

**December 21, 2000 SECP imposes penalty for violation of section 208 of the Companies Ordinance, 1984, in the case of M/s Elahi Cotton Mills Limited.**

The Commissioner (Enf.) through an Order dated December 20, 2000 has imposed a total penalty of Rs. 900,000/- (Rupees nine hundred thousand only) on the Chief Executive and other four directors of the company for violating the provisions of Section 208 of the Companies Ordinance, 1984. The brief facts of the case are that the company advanced an amount of Rs. 27 million to its associated company namely Taxila Cotton Mills Limited whereas its own paid up capital stood at Rs. 13 million with negative equity of Rs. 39.001 million. The investment in question was made despite the fact that the company itself suffered from acute working capital deficiency and could not even timely purchase raw material, closed its operations partially and suffered from heavy losses. During the proceedings it was also noticed that the company has three employee directors having no role in the decision making and the board of directors of the company appears to be a dummy board. In addition to imposition of penalty the Chief Executive and other directors are held jointly and severely responsible to reimburse to the company the consequential losses sustained by the company as a result of inter corporate investment in terms of sub-section (5) of section 208 of the Companies Ordinance, 1984 for which some reputed firm of Chartered Accountants will be engaged to determine the loss so caused to the company by the Chief Executive and other directors.