



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 Regulation 8(1) and Regulation 36(1) read with Regulation 37 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Section 512(2) of the Companies Act, 2017

Number and date of Show Cause Notice	CSD/ARN/258/2016-346 dated May 29, 2024
Date(s) of Hearing:	July 08, 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/258/2016-346 dated May 29, 2024 (the "SCN") against M/s SG Allied Business 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 Regulation 8(1) and 36(1) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the "Regulations") read with Regulation 37 of the Regulations and Section 512(2) of the Companies Act, 2017 (the "Act").

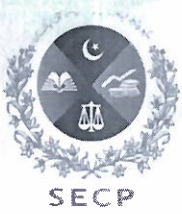
2. Brief facts of the case are summarized as below:

(i) 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"), along with Statement of Compliance (the "SOC") with the Regulations and auditor's review report thereon.

(ii) During the aforesaid review, the following were observed:

A. Regulation 8(1) of the Regulations:

- The auditor highlighted in his review report that *the executive directors are more than one third of the board.*
- Regulation 8(1) of the Regulations mandatorily stipulates that the number of executive directors, including the chief executive officer, shall not be more than one third of the members of the Board. The Explanation-I to Regulation 8 further stipulates that a listed company shall explain the reasons, in compliance report, any fraction contained in such one-third number which is rounded up as one.



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- c. As disclosed by the Company in Sr. No. 2 of its SOC, the total number of its directors is 07, which includes 03 executive directors (while the $\frac{1}{3}$ rd fraction comes out as 2.33). Despite so, the Company in Sr. No. 18 of the SOC reportedly confirmed that all the requirements of, amongst others, Regulation 8 of the Regulations have been complied with by the Company.
- d. The relevant department of the Commission sought clarification from the Company vide its letter dated March 13, 2024 *inter alia* on the alleged contravention of Regulation 8(1) of the Regulations. The Company in its response letter dated April 02, 2024 submitted that *presently, there are only two executive directors...the Company regrets for having omitted to disclose the compliance with the non-mandatory provisions of the Regulations. We assure the Commission that this would be complied with in future.*
- e. The Company thus *prima facie* failed to explain any reason(s) in the SOC for rounding up the fraction contained in the one-third number as one, in contravention of Regulation 8(1) of the Regulations.

B. Regulation 36(1) of the Regulations:

- a. Regulation 36(1) of the Regulations mandatorily stipulates that a company shall publish and circulate a statement of compliance (as per Annexure A to the Regulations), and that the said statement shall be specific and supported by necessary explanations. Further, a company is mandated to explain in Sr. No. 19 of Annexure A to the Regulations the reasons for its non-compliance with the non-mandatory requirements of the Regulations.
- b. Sr. No. 12 of SOC of the Company, relating to formation of committees by the its Board, does not include the details of Nomination Committee and Risk Management Committee.
- c. Upon being inquired by the relevant department of the Commission vide letter dated March 13, 2024, the Company in its response dated April 02, 2024 submitted that it is *going through a revival process and...only two committee have been formed. As the Nomination Committee and Risk Management Committee are not mandatory, the Board shall form these committee in the near future...*
- d. The Company thus *prima facie* failed to render any explanation under Sr. No. 19 of the Annexure A with regards to its non-compliance with the non-mandatory requirements of Regulation 29 and 30 of the Regulations (regarding formation of Nomination Committee and Risk Management Committee), in contravention of Regulation 36(1) of the Regulations.



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3. Considering the above, a Show Cause Notice dated May 29, 2024 was served upon the Respondents for the alleged contravention of Regulation 8(1) and 36(1) of the Regulations read with the penal provisions of Regulation 37 of the Regulations and Section 512(2) of the Act.

4. The Respondents submitted their response to the SCN vide letter dated July 01, 2024, the relevant extracts of which are reproduced below:

"... (a) The auditors in their Review Report on the Statement of Compliance have stated that the Executive Directors are more than one third (1/3rd) of the Board. For the purpose of compliance with the requirement of regulation 8 (I), the Board has withdrawn the name of Mr. Asim Ahmed as Executive Director and presently there are only two Executive Directors namely Mr. Sohail Ahmed and Mr. Farhan Sohail. The Company is now compliant with the non-mandatory provisions of the Regulations. We assure the Commission that this would be complied with in future.

(b) The Company is going through a revival process and as such only two committees namely "Audit Committee" and "HR Remuneration Committee" have been formed. As the "Nomination Committee" and the "Risk Management Committee" are not mandatory, the Board has not formed these committees for the time being. With respect to non-compliance with the requirements of regulation 36(1) of the CCG Regulations read with clause 19 of Annexure-A thereof, it is stated that non-disclosure of explanation for not forming (a) Nomination Committee; and (b) Risk Management Committee, was due to oversight on part of the Company. The management will ensure compliances of the said disclosure in future..."

5. 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, 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 reiterated the written submissions, and requested for a lenient view considering the sheer commitment of the Respondents to ensure meticulous compliance of the applicable laws in the future.

6. I have gone through the relevant provisions of Regulation 8(1) and 36(1) of the Regulations 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 Regulation 37 of the Regulations and Section 512(2) of the Act, which stipulate penal provisions for contravention of the afore-referred provision of law. I have noted the following pertinent aspects vis-à-vis the submissions made by the Respondents:

- a. The provisions of **Regulation 8(1) of the Regulations** mandatorily required the Company to maintain the number of executive directors on its board to be not more than 1/3rd of the total number of members of the Board. The said Regulation 8(1) further mandated the Company to pronounce the reasons for rounding up such 1/3rd number as 01 in its compliance report/SOC. In the instant case, the total number of the directors of the Company were disclosed as 07, out of which 03 members were reported to be executive directors, whilst the 1/3rd fraction came



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out as 2.33. However, no reasons were explained by the Company in the SOC for rounding up the said fraction contained in the number. Needless to mention here that taking vigorous steps to strengthen independent decision-making by the board of a company and ensuring minimum domination of the board by executive directors is a well-established principle inculcated by the *G20/OECD Principles of Corporate Governance 2023*.

- b. Regulation 29 and 30 of the Regulations recommend the formation of Nomination and Risk Management committees of the board, and the said regulations are essentially based on a comply or explain approach. Nevertheless, under **Regulation 36(1) of the Regulations**, a listed company is mandatorily required to explain the reasons for not complying with the non-mandatory, or for that matter, the 'recommended' requirements of the Regulations. The role and prime benefits emanating from formation of the Nomination Committee and Risk Management Committee as a best practice, particularly to support the board in performing its functions, are widely echoed in the OECD Principles of Corporate Governance.
- c. Be that as it may, the Respondents through the written submissions and during the course of hearing held on July 08, 2024 have demonstrated active efforts and commitment to comply with the above-referred requirements of the Regulations, particularly by withdrawing the name of 01 executive director from the board of the Company to bring the number of executive directors to 02 out of 07 total number of directors. Further, the Respondents have requested for condonation of the regulatory lapses and have shown their commitment to ensure due compliance of all applicable laws in the future.

7. In view of the above-stated facts, circumstances and submissions made by the Respondents, particularly the efforts undertaken for rectification of the regulatory lapse as well as commitment for future compliance on part of the Respondents, I, in exercise of the powers conferred upon me under Regulation 37 of the Regulations read with Section 512(2) of the Act, am inclined to conclude the instant proceedings with a **warning** to the Respondents to ensure meticulous & timely compliance with all applicable laws including the Regulations & the Act in true letter and spirit in the future.

8. 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:

July 15, 2024

Islamabad