Before Tahir Mahmood, Executive Director (Enforcement)

In the matter of
Quality Steel Works Limited

(Under Sub-section (3) of Section 245 of the Companies Ordinance, 1984)

No. & date of show cause notice	EMD/Enf-II/492/2005- dated May 03 & May 18, 2006
Date of hearing	April 02, 2007
Present	Mr. Muhammad Irshad & Mr. Mahmood Ahmad Authorized representatives
Date of Order	May 18, 2007

Order

This Order shall dispose of the proceedings initiated against the directors of Quality Steel Works Limited (hereinafter referred to as the "Company") for default made in complying with the provisions of Sub-section (1) of Section 245 of the Companies Ordinance, 1984 (the "Ordinance").

2. The facts leading to this case, briefly stated, are that in terms of the provisions of Section 245 of the Ordinance, the Company was required to prepare and transmit to the members and simultaneously file with the Registrar and the Commission its quarterly accounts for the 2nd quarter ended December 31, 2005 & 3rd quarter ended March 31, 2006 by February 28, 2006 & April 30, 2006 respectively. Failure of the Company to comply with the aforesaid mandatory requirements within the prescribed time necessitated action against the responsible directors of the Company in terms of Sub-section (3) of Section 245 of the Ordinance. Consequently, show cause notices dated May 03, 2006 and May 18, 2006 were served on all the directors including the Chief Executive of the Company calling upon them to show cause as to why penalties as provided under Sub-section (3) of Section 245 read with Section 476 of the Ordinance may not be imposed on them for the aforesaid contravention. The said show cause notices were responded by Mr. Mushtaq Ahmed, one of the directors of the Company vide his letter dated May 29, 2006, wherein request was made to consider their reply already furnished vide his letter dated May 16, 2006 regarding adverse circumstances and factors which caused unit's downfall. The perusal of the said letter indicated that due to inability of the unit to pay salaries and wages the entire staff and workforce ceased work. It was further contended that the Company was in financial crises and inspite of insurmountable obstacles the management operated the unit for over five years, but their back was broken, when the banks liabilities swelled to Rs.1,189 million and the cases were instituted by the banks for recovery. The Company had, therefore, sold all the assets and the sales proceeds from thereof were collected directly by the NBP.

It was further contended that the unit has now reached at a point of no return and there was no ray of hope from the financial institutions, therefore, the Company intended to proceed for its winding up.

3. The explanation furnished was considered but not found satisfactory. In order to afford an opportunity of personal hearing, the matter was fixed for hearing on December 20, 2006. No one appeared, instead the Company requested vide letter dated December 20, 2006 to allow them to be heard through their legal representative in February 2007. Hearing was, therefore, fixed for February 13, 2007. Again no one attended the hearing. However, a written reply dated February 07, 2007 was received from Mr. Naimatullah Khan Marwat, Advocate being authorized representative of the directors wherein it was contended that due to his serious indisposition he was unable to attend hearing at Islamabad. He requested to adjourn the matter till the last week of March 2007. Hearing was accordingly adjourned and re-fixed for March 29, 2007 which was adjourned and re-fixed for April 02, 2007, at Karachi.

4. On the date of hearing, Mr. Muhammad Irshad & Mr. Mahmood Ahmad, the authorized representatives appeared before me on behalf of the directors of the Company to argue the case. During the course of hearing, while admitting the default, they contended that the quarterly accounts could not be prepared/ filed because during the period under review, the operations of the Company remained suspended and there was no staff to prepare the accounts. They further added that the quarterly accounts could not be finalized due to non-finalization of annual accounts as during this period, the management of the Company remained involved in litigations with the banks for settlement of the loans. They added that the Company has now cleared all the liabilities to the banks and have reached at a compromise with the banks. They contended that the pending AGMs for the years ended June 30, 2002 to June 30, 2006 are now being held after seeking direction from the Commission under Section 170 of the Ordinance and thereafter the quarterly accounts will also be circulated.

5. I have given due consideration to the arguments advanced by the directors' counsels, however, none of them justify the default. The Company was not functioning is not a cogent excuse for non circulation of quarterly accounts to the share holders. In the circumstances, described above, the directors of the Company could have refrained from committing the aforesaid defaults. It was easier for the directors to prepare the quarterly accounts within prescribed when the Company was not functioning as less effort were required to gather the financial data. The Company however failed to prepare and circulate the quarterly accounts. Moreover, the reason that the accounts could not be filed, due to litigations of the Company with the banks is also not a compelling argument to justify the default because the directors of the Company are responsible for timely preparation and circulation of

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quarterly accounts. Since the representatives of the directors have failed to furnish any convincing reason to justify the default, therefore the same is considered willful and deliberate.

6. However, before proceeding to decide this case, I consider it necessary to highlight the importance of the strict observance of the aforesaid mandatory provisions of the law. The protection of the investors/shareholders is one of the primary objectives of the Ordinance. It is investors/shareholders who provide seed for capital formation. If the interest of the investors is protected, they will save and invest more. Their interest is protected by transmission of timely, adequate and meaningful information to them. It is the annual and interim accounts, which provide information to the investors about the affairs of the companies. It has unfortunately been noted that the directors of Quality Steel Works Limited are not observing these compulsory requirements of law.

7. In view of the foregoing, the default regarding non filing of quarterly accounts for the quarters ended December 31, 2005 and March 31, 2006 stands established. However, instead of imposing the maximum fine of Rs.100, 000 on each director and a further fine of Rs.1,000 per day for the continuous default, I impose penalty of Rs. 30,000/- (Rupees thirty thousand only) on the Chief Executive and each of the directors of the Company under Sub-section (3) of Section 245 of the Ordinance in the following manner: -

S. No.	**Name**	**Penalty in Rs.**
1.	Mr. Muhammad Ziauddin, Chief Executive	30,000
2.	Mr. Mushtaq Ahmad, Director	30,000
3.	Mr. Salman Ali, Director	30,000
4.	Mr. Ashfaq Ahmed, Director	30,000
5.	Mr. Ismail Mukaddam, Director	30,000
6.	Mr. Muhammad Arif, Director	30,000
7.	Syed Hyder Abbas Zaidi, Director	30,000
	Total	**210,000**

8 The Chief Executive and directors of Quality Steel Works Limited are hereby directed to deposit the aforesaid fines aggregating to Rs.210,000/- (Rupees two hundred and ten thousand only) in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with Habib Bank Limited within thirty days from the receipt of this Order and furnish receipted vouchers issued in the name of Commission for information and record, failing which proceedings under the Land Revenue Act, 1967 will be initiated which may result in the attachment

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and sale of movable and immovable property. It may also be noted that the said penalties are imposed on the Chief Executive and other directors in their personal capacity therefore they are required to pay the said amount from their personal resources.

Tahir Mahmood
Executive Director (Enforcement)

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