



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

*Say no to corruption*

No. CSD/ARN/178/2015- 449

October 24, 2022

Board of Directors,  
**Zahur Cotton Mills Limited.**  
Through the Chief Executive  
94<sup>th</sup> KM, Lahore-Multan Road,  
Near Pul Jaurian, Akhtarabad,  
Distt. Okara

**Subject: In the matter of Show Cause Notice dated December 30, 2015 under Section 305 of the Companies Ordinance, 1984 and Section 309 thereof - Zahur Cotton Mills Limited**

Dear All,

Please find enclosed, herewith, copy of the order passed by Mr. Abid Hussain, Executive Director, Head of Department (Adjudication Department-I) for your record and necessary action.

Regards,

  
24-10-2022.

Muhammad Anwar Hashmi  
Additional Joint Director

*Annexed: As above*

Copy to delivered at:

**Mr. Javed Zahur**  
**Chief Executive**  
**Zahur Cotton Mills Limited**  
55 C/I, Gulberg III,  
Lahore  
0300-8446064





# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

*SAY NO TO CORRUPTION*

Before  
**Abid Hussain – Executive Director**  
**Head of Department**

*In the matter of*

**Zahur Cotton Mills Limited**

Show Cause Notice No. & Date      No.CSD/ARN/178/2015-1263

Dates of Hearings:      April 27, 2016, August 1, 2016, September 29, 2016,  
November 14, 2016, November 23, 2017 and  
December 18, 2017, February 22, 2018, October 29,  
2018, February 11, 2019, January 8, 2020, February  
18, 2020, March 3, 2020, May 18, 2020, January 29,  
2021, February 16, 2021, March 24, 2021 and April  
14, 2021, March 21, 2022, April 6, 2022, September  
29, 2022 and October 13, 2022

Hearing attended by:      Mr. Javed Zahur, Chief Executive

### ORDER

#### Under clause (b) of Section 309 read with clause (c) of Section 305 of the Companies Ordinance, 1984

This Order shall dispose of the proceedings initiated through Show Cause Notice No.CSD/ARN/178/2015-1263 dated December 30, 2015 (the SCN), under clause (b) of Section 309 read with clause (c) of Section 305 of the Companies Ordinance, 1984 (the Ordinance) issued to Zahur Cotton Mills Limited (the Company) and its Board of Directors including Chief Executive, hereinafter, collectively referred to as the Respondents.

2. Brief facts of the case are that the Company is a public limited company incorporated in Pakistan on April 21, 1990. The shares of the Company are quoted on the Pakistan Stock Exchange (PSX). The principal line of business of the Company is manufacturing and selling of grey fabric. As per the SCN, the business of the Company is suspended from at least seven years ago at the time of issuance of SCN. In view of the given facts, the Registrar approached the Securities and Exchange of Pakistan (the Commission) for grant of sanction in terms of clause (b) of Section 309 read with clause (c) of Section 305 of the Ordinance to present a petition before the honorable High Court for winding up of the Company on the ground that business operations of the Company remained suspended for at least seven years.

3. In view of the above, proceedings under Sections 305 and Section 309 of the Ordinance were initiated against the Respondents through the aforesaid SCN requiring them to show cause as to why petition for winding up of the Company may not be presented by the Registrar before the Court. The Respondents were advised to show cause within fourteen days of the date of the SCN.



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4. The concerned department of the Commission through its letter dated April 11, 2016 also sent copies of SCN at the residential addresses of the Respondent directors. However, no reply to the SCN was received. In connection with this, in order to afford the Respondents an opportunity of personal representation, the matter was fixed for April 27, 2016. On the date of hearing, Mr. Javed Zahur, Chief Executive appeared. He, *inter alia*, submitted that:

- (i) due to power problem, the operations were halted.
- (ii) we want to exercise buy back option for 20-25% shareholding from minority shareholders;

He was advised to initiate buy back process within 30 days.

5. Consequent to aforesaid hearing, the Chief Executive through letter dated May 2, 2016 addressed to PSX, which was copied to this Commission, requested a meeting to deliberate the issue of buy back of shares of the Company. The concerned department of the Commission through letter dated July 26, 2016 also sought status of application for delisting of the Company. Moreover, in order to seek a status, a hearing in the matter was re-fixed for August 1, 2016. The Chief Executive, however, through letter dated July 26, 2016 requested adjournment owing to his travel abroad. The Chief Executive also through letter dated September 7, 2016 informed that he was actively pursuing with PSX for de-listing. Next hearing in the matter was fixed for September 29, 2016. Mr. Javed Zahur, Chief Executive appeared and reiterated his stance to buy back shares of the Company. He through subsequent letter dated October 3, 2016, *inter alia*, submitted that:

1. Formal application to Pakistan Stock Exchange for de-listing & shares buy back was written on 26<sup>th</sup> September 2016.
2. After the approval of the Board and following due process, the de-listing & buy back of shares notice was given to share holders and through English & Urdu newspaper which require minimum notice period of 21 days. The shareholders unanimously approved and fully authorized Mr. Javed Zahur CEO on 31<sup>st</sup> October 2016 to start & finalize the de-listing & shares buy back of Zahur Cotton Mills Limited process with Pakistan Stock Exchange & SECP.
3. As per direction of Pakistan Stock Exchange, we are starting the next process of valuation of project by State Bank approved valuator very soon.

6. In order to pursue the matter further, a hearing was fixed for November 14, 2016. Mr. Javed Zahur, Chief Executive appeared and reiterated his earlier stance. He, *inter alia*, submitted that:

- (i) process of de-listing has been initiated by calling shareholders' approval in AGM held on October 31, 2016.
- (ii) formal approval for buy back was filed with PSX. Valuation of shares shall be determined.
- (iii) requested to defer the proceedings for 3 months.

7. Thereafter, hearings in the matter were again fixed for November 23, 2017 and December 18, 2017. However, no one appeared. Hearing was subsequently fixed for February 22, 2018. On the date of hearing, Mr. Javed Zahur appeared. He informed that de-listing process was in final phase. He also informed that PSX had requested waiver from the Commission about penalties imposed by the exchange.



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8. In order to proceed further, hearing in the matter was again fixed for October 29, 2018. Mr. Javed Zahur, Chief Executive appeared. He stated that de-listing was under process. He also shared copy of letter dated October 10, 2018 written to PSX requesting to waive off the penalties imposed in order to proceed further with the de-listing process. Hearing in the matter was later fixed for February 11, 2019, however, no one appeared. Going forward, hearing in the matter was fixed for January 8, 2020. Mr. Javed Zahur appeared and informed that buy back of shares of the Company was under process. He also shared a copy of letter dated January 8, 2020, in terms of which the Company intended to file an appeal before the Commission against decision of PSX made in the matter of voluntary de-listing of the Company in meeting of PSX held on December 20, 2019. Hearing in the matter was again fixed for February 18, 2020, March 3, 2020, May 18, 2020, and January 29, 2021, however, no one appeared. Next hearing in the matter was fixed for February 16, 2021. Mr. Javed Zahur, Chief Executive appeared and submitted that appeal had been filed before the Commission against the decision of PSX made vide dated December 20, 2019 in the matter of de-listing of the Company. Thereafter, hearing was fixed for March 24, 2021 and April 14, 2021. On the date of hearing, Mr. Javed Zahur, appeared. He, *inter alia*, submitted that an appeal was filed against the decision of PSX, before the concerned Department of the Commission.

9. Thereafter, the Company through letter dated February 7, 2022, addressed to PSX, *inter alia*, made following disclosures:

*The board of directors of the Company had a board meeting on February 7, 2022. Accordingly, we hereby inform you of the following material information:*

- (i) *the management presented to the board a business revival plan for approval. The board reviewed and approved the revival plan. The business revives operations will include but not be limited to warehousing, logistics and supply chain management etc.*
- (ii) *the board has also authorized the management to make appropriate alterations in the principal line of business, including amendment in Memorandum & Articles of Association of the Company if required, subject to necessary approval of members and other corporate formalities as the case may be. Furthermore, the Company's BOD has decided to withdraw the earlier application sent to PSX/SECP for the Company's voluntary delisting.*
- (iii) *the management also presented to the board a proposal received for a potential merger with an ITANZ Technology (Private) Limited, the option if availed will speed up the Company business revival.*

10. Next hearing in the matter was fixed for March 21, 2022. In this regard, the Chief Executive through letter dated March 17, 2022, *inter alia*, informed that:

*During your last hearing on this Show Cause notice, I had brought to your kind notice, that our appeal on de-listing is in process with SECP, because of which you very kindly deferred the above mentioned show cause notice. Subsequently SECP vide its letter SMD/PRDD/Def.Counter(86)2020/181 and via copy of letter No:SMD/PRDD/Def.Counter(86)/2020/183 informed that the decision was in our favour and the case was reverted back to PSX Board.*

*Furthermore, BOD of the company has also approved a revival plan. Meanwhile, I would also like to bring to your kind notice that Company has received a proposal for potential merger with an IT based Multinational Company which has been approved by Company's BOD and scheme of arrangement is the process of being prepared to be filed in High Court. Successful*



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implementation of the same will result in fast track revival of business operations of the Company. Accordingly, the Company will be withdrawing its application for delisting and after implementation of the Scheme of Demerger (pursuant to meeting all the legal/regulatory requirements) would request PSX and relevant regulators to kindly approve trading of Company's share on PSX.

11. Next hearing in the matter was fixed for April 6, 2022. Mr. Javed Zahur, Chief Executive appeared. He reiterated his earlier stance and informed that offer which was received from an IT based company for merger with the Company was under process. He stated that through the process of merger, the operations of the Company would be revived. Thereafter, hearing in the matter was fixed for October 20, 2022. However, on request of the Chief Executive of the Company that finalization of audit of the year 2022 was under process, the hearing was rescheduled for September 29, 2022. Mr. Javed Zahur and Mr. Wasif Ali Rana appeared. It was, *inter alia*, submitted that:

- (i) the Company was facing practical difficulties in filing of returns as relevant registrar was not accepting the returns due to pending winding-up proceedings.
- (ii) the Company received a merger offer from an IT based company which, however, could not be implemented due to winding-up proceedings initiated by the Commission as the investors are reluctant to invest in current situation.
- (iii) it was requested to withdraw the instant proceedings in order to enable the Company to revive its operations.

12. The Company through letter dated October 1, 2022 also requested to withdraw the winding-up proceedings, so that the Company could proceed with the merger and revival of the Company. The Company through another letter dated October 8, 2022, *inter alia*, submitted that:

*"As we mentioned in our last hearing that the Company has decided to redeem its business operations and is looking for different business options including strategic alliance with local/foreign partners. Upon that matter the Company is continuously updating the stakeholders through PUCAR portal from last couple of months. Furthermore, in order to resume the Company's business operations on fast track basis the Company is evaluating a business acquisition option through merger with a multinational company ITANZ Technology Private Limited (ITANZ) from whom the Company has already received a letter of intent dated 30<sup>th</sup> September, 2022, copy attached with the letter as annexure A. It will take place through a scheme of arrangement which will be sanctioned by Lahore High Court, Lahore in later stages Insha Allah subject to all approvals from shareholders, secured creditors, and all the legal and other corporate formalities inter alia.*

*In the light of above, we hereby kindly request the competent authority SECP to withdraw show cause notice issued u/s 305 and 309 of the Act and accept our financials and corporate forms which has already been submitted. "*

Moreover, the Company also forwarded a copy of letter dated October 5, 2022, addressed to PSX, which, *inter alia*, stated as follows:

*"Under Section 96 and 131 of the Securities Act, 2015 (the Act) and Clause 5.6.1 of the Rule Book of Pakistan Stock Exchange Limited (PSX), it is informed that the Board of Directors held a meeting on 05 October, 2022 and following was discussed and approved:*



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*The Directors discussed the business revival plan along with a formal letter of Intent received from Itanz Technologies (Pvt.) Limited (Itanz) where in a business acquisition will be made through Share Swap/a scheme of arrangement under the provisions of Section 279 to 283 and 285 of the Companies Act, 2017 (the Act). The proposed scheme will be subject to obtaining all necessary shareholders' creditors' and regulatory approvals and the sanction of the Scheme by the Honorable Lahore High Court, Lahore along with fulfilment of related legal formalities, in terms of which inter alia. Considering the business redemption of the Company on fast track basis, the Board advised management of the Company, to file a request letter to Securities and Exchange Commission of Pakistan (SECP) under the relevant proviso of the Act, to withdrawal the show-cause winding up notice issued under Section 305 to 309 of the Act. Resultantly, the Company's on going due diligence by Itanz will be handled smoothly."*

13. Thereafter, another hearing in the matter was fixed for October 13, 2022. Mr. Javed Zahur, Chief Executive and Mr. Wasif Ali Rana, appeared. It was, *inter alia*, submitted that:

- (i) relevant copies of accounts were forwarded to the Commission.
- (ii) scheme of arrangement with ITANZ is under process, however, due to winding-up proceedings we are finding difficult to finalize.
- (iii) BOD has granted approval for proposed revival through IT based company i.e. ITANZ;
- (iv) the instant proceedings be dropped and the Company be given opportunity for revival in the interest of the shareholders.

14. The Chief Executive subsequent to the aforesaid hearing through letter dated October 15, 2022 provided copy of the minutes of board meeting held on October 5, 2022, and requested to withdraw the SCN so the Company may proceed with the revival of the Company.

15. Relevant legal provisions are reproduced as under:

Clause (c) of Section 305 of the Ordinance states that:

*"A company may be wound up by the Court-*

*(c) if the company does not commence its business within a year from its incorporation, or suspends its business for a whole year."*

Clause (b) of Section 309 of the Ordinance states as under:

*"An application to the Court for the winding up of a company shall be by petition presented, subject to the provisions of this section, either by the company, or by any creditor or creditors (including any contingent or prospective creditor or creditors), or by any contributory or contributories, or by all or any of the aforesaid parties, together or separately or by the registrar, or by the Commission or by a person authorized by the Commission in that behalf: Provided that- (b) the registrar shall not be entitled to present a petition for the winding up of a company unless the previous sanction of the [Commission] has been obtained to the presentation of the petition: Provided that no such sanction shall be given unless the company has first been afforded an opportunity of making a representation and of being heard."*

16. I have reviewed the facts of the case and considered the written and oral submissions made by the Respondents during the course of the proceedings. The matter is summarized in the following manner:



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- (i) the proceedings initiated through the SCN were primarily based on the grounds that operations of the listed Company remained suspended for more than a year. The Respondents during the course of various hearing proceedings and through their written correspondences insisted to revive the Company and as per their stance the operations would be revived through a scheme of merger with an IT based company. The Respondents informed that board of directors of the Company had already approved the revival of the Company in its meeting held on October 5, 2022.
- (ii) the Respondents' appeal against the decision of the PSX in the matter of buy back of shares was already accepted by the concerned department of the Commission. The aforesaid reflects that buy back option at the PSX determined price was not taking place.
- (iii) the Respondents inclination to comply with given requirements of the Act was evident as the Company filed relevant annual and quarterly accounts with the concerned departments and with the Registrar.
- (iv) the Respondents are also of the view that due to the proceedings of winding-up, the Company is unable to proceed further to implement its revival plan and requested to withdraw or close the instant proceedings.

17. Keeping in view the aforesaid, to grant sanction to file winding-up petition at this juncture may jeopardize the interests of its shareholders as the revival option is under process. Therefore, I hereby drop the proceeding initiated through the SCN without any adverse action. The Board of Directors of the Company (**the Board**), through its Chairman; and all members of the Board including Chief Executive of the Company are, however, advised to implement its revival scheme as approved by the Board in its meeting held on October 5, 2022, **within one year** from the date of this order to ensure compliance of the requirements of the Ordinance/ Companies Act, 2017, and also to report progress on implementation of the revival scheme, on quarterly basis to PSX for public dissemination and to the Offsite-II Department, Supervision Division of the Commission for its information and enforcement. The Respondents through the Chief Executive are also advised to disclose the said quarterly progress in all the upcoming financial statements of the Company including quarterly, half-yearly and annual financial statements. The concerned department of the Commission should place the Company on its watchlist and may initiate necessary enforcement action(s) including recommendations for initiation of the winding up proceeding if any default is observed.

18. Nothing in this Order may be deemed to prejudice the operation of any provision of the Ordinance / Companies Act, 2017 providing for the imposition of penalties in respect of any default, omission, or violation of the Ordinance/ Companies Act, 2017.

**Abid Hussain**  
Executive Director  
Head of Department  
Adjudication Department-I

**Announced: October 24, 2022, Islamabad**