

No.SEC/Enforcement/482/2006/1073
Dated: October 03, 2006

By Registered A/D
By Fax: 031-715263

Eagle Star Textile Mills Limited (Issuer)
North Kattali, Chittagong-4217

Director
Eagle Star Textile Mills Limited
North Kattali, Chittagong-4217

Managing Director
Eagle Star Textile Mills Limited
North Kattali, Chittagong-4217

Company Secretary
Eagle Star Textile Mills Limited
North Kattali, Chittagong-4217

Sub: Non-compliance with securities related laws in connection with audited financial statements for the year ended on June 30, 2005: Warning

The statutory auditor of Eagle Star Textile Mills Limited (issuer) has issued qualified audit report on the financial statements for the year ended on June 30, 2005 wherefrom it appeared that the issuer did not comply with the provision of the para 43 of BAS 16 by not charging depreciation on fixed assets for the period for which the company's production was laid off which resulted in understatement of loss of the concerned period; failed to comply with the provision of para 24 of BAS-17 by capitalizing interest payable on assets procured under lease; and also failed to clarify the reasons for non-furnishing of bank statements to the auditors for verification.

As a result of the above, the financial statements of Eagle Star Textile Mills Limited for the year ended on June 30, 2005 did not show true and fair view of the state of affairs of the company as well as the results of operation for that period.

It further appeared from the aforesaid audited financial statements that the issuer has committed financial irregularities by way of accounts manipulation and that the issuer has furnished to the Commission and others concerned a false/incorrect financial statements for the year ended on June 30, 2005 which is prohibited under section 18 of the Securities and Exchange Ordinance, 1969.

Failure to furnish true and fair audited financial statements for the year ended on June 30, 2005 is a clear contravention of sub-rule (2) of rule 12 of the Securities and Exchange Rules, 1987.

Issuer's aforesaid non-compliance/violation appeared to be deliberate attracting appropriate provisions of the Securities and Exchange Ordinance, 1969.

A show cause cum hearing notice No.SEC/Enforcement/482/2006/837 dated July 27, 2006 was issued to you for alleged contraventions of securities related laws and the hearing was conducted on September 5, 2006.

Mr.G.M Mahmud, Director, Mr. Nipur Chowdhury, Chief Accountant and Md. Shamsul Alam, Asst. Chief Accountant of Eagle Star Textile Mills Limited appeared for hearing and submitted a written explanation dated September 05, 2006 mentioning, among others, that since the company incurred heavy financial loss and considering non operation of the project during the period from July 2004 to November 2004, the management considered not to charge depreciation for the concerned period. It is also stated that due to heavy financial loss of the company and lay off of the factory during the year, interest payable to IDLC was shown as addition to the fixed assets without charging under revenue head during the year. On June 25, 2006, IDLC waived the interest on outstanding dues and, as a result, the said interest of Tk. 23,91,776 has been adjusted in the year 2005-2006. Mentioning above, among others, the issuer requested the Commission to consider lapses with a lenient view and condone them.

The Commission, considering the submissions made by Eagle Star Textile Mills Limited, has decided to dispose off the proceedings against issuer and others concerned, for the stated contravention, by placing on record the Commission's dissatisfaction on the defaults made by them, with a warning to ensure compliance of all securities related laws in future.

Please note that this disposal does not absolve you from your lawful responsibilities/obligations to the persons, if any, affected as a result of your above said defaults.

For and on behalf of
the Securities and Exchange Commission

(Mansur Alam)
Executive Director

CC:
Chief Executive Officer, Dhaka Stock Exchange
Chief Executive Officer, Chittagong Stock Exchange Limited
Executive Director (R&D), SEC
Executive Director (CFD), SEC
Director (MIS), SEC
Chairman's Office, SEC