

Oct 11, 2001 SEC brings back Rupees 45 million into M/s Associated Industries Limited.

The Enforcement Division of the Securities and Exchange Commission of Pakistan (SEC), while examining the audited annual accounts of M/S Associated Industries Limited has detected that a sum of Rs.30.127 million was shown as receivable by the Company under the head "loans and advances others" from its associated company namely M/S Quality Food Products (Private) Limited in contravention of the provisions of clause (c) of Sub-section (1) of Section 195 of the Companies Ordinance, 1984 and accordingly the SEC's Enforcement Division directed to recover the said amount with interest at the rate of 19.42 % amounting to over Rs. 14 million from its associated company.

The facts leading to this case are that the annual accounts of M/S Associated Industries Limited for the year ended June 30, 2000 revealed that a sum of Rs 30.127 million has been shown as receivable by the Company from its associated company namely M/S Quality Food Products (Private) Limited, which represented interest free non-trading transactions clearly indicating the financial interest of the Company in its associated company.

Since the advances in question appeared to have been made in violation of the Companies Ordinance, 1984, the Company was advised to provide copies of the current account of the associated company for the year ended June 30, 2000, which were supplied by the company with the contention that the balance of the associated company represents regular business transactions. It was also argued that the company has not given any cash advance or loan to the associated company during the year.

On scrutiny of the current account of the associated company, it was revealed that the Company has provided an amount of Rs 50.946 million to M/S Quality Foods Products (Private) Limited on July 02, 1999. The said amount was, however, reduced to Rs 30.127 million as at June 30, 2000 through various expenses incurred by the associated company on behalf of the Company and receipt of small amounts from time to time till June 30, 2000. No documentary evidence was, however, provided to substantiate the contention that the balance due from the associated company was a normal business transaction.

The case was finally fixed for hearing on July 27, 2001 in which the learned counsel appeared on behalf of the Company admitted the default. He agreed to rectify the same in accordance with the direction of the Commission. In order to ensure the return of shareholder's money with mark up thereon, a notice dated August 08, 2001 under Sub-section (1) of Section 472 of Ordinance was, therefore, served on the company calling upon to make good the default within 30 days by arranging refund of Rs. 30.127 million along with mark up thereon, which shall not be less than borrowing cost of the company.

The counsel of the Company in hearing informed that the Company has already recovered a sum of Rs 26.354 million from the associated company, and an amount of Rs 3.773 million was outstanding as on September 12, 2001, which alongwith markup @ 19.42% may be allowed to be recovered within three months time. Accepting the request for extension upto December 12, 2001, the Executive Director (Enforcement), Mr. Rashid Sadiq has ordered as under:

"Keeping in view the fact that the company has already recovered a substantial amount of Rs.26.354 million from the associated company after the service of notice, I am inclined to allow further time till December 12, 2001 to the company to recover the amount of Rs 18.340 million alongwith markup for the period till actual receipt of money from the associated company, therefore, I hereby direct the Company and its directors including Chief Executive to recover the balance amount of Rs 18.340 million due as on September 12, 2001 alongwith markup till actual payment from the associated company namely Quality Foods Products (Private) Ltd., before December 12, 2001 and submit documentary proof for recovering of Rs 44.694, duly authenticated by the auditors to the Commission within ten days thereof. In case of non-compliance of the above directive within the period specified, the Commission shall be constrained to proceed to take action under Section 495 of the Ordinance".