

NO. Co. 265/119/EM/99  
SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN  
State Life Building, 7-Blue Area,  
Islamabad

Islamabad, the May 23, 2000.

**ORDER UNDER SECTION 265 OF THE COMPANIES ORDINANCE, 1984,  
IN THE MATTER OF M/S. SARHAD GHEE MILLS LIMITED**

M/s. Sarhad Ghee Mills Limited (herein after referred to as the company) was incorporated on 6<sup>th</sup> November, 1989 as a public limited company and was listed on the Karachi and Lahore Stock Exchanges in the year 1991. The paid up capital of company as on 30-06-1997 is Rs. 26.400 million. The company is mainly engaged in production and sales of vegetable ghee, cooking oil and other allied products.

2. On examination of the annual accounts of the company for the year ended 30-06-1997 and earlier years, it was revealed that the company paid no return to its shareholders since 1994. The company which earned net profit of Rs. 1.836 million and Rs. 4.920 million during the years ended 30-06-1994 and 30-06-1995 respectively, suffered losses continuously in the years 1996 & 1997 and thus was eroded the equity of the company completely as follows:-

<b><u>Year ended</u></b>	<b><u>Net Loss</u></b>	<b><u>Equity (Rs. in million)</u></b>
30-06-1996	37.088	(1.389)
30-06-1997	38.486	(39.875)

The company is highly indebted and its current liabilities as on 30-06-1997 stood at Rs. 52.195 million against the current assets of Rs. 14.960 million only. The company has not paid any dividend to its shareholders after

30-06-1994. Further, analysis of its published accounts for the preceding two years indicate alarming inconsistencies relating to gross profit, operating profit 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 Chief Executive of the company on 13-09-1999 to show cause in writing by 30-09-1999 as to why an Inspector should not be appointed to investigate into the affairs of the company.

4. The Chief Executive of the company failed to give written explanation to the said show cause notice in spite of the reminders issued on 29-10-1999 and 17-02-2000. The Chief Executive of the company was also afforded an opportunity of hearing before passing final order and hearing was fixed on 13-03-2000. No body appeared on the said date. A final opportunity of hearing was afforded to the Chief Executive of the company fixing the hearing on 24.04.2000. Again, no body appeared. The company has neither held its AGM for the year ended 30-09-1998 & 30-09-1999 nor sent its accounts to its shareholders for these periods which also indicate that the company is being mismanaged.

5. 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. Sajjad Ahmed & Co., Chartered Accountants, 8<sup>th</sup> Floor, State Life Building, The Mall, Peshawar, to act as an Inspector to

investigate into the affairs of M/s. Sarhad Ghee Mills Limited on remuneration of Rs. 100, 000/- to be paid by the company.

6. 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 30-06-1995. Non holding of AGMs after 30-09-1997.
- (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 have been 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 have been existing. 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 have been 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 experience/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 purposes 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 crisis. For this, the projections and business plans produced by the management will be evaluated and summarized with an opinion by the Inspector.

7. 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)**

## SARHAD GHEE MILLS LIMITED

	Half-yearly	%age	Half-yearly	%age	Yearly	%age	Half-yearly	%age
	31-12-1996		30-06-1997		30-06-1997		30-06-1997	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
			(Derived 6-2)					
<b>Sales</b>	121.630		12.048		133.678		Nil	
<b>Gross Profit</b>	(5.847)	(4.8)	(6.607)	(54.8)	(12.454)	(9.3)	Nil	
<b>Admn. &amp; Selling Exp.</b>	2.710	2.2	4.405	36.6	7.115	5.3	0.923	
<b>Financial Exp.</b>	7.926	6.5	6.960	57.8	14.886	11.1	0.480	
<b>Operating Profit</b>	(16.483)	(13.6)	(17.972)	(149.2)	(34.455)	(25.8)	(1.403)	
<b>Net Profit.</b>	(20.437)	(16.8)	(18.049)	(149.8)	(38.486)	(28.8)	(1.403)	