

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

IN THE MATTER OF CYBERSPACE LTD.

In respect of Harshad M. Shah

ORDER

Under Section 11B and 11(4) of the Securities and Exchange Board of India Act, 1992

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') had conducted an investigation into the buying, selling and dealing in the shares of M/s Cyberspace Ltd. (hereinafter referred to as 'Cyberspace') on observing unusual movement in the price and volume of the scrip of Cyberspace in the period October 1999 to March 2001 (hereinafter referred to as the 'investigation period'/ 'period of investigation'). Investigations revealed that the price of the Cyberspace scrip had gone up substantially in the period from October 1999 to March 2000 and thereafter started attracting large volumes from September-October 2000 till March 2001. The scrip was trading at around Rs. 1200/- in September, 2000. Pursuant to the sub-division of the equity shares from Rs.10/- to Rs.2/-, the price was proportionally reduced to Rs. 186/- on September 26, 2000. The price moved in the range of Rs. 190/- to Rs. 147/- till February 2001.
2. Investigations further revealed that M/s. Rosewood Tradelinks Pvt. Ltd. (hereinafter referred to as 'Rosewood'), M/s. Pradeepak Finance & Management Consultants P. Ltd. (hereinafter referred to as 'Pradeepak') and M/s. Shivam Multi Services P. Ltd. (hereinafter referred to as 'Shivam'), three companies where Harshad M. Shah was a director, had purchased and sold large quantities of shares of Cyberspace on BSE during the period of investigation thereby creating artificial volumes in collusion with Cyberspace and other related / linked entities.

3. Accordingly, SEBI issued 3 separate notices dated May 26, 2004 (hereinafter referred to as 'SCNs') to Harshad M. Shah (hereinafter referred to as the 'noticee') in his capacity as director of Rosewood, Shivam and Pradeepak, respectively. Subsequently, SEBI vide its order dated March 3, 2008, *inter alia*, restrained the noticee, Shri Harshad M Shah from accessing the securities market and prohibited him from associating with the securities market to buy, sell or deal in securities in any manner whatsoever for a period of 5 years for the violation of Regulations 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. The noticee appealed against the said SEBI order (appeal no. 80/2008) before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT'). However, the Hon'ble SAT, vide its order dated December 17, 2008, noted that the SCNs were not delivered to the noticee and hence remitted the case back to SEBI for a fresh decision in accordance with law after serving copies of the SCNs on the appellant. In compliance with the SAT Order, the SCNs dated May 26, 2004 were sent to Harshad M Shah by SEBI vide its letters dated May 18, 2009 and November 6, 2009 asking the noticee to show cause as to why suitable directions under Sections 11(4) and 11B of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the 'SEBI Act') including restraining him from accessing the capital market and prohibiting him from buying, selling or dealing in securities in any manner should not be issued against him..
4. Vide letter dated June 2, 2009 Harshad M Shah replied, inter-alia, stating the following:
 - a) He was appointed as director on the boards of Rosewood, Pradeepak and Shivam (hereinafter collectively referred to as 'the three companies') to fill the vacancy that arose due to the voluntary resignation of the then director.
 - b) He had never participated in the day to day management and affairs of the companies either directly or indirectly.
 - c) He had never held any office of profit as director and never drew any salary, remuneration, commission or monetary benefit directly or indirectly.
 - d) He resigned from the companies with effect from September 1, 2001.
5. Subsequently, an opportunity of hearing was provided to Harshad M Shah on November 12, 2009. Harshad M Shah attended the said hearing. During the hearing, Harshad M

Shah submitted a letter dated November 12, 2009 enclosing the copy of his depository statements showing his holdings as of September 2004 and September 30, 2009 to show that he had not liquidated his holdings during the 5 year period, even after the freeze on the demat account was lifted as per the SAT order.

6. I have carefully considered the SCN, submissions of the noticee and other material available on record.
7. I note that Cyberspace was originally incorporated in 1984 as M/s. Greenfield Leasing and Holdings Limited and was renamed as M/s. Century International Finance Ltd. in 1994. Thereafter, in 1998, the company again changed its name to M/s Cyberspace Infosys Ltd. and is presently known as M/s. Cyberspace Ltd. The company came out with a public issue in December 1994 and its total equity of Rs 5.74 crore was divided into 57.40 lac equity shares of Rs 10 each. The equity shares of Cyberspace were listed on the Delhi Stock Exchange (hereinafter referred to as 'DSE'), the Uttar Pradesh Stock Exchange (hereinafter referred to as 'UPSE'), the Bombay Stock Exchange (hereinafter referred to as 'BSE') and the National Stock Exchange (hereinafter referred to as 'NSE'). The scrip of Cyberspace was traded in compulsory rolling settlement. As per the distribution schedule dated May 31, 2000, the promoters and group companies were holding 42.73% and the public holding was 42.88%. In 1993-94, Shri A.K Johari and Shri Arvind Johari had taken over Cyberspace as promoters.
8. M/s Century Consultants Ltd (hereinafter referred to in short as 'CCL') was a group company of Cyberspace and a member of NSE, BSE and Over-The-Counter Exchange of India (hereinafter referred to as 'OTCEI'). G N Johari, Anand Johari and Arvind Johari were directors in both Cyberspace and CCL.
9. On a preliminary enquiry, BSE found that the promoters of Cyberspace and CCL seemed to be involved in manipulative activities, which may have affected the price in the scrip of Cyberspace. Subsequently, BSE and NSE withheld the payouts in the scrip for the settlement No. 242-246 and W47-W50 respectively.

10. Subsequently, SEBI conducted an investigation into the affairs relating to buying, selling and dealing in the shares of Cyberspace. It was found that the promoters of Cyberspace and CCL had acted in concert with certain shell companies and circulated shares of the company amongst themselves with a view to raise the price and volume of the scrip artificially and they created false market. Thereafter, CCL defaulted and the price of the scrip started crashing by 16% on daily basis.
11. Rosewood, in which company Harshad M Shah, the noticee herein was a director, had purchased 12,70,325 shares and sold 12,50,800 shares on BSE during the investigation period. Harshad M. Shah, was a director of Rosewood during the same period. Analysis of the demat-account (CDSL) of Rosewood showed transfers to and from CCL and the companies associated with CCL and its promoters, viz., Nucleus Soft-Tel Pvt. Ltd. Moreover, upon scrutiny of the demat account (NSDL) of Rosewood, one off market transfer from the Beneficiary Account of CCL and two off market transfers to another related entity, Pradeepak Finance & Mgmt. Consultants Pvt. Ltd was noticed.
12. Similarly, during the investigation period, Shivam purchased 11,06,750 shares and sold 10,50,200 shares of Cyberspace on BSE. Harshad M. Shah, the noticee herein was a director of Shivam during the same period. Analysis of the CDSL account of Shivam showed transfers to and from companies associated with CCL and its promoters, like Arihant Investments, Delta Investments, Country Informtech Services P. Ltd. and Kamrao Plastique Ltd.
13. I note that Pradeepak also purchased 8,53,000 shares and sold 7,99,100 shares of Cyberspace on BSE, during the investigation period. Harshad M. Shah, the noticee herein was a director of Pradeepak also during the same period. Analysis of the demat account (CDSL) of Pradeepak showed transfers to and from companies associated with CCL and its promoters, like Nucleus Soft-tel Ltd., Octopus Soft-tel, Arihant Investments, Delta Investments and Kamrao Plastique Ltd.
14. These aforementioned entities were linked to Cyberspace and/or CCL as under:

Name	Relationship with Cyberspace/ CCL
Kamrao Plastique Ltd.	Chetan Patel, director of Kamrao Plastique Ltd., was an employee of CCL.
Delta Investments	Mahesh Mistry, director of Delta Investments, was an employee of CCL.
Arihant Investments	Rakesh Giriya, proprietor of Arihant Investments, was a client of CCL and Rohit Shah, witness to the Member Constituent Agreement was an employee of CCL.
Country Informtech Services P. Ltd.	Raju Kapur, director of Country Informtech Services P. Ltd. was an employee of CCL. Address appearing in the MoA of Shri RP Tiwari, a witness to the Memorandum of Association (MoA) of Country Informtech Services P. Ltd., is the same as the Lucknow branch office of CCL.
Nucleus Soft-Tel Pvt. Ltd.	Amit Singh, director of Nucleus Soft-Tel Ltd., and Sachin Agrawal, witness to MoA of Nucleus Soft-Tel Ltd., were employees of CCL. Amit Singh was the personal assistant to Arvind Johari
Octopus Soft-Tel Pvt. Ltd.	Anil Thambe, director of Octopus Soft-Tel Pvt. Ltd., and Sachin Agrawal, witness to MoA, were employees of CCL.

15. Furthermore, I note that Rosewood, Shivam and Pradeepak in their respective statements before the investigating authority admitted that it was transacting in the scrip on Arvind Johari's request as the latter wanted to upgrade the scrip from B2 to B1 group, for which a higher volume of trade in the scrip was needed. Moreover, each of the three companies stated that they were acting as unregistered sub brokers to CCL since 1997. Further, the three companies received funds from AM Johari and CCL. The receipt of such funds was followed by an increased trading by them in the scrip.

16. In view of the above, it is evident that Rosewood, Shivam and Pradeepak were complicit in the manipulation of the scrip. I note that the proceedings herein have been initiated against Harshad Shah as the director of the three companies. In his defense, Harshad Shah has pleaded that he was never involved in the day to day affairs of Rosewood and that he resigned from the company with effect from September 1, 2001. As the proceedings relate to the period September 2000- March 2001, I note that the noticee's resignation in September 2001 is immaterial to the facts of this case. Moreover, I note that Pradeepak, Rosewood and Shivam are private limited companies, and have only a few directors on their boards. In such a scenario, and in the absence of any other material on record which could point to a different conclusion, I cannot rely merely on

- the *ipse dixit* of the noticee. I also note that directions have been passed/ are being passed against Pradeepak, Rosewood and Shivam and other directors of these companies during the investigation period.
17. Whereas Pradeepak, Rosewood and Shivam indulged in fraudulent practices in the scrip of Cyberspace, the noticee, being a director of Pradeepak, Rosewood and Shivam, cannot escape from the liability for manipulative activities. It is the responsibility of the directors to ensure that a company functions properly, in accordance with law. The company as well as every director who is in charge of the company at the time of alleged manipulation shall be responsible for the violation of Regulations 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995. Therefore, I find that Harshad Shah, the noticee violated Regulations 4(a), (b), (c) and (d) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 1995.
18. Therefore, taking into consideration facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 19 of the SEBI Act read with Sections 11(4) and 11B of SEBI Act, 1992 and Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, restrain Shri Harshad Shah from buying, selling or dealing in securities and from associating in securities market in any manner whatsoever for a period of one year. .
19. A copy of this order shall be served on all recognized stock exchanges and depositories.
20. This order shall come into force with immediate effect.

DATE: 25/January/2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA