

**No. SEC/Enforcement/552/2007/406**

**Dated: April 23, 2007**

Jute Spinners Limited (Issuer)

House No. 98 (New), Road No. 9A (New), Dhanmondi R/A, Dhaka-1209

Directors

Jute Spinners Limited, House No. 98 (New), Road No. 9A (New), Dhanmondi R/A, Dhaka-1209

Managing Director

Jute Spinners Limited, House No. 98 (New), Road No. 9A (New), Dhanmondi R/A, Dhaka-1209

Company Secretary

Jute Spinners Limited, House No. 98 (New), Road No. 9A (New), Dhanmondi R/A, Dhaka-1209

**Sub: Non-compliance with securities related laws in connection with audited financial statements for the year ended on June 30, 2006: Warning.**

As per section 2 (g) of the Securities and Exchange Ordinance, 1969 (ORDINANCE No. XVII OF 1969) Jute Spinners Limited is an issuer (herein after referred to as issuer).

As per sub-rule 3A of rule 12 of the Securities and Exchange Rules, 1987, the financial statements of the issuer shall be audited within one hundred and twenty days from the date on which the issuer's financial year ends and a copy of such audited financial statements shall be submitted to the Commission and the Stock Exchange within fourteen days thereof.

As per sub-rule 2 of rule 12 of the Securities and Exchange Rules, 1987, the financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh.

It appeared from the audited financial statements for the year ended on June 30, 2006 of the issuer that the statutory auditors have made, among others, the following observations and expressed qualified opinion on the financial statements:

i) Reference Note 1. (h) (ii): ----- the company did not make computation of deferred taxation.

ii) Reference Note No. 2. (ii): The value of fixed assets includes Tk. 98,425,079.00 being value increased due to revaluation of land, building and plant and machinery during the year 1989-90. No depreciation is charged on value increased by re valuation.

The Commission, vide letter no. SEC/CFD/9:2/2001/2903 dated December 07, 2006, requested the issuer to explain its position regarding the above, in reply, the issuer submitted a letter No. JSL/HO/AC/24-B/261/06-07 dated December 11, 2006 mentioning, among others, the following:

“i) The deferred tax asset/income or liability/expenses does not create any legal liability/recoverability to & from the income tax authority. Therefore, it is clear that there is no legal base/requirement to calculate the deferred taxation. However, we shall take care of the auditor's qualified observation in the next year.

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ii) The company revalued its fixed assets like land, building and plant & machinery in 1990 only to show the market value of those assets. Depreciation was not calculated on the following grounds:-

a) Depreciation is always calculated on fixed assets acquired against consideration. In this context, value of the fixed assets was increased by revaluation where no consideration was involved.

b) Company Act, 1994 is silent in this respect.

c) The main legal obstacle to calculate depreciation on increased value to revaluation is per paragraph 9 of 3<sup>rd</sup> schedule of Income Tax Ordinance, 1984 which contains that 'The aggregate of the allowances for depreciation allowed under this ordinance or the Income Tax Act, 1922 (XI of 1922), in respect of any assets, shall not exceed the original cost of the assets.'

d) We always consider the interest of the shareholders. If we would charge depreciation on value increased by revaluation, there would not be any profit for declaration of dividend. We would like to mention for your kind information that we are one of the few companies in jute sector which is paying dividend regularly.

Considering the above facts we have not calculated depreciation on increased value of fixed assets due to revaluation."

The above explanations of the issuer were not considered acceptable because of the following:

i) Deferred Tax was not accounted for as per BAS-12, which affected the true and fair view of the state of the company's affairs as at June 30, 2006.

ii) The company did not comply with the requirements of BAS-16 by non-charging depreciation on revalued amount of assets. Hence the replies/clarifications/ explanations of the company are not acceptable.

Failure to furnish true and fair audited financial statements for the year ended on June 30, 2006 is a clear contravention of section 18 of the Securities and Exchange Ordinance, 1969, read with sub-rule (2) of rule 12 of the Securities and Exchange Rules, 1987, which appeared to be deliberate attracting appropriate provisions of the Securities and Exchange Ordinance, 1969.

A show cause cum hearing notice No. SEC/Enforcement/552/2007/238 dated February 18, 2007 was issued to the issuer as well as its directors, managing director and company secretary to explain the above and also to provide an opportunity of being heard by the Commission. The hearing was conducted on March 18, 2007.

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The officials of the issuer appeared for hearing, submitted a letter No. JSL/HO/AC/24B/416/2006-07 dated March 15, 2007 stating, among others, the following:

i) The board of directors of the company decided to take all possible measures to strictly follow the International Accounting Standard as adopted by Institute of Chartered Accountants of Bangladesh and also the SEC regulations in respect of securities related laws. They deeply regretted for the deviations mentioned in the notice of SEC which occurred due to their inadvertence.

ii) They begged an opportunity to enable them to comply with all legal requirements in future.

The Commission, considering the all above, has decided to dispose off the proceedings against the issuer by placing on record the Commission's dissatisfaction on the default made by it, 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 any person, if affected, as a result of your above said default/contravention.

For the Securities and Exchange Commission

**Mansur Alam**  
**Executive Director**

CC:

CEO, Dhaka Stock Exchange  
CEO, Chittagong Stock Exchange  
Executive Director (R&D), SEC  
Executive Director (CFD), SEC  
Director (MIS), SEC  
Chairman's Office, SEC