.596)	(171.2)	(6.175)	(79.3)
Admn & Selling Exp.	2.147	24.2	6.591	111.2	8.738	59.1	3.203	42.5	5.802	98.4	9.005	67.0	(4.503)	79.2	5.393	256.8	9.396	127.1
Financial Exp.	11.936	134.7	14.847	250.6	26.783	181.2	13.999	185.8	16.344	277.2	30.343	225.9	16.139	283.9	33.163	1,579.2	49.302	633.4
Operating Profit	(16.204)	(182.9)	(25.577)	(431.7)	(41.181)	(282.6)	(20.796)	(276.0)	(25.367)	(430.2)	(46.163)	(343.7)	(23.194)	(408.1)	7.123	339.2	(16.071)	(206.5)
Net Profit	(16.204)	(182.9)	(23.102)	(389.9)	(39.306)	(263.9)	(20.372)	(270.4)	(25.435)	(431.3)	(45.807)	(341.1)	(23.194)	(408.1)	(42.111)	(2,005.3)	(65.305)	(339.0)