



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
(Enforcement Department)

Before Ashfaq Ahmed Khan

IN THE MATTER OF
M/s AL-ABID SILK MILLS LIMITED

No. and Date of Notice

No. EMD/CO.233/299/2002-2190
October 13, 2004

ORDER
UNDER SECTION 472 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the notice under Section 472 of the Companies Ordinance, 1984 (The “Ordinance”) dated October 13, 2004 served on M/s Al-Abid Silk Mills Limited (the “Company”).

2. Brief facts of the case are that the examination of audited accounts and other records of the Company revealed that the Company had passed a special resolution under the provision of Section 208 the Ordinance in its annual general meeting held on December 31, 1990 authorizing the Chief Executive of the Company to make an equity investment of Rs.50,000,000 (Rupees Fifty million only) in its associated undertaking namely M/s Sattar Spinning Limited (“associated company”). The Company based on the special resolution made an investment of Rs.900,000 during the year ended on June 30, 1991 showing this amount as advance for shares, however, no shares were issued by the associated company against this amount till to date. The Company kept on incurring expenses on behalf of the associated company in respect of audit fee and corporate filing fee and added these expenses to the amount already advanced which increased to Rs.1,140,694 as on June 30, 2004. The special resolution passed in the year 1990 was for making investment in shares of the associated company whereas amount was advanced to the associated company without issue of shares. The Company vide its letter dated February 26, 2004 informed the Commission that the project has been kept in abeyance as the management feels that the present business environment is not

conducive for the project. The provisions of Section 208 of the Ordinance were massively amended in the years 1995 and 2002 and further through S.R.O.865(1)/2000 dated December 06, 2000 certain additional disclosure requirements were made mandatory to be disclosed to the shareholders while making investment in associated companies. The aforesaid notification also require that in case investment or loan was not made till the holding of subsequent general meeting, the Company has to inform to its shareholders through a statement under Section 160 of the Ordinance about the reasons for not having made investment so far and major changes in the financial position of the investee company since the date of resolution. In view of the above, making of investment based on the special resolution passed in the year 1990 was against the spirit of the law. A notice under Section 472 of the Ordinance was therefore served on the Company requiring it to explain as to why directions may not be issued to the Company to recover the total amount already advanced to the associated company.

3. In response to the notice, the Company vide its letter dated November 10, 2004 informed the Commission that the Board of Directors has decided not to associate the Company with the project as the present business environment are not conducive and the project is to be further delayed. Hence the entire amount has been recovered from the associated company. On the above grounds the Company also requested to condone the default.

4. I have analyzed the facts of the case and observed that the resolution was passed under the provisions of Section 208 of the Ordinance in the year 1990 whereas the investee Company (associated company) has not yet been established. The management of the Company itself believes that the associated Company cannot be operative in the present business circumstances. It is therefore viewed that in the above scenario making of an investment on the basis of a 14 years old resolution cannot be treated as a valid investment. Further the investment made by the Company for the last number of years is not bringing any return to its shareholders. Moreover, in view of amendments made in the provisions of Section 208 of the Ordinance, the Company had to disclose the additional information to its shareholders as required under the S.R.O.865(1)/2000 dated December 06, 2000 which were not brought to their notice. Accordingly the Company and its management have contravened the provisions of Section 208 of the Ordinance.

5. However as the Company, in response to the notice under Section 472 of the Ordinance has recovered the entire amount from the associated company and is showing good performance and paying regular return to its shareholders, I take a lenient view and hereby warn the Company and its management to be careful in complying with the requirements of law in future.

Ashfaq Ahmed Khan
Director (Enforcement)

Announced
November 19, 2004
ISLAMABAD