



Through Courier

No. 1372

Before The Director / HOD (MS&SID)

**In the matter of Show Cause Notice issued to Gauhar Engineering Limited under Section 22
of the Securities and Exchange Ordinance, 1969**

Date of Hearing:

February 18, 2015

Present at the Hearing:

Representing Gauhar Engineering Limited:

*Mr. Zafar Iqbal, Company Secretary, Gauhar
Engineering Limited*

Assisting the Director/HOD (MS&SID):

Mr. Awais Ali, Assistant Director (MS&SID)

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. No. SMD/MSW/GAEL/100/2014/1213, dated February 04, 2015 (“SCN”) issued to Gauhar Engineering Limited (“Company”) by Securities and Exchange Commission of Pakistan (“Commission”) under Section 22 of the Securities and Exchange Ordinance, 1969 (“Ordinance”).

2. The brief facts of the case are that the Company is a public limited company listed on Karachi Stock Exchange (Guarantee) Limited (“KSE”). The Company was shifted from the “Defaulter’s Segment” to “Normal Counter” of KSE on November 24, 2014 and trading in the shares of the Company resumed on December 09, 2014.

3. The Company vide its letter dated October 28, 2014 informed the KSE regarding shifting of name of the Company from “Defaulters’ Segment” to “Normal Counter” and commencement of trading in its shares. It was observed that Page 3 of the letter was not properly scanned and therefore



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Surveillance & Special Initiative Department)

was not legible. The Commission asked the Company to provide a copy of the abovementioned letter, which was provided to the Commission via email dated December 31, 2014.

4. The Commission vide its letter dated January 21, 2015 called the copy of same letter from KSE, which was provided by KSE vide its letter dated January 23, 2015.

5. On perusal of the letters, discrepancies were observed in the contents of Para 4(a) of the original letter addressed to the KSE and the letter provided to the Commission. Para 4(a) of the first letter which was disseminated to KSE on October 28, 2014 reads as:

"As we stated above, the directors of the Company have injected an interest free loan amounting to 15 million in the Company. The management is committed to make the Company profitable, and it has already done so in the past quarter, as it will do in coming couple of quarters. We also expect to turn our negative equity into positive equity within one year by increasing the reach and options of Gas Central Heating to solar and electric in addition LPG, diesel etc. Additionally, on the solar solutions side, we are in negotiations with two Chinese companies for a joint venture. We also wish to announce payouts to our shareholders in the near future. The Company has also inducted members from top industrial families of the country on its board. This will allow us to create synergies within our common businesses."

6. However, it was noted that the Para 4(a) of the same letter provided to the Commission was materially different from the letter disseminated through KSE. Para 4(a) of the letter provided to the Commission reads as:

"As we stated above, the directors of the Company have injected an interest free loan amounting to 15 million in the Company to make equity investments into top tier, quality publically listed companies in Pakistan. We wish to enhance shareholder value by making such prudent investments on behalf of our shareholders. The management is committed to make the Company profitable, and it has already done so in the past quarter, as to do in coming couple of quarters. Our investment portfolio comprises of quality companies and funds listed in the Pakistani capital markets. We also expect to turn our negative equity into positive equity within one year. We also wish to announce payouts to our shareholders in the near future. The



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Surveillance & Special Initiative Department)

Company has also inducted members from top industrial families of the country on its board. This will allow us to create synergies within our common businesses.

7. In light of the above discrepancy, the Company was again advised to furnish a copy of the original letter sent to the KSE dated October 28, 2014. The Company via its second email dated January 1, 2015 provided another copy of the same letter which was provided vide the Company's email dated December 31, 2014, and not the original one dispatched to the KSE.

8. On examination of the documents, it was noted with concern that the Company vide its original letter addressed to KSE provided information regarding negotiations with Chinese companies for a joint venture and increasing the reach and options of gas central heating to solar and electric, and later omitted this information in the letter emailed twice to the Commission. Further, the information regarding the Company's decision to make equity investments in top tier publically listed companies was not present in the original letter.

9. The Commission issued the SCN under section 22 of the Ordinance, for violation of Section 18 of the Ordinance and required the Company to submit its written reply within ten days from the date of SCN. The Chief Executive Officer of the Company was also required to appear either in person or through an authorized representative before the undersigned on February 18, 2015.

10. The Company failed to furnish any written reply to the SCN within the stipulated time period. However, the Company Secretary of the Company appeared on the date of hearing and presented a letter authorizing him to appear on behalf of the Chief Executive Officer of the Company. No written submissions were presented to the Commission on the date of hearing though following verbal submissions were made during the hearing:

- i. SECP was provided the letter which was available on record with the Company;



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Surveillance & Special Initiative Department)

- ii. *After receipt of the SCN the discrepancies were discussed with the Company's Chief Executive Officer ("CEO") who provided the letter which was disseminated to KSE which was residing in his desk.*
- iii. *The CEO of the Company told me (the Company Secretary) that after signing the letter he cancelled it and signed another letter which was disseminated to the KSE.*

11. The submission of inaccurate contents, twice, to the Commission is a serious attempt to mislead the Commission and is considered to be a material misstatement. Above all, the information regarding investment in equity market as mentioned in the Company's letter submitted to the Commission is still not disclosed to the general public.

12. It has been observed from the record of the Commission that the Company opened a trading account with one of the brokerage houses registered with the KSE with the title 'Gauhar Engineering Limited' on September 24, 2014. The Company started active trading in the shares from the aforesaid account. Further, the Company also circulated its quarterly accounts for the period ended December 31, 2014 on February 04, 2015 reflecting other income of Rs. 5,286,936 which was mainly from the trading accounts of the Company. The share price of the Company has increased from Rs. 1.13 on December 09, 2014 to Rs. 21.26 on February 27, 2015. It is a matter of great concern for the Commission that the Company has not disclosed the true state of affairs of the Company to its shareholders and investors at large. The Company has opted the course of action which has been informed to the Commission vide email dated December 31, 2014, which is not conveyed to investors yet.

13. Before concluding the matter, it is necessary to discuss the requirements of law and its importance. Provisions of Section 15D (1) of the Ordinance and Regulation 5.19.13(c) of the KSE Regulations requires that every listed company shall immediately disseminate any inside information which directly concerns the listed securities. Non-disclosure of material information is a threat to the integrity of stock markets. It is the right of the investors and shareholders to receive timely, reliable,



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Surveillance & Special Initiative Department)

readily accessible and complete information from the management of the Company. This will lead to fair and level playing field for all investors. It prohibits fraud, deception and material misstatements and omissions in connection with the purchase and sale of a share based on rumors. Further, provisions of Section 18 of the Ordinance prohibit making any statement or giving any information which has reasonable cause to be believed to be false or incorrect.

14. After detailed and thorough perusal of the facts, evidence and information available on record and arguments submitted by the Respondent during the course of hearing, it is established that the Company has provided two different sets of information to the Commission and the general public making it materially incorrect in terms of provisions of Section 18 of the Ordinance.

15. Considering the above and in exercise of the powers conferred under Section 22 of the Ordinance, I hereby impose a penalty of Rs. 500,000 (Five Hundred Thousand Rupees Only) on the Company. The Company is also directed to immediately disseminate complete set of information regarding decision of the management for making investments in equity market and opening of trading account and status of earlier disseminated information to KSE. The Company is further directed to ensure full compliance of all rules, regulations and directives of the Commission in the future for avoiding any punitive action under the law.

16. The matter is disposed of in the above manner and the Company is directed to deposit the penalty as mentioned in paragraph 14 above, in the account of the Commission being maintained with the MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish a copy of the deposit challan to the undersigned.

Abid Hussain
Director / HOD (MS&SID)
Announced on March 2, 2015
Islamabad.