



Corporate Supervision Department  
Company Law Division

Before Abid Hussain –Executive Director

*In the matter of*

**Pervez Ahmed Securities Limited**

Number and date of notice: EMD/233/691/2007-1424 dated February 12, 2015  
Date of hearing: September 10, 2015 and April 14, 2016  
Present: Representatives of M/s Cornelius, Lane & Mufti (“CLM”)- Legal Advisor and Authorized Representatives  
Mr. Salman Farooq – manger operations

**ORDER**

**UNDER SECTION 492 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984**

This order shall dispose of the proceedings initiated against following Directors including the Chief Executive (the “respondents”) of Pervez Ahmed Securities Limited (the “Company”) through show cause notice (“SCN”) dated February 12, 2015 issued under the provisions of Section 492 read with Section 476 of the Companies Ordinance 1984 (the “Ordinance”).

Name of Respondents
Mr. Pervez Ahmed, Chief Executive
Mrs. Rehana Pervez Ahmed, Director
Mrs. Ayesha Ahmed Mansoor, Director
Mr. Ali Pervez Ahmed, Director
Mr. Hassan Ibrahim Ahmed, Director
Mr. Muhammad Khalid Khan, Director
Mr. Mazhar Pervaiz Malik, Director
Mr. Suleman Ahmed

2. The brief facts of the case are that the Company through its initial public offer (“IPO”) in year 2007, raised capital amounting to Rs. 250 million from general public. The purpose of the issue was stated as expansion in the Company’s operations and broadening share ownership of the Company.

3. The Company in its prospectus stated that out of total capital raised through IPO, approx. Rs. 230 million shall be utilized for making equity investments while remaining Rs. 20 million to be employed in infrastructure development of other business activities such as brokerage, equity research and financial services. Moreover, it was stated in prospectus that the Company expects to benefit from increase in its operating capacity.



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - I -

4. The proceeds of IPO were not utilized for the stated purpose of expanding core business or diversification. Rather, the accounts of the Company for the years ending June 30, 2008 and thereafter, reflect that the said proceeds were utilized for maintaining operational liquidity i.e. working capital, fixed asset expenditure, payment of long term and short term borrowing instead of financing business expansion and diversification. The summarized position is reflected in the table below:

Year	Cash inflow		Cash outflow (financing & investing)	
2007	IPO	376,335,984	Fixed Capital Expenditure	(511,893)
2008			Fixed Capital Expenditure	(5,461,111)
2009			Short term borrowings	(20,256,421)
2010			Short term borrowings	(77,102,820)
2011			Long term financing	(1,041,978)
			Short term borrowing	(107,328,130)
2012			Nil	0
2013			Long term financing	(3,000,000)

5. The Company in its prospectus had also stated that its future strategy includes strengthening brokerage activities, being its core business, targeting high net worth investors and financial institutions whereas it also aims at diversification of investment policies and providing corporate finance advisory to government owned institutions and corporate entities.

6. Instead of demonstrating efforts for strengthening business operations as assured in prospectus, the brokerage license of the Company was cancelled in 2010 and the Company could not renew the license due to inadequate net capital balance thereby restricting it to carry out its core business i.e. brokerage activities.

7. In the context of operational efficiency, merely two years after IPO i.e. year ended 2009, the Company recorded operating loss of Rs. 920.951 million and loss after tax amounting to Rs. 1.412 billion. The Company, contrary to its claims in its prospectus of operational efficiency and profitability, failed to pay dividend to shareholders since year ended June 30, 2009 to June 30, 2014. The number of employees has dwindled from 14 (2007) to mere 1 in 2013 and 4 in 2014.



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 2 -

8. The Board of Directors, over the years, had failed to honor its commitment in prospectus and appropriately report to members in terms of operational profits, continue its core business and generate profitable returns from diversification of the Company.

9. The auditors have expressed adverse opinion in their reports for years ended June 30, 2011 to 2014, among other issues, in relation to going concern assumption and stated that the accounts for the respective years do not give true and fair view of the Company.

10. During the year ended June 30, 2014, the accumulated losses of the Company amount to Rs. 1,066.982 million, its operating revenue is Rs. 184,547 against administrative expenses amounting to Rs. 2.653 million. The Company recorded nil operating revenue for the periods ended September 30, 2013, December 31, 2013 and March 31, 2014.

11. The directors, in their reports to members for years ended June 30, 2008 to 2014, oblivious of the continued losses and adverse opinion of auditors, continued to report to the members that it has adequate plans to mitigate the factors affecting the entity's ability to continue as going concern keeping in view settlement of bank borrowing, continuous support of directors and diversification to make it a profitable venture.

12. The Company and its management, prima facie, contrary to the claims made in the prospectus and accounts of the Company over the years, have failed to present the true and fair view of the affairs of the Company, provided incorrect material information on persistent inability of the Company to continue its core business and misstated the future outlook of the operational and financial viability thereby depriving shareholders of the reasonable return. Consequently the SCN was served upon the respondents on February 12, 2015 to show cause as to why penalty may be not imposed under Section 492 of the Ordinance for presenting misleading, false and incorrect Accounts to the Commission.

13. The respondents replied vide letter dated August 27, 2015, submitting the following:



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 3 -

- i. During the year 2007-08, the Company earned Rs. 117.4 million from sale of shares, Rs. 25 million as dividend income, Rs. 0.541 from underwriting commission and Rs. 552,381 from brokerage of shares.
- ii. According to fixed capital expenditure of the year 2007, Rs. 511,893 was spent on office furniture, motor bikes and computer equipment which is clearly indicative of the fact that all this was done to Company's area of operation. The cash flow statement for the year 2007 indicates that the money raised through IPO was utilized in the same year and addition of Rs. 5,461,111 in the year 2008 had nothing to do with the proceeds from the IPO.
- iii. The Company in 2009 repaid the short term borrowing amount of Rs. 20,256 out of total loan of Rs. 325,132,048 obtained in year 2008 and the same had nothing to do with proceeds of the IPO.
- iv. As provided in note 10 and 31.2 of the financial statements for the year 2010 attached herewith and in notes 11 and 14 of the financial statements for the year 2011 attached herewith, the Company repaid/adjusted the loan of Silk Bank Limited amounting to Rs. 76.3 million and loan of Summit Bank amounting to Rs. 107 million through sale of personal properties of directors.
- v. It is pertinent to mentioned here that the KSE 100 index which was at 15,676 points on April 18, 2008 floored rapidly and stationed at 4,815 point in January 2009 (almost 70% decline in just 9 months). The stock exchange remained closed for almost four months which created a lot of problems for the investors. As a result of this predicament, the Company also experienced substantial losses.
- vi. As of 2009, the directors have been supporting the Company which is clearly evident from the fact that in 2009 our clients relinquish their personal properties worth Rs. 226 million in favor of the Company and by the end of June 30, 2013 the payable of the directors increased from 20.3 million to 37.2 million.

14. The respondents were granted an opportunity of personal hearing on September 10, 2015 before Mr. Tahir Mahmood, Commissioner which was attended by Mr. Shoaib Rashid of CLM and Mr. Salman Farooq - manger operations and reiterated earlier written submissions of the respondents. The representatives were advised to provide date wise breakup of investments made form IPO proceeds. The Company vide letter dated September 28, 2015, October 27, 2015 and



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 4 -

December 3, 2015 provided details of investment of Rs. 266.925 million made from IPO proceeds in June, 2007.

15. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 492 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department). Therefore, the respondents were provided opportunity of hearings on January 21, 2016 and February 15, 2016 but the hearings were adjourned on respondent's requests. Finally a hearing was fixed on April 14, 2016 before me which was attended by Mr. Furqan Naveed of CLM and Mr. Salman Farooq – manger operations, who were asked to provide CDC account activity report regarding purchase of shares from the proceeds of IPO. The Company vide letter dated April 18, 2016 provided the desired information.

16. Before proceeding further, it is necessary to advert to the relevant provisions of Section 492 of the Ordinance, which states as under:

*"Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application, information or explanation required by or for the purposes of any of the provisions of this Ordinance or pursuant to an order or direction given under this Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, shall be punishable with a fine not exceeding five hundred thousand rupees."*

17. I have analyzed the facts of the case; relevant provisions of the Ordinance, arguments put forth by the representative and respondents and observed that the Company satisfactorily provided evidence of utilization of IPO's proceeds. The allegation relating to poor performance of the company and its failure to give dividends were also rooted in the apprehension that the IPO proceeds were not utilized for their said purpose. The same has been demonstrated as not being the case hence I shall not go to the merits of these allegations.

18. However, the performance of the Company and its financial position post listing leaves a big question mark on the policies adopted by BOD and investment decisions made by the management. The fact remains that a listed company which attracted investment in its equity from the general public made totally wrong assessment of the stock market situation. Moreover, it



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

*Continuation Sheet - 5 -*

appears that the BOD and management appointed by it either lacked the expertise or deliberately failed to salvage its investment and make efforts for its revival even after the lapse of more than 8 years since the 2008 market crash. The shallow promises made in the directors' report since then have never been matched by actions. In fact the BOD has miserably failed to deliver upon their promises made through the prospectus with its shareholders.

19. However, keeping within the confines of the issue raised in the SCN, without questioning the prudence with which the affairs of the Company were dealt, I hereby hold that the IPO proceeds were invested in the stock market and dispose of the proceedings by closing the proceedings. This Order is issued without prejudice to any subsequent proceedings the Commission may initiate with respect ascertaining other aspects of these investment including but on limited to the prudence of the investment decision and any actions under any other applicable law in force.

Abid Hussain  
Executive Director

**Announced:**  
June 14, 2016  
Islamabad