



Corporate Supervision Department
Company Law Division

Before Abid Hussain –Executive Director

In the matter of

Globe Textile Mills Limited

Number and date of notice: EMD/233/126/2002-1101-1107 dated January 17, 2014
Date of hearing: March 10, 2016
Present: Mr. Jawwad Shekha, FCA – Authorised Representative
Mr. Arshad Arif – Director
Mr. Irfan Mayari - Accountant

ORDER

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

This order shall dispose of the proceedings initiated against the Directors including the Chief Executive (the “respondents”) of Globe Textile Mills Limited (the “Company”) through show cause notice (“SCN”) dated January 17, 2014 issued under the provisions of Section 492 read with Section 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. Brief facts of the case are that the accounts of company for the year ended June 30, 2012 and June 30, 2013 were audited by M/s Hyder Bhimji & Co. Chartered Accountants and M/s. Baker Tilly Mehmood Idrees Qamar, Chartered Accountants respectively. The audit report on both aforesaid accounts give an adverse opinion stating that the accounts of the respective year do not give a true and fair view due to the following reasons:

- i. Non-verification of existence and carrying value of plant and machinery costing Rs. 671.451 million and a written down value of Rs. 106.147 million;
- ii. Non-provisioning of overdue receivable amounting to Rs. 53.736 million;
- iii. Non-verification of existence and carrying value the inventories under the head stores, spares and loose tools amounting to Rs. 30.472 million;
- iv. Non-provisioning against overdue trade debts amounting Rs. 82.270 million
- v. Non-provisioning against overdue loan and advances amounting Rs. 72.243 million
- vi. Non-disclosure that the company may be unable to realize its assets at carrying values in normal course of business casting significant doubts and material uncertainty on the going concern assumption



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The qualifications in the respective audit reports are reproduced hereunder for ready reference:

i. The company's plant & machinery costing Rs.479.322 million [Rs.479.322 million: 2012] had been disposed off during the preceding year, however, the company's records reveal in Note No.3 [Note No.5: 2012] that the remaining plant & machinery having cost of Rs.671.451 million [Rs.671.451 million: 2012] and written down value at Rs.106.147 million [Rs.131.330 million: 2012] is in its possession. We have been given representation that the value of such plant & machinery has not been impaired below the carrying value/book value. However, such assertions have not been corroborated with any documentary evidence.

Furthermore preceding year the Company revised its estimated useful life of remaining plant and machinery and enhanced depreciation rates 10% to 20% on reducing balance method. However, we have not provided with any evaluation report in this context. Additionally we have not been shown fixed assets register or the details of remaining plant & machinery and location thereof. Hence we are unable to substantiate the existence and carrying value of such plant & machinery.

ii. The Securities and Exchange Commission of Pakistan vide an interim order of Enforcement Deptt, while disposing of the proceedings initiated against the company, its Chief Executive and Directors of the company in violation of provisions of the Co's Ord. 1984 had directed them for the creation of advance to Mr. Arif Haji Habib, the Chief Executive of the company amounting Rs.53.736 million, which was admitted by him. The Creation of such advance was made in order to retrieve certain financial transactions of the company of the preceding year which were not approved by the SECP and were directed to be re-introduced in the books of accounts of the Company. **Since the amount is outstanding and has been carried over and is non-remunerative causing opportunity loss to the Company, besides funds being stuck-up and un-moved creates doubt about over the realizability of the amount.** In view of the forgoing appropriate provisioning is necessitated, which has not been made in the accompanying financial statements.

iii. Inventories held under the head stores, spares and loose tools having carrying values of Rs.20.266 million (as referred to in Note No. 5) [Rs. 30.472 Million: 2012, Reference Note-7 to the accounts], which the management asserts that they have been kept at the rented premises and further asserts that the fair value of such stores, spares and loose tools has not been impaired below their carrying values. However, such assertions have not been corroborated with any documentary evidence or physical verification. Additionally we have not been shown stock records and have only been provided with a list of showing quantities with values whereof. Hence, we are unable to substantiate and verify the existence and carrying value whereof.

iv. The company has incurred net loss after tax of Rs. 196.759 million during the year as compared to net loss after tax of Rs.35.604 million in the preceding year (and though the company's shareholders equity is at Rs. 185.346 million [Rs.382.105million: 2012]), however, there appears omission of recording impairment loss in carrying values of plant and machinery, stores and spares and other monetary receivable balances as indicated in paragraphs 1 to 3 above. Moreover, the company's production activities were suspended, effective from April 2006 and subsequently the company sold its whole land and building and significant portion of plant and machinery and paid off its loan liabilities to the lending banks and other creditors.

Though there was a discussion upon revival of plan/strategy of the future operations of the company till the year ended June 30, 2008, however, since then the company has not moved forward



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in this direction and under the present circumstances there appears no chance of revival or recommencement of any business activity. These events indicate existence of material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and therefore the company may be unable to realize its remaining assets at carrying values in the normal course of business. The financial statements and notes thereto do not disclose this fact."

3. Directors' Report accompanying the Financial Statements states that the financial statements prepared by the Company "fairly present its state of affairs, the result of operations, cash flow and changes in equity." & further states that "proper books of accounts have been maintained by the Company. In respect of the auditors' qualifications the following has been stated:

- i. *Property, plant & equipment, states that "the evaluation and survey planned could not be commenced by the independent Engineers due to law and order problem prevailed, while now dates are firm up for the purpose which will clear out the audit observation and apprehension raised. The Company has revised its estimate of useful lives of fixed assets and accordingly revised the depreciation rates which duly address the uncertainty raised in the audit report.*
- ii. *Stores, spare parts & loose tools, states that "the evaluation and survey planned could not be commenced by the independent Engineers due to law and order problem prevailed, while now dates are firm up for the purpose which will clear out the audit observation and apprehension raised.."*
- iii. *Non-realization of long term loan due from the chief executive states that "This reflects earlier charge off made in the company's books of accounts in respect of impairment of inventories which has been recorded under the SECP order and the amount is good and will be realized.*
- iv. *Going Concern Status of the Company states that "the company in order to get out of the clutches of leverage fund and in the wisdom of the directors expecting interest rate hike and downside in the assets values took timely decision of disposing the land and building of the company in order to save financial cost and force selling. Presently in view of the directors, the time is not yet ripe to recommence the business activity hence the decision of revival has been kept in abeyance. However by other financial parameters the Company is very much solvent and is a going concern. Accordingly these financial statements have been prepared as such."*

4. The adverse opinion by the auditors in their respective reports, the materiality and pervasiveness of the qualification and inadequate explanation in the Directors' reports, prima facie, renders the audited financial statements for the years ended June 30, 2013 as misleading, false and incorrect. Consequently a SCN was served upon the respondents on January 17, 2014 to show cause as to why penalty be not imposed under Section 492 of the Ordinance for presenting misleading, false and incorrect accounts to the Commission. The respondent failed to reply the SCN.



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5. The respondents were granted an opportunity of personal hearing on February 17, 2015 before Mr. Ali Azeem Ikram which was attended by Mr. Jawwad Shekha- Authorized Representative and Mr. Arif Habib, Director the Company and submitted that the Company will make sure that the financials of June 30, 2015 will give true and fair view. On perusal of financial statements for the year ended June 30, 2015 it was observed that the auditor has again given adverse opinion with same qualification as mentioned above except for qualification regarding store, spare and loose tools.

6. The representatives were also provided opportunities of hearing on October 29, 2015, November 19, 2015, February 17, 2016 and March 10, 2016. Authorized Representative and Mr. Arshad Arif, director of the Company attended the hearing of March 10, 2016 before me and submitted that they are trying to remove the qualifications of the auditor and requested for lenient view.

7. Before proceeding further, it is necessary to advert to the following 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."

8. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the representative during the hearing and observed that Financial Statements for the year ended June 30, 2012 and 2013 have failed to give a true and fair view of the state of affairs of the Company, by not bringing the facts including physical verification and the carrying value about a significant portion of its total assets, before the shareholders as required by IAS 16 and IAS 36 and due to inappropriate use of going concern assumption. It is my considered view that the directors of the Company are responsible for the misstatement in the financial statements. One of the main objectives and intent of Section 492 of the Ordinance is to protect the users, which may include investors, shareholders, creditors, bankers, customers etc., of financial statements against misstatements so that reliable financial information which is vital for making a well informed



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decision is available to them. Further the Company is listed on securities exchange therefore provision of accurate and reliable information becomes more imperative.

9. For the foregoing reasons, I am of the firm opinion that the Respondents have made themselves liable under the provision of Section 492 of the Ordinance. Therefore, in exercise of the powers conferred by the aforesaid provision of the Ordinance, I hereby impose a fine of Rs.170,000 (Rupees one hundred and seventy thousand only) in aggregate on all the respondents for contravening the provision of Section 492 of the Ordinance. The respondents are directed to deposit the fine in the following manner:

Name of Respondents	Amount in Rupees
Mr. Arif Haji Habib	50,000
Ms. Farzana Arif	20,000
Ms. Gul Bano Haji Habib	20,000
Mr. Arshad Arif	20,000
Ms. Misbah Arif	20,000
Ms. Farzeen Fazl-e-Umer	20,000
Ms. Sameera Yasin Saya	20,000
Total	170,000

The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of fine, proceedings for recovery of the fines as arrears of land revenue will be initiated. It may also be noted that the said fines are imposed on the respondents in their personal capacity; therefore, they are required to pay the said amount from personal resources.

Abid Hussain
Executive Director

Announced:
April 14, 2016
Islamabad