



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	Zahur Cotton Mills Limited
Show Cause Notice No. & Date:	No. CSD/ARN/178/2015-305 dated May 31, 2024
Respondents:	(i) Ms. Mahreen Gul Hassan, Chairperson/ Director; (ii) Mr. Javed Zahur, Chief Executive Officer; (iii) Ms. Rabia Zahur, Director; (iv) Ms. Izza Ali, Director; (v) Mr. Nazir Akhtar, Director; (vi) Mr. Khan Muhammad, Director; and (vii) Mr. M. Tanveer, Director.
Date of Hearing:	(i) August 13, 2024; (ii) November 07, 2024
Case represented by:	(i) Mr. Nadeem Mehmood Butt, CEO- Frontier Advisory (Private) Limited (FAPL); and (ii) Mr. Wasif Ali Rana, Director-FAPL
Provision of law involved:	Sub-section (2) of Section 510 of the Companies Act, 2017
Date of Order:	March 24, 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/178/2015-305 dated May 31, 2024 (the "SCN") against the Directors/ CEO of Zahur Cotton Mills Limited (the "Company"), hereinafter collectively referred to as the "Respondents", issued under sub-section (2) of Section 510 of the Companies Act, 2017 (the "Act").

2. The brief facts of the case are that the Company was required in terms of S.R.O. 633(I)/2014 dated July 10, 2014 to follow the requirements of, amongst other accounting standards, International Accounting Standard (IAS) 16 *Property, Plant and Equipment* and IAS 24 *Related Party Disclosures* for the preparation of its financial statements for the year ended June 30, 2022 (the "Accounts"). A review of the Accounts revealed that the Company *prima-facie* did not prepare the said Accounts in accordance with the above-referred IAS, as described below:

A. Non-compliance of IAS 24:

- (i) It was transpired from the review of replies of the Company dated April 05, 2023 and June 02, 2023 in response to respective Commission's letters dated March 09, 2023 and April 19, 2023 that the Company had sold approximately all assets (land, building and machinery) to the Chief Executive and his family members. As per Note 8.3 to the annual audited financial statements for the year ended June 30, 2023, the land, building, plant and machinery having cost of Rs.62.808 million and carrying value of Rs.71.762 million were sold at a price of Rs.108.7 million to the family members of Mr. Javed Zahur (CEO) namely Mr. Hassan Zahur, Mr. Ali Zahur, Ms. Rabia Zahur, and Mr. Javed Zahur (the "Related Parties") as part of adjustment of their loan to the Company. However, the information about sale of assets was not disclosed in the Accounts in accordance with paras 18 and 19 of IAS 24 i.e. facts, nature and information in respect of related party transactions.
- (ii) It was further observed that after death of a former director, Mrs. Mukamila Javed, her loan to the Company was transferred to related parties of the Company as per Court decree dated June 13, 2022 by the Civil Court, in the following manner:

Loan Payable to Mrs. Mukamila Javed (Rs.)	Relevant Note of Financial Statements 2022	Adjusted in Favor of	
		Description	Amount (Rs)
26,031,632/-	7.1	Loan from Chief Executive	6,507,908/-
	7.2	Loan from Directors	3,904,745/-
	7.3	Loan from other related parties	15,618,979/-
26,031,632/-		Total	26,031,632/-

However, contrary to the requirements of IAS 24, the Company had failed to disclose the information about death of Mrs. Mukamila Javed and allocation/ transfer of her loan to other related parties in its Accounts.

B. Non-compliance of IAS 16:

- (i) The following assets disposed of during the year were not written off from the Accounts of the Company, contrary to the requirements of paras 13 and 16 of IAS 16 pursuant to which the carrying amount of an item of property, plant and equipment needs to be derecognized on disposal:

(Rs. in million)

Assets	Cost	Accumulated Depreciation	Net Book Value
Land	27.62	27.62	Nil
Plant and Machinery	23.23	23.23	Nil

- (ii) The Commission sought clarification from the Company for the above alleged non-compliance and the Company vide letter dated June 02, 2023 *inter-alia* submitted that:

"The Company has fully sold all fixed assets including freehold land, building on freehold land and plant/machinery. As the Company has stopped operations for more than 15 years, building and plant and machinery are fully depreciated, and the book value is already nil. There was an inadvertent error in preparing the Note 9 to the Financial Statements which does not reflect the disposal of original cost and accumulated depreciation in the deletion's column. We apologize for this error. We will correct this error in the next audited accounts."

3. In view of the aforesaid, it was observed that:

- (i) Information about sale of assets i.e. land, building, plant and machinery (having cost of Rs. 62.808 million) to the related parties was not disclosed in the Accounts as required under paras 18 & 19 of IAS 24 with regard to the disclosures i.e. facts, nature and information in respect of related party transactions.
- (ii) Information about the death of Ms. Mukamila Javed and allocation/transfer of her loan of Rs.26.031 million) to other related parties, as required under IAS 24, was not disclosed; and
- (iii) Land, plant and machinery disposed of during the year were not written off from the books of accounts of the Company in the Accounts as required under IAS 16.

4. The aforesaid indicated that the Respondents, *prima facie*, contravened the provisions of IAS-16 and IAS-24 which attracts penal action as provided under sub-section (2) of Section 510 of the Act. For ease of reference, the provisions of Section 510 of the Act and relevant paras of IAS 16 and IAS 24 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

Order in the matter of Board of Directors of M/s. Zahur Cotton Mills Limited dated March 24, 2025

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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 16:

Para 13: Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).

Para 16: The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

IAS 24:

Para 9: A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard preferred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person (i) has control or joint control of the reporting entity (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Para 18: If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances, including commitments, and
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Para 19: The disclosures required by paragraph 18 shall be made separately for each of the following categories:

- (a) the parent;

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- (b) entities with joint control of, or significant influence over, the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a joint venture;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties

Para 24: *Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.*

5. Taking cognizance of the above alleged non-compliances, a SCN was served upon the Respondents on May 31, 2024, 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.

6. In response to the SCN, the Chief Executive Officer (“CEO”) of the Company vide letter dated July 22, 2024 *inter-alia* submitted that there were inadvertent errors in reporting the aforesaid transactions in the Company’s Accounts and the same have been rectified by appropriately reporting the said related party transactions and adjusting comparative figures in the audited financial statements for the year ended June 30, 2023 in accordance with the requirements of IAS 24 and IAS 16. It was further submitted that the loan of Mrs. Mukamila Javed was transferred, as per Court decree, to her family members in the year 2022; however, the same was not disclosed in Accounts due to an oversight by the previous statutory auditors and appropriate disclosure has been made in accordance with IAS 24 in audited financial statements for the year ended June 30, 2023. The CEO further informed that the Company is under business acquisition/ merger with a foreign IT company for which scheme of arrangement filed with Honorable Lahore High Court is at the final stages of sanctioning. Considering the subsequent rectification of default, the CEO requested for a lenient view in the matter.

7. In order to meet the ends of justice and provide an opportunity of being heard to the Respondents, hearing in the matter was fixed for August 13, 2024, which however was adjourned. Subsequently, another hearing opportunity was provided for November 07, 2024, which was attended by Mr. Nadeem Mehmood Butt, CEO-Frontier Advisory (Private) Limited (“FAPL”) and Mr. Wasif Ali Rana, Director-FAPL on behalf of the Respondents as their **Authorized Representatives**. The Authorized Representatives reiterated the written submissions made earlier in response to SCN and requested a lenient view, considering the fact that the deficiency in disclosures was unintentional and subsequent compliance was achieved in the annual audited financial statements for the financial year 2022-23.

8. 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 & 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 16 and IAS 24 in preparation of financial statements of the Company for the year ended June 30, 2022. The foremost contention put forward by the Respondents is that rectification of questioned default has been made in the subsequent audited financial statements of the Company for the year ended June 30, 2023. However, mere subsequent compliance cannot be taken as a sole ground to excuse an admitted default and cannot altogether 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 “...subsequent compliance cannot be a substitute of statutory [requirements]...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.”

9. The Respondents have also argued that the requisite disclosures under IAS 24 were not made due to an oversight on part of the previous statutory auditors. However, this argument does not hold an admissible basis, since it is an established fact that the preparation of financial statements is primarily the responsibility of the management or board of directors of a company. In the case cited above as 2017 CLD 1019, the appellants

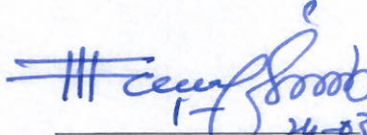
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argued that it was the *responsibility of the chartered accountant which the Company had hired to ensure compliance of relevant provisions of the Ordinance*; however, the non-compliance of the company was not excused and impugned order was rightfully upheld. Similarly, in 2016 CLD 2318, the appellants altogether resorted to shift the onus of ensuring statutory compliance in preparation of financial statements on the auditor; however, it was observed in the said case that "*...these were significant violations and a statutory auditor cannot provide consultancy to a company. 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 AFRS 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.*" [reliance also placed on 2016 CLD 2318; 2017 CLD 767].

10. Further, 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 error had been removed only after the SCN was issued by the Commission...the Company has violated the express provisions of law, which cannot be tolerated to ensure justice and rule of law...the plea of the Representatives that the default was not willful or intentional has not been supported by any evidence and submission was a mere plea without any appropriate justification...*"

11. Be that as it may, the Respondents have requested to condone the inadvertent omission, rectified the violation in the subsequent annual audited financial statements for the financial year 2022-23 and have shown commitment to ensure compliance of applicable laws in future. In 2014 CLD 588, a lenient view was taken considering that the company removed auditor's observation, external auditor gave clean report on the relevant financial statements and the directors showed commitment to ensure transparency of disclosures – in the cited case, the company was issued a stern warning that in case of similar non-compliance in future, a stronger action against the company would be taken.

12. 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 16 and IAS 24 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 strictly **Warn** the Respondents and advise them to ensure meticulous compliance with the applicable legal and regulatory framework in future.


24-03-2025
Sohail Qadri
Director/ HOD
Adjudication Department-I

Announced:
March 24, 2025
Islamabad.

