

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: V. K. CHOPRA, WHOLE TIME MEMBER

Order Against Continental Controls Ltd. and its Chairman and Managing Director Shri Navin Thakkar In the matter of Irregularities in the Notice for Buyback of Shares of Continental Controls Ltd. and trading in the shares thereof

DATE OF HEARING:18.05.2007

APPEARANCES:

FOR THE NOTICEES:

1. Shri P.N.Kapadia (Advocate and Solicitor, Vigil Juris) alongwith Ms. Riddhi Mehta, Mr. M.S. Srinivas and Mr. Navin Thakkar, CMD, Continental Controls Ltd.

FOR SEBI:

1. Mrs Barnali Mukherjee, DGM, SEBI
2. Shri Narendra Rawat, AGM, SEBI
3. Shri Mohamed Rahaz P. M., Legal Officer, SEBI

ORDER

(Under Section 11(4) read with Section 11 and Section 11B of the SEBI Act, 1992)

1. SEBI had come across a series of advertisements for buyback of shares in respect of certain companies whose scrips were thinly traded during the months of June and July 2002. The advertisements highlighted the companies' past performance and projected bright prospects in the immediate future. Most of the advertisements stated that the Board of the company would consider a corporate action (such as buyback of shares/issue of preference shares/bonus issue/issue of non-convertible debentures). The advertisements appeared in several newspapers (business as well a regional) published from across India.

The scrips of all these companies were listed at The Stock Exchange, Mumbai (“BSE”). It was also observed that there had been a sudden increase in price and /or volumes of the generally illiquid scrips of these companies around the time of issuance of the advertisements.

1.1 SEBI ordered formal investigations into the matter vide order dated September 11, 2002 after preliminary investigation revealed that there is a prima facie case in the matter of “Advertisements on Proposed Corporate Action” and share price movements against the given backdrop.

1.2 Continental Controls Ltd. (hereinafter referred to as the “CCL”), incorporated in 1995 and engaged in the manufacture of thermal overload protectors, thermal fuses etc. was one such company which issued advertisements. Mr. Navin G. Thakkar was the Chairman and Managing Director of the company during the relevant period. CCL was listed on The Stock Exchange, Mumbai (“BSE”) and Ahmedabad Stock Exchange (“ASE”).

1.3 On July 10, 2002, CCL published an advertisement in ‘The Business Standard’ and other newspapers stating that a *Board meeting was to be held on July 27, 2002 to consider the buy-back of 12,00,000 shares at Rs.25 per share.* It was observed that a week before the issuance of the said advertisement, the price of the scrip had gone up from Rs.4 to Rs.10 (an increase of 150%) and trading volumes of the scrip at BSE had also increased from around 7000 shares per day to 2,50,000 shares per day. On July 10, 2002 (the day on which the advertisement had appeared in news papers), price of the scrip touched a 52-week high of Rs.12.75 with volumes of 8,04,656 shares. On the very next day, record trading volumes in the scrip of around 10 lakh shares were noticed at the BSE and the price of the scrip went down and touched lower circuit price of Rs.8.10. Later on CCL informed the exchanges that the Board of Directors of the company had decided to defer the buy-back proposal in their Board meeting held on July 27, 2002. However no advertisements to this effect were made in this regard by the company in newspapers, in comparison with the wide publicity given in a number of newspapers to the proposed buyback of shares that was accompanied by significant activity in the scrip.

2. Show Cause Notices dated May 11, 2006 under Section 11(4) read with Section 11 and Section 11B of the SEBI Act, 1992 were issued to M/s. Continental Controls Ltd. and Mr. Navin Thakkar (collectively referred to as “the Noticees”), charging them with violation of Regulation 5(1) of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995 for having issued a misguiding advertisement about proposed buy-back of shares by the company, although the company did not fulfil the requirements of Section 77A of the Companies Act, 1956 regarding buyback of shares. CCL replied vide its letter dated July 17, 2006.

2.1 An opportunity of personal hearing was granted to the Noticees on May 18, 2007. CCL and Shri Navin Thakkar availed of the hearing, which was attended by Shri P.N.Kapadia (Advocate and Solicitor, Vigil Juris), Ms. Riddhi Mehta (Articled Clerk), Mr. M.S. Srinivas (Chartered Accountant) and Mr. Navin Thakkar (CMD, Continental Controls Ltd.). Additional submissions post-hearing dated May 21, 2007 were made by Shri P.N.Kapadia who appeared on behalf of both Noticees.

2.2 Shri Atul Shah was charged with violation of Regulation 4(b) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. Shri Atul B. Shah has applied for consent in terms of SEBI Circular No. EFD/ED/Cir-1/2007 dated April 20, 2007 vide his Application 25/2007 dated August 22, 2007. Hence, this Order does not cover his alleged irregularities.

2.3 In its reply dated July 17, 2006 to the Show Cause Notice CCL has, *inter alia*, denied having issued any advertisement that was misleading/misguiding in any particular. It was claimed that none of the promoters have dealt in shares of CCL in or around the time of the proposed buyback. It was also stated that the buyback price of Rs. 25/- per share was arrived at in view of cash flows in future from a deal expected with a U.K. company that would have led to increased profits. As regards non-compliance with Section 77A of the Companies Act, 1956 it was submitted that the Director Shri Navin Thakkar was not aware of the intricacies of the buyback provisions of the Companies Act, 1956.

3. I have carefully examined the show cause notices, replies thereto and other materials on record and record my findings as under :-

3.1 It is not in dispute that on July 10, 2002, CCL had published an advertisement in 'The Business Standard' and other newspapers stating that a *Board meeting was to be held on July 27, 2002 to consider the buy-back of 12,00,000 shares at Rs.25 per share.* Similar advertisements were published by CCL in other leading news papers also as under :-

Date	News Paper
10-07-02	Business Standard
10-07-02	Gujarat Samachar
10-07-02	Sandesh
11-07-02	Economic Times
11-07-02	Mumbai Samachar
12-07-02	Financial Express
15-07-02	The Economic Times-Investor Guide

3.2 The heading in the advertisement read "Notice: Buyback of shares" in bold type and details of the proposed buyback at "Rs 25 per share" were also given in bold font in the advertisement. As noted earlier, CCL informed the exchanges after publication of the advertisements that the Board of Directors of the company had decided to defer the buy-back proposal in their Board meeting held on July 27, 2002. However no advertisements were issued in this regard by the company in newspapers unlike the proposed buyback which received wide publicity that led to significant change in the price and volumes traded in the scrip of CCL on the exchange.

3.3 The advertisement, as stated by Shri. Navin Thakkar, CMD of Continental Controls Ltd, had been approved by him on July 09, 2002 in Ahmedabad and issued through an agency called Garima Communications.

3.4 The Noticees have been charged with violation of Regulation 5(1) of the SEBI (FUTP) Regulations, 1995 which is reproduced below:-

Prohibition of misleading statements to induce sale or purchase of securities

5. (1) No person shall make any statement, or disseminate any information which -

(a) is misleading in a material particular; and

(b) is likely to induce the sale or purchase of securities by any other person or is likely to have the effect of increasing or depressing the market price of securities, if when he makes the statement or disseminates the information-

(i) he does not care whether the statement or information is true or false; or

(ii) he knows, or ought reasonably to have known that the statement or information is misleading in any material particular.

3.5 During the course of investigation SEBI had sought information from CCL regarding the mode of arrival at buyback quantity of 12,00,000 shares and buyback price of Rs. 25/- per share, to which Shri Navin Thakkar had replied that these decisions were made on the basis of expected cash flow of around Rs. 3 crore. According to him, the buyback price of Rs. 25/- per share was decided in order to make the same “attractive to shareholders”, so that they could tender their shares in buyback. It appears, however, that the buyback proposal was made with a view to shore up the share price of CCL which was languishing at Rs. 5 to 6 and to create investor interest in the scrip which is evidenced by significant volumes in the quantities traded and prices of the scrip that accompanied the buyback notice issued in the newspapers as detailed earlier..

3.6 It is alleged that the proposal to buyback the 12,00,000 shares by CCL was in violation of Section 77A of the Companies Act, 1956, which lays down prerequisites for buyback. The relevant provisions of Section 77A read as follows:-

77A. Power of company to purchase its own securities

(1) Notwithstanding anything contained in this Act, but subject to the provisions of sub-section (2) of this section and section 77B, a company may purchase its own shares or other specified securities (hereinafter referred to as "buy-back") out of -

(i) its free reserves; or

(ii) the securities premium account; or

(iii) the proceeds of any shares or other specified securities

3.7 In order to finance buyback of 12,00,000 shares of CCL at a price of Rs. 25 per share as proposed it would be necessary for CCL to have at least Rs. 3 crore in its free reserves or in its securities premium account. CCL claimed that it had free reserves of upto Rs.180 lakhs and Rs. 129 lakhs as surplus in the Profit and Loss Account but as per the Balance Sheet of CCL for the Financial Year ended March 31, 2002 it had reserves of only around Rs. 129 lakhs. The Balance Sheet very clearly shows that CCL did not have any amount in its securities premium account, nor did it have any amount out of the proceeds of any shares or any other specified securities as required by Section 77A of the Companies Act, 1956 to finance the proposed buyback.

3.8 It was submitted by CCL that the amount of Rs. 3 crore required to buyback 12,00,000 shares at Rs. 25 per share would have accrued in future from a proposed technology transfer deal with Ark Corporation of U.K. The company had not disclosed the information regarding the deal, which is price-sensitive information in terms of the SEBI (Prohibition of Insider Trading) Regulations, 1992, with ARK Corporation to Stock Exchanges. It cannot be accepted that cash flows expected to accrue after a series of uncertain events were genuinely intended to finance the said buyback worth Rs. 3 crores. In any case this is not a method of financing a buyback statutorily recognized under Section 77A of the Companies Act, 1956. In any case the SEBI (Buyback of Securities) Regulations, 1998 stipulate that a company buying or intending to buy its own shares must nominate a compliance officer who would ensure that the buyback regulations are complied with. Apparently, this was also not complied with by CCL. Hence, it is clear that CCL had no serious intention to buyback but issued a notice and gave it wide publicity in a number of newspapers to generate investor interest in an otherwise illiquid scrip.

3.9 It is noted that a week before the issuance of the said advertisement by CCL, the price of the scrip had gone up from Rs.4 to Rs.10 (an increase of 150%). Entities which had acquired CCL shares in bulk in off-market transactions prior to the advertisement dated July 10, 2002 sold these shares in the market as soon as demand had been created due to the said advertisement by CCL on the proposed buyback.

3.10 Shri Navin Thakkar, the CMD of CCL, was in close contact with various entities related to him like Shri Atul B. Shah who traded heavily in shares of CCL by meeting delivery obligations for self and other entities through different brokers/sub-brokers after issuance of the said buyback advertisement. He was in constant touch with entities who had traded heavily in the shares of CCL in the market in the run-up to the newspaper advertisement and immediately thereafter to create large volumes and spurt in prices as detailed in succeeding paragraphs. The details of the telephonic conversations connecting Shri Navin Thakkar with Atul B. Shah and Mahendra Shah are presented below:-

TABLE SHOWING TELEPHONE CALL RECORDS FOR NAVIN THAKKAR, ATUL B. SHAH AND MAHENDRA SHAH

Caller no.	Caller name	Receiver no.	Receiver name	Date	Time	Duration (in sec)
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	20-05-02	10:58:04	60
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	21-05-02	10:29:56	60
9825098988	Mahendra A. Shah	9821022615	Navin Thakkar	01-06-02	15:23:01	300
250454953	Ltd.	9825098988	Mahendra A. Shah	01-06-02	15:28:29	60
9825098988	Mahendra A. Shah	9821022615	Navin Thakkar	01-06-02	15:31:31	60
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	03-06-02	15:05:46	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	03-06-02	15:06:15	60
9825098988	Mahendra A. Shah	9821022615	Navin Thakkar	04-06-02	9:29:36	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	05-06-02	11:29:00	60
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	05-06-02	20:44:39	1
9821022615	Navin Thakkar	9825114310	Atul B. Shah	06-06-02	13:11:08	1
9821022615	Navin Thakkar	9825114310	Atul B. Shah	06-06-02	13:11:17	1
9821022615	Navin Thakkar	9825114310	Atul B. Shah	06-06-02	13:11:23	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	06-06-02	15:43:42	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	06-06-02	15:45:57	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	06-06-02	15:47:39	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	06-06-02	15:47:46	1
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	06-06-02	15:47:50	1
9825098988	Mahendra A. Shah	9821022615	Navin Thakkar	11-06-02	20:22:02	180

	Continental Controls					
250454953	Ltd.	9825114310	Atul B. Shah	12-06-02	14:10:32	180
9821022615	Navin Thakkar	9825114310	Atul B. Shah	17-06-02	12:37:51	60
9821022615	Navin Thakkar	9825098988	Mahendra A. Shah	18-06-02	12:42:21	120
	Continental Controls					
250454953	Ltd.	9825114310	Atul B. Shah	19-06-02	16:51:41	180
9825114310	Atul B. Shah	9821022615	Navin Thakkar	20-06-02	14:19:04	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	20-06-02	15:01:15	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	20-06-02	15:07:21	1
9821022615	Navin Thakkar	9825114310	Atul B. Shah	20-06-02	15:08:13	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	20-06-02	16:54:03	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	24-06-02	13:26:34	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	24-06-02	13:26:49	180
9825114310	Atul B. Shah	9821022615	Navin Thakkar	24-06-02	15:37:49	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	24-06-02	15:39:31	120
9825114310	Atul B. Shah	9821022615	Navin Thakkar	25-06-02	22:54:40	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	25-06-02	22:56:34	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	25-06-02	22:56:56	120
9825114310	Atul B. Shah	9821022615	Navin Thakkar	26-06-02	12:28:25	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	26-06-02	12:30:07	120
9821022615	Navin Thakkar	9825114310	Atul B. Shah	04-07-02	17:35:54	240
9821022615	Navin Thakkar	9825114310	Atul B. Shah	08-07-02	10:40:18	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	08-07-02	12:12:46	60
9821022615	Navin Thakkar	9824009509	Dinesh Singh	08-07-02	15:14:36	6
9825098988	Mahendra A. Shah	9821022615	Navin Thakkar	08-07-02	20:42:02	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	09-07-02	12:32:30	120
9825114310	Atul B. Shah	9821022615	Navin Thakkar	09-07-02	13:21:47	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	10-07-02	15:15:12	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	10-07-02	15:28:04	120
9825114310	Atul B. Shah	9821022615	Navin Thakkar	11-07-02	14:11:00	120
9821022615	Navin Thakkar	9825114310	Atul B. Shah	15-07-02	13:23:34	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	15-07-02	17:54:17	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	16-07-02	13:33:10	60
	Continental Controls					
250454953	Ltd.	9825114310	Atul B. Shah	21-07-02	17:18:37	60
9825114310	Atul B. Shah	9821022615	Navin Thakkar	21-07-02	17:25:21	780
228066402	Navin Thakkar	9825114310	Atul B. Shah	25-07-02	9:59:56	180
9825114310	Atul B. Shah	9821022615	Navin Thakkar	25-07-02	13:22:21	240
9821022615	Navin Thakkar	9825114310	Atul B. Shah	25-07-02	23:39:18	120
9821022615	Navin Thakkar	9825114310	Atul B. Shah	25-07-02	23:45:58	360
9821022615	Navin Thakkar	9825114310	Atul B. Shah	31-07-02	21:35:14	120
9821022615	Navin Thakkar	9825114310	Atul B. Shah	07-08-02	11:55:24	120
	Continental Controls					
250454953	Ltd.	9825114310	Atul B. Shah	07-08-02	14:33:45	60
9821022615	Navin Thakkar	9825114310	Atul B. Shah	07-08-02	16:12:26	60
9824126100	Atul B. Shah	9821022615	Navin Thakkar	13-08-02	12:43:23	23
9821022615	Navin Thakkar	9824126100	Atul B. Shah	13-08-02	13:07:51	212
9821022615	Navin Thakkar	9824126100	Atul B. Shah	14-08-02	10:50:42	176
9821022615	Navin Thakkar	9824126100	Atul B. Shah	14-08-02	22:04:22	30
9821022615	Navin Thakkar	9824126100	Atul B. Shah	20-08-02	10:03:00	334

9824126100	Atul B. Shah	9821022615	Navin Thakkar	21-08-02	10:15:20	209
9824126100	Atul B. Shah	9821022615	Navin Thakkar	23-08-02	17:27:50	130
9824126100	Atul B. Shah	9821022615	Navin Thakkar	24-08-02	13:36:02	207
9824126100	Atul B. Shah	9821022615	Navin Thakkar	26-08-02	13:20:11	79
9824126100	Atul B. Shah	9821022615	Navin Thakkar	27-08-02	14:04:31	70
9824126100	Atul B. Shah	9821022615	Navin Thakkar	27-08-02	15:01:07	166
9824126100	Atul B. Shah	9821022615	Navin Thakkar	28-08-02	10:17:01	196
9821022615	Navin Thakkar	9824126100	Atul B. Shah	28-08-02	10:23:51	125
9824126100	Atul B. Shah	9821022615	Navin Thakkar	28-08-02	10:50:24	13
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	28-08-02	11:06:55	144
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	28-08-02	11:11:37	157
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	28-08-02	12:06:48	36
9824126100	Atul B. Shah	9821022615	Navin Thakkar	28-08-02	13:04:25	39
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	28-08-02	13:10:08	84
9824126100	Atul B. Shah	9821022615	Navin Thakkar	28-08-02	13:33:06	37
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	28-08-02	13:55:33	49
9824126100	Atul B. Shah	9821022615	Navin Thakkar	28-08-02	15:27:40	18
9824126100	Atul B. Shah	250454953	Continental Controls Ltd.	28-08-02	15:31:27	65
9824126100	Atul B. Shah	250454953	Continental Controls Ltd.	28-08-02	16:38:11	29
9821022615	Navin Thakkar	9824126100	Atul B. Shah	28-08-02	16:47:57	30
9824126100	Atul B. Shah	250454953	Continental Controls Ltd.	28-08-02	17:34:47	36
9821022615	Navin Thakkar	9824126100	Atul B. Shah	28-08-02	18:01:49	61
9824126100	Atul B. Shah	9821022615	Navin Thakkar	29-08-02	13:50:05	128
9824126100	Atul B. Shah	9821022615	Navin Thakkar	30-08-02	15:10:10	151
9821022615	Navin Thakkar	9824126100	Atul B. Shah	30-08-02	15:22:20	48
9824126100	Atul B. Shah	9821022615	Navin Thakkar	02-09-02	13:50:37	94
9824126100	Atul B. Shah	9821022615	Navin Thakkar	02-09-02	18:35:34	64
9824126100	Atul B. Shah	9821022615	Navin Thakkar	02-09-02	18:48:26	53
9824126100	Atul B. Shah	9821022615	Navin Thakkar	03-09-02	16:16:12	342
250454953	Continental Controls Ltd.	9824126100	Atul B. Shah	03-09-02	16:47:42	44
9824126100	Atul B. Shah	9821022615	Navin Thakkar	03-09-02	21:00:59	84
9821022615	Navin Thakkar	9824126100	Atul B. Shah	04-09-02	18:28:24	700
9821022615	Navin Thakkar	9824126100	Atul B. Shah	04-09-02	18:57:15	166
9824126100	Atul B. Shah	250454953	Continental Controls Ltd.	05-09-02	13:52:58	551
9824126100	Atul B. Shah	9821022615	Navin Thakkar	05-09-02	21:05:05	483
9824126100	Atul B. Shah	9821022615	Navin Thakkar	06-09-02	13:28:40	23

3.11 It is seen that the link between entities who traded heavily in the scrip and Shri. Navin Thakkar (CMD of Continental controls Ltd) is Atul B Shah as can be seen from the telephonic calls made to / received from Navin Thakkar prior to and after the advertisement. The Noticees have argued that the telephonic conversations were only in pursuance of requests made by the concerned persons like Atul Shah to speed up the dematerialization process. On July 08, 2002, Atul Shah had given 1,98,600 shares for converting physical shares to demat and the same was confirmed on July 10, 2002. As previously mentioned, telephonic conversations between Navin Thakkar, Atul B. Shah and Mahendra Shah took place continuously from May 20, 2002 to September 6, 2002 (as observed from the Table preceding this paragraph), and started much before requests for expediting demat process needed to be made. The telephone conversations have taken place around the time when the advertisements on the proposed buyback were issued and at the time when there was spurt in the volumes traded with a view to generating investor interest in the scrip. Under the given circumstance, the preponderance of probabilities weighs against the CMD of CCL, Shri Navin Thakkar, who acted in concert with persons like Shri Atul B. Shah and Mahendra Shah who sold shares of CCL in the secondary market to unsuspecting innocent investors. Atul B. Shah had purchased shares of CCL in bulk in off-market transactions at admitted (vide letter dated May 26, 2003) prices of an average of Rs. 2 per share. These shares were traded in the market on publication of a series of advertisements in newspapers which generated investor interest in the otherwise illiquid scrip of CCL.

3.12 A securities and fund flow analysis for shares of CCL traded in by some of the entities (including Atul B. Shah, with whom Shri Navin Thakkar had been in constant touch around the time of the advertisements) which contributed substantially to manipulation of prices and volumes in the scrip of CCL during the investigation period has been presented below:-

Deliveries given by clients of Parshwa Finance (Sub-Broker)

Deliveries from / to	DP Name	Account no.	Date	Ashish P. Shah	Atul B. Shah	Mukesh N. Gajjar
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Atul B. Shah	Pravin Ratialal	10105220	11-07-02		-149315	
purchases from unknown client delivery			11-07-02		-5000	
Purchase position of Mukesh Gajjar			13-07-02		-72410	
unknown client CDSL	130119	444495	12-07-02		-5900	
Atul B.Shah	Pravin Ratialal	10105220	13-07-02	-49285		
Maulik Patwa	Pravin Ratialal	10146527	13-07-02	-303300		
Vinod N. Desai	Khandwala	10039063	15-07-02	-37362		
Santosh Gaekwad	ASE Capital	10008379	19-07-02	117578		
Vinod N. Desai	Khandwala	10039063	19-07-02			-20000

Journal entries of Parshwa Finance showing linkages between clients (Fund Flow)

Name of the client	Date	Ref. no.	Tr. Type	Amount	Remarks / Narration
Rajesh Bachubhai Shah (R190)	10/07/02	3566	Debit	7,76,325.12	To Mukesh Gajjar
Vinod Desai (V069)	10/07/02	3565	Debit	36,908.48	To Mukesh Gajjar
Dugaram Umaram Dudi (D121)	07/08/02	3569	Debit	14,03,260.04	To Mukesh Gajjar
Ashish P.Shah (A225)	20/05/02	594	Credit	3,35,499.00	
	05/07/02	942	Credit	1,00,000.00	A G Associates
	15/07/02	1036	Credit	2,22,700.04	Rajvi A. Shah
Mukesh N.Gajjar (M132)	10/07/02	3564	Credit	5,83,313.01	
	10/07/02	3565	Credit	36,908.48	From Vinod Desai
	10/07/02	3566	Credit	7,76,325.12	From Raju B. Shah
	10/07/02	3567	Credit	2,02,987.00	From Rakesh R. Sheth
	30/07/02	3568	Credit	23,77,768.14	From Ashit H. Vora
	07/08/02	3569	Credit	14,03,260.04	From Dugaram Dudi
	07/08/02	3570	Credit	3,60,548.66	From Rakesh R. Sheth
Atul B. Shah (A221)	09/05/02	3575	Debit	86,283.03	
	24/05/02	3576	Credit	2,47,101.01	
	31/05/02	3577	Credit	90,887.65	
Rakesh R. Sheth (R175)	10/07/02	3567	Debit	2,02,987.00	To Mukesh Gajjar
	07/08/02	3570	Debit	3,60,548.66	To Mukesh Gajjar
	07/08/02	3571	Debit	78,85,885.41	
	25/10/02	3573	Credit	3,66,296.85	
	25/10/02	3574	Credit	23,452.45	
Aashit H. Vora (A233)	30/07/02	2940	Debit	23,77,768.14	Mukesh N. Gajjar (Manna Glass)

3.13 It is noted that certain entities acquired shares of CCL in physical form in off-market deals and later asked for conversion of the same into demat. After the issuance of the advertisement on proposed buyback of shares of CCL, these entities attempted to manipulate prices and volumes of shares of CCL in the market by meeting delivery obligations for self and other entities dealing through different brokers/sub-brokers. Suspicious transactions in the sale and purchase of these demat shares by the abovementioned entities were a clear attempt to manipulate securities and fund flows in a manner so as to project increased post-advertisement demand for shares of a relatively illiquid scrip which was languishing at Rs. 5 to 6 per share before the said advertisements were brought out.

3.14 It is submitted by the Noticees that the decision to defer consideration of buyback proposal was communicated to BSE and ASE and that anyway nowhere in the advertisement did it state that it is definitely going to buyback. It is true that the advertisement only stated that the Board of Directors will be meeting to consider a buyback proposal. However, it needs to be noted that the moment details such as the proposed buyback price and number of shares are stated in a number of advertisements in leading newspapers it attracts attention of gullible members of the public and induces it to purchase the shares particularly when the price offered is much higher than the prevalent market price. Further, as already seen, the notice to buyback was issued without the company CCL having the necessary financial strength to meet the obligations as required under Section 77A of the Companies Act, 1956 and without appointing a Compliance Officer as per the SEBI (Buyback of Securities) Regulations, 1998.

3.15 CCL has stated that a sudden spurt in prices and volumes in CCL scrip on the Exchange prompted an immediate decision to propose buyback of shares. I find that this claim of CCL does not stand the test of reason. Advertisement of a mere possibility, in the light of the circumstances where CCL ought to have known that the buyback cannot be carried out under the law, is a plan to induce the gullible public. This, together with the spurt in prices and volumes traded of the scrip immediately at around the same time has led to creation of artificial price rise in the market in an otherwise illiquid scrip to induce investors.

3.16 Under the facts and circumstances as discussed, it is concluded that CCL had issued prominent notices in newspapers for the proposed buyback of shares without having the necessary funds to support such a proposal in terms of Section 77A of the Companies Act, 1956 and without appointing a compliance officer as required under the SEBI (Buyback of Securities) Regulations, 1998 with a view to create investor interest in the scrip which was languishing. It created favourable conditions for entities like Atul B. Shah (who was in constant touch with the CMD of CCL as discussed earlier) to operate in the market in the backdrop of such advertisements and sell the shares of CCL to the gullible public thereafter. Hence, it is concluded that CCL and its CMD Shri Navin Thakkar have violated Regulation 5(1) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995.

ORDER

Now, therefore, in exercise of powers under Section 11B read with Section 11(4) of the SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade practices relating to securities market) Regulations, 2003 I hereby restrain Continental Controls Ltd. (PAN AAACC2007J) from accessing the securities market for a period of two years. The CMD of Continental Controls Ltd., Shri Navin Thakkar (PAN AABPT8558R) is hereby restrained from buying, selling or otherwise dealing in securities for a period of two years.

Place: Mumbai

Date: February 14th, 2008

V. K. CHOPRA

WHOLE TIME MEMBER

**SECURITIES AND EXCHANGE BOARD OF
INDIA**