



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s D.S. Industries Limited
Show Cause Notice No. & Date:	No. CSD/ARN/233/2015-883 dated January 28, 2025
Respondents:	(i) Mr. Ali Pervez Ahmad, CEO/ Director; (ii) Mr. Hassan Ibrahim Ahmad, Director; (iii) Ms. Rukhsana Khalid, Director; (iv) Mr. Haider Ali, Director; (v) Mr. M. Naeem Ilyas, Director; (vi) Mr. Suleman Ahmed, Director; (vii) Ms. Rehana Pervez Ahmed, Director; and (viii) M/s D.S. Industries Limited
Date of Hearing:	(i) March 04, 2025; (ii) March 20, 2025
Case represented by:	(i) Ms. Minahil Khan, Legal Counsel – Cornelius, Lane & Mufti – Advocates & Solicitors; and (ii) Mr. Salman Farooq – Company Secretary (As the Authorized Representatives)
Provision of law involved:	Section 510 of the Companies Act, 2017 read with S.R.O. 633(I)/2014 dated July 10, 2014
Date of Order:	April 28, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “Commission”) through the Show Cause Notice No. CSD/ARN/233/2015-883 dated January 28, 2025 (“SCN”) against M/s D.S. Industries Limited (the “Company”) and its Board of Directors including Chief Executive Officer (“CEO”), hereinafter collectively referred to as the “Respondents”, issued under sub-section (2) of Section 510 of the Companies Act, 2017 (the “Act”) on account of non-compliance with the requirements of S.R.O. 633(I)/2014 dated July 10, 2014 (the “SRO”).

2. Brief facts of the case are that the Company was required in terms of the SRO read with Section 225 of the Act to follow the requirements of, amongst other accounting standards, International Accounting Standard (IAS) 12 ‘Income Taxes’ and IAS 36 ‘Impairment of Assets’ for preparation of its balance sheet and profit and loss account or income and expenditure account. The investigation of the Company was carried out under Section 257 of the Act by the Commission and the Investigation Report dated June 28, 2024 (the “Investigation Reports”) revealed that the Company *prima-facie* did not prepare its financial statements for the year ended June 30, 2022 (the “Accounts”) in accordance with the above-referred IAS, as described below:

A. Non-compliance of IAS 36:

- (i) The Investigation Report transpired that the Company had two agricultural lands appearing in its assets, Land 1 (22 Kanals and 9 Marlas) and Land 2 (13.45 Kanals) situated outside the factory premises, both without independent/ direct access. It was observed that the Company sold Land 1 having book value of Rs. 27.83 million for Rs. 7.75 million, resulting in a loss of Rs. 20.08 million. However it did not recognize impairment loss on Land 2, having similar characteristics in terms of category, location and purpose as of Land 1, by assessing its recoverable amount on the basis of disposal proceeds of Land 1 i.e. Rs. 345,212 per kanal, despite clear requirements prescribed under paras 9, 12 and 59 of IAS 36 .
- (ii) Had the Company conducted the required assessment, the recoverable amount of Land-2 would have been Rs. 4.643 million (Rs. 345,212 x 13.45 Kanals) against the carrying amount of Rs. 18.875 million. However contrary to the requirements of IAS 36, the Company failed to assess the

recoverable amount of Land 2 despite indications of impairment which resulted in non-recognition of an impairment loss of Rs. 14.232 million (Rs. 18.875 million – Rs. 4.643 million) in its Accounts which, *prima-facie*, constitutes contravention of requirements of IAS 36 and SRO 633.

B. Non-compliance of IAS 12:

- (i) Furthermore the Inspection Report revealed that M/s. Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants (the “Auditor”) qualified their report on the Accounts due to recognition of a Deferred Tax Asset (“DTA”) amounting to Rs. 90.508 million by the Company, considering it material and without any convincing evidence that future profits would be available to adjust the same. It is observed that the Company in the Accounts increased DTA from Rs. 32.586 million to Rs. 93.101 million and recognized an income of Rs. 60.444 million, largely due to accumulated business losses of Rs. 312.093 million.
- (ii) Moreover, the Company, in the financial statements for FY 2023, recorded DTA at Rs. 75.897 million, resulting in the booking of an expense of Rs. 17.204 million. The auditors again raised concerns about the DTA, citing the lack of convincing evidence that future profits would be sufficient to justify this recognition. It is observed that the computation of DTA of Rs. 75.897 million submitted by the Company to the Inspection Team included DTA of Rs. 72.26 million i.e. 29% of Rs. 249.169 million unused business losses from tax years 2018 to 2022.
- (iii) The Company, in terms of Section 57(2) of the Income Tax Ordinance, 2001, can carry forward the business losses for up to six tax years immediately preceding the relevant tax year and accordingly can only utilize the tax losses against its respective profits maximum by tax year 2028. The Company itself has anticipated an accumulated profit of Rs. 31.429 million by tax year 2028 in its projected financials submitted to the Inspection Team, which is insufficient to absorb tax losses of Rs. 249.169 million.
- (iv) Para 27 of IAS 12 states that DTA should only be recognized if it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilized. However it is evident from the Company’s future projections that sufficient expected profits are not available to utilize the tax losses. The Company hence has incorrectly included unused tax losses of Rs. 217.74 million (Rs. 249.169 million – Rs. 31.429 million) in computing DTA of Rs. 75.897 million which resultantly increased DTA by Rs. 63.144 million (Rs. 217.74 million X 29%) which, *prima-facie*, constitutes contravention of requirements of IAS 12 and SRO 633.

3. The aforesaid indicated that the Respondents, *prima facie*, contravened the provisions of IAS-36 and IAS-12 which in terms of sub-section (1) of Section 510 of the Act attracts penal action as provided under sub-section (2) thereof. For ease of reference, the provisions of Section 510 of the Act and relevant paras of IAS 36 and IAS 12 are reproduced hereunder:

Section 510 of the Act:

“510. Power to issue directives, circulars, guidelines.- (1) The Commission may issue such directives, prudential requirements, codes, guidelines, circulars or notifications as are necessary to carry out the purposes of this Act and the rules and regulations made under this Act.

(2) Any person, who obstructs or contravenes or does not comply with any directive, prudential requirements, codes, circulars or notifications, given under this section shall be liable to a penalty of level 3 on the standard scale.”

IAS 36:

“Para 9. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Handwritten signature and date:
28-04-2025

Para 12. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) the carrying amount of the net assets of the entity is more than its market capitalization.

Internal sources of information

- (e) evidence is available of obsolescence or physical damage of an asset.
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Para 59. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss."

IAS 12:

Para 27: The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

Para 44: An entity shall recognize a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and
- (b) taxable profit will be available against which the temporary difference can be utilized.

4. Accordingly, SCN was served upon the Respondents, requiring them to show the cause as to why penal action as provided under sub-section (2) of Section 510 of the Act may not be taken against them for the aforementioned contravention of the law. In response, the Company Secretary ("CS") of the Company vide letter dated February 12, 2025 requested an extension of fourteen (14) days to submit the response to SCN which was duly granted. Later the Respondents vide letter dated February 28, 2025 furnished the response to SCN, *inter-alia*, stating that:

- (i) The Valuation of Company's assets, including the land referred in the SCN, was conducted by M/s Excel Services & Engg. (Private) Limited in 2019 i.e. three (3) years before the sale of land and determined the value of lands separately however for reporting purposes, used the average price of both land area and reported the combined value of all lands reported in Company's books. Accordingly, as average value was used to determine current value of land, Company applied average price per kanal or overall

Order in the matter of M/s. D.S. Industries Limited and its Board of Directors dated April 28, 2025

accepted
1
28-04-2025

land valuation, and recognized a valuation gain on land. Factory land sold to Ayesha Spinning Mills Limited ("ASML") and land 1 were sold in the same year i.e. 2022 by applying average rate, therefore, there is no question of loss on overall basis.

- (ii) Land 2 measuring 14.45 kanal is valued at average price of Rs.1.3 million per kanal on the basis of valuation report of 2019 rather than at Rs. 345,212 per kanal on the basis of sale value of land 1. Valuation of Land 2, situated adjacent to the main factory land (sold to ASML) cannot be same as that of land 1 which is situated near to main factory land surrounded by agricultural fields and has no direct access from main factory land.
- (iii) Land 2 was purposely not sold as the Company plans to build a shed for stitching facilities and raw material storage in line with its business of manufacturing and selling women's fashion apparel as they have assurance of access to land 2 from ASML. If the Company ever intended to sale, ASML would be interested to purchase land 2 being adjacent to its boundary wall and the sale value would be significantly higher than the average sale value per kanal of land 1.
- (iv) The Commission's opinion that post assessment, recoverable amount of land 2 would have been 4.643 million against the carrying value of Rs. 18.875 million is not correct as there is valuation gain of Rs.17.34 million reflected in the Accounts for said land. Accordingly if land 2 is sold for Rs. 4.643 million, even, the Company would not incur any loss due to the said valuation gain of Rs. 17.34 million.
- (v) Company has a consistent practice of recognizing DTA and accordingly as per practice followed during previous years, DTA of Rs. 60.44 million was recognized for fiscal year June 30, 2022 bringing the total DTA to Rs. 93.10 million. DTA was determined on the basis of available tax losses carried from previous years and the same is assessed every year and adjusted on the basis of available losses and accordingly DTA has reduced to Rs. 70.76 million for the year ended June 30, 2024.
- (vi) Adoption of an accounting treatment on this matter, in the absence of any allegation of misappropriation or wrongdoing cannot serve as the basis for action under Section 510 of the Act read with SRO 633. There was no motive or intention to manipulate Company's profits and both matters were treated with due diligence.

5. In order to provide an opportunity of being heard to the Respondents, hearing in the matter was fixed for March 04, 2025, which however was adjourned upon request by the Respondents. Subsequently, in order to meet the ends of justice, another hearing opportunity was provided for March 20, 2025, which was attended by Ms. Minahill Khan-Legal Counsel and Mr. Salman Farooq-Company Secretary on behalf of the Respondents as their **Authorized Representatives**. The Authorized Representatives reiterated the written submissions made earlier in response to SCN and, *inter-alia*, stated that:

- (i) Land 2 contiguous to factory land sold to ASML is held on the basis of verbal confirmation by ASML to grant the Company access to land 2 through its premises. However there is no such written agreement/ confirmation in this respect from ASML for grant of access.
- (ii) The Company initially intended to develop a stitching unit of its ladies garment brand and a warehouse for related raw material however so far no such facility is on ground.
- (iii) Projections of DTA do not have sufficient space for absorbing DTA in next six (6) years. The Company currently is operating with 7 to 8 employees. The auditors again qualified its audit report for the years ended June 30, 2023 and June 30, 2024 on grounds of DTA.

6. I have gone through the relevant provisions of Section 510 of the Act, and the requirements of the accounting standards, considered the facts of the case and written and verbal submissions of the Respondents. I have also perused Section 510(2) of the Act, which stipulates penal provisions for contravention of the afore-referred provision of law. I have noted that the Respondents were indisputably obligated to comply with the specified requirements of IAS 36 and IAS 12 in preparation of financial statements of the Company for the year ended June 30, 2022. The foremost contention put forward by the Respondents is their reliance on valuation

Handwritten signature and date:
28-04-2025

conducted by M/s Excel Services & Engg. (Pvt.) Ltd. in 2019 and the subsequent application of an average price per kanal for all land parcels fails to meet the requirements of IAS 36 – Impairment of Assets. IAS-36 makes it mandatory for the Company to assess individual assets for impairment where such indicators exist. Further averaging values of distinct land parcels—each with different characteristics, access rights, and potential use—is not a valid basis for impairment testing. The use of a blended value for reporting purposes obscures the impaired condition of land 2, which, based on comparable market evidence (e.g., the sale of land 1), shows signs of overvaluation and the same cannot be taken as a ground to absolve the Respondents from their obligation to ensure meticulous compliance of applicable laws at all times. In 2017 CLD 1019, it was rightfully held by the Appellate Bench of the Commission that “...the company being a public limited company has a responsibility to ensure full compliance of the provisions of the Ordinance, therefore, the violation...cannot be excused and the penalty was rightly imposed on the Appellants.”. Furthermore the assertion that there is no overall loss is misleading, as IAS 36 requires **asset-level** evaluation, not portfolio-level aggregation.

7. The arguments of the Respondents that Land 2 should be valued at Rs. 1.3 million per kanal, as per the 2019 report, instead of Rs. 345,212 per kanal (based on the sale of Land 1), lacks merit in light of objective market evidence and the principle of fair value measurement. It is noted that land 2, despite being adjacent to the main factory land, is similarly constrained by limited access and is undeveloped, as is land 1 and the proximity argument is irrelevant unless supported by legally enforceable access rights, which have not been provided by ASML in the instant matter. IAS 36 emphasizes recoverable amount based on current market conditions—not outdated appraisals—especially when those valuations predate significant events, such as the sale of the factory land and land 1 in 2022. Further the Company's claim of retaining Land 2 for building a shed for stitching facilities and raw material storage in line with its business of manufacturing and selling women's fashion apparel in future, with a supposed assurance of access from ASML, is speculative and unsupported by enforceable legal agreements. IAS 36 and supporting interpretations stress that **future economic benefits must be demonstrable**, supported by feasibility studies, cash flow forecasts and legal rights to use and mere intentions to build, without rights of access or capital commitment, does not justify bypassing impairment testing. The fact that the factory has already been sold to ASML further diminishes the credibility of future use assumptions, making this a clear case for value reassessment. Moreover, as admitted by the Authorized Representatives, no such facility has so far been developed by the Company despite lapse of almost three years.

8. It is important to emphasize that IAS 36 requires the Company to reassess the recoverable amount of its assets whenever there are indications that an asset may be impaired, regardless of any previous revaluations. Presence of a valuation gain in the Company's accounts, therefore, does not eliminate the obligation to assess impairment. Additionally, past gains become irrelevant if current market data (such as the sale price of Land 1 in this case) and asset-specific factors (like the lack of direct access and the absence of a formal agreement or consent from ASML to provide such access) suggest a decrease in the value of Land 2. The Respondents, despite indication of impairment in value of land 2 which is estimated to recover only Rs. 4.643 million as against its carrying amount of Rs. 18.875 million have contravened the requirements of IAS 36.

9. In respect of recognition of DTA, it is observed that the recognition must strictly adhere to the requirements of IAS 12, which explicitly requires that DTA can only be recognized when it is probable that future taxable profits will be available against which the tax losses or deductible temporary differences can be utilized. Further as provided in IAS 12, recognition of DTA is based on the assessment of the probability that sufficient taxable profit will be available in the future to utilize the reversal of deductible temporary differences, unused tax losses and unused tax credits before their expiry. The Company, in the instant matter, recognized DTA of Rs. 90.508 million in the Accounts (29% of accumulated business losses of Rs. 312.093 million) and DTA of Rs. 75.897 million in financial statement for the year ended June 30, 2023 (including DTA of Rs. 72.26 million i.e. 29% of Rs. 249.169 million unused business losses from tax years 2018 to 2022). The auditors of the Company have qualified their opinions on the Accounts and financial statements of FY 2022-23 due to recognition of said DTA by the Company stating that the Company has a history of losses and there is no convincing evidence that sufficient taxable profits will be available in future against which these unused losses can be utilized by the Company.

10. It is also observed that, in terms of Section 57(2) of the Income Tax Ordinance, 2001, the Company is allowed to carry forward the business losses for up to six tax years immediately preceding the relevant tax year

Order in the matter of M/s. D.S. Industries Limited and its Board of Directors dated April 28, 2025

Handwritten signature and date:
[Signature]
28-04-2025

and accordingly can only utilize the tax losses against its respective profits maximum by tax year 2028. However the Company, in its projected financials submitted to the Inspection Team, itself has anticipated an accumulated profit of only Rs. 31.429 million by tax year 2028 which evidently is insufficient to absorb tax losses of Rs. 249.169 million. Furthermore that same fact was also admitted by the Authorized Representatives during the hearing while clearly accepting the fact that Company's future profit projections do not have sufficient capacity to absorb the recognized DTA over the next six years. This admission directly undermines the fundamental requirement of probable utilization, as outlined in IAS 12 and recognition of DTA in such circumstances is not only inappropriate, but also misleading to users of the financial statements.

11. The reliance by the Respondents on "consistent historical practice" to justify DTA recognition is not plausible as IAS 12 vividly requires that the recognition criteria of DTA be reassessed at the end of each reporting period on the basis of current and forward-looking profitability outlook and the same may be reduced or derecognized in case updated forecasts show inadequate taxable income over a foreseeable future. Accordingly, continued recognition of DTA, despite clear evidence of its non-utilization, reflects an effort to on part of the management of the Company to overstates the Company's financial position, reflects a material misstatement and a clear violation of applicable accounting standards. It is also pertinent to note that the Company had already disposed-off almost 95% of its assets and has accordingly no basis of going concern.

12. It is noted that non-compliance with accounting standards such as IAS 12 and IAS 36, particularly when it results in material misstatement of financials, is a valid basis for regulatory action, regardless of the presence of intent or misconduct. The legal framework under Section 510 of the Act, read with SRO 633, enables the Commission to enforce compliance based on objective breaches of financial reporting requirements. The failure to conduct proper impairment assessments and the unjustified recognition of DTA reflect negligence, not diligence.

13. The Appellate Bench in 2016 CLD 2318, observed that "...We are of the view that the company being a public listed company has a responsibility to ensure full compliance of the provisions of the IFRS and provisions of the Ordinance, therefore, the violations cannot be excused and the penalty was rightly imposed on the Appellants. In view of the foregoing, we see no reason to interfere with the Impugned Order." Similarly in 2017 CLD 990 (Appeal No. 05 of 2014 decided on May 15, 2015), the violation revolving around non-compliance of accounting standards was discussed at length by stating that "...the Company has violated the express provisions of law, which cannot be tolerated to ensure justice and rule of law...".

14. It is also observed that *it is a settled law that where a thing is required to be done in a particular manner, it must be done in that manner or not at all. It is not up to State functionaries to choose which rule to follow and which to ignore. Such unstructured discretion would breed arbitrariness in decision making processes which is contrary to the principles of good governance. Reliance in this regard is placed on Tehsil Nazim TMA, Okara v. Abbas Ali and 2 others (2010 SCMR 1437) Raja Humayun Sarfraz Khan and others v. Noor Muhammad (2007 SCMR 307) Human Rights Cases Nos. 4668 of 2006, 1111 of 2007 and 15283-G of 2010 (PLD 2010 SC 759) and M. Yousuf Adil Saleem & Co. Chartered Accountants through Partner and 5 others v. Muhammad Saleem and another (2012 CLC 415).*" (emphasis provided)

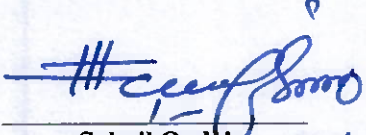
15. After careful consideration of all the facts of the case in light of the relevant provisions of the law, and the written and verbal submissions made by the Respondents, I am of the considered view that the Respondents have contravened the requirements of IAS 36 and IAS 12 as notified under Section 510 of the Act pursuant to S.R.O. 633(I)/2014 dated July 10, 2014 and such contravention attracts penal action as provided under Section 510(2) of the Act. I, therefore, in exercise of the powers conferred upon me under sub-section (2) of Section 510 read with Section 479 of the Act in terms of S.R.O. 1545(I)/2019 dated December 06, 2019, hereby conclude the proceedings by imposing an aggregate penalty of Rs. **Rs. 200,000/- (Rupees Two Hundred Thousand only)** on the Respondents in the following manner:

[Handwritten Signature]
28-04-2025

Sr. #	Names	Penalty (Rs.)
1.	Mr. Ali Pervez Ahmad, CEO/ Director	20,000/-
2.	Mr. Hassan Ibrahim Ahmad, Director	20,000/-
3.	Ms. Rukhsana Khalid, Director	20,000/-
4.	Mr. Haider Ali, Director	20,000/-
5.	Mr. M. Naeem Ilyas, Director	20,000/-
6.	Mr. Suleman Ahmed, Director	20,000/-
7.	Ms. Rehana Pervez Ahmed, Director	20,000/-
8.	D.S. Industries Limited	60,000/-
	Total	200,000/-

Further the Respondents are advised to ensure meticulous compliance with the applicable legal and regulatory framework in future.

15. The Respondents are, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue pursuant to provision of Section 42B of the Securities and Exchange Commission of Pakistan Act, 1997.


 Sohail Qadri 28-04-2025
 Director/ HOD
 Adjudication Department-I

Announced:
 April 28, 2025
 Islamabad.

