



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

*Before*

Shahzad Afzal Khan, Director / Head of Department (Adjudication-I)

*In the matter of*

#### Show Cause Notice issued

under Section 227(2), 227(3) and 227(5) read with Section 227(6) of the Companies Act, 2017

Number and date of Show Cause Notice	CSD/ARN/258/2016-319 dated June 06, 2024
Date(s) of Hearing:	July 12, 2024
Hearing(s) attended by:	Mr. Amir Khan Afridi, Director Corporate Affairs, M/s MJ Panni & Associates (Authorized Representative)

#### ORDER

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. CSD/ARN/258/2016-319 dated June 06, 2024 (the “SCN”) against M/s SG Allied Businesses Limited through its Chief Executive Officer (the “Company” or the “Respondent No. 1”), Mr. Sohail Ahmed, Chief Executive Officer (the “Respondent No. 2”), Mr. Mansoor Mubeen, Independent Director (“Respondent No. 3”), Mr. Asim Ahmed, Executive Director (the “Respondent No. 4”), Mr. Salim Razak Tabani, Independent Director (the “Respondent No. 5”), Mr. Farhan Sohail, Executive Director (the “Respondent No. 6”), Ms. Saba Sohail, Non-Executive Director (the “Respondent No. 7”), and Ms. Sana Sohail, Non-Executive Director (the “Respondent No. 8”) for their alleged failure to comply with the requirements of Section 227(2), 227(3) and 227(5) of the Companies Act, 2017 (the “Act”) read with Section 227(6) of the Act.

2. Brief facts of the case are that the Securities and Exchange Commission of Pakistan (the “Commission”) carried out a review of the annual audited financial statements of the Company for the year ended June 30, 2023 (the “Accounts”). Upon review of the directors’ report attached to the Accounts of the Company, it was observed that:

- (i) The directors’ report attached to the Accounts *prima facie* did not include the following matters as required to be stated in terms of Section 227(2) of the Act:

Section	Disclosure Requirement
227(2)(c)	a description of the principal risks and uncertainties facing the company a description of the principal risks and uncertainties facing the company
227(2)(d)	any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or any other company in which the company has interest;
227(2)(f)	information about the pattern of holding of the shares in the form specified
227(2)(h)	the earning per share
227(2)(k)	comments in respect of adequacy of internal financial controls
227(2)(l)	any material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statement relates and the date of the report
227(2)(la)	disclosure with respect to remuneration package of each of the directors



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	and chief executive including but not limited to salary, benefits, bonuses, stock options, pension and other incentives
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- (ii) The directors' report to the Accounts *prima facie* did not include the following matters as required to be included in terms of Section 227(3) of the Act:

Section	Disclosure Requirement
227(3)(a)	the main trends and factors likely to affect the future development, performance and position of the company's business
227(3)(b)	the impact of the company's business on the environment
227(3)(c)	the activities undertaken by the company with regard to corporate social responsibility during the year
227(3)(d)	directors' responsibility in respect of adequacy of internal financial controls

- (iii) The said directors' report to the Accounts was only signed by Mr. Sohail Ahmed being the Chief Executive Officer of the Company while no other director of the Company signed the said report, which was *prima facie* in contravention of Section 227(5) of the Act.

3. Section 227(2) of the Act stipulates the matters to be stated in the directors' report of a public company while Section 227(3) of the Act stipulates that in case of a listed company, the business review must, to the extent necessary for understanding the development, performance or position of the company's business, include the matters identified under the said Section 227(3). Section 227(5) of the Act *inter alia* requires that the directors' report must be signed by the chief executive and a director of the company.

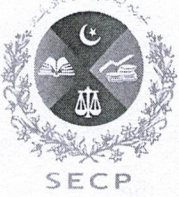
4. The relevant department of the Commission sought clarification from the Company vide letter dated March 13, 2024 *inter alia* on the alleged contravention of Section 227 of the Act. The Company in its response letter dated April 02, 2024 submitted that *we regret non-signing of the reports by a director as well. We assure the Commission that compliance would be ensured in future... As regards deficiencies in Directors Report, these will be addressed in the next Directors Report.* Thus, it was apparent that the Respondents failed to ensure compliance with the requirements of 227(2), 227(3) and 227(5) of the Act.

5. Considering the above, a Show Cause Notice dated May 29, 2024 was served upon the Respondents for the alleged contravention of Section 227(2), 227(3) and 227(5) of the Act read with the penal provisions of Section 227(6) of the Act.

6. The Respondents submitted their response to the SCN vide letter dated July 09, 2024, the relevant extracts of which are reproduced below:

*"... (1) With respect to non-compliances by the Company with the requirements of certain clauses of Section 227(2) & (3) of the Act, as stated in the SCN, it is stated that although the requisite disclosures have not been made in proper order and all at one place in the auditors' report, but most of the identified matters have been disclosed either in the directors' report or at some other places in the Company's Financial Report for FY2023 (the Financial Report) as under:*

- (i) *in compliance with the requirements of clause (c) of the aforesaid subsection (2), it has been disclosed in the directors' report (page 6 of the Financial Report) that during the year, the*



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- Company has not faced any risk;*
- (ii) in compliance with the requirements of clause (d) of the aforesaid subsection (2), it has been stated that during the year, since no change concerning the nature of business of the Company has been occurred, therefore, no disclosure in this regard was required to be made. Further, the Company has no subsidiary;*
  - (iii) in compliance with the requirements of clauses (f) and (h) of the aforesaid sub-section (2), it is stated that pattern of shareholding of the Company has been disclosed on page 54 of the Financial Report whereas EPS is disclosed on page 24 thereof; and*
  - (iv) in compliance with the requirements of clause (k) and (la) of the aforesaid sub-section (2), it is stated that disclosure about adequacy of internal financial controls has been made in the directors' report (page 9) and cost incurred during the year on directors' remuneration and benefits is disclosed on page 44 of the Financial Report;*
  - (v) with respect to non-disclosure of the information in compliance with the requirements of clause (l) of the aforesaid subsection (2), it is stated that it was due to oversight on part of the Company. The management will ensure compliance of the said disclosures in future;*
  - (vi) in compliance with the requirements of clause (d) of the aforesaid subsection (3), adequacy of internal financial controls is disclosed in the directors' report (page 9) of the Financial Report; and*
  - (vii) in compliance with the requirements of clause (a), (b) and (c) of the aforesaid sub-section (3), it is stated that it was due to oversight on part of the Company. The management will ensure compliance of the said disclosures in future.*

*(2) The director's report to the accounts for FY 2023 was signed by the Chief Executive only. We regret the omission of not-signing of the said report by a director as well. It may, however, be submitted that now the one provided in the printed copy of the Financial Report is also signed by a director in addition to signing by CEO..."*

7. In order to meet the ends of justice and provide an opportunity of being heard to the Respondents, a hearing was scheduled vide hearing notice dated July 02, 2024 for July 08, 2024; however, the Respondents requested for an adjournment. Another hearing was thereafter fixed for July 12, 2024, which was attended by Mr. Amir Khan Afridi, Director Corporate Affairs, M/s MJ Panni & Associates being the Authorized Representative of the Respondents. During the course of hearing, the Representative was inquired regarding the contraventions of the law as alleged in the SCN. The Representative submitted that most of the disclosures are covered in some other section/part of the annual report of the Company for the financial year 2023, which reflects that even if the requisite disclosures are not made in the directors' report specifically, the lapse on part of the Respondents in making specific disclosures in directors' report was not intended to conceal any information. The Representative thus requested for a lenient view considering the commitment of the Respondents to ensure meticulous compliance of the applicable laws in the future.

8. I have gone through the relevant provisions of Section 227(2), 227(3) and 227(5) of the Act and submissions made by the Respondents in the written response as well as during the course of hearing through their Authorized Representative. I have also perused 227(6) of the Act, which stipulates penal provisions for contravention of the afore-referred provisions of law. I have noted the following pertinent aspects vis-à-vis the submissions made by the Respondents:

- a. As per the mandatory provisions of **Section 227(2) of the Act**, the directors' report of a public company should specifically disclose the matters or issues concerning the company's affairs & business, as enunciated in clause (a) to (m) of the said sub-section (2). As rightly emphasized



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in a post by the United States SEC on the Harvard Law Forum on Corporate Governance, the disclosures should reflect the company's state of affairs and outlook, depicting where the company stands today – high quality disclosures will not only provide benefits to investors and companies but will also enhance valuable communication and coordination across the economy. Thus, describing principal risks and uncertainties facing the company and any material changes affecting the financial position of the company post-year end, for instance, can rationally be expected to reap immense benefits in the shape of investors' informed decision making. As far as the directors' report of the Company annexed to the 2023 Accounts vis-à-vis the requirements of Section 227(2) of the Act is concerned, the following have been observed:

- i. With regards to clause (c) regarding disclosure of principal risks etc. and clause (k) regarding disclosure on adequacy of internal controls, the directors' report as transmitted to the Commission & to the PSX, and as presently available on the website of the Company does not contain the requisite disclosures. This clearly shows that the audited financial statements along with, amongst others, directors' report shared with the members of the Company before holding of its Annual General Meeting (AGM), in fact, lacked the aforesaid disclosures (*reference section 223(6) & (7) of the Act*). Thus, the mere contention of the Respondents that the same has subsequently been included in the printed version of the revised directors' report does not absolve them from their regulatory responsibility to ensure accurate and transparent disclosures in the report(s) initially disseminated to the key stakeholders.
- ii. With regards to clause (d) regarding disclosure on any business-related change that has occurred during the financial year, the Respondents have maintained that since no change had occurred, no disclosure was necessitated. However, it is the innate transparent qualitative characteristic of the financial statements that mandates complete and high-quality disclosures, especially when the law obligates a public interest company to do so. The omission of the aforesaid disclosure does not automatically infer absence of the circumstances necessitating such a disclosure otherwise – it should be unambiguously disclosed in the directors' report as to whether any business-related changes have occurred during the financial year or not. Thus, the above contention of the Respondents is not considered tenable.
- iii. With regards to clause (f) regarding disclosure on pattern of shareholding and clause (h) regarding disclosure of Earnings Per Share (EPS), the Respondents have submitted that EPS (or Loss Per Share in the instant case) has been disclosed in its Statement of Profit or Loss and Other Comprehensive Income for the year ended June 30, 2023 while categories of shareholders have been disclosed in the annual report of the Company following the notes to the Accounts (printed version). However, it is clearly evident that the aforesaid requisite disclosures were not specifically made in the directors' report that was transmitted to the shareholders before holding of AGM, and even in the copy available on the PSX Data Portal and the Company's website as of today.
- iv. With regards to clause (l) regarding disclosure of post year-end material changes affecting the company's financial position, the Respondents have themselves admitted the default and oversight on their part.



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- v. With regards to clause (1a) regarding disclosure of component-wise remuneration package of each of the directors & CEO, the Respondents have referred to Note 22 of the Accounts showing the cost incurred on the directors' remuneration. Firstly, it is clearly evident that no specific disclosure has been made in the directors' report in compliance of clause (1a). More so, the aforesaid Note 22 (as well as Note 28) only reflects remuneration of the Chief Executive and Directors in totality while no further sub-disclosure with respect to remuneration package of each of the directors and component details i.e. salary, bonuses & benefits etc. has been provided.

Thus, the contravention of Section 227(2)(c), (d), (f), (h), (k), (l) and (1a) of the Act is established.

- b. Similarly, **Section 227(3) of the Act** obligates a listed company to disclose the matters, specified under clause (a) to (e) thereof, necessary for understanding the development, performance or position of the company's business. It is imperative that disclosures carrying meaningful information provide investors a level of insight that allows them to see the key operational and financial challenges the company faces through the eyes of management (*quoted from the post of US SEC on Harvard Law Forum*). Therefore, disclosure on the main trends and factors expected to affect the future performance of the company, for instance, can amply prove fruitful for a wider group of its stakeholders. In the instant case, the Respondents have themselves admitted the default and oversight on their part in making the disclosures required under clause (a) of (c) of the sub-section (3) of Section 227 of the Act (regarding main trends & factors likely to affect future position of company; impact of company's business on the environment; and company's corporate social responsibility (CSR) related activities). With regards to clause (d) thereof regarding disclosure of directors' responsibility on adequacy of internal controls, it is evident that the directors' report as transmitted to the Commission, the PSX and as presently available on the website of the Company does not contain the requisite disclosure, and the argument of the Respondents that the same has subsequently been included in the printed version of the revised directors' report is not considered tenable.

Hence, the contravention of Section 227(3)(a) to (d) of the Act is established.

- c. With regards to the contravention of **Section 227(5) of the Act**, the Respondents have evidently admitted the omission on their part, as the directors' report was only signed by the CEO and counter signature by another director of the Company was missing. The Respondents have further informed that the signature of a director along with that of CEO has now been included in the printed version of the revised directors' report. Nevertheless, it is established that the Respondents failed to ensure meticulous compliance of Section 227(5) of the Act at the time of initial dissemination of the directors' report.

9. In view of the above-stated facts & circumstances, particularly considering the established default of the Respondents in complying with Section 227(2), 227(3) and 227(5) of the Act, I hereby, in exercise of powers conferred under Section 227(6) of the Act, impose an aggregate penalty of **Rs.100,000 (Rupees One Hundred Thousand Only) on the Respondents** in the following manner:



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S. No.	Name of the Respondent	Amount of Penalty (Rs.)
1	M/s SG Allied Businesses Limited	20,000
2	Mr. Sohail Ahmed, Chief Executive Officer	20,000
3	Mr. Mansoor Mubeen, Independent Director	10,000
4	Mr. Asim Ahmed, Executive Director	10,000
5	Mr. Salim Razak Tabani, Independent Director	10,000
6	Mr. Farhan Sohail, Executive Director	10,000
7	Ms. Saba Sohail, Non-Executive Director	10,000
8	Ms. Sana Sohail, Non-Executive Director	10,000
	<b>Total</b>	<b>100,000</b>

10. The Respondents are directed to deposit the aforesaid respective penalty, as per para 9 above, in the designated bank account maintained in the name of the Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited, within a period of thirty (30) days from the date of this Order, and furnish receipted voucher issued in the name of the Commission for information and record.

11. This Order is being issued without prejudice to any other action that the Commission may initiate against the Respondents and / or management including CEO of the Respondent No. 1 in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

  
**(Shahzad Afzal Khan)**  
Director / Head of Department  
(Adjudication Department-I)

**Announced:**  
August 8, 2024  
Islamabad