



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

[Islamabad]

Before Tahir Mahmood, Commissioner (CLD)

In the matter of

Nazir Cotton Mills Limited

Number and date of notice: No. EMD/233/163/02-1909-1915
July 05, 2010

Date of Hearing: September 23, 2010

Present: Mr. Fazal Mahmood, FCA
Authorized Representative

Order

Under Section 492 read with Section 476 of the Companies Ordinance, 1984

This order shall dispose of the show cause proceedings initiated against directors of Nazir Cotton Mills Limited (the "Company") through show cause notice dated July 05, 2010 under Section 492 read with Section 476 of the Companies Ordinance, 1984 (the "Ordinance") due to submission of false review report on half yearly accounts for the period ended December 31, 2009.

2. Facts leading to this case, briefly stated, are that the half yearly reviewed accounts of the Company for the period ended December 31, 2009 (Accounts) were filed with the Commission pursuant to the provisions of Section 245 of the Companies Ordinance, 1984 (the "Ordinance") through letter dated February 26, 2010. The Accounts were purportedly reviewed by M/s Aslam and Co. Chartered Accountants who had apparently given a clean conclusion on those accounts. Since the opinion was inconsistent with the opinion expressed by previous auditors on the annual accounts of the preceding period, proceedings for inappropriate review conclusion were initiated against M/s Aslam and Co. Chartered Accountants. It was categorically denied by M/s Aslam and Co. Chartered Accountants that the review report was ever issued by them. The aforesaid raised serious concerns about the authenticity of the contents of half yearly accounts filed by the Company with the Commission. It further indicated that the directors had apparently attempted to circumvent the legal provisions requiring submission of reviewed half yearly accounts and had thereby attempted to mislead the regulator as well as the shareholders by filing un reviewed half yearly accounts as reviewed.

3. In view of the above, a show cause notice dated July 05, 2010 was issued to the directors of the Company highlighting the violations of Section 492 of the Ordinance calling

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upon them to explain as to why penal action may not be taken against them for contravention of the said provisions of the Ordinance. No reply was submitted by the respondents to the notice despite reminders; however, verbal request was made by the Company Secretary for allowing personal hearing of the case. Hearing of the case was finally held on September 23, 2010 after a series of adjournments allowed to the Company in respect of hearings fixed on July 23, 2010, August 12, 2010, August 27, 2010, and September 14, 2010 respectively. Mr. Fazal Mahmood, FCA from M/s Fazal Mahmood and Company, Chartered Accountants appeared on behalf of the respondents to argue the case as their authorized representative.

4. Mr. Fazal Mahmood primarily accepted the violation of law committed by the Company and requested for a compassionate hearing due to the fact that the prospects of the textile sector in general and the Company in particular are grim. He stated that the Company is not in operations and has no employees of its own, the employees of other group companies having little information of the Company are performing accounting functions, therefore lenient view of this default may be taken by the Commission.

5. I have duly considered submissions made by the Authorized Representative of respondents and appreciate the fact that violation has been accepted. I would however, like to point out that the justification submitted before me do not carry merits and they neither lessen the gravity of default committed by the respondents. Before deciding the case I would like to emphasize that investors look for clarity, information and viability in all company reports, whether annual or interim. Accordingly, the law has prescribed audit and limited scope review requirements for verification and enhancing, for the purposes of all stakeholders, the credibility of management assertions made in the financial statements. It is unfortunate that in the instant case the directors or their subordinate staff has clearly attempted to circumvent the legal provisions requiring submission of reviewed half yearly accounts. In this case the directors have tried to mislead the regulator, the shareholders and the creditors by filing un reviewed half yearly accounts as reviewed. Directors' negligence can not be accepted as an excuse for such a deliberate effort to deceive a vital regulatory compliance requirement. This act of deception is unveiled by the very fact that half yearly review report does not contain any of the qualifications/observations raised in the immediately preceding annual accounts for the year ended June 30, 2009 by the then auditors. It is interesting to note that contrary to an adverse opinion stating that "Accounts do not give a true and fair view of the Company affairs" on annual accounts for the year ended June 30, 2009 it was concluded in the fabricated review report on accounts for half year ended December 31, 2009 that "nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Company as at 31, December 2009." It is infact sad that the directors have demonstrated such a level of unprofessional and

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irresponsible attitude by submitting false information purporting it to be authentic. It is imperative here to advert to the provisions of Section 492 of the Ordinance provides that *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 fine not exceeding five hundred thousand rupees.*

6. In view of above, the default under Section 492 of the Ordinance is established, however, considering the remorseful attitude expressed before me instead of imposing maximum penalty of Rs.500,000/- on each director impose a token penalty of Rs. 800,000 on the chief executive and directors of the Company.

Director	Penalty imposed (Rs.)
Mian Shahzad Aslam, Chief Executive	500,000
Mian Farrukh Naseem, Director	50,000
Mian Aamir Naseem, Director	50,000
Mr. Maqbool Hussain Bhutta, Director	50,000
Syed Arif Husain, Director	50,000
Mr. Khurram Abbas, Director	50,000
Mr. Nadeem Anjum, Director	50,000

7. The Chief Executive and directors of the Company are hereby directed to deposit the aforesaid fine in the designated bank account maintained in the name of the Securities and Exchange Commission of Pakistan with MCB Bank Limited or pay through a demand draft in the name of the Securities and Exchange Commission of Pakistan within thirty days from the receipt of this order and furnish receipted bank voucher to the Commission, failing which proceedings for recovery of fines as an arrear of land revenue will be initiated. It may also be noted that the said penalty is imposed on the Chief Executive and directors in their personal capacity; therefore, the same is payable from their personal resources.


Tahir Mahmood
Commissioner (CLD)

Announced
October 01, 2010