



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

ORDER	
Name of Company:	M/s. S.G. Power Limited
Show Cause Notice No. & Date:	CSD/ARN/201/2015-315 dated June 03, 2024
Name of Respondents:	i. M/s. S.G. Power Limited; ii. Mr. Sohail Ahmed, Chief Executive Officer; iii. Mr. Asim Ahmed – Director; iv. Mrs. Saba Sohail – Director; v. Mrs. Sana Sohail- Director; vi. Mr. Farhan Sohail – Director; vii. Mr. Salim Razak Tabani – Independent Director; and viii. Mr. Mansoor Mubeen – Independent Director;
Date(s) of Hearing(s):	i. August 27, 2024; and ii. May 20, 2025
Case represented by:	Mr. Amir Khan Afridi, Corporate Consultant (the Authorized Representative)
Provision of law involved:	Section 227 of the Companies Act, 2017 read with Section 479 thereof.
Date of the Order:	June 02, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “Commission”) through Show Cause Notice No. CSD/ARN/201/2015-315 dated June 03, 2024 (“SCN”) issued to M/s. S.G. Power Limited (the Company) and its Board of Directors, including the Chief Executive Officer, hereinafter collectively referred to as the “Respondents”, under Section 227 of the Companies Act, 2017 (the Act) read with Section 479 thereof.

2. Provisions of Section 227 of the Act entail contents of directors’ report where according to sub-section (1), the directors shall make out and attach to the financial statements, a report with respect to the state of the company’s affairs and a fair review of its business, the amount (if any) that the directors recommend should be paid by way of dividend and the amount (if any) they propose to carry to the Reserve Fund, General Reserve or Reserve Account. Further, sub-section (2) of Section 227 of the Act requires that in the case of a public company, the directors’ report, in addition to the matters specified in sub-section (1) must state:

“...

(c) a description of the principal risks and uncertainties facing the company;

(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;

...

(h) the earning per share;

(i) the reasons for loss if incurred during the year and future prospects of profit, if any;

...

(k) comments in respect of adequacy of internal financial controls;

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(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;

(la) disclosure with respect to remuneration package of each of the directors and chief executive including but not limited to salary, benefits, bonuses, stock options, pension and other incentives; ... "

3. Furthermore, Section 227(3) of the Act requires that in the 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—

(a) the main trends and factors likely to affect the future development, performance and position of the company's business;

(b) the impact of the company's business on the environment;

(c) the activities undertaken by the company with regard to corporate social responsibility during the year; ...

4. Moreover, Section 227(5) of the Act requires that the directors' report and statement of compliance must be approved by the board and signed by the chief executive and a director of the company. Section 227(6)(a) of the Act provides that any contravention of the provisions of this section shall – (a) in respect of a listed company be punishable with a penalty of level 2 on the standard scale.

5. Brief facts of the case are that review of Annual Report/ Annual Audited Financial Statements for Financial Year (FY) ended June 30, 2023 (**the Accounts**) of the Company transpired that it failed to incorporate the following requisite information in the Director's Report annexed to the Accounts, contrary to the requirements of Section 227 of the Act:

S. No.	Particular	Relevant Section
1.	Fair review of business	227(1)
2.	Principal risks and uncertainties facing the company	227(2)(c)
3.	Changes concerning the nature of business	227(2)(d)
4.	Earning per share	227(2)(h)
5.	Reasons for loss	227(2)(i)
6.	Comments in respect of adequacy of internal financial controls	227(2)(k)
7.	Material changes affecting financial position	227(2)(l)
8.	Disclosure with respect to remuneration package of directors	227(2)(la)
9.	Main trends likely to affect future development and performance	227(3)(a)
10.	Impact of the company's business on the environment	227(3)(b)
11.	Activities undertaken by company with regard to Corporate Social Responsibility (CSR)	227(3)(c)

6. Further scrutiny of the Director's Report revealed that the Company stated that its losses have decreased, contrary to the fact that the actual losses had increased from Rs. 0.645 million to Rs. 2.9 million. Furthermore, It was observed that the Director's Report and Statement of Compliance was only signed by the CEO, contrary to the requirements of Section 227(5) of the Act which requires that the said Report and Statement must also be signed by a director. Pertinently, it was observed that the same non-compliance also persisted for the preceding two (02) years, i.e., FY 2021 and FY 2022.

Order in the matter of M/s. S.G Power Limited dated 2<sup>nd</sup> of June, 2025

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7. In order to probe the matter, the Commission vide letter dated January 26, 2024 sought clarification from the Company with respect to the afore-said contraventions, in response to which the Company through letter dated March 01, 2024, *inter alia*, submitted as under:

*"It has been pointed out that Directors' Report is not in conformity with requirements of Section 227 of the Act. The shortcomings have been noted and due care will be exercised in Report for the year ended June 30, 2024"*

8. In view of the afore-mentioned instances, the Respondents, *prima facie*, contravened the provisions of Section 227(1), 227(2) and 227(3) and 227(5) of the Act which attract penal action in terms of Section 227(6) of the Act. Taking cognizance in the matter, SCN was issued to the Respondent to show the cause in writing as to why a penal action may not be taken for non-compliance of the requirements of the Act. However, the Respondents failed to submit response to SCN within the stipulated time.

9. In order to provide opportunity of personal representation, hearing in the matter was fixed on August 27, 2024 where Mr. Amir Khan Afridi (Corporate Consultant from M/s. M.J. Panni Associates) appeared as *Authorized Representative* on behalf of the Respondents and *inter alia*, submitted a response which was also iterated vide an even dated letter furnished during the hearing:

***(1) Fair Review of Business - Section 227(1)***

*The fair review of the business has been given in the Director's Report as follows:*

*"The Company faced great odds as the year 2022-2023 was full of turmoil as the gas supply was disconnected on November 15, 2022. According to Sui Southern Gas Company Limited (SSGC), we were assured that gas supply will be restored on February 28, 2023. The supply was restored only in the name as gas pressure was almost zero. Due to non-supply as well as very low pressure, the Company's business has been adversely affected."*

***Principal Risks and Uncertainties Facing the Company - Section 227(2)(c)***

*These were also mentioned in the Director's Report as follows:*

*"(a) In spite of the odds faced by the Company, the management expects that it will continue its operation as a going concern and will be able to achieve turnaround in the future."*

*(b) The auditors have given an observation regarding the existence of material un-certainty regarding Company's ability to continue as a going concern."*

*(c) These conditions indicate the existence of a material un-certainty that may cast significant doubt on Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business".*

***(3) Changes concerning the nature of business – Section 227(2)(d)***

*Since nature of business of the Company has not changed, therefore, we understand that no disclosure w/s 227(2)(d) of the Act was required to be made.*

*#Amir Afridi  
1-06-2025*

**(4) Earning Per Share - Section 227(2)(h)**

*It is true that EPS was not disclosed in the directors' report however, it was disclosed in the Statement of Profit and Loss account as Loss of Rs. 0.163 per share. This shows that non-disclosure of EPS in the directors' report was an oversight on part of the Company and not deliberate.*

**(5) Reasons for Loss - Section 227(2)(i)**

*The reason for losses was also duly disclosed in the Director's Report as follows:*

*"The Company faced great odds as the year 2022-2023 was full of turmoil as the gas supply was disconnected on November 15, 2022. According to Sui Southern Gas Company Limited (SSGC), we were assured that gas supply will be restored on February 28, 2023. The supply was restored only in the name as gas pressure was almost zero. Due to non-supply as well as very low pressure, the Company's business has been adversely affected.*

*Due to non-availability of gas, the Company's sales have been adversely affected and declined to Rs.3,348,328/- as compared to previous year's sales of Rs.8,317,668/- The generation coasts have increased substantially and the major contributory is the constant increase in gas charges. As a result of high cost of generation, the Company suffered loss of Rs.2,276,616/- for the year."*

**(6) Comments in respect of adequacy of internal financial controls - Section 227(2)(k)**

*The Board is in the process of setting-up an effective internal audit function as the operations of the Company are being revised. This non-compliance was duly mentioned by the auditors in their Audit Report. Being a small size Company, this requirement will be complied with in the future.*

**(7) Material changes affecting financial position - Section 227(2)(l)**

*Since there were no such material changes affecting the financial position, therefore, no disclosure was made.*

**(8) Disclosure with respect to remuneration package of directors - Section 227(2)(la)**

*It is clarified that the Chief Executive, Executive Directors and Directors receive no remuneration package. As such the disclosure was not included in the Director's Report.*

**(9) Main trends likely to affect future development and performance - Section 227(3)(a)**

*There was nothing to report in this regard.*

**(10) Impact of the Company's business on the environment - Section 227(3)(b)**

*Being small size Company, it is engaged in the production of electricity for its associated company only, through gas generators which had no impact on the environment. As such the information was not included in the Report.*

**(11) Activities undertaken by Company with regard to CSR - Section 227(3)(c)**

*Being a small size Company and facing multiple hardships, it is not in a position to undertake activities under CSR. There was nothing to report in this regard."*

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10. In order to meet the ends of justice, another hearing in the matter was fixed on May 20, 2025 on which date the Authorized Representative again appeared before the Adjudicating Officer. During the course of hearing proceedings, the Authorized Representative reiterated the earlier made written and verbal submissions and requested for leniency on the basis that the omissions made in the Directors' Report in the Annual Report for FY 2023 were inadvertent and assured of exercising due care and caution in the future.

11. I have reviewed the facts of the case and also considered the written and verbal submissions made by the Respondents through their Authorized Representative. I have also reviewed the provisions of Section 227 of the Act in a holistic manner. At this juncture, it is important to discuss the following legal and factual elements of the case:

- i. During the course of hearing proceedings as well as in the written submission, the Authorized Representative of the Respondents unequivocally acknowledged that various provisions of Section 227 of the Companies Act, 2017 were not complied with in the Directors' Report annexed to the Annual Financial Statements for the financial year ended June 30, 2023. Specifically, the Representative admitted that key statutory disclosures mandated under subsections (1), (2), and (3) of Section 227, such as a fair review of the company's business, disclosure of principal risks and uncertainties, earnings per share, commentary on internal financial controls, remuneration of directors, environmental impact, and CSR activities were either missing or inadequately addressed. It is important to observe that these disclosures are not optional; rather, they are essential for ensuring corporate transparency, accountability, and informed decision-making by shareholders and other stakeholders. In this regard and the fact that partial information was disclosed in the Directors' Report, clear guidance can be fetched from the case of *Mst. Alia Riaz v. Government of Punjab (2015 CLC 1640)*, wherein Hon' Justice Ijaz-ul-Ahsan, J of the Hon' High Court noted that: "*14. The argument of the learned counsel for the respondent that there was substantial compliance of the rules insofar as the Director of Agriculture (Economic and Marketing) had forwarded the case to the District Coordination Officer, who had sent the matter to the Chief Minister for requisite orders, has not impressed me. It is settled law that where a thing is required to be done in a particular manner, it must be done in that manner or not at all.*" Therefore, the Respondents, by not following the prescribed requirements in a complete and comprehensive manner for presenting the Directors' Report have contravened the provisions of Section 227 (1), 227(2) and 227(3) of the Act.
- ii. In addition to the disclosure-related omissions, the Authorized Representative also admitted that the Directors' Report and Statement of Compliance were signed only by the Chief Executive Officer and not duly signed by a member of the Board of Directors, thereby violating the express requirement of Section 227(5) of the Act. It was noted with concern that this non-compliance had also been repeated at least in two prior years i.e. FY 2021 and FY 2022 indicating a persistent disregard for statutory requirements.
- iii. The importance of strict compliance with Section 227 cannot be undermined. The Directors' Report serves as a vital communication tool between a company's management and its shareholders, regulators, and potential investors. It provides a narrative context to the financial statements and offers insights into the company's operational performance, governance practices, future outlook, and risk exposure. Omission or misstatement in this Report undermines the integrity of financial reporting and deprives stakeholders of critical information necessary for evaluating the financial health and governance of the company. Furthermore,

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failure to obtain proper authorization and signatures compromises the authenticity and legal validity of the Report, calling into question the reliability of the disclosures made therein.

- iv. It is further observed that the Authorized Representative requested a lenient view in the instant matter, stating that the omissions were not intentional but due to oversight, and assured that the Respondents would take necessary corrective measures to ensure full compliance in the upcoming reporting periods.

12. In view of the foregoing, the contraventions of Section 227(1), Section 227(2), Section 227(3) and Section 227(5) of the Act have been established beyond doubt which attract a penal action in terms of Section 227(6) of the Act. However, keeping in view that the Respondents have acknowledged the shorting comings observed in Directors' Report and signing of the same along with Statements of Compliance in the Annual Financial Statements for FY2023 and assured that they will remain vigilant regarding the compliance requirements in the future, I am inclined to take a lenient view in the matter. Therefore, in exercise of the powers conferred under Section 227(6) of the Companies Act, 2017, read with S.R.O. 737(I)/2023 dated June 12, 2023, I hereby issue a strict **WARNING** to the Respondents (Respondents ii to viii) and **ADVISE** them to exercise due diligence in the future to ensure full compliance with the regulatory requirements pertaining to the Directors' Report and Statement of Compliance under Section 227 of the Act.

13. Furthermore, in light of the fact that compliance of Section 227 in terms of contents of the Directors' Report, correctness of claims in terms of Company's true financial position i.e. profit/ loss and signing of the statement of compliance is solely the responsibility of the Directors of the Company, the instant proceedings against the Company (i.e. Respondent no. i) are dropped without any adverse action.



02-06-2025

(Sohail Qadri)

Director/ Head of Department  
Adjudication Department-I

**Announced:**

Dated: June 02, 2025

Islamabad.