

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11B AND 11(4) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,
1992 IN THE MATTER OF **PENTAMEDIA GRAPHICS LTD.**

WTM/GA/ 177/SRO/12/2006

- 1.0. During the period March – May 2005, SEBI received complaints from Oriental Bank of Commerce, Mylapore Branch (erstwhile Mylapore Branch of the Global Trust Bank Ltd.) [hereinafter referred to as “OBC”], against Cameo Corporate Services Ltd., Chennai, (hereinafter referred to as “Cameo”) Share Transfer Agents for Pentamedia Graphics Ltd. (hereinafter referred to as “PGL”). In their complaints, OBC, inter alia, stated that they had sent to Cameo, share certificates for 34,00,000 equity shares of PGL, held in the name of Vijay Advertising Private Limited (hereinafter referred to as “VAPL”), a preferential allottee, for transfer in the name of the Bank. OBC alleged that Cameo did not respond, despite repeated follow-up by OBC over a period of four months. OBC further informed that these shares were pledged in favour of the Bank as security for the huge dues payable by PGL. Further to the above complaint of OBC, SEBI sought certain clarifications/ information from Cameo, NSDL, CDSL, and BSE.
- 1.1 On September 12, 2003, PGL had issued 95,00,000 equity shares of Rs.10/- each on preferential basis at Rs.11.36 per share as approved by its Board of Directors. The details of the preferential allotment made to VAPL and Sathya Securities P Ltd. (hereinafter referred to as “Sathya”) are as under:

Sl. No.	Name of the Allottee	No. of shares allotted	Rate	Amount (Rs. In Lakh)	% of Post Issue Capital of PGL
1.	Sathya Securities P Ltd.	55,00,000	Rs.11.36	624.80	2.25%
2.	Vijay Advtg P Ltd.	40,00,000	Rs.11.36	454.40	1.63%

- 1.2. On a preliminary enquiry it was found that 2 sets of physical share certificates covering 3400000 shares each, issued in the name of VAPL existed at the same time bearing the same distinctive numbers.
- 1.3. One set of share certificate, in physical form, was pledged with OBC by VAPL apparently to secure the dues payable by PGL to OBC. While the shares were thus pledged to OBC, VAPL through its DP namely, IL&FS Ltd. (DP ID: IN 300095 Client ID 11085756) made a dematerialization request to Cameo enclosing another set of physical share certificates pertaining to the same distinctive numbers as those pledged with OBC. It appeared that either the shares pledged by VAPL with OBC were fake or the shares sent to Cameo for dematerialization and subsequently sold in the market were fake.
- 1.4. Apparently, VAPL had sold the demat shares in the market during the period from September 12, 2004 (i.e. immediately after the lock-in period was over) to September 30, 2004, even though another set of original shares in the name of VAPL and pertaining to the same distinctive number continued to remain pledged in physical form with OBC.
- 1.5. It appeared that the above act of VAPL would tantamount to a fraud on the investors of securities market besides being a fraud on the bank. PGL and its directors prima facie appeared to have actively assisted VAPL in the above fraud by simultaneously issuing shares bearing the same distinctive numbers without canceling the earlier issued shares.

- 1.6. Prima facie, the aforesaid facts appeared to render PGL /its directors/ the Allottees viz., Vijay Advertising Pvt. Ltd., guilty of violation of Regulation 3 and Regulation 4 (2)(h) of SEBI (Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003. In view of the findings of the preliminary enquiry as narrated hereinabove SEBI vide an ex-parte interim order dated May 27, 2005, issued directions to PGL, VAPL, OBC and Cameo, pending further investigations, which, inter alia, restrained PGL from accessing capital market and from issuing any further shares or altering its share capital in any manner, and also prohibited PGL, including its Directors, and VAPL, including its Directors, from dealing in securities market, till further directions.
- 1.7. An opportunity for post decisional hearing was granted to the aggrieved parties. PGL, VAPL and their respective directors were granted 15 days time to file their objections to the ex-parte ad interim order.
- 1.8. After considering the oral and written submissions of PGL, VAPL and its directors, SEBI vide interim Order dated October 3, 2005, confirmed the aforesaid ex-parte interim order.
- 1.9. Thereafter SEBI conducted detailed investigations in the matter. The investigation inter alia, showed that:
 - 1.9.1. PGL had issued a fake certificate No. 178240 to VAPL in July 2004, while the original one issued earlier in February 2004 was still under pledge with OBC. Therefore PGL, VAPL and their directors had violated, Regulations 3(b), (c), (d) and 4(2)(h) of the SEBI Prohibition of (Fraudulent and Unfair Trade Practices) Regulations, 2003.
 - 1.9.2. In respect of the preferential issue of 95,00,000 shares made by PGL to VAPL and Sathya, it is observed that the funds for subscription aggregating to Rs.10,83,20,000 was provided by PGL during the period between 8.9.2003 to 12.9.2003. The above funds were indeed provided through the subsidiary of PGL namely, Mayajaal Entertainment P Ltd. The findings of investigation reveal that M/s VAPL and Sathya did not have sufficient money for subscription to the preferential issue of PGL and therefore the funds provided by PGL was used

towards the subscription to the preferential shares. Thus, it is clear that PGL provided money to VAPL and Sathya through their fully owned subsidiary company namely, Mayajaal Entertainment P Ltd for the purpose of subscription towards the preferential issue of PGL. In the case of Sathya, PGL provided moneys not only through Mayajaal but also through Jay Financial. In the process, PGL and other entities as above, including their management, have violated Regulation 3(b),(c) and (d) of SEBI (Fraudulent and Unfair Trade Practices) Regulations, 2003 and Section 77 of Companies Act, 1956.

1.9.3. Further, as per the investigation, PGL and its management were found to be guilty of the various other violations as follows:

- a. PGL made false and misleading disclosures about the identity of one of the allottees viz., Sathya in the preferential issue, in violation of Clause 13.1A Chapter XIII of SEBI (Disclosures for Investor Protection) Guidelines, 2005.
- b. PGL issued false certificate to the exchanges regarding dispatch of shares, to obtain listing permission, in violation of Listing Agreement.
- c. PGL failed to obtain in-principle listing permission from the stock exchanges before the issue of securities, in violation of listing agreement.
- d. PGL allotted shares in the name of VAPL and Sathya on the basis of incomplete and deficient applications.
- e. PGL caused physical shares certificates to be delivered without letter of authority from the applicants/allottees and to persons other than the allottees.
- f. PGL, had, all by itself, handled the work relating to split request made by VAPL when such work fell within the scope of share transfer agents without obtaining the prior approval of the competent authority being the share transfer and investor grievance committee.
- g. Also, PGL showed undue preference in executing the transfer request made by Jay Financial on the same day of its lodgement and also in confirming the DRF request made by VAPL and Jay Financial for dematerialisation of shares.

- 1.10 In view of the above findings, SEBI issued Show Cause Notice dated 22.12.2005 to 19 entities including PGL, Mayajaal, VAPL, Sathya and Jay Financial. Considering the replies filed by the parties concerned and in the interest of natural justice an opportunity of personal hearing was also granted on 31st July 2006. Another opportunity of personal hearing was granted on December 22, 2006.
- 1.11 On the above dates of hearing, Shri V Chandrasekaran, Chairman and CEO, Pentamedia Graphics Ltd., representing PGL and its Directors and Smt.Sumathy Sridharan representing Mayajaal and its Directors, appeared and reiterated the written submissions made vide their letters dated 31.7.2006, 4.8.2006, 8.9.2006 and 29.11.2006. VAPL, Jay Financial, Shri S Chandrasekaran, former CFO of PGL, Shri Sri Hari, Advisor to Jay Financial, and Shri Gaverchand Jain, did not appear for the personal hearing. However, they have made individual request for dropping proceedings.

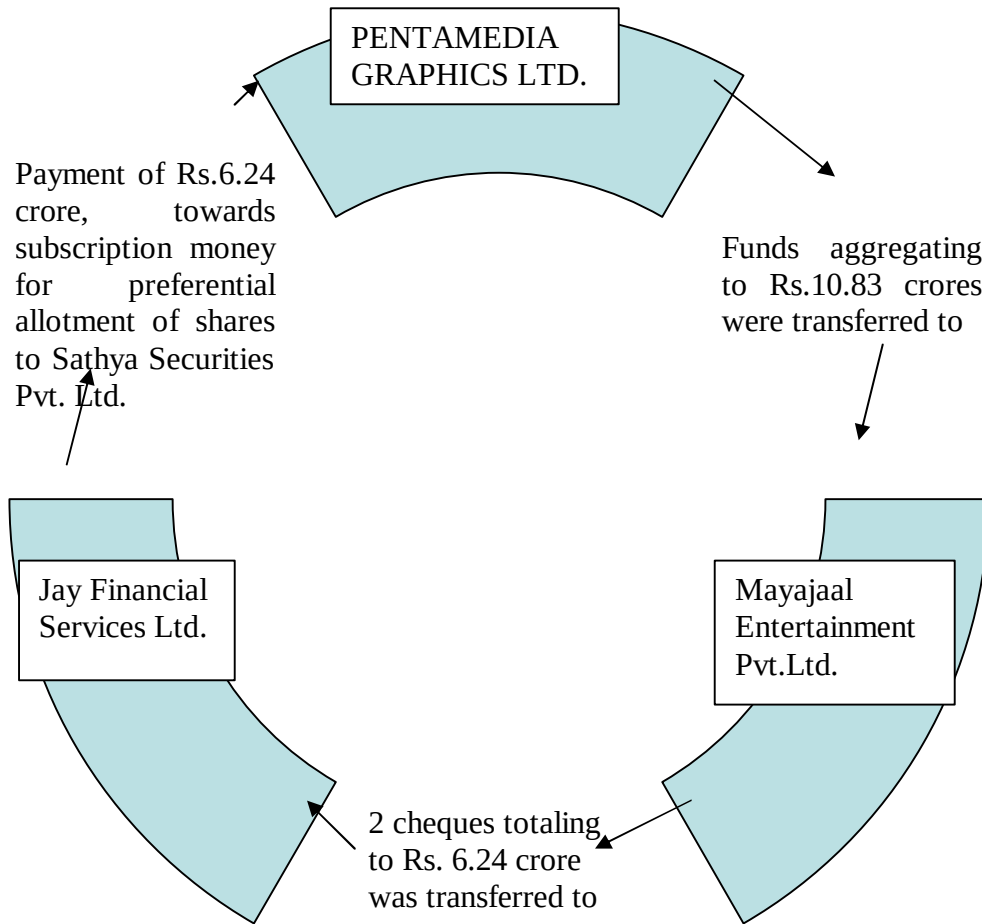
2. CONSIDERATION OF ISSUES AND FINDINGS

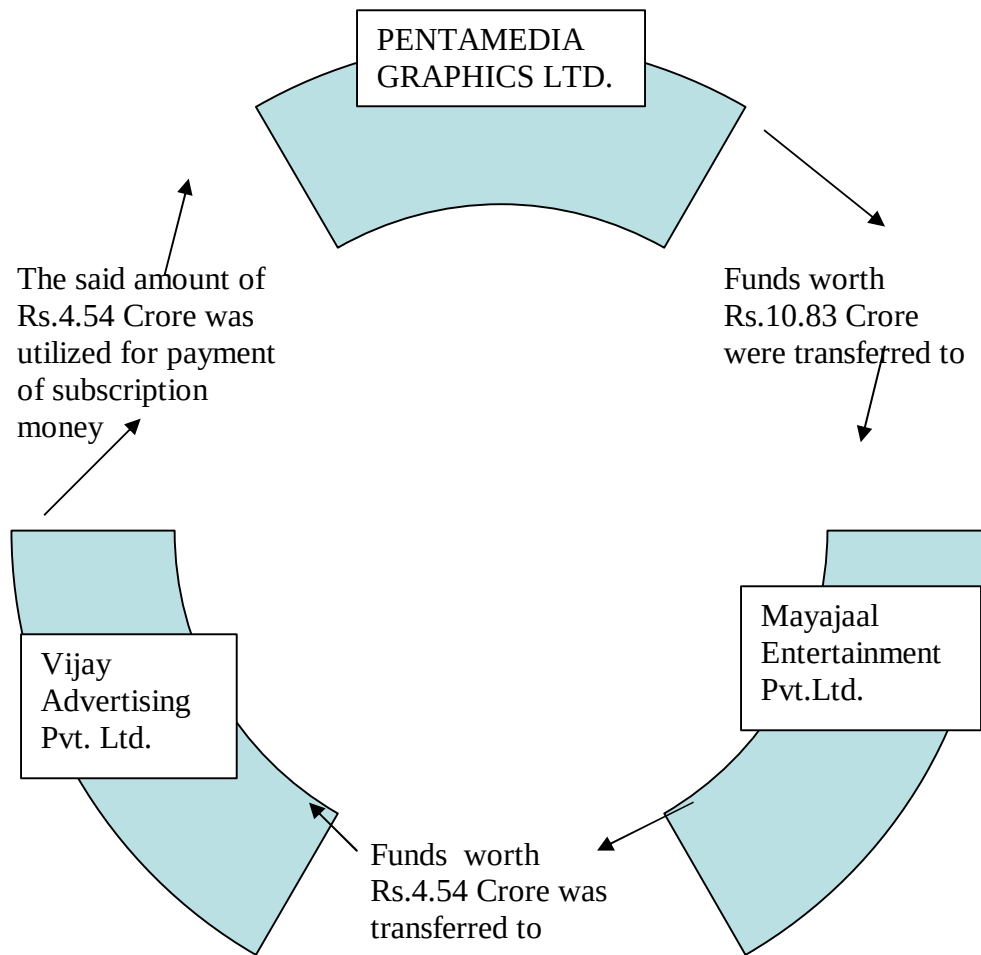
- 2.1. I have carefully perused the show cause notice, written and oral submissions of PGL and VAPL, and all other materials available on record.
- 2.2. PGL had stated that there was no intention to duplicate the shares particularly when the same were specifically required to be returned back to PGL, and that only one set of shares in demat form were still in market and no prejudice was caused to any investing public either financial or in any other manner as on date.
- 2.3. VAPL had stated that, when they got the shares from PGL, on their request, they were under the impression that the shares had been released by Oriental Bank of Commerce, with whom they were pledged. VAPL also stated that they have no mala fide intention to defraud any person/bank or third party in any manner and that any procedural lapses may be condoned.

2.4. Also, during the course of the personal hearing, PGL pleaded the absence of malafide intention on their part, and also assured to settle the dues payable to the Oriental Bank of Commerce in lieu of 34,00,000 lakh shares under pledge with them, in respect of which the complaint was made by OBC. Subsequently, PGL vide its letter dated 27.10.2006, confirmed payment of Rs.2.72 Crore, in lieu of the 3400000 shares pledged by them, and requested for lifting of the interim Order passed by SEBI. Further, Oriental Bank of Commerce sent a communication to SEBI, vide their letter dated 28.11.2006, the contents of which are as follows:

“We would like to inform you that we have received a sum of Rs.2.27 Crore from M/s.Pentamedia Graphics Ltd., in full satisfaction in lieu of 34 Lacs shares from the captioned co to our bank.”

2.5. I note as per records, that by their own admission, PGL had issued fake certificate bearing No.178240 for 34,00,0000 shares as a temporary measure in the name of VAPL in July 2004, while the original one issued in February 2004 was still under pledge with the Oriental Bank of Commerce, in violation of Regulation 3 and 4 (2) (h) of SEBI (Fraudulent and Unfair Trade Practices) Regulations 2003. The investigation has also established the same clearly. The same was not disputed before me in the course of hearing. Further, the funding of the preferential allotment by PGL has been vividly brought out with details in the Investigation Report. I am not traversing all of them for the purpose of this Order, as PGL has not disputed. However, for the sake of ready appreciation the fund flow is described schematically hereunder:





- 2.6. I have also taken into account the submission made by PGL that the company has issued duplicate set of shares with the hope of getting the original certificates from the erstwhile bank namely, GTB. PGL also stated that they had an understanding with GTB for release of original share certificate for cancellation after the settlement of the outstanding dues. The company therefore pleaded that there was no intention to duplicate the shares particularly when the same were specifically required to be returned only back to the company. Further, PGL stated that only one set of shares in demat form are still in market and no prejudice is caused to any investing public either financial or in any other manner as on date. PGL vide their letter dated 29.11.2006 enclosed a copy of the letter from OBC dated 28.11.06 wherein OBC has stated that they have received Rs.2.72 crores from PGL in full satisfaction in lieu of 34 lac shares of PGL (which is a subject matter of investigation) and sought SEBI's instruction for disposal of shares lying with them. In view of the above, it is clear that outstanding dues have been settled by PGL to the full satisfaction of OBC.
- 2.7 I also take note of the fact that, PGL, VAPL and their directors have already been subject to directions prohibiting them from accessing capital market or dealing in securities, in any manner, directly or indirectly, for more than 18 months, by virtue of the interim order dated 27.5.2005.
- 2.8 In the light of the facts of the case, as brought out by Investigation, I find that PGL and its Directors and VAPL and its directors, have violated Regulation 3(b), (c), (d) and 4(2) (h) of SEBI (Fraudulent and Unfair Trade Practices) Regulations 2003. I also find that Mayajaal and its Directors, Jay financial Services P Ltd., and its Directors, Shri Sri Hari, Advisor, Jay Financial Services P Ltd., Sri S Chandrasekaran (Former CFO, PGL and also Director of Mayajaal Entertainment Ltd., Shri Gaverchand Jain (Director, Malu Financial Securities Ltd.) have violated Regulation 3(b), (c) and (d) of SEBI (Fraudulent and Unfair Trade Practices) Regulations, 2003.

- 2.9. Further, I have taken note of the submissions made by PGL and Mayajaal during the hearing regarding their bonafides. Also it has been brought to my notice by PGL that the Honourable High Court of Chennai has sanctioned the composite scheme of amalgamation, arrangement and compromise vide Order dated 12th October 2004, while praying that they should be permitted to implement the aforesaid Order of the Honourable High Court.
- 2.10. I also note that the Show Cause Notice contained several other allegations relating to matters falling within the purview of stock exchange and Ministry of Company Affairs, for which I find that separate references have been made to them, for such actions as may be deemed fit.
- 2.11. For the purpose of this Order, I am confining myself to the substantive violations under SEBI (Fraudulent and Unfair Trade Practices) Regulations 2003, and SEBI (Disclosure and Investor Protection) Guidelines 2000, as found above.

ORDER

- 3.1. In view of the above facts and circumstances, I in exercise of the powers conferred upon me in terms of Section 19 read with Section 11 and 11 B of the Securities and Exchange Board of India Act, 1992, issue the following directions:
- 3.2 I, hereby direct that PGL and its Directors (as mentioned in Annexure I), VAPL and its directors (as mentioned in Annexure I), Mayajaal and its Directors (as mentioned in Annexure I), Jay Financial Services P Ltd and its Directors(as mentioned in Annexure I), Sri Hari, Advisor, Jay Financial Services P Ltd, S Chandrasekaran (Former CFO, PGL and also Director of Mayajaal Entertainment Ltd), Gaverchand Jain (Director, Malu Financial Securities Ltd) be prohibited from accessing capital market or dealing in securities, in any manner, directly or indirectly, for a period of 24 months. I direct that for the purpose of reckoning the same, the period of prohibition already undergone vide ex-

parte ad interim order dated 27.05.2005 and the post-decisional Order dated 3.10.2005 shall be taken into account.

- 3.3 As regards the prayer of PGL to allow implementation of the Composite Scheme of Amalgamation, Arrangement and Compromise approved earlier by the Hon'ble High Court of Chennai, it is ordered that the direction as mentioned in 3.2 above will not apply to PGL and Mayajaal in so far as the implementation of the scheme sanctioned by the Hon'ble High Court is concerned. I further direct that PGL, Mayajaal and their directors shall not divest, transfer, sell or alienate in any way the shares received / to be received by them due to the implementation of the scheme of Amalgamation, Arrangement and Compromise for a period co-terminus with the period of prohibition imposed vide para 3.2 above.
- 3.4 Oriental Bank of Commerce, Mylapore branch is directed to handover all the original documents pertaining to the transaction including the share certificates and the loan documents in its possession, under acknowledgement, to Cameo. Upon receipt of the documents from the Bank, Cameo shall cancel the share certificate(s) and hold it along with other documents, pertaining to the transaction, received from Bank, in the manner and for the period specified under Regulations 14 and 15 of Securities and Exchange Board of India (Registrar to an Issue & Share Transfer Agent) Regulation 1993 and submit a compliance report to SEBI within a period of two months from the date of this Order.
- 3.5. In continuation of the directions in the Interim Order dated 27th May 2005, Cameo may now deal with the documents pertaining to the transaction including the original defaced share certificates received by it for dematerialization, in accordance with the applicable provisions of the Depositories Act 1996, read with Securities and Exchange Board of India (Depository Participants) Regulations 1996 and the documents and correspondence received by it from PGL regarding the preferential allotment to VAPL and Sathya, in the

manner and for the period specified under Regulations 14 and 15 of Securities and Exchange Board (Registrar to an Issue & Share Transfer Agent) Regulations 1993.

3.6. This order shall come into force with immediate effect.

Place: Chennai

Date: December 22, 2006

**G ANANTHARAMAN
WHOLE-TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF
INDIA**

ANNEXURE I

DIRECTORS OF PGL

1. Shri K Ganesh Babu
2. Shri S D Viswanathan
3. Ms Usha Ganesarajah
4. Shri T V Krishnamurty
5. Dr S Ramani
6. Dr V Chandrasekaran (Chairman)

DIRECTORS OF VAPL

1. Shri M Varadharajan
2. Smt Bhuvaneswari

DIRECTORS OF JAY FINANCIAL

1. Ms K Padma
2. Shri M Ugandhar

DIRECTORS OF MAYAJAAL

1. Mrs Viji Kannan
2. Shri T V Krishnamurty
3. Mrs Sumathi Sridharan
4. Shri Bogollu Udeep