



Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department

Before

Amir M. Khan Afridi, Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Dewan Mushtaq Textile Mills Limited

Date of Hearing

August 28, 2019, February 20, 2020, March 09, 2020,
July 20, 2020, March 11, 2021, August 30, 2021

Order-Redacted Version

Order dated November 26, 2021 was passed by Director/Head of Department (Adjudication-I) in the matter of Dewan Mushtaq Textile Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated February 21, 2019
2. Name of Company	Dewan Mushtaq Textile Mills Limited
3. Name of Individual*	The proceedings were initiated against directors of the Company.
4. Nature of Offence	Under Section 499 read with Section 479 of the Companies Act, 2017, (Section 495 read with Section 476 of the Companies Ordinance, 1984.
5. Action Taken	<p>Key findings were reported in following manner:</p> <p>I have gone through the facts of case, relevant provisions of the law and the record placed before me. Based on the aforesaid, it is stated:</p> <p>(i). In cases of Suit Nos. 1251, 1252, 1253, 1254 & 1255 of 2017 (wherein suit No. 1253/2017 the plaintiff includes the Company, Dewan Textile Mills Limited and Dewan Muhammad Yousaf while HBL, NBP, NIB BANK Limited, Summit Bank Limited & UBL are defendants) the Hon'ble High Court of Sindh passed the following order vide dated 12.5.2017:</p> <p><i>"Basically, the plaintiffs have approached this court for the implementation of the consent letter dated 22.6.2016 (available at page 293 of suit no. 1251/2017) and sought directions against the defendants to fulfill their obligation. Learned counsel submits that earlier some consent decrees were passed between the same parties by this court, thereafter, some novation was made in the earlier agreed terms. The consent letter dated 22.6.2016 was acknowledged on 15.7.2016 by the representative of HBL who is also Secretary, Steering Committee (available at page 333 of suit no. 1251/2017). Learned counsel argued that the defendants have committed breach of consent letter dated 22.6.2016 through which certain terms & conditions were restructured, but at the same time want to get execution of the consent decree passed in the year 2011. Issue notice to the</i></p>



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defendants for 18.5.2017. Till next date no action shall be taken against the plaintiffs in violation of the terms and conditions of consent letter.”

Honorable Sindh High Court vide its Order dated May 12, 2017 has restrained to take action against the plaintiffs in violation of the terms and conditions of consent letter.

(ii) Respondents in the directors' report annexed with latest available annual audited financial statements for the year ended June 30, 2020 of the Company have disclosed following w.r.t the litigation with lenders:

"In financial year ended 2012, Company had settled with its lenders through Compromise Agreement against which consent decrees had been passed by the Honorable High Court of Sindh, Karachi. Company's short term and long-term loans had been rescheduled in the form of long-term loans. Consequent to default in repayment of restructured liabilities as per compromise agreement, the lenders filed for execution of consent decrees. The Company filed suits in Honourable High Court of Sindh at Karachi wherein it has been strongly contested that filing of executions is unjust and against the law. Management of the Company expects favorable outcome therefrom.

The Auditors of the company have expressed adverse opinion in their report on going concern assumption, default in repayment of installments of restructured liabilities and related non-provisioning of mark-up as explained in their report.

The company has approached its lenders for further restructuring of its liabilities, which is in process. Management is hopeful that such revision will be finalized soon as explained in note 8.3 to the financial statements. Moreover, the markup outstanding up to the date of restructuring is Rs. 119.824 million, which the company would be liable to pay in the event of default of terms of agreement. Since the management is confident that upon finalization of restructuring this amount will remain eligible for waiver, hence no provision of the same has been made in these financial statements."

(ii). The Company under Note 14 to financial statements for year ended June 30, 2020 disclosed the following:

"14.1 In respect of liabilities towards banks/ financial institutions disclosed in note 8 to the financial statements, during the year ended 2012, certain lenders have entered into a compromise agreement with the Company for outstanding debt sought by lenders in the suits filed by them and it was agreed that the Company would settle all the liabilities at principle amount of Rs.276.082 million and markup thereon of Rs.119.824 million (eligible for waiver if the Company repays the entire outstanding principal as per term of agreement), consequent to which consent decrees were granted by the Honorable High Court of Sindh, Karachi. Consequent to default in repayment of restructured liabilities as



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	<p><i>per compromise agreement, the lenders filed for execution of consent decrees. The Company filed suits in Honourable High Court of Sindh at Karachi wherein it has been strongly contested that filing of executions is unjust and against the law. Management of the Company expects favorable outcome therefrom.”</i></p> <p>Considering the aforementioned facts, I am of the view that the grounds on the basis of which proceedings were initiated through the subject SCN w.r.t non-recognition of markup and classification of liabilities are subjudice before the Honorable Sindh High Court. The Court order dated May 12, 2017 has restrained to take action against the plaintiff in respect of Suit Nos. 1251, 1252, 1253, 1254 & 1255 of 2017 and the Company is plaintiff in Suit 1253/ 2017. Therefore, I conclude the proceedings w.r.t non-recognition of markup and liabilities of banks without adverse order at the moment and the Company is advised to disclose complete details of its cases in the Court in its forthcoming quarterly and annual financial statements.</p> <p>Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties in respect of any default, omission, violation of the Act.</p>
6. Penalty Imposed	Nil
7. Current Status of Order	No appeal has been filed by the respondents.