

Investigation Report

Trading Activity in the Shares of CHENAB LIMITED

**SECURITIES MARKET DIVISION
SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**

September 08, 2010

This Report is Strictly Confidential

The investigation / enquiry in the trading of the shares of Chenab Limited during the period from March 11, 2010 to April 15, 2010 has been conducted accordance with Securities and Exchange Commission of Pakistan Act, 1997 and Securities and Exchange Ordinance, 1969. This report reflects the status, facts and findings of the investigation / enquiry till the date of submission of this report.

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1. EXECUTIVE SUMMARY

1.1 Consequent to the unusual trading activity in the shares of Chenab Limited ("CHBL") in the period from March 11, 2010 to April 15, 2010 (the "Review Period"), the Securities Market Division initiated an investigation into the matter. Analysis of the trading data revealed that the share price of CHBL initially increased from Rs. 3.07 to Rs. 8.59 from March 11, 2010 to April 02, 2010 translating into 179% increase in share price. After reviewing the client level and member level data using Universal Identification Number database, Chen One Stores Limited ("CSL"), an associate concern of the CHBL, was identified as active trader in the aforesaid trading activity. CSL bought 6,208,698 shares of CHBL from MTM Securities (Pvt.) Limited. CSL bought 665,200 shares and sold 8,356,235 shares through AKD Securities Limited ("AKD") during the Review Period. Further, on March 26, 2010 CHBL issued price sensitive material information regarding an investment of \$ 120 million by America based fund in CHBL.

1.2 CSL escalated the share price by buying large quantity of CHBL shares at higher rates. Later on, the large quantity of shares were sold by CSL to two individuals namely Muhammad Irfan Maqbool and Sohail Badar, who opened their trading account with AKD on April 01, 2010. Prior to this, these clients had no trading history in any scrip. Muhammad Irfan Maqbool bought 6,417,700 shares at average price of Rs 8.55 and sold 1,639,482 shares at average price of Rs. 6.13 whereas Sohail Badar bought 3,106,099 shares at average price of Rs 8.59 and sold 1,542,851 shares at average price of Rs. 6.03 in the Review Period. CSL made a gain of Rs.13,195,228/- by trading in the shares of CHBL whereas Muhammad Irfan Maqbool and Sohail Badar suffered a loss of Rs.4,007,173/- and Rs. 3,973,759/- respectively.

1.3 In the month of April 2010 the Commission received complaints from cumulative preference shareholders (Financial Institutions) regarding the conversion of preference shares into ordinary shares. Cumulative preference

shareholders showed their disagreement on the conversion price i.e. Rs. 6.36 decided by CHBL and also expressed their serious concerns on the upsurge of share price of CHBL in the month of March and April 2010. Some of the cumulative preference shareholders of CHBL had exercised their two put option for last two consecutive years, which had to be redeemed during the Review Period. Therefore, the share price was ramped up by CSL in connivance with CHBL in order to get the benefit from issuance of less number of shares to the preference shareholders. The trading actively of CSL, manner and timing of release of price sensitive information by CHBL and trading by two individuals coupled with complaints from cumulative shares holders created suspicion of price rigging and price manipulation in the scrip of CHBL.

1.4 Consequently, the Commission vide letter dated May 03, 2010 appointed investigating officers under Section 21 of the Securities and Exchange Ordinance 1969, read with Section 29(2) of the Securities & Exchange Commission of Pakistan Act, 1997, to further probe the matter. The Investigating officers sought information from the brokers namely MTM Securities (Pvt.) Limited and AKD, State Bank of Pakistan ("SBP"), Federal Investigating Agency ("FIA") and Federal board of Revenue ("FBR"). The Information received from brokers revealed that Muhammad Irfan Maqbool, Sohail Badar and CSL opened their trading accounts with AKD on April 01, 2010. In the account opening form, the witness and reference persons of Muhammad Irfan Maqbool were the employees of CHBL. The information received revealed that Muhammad Irfan Maqbool and Sohail Badar opened their bank accounts at BOP Chenab Limited branch Faisalabad on the same day and also authorized the same person for collecting their cheque books. Initial deposits in these accounts were made by the same person. Furthermore account of Muhammad Irfan Maqbool at BOP was referred by CHBL. It is pertinent to mention here that cash payments made to AKD on behalf of both the clients were made from same branch of Bank Al-Habib, Faisalabad and online payment slips have references of CHBL.

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1.5 The management of CHBL and CSL, CEO of AKD Securities Limited, Muhammad Irfan Maqbool and Sohail Badar, their reference persons and witnesses of trading account opening forms were called by the investigating officers to provide the information and to record their statements. Muhammad Irfan Maqbool and Sohail Badar failed to appear in person before the investigating officers. Whereas CEO of AKD, CSL, CHBL and witnesses of Muhammad Irfan Maqbool, Sohail Badar appeared in person before the investigating officers and recorded their statements.

1.6 From the analysis of trading data, information collected from various sources and statements recorded it transpired that the CHBL along with CSL and two individuals namely Muhammad Irfan Maqbool and Sohail Badar artificially ramped up the share price of CHBL to benefit from higher conversion price in case of preference shares. The strike price of Rs. 6.36 was calculated by CHBL on the basis of closing price of April 08, 2010 i.e. Rs 8.48 for the conversion of preference share into ordinary shares whereas three months average closing price of CHBL share (December 11, 2010 to March 11, 2010), i.e. prior to CSL buying was Rs. 3.80. Therefore, it is very much apparent that CHBL is the direct and ultimate beneficiary of the upsurge in the share price of CHBL. Otherwise conversion price would have been much lower, on the above three months average strike price comes to Rs 2.85. Based on this or such a price the company would have had to issue more than twice the shares to the preference shareholders.

The consolidation of all above mentioned facts also strongly indicate that AKD knowingly facilitated above active persons in the trading and played a active role in this manipulative scheme.

1.7 Based on the detailed analysis and review of the documents, information received during the course of investigation and statements recorded, it has been observed that there is a violation of the following securities laws:

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(a) **Market Manipulation**

Appropriate action may be initiated against the relevant officers, directors, of CHBL, CSL, and AKD, Muhammad Irfan Maqbool and Sohail Badar for violation of Section 17 (a) & (e) of Securities and Exchange Ordinance, 1969.

(b) **Brokers and Agents Registration Rules, 2001**


AKD has contravened the rules provisions of Brokers and Agents Registration Rules, 2001 thus failed to follow the requirements of Code of Conduct laid down in Third Schedule of Brokers and Agents Registration Rules, 2001.

(c) **General Regulations of KSE (Regulation 74)**

Violation of maintenance of Standardized Account Opening Form by the AKD.

(d) **Regulations Governing Risk Management (Regulation 4(4.8) & 9(9.4)**

Violation of non maintenance of margins as prescribed in account opening forms by AKD.


(Muhammad Ali)
Investigating Officer


(Kapeel Dev)
Investigating Officer

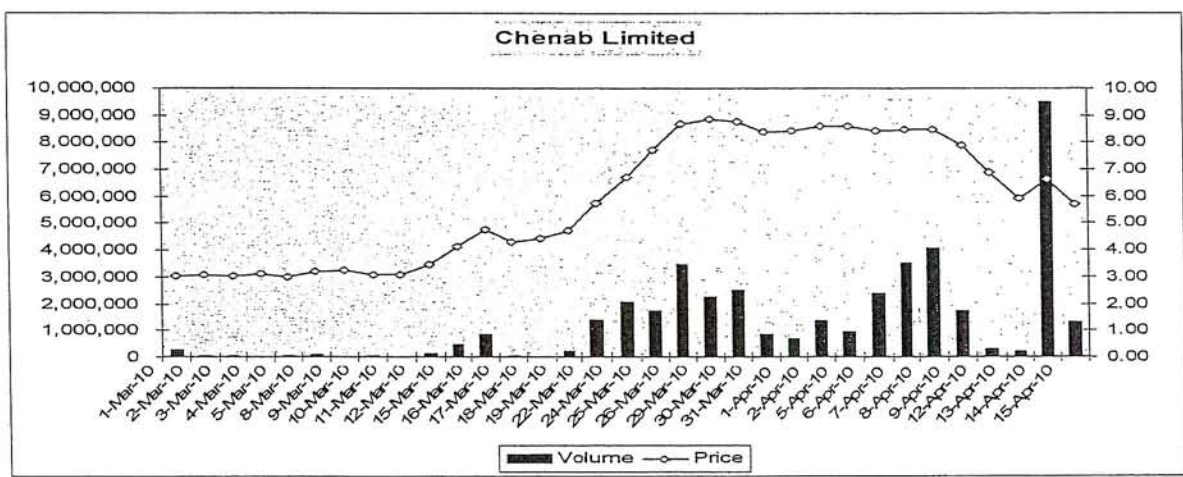
2. Introduction / Back Ground

2.1 Abnormal Trading in the Scrip of Chenab Limited

2.1.1 During the period starting from March 11, 2010 to April 15, 2010 ("the Review Period"), significantly high turnover and excessive price volatility was observed in the share price of Chenab Limited ("CHBL") at Karachi Stock Exchange (G) Ltd. ("KSE"), wherein its price initially increased from Rs 3.07 on March 11, 2010 to Rs 8.59 at close of trading session on April 02, 2010, translating into 179.8% increase in share price. The price remained stable during April 05, 2010 to April 08, 2010, and then it started decreasing from Rs 8.49 to Rs. 5.69 from April 09, 2010 to April 15, 2010. The average daily volume increased to 1,837,885 shares during March 11, 2010 to April 15, 2010 as compared to average daily volume of 94,424 shares during the last six months.

2.1.2 A graphical presentation of price-volume analysis for the period March 01, 2010 to April 15, 2010 is given below:

Graph - 1



2.1.3 Tabular presentation of price and volume from March 01, 2010 to April 15, 2010 is given hereunder:

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Table -2.1

Date	Open Price	Close Price	High Price	Low Price	Volume
1-Mar-10	3.6	3.05	3.5	3	265,676
2-Mar-10	3.05	3.1	3.18	3.03	44,016
3-Mar-10	3.1	3.02	3.19	3	33,380
4-Mar-10	3.02	3.13	3.15	2.8	17,270
5-Mar-10	3.13	3.01	3.15	2.78	47,604
8-Mar-10	3.01	3.2	3.24	3.15	100,703
9-Mar-10	3.2	3.24	3.24	3.15	11,868
10-Mar-10	3.24	3.07	3.25	3.06	55,100
11-Mar-10	3.07	3.1	3.2	3.1	6,501
12-Mar-10	3.1	3.48	3.5	3.1	127,611
15-Mar-10	3.48	4.14	4.25	3.45	449,797
16-Mar-10	4.14	4.76	4.9	4.1	828,910
17-Mar-10	4.76	4.32	4.94	4.25	25,122
18-Mar-10	4.32	4.42	4.5	4.2	17,950
19-Mar-10	4.42	4.72	5.24	4.54	228,748
22-Mar-10	4.72	5.72	5.72	4.8	1,394,847
24-Mar-10	5.72	6.72	6.72	6	2,082,574
25-Mar-10	6.72	7.72	7.72	6.89	1,718,065
26-Mar-10	7.72	8.68	8.72	7	3,472,596
29-Mar-10	8.68	8.85	9.2	8	2,231,392
30-Mar-10	8.85	8.76	9.3	8.06	2,482,477
31-Mar-10	8.76	8.41	8.52	8.1	828,570
1-Apr-10	8.41	8.43	8.6	7.8	691,344
2-Apr-10	8.43	8.59	8.99	8.18	1,353,405
5-Apr-10	8.59	8.59	8.7	8.25	940,817
6-Apr-10	8.59	8.43	8.59	7.74	2,362,525
7-Apr-10	8.43	8.49	8.65	7.95	3,517,164
8-Apr-10	8.49	8.48	8.6	7.9	4,070,040
9-Apr-10	8.48	7.89	8.4	7.48	1,709,165
12-Apr-10	7.89	6.89	7.4	6.89	305,466
13-Apr-10	6.89	5.89	6	5.89	215,833
14-Apr-10	5.89	6.63	6.8	4.95	9,510,884
15-Apr-10	6.63	5.69	6.69	5.63	1,305,300

* The period prior to announcement of material information is highlighted.

2.1.4 Price volume history of CHBL shares for last three years is given hereunder;

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Table - 2.2

Year	Average Daily Traded Volume (shares)	Average Price (Rs)	High Price (Rs)	Low Price (Rs)
2007	225,377	12.42	16.25	10.03
2008	87,855	7.01	11.45	1.70
2009	196,230	3.54	5.60	1.99

2.1.5 Top Buyers & Sellers

2.1.5.1 During the review period following three clients bought and sold highest quantity of shares of CHBL.

Table - 2.3

S. No:	Client Name	Member Name	Bot Qty	Avg Rate (Rs)	% of Bot Qty
1	Chen One Stores Limited	Ali Husain Rajabali Ltd	6,208,698	7.49	16.41%
		AKD Securities Ltd.	665,200	8.59	
2	Muhammad Irfan Maqbool	AKD Securities Ltd.	6,417,700	8.55	15.33%
3	Sohail Badar	AKD Securities Ltd.	3,106,099	8.59	7.42%

Table - 2.4

S. No:	Client Name	Member Name	Sold Qty	Avg Rate (Rs)	% of Sold Qty
1	Chen One Stores Ltd	AKD Securities Ltd.	8,356,235	8.46	19.95%
2	Muhammad Irfan Maqbool	AKD Securities Ltd.	1,639,482	6.13	3.91%
3	Sohail Badar	AKD Securities Ltd.	1,542,851	6.03	3.68%

2.2. Analysis of Trading Data

2.2.1 Date wise Concentration of Shares

2.2.1.1 The perusal of above trading information revealed that major trading was carried out by few clients of AKD Securities Ltd. ("AKD") and Ali Husain Rajabali Ltd. Chen One Stores Limited ("CSL") was the major buyer and seller in the subject scrip during the review period, in particular from March 22, 2010 to April 15, 2010. Further, Muhammad Irfan Maqbool ("MI") and Sohail Badar ("SB") were

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also identified as active traders. The concentration on buy side was observed by these two clients. The date-wise details of major buyers and sellers are given hereunder:

Date-wise Concentration on Buy side

Table - 2.5

Date	Client Name	Member Name	Bot Qty	Avg Rate (Rs)	% of Day TO
22-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	430,000	5.66	30.83%
24-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	895,000	6.62	42.98%
25-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	800,400	7.54	46.59%
26-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	1,386,902	8.51	39.94%
29-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	728,000	8.93	32.63%
30-Mar-10	Chen One Stores Ltd	Ali Husain Rajabali Ltd	1,130,000	8.88	45.52%
31-Mar-10	Chen One Stores Ltd	AKD Securities Ltd.	365,200	8.46	44.08%
1-Apr-10	Raza Arif	AKD Securities Ltd.	416,586	8.44	60.26%
1-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	150,000	8.56	21.70%
2-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	601,000	8.51	44.41%
2-Apr-10	Sohail Badar	AKD Securities Ltd.	537,594	8.54	39.72%
5-Apr-10	Sohail Badar	AKD Securities Ltd.	393,505	8.62	41.83%
5-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	276,500	8.58	29.39%
6-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	1,225,200	8.54	51.86%
6-Apr-10	Sohail Badar	AKD Securities Ltd.	675,000	8.57	28.57%
7-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	2,815,000	8.58	80.04%
8-Apr-10	Sohail Badar	AKD Securities Ltd.	1,500,000	8.60	36.85%
8-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	1,500,000	8.51	36.85%
13-Apr-10	Ibrahim Rathod	M.R.A Securities (Pvt) Ltd.	50,000	5.89	23.17%

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Date-wise Concentration on Sell side

Table - 2.6

Date	Client Name	Member Name	Sold Qty	Avg Rate (Rs)	% of Day TO
22-Mar-10	Capital Industries Pvt. Ltd	Sherman Sec: (Pvt.) Ltd.	400,000	5.72	28.68%
24-Mar-10	Malik Nazir Ahmad	Sherman Sec: (Pvt.) Ltd.	250,000	6.72	12.00%
25-Mar-10	United Bank Limited	KASB Securities Ltd.	150,000	7.50	8.73%
26-Mar-10	Pakistan Stock Market Fund	Topline Sec: (Pvt) Ltd	287,700	8.67	8.28%
29-Mar-10	Pakistan Premier Fund Ltd	JS Global Capital Ltd.	300,000	8.82	13.44%
30-Mar-10	Pakistan Premier Fund Ltd	Arif Habib Ltd	625,000	8.71	25.18%
31-Mar-10	Manzer Shafi	BMA Capital Mgmt Ltd	92,500	8.39	11.16%
1-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	194,906	8.53	28.19%
2-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	600,000	8.54	44.33%
5-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	650,000	8.50	69.09%
6-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	1,297,482	8.56	54.92%
7-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	2,500,000	8.50	71.08%
8-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	2,548,847	8.44	62.62%
9-Apr-10	Chen One Stores Ltd	AKD Securities Ltd.	565,000	8.00	33.06%
9-Apr-10	Sohail Badar	AKD Securities Ltd.	469,851	8.00	27.49%
9-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	465,149	8.00	27.21%
12-Apr-10	Muhammad IrfanMaqbool	AKD Securities Ltd.	100,000	6.93	32.74%
12-Apr-10	Sohail Badar	AKD Securities Ltd.	43,000	6.89	14.08%
13-Apr-10	Muhammad Irfan Maqbool	AKD Securities Ltd.	129,333	5.89	59.92%
14-Apr-10	Sohail Badar	AKD Securities Ltd.	1,030,000	5.09	10.83%

2.2.2 Trading Activity of Chen One Stores Limited

2.2.2.1 As mentioned above, CSL remained top buyer and seller in shares of CHBL during the Review Period. CSL actively started buying CHBL shares from March 22, 2010 which is just four days prior to issuance of price sensitive material information till March 26, 2010 and also inflated share price by placing bids almost

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at the upper circuit breakers. CSL buying during above period accounted 51% of the total buying during the review period, here it is important to note that no buying was made after April 02, 2010. The summary of bids placed by CSL is given hereunder;

Table - 2.7

Date	Total No of Bids	Bids Placed (Shares)	Shares Traded	Open Price (Rs)	High Price (Rs)	Closing Price (Rs)	Average Bid Price (Rs)
22-Mar-10	29	547,864	430,000	4.72	5.72	5.72	5.59
24-Mar-10	50	1,103,020	895,000	5.72	6.72	6.72	6.59
25-Mar-10	45	893,000	800,400	6.72	7.72	7.72	7.56
26-Mar-10	53	1,470,402	1,386,902	7.72	8.72	8.68	8.51

2.2.2.2 Whereas, CSL started selling shares of CHBL when the share price almost reached its highest level during April 01, 2010 to April 09, 2010. During the review period CSL bought total 6,873,898 shares from different clients of different members. Whereas CSL sold 8,356,235 shares through AKD from April 01, 2010 to April 09, 2010 which were mostly bought by two clients of AKD i.e. **Muhammad Irfan Maqbool** and **Sohail Badar**, the details are given hereunder;

Table - 2.8

Buyer Name	Buyer Member Name	Seller Name	Seller Member Name	No: of Shares	Avg. Rate (Rs)	% of Shares
Muhammad Irfan Iqbal	AKD Sec Ltd	Chen Stores Ltd	AKD Sec Ltd	3,683,934	8.57	44.09%
Sohail Badar	AKD Sec Ltd	Chen Stores Ltd	AKD Sec Ltd	2,403,568	8.58	28.76%
Others	Various	Chen Stores Ltd	AKD Sec Ltd	2,268,733	8.14	27.15%
Total				8,356,235		100.00%

2.2.2.3 Moreover, synchronized trading was also observed between MI, SB and CSL as they were placing their Buy/Sell orders with a very minor time difference. MI and SB were placing their buy orders in such a way that their buy orders

matched with CSL sell orders. Further, it has also been noted that buy orders by MI and SB were placed at higher rates than CSL sell orders in such a way that their buy orders matched with sell orders of CSL for sustaining the share price. It is pertinent to mention here that total buy of MI and SB was made from April 01, 2010 to April 08, 2010 which matched with the selling period of CSL. The details of order level data and trade level data is attached herewith as annexure - 1.

2.2.2.4 Further, the trading detail of CSL was analyzed from July 01, 2007 and no such pattern of active trading in the CHBL shares was observed. CSL bought 8,002,391 shares of CHBL during calendar year 2009 at an average price of Rs. 3.57. Therefore, CSL total holding as of March 31, 2010 was 14,616,289 shares i.e. 12.71% of Paid-up Capital of CHBL, which reduced to 6,560,054 shares i.e. 5.7% of Paid-up Capital as of April 09, 2010. In addition to above, CSL only bought 1,000 shares of Engro Corporation Limited (ENGRO) and sold 1,631 shares of Attock Refinery Limited (ATRL).

2.2.3 Trading Activity of Muhammad Irfan Maqbool (MI)

2.2.3.1 MI actively traded only in the shares of CHBL through AKD. He bought 6,417,700 shares at average price of Rs 8.55 and also bought 245,000 shares through off market at the price of Rs. 9.02 from April 02, 2010 to April 08, 2010. Whereas MI sold 1,639,482 shares from April 09, 2010 to April 14, 2010 at average price of Rs 6.13 and suffered loss of Rs.4,007,173. MI bought most of the shares from CSL as mentioned in above Table 3.2. MI only traded in the shares of CHBL during the first 15 days of April 2010, while no prior trading was observed in any scrip, which created doubt regarding his trading in the shares of CHBL. In fact MI's does not have any trading account with any other member of the exchanges.

2.2.4 Trading Activity of Sohail Badar (SB)

2.2.4.1 As highlighted above, SB was the active trader in the shares of CHBL at AKD. SB bought 3,106,099 shares at average price of Rs 8.59 from April 02, 2010 to April 08, 2010. Whereas, SB sold 1,542,851 shares at Rs 6.03 and incurred loss of Rs.

M. Irfan Maqbool

3,973,759. Further, SB bought 524,586 shares at price of Rs. 8.74 through off market from April 09, 2010 to April 14, 2010. SB bought most of the shares from CSL as mentioned in above Table 3.2. Further, SB only traded in the shares of CHBL during the first 15 days of April 2010, while no prior trading history was observed in any scrip, which created doubt regarding his trading in the shares of CHBL. In fact SB's also does not have any trading account with any other member of the exchanges.

2.3 Notice Issued by Chenab Limited

2.3.1 CHBL issued price sensitive material information on March 26, 2010. Copy attached as annexure - 2. In the said notice, CHBL disclosed "an ongoing negotiation with New York Fund based company, whereby, such New York based company is interested in investing an amount equal to \$120 million. The composition of such investment, as disclosed in said notice, was \$100 million as Loan and \$20 million as equity of the Company". In the above - mentioned notice CHBL declared material information with respect to the Company. It is pertinent to mention here that before the issuance of notice share price of the CHBL increased from Rs. 4.72 to Rs. 8.68 in 04 trading sessions primarily an account of trading by CSL.

2.4. Complaints from Cumulative Preference Shareholders

2.4.1 In the month of April, 2010 the Commission received complaints from following cumulative preference shareholders regarding conversion of preference shares into ordinary shares. Copies of complainants attached as annexure - 3.

- i. National Bank of Pakistan,
- ii. UBL Fund Managers,
- iii. JS Bank Limited,
- iv. Habib Metropolitan Bank Limited
- v. Habib Bank Limited

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2.4.2 Above mentioned cumulative preference shareholders showed their disagreement on the conversion price i.e. Rs. 6.36 decided by CHBL and also expressed their serious concerns on upsurge of share price of CHBL. The table 2.9 below depicts the net difference of ordinary shares due to difference of conversion price as calculated by the preference shareholders and CHBL;

Table - 2.9

Preference Shares Holder	Initial Amount Invested (Rs.)	Amount Owed Currently (Rs.)	Shares likely to be issued by Chenab in default	Shares claimed by PS Holders	Difference in Shares Claim
National Bank of Pakistan	100,000,000	120,720,000	18,981,132	29,660,934	10,679,802
UBL Fund Managers	8,120,000	9,622,200	1,512,925	2,782,993	1,270,068
JS Bank Limited	50,000,000	59,250,000	9,316,037	14,183,124	4,867,087
Habib Metropolitan Bank	40,000,000	47,400,000	7,452,830	14,328,900	6,876,070
Habib Bank Limited	100,000,000	118,500,000	18,632,075	29,115,479	10,483,404
TOTAL	298,120,000	355,492,200	55,894,999	90,071,430	34,176,431

**No of shares to be issued based on the price of Rs 6.36 as mentioned by the CHBL in the notice of AGM published in news paper dated April 27, 2010. (Attached as annexure - 4)*

2.4.3. Prior to dissemination of price sensitive information on March 26, 2010 substantial turnover was noticed especially in last trading sessions i.e. from March 22, 2010 to March 26, 2010 which created suspicions of insider trading. The complaints received from different financial institutions regarding the conversion of preference shares and upsurge of price of CHBL also created suspicion of price manipulation.

3. Commencement of Enquiry

3.1 Appointment of Enquiry Officers

3.1.1 The Securities and Exchange Commission of Pakistan ("SECP") in exercise of its power under Section 21 of the Securities and Exchange Ordinance, 1969, read with Section 29(2) of the Securities & Exchange Commission of Pakistan Act, 1997, vide order dated May 03, 2010 appointed the following officers to enquire into and to investigate the dealing, business or other transactions pertaining to the shares of Chenab Limited.

S. No.	Name	Designation
1	Mr. Muhammad Ali	Deputy Director
2	Mr. Kapeel Dev	Assistant Director

3.2. Terms of Reference

3.2.1 The investigating officers were required to record and submit their finding with special reference to the following:-

- a) Any and all the acts or omissions constituting the violation of the Securities and Exchange Ordinance, 1969 and the Rules and Regulations made there under.
- b) Any violations of any applicable laws, including but not limited to the Securities and Exchange Ordinance, 1969, Central Depositories Act, 1997, Securities and Exchange Commission of Pakistan Act 1997, Companies Ordinance, 1984 and all Rules and Regulations made there under, by any person.

3.3 Blocking of CDC Accounts.

3.3.1 Subsequently on May 05, 2010 preliminary Report was submitted to the Competent Authority. On the basis of preliminary report, the Competent Authority blocked the CDC Sub Accounts of Muhammad Irfan Maqbool and Sohail Badar with immediate effect which is blocked till filling of this report.

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4. Corporate information

4.1 Chenab Limited

4.1.1 CHBL was incorporated on April 18, 1985 as a public limited company, under the Companies Ordinance, 1984 and it was formally listed on the KSE on August 22, 2005. The registered office of the company is located at Nishatabad, Faisalabad. The principal business of the company is export all kinds of value added fabrics, textile made ups, casual and fashion garments duly processed. CHBL's processing units are located in different districts in the province of Punjab. The assets, liabilities and reserves of different companies namely Faisal Weaving (Private) Ltd, Latif Weaving (Private) Ltd and Chenab Finishing (Private) Ltd were merged into the CHBL with effect from December 31, 1998 on the approval of the scheme of arrangement by the Honorable Lahore High Court, Lahore, whereas, assets, liabilities and reserves of Chenab Fibers Limited were merged into CHBL with effect from April 01, 2003.

4.1.2 The CHBL is having total paid up capital of Rs. 1,150,000,000 divided into 115,000,000 ordinary shares of Rs 10 each. Furthermore, the CHBL has also issued 80,000,000 cumulative preference shares of Rs 10 each amounting Rs 800,000,000 on September 2004.

4.1.3 Directors and Officials of the CHBL along with shareholding as on October 31, 2009;

Table - 4.1

S. No.	Name of Director	Shareholding	% of Paid up Capital
1	Mian Muhammad Latif (CEO)	16,681,483	14.50%
2	Muhammad Naeem	20,201,112	17.57%
3	Mian Muhammad Javed Iqbal	14,876,483	12.94%
4	Muhammad Farhan Latif	8,416,948	7.32%
5	Shehnaz Latif	7,459,184	6.47%
6	Muhammad Rizwan Latif	3,444,961	2.99%

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7	Muhammad Faisal Latif	2,813,545	2.45%
8	Muhammad Zeeshan Latif	2,693,626	2.34%
9	Mst. Tehmina Yasmin	2,518,285	2.20%
10	Muhammad Arshad (CFO & Company Secretary)	-	-
Total		79,105,627	68.78%

4.1.4 Auditors of CHBL

The auditors of CHBL as on October 31, 2009 are Avais Hyder Liaqat Nauman Chartered Accountants.

4.1.5 Financial Highlights of CHBL

4.1.5.1 CHBL's financial year is from July to June. CHBL posted after tax loss of Rs. 96,662,852 with Loss Per Share ("LPS") of Rs. (0.84) for the year ended June 30, 2009 as compared to after tax loss of Rs. 95,791,274 with LPS of Rs (0.83) for the year ended June 30, 2008. The financial history of CHBL for last four years is given hereunder;

Table -4.2
(Rupees in '000)

	2006	2007	2008	2009
Sales	6,957,562	8,161,233	8,506,911	9,091,379
Gross Profit	1,568,099	1,547,250	1,679,305	1,984,375
Profit After Tax	150,165	74,782	(95,791)	(96,663)
EPS	1	1	(1)	(1)
Total Assets	14,174,127	14,982,858	16,287,103	16,941,257
Total Liabilities	10,137,475	10,915,133	12,366,835	13,090,559
Shareholders' Equity	2,745,372	2,759,138	2,589,955	2,493,877
*Break-up Value	35	35	34	33
**Break-up Value	17	17	16	15

*Including surplus on Revaluations of Property, Plant and Equipment

** Excluding surplus on Revaluations of Property, Plant and Equipment

4.1.5.2 Further, CHBL announced its 9 months financial results for the period from July 2009 to March 31, 2010 as on April 30, 2010 and reported LPS of Rs. (6.05)

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while the loss per share for the corresponding period last year was Rs. (0.81) only. CHBL financial statements depict that sales revenue of the CHBL is continuously moving upward since last four years, while the net profit after tax is decreasing.

4.1.6. Cumulative Preference Shares issued by the CHBL

4.1.6.1 The examination of the preference shares prospectus of CHBL (Copy attached as annexure - 5) revealed that CHBL had issued 80,000,000 cumulative preference shares of Rs. 10 each in September 2004 at the cumulative dividend of 9.25% per annum on the paid up value of preference shares; these are non-voting, cumulative and redeemable, which are listed at KSE.

4.1.6.2 On page no 6 of the prospectus of CHBL under the heading of Rights and Benefits of Cumulative Preference Shares, Company has given the Put Option to preference shareholders.

4.1.7 Put Option

4.1.7.1 The features of Put Option as defined on page 6 of the prospectus, are reproduce as under;

“Preference share holders will have the option to get the shares redeemed in part to the Chenab Limited (Put the Preference Shares) within the Put Exercise period by providing Put Notice. The Preference shares holders will only be able to put maximum one third (1/3) of their holding in any put exercise period. One put exercise period will be available to the investors each year after the expiry of four (4) years from the last date of public subscription”.

4.1.8 Call Option

4.1.8.1 The features of Call Option as defined on page 6 of the prospectus are reproduce as under;

"Chenab Limited will have the option to redeem the Preference Shares, in part in multiples of 10% up to 100% from the preference Shares investors (Call the Preference Shares) within the call exercise period".

4.1.9 Rights and Benefits of Cumulative Preference Shareholders

4.1.9.1 The rights of Cumulative Preference Shareholders as defined on Page 6, 7 and 8 in the prospectus of the CHBL preference shares are given below.

2.3(i) *The Cumulative Preference Shares will have a right to cumulative preferential dividend @ 9.25% per annum on the paid-up or credited as paid-up capital in respect of Cumulative Preference Shares of the Company pursuant to Article 26A(A) (i) (a) of the Articles of Association of the Company.*

2.3(vi) *The Cumulative Preference Shares shall have a right to receive cumulative preferential dividend upon exercise of Call Option or Put Option. These preferential dividends shall be calculated for the period till the date of redemption i.e. till the date of repayment of principal and dividend amount, if any, to the investors.)*

2.3(ix) *The Company will have a right, subject to the provisions of section 85 of the Companies Ordinance and upon the terms and conditions contained for redemption upon exercise of Call Option by the Company in Article 26A(B) of the Articles of Association of the Company, to redeem the Cumulative Preference Shares in terms of the Call Option provided in Article 26A(B) of the Articles of Association of the Company by giving two (2) weeks notice in writing at any time after expiry of four (4) years from the last date of public subscription of the Cumulative Preference Shares. The redemption price payable by the Company will be the face value (paid-up) of the Cumulative Preference Shares plus accrued preferential dividend calculated in accordance with the said Article 26A(B).*

2.3(x) *The holders of the Cumulative Preference Shares will have a right, subject to the provisions of section 85 of the Companies Ordinance and upon the terms*

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and conditions contained for redemption upon exercise of Put Option by the holders of the Cumulative Preference Shares in Article 26A(C) of the Articles of Association of the Company to require the Company to redeem the Cumulative Preference Shares at face value (paid-up) plus accrued preferential dividend calculated in accordance with the provisions of the said Article 26A(C).

The Put Option shall be exercisable up-to a maximum of 1/3rd (33.33%) of the total holding of each holder of Cumulative Preference Shares after expiry of four (4) years from the last date of public subscription of the Cumulative Preference Shares.

The Company will redeem the Cumulative Preference Shares in respect of which the Put Option has been exercised by the relevant holders of the Cumulative Preference Shares within a period of six (6) months from the last date for exercise of Put Option.

2.3(xi) *"In the event that the Company fails to redeem the Cumulative Preference Shares upon exercise of the Put Option by the holders of the Cumulative Preference Shares within the stipulated period for any reason whatsoever (including the legal inability to do so on account of the provisions of section 85 of the Companies Ordinance 1984) for any two consecutive years in which such Put Option was exercise by the holders of Cumulative Preference Shares, the holders of the Cumulative Preference Shares shall be entitled by notice in writing to the Company, to call upon the Company to convert the Cumulative Preference Shares into Ordinary Shares of the Company at a price equal to the lower of (i) 75% of the book value of the Ordinary Shares; or (ii) 75% of the market value (iii) the face value of the Ordinary Shares. The procedure to be followed upon exercise of such option to convert upon occurrence of the events specified herein, shall be as specified in Article 26A (D) of the Article of Association of the Company".*

4.2 Chen One Stores Limited (CSL)

4.2.1 CSL was incorporated on July 25, 1997 as a public unlisted company, under the Companies Ordinance, 1984. The registered office of the company is located at C/O Chenab Limited, Nishatabad, Faisalabad. CSL has a network of retail outlets nationally and internationally; CSL's core business is distribution of clothing, furniture items, iron suits and curtains etc. CSL is also providing interior consultancy services to top notch institutions of the country. The company's total paid up capital is Rs. 280,000,000 divided into 28,000,000 shares of Rs 10 each.

4.2.2 Directors and Officials of the CSL along with shareholding as on October 31, 2009;

Table - 4.3

S. No:	Name of Director	Shareholding	% of Paid up Capital
1	Muhammad Naeem (CEO)	2,872,000	10.26%
2	Mian Muhammad Javed Iqbal	2,800,000	10.00%
3	Mian Muhammad Latif	2,800,000	10.00%
4	Muhammad Faisal Latif	2,800,000	10.00%
5	Muhammad Farhan Latif	2,300,000	8.21%
6	Muhammad Rizwan Latif	2,428,000	8.67%
7	Muhammad Zeeshan Latif	2,000,000	7.14%
8	Muhammad Kashif Ashfaq	6,000,000	21.42%
9	Umair Javaid	4,000,000	14.29%
10	Muhammad Kashif Zahoor (Company Secretary)	-	-
	Total	<u>28,000,000</u>	<u>100%</u>

4.2.3 Auditors of CSL as on October 31, 2009;

The auditors of CSL as on October 31, 2009 are Avais Hyder Liaqat Nauman Chartered Accountants.

4.3.4 As per the definition of associated company, CSL is an associated company of CHBL. In Sub Section 2 of Section 2 of Companies Ordinance, 1984 the associated Companies and associated undertakings are defined as:

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(2) "associated companies" and "associated undertakings" mean any two or more companies or undertakings, or a company and an undertaking, interconnected with each other in the following manner, namely:-

if a person who is the owner or a partner or director of a company or undertaking, or who, directly or indirectly, holds or controls shares carrying not less than twenty per cent of the voting power in such company or undertaking, is also the owner or partner or director of another company or undertaking, or, directly or indirectly, holds or controls shares carrying not less than twenty per cent of the voting power in that company or undertaking; "

5. Investigation Process

5.1 Information Gathering

5.1.1 Information Received from Chenab Limited

5.1.1.1 CHBL vide letter dated May 05, 2010 and May 13, 2010 was requested to provide the information regarding cumulative preference share holders, on going negotiations with New York Fund Based Company regarding investment of \$ 120 million and correspondence with the fund. The CHBL vide letters dated May 13, 2010 and May 18, 2010 provided the requisite information.

5.1.2 Information Received from Brokerage Houses

5.1.2.1 MTM Securities (Pvt.) Limited ("MTM") - Member LSE vide letter dated May 05, 2010 was required to provide the information regarding CSL. MTM vide its letter dated May 06, 2010 provided the following information.

- *Account Opening Form ("AOF"). (Attached as annexure - 6)*
- *Ledger Statements along with the copies of financial instruments received and paid from March 01, 2010 to May 04, 2010. (Attached as annexure -7)*
- *Trading Statements for all the scrips from March 01, 2010 to May 04, 2010. (Attached as annexure -8)*

5.1.2.2 AKD - Member KSE vide letter dated May 05, 2010 was required to provide the information regarding its clients CSL, MI and SB. AKD vide letter dated May 07, 2010 provided the following information.

- *Account Opening Forms along with CNIC's. (Attached as annexure - 9)*
- *Ledger Statements along with the copies of financial instruments received and paid from March 01, 2010 to May 04, 2010. (Attached as annexure - 10)*
- *Trading Statements for all the scrips from March 01, 2010 to May 04, 2010. (Attached as annexure - 11)*

5.1.3. Information from Banks through State Bank of Pakistan ("SBP")

5.1.3.1 To determine the transfer of funds in the matter, the SBP was requested vide letter dated May 13, 2010 to arrange the AOF along with the bank statements of MI and SB as mentioned in AOF of AKD. Copy of letter is attached as annexure - 12. The SBP was further requested to arrange the AOF and the bank statements of persons by whom the online payments were deposited in AKD's bank account on behalf of MI and SB. SBP provided required information vide letter dated June 03, 2010. Copy of letter is attached as annexure - 13. The information provided by the banks was not conclusive and to investigate the matter in detail, SBP was again requested vide letter dated June 11, 2010 to arrange further information / queries from the concerned banks. In this regard the SBP reply was received vide letter dated August 06, 2010. The detail of the above - mentioned letters is discussed in the relevant sections of the Report.

5.1.4. Information from Federal Board of Revenue ("FBR")

5.1.4.1 To assess the worth and examine the tax returns and wealth statements of MI and SB and their references provided by AKD vide letter dated May 17, 2010, the Competent Authority was requested to arrange the requisite information from FBR. The Competent Authority vide letter dated May 28, 2010 requested the FBR to provide the information regarding the wealth tax statements and income tax returns filed by MI, SB, and their references for the period from June 30, 2007 to June 30, 2009. Copy of letter is attached as annexure - 14. FBR vide letter dated June 17, 2010 provided the requisite information same is discussed in relevant sections of the Report.

5.1.5. Information from Federal Investigation Agency ("FIA")

5.1.5.1 To probe the matter further, the Competent Authority was also requested to arrange the requisite information from FIA. The Competent Authority vide letter dated May 20, 2010 requested FIA to provide the details of MI and SB's passports along with the details of their entry and exit from Pakistan.

5.1.5.2 FIA vide letter dated May 25, 2010 provided the requisite information and informed that the MI visited Pakistan on March 18, 2010 and went back on March 26, 2010, then again came on April 01, 2010 and departed on April 12, 2010. While no record of SB was found.

5.1.6 Information from Cumulative Preference Shareholders

5.1.6.1 In order to examine the claims of the complainants, the investigating officers vide letters dated May 05, 2010 and May 06, 2010 asked the following cumulative preference shareholders to provide details of their holding as of April 07, 2010, details of accumulated un-paid dividend and number of shares for which put option has been exercised. Copies of letters are attached as annexure - 15.

- Habib Metropolitan Bank Limited.
- UBL Fund Managers.
- Habib Bank Limited.
- JS Bank Ltd.
- National Bank of Pakistan.
- Allied Bank Limited.
- United Bank Limited.
- Pak Libya Holding Company (Pvt.) Limited.
- Askari Bank Limited.
- Lakson Group.
- Silk Bank Limited.
- Pakistan Kuwait Investment Company (Pvt.) Ltd.

5.1.6.2 The preference shareholders provided the requisite information; details are given hereunder as received. Copies of replies are attached as annexure - 16.

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Table: 5.1

S. No	Letters issued to	Preference Shares held on April 07, 2010	Accumulate Unpaid Dividend (Rs.)	Put Option Exercised
1	Allied Bank Limited	1,499,999	2,774,998	500,000
2	Askari Bank Limited	10,000,000	25,646,575	6,666,667
3	Habib Bank Limited.	10,000,000	18,500,000	6,666,666
4	Habib Metropolitan Bank Ltd.	4,000,000	7,400,000	2,653,333
5	JS Bank Limited	13,357,000	24,710,450	8,895,762
6	Lakson Group.	476,500	NA	NA
7	National Bank of Pakistan	10,000,000	20,720,000	6,666,666
8	Pak Libya Holding Company (Pvt.) Limited.	2,500,000	5,781,250	832,500
9	Pakistan Kuwait Investment Company (Pvt.) Limited.	1,490,000	2,775,000	NA
10	Silk Bank Limited	5,000,000	13,102,054	1,666,666
11	UBL Fund Managers	812,000	1,502,000	541,333
12	United Bank Limited. (UBL Growth and Income Fund)	1,812,000	3,352,200	1,208,000
Total		60,947,499	126,264,527	36,297,593

Discrepancies between CHBL and Financial Institutions

5.1.6.3 The investigating officers noted following discrepancies in the case of four preference shareholders based on the information received from cumulative preference share holders and from CHBL.

Table: 5.2

Financial Institutions	Financial Institution	Chenab Limited	Financial Institution	Chenab Limited	Financial Institution	Chenab Limited
	Preference Shares held on April 07, 2010	Preference Shares held on April 07, 2010	Accumulate Unpaid Dividend (Rs.)	Accumulate Unpaid Dividend (Rs.)	Put Option Exercised	Put Option Exercised
Askari Bank Limited	10,000,000	10,000,000	25,646,575	18,500,000	6,666,667	6,666,667
National Bank of Pakistan	10,000,000	10,000,000	20,720,000	18,500,000	6,666,666	6,666,666

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Pak Libya Holding Company (Pvt.) Limited.	2,500,000	2,500,000	5,781,250	4,625,000	832,500	-
Silk Bank Ltd	5,000,000	5,000,000	13,102,054	9,250,000	1,666,666	-

5.1.6.4 Put option exercised by the Cumulative Preference Shareholders

5.1.6.5 During the course of investigation, we came to know that the cumulative preference shareholders have exercised their first put option of 20,159,961 shares in the month of September and October 2008 which were not redeemed within the specified time. Whereas, cumulative preference shareholders exercised their second put option as well during the month of September and October 2009, redemption of which was due in month of March 2010. The put option exercised for two consecutive years were not entertained by the CHBL; therefore, it triggered the event of default as explained in the prospectus for the issue of preference shares. CHBL unilaterally selected the date of default being April 8, 2010 (when ordinary share price was highest of Rs. 8.48) and called upon to convert only 66.66% of the preference shares into ordinary shares. CHBL decided to hold an EOGM on May 19, 2010 to seek approval of ordinary shareholders for the same. The following resolutions were placed before the shareholders to considered and passing with or with out modifications:

- i) Terms of Conversion of Cumulative Preference Shares
- ii) Issue of New Ordinary Shares
- iii) Increase in Authorized Capital

5.1.6.6 Subsequently the EOGM of CHBL was held on May 19, 2010 wherein no resolution was passed. In this regard, the contents of the minutes provided by the CHBL are reproduced here as under.

“During the proceedings of this special business, the Company Secretary read out contents of letters received from several preference shareholders containing reservations regarding

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the conversion of preference shares into ordinary shares as per the terms. The matter was discussed at length and it was decided unanimously that these resolutions be postponed till negotiations were satisfactorily concluded with the concerned parties, and thereafter a fresh notice of EOGM shall be issued / circulated to the shareholders in the matter". It was decided that minutes of this meeting be issued to the quarters concerned for their information and record.

5.2. Chen One Stores Limited (CSL)

5.2.1 Information Received From Brokerage Houses

5.2.1.1 According to the information received from MTM Securities (Pvt.) Limited CSL opened its trading account with MTM on December 31, 2008 and Mr. Muhammad Zeeshan Latif Director of CHBL and CSL and Mr. Muhammad Kashif Ashfaq Director of CSL were the authorized persons to operate the trading account. CSL bought 6,248,698 shares of CHBL with average rate of Rs. 7.57 from March 10, 2010 to March 30, 2010. MTM is inter- exchange client of KSE member Ali Husain Rajabali and all the trading in the scrip of CHBL was executed through KSE member. CSL deposited Rs. 50 million through 23 online transactions to MTM from March 12, 2010 to April 04, 2010.

5.2.1.2 CSL opened its trading account with AKD on April 01, 2010 and only traded in the scrip of CHBL. Mr. Muhammad Zeeshan Latif Director of CHBL and CSL and Mr. Muhammad Kashif Ashfaq Director of CSL were the authorized persons to operate the trading account. Transaction sheet of AKD showed that CSL bought 665,200 shares with average rate of Rs. 8.62 and sold 8,359,759 shares with average rate of Rs. 8.41 from March 31, 2010 to April 09, 2010. As on April 13, 2010 the Ledger Statement of CSL showed credit balance of Rs. 64,501,768.43. CSL transferred 8,000,000 shares of CHBL to its CDC Sub Account maintained with AKD from its CDC Investor Account from April 01, 2010 to April 10, 2010 for the settlement purpose. Detail of information received is attached as annexure - 17.

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the conversion of preference shares into ordinary shares as per the terms. The matter was discussed at length and it was decided unanimously that these resolutions be postponed till negotiations were satisfactorily concluded with the concerned parties, and thereafter a fresh notice of EOGM shall be issued / circulated to the shareholders in the matter". It was decided that minutes of this meeting be issued to the quarters concerned for their information and record.

5.2. Chen One Stores Limited (CSL)

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5.2.1.2 CSL opened its trading account with AKD on April 01, 2010 and only traded in the scrip of CHBL. Mr. Muhammad Zeeshan Latif Director of CHBL and CSL and Mr. Muhammad Kashif Ashfaq Director of CSL were the authorized persons to operate the trading account. Transaction sheet of AKD showed that CSL bought 665,200 shares with average rate of Rs. 8.62 and sold 8,359,759 shares with average rate of Rs. 8.41 from March 31, 2010 to April 09, 2010. As on April 13, 2010 the Ledger Statement of CSL showed credit balance of Rs. 64,501,768.43. CSL transferred 8,000,000 shares of CHBL to its CDC Sub Account maintained with AKD from its CDC Investor Account from April 01, 2010 to April 10, 2010 for the settlement purpose. Detail of information received is attached as annexure - 17.

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5.2.2 Hearing Notices

5.2.2.1 On the request of Investigating Officers the Competent Authority issued Notice dated June 08, 2010 for the examination to CEO of CSL under section 32 of the SECP Act 1997, wherein he was directed to appear before the investigating officers on June 16, 2010 in person. Copy of Notice is attached as annexure - 18. The CEO of CSL vide its letter dated June 15, 2010 requested to adjourn the hearing. A final notice under section 32 of the SECP Act 1997 was issued to CEO of CSL wherein he was directed to appear before the investigating officers on June 25, 2010.

5.2.3 Meeting with CEO

5.2.3.1 Mr. Muhammad Naeem, CEO of CSL appeared before the investigating officers on June 25, 2010, to record his statement. In response to a question regarding decision to purchase the shares of CHBL, he mentioned that it is a practice of CSL to purchase shares of listed companies including CHBL after retail sales season and CSL will invest further funds in the shares of listed companies including CHBL after the coming retail season of September 2010 as well. He said, though CSL had no prior link with AKD, however, Mr. Farid Alam, CEO of AKD approached him for the purpose of gaining business, while he was in Faisalabad for road show of Amtex Textile. When asked about the status of funds available with AKD in the account of CSL he said that those funds are reserved to purchase shares of listed companies. He said CSL provided no guarantee for anyone to AKD. On response to the question regarding his link with MI, he admitted that he knows Mr. Irfan Maqbool and met him around two years ago in Toba Tek Singh during elections. He was further enquired about any link with SB, Asif Mehmood, and Muhammad Shahid, but he denied any connection or link with any of them at all. Copy of statement is attached as annexure - 19.

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Asif Mehmood

5.3 Chenab Limited

5.3.1 Information Received from the Company

5.3.1.1 CHBL vide letter dated May 05, 2010 was required to provide the accumulated un-paid dividend of preference share holders along with the number of shares for which put option has been exercised and also the details of ongoing negotiations with US based fund regarding investment of \$120 million and its name and addresses. Copy of letter is attached as annexure -20.

5.3.1.2 CHBL provided the information vide its letter dated May 11, 2010 with reference to position of preference shares as of April 07, 2010. Copy of reply is attached as annexure - 21.

Table - 5.3

S. No	Letters issued to	Preference Shares held on April 07, 2010	Accumulate Unpaid Dividend (Rs.)	Put Option Exercised
1	Allied Bank Limited	1,499,999	2,774,998	-
2	Askari Bank Limited	10,000,000	18,500,000	6,666,667
3	Habib Bank Limited.	10,000,000	18,500,000	6,666,666
4	Habib Metropolitan Bank Ltd.	4,000,000	7,400,000	2,640,000
5	JS Bank Limited	13,357,000	24,710,450	8,895,762
6	Lakson Group.	476,500	881,525	-
7	National Bank of Pakistan	10,000,000	18,500,000	6,666,666
8	Pak Libya Holding Company (Pvt.) Limited.	2,500,000	4,625,000	-
9	Pakistan Kuwait Investment Company (Pvt.) Limited.	1,490,000	2,756,500	-
10	Silk Bank Limited	5,000,000	9,250,000	-
11	UBL Fund Managers	812,000	1,502,200	541,333
12	United Bank Limited.(UBL Growth and Income Fund)	1,815,998	3,359,596	1,208,000
Total		60,951,497	112,760,269	33,285,094

5.3.1.3 The CHBL further informed that the negotiations are underway with Anchor Finance Group LLC 3566 Main Street, Center Moriches, NY 11934, in which Mandviwalla & Zafar are the transaction lawyer and Deutsche Bank will be

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the custodian of any pledge created in favor of Anchor. Moreover, CHBL informed that the transaction will be executed in three different phases and the negotiation for the first phase of loan arrangement are underway, wherein, loan amount is yet to be determined.

5.3.1.4 The notice dated March 26, 2010 issued by CHBL regarding the negotiations relating to investment in the company by Anchor Finance Group ("Anchor") a New York based Fund was examined in detail. The details obtained from internet about Anchor revealed that the Group is a New York based premier financial institution focusing on socially-responsible financial products and services. Anchor was established in 2005 and provides financial solutions covering Corporate Finance, Investment Banking, Project Finance, Structured and Trade Finance. Anchor serves Energy Sector, Healthcare Industry, Information Technology and Real Estate Sector. Details are attached as annexure - 22. According to the details provided by CHBL to investigating officers the Anchor will not directly invest 120 \$ million in the CHBL but will only arrange these funds for CHBL. However, announcement made by the CHBL on March 26, 2010 stated that New York Fund Based Company is keen to invest 120 million US dollar in CHBL.

5.3.1.5 After obtaining the initial information about Anchor the CHBL vide letter dated May 13, 2010 was requested to provide the copies of correspondence taken place between CHBL and Anchor, Copies of financial Statements of Anchor, and details of any investment made by Anchor in Pakistan especially in textile sector. Copy of letter is attached as annexure - 23. CHBL vide letter dated May 18, 2010 provided the details of its communication with Anchor, and also informed that they don't have copies of Anchor's financials, and they are not aware of any other investment of Anchor in Pakistan but the group has made substantial investment in Bangladesh in value added textile sector.

M.H.
Khalid

5.3.2 Hearing Notices

5.3.2.1 On the request of Investigating Officers, the Competent Authority issued Notice dated June 08, 2010 for the examination to CEO of CHBL under section 32 of the SECP Act 1997, wherein he was directed to appear before the investigating officers on June 16, 2010. Copy of notice is attached as annexure - 24. The CEO of CHBL vide letter dated June 15, 2010 requested to adjourn the hearing. A final notice under section 32 of the SECP Act 1997 was issued to CEO of CHBL wherein he was directed to appear before the investigating officers on June 25, 2010. . Copy of notice is attached as annexure - 25.

5.3.3 Meeting with CEO

5.3.3.1 Mian Muhammad Latif, Chairman of Chenab Limited appeared before the investigating officers on June 25, 2010 to record his statement. When asked about KSE Notice dated March 26, 2010 he stated that the information regarding investment by the New York-based Fund (Anchor Finance) may have been leaked through preference shareholders of CHBL as this was shared with them. He further mentioned that the investment money that was to be received from Anchor Finance amounting to USD100 million was assigned to repay the preference shareholders. Though, the CSL had information regarding the investment by Anchor Finance, but it was not the basis of purchasing the shares of CHBL in the month of March 2010. He said that, CSL has a practice of investing funds in the shares of CHBL and other listed companies after every retail sales season which is normally the month of March and September. He said that CHBL has no corporate advisory link with AKD, though Mr. Shafiq-ur-Rehman, Chief Operating Officer of CHBL met Mr. Farid Alam, CEO of AKD in Faisalabad at Road Shows for Amtex Limited and Sadaqat Textiles Limited. He further mentioned that there was no guarantee given on behalf of CHBL for any person to AKD and no funds were deposited or paid to AKD on behalf of CHBL. When asked about any connection with MI, he admitted that MI is his relative from Toba Tek Singh, but he denied that he had any knowledge of the trading in shares of CHBL by him. He was further asked to reveal whether he knew SB, Asif Mehmood, and Muhammad

At Mr.
Asif

Shahid, as he was presented with their Computerized National Identity Card (CNIC) details, but he said he did not recognize nor had links with any of them.

5.3.2.2 However, when he was told that the data from FBR shows Asif Mehmood and Muhammad Shahid as employees of CHBL, he narrated that CHBL is a big concern having over 14,000 employees and that he does not know each of them personally, but he said he will check with the Human Resource Department of CHBL about the said persons (but no feed back has been received till the filing of the report). Answering a question relating to the cut off date for deciding the strike price of preference share conversion, he mentioned that the said cut-off date, i.e. April 08, 2010 was determined by the legal counsel of CHBL, M/S Mandviwala Associates. Copy of statement is attached as annexure -26.

5.4 AKD Securities Ltd. ("AKD")

5.4.1 The investigating Officers vide their letters dated May 05, 2010, requested the AKD to provide account opening forms, ledger statements, and trading statements of CSL, MI and SB. The AKD provided the information vide its letter May 07, 2010.

5.4.2 Hearing Notice to CEO of AKD

5.4.2.1 CEO of AKD vide letter dated May 07, 2010 was directed to appear before the investigating officers at the Commission's Islamabad office on May 12, 2010. Copy of letter is attached as annexure - 26

5.4.3 Meeting with Head of Compliance of AKD

5.4.3.2 Mr. Naveed Anjum ("NA") Head of Compliance of AKD appeared on behalf of CEO of AKD and made the following submissions regarding the trading of AKD client's in the scrip of CHBL:-

- MI and SB are settled abroad. MI is based in UAE and SB is in Saudi Arabia.
- MI and SB submitted Account Opening Forms ("AOF") through courier.

*M. Ali
Khan*

- The introducers of both the clients were not known to AKD because both clients submitted AOFs through courier.
- Payments received from both clients through on line and no cross cheques were deposited.
- The mode of sending trade confirmation was not known to NA.
- Farid Alam, CEO of AKD signed the AOF on behalf of the broker.
- The mode of order placement was also not known to NA.
- NA emphasized that all three clients in question were independent clients and traded in their independent capacity.
- NA was unable to explain the reason regarding missing of dates of opening of Trading Accounts on AOFs.
- NA was inquired about the debit balance of both the clients and possibility of providing in house financing by AKD. NA denied that AKD has provided any in house financing to both of its clients but on the personal and verbal guarantee AKD allowed them to carry debit balance.
- NA was inquired about the relationship / association between CSL, MI and SB as credit balance of CSL off-set's against the debit balance of MI and SB. CSL ledger showed 64.5 million credit balance and MI and SB ledgers showed 62.4 million debit balances. NA denied that CSL has any relationship with MI and SB and informed that after April 10, 2010 AKD sold some holding of MI and SB because of their debit balances.
- It was pointed out to NA that both the clients have mentioned BOP Chenab Limited Faisalabad Branch as their Bank in AOF. NA described this as co-incidence.
- NA was inquired about the unique trading pattern of both the clients as they only traded in CHBL shares. The NA informed that both the clients traded in the CHBL shares because of KSE notice dated March 26, 2010 regarding the \$120 investment made by the American based fund in the shares of CHBL.

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Khalid

5.4.4 Information Received from AKD

5.4.4.1 The arguments of NA were not considered satisfactory. Therefore, a letter dated May 13, 2010 was issued to AKD to provide the following information. Copy of letter is attached as annexure - 27.

- *Date of Opening of Trading Accounts by MI and SB.*
- *Mode of sending trade confirmations to MI and SB.*
- *Mode of receiving buy/sell orders by AKD from MI and SB. i.e. Call recordings, SMS or Copies of email.*
- *The details of margin deposit to be maintained by MI and SB against their outstanding trades/exposure for the purpose of trading in their accounts.*
- *Reasons for having huge Debit Balances in the trading accounts of MI and SB.*
- *If any written or verbal guarantee was provided by any one against the said debit balances of MI and SB, please provide details of the same.*
- *If AKD was providing the financing facility to MI and SB against the Debit Balances then provide the details of that financing.*
- *According to KATS data of April 07, 2010 MI bought 2.815 million shares of CHBL but transaction summary of MI provided by AKD is showing purchase of 1.4 million shares.*

5.4.4.2 Subsequently, AKD vide letter dated May 17 replied in response to the Commission's letter dated May 13, 2010. Copy of reply is attached as annexure - 28.

- Trading accounts of MI and SB were opened on April 01, 2010.
- All trading confirmations of MI were provided to Asif Mehmood, while trading confirmations of SB were provided to Muhammad Idress as per their written instructions.
- MI and SB placed their orders in the form of written instructions, further, both clients have called AKD on several times.
- AKD is maintaining 100% margin once trading account is regularized.
- MI gave the name of Asif Mehmood and Sohail Badar gave the name of Wali Muhammad as their reference to AKD.

*M. Mi
Khalid*

- AKD has not provided any sort of financing facility to MI and SB.
- The trader of AKD inadvertently placed buy orders in the trading account of MI instead of SB for 1,415,000 shares of CHBL which was corrected at back office record.

5.4.4.3 AKD vide letter dated June 09, 2010 was required to provide the phone recording of the calls made/received from MI and SB along with the details of the commission charged. Copy of letter is attached as annexure- 29. The AKD vide letter dated June 15, 2010 apprised that commission of Rs 344,359 and Rs 329,427 was charged from MI & SB respectively. Further MI and SB gave them written instructions for executing the orders which are reproduced below and attached as annexure- 30.

Instructions from MI - "You know that I have opened a trading account with your brokerage house. I am interested to buy upto 5.5 million shares of CHBL at a price below to Rs. 9. You are requested to execute my order".

Instructions from SB - "I want to buy 5 million shares of Chenab Limited in the price range of PkR. 8 to PkR. 9. Kindly do the needful at your end".

5.4.4.4 Consequently, AKD vide letter dated August 23, 2010 was asked to provide the ledger statements and copies of financial instruments received and paid from May 05, 2010 to August 23, 2010. Copy of letter is attached as annexure- 31. In response AKD vide letter dated August 26, 2010 provided the requisite information. According to the information provided MI ledger account shows Rs. 11,662,682 debit balance and SB ledger account shows Rs. 17,742,782 debit balance. The ledger statement of CSL shows credit balance of Rs. 28,847,951. The equity value of MI share holding of CHBL as of August 26, 2010 was Rs. 10,998,898 and equity value of SB holding of CHBL as of August 26, 2010 was Rs. 11,329,804.

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5.4.5 Hearing Notice to CEO of AKD

5.4.5.1 The Investigating Officers vide letter dated June 09, 2010 called CEO and Head of Compliance of AKD to record their statement. Copy of letter is attached as annexure- 32. The CEO of the AKD vide letter dated June 15, 2010 showed his inability to attend the hearing on specified date and venue due to launch of new internet trading software. However, they were willing to attend the hearing at Karachi office if re-scheduled.

5.4.5.2 On the request of the investigating officers, the Competent Authority issued Notice dated June 21, 2010 for the examination under section 32 of the SECP Act 1997 wherein CEO of the AKD was directed to appear before the investigating officers on June 24, 2010. Copy of notice is attached as annexure - 33.

5.4.6 Meeting with CEO of AKD

5.4.6.1 Mr. Farid Alam CEO of AKD appeared before the investigating officers to record his statement. As regard to the connection of MI, he said that he met MI in Faisalabad, in connection with the Road Shows of Amtex Limited and MI was inquiring about the textile sector, but Mr. Farid Alam did not pay much heed on his questions. He said that at the time of opening the account of MI, AKD did enquire from people in Faisalabad regarding his standing and got good report. Answering a question relating to the amount due from MI, he said that normally AKD does not allow debit balance to remain in a client's account, but in this case, it was allowed because margin amount was deposited and we were not expecting that MI would delay or default on his account, therefore, AKD continued with the trading by MI. He further said that Mr. Asif Mehmood reference of MI used to come to AKD's office occasionally and still visits sometimes. He said that Mr. Asif appears to have a sound financial standing and said that it appears that Mr. Asif Mehmood and MI have common interests and have close connections. He said that Mr. Irfan Maqbool was in haste to trade in the shares of CHBL, and the procedural delay of a couple of days annoyed him in this regard.

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5.4.6.2 When asked about their another client, Mr. Sohail Badar, Mr. Farid Alam said that the AKD believed that Mr. Sohail Badar is an expatriate and promised to introduce new foreign clients to AKD. Therefore, out of excitement of potential increase in foreign clients, debit balance was allowed to Mr. Sohail Badar. He said that after Mr. Sohail Badar did not pay for his investments, AKD liquidated some of his holding. He further mentioned that AKD has known CHBL for some time, but there is no such consultancy or advisory relationship with the company. Copy of statement is attached as annexure - 34

5.5. Muhammad Irfan Maqbool (MI)

5.5.1 Information Received from Brokerage House

5.5.1.1 The trading history of MI at AKD showed that after the opening of his trading account with AKD, MI only traded in the shares of CHBL. The scrutiny of AOF revealed that date of opening of trading account is missing. Transaction sheet of AKD showed that MI bought 5,247,700 shares with average rate of Rs. 8.61 and sold 1,639,482 shares with average rate of Rs. 6.07 from April 02, 2010 to April 14, 2010. The Ledger Statement of MI showed one entry of online payment of Rs. 2.5 million which was deposited in AKD's bank account on March 29, 2010 from Faisalabad before the opening of the trading account. It is pertinent to mention here that only Rs. 2.5 million was deposited in MI trading account at AKD against the buying of Rs. 35.23 million shares. As on April 16, 2010 the Ledger Statement of MI showed debit balance of Rs. 32.78 million. Moreover, AKD vide its letter dated May 17, 2010 informed that MI opened his trading account on April 01, 2010. AKD provided the name of Mr. Asif Mehmood as reference of MI, further, authorized him for collecting the trade confirmation details on his behalf. Nothing is mentioned in AOF of MI about Asif Mehmood and AKD failed to provide any written authority signed by MI wherein Mr. Asif Mehmood was authorized to collect the trade confirmation on MI's behalf.

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5.5.2 Information Received through State Bank of Pakistan

5.5.2.1 To determine the transfer of funds SBP was requested to arrange certain information regarding MI's bank account. The information received from the SBP letter dated June 03, 2010 revealed the following;

- MI's account with Bank of Punjab ("BOP"), Chenab Mills Branch, Faisalabad was opened on April 02, 2010. This bank account has been referred in the trading AOF with AKD which as per written confirmation of AKD was opened on April 01, 2010.
- In account opening form BOP it is mentioned that MI was referred by Chenab Mills Limited. Account Opening form is attached as annexure - 35.1.
- Account Statement showed that during the period from April 02, 2010 to May 25, 2010 approximately Rs 28.14 million were deposited into his bank account including Inward Foreign Telegraphic Transfer ("IFTT") of Rs 9.64 million and internal credit of Rs 9.0 million. The cash withdrawals of Rs 9.6 million were made while Rs 18.5 million was paid in clearing. Closing balance as of May 25, 2010 was Rs 26,000 only. An account statement is attached as annexure - 35.2.
- Online cash payment of Rs 2.5 million was made to AKD dated March 29, 2010 through Bank Al-Habib Faisalabad Branch. Whereby, information received through SBP revealed that the payment was made by Ghulam Baqir C/O Chenab Limited on behalf of MI. However, further details of depositor were not available with the Bank Al-Habib. Copies of receipts is attached as annexure - 35.3

5.5.2.2 To further probe the matter the SBP was again requested to arrange the information / queries from the bank and same was received on August 06, 2010. The information received revealed the following:

- The MI was physically present at the time of opening of his bank account at BOP Chenab Limited Faisalabad Branch.
- The cheque book was collected by Mr. Ashaq having CNIC # 31205-9853196-7 who was duly authorized by MI. The copy is attached as annexure 36.1.
- Three cheques of Rs. 18.5 million were presented for inward clearing from May 10, 2010 to May 14, 2010. AKD was the payee and Habib Bank Metropolitan Bank Sargodha Road Faisalabad was the collecting bank. Details are attached as annexure 36.2.
- The cash withdrawals of Rs. 9.6 million were made through two cheques on May 11, 2010 and were made by a person namely Moras. Copies of cheques and CNIC of Mr. Moras are attached as annexure 36.3.
- From May 02, 2010 to May 12, 2010 cash of Rs. 9.51 million were deposited in the bank account of MI. The copies of deposit slips are attached as annexure 36.4.
- The two IFTT of 59,960 US \$ and 54960 US \$ were originated by Mr. Nasar Ahmed and Mr. Mohammad Owais respectively from UAE for Business Investment purposes.
- On May14, 2010 Rs. 9.0 million were internally credited in the account of MI. The bank was asked through the SBP regarding this internal transfer with a request to provide AOF of account from where this amount was transferred. BOP Chenab Limited Faisalabad Branch provided the deposit slip of Rs. 9.0 million and account opening form of CHBL. Copy attached as annexure 37. To clarify the matter further the SBP was requested vide letter dated August 27, 2010 to arrange the information whether funds of Rs. 9.0 million were transferred from CHBL account or cash was withdrawn from CHBL account and deposited in MI account. The information is not received and is still pending.

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5.5.2.3 MI vide letter dated May 05, 2010 was directed to appear before the investigating officers at the Commission's Islamabad office on May 12, 2010. Copy of letters is attached as annexure - 38.

5.5.2.4 Mr. Ali Maqbool a younger brother of MI had appeared before the investigating officer on behalf of MI on May 12, 2010. He informed that MI is in UAE at present and runs a construction company. Moreover, MI last visited Pakistan in the month of March 2010 and returned to UAE on April 08, 2010. He denied that MI has any relationship with CHBL group.

5.5.3 Written Interrogatories

5.5.3.1 Investigating officer vide letter dated June 08, 2010 sought information from MI regarding the trading in the shares of CHBL through AKD and advised him to reply in writing on or before date of hearing. Letter attached as annexure - 39.1. In this regard, no reply was received from MI.

5.5.3.2 Consequently, letter dated nil, received on June 16, 2010 by the legal counsel of MI, requested to provide the details of allegations made by the investigating officers against his client. Letter attached as annexure - 39.2.

5.5.4 Hearing Notice

5.5.4.1 The information received from AKD regarding trading of MI in the scrip of CHBL was incomplete, vague and suspicious. MI had failed to appear before investigating officers. Therefore, the investigating officers decided to appraise the Competent Authority regarding the situation and requested to issue Hearing Notices to MI and concerned persons to record their statements and appear before the investigating officers. Subsequently, the Competent Authority issued Notices for the examination under section 32 of the SECP Act 1997 dated June 08, 2010, wherein following persons were directed to appear before the investigating officers as per the following schedule. Copies of Notices attached as annexure as 40.

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Table: 5.4

Name	Date	Time	Subsequent to receipt of Notice
Mr. Muhammad Irfan Maqbool,	17-Jun-10	10:00 a.m.	Failed to Appear.
<i>References (As per information provided by AKD)</i>			
Mr. Asif Mehmood,	17-Jun-10	04 :00 p.m.	Failed to Appear.
<i>Introducers (As mentioned in AOF of AKD)</i>			
Mr. Muhammad Shahid,	18-Jun-10	12:00 noon	Appeared on June 25, 2010.
Mr. Muhammad Aslam,	18-Jun-10	03:00 p.m.	Failed to appear on June 18, 2010 but later on appeared before Inquiry Officers on June 25, 2010.

5.5.4.4 Muhammad Irfan Maqbool and his reference person at AKD Mr. Asif Mehmood failed to appear before the Investigating Officers.

5.5.4.5 Muhammad Shahid attended the hearing as per the schedule and informed that he is working with Aarine Bricks Company, which is owned by the family of MI and further he was asked by Ali Maqbool to witness the AOF of MI. Copy of statement is attached as annexure - 41.1.

5.5.4.6 Muhammad Aslam attended the hearing on June 25, 2010 and informed that he is working with Aarine Bricks Company, which is owned by the family of MI and further he was asked by Ali Maqbool to witness the AOF of MI. Copy of statement is attached as annexure - 41.2

5.6 Sohail Badar (SB)

5.6.1 Information Received from Brokerage House

5.6.1.1 The trading history of SB at AKD showed that after the opening of his trading account with AKD, SB only traded in the shares of CHBL. Wherein, the date of opening of trading account is missing in AOF. Transaction sheet of AKD showed that SB bought 5,045,682 shares with average rate of Rs. 8.65 and sold

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Aslam

1,542,851 shares with average rate of Rs. 5.97 from April 02, 2010 to April 16, 2010. The Ledger Statement of SB showed two entries of online payments of Rs. 3,250,000 and Rs. 1,500,000 in AKD's bank account on March 31, 2010 from Faisalabad. It is important to note here that only Rs. 4.7 million were deposited in SB trading account at AKD against the buying of Rs. 29.73 million shares. As on April 16, 2010 the Ledger Statement of SB showed debit balance of Rs. 29.74 million, AKD vide letter dated May 17, 2010 informed that SB opened his trading account on April 01, 2010 with AKD. AKD informed that Mr. Wali Muhammad is reference of SB and further informed that SB authorized Mr. Idrees Muhammad for collecting the trade confirmation details on his behalf. Nothing is mentioned in AOF of SB about Muhammad Idrees and AKD failed to provide any written authority signed by SB wherein Muhammad Idrees was authorized to collect the trade confirmation on SB's behalf.

5.6.2 Information Received through State Bank of Pakistan

5.6.2.1 To determine the transfer of funds SBP was asked to arrange the certain information regarding SB. The information received from the SBP letter dated June 03, 2010 revealed the following:

- SB's account with BOP, Chenab Mills Branch, Faisalabad was opened on April 02, 2010. Copy of Account Opening form is attached as annexure - 42.1. This bank account has been referred in the trading AOF with AKD which as per written confirmation of AKD was opened on April 01, 2010.
- Bank Statements showed that during the period from April 02, 2010 to May 25, 2010 around Rs 34.29 million were deposited into his bank account including IFFT of Rs 22.28 million whereas, withdrawal of Rs 34.21 million was made. However, closing balance as of May 25, 2010 was Rs 15,306 only. Account statement is attached as annexure - 42.2.
- Online cash payments of Rs. 1.5 million and Rs. 3.25 million were made to AKD dated March 31, 2010 through Bank Al-Habib Faisalabad Branch. The information received through SBP revealed that the payment was

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made by Ghulam Baqir and Ijaz Ahmed C/O Chenab Limited on behalf of SB. However, further details of Ghulam Baqir and Ijaz Ahmed were not available with the Bank Al-Habib. Copies of receipts are attached as annexure - 42.3.

5.6.2.2 The above mentioned information was not conclusive. To investigate the matter in detail, SBP was requested vide letter dated June 11, 2010 to arrange further information / queries from the concerned banks. State Bank of Pakistan in response provided required information vide letter dated August 06, 2010, the details of which are given below.

- The SB was physically present at the time of opening of his bank account at BOP Chenab Limited Faisalabad Branch.
- The cheque book was collected by Mr. Ashaq having CNIC # 31205-9853196-7 who was duly authorized by the SB. The copy is attached as annexure 43.1.
- Two cheques of Rs. 12.0 million were presented for inward clearing from May 10, 2010 to May 12, 2010. AKD was the payee and Habib Bank Metropolitan Bank Sargodha Road Faisalabad was the collecting bank. Details are attached as annexure 43.2.
- The cash withdrawals of Rs. 22.21 million were made through four cheques from May 07, 2010 to May 17, 2010 and payment in all cases was collected by Moras. Copies of cheques and CNIC of Mr. Moras are attached as annexure 43.3.
- From May 02, 2010 to May 12, 2010 cash of Rs. 12.10 million were deposited in the bank account of SB. The copies of deposit slips are attached as annexure 43.4.
- The five IFTT of US\$ 264770 were credited from May 07, 2010 to May 14 in the account by five different persons from UAE for Business Investment purposes.

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Khan

5.6.2.3 SB vide letter dated May 05, 2010 was directed to appear before the investigating officers at the Commission's Islamabad office on May 12, 2010. Copies of letters are attached as annexure - 44.

5.6.2.4 Mr. Absar Ahmed Khan ("AK") a family friend of SB appeared before the investigating officer on behalf of SB without any authorization on May 12, 2010. He informed that SB is in Saudi Arabia at present and employed at Royal Palace as Admin Officer. He further informed that SB last visited Pakistan a year ago and traded in the scrip of CHBL in his independent capacity without any authorization and has no relationship with CHBL group.

5.6.3 Written Interrogatories

5.6.3.1 Investigating officer vide letter dated June 08, 2010 sought information from SB regarding the trading into the shares of CHBL through AKD and advised him to reply in writing on or before date of hearing. Copies of letter attached as annexure - 45. No reply was received from SB.

5.6.4 Hearing Notice

5.6.4.1 The information received from AKD regarding trading of SB in the scrip of CHBL was incomplete, vague and suspicious. SB had failed to appear before investigating officers. Therefore, the investigating officers decided to apprise the Competent Authority regarding the situation and requested to issue the Notices to concern persons to record their statements and appear before the investigating officers. Subsequently, the Competent Authority issued Notices for the examination under section 32 of the SECP Act 1997 dated June 08, 2010, wherein following persons were directed to appear before the investigating officers as per the following schedule. Copies of Notices attached as annexure 46.

Table: 5.5

Name	Date	Time	Subsequent to receipt of Notice
Mr. Sohail Badar,	17-Jun-10	11:00 a.m.	Failed to Appear.

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Khan

<u>References (As provided by AKD)</u>			
Mr.Wali Muhammad,	17-Jun-10	03:00 p.m.	Requested to adjourn the hearing till June 25, 2010.
<u>Introducers (As mentioned in AOF of AKD)</u>			
Mr. Muhammad Azeem,	18-Jun-10	10:00 a.m.	Failed to appear on June 18, 2010 but later on appeared before Inquiry Officers on June 25, 2010.
Mr.Irfan Hussain Shah,	18-Jun-10	11:00 a.m.	Appeared on June 25, 2010.

5.6.4.4 Sohail Badar failed to appear before the Investigating Officers.

5.6.4.5 Wali Muhammad reference person of SB appeared before the investigating officers on June 25, 2010, and informed that SB lives in Amin Town Faisalabad near to his office and he has met him once. He further informed that Farid Alam CEO of AKD is known to him and Farid Alam requested him to confirm identification of SB but did not ask about financial position of SB. Wali Muhammad further stated that he is a employee of Masood Textile and has monthly salary of Rs. 70,000 and he is not in a position to give guarantee of SB. Wali Muhammad denied his relationship with Chenab Limited. Copy of statement is attached as annexure - 47.1.

5.6.4.6 Irfan Hussain Shah attended the hearing on June 25, 2010 and informed that he is resident of Faisalabad and employed at weaving factory at Malikpur near Faisalabad as clerk. He witnessed the AOF of SB on the instruction of his employer Muhammad Shahid. Irfan Hussain Shah further informed that he does not know any thing about SB and also never met him before. Copy of statement is attached as annexure - 47.2.

5.6.4.7 Muhammad Azeem attended the hearing on June 25, 2010 and informed that he is a resident of Sheikupura and employed at weaving factory at Malikpur near Faisalabad. He witnessed the AOF of SB on the instruction of his employer Shahid. Muhammad Azeem further informed that he does not know any thing

M.H.
Azeem

about SB and he never met him. A letter dated June 25, 2010 addressed to Muhammad Shahid, with the instruction to appear before investigating officer on July 30, 2010, was handed over to Muhammad Azeem for onward delivery to Muhammad Shahid. Muhammad Shahid failed to appear before investigating officers. Copy of statement is attached as annexure - 47.3.

M. Azeem
Khan

6. Findings

6.1 Considering the facts and thoroughly evaluating the evidence/information available on record and after perusal of the facts and statements recorded by various persons, it appears that MI and SB have close links with CHBL and CSL and they all acted in concert as group. Moreover, AKD facilitated MI and SB to trade in the scrip of CHBL. Following is the detail of links between different persons found by the Investigating Officers during the Investigation.

6.2. Links between CHBL and CSL

6.2.1 As established at para 4.6.4 of the report that CSL is an associated company of CHBL. Furthermore, the Board of Directors and Beneficial Owners of both the companies are mostly the same, please see table 6.1 and 6.2 below. This puts directors of both the companies in a privileged position to have access to information which is not available to general public.

Board of Directors

Table - 6.1

S. No:	Name of Director	Company Name	Company Name
1	Mian Muhammad Javed Iqbal	Chenab Limited	Chen One Stores Ltd.
2	Mian Muhammad Latif (CEO CHBL)	Chenab Limited	Chen One Stores Ltd.
3	Tehmina Yasmin	Chenab Limited	-
4	Muhammad Faisal Latif	Chenab Limited	Chen One Stores Ltd.
5	Muhammad Farhan Latif	Chenab Limited	Chen One Stores Ltd.
6	Muhammad Naeem (CEO CSL)	Chenab Limited	Chen One Stores Ltd.
7	Muhammad Rizwan Latif	Chenab Limited	Chen One Stores Ltd.
8	Muhammad Zeeshan Latif	Chenab Limited	Chen One Stores Ltd.
9	Shehnaz Latif	Chenab Limited	Chen One Stores Ltd.
10	Muhammad Kashif Ashfaq	-	Chen One Stores Ltd.

Beneficial Owners

Table - 6.2

S. No:	Name of Director	Company Name	Company Name
1	Mian Muhammad Javed Iqbal	Chenab Limited	Chen One Stores Ltd.
2	Mian Muhammad Latif	Chenab Limited	Chen One Stores Ltd.
3	Muhammad Faisal Latif	-	Chen One Stores Ltd.
4	Muhammad Naeem	Chenab Limited	Chen One Stores Ltd.
5	Muhammad Kashif Ashfaq	-	Chen One Stores Ltd.
6	Umair Javaid	-	Chen One Stores Ltd.

6.3 Links between the active persons (CSL, MI & SB and CHBL)

6.3.1 After evaluating the information received from brokerage houses, government departments and different financial institutions the following facts establish a strong linkage between different members of the group.

6.3.2 Muhammad Irfan Maqbool, Sohail Badar and Chen One Stores opened their trading accounts with AKD on same date i.e. April 01, 2010. The following is the detail regarding opening of trading accounts with AKD.

Table - 6.3

Sr. No	Client Name	Opening Date of Trading Account at AKD	Registration of UIN with NCCPL	Client Code	Shares Traded	Trading Started From
1	CHEN-ONE STORES LIMITED	1-Apr-10	30-Mar-10	2394	CHBL	31-Mar-10
2	MUHAMMAD IRFAN MAQBOOL	1-Apr-10	1-Apr-10	2396	CHBL	2-Apr-10
3	SOHAIL BADAR	1-Apr-10	1-Apr-10	2397	CHBL	2-Apr-10

6.3.3 CSL UIN was registered with NCCPL on March 30, 2010 and the trading account of CSL was opened with AKD on April 01, 2010 but CSL started trading

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through AKD on March 31, 2010, which is prior to opening of trading account with AKD i.e. on April 01, 2010. It is pertinent to mention here that Muhammad Irfan Maqbool and Sohail Badar also made payments to AKD before opening of their trading accounts with AKD i.e. April 01, 2010.

6.3.4 Muhammad Irfan Maqbool and Sohail Badar opened their bank accounts with the same branch and on the same day. Both were physically present at BOP, Chenab Mills Branch, Nishatabad, Faisalabad on April 02, 2010 as confirmed by BOP.

6.3.5 Muhammad Irfan Maqbool and Sohail Badar both duly authorized same person i.e. Mr. Ashaq to collect their cheque books from BOP Chenab Mills Branch, Nishatabad, Faisalabad.

6.3.6 Both the accounts at BOP were opened with an initial deposit of Rs.10,000 each made on April 02, 2010. The signatures on the initial deposit slips of both the accounts are same. Same signatures also appear on subsequent deposit slips in connection with cash deposited in the month of May 2010 in both the accounts.

6.3.7 Trading account at AKD of both individuals was funded through online cash deposit from same branch of Bank Al-Habib, Faisalabad. In case of Muhammad Irfan Maqbool one payment of Rs.2.5 million was made on March 29, 2010 whereas two payments of Rs.1.5 million and Rs.3.25 million were made on March 31, 2010 in the account of Sohail Badar.

6.3.8 Online payment slip in case of Rs 2.5 million and Rs 3.25 million show that these payments were made by Ghulam Baqir C/O CHBL. In the month of May 2010 cash deposits in the BOP accounts of both individuals were made and signature on the deposit slips match with the signatures on above online payment slips.

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6.3.9 In the AOF of Muhammad Irfan Maqbool at BOP shows that he was referred by Chenab Limited. The contact phone number i.e. 041-8754472 mentioned on his AOF is same as mentioned on the letter head of Chenab Limited and Chen One Stores Limited. Further the same number is also written on AOF of Chen One Stores Limited maintained with AKD. (Documents attached as annexure - 48)

6.3.10 It is interesting to note that the same contact number i.e. 041-8754472 is mentioned on online payment slip for Rs.1.5 million deposited to AKD by Ijaz Ahmed on behalf Sohail Badar dated March 31, 2010. Both CEO of CSL and CHBL at the time of hearing stated that they had no business relationship with Muhammad Irfan Maqbool and Sohail Badar given this only reason for these deposits could be to facilitate trading by the group.

6.3.11 The Cash withdrawals of Rs. 9.6 million from Muhammad Irfan Maqbool bank account and Cash withdrawals of Rs. 22.21 million from Sohail Badar bank accounts were made by same person namely Mr. Moras resident of Faisalabad. Subsequently, the Competent Authority issued Notice dated August 23, 2010 for the examination under section 32 of SECP Act 1997 to Mr. Moras. The Notice was returned due to incomplete address which was obtained from his CNIC.

6.3.12 The tax return of 2007 obtained from FBR shows that Mr. Asif Mahmood a reference person for Muhammad Irfan Maqbool was Group Admin Manager of Chenab Limited. Consumer Credit Information Report of Consumer Protection Department obtained from SBP shows that Muhammad Shahid witness of Muhammad Irfan Maqbool on AKD AOF is working at Accounts Department of Chenab Limited.

6.3.13 The CEO of Chenab Limited at the time of recording of his statement admitted that he knows Muhammad Irfan Maqbool and he is his relative. It is pertinent to mention here that CEO of AKD met Muhammad Irfan Maqbool, CEO

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of Chenab Limited and CEO of Chen One Stores Limited at Amtex Textile Limited road show at Faisalabad.

6.3.14 Chen One Stores Limited, Muhammad Irfan Maqbool and Sohail Badar almost started trading in the scrip of Chenab Limited on same date at AKD. After heavy trading in the scrip of Chenab Limited the ledger balance of Chen One Stores Limited at AKD showed the credit balance of Rs. 64.5 million on May 11, 2010 whereas the statements of Muhammad Irfan Maqbool and Sohail Badar ledgers on the same date collectively showed a debit balance of Rs. 62.4 million.

6.3.15 There is no trading history of trading of Muhammad Irfan Maqbool and Sohail Badar at stock exchanges. Despite this fact both placed huge buy orders in shares of CHBL giving price range of below Rs.9 per share.

6.3.16 Most of the buying and selling orders of Muhammad Irfan Maqbool, Sohail Badar and Chen One Stores Limited were placed through same trading terminals and with minor time difference and majority of the large orders were matched with each other which confirmed that there was synchronized trading by the group.

6.3.17 In the hearing the CEO of the CSL was asked to provide the copies of resolutions passed by the directors for trading in the scrip of CHBL over a period of time. The requisite information was provided by CSL through its letter dated June 25, 2010. Details are attached as annexure - 49. It has been noted from the information received that a special resolution was passed by the directors of CSL on December 31, 2008 and investment of Rs. 20 million was allocated for the purchase of CHBL shares. Moreover, on July 08, 2009 a special resolution was passed by the directors of CSL to invest Rs. 20 million to Rs. 50 million for the purchase of CHBL shares. Further on March 20, 2010 a special resolution was passed for investment of Rs. 50 million to Rs. 150 million to purchase the CHBL shares. It transpires from the above that substantial amount was allocated by the

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Board of CSL for purchase of shares in March 2010 as against the previous years. It is pertinent to mention here that the resolution dated March 25, 2010 was passed for the investment in the shares of CHBL rather to trade in the scrip heavily. Furthermore, no trading by CSL has been observed after April 15, 2010 when price has gone down substantially.

6.3.18 The above facts clearly establish that timing and manner of account opening of both Muhammad Irfan Maqbool and Sohail Badar at AKD and BOP were very similar. Deposits in the trading accounts at AKD and in the bank accounts at BOP of both individuals were made by same persons. Similarly order placement at AKD and subsequent trading pattern of both the individuals were comparable. Trading and bank accounts of these individuals have strong links with CHBL in shape of reference and funding. Furthermore, timing and pattern of trading of these persons i.e. Muhammad Irfan Maqbool, Sohail Badar and Chen One Stores Limited clearly show synchronization.

6.4 The fraudulent scheme

6.4.1 In light of above facts and the complaints received from cumulative preference shareholders it clearly transpires that trading in the share of CHBL by the group during the review period was done to artificially ramped up the share price. This was primarily done to impact the conversion price of the preference shares which is linked with the market price of CHBL share.

6.4.2 Chen One Store Limited bought 5,735,502 shares of CHBL out of the total traded shares of 14,210,521 from March 22, 2010 to March 31, 2010 which is almost 40% of the quantity traded during the period. The CSL pump the price from Rs. 4.54 to Rs.8.76 from March 22, 2010 to March 31, 2010 by placing orders on uptick. Thereafter, CSL sold 8,356,535 shares of CHBL out of the total traded shares of 18,774,500 from April 01, 2010 to April 09, 2010 which consists of almost 44% quantity traded during the period.

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6.4.3 To support the price post March 31, 2010 and sale of CSL trading accounts of Muhammad Irfan Maqbool and Sohail Badar were opened at AKD. Evidence clearly shows strong linkage between these two individuals and their linkage with Chenab Group i.e. CHBL and CSL. Without any prior trading history they suddenly started making aggressive buying in the shares of CHBL. Majority of the shares sold by CSL were purchased by these two individuals and all the trading took place at the same brokerage house. By doing this synchronized trading the group was successful in maintaining the share price of CHBL above Rs.8.00 so as to benefit CHBL in case of conversion of preference shares into ordinary shares.

6.4.4 To facilitate above scheme CHBL issued a notice dated March 26, 2010 wherein it was stated that "an ongoing negotiation with New York Fund based company, whereby, such New York based company is interested in investing an amount equal to \$120 million. The composition of such investment, as disclosed in said notice, was \$100 million as Loan and \$20 million as equity of the Company". The details obtained by the investigation officers revealed that the Group is a New York based premier financial institution focusing on socially-responsible financial products and services. According to the details the fund is only the arranger of funds and will not directly invest 120 \$ million in the CHBL. The correspondence with US based fund provided by the CHBL also refer to loan arrangement rather equity investment in CHBL. There are no financials available of fund and it has no experience in investment in Pakistan. No MOU was signed between New York US based fund and CHBL. But according to the announcement made by CHBL the New York Based Company is keen to invest 120 million US dollar in CHBL which is not true. It is also pertinent to mention here that CEO of AKD asserted that MI and SB bought huge quantity of shares on the news of investment of 120 \$ million by New York Fund based company in CHBL announced by CHBL through notice dated March 26, 2010.

6.4.5 The CEO of the CHBL at the time of recording his statement informed that cut-off date i.e. April 08, 2010 for deciding the strike price was determined by the

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legal counsel of CHBL, M/S Mandviwala Associates. The strike price of Rs. 6.36 was calculated on the basis of Rs 8.48 i.e. closing rate of default date. It is pertinent to mention here that before selecting the strike price date, CSL bought huge quantity of shares from market starting from March 11, 2010 and effectively increased the share price by two folds in connivance with MI and SB in a short span of time. Subsequently, after deciding the cut-off date, CHBL announced holding of an EOGM on May 19, 2010 to seek approval of the ordinary shareholders for conversion of preference shares into ordinary shares. It is important to note that CHBL decided the strike price on single day's closing price for its own benefit, whereas three months average closing price of CHBL (December 11, 2010 to March 11, 2010), i.e. prior to CSL buying was Rs. 3.80. The strike price calculated on the basis of this three months period average price comes to Rs. 2.85 which is very low as compared to CHBL calculated strike price. Therefore, it is very much apparent that CHBL is the direct and ultimate beneficiary of the upsurge in the share price of CHBL as in case of Rs 2.85, the company had to issue twice the shares to the preference shareholders.

6.4.6 From the above it can easily be concluded that the escalation in market price of the CHBL shares does not appear to be genuine and indicates the potential of price manipulation since it was started just before the date of conversion of the cumulative preference shares. CSL generated substantial turnover by creating false and misleading appearance of the active trading in the scrip of CHBL with the connivance of MI and SB. CSL pumped up the price of CHBL from March 22, 2010 to March 26, 2010 and then maintained that price by selling the shares to other two group members. After sale of shares at higher price by CSL the share price of CHBL decreased rapidly. This caused the potential loss to the investors who bought CHBL shares after the issuance of material information by the company. This act of the CSL was detrimental to the integrity of the market and shakes the investor's interest. From the above can be transpired that the subject increase in price may be considered as fraudulent act on the part of the group.

6.5 Role of AKD Securities Limited

6.5.1 While reviewing the role of AKD in the whole scheme, it becomes apparent that AKD played an important part in facilitating the trading by the group. After reviewing the trading it has been observed that during the period from March 31, 2010 to April 15, 2010, 37% of total market volume was bought through two clients of AKD i.e. MI (24.7%) and SB (12%) respectively. Further 44% of total market volume was also sold by AKD through MI (6.3%), SB (5.8%), and CSL (32%) respectively.

6.5.2 AKD confirmed that Muhammad Irfan Maqbool and Sohail Badar traded in their independent capacity and had no relationship with CSL. In the AOF of AKD both these individuals have given reference of their respective accounts with BOP, Chenab Mills Branch, Nishatabad, Faisalabad. As stated above, these bank accounts were established on April 02, 2010 therefore this fact does not support claim of AKD that trading accounts of these two individuals were opened on April 01, 2010. Both individuals transferred funds to AKD and started trading prior to opening of trading account, a pattern similar to CSL.

6.5.3 Furthermore, the evidence shows that MI and SB both opened their trading accounts at AKD on same day and their AOF was received by AKD through courier. The trading pattern of both was same as they gave their orders in written form and bought shares at higher price. MI and SB both belong to Faisalabad and they both deposited their initial deposits through same bank account on same day. MI and SB both purchased huge quantity of share with very nominal amount deposited in their trading accounts and were allowed to have a debit balance of 32.78 million and 29.74 million respectively without any guarantor of standing.

6.5.4 The practices adopted by AKD i.e. in completing AOF of MI and SB, allowing them to bought shares with huge debit balances that too and without verification of their financial means, manner of receiving clients orders for trade execution, mode of sending trade confirmation, opening of trading accounts

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without following proper KYC constitute that AKD was fully aware of the fraudulent scheme and facilitated the group in its execution.

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7. Conclusion

7.1 The above mentioned facts reflect that CSL has ramped up and manipulate the share price of CHBL with the connivance of MI, SB and AKD. They have violated various rules and regulations including but not limited to the followings:-

7.2 Securities and Exchange Ordinance, 1969 Section 17 (a) & (e)

7.2.1 In light of the evidence collected, it appears that CHBL through its associated company CSL in collusion with SB and MI, aided and abetted by AKD acted as a "Group" and were engaged in acts, practices and course of business which were intended or calculated to operate as fraud or deceit upon the cumulative preference share holders in particular and public at large in general. The said Group for the purpose of influencing and turning to their advantage sale and purchase of CHBL shares employed an elaborated fraudulent scheme which is prohibited in terms of section 17 (a) of Securities and Exchange Ordinance, 1969 ("SEO 1969"). During the course of employing this fraudulent scheme, the Group created a false and misleading appearance of active trading and artificially raised the prices of the shares of CHBL, which is also prohibited in terms of section 17 (e)(v) of the SEO 1969. Therefore appropriate action may be initiated against the following officers, directors, of CHBL, CSL, AKD, SB, and MI for violation of section 17 of the SEO 1969.

Name	Company	Designation
Mian Muhammad Latif	Chenab Limited	Chief Executive Officer
Muhammad Naeem	Chen One Stores Limited	Chief Executive Officer
Mr. Farid Alam	AKD Securities Limited	Chief Executive Officer
Muhammad Zeeshan Latif	Chenab Limited	Director
	Chen One Stores Limited	
Muhammad Kashif Ashfaq	Chen One Stores Limited	Director
Mian Muhammad Javed Iqbal	Chen One Stores Limited	Director
Muhammad Faisal Latif	Chen One Stores Limited	Director
Muhammad Farhan Latif	Chen One Stores Limited	Director

Muhammad Rizwan Latif	Chen One Stores Limited	Director
Umair Javaid	Chen One Stores Limited	Director

7.3 Brokers and Agents Registration Rules, 2001

Rule 8 {(iii) (iv) (v) (xi) }

Code of Conduct set fourth under third schedule {(A1) (A3) (A4) (A5) (B4)}

7.3.1 It has been observed that AKD has contravened the provisions of Brokers and Agents Registration Rules, 2001. AKD has indulged in manipulating price rigging, concerning activities in stock exchange and encourage purchase and sales of CHBL shares with the object to generating brokerage commission. The AKD failed to maintain high standard of integrity promptitude and fairness in conduct of its business and also indulged in a scheme of price rigging which was detrimental for the market equilibrium thus failed to follow the requirements of code of conduct laid down in Third Schedule of Brokers and Agents Registration Rules, 2001.

7.4 General Regulations of KSE (Regulation 74)

7.4.1 It has been observed that the AKD has not followed the instructions mentioned in General Regulations regarding the maintenance of Standardized Account Opening Form.

7.5. Regulations Governing Risk Management (Regulation 4(4.8) & 9(9.4)

7.5.1 The AKD was required to collect the margins from clients at pre trade level; however, there are various instances where Muhammad Irfan Maqbool and Sohail Badar were allowed to take positions without having initial margins. It has observed that both clients of AKD have huge debit balances but in spite of this fact they were allowed to take exposure in their accounts.