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IN THE COURT OF DISTRICT & SESSION JUDGE (SOUTH)
AT KARACHI

Cr. Complaint No. 166 of 2013

Securities & Exchange Commission of Pakistan,
(Statutory Body formed under Securities &
Exchange Commission of Pakistan Act, 1997),
Having its Head Office at
NICL Building, 9th Floor,
Blue Area, 63, Jinnah Avenue,
Islamabad and its Regional Office at
State Life Building No. 2,
5th Floor, Wallace Road, Karachi through
Mr. Kapeel Dev, Assistant Director,
Securities Market Division,
Karachi

Complainant

VERSUS

- 1) Chen One Stores Ltd.,
Having office at Nishatabad,
Faisalabad, Pakistan.
- 2) Chenab Ltd.,
A company listed at
Karachi Stock Exchange Limited,
Having office at Nishatabad,
Faisalabad, Pakistan.

*(Both accused No.1 & 2 are being prosecuted
through their Common Directors namely;)*

- (i) Mian Muhammad Latif S/o Haji Muhammad Salim
(Director and CEO Chenab Ltd.)
- (ii) Mian Muhammad Jawaid Iqbal S/o Haji Muhammad Salim,
(Director)
- (iii) Muhammad Naeem S/o Haji Muhammad Salim,
(Director and CEO, Chen One Stores Ltd.)
- (iv) Muhammad Faisal Latif S/o Mian Muhammad Latif,
(Director)
- (v) Muhammad Farhan Latif S/o Mian Muhammad Latif,
(Director)
- (vi) Muhammad Rizwan Latif S/o Mian Muhammad Latif,
(Director)
- (vii) Muhammad Zeeshan Latif S/o Mian Muhammad Latif,
(Director)



(All Muslims, adult, residents of 42-W, 101, Madina Town, Faisalabad, Punjab, except accused at Sr. No. (ii) who is resident of 14-15 Saeed Colony, Faisalabad, Punjab)

- 3) Mr. Muhammad Irfan Maqbool
S/o Muhammad Maqbool, Muslim, adult,
resident of House No.2, Street No.103,
Mohala Housing Colony, Toba Take Singh,
Punjab.
- 4) Mr. Sohail Badar S/o Choudhry Badaruddin,
Muslim, adult, resident of House No.509,
Amin Town, Faisalabad,
Punjab.

Accused

REPORT / COMPLAINT U/S 24, 25 & 17 OF THE SECURITIES & EXCHANGE ORDINANCE 1969 READ WITH SECTION 29(2) OF THE SECURITIES & EXCHANGE COMMISSION OF PAKISTAN ACT, 1997

The Complainant respectfully submitted as under:-

1. The Complainant, Securities and Exchange Commission of Pakistan was established under Section 3 of the Securities and Exchange Commission of Pakistan Act, (XLII of 1997) and has been termed as Commission under Section 2 of the said law. Through the Securities and Exchange Commission of Pakistan Act, 1997 the Commission is empowered to regulate the business of the stock exchanges, the securities market and the workings of stock brokers/ brokerage houses in Pakistan. The Head Office of the Complainant is in Islamabad and it has a regional office at Karachi and at certain other cities in Pakistan. The Commission is *inter alia*, responsible to ensure the protection of investors, regulation of markets and dealings in securities under the Securities and Exchange Commission of Pakistan Act, 1997 and the Securities & Exchange Ordinance, 1969.

2. The accused No.2 is incorporated as public limited company under Companies Ordinance, 1984 and is listed on Karachi Stock Exchange Limited. The accused No.1 is also incorporated as public unlisted company



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under the Companies Ordinance 1984. That accused No. 1 & 2, are having common directors mentioned at Sr. No. (i) to (vii) after accused No.2. Moreover, the registered Head Office of accused No.1 to 2 is also the same. Accused No.3 and 4 have direct nexus with accused No.1 & 2 Trading in the ordinary shares of accused No.2 by the accused No.3 and 4 in connivance with accused No. 1 created a false and misleading appearance of active trading in the share of accused No.2 as it would be explained in later paras. The subject matter of the present complaint surface as a result of investigation of the trading transactions executed during the period from March 11, 2010 to April 15, 2010 ("the Period") being trading activity of shares of accused No.2 in Karachi Stock Exchange Limited resulting in increase of price of shares of accused No.2 from Rs.3.07 to Rs.8.59 during the above period. This increase was 179% in the share price of accused No.2 in a short span of time, as mentioned above, such un-precedented trade without any real market factor itself shows violation of applicable laws including the provisions under which this complaint is being filed.

3. To curb the unfair market practices and for protection of investors, the Market Surveillance Wing of the Complainant monitors the trading activities of all the stock exchanges on daily basis. In the process of monitoring, the unusual trading activity and high volumes were observed in the month of March 2010 in the shares of accused No.2. Subsequently, in the month of April 2010 Complainant received complaints from various cumulative preference shareholders (Financial Institutions) of accused No.2 to the effect that fictitious increase has been made in the market price of the shares of accused No.2 as a result of dubious trading in the stocks. *The form-29 in respect of accused No.2 also showing accused No. (i) to (vii) as Directors of accused No.1 as well is annexed as Annexure "A"*. During the same period besides accused No.3 and 4, accused No.1 also indulged in trading activities for purchase and sale of shares of accused No.2. Due to this situation the Complainant appointed two investigating officers namely Mr. Muhammad Ali, Deputy Director and Mr. Kapeel Dev, Assistant Director as investigating officers to investigate dealing, business and other transactions pertaining to the shares of accused No. 2 and to do all such things as are necessary or incidental thereto. Such appointment was made in exercise of powers U/S 21 of Securities & Exchange Ordinance 1969, read with Section 29(2) of Securities & Exchange Commission of Pakistan Act, 1997, *such order is annexed as Annexure "B"*. The Complainant has

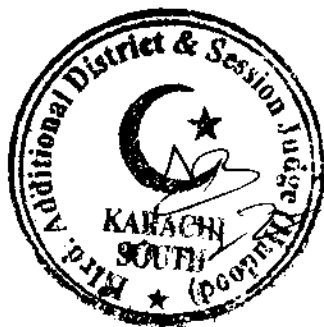


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appointed Mr. Kapeel Dev, Assistant Director to act as Complainant before this Hon'ble Court for the purpose of present Complaint. *Such appointment is annexed as Annexure "C"*.

4. The background of above facts is that accused No.2 issued prospectus for issuance of cumulative preference shares of Rs. 800 Million from September 23, 2004 to September 25, 2004 and thereby invited purchase of such shares by different financial institutions and general public, *such prospectus is annexed as Annexure "D"*. According to such prospectus, cumulative preferred dividend was offered at the rate of 9.25% per annum on preference share of Rs.10/- each. According to such offer preference shareholders was given an option to exercise the put option up to one third of their holding each year after the expiry of four years from the last date of public subscription, and in the event of default on the put option for two consecutive years, the issuer (accused No.2) was required to convert preference shares into ordinary shares at 25% discount on book value of the ordinary shares; or at par value plus cumulative preferred dividend whichever is lower. The provision of market value will only be applicable if the ordinary shares of the company will be listed at the event of default. The par value of the shares was at Rs.10/- each. The event of default is mentioned at page-6 of Annexure "D" and called price and par value is mentioned at page-5 of Annexure "D".

5. As a result of investigation it revealed that funds of Rs. 800 million was availed/generated by accused No.2 in the year 2004 by way of sale of preference shares to various financial institutions, *details of which is annexed as Annexure "E"*. Some of the preference shareholders have exercised their put option for two consecutive years on which accused No.2 has defaulted. After the two consecutive defaults accused No. 2 was required to convert the preference shares into the ordinary shares mentioned above. After default the preference shares were not converted into ordinary shares and as such the financial institutions being aggrieved of such default made complaint to the Commission (Complainant). Due to the failure of fulfillment of their commitment accused No.1 & 2 in connivance to each other through accused No. (i) to (vii) along with accused No.3 & 4 indulged in trading activities in the manner prohibited U/S 17 of Securities & Exchange Ordinance 1969 subject matter of this Complaint in the shares of accused No.2 in Karachi Stock Exchange Limited during the period mentioned above and created fictitious increase in the market value of the



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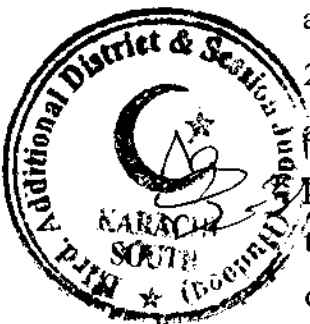
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shares of accused No.2. A graphical presentation of price volume analysis for the period March 1, 2010 to April 15, 2010 is given at page-9 of investigation report prepared by investigating officers, *such report prepared by investigators is annexed as Annexure "F"*.

6. The share value of accused No. 2 was Rs. 3.05- on 1st March, 2010 and increased sharply and touched the high price of Rs.8.99 on 2nd April, 2010. The significant high volumes and excessive price volatility was witnessed in the same period. During the period accused No. 1 purchased heavy quantity of shares of accused No.2 i.e. 6,873,899 shares and then sold 8,356,235 shares and most of the shares were sold to accused No.3 and accused No. 4. During the Period accused No 3, bought 6,417,700 shares and sold 1,639,428 shares of accused No. 2 whereas accused No. 4 bought 3,106,099 shares and sold 1,542,851 shares of accused No. 2. It is obvious that this activity was aimed to lower considerably financial liability of accused No.2 towards purchaser of preference shares who invested their amount with accused No 2. The accused No.2 issued notice of extraordinary general meeting on 27.04.2010 to be held on 19th May, 2010 to consider and pass the resolution pertaining to the price for the conversion of the preference shares into ordinary shares of accused No.2 at the price of Rs. 6.36 at the cutoff date of April 08, 2010, *such letter is annexed as Annexure "G"* hinting fulfillment of commitment. The summary of trading activities is available at page-11 and 12 of investigation report Annexure "F" of this Complaint.

7. Such analysis at page-12 of the investigation report shows that accused No.1 traded the shares of accused No.2 by way of purchase from 22nd March, 2010 to 31st March, 2010 at un-precedent scale as mentioned above and thereby increased the share price of accused No. 2 from Rs.5.66 prevailing on 22nd March, 2010 to Rs.8.46 on 31st March, 2010. It is evident that this activity was a device / scheme of artificial activities which induced other persons as well to enter into this artificial trading as one Raza Arif purchased considerable shares on 1st April, 2010.

8. Accused No.3 & 4 abated and aided this activity committed by accused No.1 by way of purchase of shares of accused No.2. The payment of purchase of shares by accused No.3 & 4 were made mostly from Bank of Punjab, Nishatabad Branch, Faisalabad, Punjab, the State Bank of Pakistan provided copies of account opening forms and deposit slips which shows



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that accused No.3 & 4 were having strong links and nexus with accused No.2. The telephone numbers provided in the account opening forms and deposit slips were also of the accused No.2. The link between accused No.3 & 4 with accused No.1 & 2 is mentioned in details from page No. 52 to 56 of Annexure "F".

9. The activities, acts and omissions by the accused persons resulted in inducing the general power to invest in purchase of shares of accused No.2, at the price artificially raised and thereby accused persons committed fraud and deceive the investors other than the accused persons. The price of the shares in February 01, 2010 was Rs. 3.80 and price of shares of accused No. 2 as on May 31, 2010 was Rs. 3.09. The active trading in between this period by the accused persons created a false and misleading appearance in the shares of accused No.2. Accused No.3 & 4 had no trading record / history prior to the transactions in question which shows that they were doing it in connivance with accused No.1 & 2 through their directors accused No.(i) to (vii). Accused persons by above acts and omissions had committed the offence defined U/S 17 and punishable U/S 24 of the Securities & Exchange Ordinance 1969 and the offence has been committed at Karachi Stock Exchange Limited situated ^{P.S. Mithadar} within the territorial jurisdiction of this Hon'ble Court, as such this Hon'ble Court has jurisdiction U/S' 25 to take cognizance of the offence on report Annexure "F" to this Complainant along with list of witnesses and list of documents on which complaint relies as well as annexures of the investigation report..

10. It is therefore prayed that this Hon'ble Court may be pleased to take cognizance of the offence mentioned above and try the accused persons in accordance with law and award punishment as prescribed under Sub-section 1 of Section 24 of the Securities and Exchange Ordinance 1969.

FOR AND ON BEHALF OF COMPLAINANT

KARACHI.

Dated: 01-03-13.

ADVOCATE FOR COMPLAINANT

P.T.O.

