BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: PRASHANT SARAN, WHOLE TIME MEMBER

IN THE MATTER OF PROMACT PLASTICS LIMITED

In respect of Promact Plastics Limited

ORDER

Under Sections 11, 11(4) and 11B of the SEBI Act, 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted investigation into the dealings in the shares of Promact Plastic Limited for the period from February 11, 2005 to July 27, 2005 (hereinafter referred to as 'investigation period'). During the investigation period, the price of the scrip increased from Rs.5.98 as on February 11, 2005 to Rs.28.00 as on July 27, 2005 at BSE, which indicates a rise of 309%. The average daily volume of the trades in the scrip during the period of investigation was 28,421 shares, and a maximum volume of 7,03,514 shares was traded on June 23, 2005.

2. During the course of investigation, it was *inter alia* found that Promact Plastic Limited (hereinafter referred to as 'PPL'/ the 'company'/ 'noticee') had reported higher profits in the unaudited financial results disclosed to the Bombay Stock Exchange (hereinafter referred to as 'BSE'). SEBI noticed that entities related to the noticee dealt in the scrip of the company, during the same period, when the trading window should have been closed.

3. Based on the findings of the investigation, SEBI issued a notice dated January 14, 2010 (hereinafter referred to as 'SCN') to the company under Sections 11, 11(4) and 11B of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act') read with Regulation 11 of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003

(hereinafter referred to as, 'PFUTP Regulations'). The SCN alleged that the aforementioned acts of the noticee were in violation of the provisions of Regulations 3 (b), (c) and (d), Regulation 4(1), 4(2) (a), (k) and (r) of PFUTP Regulations and Regulation 12(1) and 12(3) of the SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as, 'PIT Regulations') read with Clause 3 of the Model Code Of Conduct as specified in Schedule I of the PIT Regulations.

4. Although the SCN was duly delivered to the noticee, no reply was received. A reminder was also issued to the noticee. However, the noticee has not replied till date. An opportunity of personal hearing was granted to the noticee on December 16, 2010, at Ahmedabad. On the scheduled date, Shri. Naranbhai N Patel and Shri. Hemendra A Patel appeared on behalf of the noticee and sought an extension of 30 days, as the authorized representative of the company, Shri Keyoor Bakshi, a Practicing Company Secretary, was not in the country. Accordingly, the noticee was granted 21 days to make written submissions. Subsequently, vide letter dated January 04, 2010(*sic)*, the noticee expressed its desire to make an application for the settlement of the proceedings in terms of the SEBI Circular dated April 20, 2007, and undertook to file such an application within one month. However, no consent application or written submission has been received by SEBI, till date. Thereafter, on January 20, 2012, the noticee was granted another opportunity for personal hearing. However, the noticee did not appear for the hearing on the scheduled date. Thus, I note that the noticee has been given sufficient opportunity to defend itself. Accordingly, I am proceeding with the matter, *ex-parte*, on the basis of material available on record, having complied with the principles of natural justice.

5. I have carefully considered the SCN and other material available on record. After having examined the same, the issues that arise for my consideration are:

   a. Whether the noticee had made misrepresentations in the unaudited quarterly results for the period June 2005, September 2005 and December 2005, so as to create higher volumes in trades and large variation in the price of the scrip

of PPL in violation of the provisions of Regulations 3 (b), (c) and (d), Regulation 4(1), 4(2) (a), (k) and (r) of PFUTP Regulations?

b. Whether the noticee had failed in setting policies and procedures for the implementation of trading window, monitoring of trades and the implementation of the provisions of Regulation 12(1) and 12(3) of PIT Regulations read with Clause 3 of the Model Code Of Conduct as specified in Schedule I of the PIT Regulations?

Whether the noticee had made misrepresentations in the unaudited quarterly results so as to create higher volumes in trades and large variation in the price of the scrip of PPL in violation of the provisions of Regulations 3 (b), (c) and (d), Regulation 4(1), 4(2) (a), (k) and (r) of PFUTP Regulations?

6. The details of the un-audited quarterly results of PPL for the quarters that ended by June'05, September'05 & December'05 and Annual Results for the year 2004-05 and 2005-06 as submitted by the company to the BSE are given in the table below:

Financial Results	**For the year ended March 2005**	**For the Qtr ended June 2005**	**For the Qtr. Sep 2005**	**For the Qtr. ended Dec 2005**	**For the year ended March 2006**
Net Sales	321.27	83.56	88.59	90.73	124.21
Other Income	0.54	0.48	0.37	0.22	1.11
Total Income	321.9	84.03	88.96	90.94	125.32
Expenditure	-284.31	-74.62	-79.49	-81.61	-138.79
Net Profit/ (-) Loss	9.37	3.84	3.98	4.02	-31.43
Equity Capital	54.27	54.27	54.27	65.12	65.12
EPS (Rs.)	1.73	0.71	0.73	0.62	-
Date of filing with exchange	June 23, 2005	July 30, 2005	October 27, 2005	January 31, 2006	August 20, 2007

* *Figures are in Rs. million*

7. I note that the combined net sales, total income and the net profit figures of the unaudited results for the first three quarters of the financial year 2005-2006, were

significantly higher than the corresponding figures in the audited annual results of the company for that financial year. The sum of net sales and total income figures for the first three quarters of the year 2005-06 were Rs. 262.88 million and Rs. 263.93 million respectively, as against the audited annual figures for the corresponding items at Rs. 124.2 million and Rs. 125.3 million. In other words, the audited figures of net sales / total income for financial year 2005-06 were around 53% lesser than the sum of unaudited results for first three quarters. Similarly, the reported profit during the first three quarters were Rs. 11.84 million while the audited annual reports reported a loss of Rs. 31.43 million for the year 2005-06. However, PPL did not provide any explanation for this huge variation in net sales, total income and net profit figures between the annual results and the quarterly results for the year 2005-2006.

8. Further, in the Director's Report, contained in the Annual Report of PPL for the year 2005-06, it was mentioned that as the losses during the year (Rs. 31.43 million) was under review and as it accumulated losses, PPL is unable to pay any dividend for the year 2005-06. However, as observed from the quarterly unaudited results of the company for first three quarters of the year 2005-06, PPL earned a net profit Rs. 11.84 million. Further, it was observed from the Directors Report for the year ended March 31, 2005, the profit after tax was Rs. 9.37 million. However, in the Directors Report for the year 2005-06, it was mentioned that the profit after tax was Rs. 2.17 million. Thus, the Directors' Report was contradictory to the financial results for the period 2004-05 and the first three quarters of the year 2005-06. The net sales and profits shown in quarterly results were at variance from the audited figures.

9. From the above, it appears that the figures reported in the unaudited results were inflated and manipulated so as to create higher volumes in trades and large variation in the price of the scrip of PPL. Thus, I find that **the noticee acted in violation of the provisions of Regulations 3 (b), (c) and (d), Regulation 4(1), 4(2) (a), (k) and (r) of PFUTP Regulations.**

Whether the noticee had failed in setting policies and procedures for implementation of trading window, monitoring of trades and the implementation of the provisions of

Regulation 12(1) and 12(3) of PIT Regulations read with Clause 3 of the model Code Of Conduct as specified in Schedule I of the PIT Regulations?

10. I observe that the noticee had filed certain corporate announcement with BSE. The gist of these corporate announcements is given below.

Sr. No.	Date	News text
1.	June 13, 2005 1:09:59 PM	Promact Plastics Board to recommend dividend & bonus issue. BSE was informed that a meeting of the Board of Directors of the company will be held on June 23, 2005, inter alia, to consider the following: 1. Annual Accounts for the Financial Year 2004-05 ended on March 31, 2005. 2. Recommendation of dividend, if any, for the financial year 2004-05 ended on March 31, 2005. 3. Recommendation on issue of Bonus shares.
2.	June 23, 2005 12:17:00 PM	Promact Plastics Board recommends dividend & bonus issue The company at its meeting held on June 23, 2005, inter alia, has recommended the following: 1. Issue of Bonus Shares in proportion of 1 (one) Equity Share for every 5(five) Equity Shares held. 2. Dividend @ 1/- per Equity Share for the financial year 2004-05 ended on March 31, 2005 Annual Results of the year 2005-06 were declared on this day
3.	July 27, 2005 11:59:09 AM	Promact Plastics Board to consider proposal of Amalgamation Promact Plastics Ltd. has informed BSE that a meeting of the Board of Directors of the Company will be held on August 08, 2005, inter alia, to consider the proposal of Amalgamation of Maan Pharmaceuticals Ltd. with the Company

Thus, the company had made three corporate announcements during June-July, 2005.

11. It is also observed that the entities related to the noticee, had dealt in the scrip of PPL from February 11, 2005 to July 27, 2005. The basis of their connection and the details of their transactions are as follows:

Client Name	Name of the trading member	Connection	Quantity bought	Av. Rate of buy (Rs.)	Quantity sold	Av. Rate of Sales (Rs.)
Vivek Investment	Angel Broking Ltd.	Proprietor of the firm is Babubhai A Patel, who is also the Chairman and Managing Director of Promact Plastic Ltd.	5150	17.70	10350	20.80
Vishnubhai Patel	Sushil Finance Consultant Ltd.	Director of Promact Plastic Ltd.	16005	15.55	21281	17.30
Goodluck Marketing Pvt. Ltd.	B D Shroff Securities Pvt. Ltd.	Promoter entity	-	-	269806	16.27
	Anagram Stock Broking Ltd.	Promoter entity	-	-	17000	10.41

12. From the table above, it was observed that the directors of PPL, Babubhai A. Patel trading through Vivek Investments bought 5,150 shares and sold 10,350 shares and Vishnubhai Patel bought 16,005 shares and sold 21,281 shares. Further, it was also observed that the aforementioned directors had traded on the dates of announcement of dividend and amalgamation i.e. on June 23, 2005 and July 27, 2005 respectively, both prior to and after the announcements. It is also observed that Goodluck Marketing Ltd., a promoter entity, sold 2,00,000 shares on June 23, 2005, after the Board meeting decided to recommend issue of Bonus shares and declare the dividend and sold 3290 shares on July 27, 2005 after the Board meeting considered the proposal for Amalgamation.

13. The Model Code of Conduct under **Clause 3 of Schedule I of the PIT Regulations** for Prevention of Insider Trading mandates that trading window should be specified by the listed company and kept closed for 24 hours after the corporate announcements. It is pertinent to note that the directors of PPL had traded when the trading window had to be closed in terms of the said Code of

Conduct. Further, the noticee did not provide the details of closure and opening of trading window, copy of the Code of Internal Procedures and Conduct and the Code of Corporate Disclosure Practices framed by the company. Hence, there is **no evidence on record to show that PPL had laid down policies, procedures, implementation of trading window, monitoring of trades and the implementation of the Code of Conduct as provided under Regulations 12(1) and 12(3) read with Clause 3 of the Model Code of Conduct in Schedule I of the PIT Regulations.**

14. Therefore, in view of the foregoing, I, in exercise of the powers conferred upon me under Sections 19, read with Sections 11, 11(4) and 11B of the Securities and Exchange Board of India Act, 1992 and Regulation 11 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, hereby prohibit M/s. Promact Plastic Ltd. from buying, selling or dealing in securities in any manner, or accessing the securities market directly or indirectly in any manner whatsoever for a period of one year from the date of the order.

15. This order shall be served on all recognized stock exchanges and depositories to ensure that the noticee is not allowed to undertake transactions as prohibited in the Para above.

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

DATE : 4/APRIL/2012
PLACE: MUMBAI

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA