



Corporate Supervision Department
Company Law Division

Before Abid Hussain -Executive Director

In the matter of

S.G Power Limited

Number and date of notice: CSD/ARN/201/2015-3311 dated February 18, 2016
Date of hearing: May 09, 2016, May 26, 2016, November 14, 2016, December 5, 2016
Present: Mr. Muhammad Javed Panni- Authorized Representative

ORDER

UNDER SECTION 492 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against the directors including the Chief Executive (the "respondents") of S.G Power Limited (the "Company") through show cause notice ("SCN") dated February 18, 2016 issued under the provisions of Section 492 read with Section 476 of the Companies Ordinance 1984 (the "Ordinance").

S#	Name of Respondent
1	Mr. Asim Ahmed
2	Ms. Zubaida Khatoon
3	Ms. Ghazala Ahmed
4	Ms. Tania Asim
5	Mr. Sohail Ahmed
6	Mr. Farhan Sohail
7	Mr. Rafiq Ahmed

2. Brief facts of the case are that examination of annual audited accounts for the period ended June 30, 2015 of the Company revealed that Muniff Ziauddin & Co, Chartered Accountants have given adverse opinion on the following basis:

- The company has discontinued electricity and steam supplies to its only customer i.e. S.G Fiber Limited and has shut down its power generation and due to severe financial crises and adverse market conditions prevailing in the field of filament yarn industry, it is unlikely that the associated company (S.G Fiber Limited) will commence its operation. During the year the



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Company has incurred gross loss of Rs 5,045,345 (2014: Rs 4,941,731/-) and net loss of Rs 4,867,844 (2014: 4,384,289/-) respectively. These conditions indicate the existence of material uncertainty which may cast significant doubt over the Company's ability to continue as going concern. Moreover, no disclosure has been made in the financial statements regarding the financial plans under consideration of the management for revival of Company,

- Trade and other payable amounting to Rs 11,134,063/- remained unverified as no supporting documents were made available,
- Valuation schedule showing NRV of stores and spares has not been furnished to auditor,
- The Company has not complied with the requirements of IAS-19 Employees Benefits as the related liabilities were not revalued during the year,

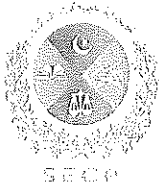
3. International Accounting Standard (the "IAS") 19 requires to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

4. International Financial Reporting Standard ("IFRS") 5 requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets. Relevant disclosures in terms of IFRS 5 (pare 30 onwards) for discontinued operations have not been complied with.

5. The Company has failed to incorporate the above mentioned disclosures as required vide IAS and IFRS. As a result, the annual audited accounts of the Company for the year are, prime facie, misstated. The amount and effects of above referred observations are material. Therefore, SCN was issued on February 18, 2016 advising the respondents to explain their position within 14 days from the date of the notice as to why penal action may not be taken against him for contravention of provisions of Section 492 of the Ordinance. The respondents vide letter dated March 04, 2016 submitted:

- The Auditor expressed an adverse opinion on the financial statement of Company for the year ended June 30, 2015 i.e. that the accounts do not give the true and fair view of the state of the Company's affairs. This is a standard format of auditor's report which they issue in certain situations to comply with their standard requirements. These wordings and auditor's report format do not imply that the financial statements are false and incorrect,



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- All the points in the auditor's report essentially pertain to the valuation of the disclosed assets and liabilities i.e. that auditors are not reporting that whether there were any misappropriation or non-disclosure of any assets or liabilities. In other words, the auditors' point of emphasize throughout the report is that the stated figures in the financial statements may not be accurate;
- The auditor just reproduced the facts, which are already disclosed in the note 1.2 to the financial statements by the management i.e. due to closures of its power generation business, the company is incurring losses and there is doubt about going concern. Then the auditors pointed out that the financial statements do not include any adjustment that might result, should the company not be able to continue as a going concern. Here we would like to state that the assets of the Company mainly comprise of the generators which are shown at the Written Down Value (the "WDV"),
- Management believes the WDV of these generators approximates their market value. However, the company currently lacks resources to undertake any valuation exercise. Even, if the valuation exercise is undertaken the resulting impact will not be significant one,
- Auditor mention that no disclosure has been made in the financial statements regarding the plans for the revival of the Company. We would like to point out the fact that is disclosed in note 1.2 to the financial statements as well as in the auditor's report, that the Company was supplying the electricity to its only customers, which has ceased its operation, therefore, the revival of the company would mainly be dependent upon the revival of its associated undertakings' operation. The associated company has started to take steps for the revival of its business activities,
- The trade and other liabilities comprise of some old balances for which the respective parties have not yet put forward their claims. Neither the Company has reversed these liabilities to unnecessarily recognize any revenue and ignite any resulting tax implications which might ultimately be reversed again,
- The stores and spares have been shown on historical cost. As mentioned above that due to lack of resources and proper staff the Company is not able to conduct any valuation exercise,
- Due to lack of resources and proper staff the Company is not able to conduct any valuation exercise. Moreover, the management believes that even if the valuation exercise is undertaken the resulting impact will not be significant one.

6. In order to provide opportunity of personal hearing the case was fixed before the undersigned on May 09, 2016 and then on May 26, 2016. The Company or the authorized representative neither attended the above mentioned hearing, nor any request for adjournment was received. To bring the matter to a logical conclusion hearing in the matter was fixed for November 14, 2016, which was rescheduled on the request of the authorized representative and was again re-fixed and held on



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December 5, 2016. Mr. Muhammad Javed Panni of MJ Panni & Associates appeared before me and reiterated the earlier stance already submitted vide letter dated March 04, 2016.

7. Before proceeding further, it is necessary to advert to the following relevant provisions of Section 492 of the Ordinance, which states as under:

"Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application, information or explanation required by or for the purposes of any of the provisions of this Ordinance or pursuant to an order or direction given under this Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, shall be punishable with a fine not exceeding five hundred thousand rupees."

8. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 492 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

It is important to highlight here that the Ordinance has been repealed while promulgating Companies Ordinance, 2016 ("Ordinance 2016"). However, provisions of Section 509(1)(f) of the Ordinance 2016 clearly provides that pending proceedings shall be concluded as provided in the Ordinance :

*"509. Repeal and savings. – (1) The Companies Ordinance, 1984 (XLVII of 1984), hereinafter called as repealed Ordinance, shall stand repealed, except Part VIIIA consisting of sections 282A to 282N, from the date of coming into force of this Ordinance and the provisions of the said Part VIIIA along with all related or connected provisions of the repealed Ordinance shall be applicable *mutatis mutandis* to Non-banking Finance Companies in a manner as if the repealed Ordinance has not been repealed:*

Provided that repeal of the repealed Ordinance shall not-

- (f) affect any inspection, investigation, prosecution, legal proceeding or remedy in respect of any obligation, liability, penalty, forfeiture or punishment as aforesaid, and any such inspection, investigation, prosecution, legal proceedings or remedy may be made, continued or enforced and any such penalty, forfeiture or punishment may be imposed, as if this Ordinance has not been passed".

9. I have analyzed the facts of the case, relevant provisions of the Ordinance, requirements of IAS, arguments put forth by the Respondents in writing and during the course of hearing. My observations are that:



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- The Company being listed has to follow IAS as are notified by the Commission in the official Gazette under Section 234 of the Ordinance and there is no contradiction in accounting standards regarding treatment of Employees Benefits under IAS 19. Treatment of Employees Benefits is vital for the fair presentation of the financial statements as it prescribes the accounting and disclosure for employee benefits.
- Para 30 onwards of IFRS-5 - Non-Current Assets Held for Sale and Discontinued Operations requires to clearly distinguish, if any discontinued operation is a component of an entity that has either been disposed of or is held for sale and it represents a separate major line of business. It further provides that post tax profit of discontinued operation and post-tax gain or loss recognized on the measurement of fair value less cost to sell or on disposal of the assets.
- The auditors have expressed adverse opinion in its report for year ended June 30, 2015, among other issues, in relation to going concern assumption and stated that the accounts for the respective years do not give true and fair view of the Company.
- As pointed out by the Company and admitted that due to resource constraint, it cannot undertake the any valuation exercise and un-verification of trade and other receivables due to lack of documentary proof is without any merit.

10. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the respondent and the authorized representative and I am of the firm view that adverse opinion was given by the auditor report and response given by the directors in their report to the members with the Accounts 2015 is found to be unsatisfactory. The accounts are considered to be as misstated. The respondent has misrepresented the facts in and made themselves liable under the provisions of Section 492 of the Ordinance. However, keeping in view that fact that the default is accepted by the respondents, I take a lenient view in the matter and instead of imposing maximum fines on the respondents, I hereby impose a fine of Rs. 350,000/- (Rupees Three hundred and Fifty Thousand only) in aggregate on respondents under the provisions of Section 492 of the Ordinance. The respondents are directed to deposit the fine in the following manner:

S#	Name of Respondent	Amount Rs
1	Mr. Asim Ahmed	50,000/-
2	Mst. Zubaida Khatoon	50,000/-
3	Mrs. Ghazala Ahmed	50,000/-
4	Mrs. Tania Asim	50,000/-
5	Mr. Sohail Ahmed	50,000/-
6	Mr. Farhan Sohail	50,000/-
7	Mr. Rafiq Ahmed	50,000/-



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The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of fine, proceedings for recovery of the fines as arrears of land revenue will be initiated.

Abid Hussain
Executive Director (Corporate Supervision)

Announced:
December 8, 2016
Islamabad.