



Corporate Supervision Department
Company Law Division

SECP Before Ali Azeem Ikram – Executive Director (Corporate Supervision Department)

In the matter of

Service Fabrics Limited

Number and date of notice: CSD/ARN/199/2015-387-88, dated August 24, 2015
Hearings held on: November 5, 2015 & December 29, 2015
Present: Mr. Nazir Ahmed Shaheen, Representative

ORDER

UNDER SECTION 309 READ WITH SECTION 305 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of proceedings in the matter of show cause notice (the “SCN”) dated August 24, 2015 under section under Section 309 read with Section 305 of the Companies Ordinance, 1984 (“Ordinance”) issued to the Service Fabrics Limited (the “Company”) and following its board of directors (together referred to as the “respondents”) of the Company;

2. The facts leading to this case, briefly stated, are that the Joint Registrar of Companies, Company Registration Office, Lahore, on August 7, 2008 approached this office for grant of sanction in terms of clause (b) of section 309 read with clause (c) of section 305 of the Ordinance to present a petition before the Honorable High Court for winding up of the Company on the ground that the Company had suspended its business since the year 2004.

3. Consequently, the SCN was issued to the respondents on August 24, 2015 on the following grounds:

- (i) The Company has suspended its operation since October, 2004;
- (ii) Note 1.2 to annual audited financial statements for the year ended on June 30, 2014 states that “... the Company has ceased its operating activities since October 01, 2004 and sold its entire property, plant and equipment...”

Through the SCN, the respondents were given an opportunity to appear before the competent authority on September 7, 2015 to show cause as to why a petition for winding up of the Company may not be presented by the Registrar of Companies to a competent court.



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4. In response to the SCN, the respondents through letter dated September 7, 2015 requested for fifteen days extension in time for submission of reply. The case was again fixed for hearing on October 15, 2015, which was rescheduled by the Commission on November 5, 2015 before the undersigned. On the date of hearing, Mr. Nazir Ahmed Shaheen, the authorized representative of the respondents appeared and submitted that the management of the Company intends to start business related to food items and requested for time for submission of specific written reply and business plan to the Commission. The requested was acceded to and the hearing was rescheduled for November 26, 2015, but the respondents through letter dated November 25, 2015 requested for extension in time stating that the board of directors of the Company was in process of formulating a concrete revival plan and preparation of presentation for the Commission. The case was again fixed for hearing on December 16, 2015 which was adjourned and was finally held on December 29, 2015. Mr. Nazir Ahmed Shaheen appeared before the undersigned and submitted printed handouts of a power point presentation regarding revival plan of the Company. The unsigned and unauthenticated presentations included generalized statements, which are briefly stated below:

- Due to overall decline in textile sector caused by energy crisis, rising prices and reduction in exports the Company had disposed of its entire undertaking to Hashir Exports Limited after obtaining approval in EOGM dated June 11, 2007.
- Company is trying to switch to other business avenues and despite being closed since many years, it has complied with legal requirements
- The Company was on defaulters' counter and its trading was suspended by stock exchanges. But the Company has made eligible its securities with CDC and has paid pending dues.
- Karachi Stock Exchange, (KSE) has directed the Company to share its business revival plan and send list of shareholders.
- Newly elected directors of the Company in annual general meeting on October 31, 2015 have decided to revive the Company by exploring other avenues of profitable businesses
- The Company is currently in negotiations with Getti Agro (Pvt.) Limited to acquire its land, operating plant and machinery to switch over to the business of FMCG.

Nazir



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- Initially the Company plans to make plant operational for tomato paste that is used for preparing ketchup and other sauces.
- The presentation includes details of building and plant and machinery being purchased along with some estimates of required working capital, financial projections (only for a year).

However, the representative did not produce any substantiating evidence of the aforesaid business plan including any documentary evidence of the purchase, memorandums and concrete business revival plan including future projections based on sound assumptions, sources of funds etc.

5. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 309 of the Ordinance have been delegated to Executive Director (Corporate Supervision Department).

6. Before proceeding further, it would be necessary to look at certain important facts regarding the Company. The Company has suspended its business since the year 2004 and has disposed of its entire undertaking including land, building, plant and machinery. The only asset shown in the audited financial statements of the Company for the year ended June 30, 2015 comprises cash and bank balance of Rs102/-. It has outstanding liabilities of Rs184,601,596 represented by negative equity of Rs184,601,494. The auditor in his reports to members on the Accounts for the year ended June 30, 2015 has qualified his opinion on the grounds that he was unable to verify the amount shown as advances from customers and others of Rs34,215,182. Moreover, the management of the Company in view of the adverse liquidity position and matters explained in note 1.2 to the Accounts has considered the going concern assumption inappropriate and, therefore, the financial statements have been prepared on the basis of net realizable / settlement values of assets and liabilities. The directors' report attached to the Accounts 2015 gives a very brief generalized statement that the management is in negotiations with several companies for acquiring majority/controlling shares and intends to operate in different sectors to generate cash flows for the Company and its shareholders. However, neither any concrete plan for revival of business of the Company has been disclosed in the Accounts nor has it been submitted to the Commission in relation to the instant proceedings, despite ample opportunity provided to the



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respondents. The suggestive plan submitted by the Company based on surmises and unsubstantiated basis does not constitute a workable revival plan as it is without any lucid basis. Moreover, the respondents have not produced any documentary evidence with regard to their claims that negotiations are under way for acquiring businesses. Any revival plan for the Company should in the first place include the business it intends to undertake along with feasibility and financial projections based on realistic basis. The unauthenticated copy of the presentation submitted with the commission is unsubstantiated as it does not include lucid basis, future projections and complete business plan. Keeping in view the forgoing facts, it is clear that the Company does not seem to be able to carry on as a going concern in future. Moreover, the Company also failed to present a viable revival plan despite several opportunities.

7. In the current circumstances the chances of revival of the Company are unrealistic. This view is further strengthened by the fact that there has been hardly any change in the financial position of the Company since last many years. In fact sale of entire undertaking including land, building, plant and machinery has totally impaired any realistic chances of revival of the Company. Several opportunities have been provided to the respondents to present a viable plan for revival of the Company; however, the respondents have failed to do so. From the above discussion and after careful consideration of all the facts and circumstances of the case, I am of the view that the Company is liable to be wound up.

8. For the forgoing, in exercise of the powers conferred by section 309 of the Ordinance, I hereby authorize the Registrar, Company Registration Office, Faisalabad, to present a petition for winding up of Service Fabrics Limited.

Ali Azeem Ikram
Executive Director
Corporate Supervision Department

Announced:
January 13, 2015
Islamabad