



PAKISTAN ENGINEERING COMPANY LTD.

Company of State Engineering Corporation, Ministry of
Industries and Production, Government of Pakistan.

April 02, 2021

Ref No. : PECO/Fin/OBC/2021-048

The General Manager Pakistan Stock Exchange Limited Stock Exchange Building Stock Exchange Road Karachi	The Director / Head of Department Surveillance, Supervision and Enforcement Department Securities and Exchange Commission of Pakistan NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad	The Executive Director (Enforcement) Securities & Exchange Commission of Pakistan NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad
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Dear Sir

Sub: **Material Information – Investigation Order under Section 257 of the Companies Act, 2017**

In accordance with Section 96 of the Securities Act, 2015 and clause 5.6.1 of the Rule Book of Pakistan Stock Exchange Limited, we hereby convey the following material information.

The Commission has initiated an investigation of Pakistan Engineering Company Limited under Section 257 of the Companies Act, 2017 and an Investigation Order in this regard has been addressed to the Chief Executive of Pakistan Engineering Company Limited for compliance, and to all the directors of the Company for information and compliance. Copy of the same is being attached herewith for information of all the stakeholders.

Disclosure form in terms of Section 96 of the Securities Act, 2015 is attached for information and circulation amongst the TRE Certificate Holders of the Exchange.

You may please inform the TRE Certificates Holders of the Exchange accordingly.

Thanking you

For and on behalf of
Pakistan Engineering Company Limited

Mian Anwar Aziz
Company Secretary (CS)/Chief Financial Officer (CFO)

Encl.: Disclosure Form u/s 96 of Securities Act, 2015
SECP Investigation Order dated 26.03.2021

cc: The Federal Secretary
Ministry of Industries & Production, Islamabad

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PAKISTAN ENGINEERING COMPANY LTD.

Company of State Engineering Corporation, Ministry of
Industries and Production, Government of Pakistan.

DISCLOSURE FORM IN TERMS OF SECTION 96 OF THE SECURITIES ACT, 2015

Name of Company: PAKISTAN ENGINEERING COMPANY LIMITED
Date of Report: APRIL 02, 2021
Name of Company as specified in the Memorandum: PAKISTAN ENGINEERING COMPANY LIMITED
Company's Correspondence Office: Office # 14, 1st Floor, Ali Plaza, 3-Mozang Road, Lahore
Contact Information: corporate.affairs@peco.com.pk

Disclosure of Price Sensitive Information by Listed Company Investigation Order under Section 257 of the Companies Act, 2017

In accordance with Section 96 of the Securities Act, 2015 and clause 5.6.1 of the Rule Book of Pakistan Stock Exchange Limited, we hereby convey the following material information.

The Commission has initiated an investigation of Pakistan Engineering Company Limited under Section 257 of the Companies Act, 2017 and an Investigation Order in this regard has been addressed to the Chief Executive of Pakistan Engineering Company Limited for compliance, and to all the directors of the Company for information and compliance. Copy of the same is being attached herewith for information of all the stakeholders.

The company has duly caused this form / statement to be signed / on its behalf by the undersigned hereunto duly authorized.

For and on behalf of
Pakistan Engineering Company Limited

Mian Anwar Aziz
Company Secretary (CS)/Chief Financial Officer (CFO)





THROUGH TCS

No. EMD/I&I/233/428/2002- **638**

March 26, 2021

The Chief Executive,
Pakistan Engineering Company Limited,
6/7-Sir Ganga Ram Trust Building,
Shahrah-e-Quaid-e-Azam,
Lahore.

INVESTIGATION OF
PAKISTAN ENGINEERING COMPANY LIMITED
UNDER SECTION 257 OF THE COMPANIES ACT, 2017

Dear Sir,

Enclosed herewith please find an Investigation Order dated March 24, 2021 bearing number EMD/I&I/233/428/2002-637 for your information and necessary compliance.

Further, receipt of this order may please be acknowledged through fax or return letter and name of liaison officer (s) nominated by the Company along with active cell number (s) may also be communicated within 3 days of the date of this letter.

Muhammad Jahangir
Joint Director

Encl:
Investigation Order

✓ CC for Information and Compliance
All Directors of Pakistan Engineering Company Limited,
6/7-Sir Ganga Ram Trust Building,
Shahrah-e-Quaid-e-Azam, Lahore.

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN
NIC Building, 63 Jinnah Avenue,
Islamabad, Pakistan

Corporate Supervision Department
Company Law Division

INVESTIGATION ORDER

OF

PAKISTAN ENGINEERING COMPANY LIMITED

UNDER SECTION 257 OF THE COMPANIES ACT, 2017

This order shall dispose of proceedings initiated against Pakistan Engineering Company Limited (the Company or PECO) through Show Cause Notice dated June 25, 2020 (the SCN) under section 257 of the Companies Act, 2017 (the Act) issued to the Company through its Chief Executive and sent to all the directors of the Company for information and compliance (the "Respondents").

2 The brief facts of the case are that the SCN was issued based on the observations conveyed in complaints as listed below and other non-compliances noted by the Commission such as non-holding of Annual General Meetings (the AGMs), non-filing of accounts and continuation of Mr. Mairaj Anees as Chief Executive Officer (the CEO) after his removal by the Board of Directors (the BOD) in meeting held on December 14, 2018 and expiry of his term as CEO on March 16, 2019. Moreover, it has been observed that the Company has not complied with the following provisions of the Act:

- i. The quarterly financial statements required under Section 237 of the Act have not been filed for the quarter ended on September 30, 2018; December 31, 2018; March 31, 2019; September 30, 2019; December 31, 2019 and March 31, 2020.
- ii. The annual general meeting (AGM) required under Section 132 of the Act has not been held for the year ended June 30, 2019 and the company has not filed the annual audited accounts for the year ended June 30, 2019.
- iii. The Company has failed to hold quarterly board meeting as required under the Section 176 (3) of the Act since the start of calendar year 2019 till the date of SCN.
- iv. The board of directors of the Company in its meeting held on December 14, 2018 removed Mr. Mairaj Anees Arif from his position as a managing director of the Company under Section 190(1) of the Act while he is continuing his position as a managing director till date despite the fact that his term has also expired on March 16, 2019. The Ministry of Industries and Production in its letter dated December 14, 2018 addressed to the Establishment Division has required the transfer of Mr. Mairaj Anees Arif and to appoint the new Managing Director of the Company.

3 The statutory non-compliances as above have also been highlighted in complaints received by the Commission from two of the Directors of PECO, and following submissions have been made in addition to the above:

- i. The financial statements for the half year remained unreviewed by the auditors;
- ii. Employees have not been paid salaries and suppliers remained unpaid;
- iii. Tax returns not filed;
- iv. Overdue liabilities of NBP due to which NBP has been forced to report the Company as a defaulter in CIB at SBP;

SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department Company Law Division

Confidentiality Sheet - 1

- v. Mr. Mairaj has unlawfully managed to open and operate accounts with Bank(s) illegally siphoning off funds belonging to the Company in these illegally maintained bank accounts(s).
4. The Commission has received another complaint from officers of the Company, wherein it has been alleged that:
 - i. Entire PECO has been leased out to a third party, without obtaining approval from the Board of Directors and Shareholders, in violation of the provisions of the Act;
 - ii. No accounts are being maintained, no AGM has been conducted and board/committee meetings are also not being allowed to be conducted;
 - iii. The Managing Director is illegally performing all bank transactions with single signatures of his own and no rules, policies and procedures are being adhered to.
5. The Commission has received another letter dated June 17, 2020 from the Ministry of Industries and Production (MoIP) along with attachment of letter dated June 06, 2020 by the Company's CFO/Company Secretary, Head of Internal Audit and General Manager Works addressed to Mr. Azam Khan, Principal Secretary to the Prime Minister of Pakistan wherein, it has been alleged that:

"Mr. Mairaj Anees Ariff, MD (PECO) has illegally leased the entire Pakistan Engineering Company Limited (PECO) to one of his friend Mr. Tahir Bashir Khan, without obtaining approval from BOD, MoIP and in complete violation of the Companies Act, 2017 (the "Act") and the Rules of Business 1973. It is important to mention here that to lease / hire any sizeable part of entity, approvals from BOD and shareholders through AGM is required u/s 133 and 183 of the Act. Currently Mr. Tahir along with two aides, are illegally / unlawfully running the affairs of PECO".
6. A letter dated August 5, 2020 received on August 10, 2010 signed by Brig. Abdul Majeed (Retired), Senior Consultant (No authorization letter provided) after two reminders dated July 24, 2020 and July 30, 2020 by this office. In reply, stance has been taken that:
 - i. Economic Reform Order 1972 (ERO72) is applicable to the Company instead of the Act;
 - ii. The directors elected by non-government shareholders are harming the Company and has denied leasing out operations of the Company;
 - iii. A professional firm has been hired on merit for operation management, Admin & HR management and Finance & accounts;
 - iv. Appointment of auditor could not be carried out in 2018-19 in last AGM as BOD was suspended and its functionality was restricted owing to its investigation by NAB before holding of AGM;
 - v. SECP is fully empowered to appoint auditor u/s 246 of the Act despite PECO requests and that the accounts are being audited and financial statements are being prepared.

The reply of the Company is neither cogent nor backed by any evidence and does not address the SCN observations. Further, the Commission has received legal opinions from Ministry of Law and Justice and an in-house legal opinion that the Company is subject to the provisions of the Companies Act, 2017 and not

[Signature]

SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

1. 2020/2021/2022

that of ERO72.

7 Hearing in the matter was held on December 24, 2020 which was attended by Abdul Majeed, authorized counsel of the MD. He reiterated the allegations and took the stance that ERO 1972 is still applicable and alleged that the matter of shares sold by NIT is a key issue. He admitted that directors have been "terminated" by the MD along with all key officers and that the MD had the power to do so. He also submitted that all functions such as HR, finance, marketing etc. had been outsourced by PECO.

8 Hearing of five directors other than the MD was held on January 20, 2021. The directors reiterated that the MD has usurped all the powers in the Company and has prevented the BOD and senior officials from working. They also emphasized that the premises have been leased out to one Mr. Tahir Bashir Khan, and that the MD is using personal connections in NAB, Police etc. to allegedly harass the directors. Further they stated that NAB inquiries in matter of sale of shares by NIT are either already closed or recommended for closure. It was also informed that the director namely Mr. Arif Habib has time and again requested the Federal Secretary and Minister concerned to intervene in the matter and resolve the issues of PECO.

9 The director namely Mr. Arif Habib submitted his written reply dated January 21, 2021 in pursuance of the hearing held on January 20, 2021. He has submitted evidence of closure of inquiry by NAB Karachi and recommendation for closure of inquiry by NAB Lahore in the matter of sale of shares by NIT. Furthermore, NAB's submissions in Honorable Islamabad High Court have been provided with the aforesaid letter which states that GOP was one of the 12 shareholders of NIT, therefore, NIT is not a government organization. Correspondence of Mr. Arif Habib with the Federal Minister and Secretary MoIP for early resolution of the issues facing PECO has been provided. He has again requested that SECP may investigate the affairs of the Company.

10 I have examined the facts of the case, written responses submitted along with documentary evidences, arguments put forth by the Respondents during the course of hearings and the relevant regulatory requirements. I am of the view that:

- i. The annual general meeting required under Section 132 of the Act has not been held for the year 2019 and the Company has not filed the annual audited accounts for the year ended June 30, 2019 in due time;
- ii. It is important to mention that the Company's MD through letter dated December 9, 2020 has filed annual audited accounts which do not carry a directors' report, Chairman's report and report regarding CCG Regulations' compliance. The accounts so submitted carry a disclaimer from the Auditors. The accounts have only been signed by the CEO;
- iii. Further, no AGM notice is attached to the accounts. Moreover, the directors other than MD told SECP not to accept the accounts in hearing held on January 20, 2021 as these accounts have not been approved by BOD.
- iv. The reply of the Company in response to the SCN, is neither cogent nor backed by any evidence and does not address the SCN observations. Further, the Company is subject to compliance with the applicable provisions of the Companies Act, 2017 and not that of ERO72.
- v. The allegations that the entire PECO has been leased out to a third party, without obtaining approval from Board of Directors and Shareholders, in violation of the provisions of the Act, is an important matter as it has serious implications for the Company and its shareholders.

SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

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11. From the above, it is apparent that circumstances exist which need detailed probe into the affairs of the Company in terms of Section 257 (1) (b) (iv), (vi) and (vii) of the Act, which provides that:

- i) affairs of the company are not being managed in accordance with sound business principles or prudent commercial practices; or
- ii) financial position of the company is such as to endanger its solvency; or
- iii) members of the company have not been given all the information with respect to its affairs which they might reasonably expect.

12. In the circumstances, it is responsibility of the Commission to ascertain factual position through competent inspector(s) whose report can bring to light as to whether, the affairs of the Company are being managed in accordance with sound business principles and prudent commercial practices strictly in conformity with the accepted principles and standards of good and efficient management; and members of the Company have been given all the information with respect to its affairs.

13. In view of the above, I, while exercising the powers conferred under Section 257 of the Act, hereby, appoint team of the following officers of SECP, as inspectors, to investigate the affairs of Company:

- i. Syed Ali Adnan, Additional Director; (Team Leader);
Mr. Muhammad Jahangir, Joint Director;
- ii. Mr. Shahzad Ali Rana, Additional Joint Director; and
- iii. Mr. Anwaar Ahmed, Deputy Director.

14. It shall be the duty of all the officers, employees and agents of the Company and all other persons having dealing with the Company to provide all assistance to the Inspectors in connection with the investigation and any default whereof shall be punishable under sub-section (2) of Section 261 of the Act.

15. Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties on the CEO, Directors, officers of the Company, and other persons in respect of any default, omission, violation of the Act and Rules & Regulations framed there-under, committed by them.



Amir M. Khan Afridi
Head of Department-CSD

Announced:
March 24, 2021