

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

নং-বিএসইসি/এনফোর্সমেন্ট/৩০৩৭/২০২১/১৬০

তারিখঃ জানুয়ারী ২৫, ২০২২ ইং

আদেশ

যেহেতু, as per Section 2 (cc) of the Securities and Exchange Ordinance, 1969, Commission means Bangladesh Securities and Exchange Commission constituted under the বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন আইন, ১৯৯৩;

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 2(g) মোতাবেক Aman Cotton Fibrous Limited, ‘issuer’ হিসাবে অভিহিত (অন্তঃপর ইস্যুয়ার বলে উল্লেখিত);

যেহেতু, as per the Commission’s decision, in the public interest, the Commission has decided to conduct a special audit on the matter of utilization of initial public offering (IPO) proceeds and audited financial statements for the year ended on June 30, 2019 of Aman Cotton Fibrous Ltd. and appointed M/s. Howlader Yunus & Co., Chartered Accountants as special auditor. The special auditor has submitted their special audit report to the Commission. The issues which are cited on the special audit report and the Commission’s comments are furnished below:

Findings on the utilization of IPO proceeds

SL	Auditors’ findings	Corporate Finance Department’s Comments																																
1	<p>Findings:</p> <p>1. Amongst the requisitions, we did not receive the following:</p> <ul style="list-style-type: none"> • Loan statements for IBBL HPSM loan and Union Capital Ltd. Term finance. • Loan closing letter from Islami Bank BD Limited • Loan ledger from Union Capital Limited. • Vouchers and all other documents in support of payments from IPO proceeds till 30 June 2020 <p>2. We observed discrepancies in the IPO fund utilization as per the Prospectus and at actual. Utilization status given in details:</p> <table border="1"> <thead> <tr> <th>As per the Prospectus</th> <th>Taka</th> <th>At actual till date</th> <th>Taka</th> </tr> </thead> <tbody> <tr> <td>Machinery Purchase</td> <td>663,375,000</td> <td>Machinery Purchase</td> <td>-</td> </tr> <tr> <td>Loan Repayment: IBBL</td> <td>21,577,775</td> <td>Loan Repayment: IBBL from IPO A/C</td> <td>21,577,775</td> </tr> <tr> <td>Loan Repayment: Union Capital</td> <td>80,047,225</td> <td>Loan Repayment: Union Capital from IPO account</td> <td>2,471,605</td> </tr> <tr> <td>IPO Expenses (approx.)</td> <td>35,000,000</td> <td>IPO Expenses from IPO account</td> <td>15,082,044</td> </tr> <tr> <td></td> <td></td> <td>Fund transfer to escrow A/C</td> <td>30,000,000</td> </tr> <tr> <td></td> <td></td> <td>FDR Investment</td> <td>730,000,000</td> </tr> <tr> <td>Total</td> <td>800,000,000</td> <td></td> <td>800,000,000</td> </tr> </tbody> </table> <p>a. As per the Prospectus, dated May 07, 2018. Chapter XXII: “Use of Proceeds”. it is mentioned that “Net proceeds from initial Public Offering (IPO) will be used for acquisition and installation of brand new European machinery for expansion of existing project by increasing its capacity, repayment of existing long term loan and defraying the IPO expenses.”</p> <p>However, ACFL could not provide us any such documents to verify the fact that the IPO fund has been used for its designated purpose. Also, it was mentioned in the Auditor’s Certificate, issued by Shafiq Basak & Co. on 05 July 2020, it is reported that “No asset was procured imported constructed by Aman</p>	As per the Prospectus	Taka	At actual till date	Taka	Machinery Purchase	663,375,000	Machinery Purchase	-	Loan Repayment: IBBL	21,577,775	Loan Repayment: IBBL from IPO A/C	21,577,775	Loan Repayment: Union Capital	80,047,225	Loan Repayment: Union Capital from IPO account	2,471,605	IPO Expenses (approx.)	35,000,000	IPO Expenses from IPO account	15,082,044			Fund transfer to escrow A/C	30,000,000			FDR Investment	730,000,000	Total	800,000,000		800,000,000	<p>It appears from special auditors’ findings it is evident that:</p> <ul style="list-style-type: none"> • IPO fund was not utilized as per the purposes approved by the BSEC • IPO fund was not utilized within the time limit as per the BSEC Consent Letter • IPO fund amounting Tk.73 crore was invested in FDR having an outstanding loan with Union Capital • FDR amounting Tk.73 crore is lien against Akin Carrier’s loan (related party of ACFL) has not disclosed. <p>From the aforesaid activities the issuer has violated the followings:</p> <p>1. The Condition No.6 of part C of the Commission IPO consent letter No. BSEC/C1/IPO-202/2012/305 dated May 03, 2018.</p> <p>2. Clause © of the chapter XXII: Use of proceed. “the company has no objective to invest in any joint</p>
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“মুজিববর্ষের অঙ্গীকার
উন্নয়ন-অর্থায়নের উৎস হবে পুঁজিবাজার”

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Cotton Fibrous Limited using IPO proceeds as of June 30, 2020”.

b. In addition to the above reference, a prerequisite is also given in Chapter XXII, for the Loan Repayment using the IPO fund. The following schedule is given:

SL	Bank & Branch Name	Amount to be paid
1	Islami Bank Bangladesh Ltd., Ramna Br, Dhaka	21,577,775
2	Union Capital Ltd, Head Office	80,047,225
Total		101,625,000

We found that the IPO fund was used for the repayment of the IBBL loan accordingly (amounting to Tk. 21,577,775). Repayment was traced on 14th August 2018 from City Bank Limited (A/C 2921399871001).

However, for Union Capital, the loan was repaid of only Tk. 13,754,440 out of Tk. 80,047,225. This covers only 17.18% of the required repayment criteria. Till our verification the loan of Union Capital was not fully paid.

c. We observed that, out of a total repayment of Tk. 13,754,440, only Tk. 2,471,605 was used from the IPO account and the rest of Tk. 11,282,835 was found to be repaid even before the IPO fund was credited in designated Bank account (The City Bank Limited A/C-2921399871001). The further loan from Union Capital was repaid from escrow accounts (Woori Bank) of Tk. 2,514,815, due to insufficient balance on IPO accounts.

d. We found that the IPO fund was utilized for the payment of IPO Expenses, amounting to Tk. 34,760,628. Out of the total IPO expense, Tk. 19,678,584 was spent before fund money was credited and Tk. 15,082,044 only was used from the IPO fund.

e. Findings on FDR investment

Out of the total IPO Fund, Tk. 730,000,000 was invested in FDRs within 10 September 2018 with different banks and no approval was taken from the BSEC for utilization of IPO Fund as FDR investment. In the 13th AGM of the company, held on 26 December 2018, Shareholders passed the resolution in favor of such investment. Corresponding meeting minutes were sent to BSEC on 9 January 2019.

Furthermore, in correspondence between the Chairman and the Managing Director, it was found that the FDRs has been kept as a lien for loans whereas it is stated explicitly in the prospectus that the IPO proceeds shall not be used in investment in any joint venture, subsidiary or associate, nor it shall be used as working capital. We have asked for the original FDR receipts but the ACFL failed to show the FDR receipts.

Mr. Shofiqul Islam and Mr. Towfiqul Islam already issued a legal notice to Mr. Rafiqul Islam and Mr. Toriqul Islam for creating false resolutions by forging their signature and obtained single authority to operate FDR, the lien of FDR against the loan taken by Akin Carriers Ltd.

f. Findings on IPO fund utilization certificates issues by CA Firm(s):

In the certificate issued by Malek Siddiqui Wali, Chartered Accountants, on 13 November 2019, for October 2019, certifying that IPO utilization was correctly made (loans repaid from IPO Fund accounts), even when loans were repaid from escrow accounts. Such a certificate was issued for 3 consecutive months (August, September, and October 2019), after which the mentioned CA Firm resigned. After the resignation of Malek Siddiqui Wali., Shafiq Basak & Co. was appointed for issuing an IPO fund utilization certificate.

venture, subsidiary associate or for any acquisition purpose” (page# 165 of the prospectus) and

3. The provision of the Section 18 of the Securities and Exchange Ordinance, 1969.

Out of the total IPO Fund, Tk. 730,000,000 was invested in FDRs within 10 September 2018 with different banks without prior approval of the shareholders.

Mr. Shofiqul Islam (Chairman) and Mr. Towfiqul Islam (Director) already issued a legal notice to Mr. Rafiqul Islam (Managing Director) and Mr. Toriqul Islam (Director) for creating false resolutions by forging their signature and obtained single authority to operate FDR, the lien of FDR against the loan taken by Akin Carriers Ltd. is a related party.

IPO fund utilized certified auditor Malek Siddiqui Wali, Chartered Accountants (August 2018 to October 2019) and Shafiq Basak & Co, Chartered Accountants (November 2019 to till date) have failed to detect IPO proceeds of Tk.73 crore is line against related party loan.

It is evident that the auditors did not perform their duty properly and provided false and misleading information to the Commission and investors.

Hence, Malek Siddiqui Wali, Chartered Accountants and Shafiq Basak & Co, Chartered Accountants violated the condition No.4 of the part C of the Commission IPO consent letter No. BSEC/C1/IPO-02/2012/305 dated May 03,



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<p>g. Loan repayment from the other account after receiving IPO fund: It was shown in the IPO proceed utilization report, issued by Malek Siddiqui Wali for August, September, and October 2019, that loan of Tk. 12,358,420 was repaid from IPO bank account to Union Capital, but no such transaction was found in the IPO account statement.</p> <p>It was found that the cheque of Commercial Bank (paid on 31st August 2019) as shown in the above schedule, was a cash cheque and whether the loan was repaid or not could be traced.</p> <p>Furthermore, in the above schedule loan repayment is shown from the IPO account of Tk. 2,471,605 (on 30th September 2019) was not found in the IPO account statement of The City Bank Limited on that date. Also, ACFL was unable to provide us with the bank statement with Pubali Bank Ltd. as this account is dormant.</p>	<p>2018 and the provision of the Section 18 of the Securities and Exchange Ordinance 1969.</p>
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SL	Auditors' findings on audited financial statements for the year ended on June 30, 2019	CFD's Comments
1.	Books and accounts of ACFL were not maintained properly. The client provided us the closing trail balance which was matched with the audited financial statement but when we printed the trial balance from software in presence of Director and CFO of ACFL, it was fully a different one and no balance was matched with the audited FS. There was an imbalance of Tk. 35.28 crore in opening balances.	It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair picture of the company financial position and result of its affairs. Hence, the issuer has violated the Section 18 of the Securities and Exchange Ordinance 1969.
2.	Out of 262 requisitions, 157 requisitions were not received by the auditors', 31 requisitions in proper condition and rest 74 requisitions not up to the mark.	The issuer did not co-operate with the special auditor and violated the Commission letter No. BSEC/CFD/85/2019/52 dated June 21, 2020. Which was issued under Securities and Exchange Rules, 1987, rule 12, sub rule 3 as amended and framed under the Securities and Exchange Ordinance, 1969.
3	Upon analysis of the control ledgers of accounts receivable and accounts payable, we observed that multiple heads were created for the same party. This makes it difficult to trace the total value of transactions amounting to a single party. Also, following head of accounts/ledgers were not maintained by the company: <ul style="list-style-type: none"> • Ledger for Loss of stock (i.e. damaged/obsolete stock) • Ledger for goods-in-transit • Ledger for bad debt expense and provision • No ledger for interest expense and interest income for loans given to/taken from related parties. 	It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair picture of the company financial position and result of its affairs. Hence, the issuer has violated the Section 18 of the Securities and Exchange Ordinance 1969.
4	Depreciation calculations/schedules were not maintained by ACFL. Management could not provide any supporting documents for the depreciation charged in the Financial Statements.	It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair picture of the company financial position and result of its affairs. Hence, the issuer



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		has violated the Section 18 of the Securities and Exchange Ordinance 1969.
5	We observed that in the Financial Statement “Statement of Changes in Equity”, the signature for the company secretary appeared twice. This was very unusual and shows that FS was not prepared carefully.	It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair picture of the company financial position and result of its affairs. Hence the issuer has violated the Section 18 of the Securities and Exchange Ordinance 1969.
6	Upon analysis of the Sales receivable control ledger, we observed that 18% of the sales were made to related parties. As per BSEC notification no. SEC/CMRRCD/ 2008-183/Admin/03-30, dated 01 June 2009, no company, except approval by the shareholders, enter into any contract with related parties exceeding 1%, through transfers of assets and liabilities.	The company has violated BSEC notification no. SEC/CMRRCD/2008-83/ Admin/03-30, dated 01 June 2009
7	We gave our initial requisition for all receivable ledgers on 5 th July 2020. However, due to lack of cooperation, received ledgers for selected clients, except related parties, on 16 th August 2020. The subsequent collection could not be checked due to the unavailability of receivables ledgers. ACFL provided required receivable ledgers amounting to Tk. 503,808,523 but the year-end receivable balance was Tk. 525,764,330 (showing differences of Tk. 21,937,807). No reconciliation was provided for the variance amount. For instance, sales transactions with Aman Tex Limited, related party of ACFL, shows opening and closing balance of Tk. 63,462,207 and having no transaction during the year. With these sorts of mismatch between sales ledger, receivable ledger and audited financial statement, we are unable to comment on the accuracy and authenticity of the financial data and financial statement of the company.	It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair picture of the company financial position and result of its affairs. Hence, the issuer has violated the Section 18 of the Securities and Exchange Ordinance 1969.
8	We observed that ledger balances for loans given to related parties do not match with the balance shown in FS. We have asked for reconciliation for the variances in ledger and FS, however, no such reconciliations were provided to us. As DBCs were also not received for transactions with related parties for purchase, sales, receivables, payables, loans and interest receivables, the authenticity of the ledger values and FS statement values could not be verified. We also found that some ledgers were not created for transactions with related parties including loan given to Anwara Mannan (Tk. 52,000,000), Islam Brothers (Tk. 15,062,500) and Rent payment to Aman Group (Tk. 900,000). The same related party ledgers printed on two different dates shown different closing balances. As such, cross-checking of transactions is exceedingly difficult and raises questions about the authenticity of transactions. No agreements or board meeting minutes of loans/advances given to related parties were provided to us. Therefore, the objective or purpose of loans could not be verified. This shows the possibility that ACFL may not inform the shareholders before lending to sister concerns. ACFL does not maintain any calculation for interest receivables from loans to Sister concerns, neither does it maintain any separate ledgers for it. We have calculated the rate of interest (using a rate of 11% as approved by Management) in. The Rate of interest was approved on 17 th May 2017 and has remained the same since then.	The issuer has transacted huge amount with related parties without proper documentation and violated BSEC notification no. SEC/CMRRCD/ 2008-183/Admin/03-30, dated 01 June 2009.
9	Among the given requisitions, we did not receive the following:	Sales amount presented in the



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<ul style="list-style-type: none"> ○ Purchase Ledger ○ Copies of VAT current account ○ Copy of monthly withholding tax statements- other than salary as submitted to the tax office ○ Copy of monthly withholding tax statements- Salary as submitted to the tax office. ○ Copy of 108 Statement as submitted to the tax office ○ Copy of 108A Statement as submitted to the tax office ○ Assessment status of your company since inception ○ Copy of statement of excess perquisites ○ All sales invoices for the year 2019. <p>Ledgers of other income, receivables, and other supporting documents. We were unable to verify whether all Sales and its corresponding collection have been recorded or not. This was because, we obtained a few of the receivable ledgers on 13th August 2020 (given requisition on 5th July), and the rest was received on 16th August, (the day team was withdrawn). Also, sales invoices and L/C files were provided to us on the last day of our assignment. Even though sales ledgers were received at an early date, without the verification of accounts receivables, we were unable to check proper recording/book-keeping and timely settlement of receivables.</p>	<p>financial statements for the year ended on June 30, 2019 is not correct and financial statements did not reflect the true and fair view of the financial position of the company for the year ended June 30, 2019 and result of its appears. The issuer has violated Section 18 of the Securities and Exchange Ordinance 1969.</p>
<p>10 As per the LC files of imported Raw Cotton, Prime Inspection Services limited, inspected the received materials, and issued certificates based upon the quantity of material received. We observed that name of the certificates mentioned the premises of Anwara Mannan instead of Aman Cotton.</p> <p>As Aman Cotton imports 100% of raw cotton, therefore, the purchase should be recognized when risks and rewards are transferred but Inventory has to be recorded only when goods are received at factory premises. Hence, purchases of inventory are overstated in the FS.</p> <p>Inventory movement and daily position cannot be traced from the Head office, as the system does not account for inventory movement. Also, no copies of GRN are preserved at the Head office. This shows poor internal control and maintenance over the movement of inventory at the factory end.</p>	<p>It is evident from auditors' comments that purchases of inventory are overstated in the financial statements for the year ended on June 30, 2019.</p> <p>Hence, The issuer has violated Section 18 of the Securities and Exchange Ordinance 1969.</p>
<p>11 We observed that, in the FS, Note # 28 Office rent expenses are shown as Tk. 981,000 (for both years 2018 and 2019), whereas in the Related Party Disclosure (Note 35), the same expense is shown as Tk. 900,000 in the year 2018 and zero in 2019. Also, the Lease Rent agreement between ACFL and Aman Group illustrates a monthly rent of Tk. 75,000 per month, which amounts to Tk. 900,000 annually. As per the Rent agreement, neither of the balances in Notes # 28 and 35, are presented correctly.</p> <p>We also found that some ledgers were not created for transactions with related parties including loan given to Anwara Mannan (Tk. 52,000,000), Islam Brothers (Tk. 15,062,500) and Rent payment to Aman Group (Tk. 900,000).</p> <p>The same related party ledgers printed on two different dates shown different closing balances. (Annexure H). As such, cross-checking of transactions is exceedingly difficult and raises questions about the authenticity of transactions.</p>	<p>It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair view of the company financial position and result of its affairs. Hence, the issuer has violated the Section 18 of the Securities and Exchange Ordinance 1969.</p>
<p>12 ACFL does not maintain any fixed asset schedule in their records, nor are there any depreciation calculations. This raises questions upon the open balances of Accumulated depreciation charged in the FS, hence the balance of Non-current assets, as it does not have any explanation/source data.</p> <p>We asked Management to provide us with a preparation date, with company seal and initials, but they refused to provide so. We even asked for Management representation for the status of Fixed assets, but none was provided to us.</p> <p>We could not physically verify the existence of all fixed assets due to a lack of</p>	<p>It is evident that the financial statements of the company for the year ended June 30, 2019 did not reflect the true and fair view of the company financial position and result of its affairs. Hence, the issuer has violated the Section 18 of the Securities and Exchange</p>



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<p>management cooperation as the date of our physical visit to the factory was shifted several times. As a result, we could not perform our physical verification and authenticate the physical existence of fixed assets.</p> <p>The total decimal of land owned by ACFL is 663.34, the ownership of such is verified through obtaining copies of Land Deeds (15 deeds on total). However, as per prospectus issued on May 07, 2018, "Description of property" portion, Point# V, it is mentioned that, "All of the property of the Company is in its name. However, a total of 507.75 decimal land out of total 663.34 decimals are given as mortgaged to Islami Bank Bangladesh Limited against Loan facilities."</p> <p>CWIP balance in the FS and ledger does not match. In the monthly summary of CWIP, no movement in CWIP is shown (opening balance of Tk. 390,172,169 remains unchanged on 30 June 2019), however in the FS, Note#4, a transfer of Tk. 390,172,169 is shown from CWIP to PPE. For this amount transferred, no Certificate of Capitalization was provided, however, a statement certifying the closing balance of CWIP as on 30 June 2019 (Tk. 284,520,078) was provided.</p> <p>We could not verify the total addition to the CWIP of Tk. 674,692,247 (as per Note#4), as no supporting documents of additions, was provided to us.</p>	Ordinance 1969.
<p>13 Upon analysis of Note no. 17, "Deferred Tax", we observed that IPO expenses and WPPF expenses were not considered in the calculation. The total of these expenses amounts to Tk. 284,933,528 (Tk. 267,479,895 for WPPF expenses and Tk. 15,453,633 for IPO expenses), which brings a huge impact upon the deferred tax computation.</p> <p>Management could not provide us the proper calculation sheet for deferred tax, rather they converted Note no. 17 in excel, and provided that to us.</p>	The management of the company wrongly calculated deferred tax. Hence, financial statements of the company for the year ended on June 30, 2019 did not reflect true and fair view of the company's financial position and result of its operation and violated Section 18 of the Securities and Exchange Ordinance 1969.

Contraventions:

Through the aforesaid activities Aman Cotton Fibrous Limited (Issuer) has violated

- Condition No.6 of part C of the Commission IPO consent letter No. BSEC/CI/IPO-202/2012/305 dated May 03, 2018; by not implement the IPO proceeds,
- Clause © of the chapter XXII: Use of proceed "the company has no objective to invest in any joint venture, subsidiary associate or for any acquisition purpose";
- Section 18 of the Securities and Exchange Ordinance 1969; by not providing true and fair picture of the company financial position,
- Commission letter No. BSEC/CFD/85/2019/52 dated June 21, 2020; by not co-operate with the special auditor, and
- BSEC notification no. SEC/CMRRC/ 2008-183/Admin/03-30, dated 01 June 2009; by transacted huge amount with related parties without proper documentation;

যেহেতু, Aman Cotton Fibrous Limited (Issuer) কর্তৃক উপরোক্ত ব্যর্থতার জন্য কমিশন কর্তৃক ১৬ জুন ২০২১ ইং তারিখের নং- বিএসইসি/এনফোর্সমেন্ট/৩০৩৭/২০২১/৪১২ নম্বর স্মারকমূলে Aman Cotton Fibrous Limited (Issuer) ও কোম্পানির প্রত্যেক পরিচালক, ব্যবস্থাপনা পরিচালক এবং কোম্পানি সেক্রেটারি-কে নির্ধারিত তারিখে উপরোক্ত ব্যর্থতার কারণ প্রদর্শনসহ ২২ আগস্ট ২০২১ তারিখে শুনানীতে উপস্থিত হতে বলা হয়। শুনানীতে উপস্থিত হয়ে কোম্পানীর পক্ষে Mr. Shantanu Dev, Barrister-at-law, Advocate (on behalf) নিম্নলিখিত বক্তব্য দাখিল করেন:



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“Allegation (a) - As per the prospectus, dated May 07, 2018, Chapter XXII: “Use of Proceeds”, it is mentioned that “Net proceeds from initial Public Offering (IPO) will be used for acquisition and installation of brand-new European machinery for expansion of existing project by increasing its capacity, repayment of existing long-term loan and defraying the IPO expenses”. However, ACFL could not provide us any such documents to verify the fact that the IPO fund has been used for its designated purpose. Also, it was mentioned in the Auditor’s Certificate, issued by Shafiq Bashak & Co. on 05 July 2020, it is reported that “No asset was procured/imported/constructed by Aman Cotton Fibrous Limited using IPO proceeds as of June 30, 2020.

1. With respect of Allegation (a) it is submitted that ACFL applied to the Commission for raising capital through IPO on July 28, 2016. The Commission provided its consent through consent letter No. BSEC/CI/IPO-202/2012/305 dated May 03, 2018 for IPO as well as issuance of prospectus by ACFL. In the prospectus it is mentioned that the Company would implement the IPO in the following proceeds:
 - a) Acquisition & installation of machineries
 - b) Loan Repayment
 - c) Net proceeds
 - d) IPO Expenses
2. As per prospectus “Net proceeds from Initial Public Offering (“IPO”) will be used for acquisition and installation of brand-new European machinery for expansion of existing project by increasing its capacity, repayment of existing long-term loan and defraying the IPO Expenses.” In this regard, we would like to draw your attention that ACFL is working thoroughly with European companies to purchase the most delicate machinery that would carry out the Company's demand. However, due to the sudden COVID-19 insurgent all over Europe, businesses were affected the most. As a result, ACFL's disposition on purchasing machinery from Europe was on hold until everything goes back to its standard arrangement. Moreover, pursuant to the COVID-19 situation, no foreign experts were available to guide us through our expansion. Additionally, due to the shortage of machinery in the international market, it was not possible to accumulate those requisite machineries from any other supplier as well. Thus, for acquisition and installation of machinery, Tk. 663,375,000.00 was not utilized up to date; instead, the said amounts were invested in FDR for safeguarding the shareholders. Additionally, as the COVID-19 situation is getting better, the ACFL has contacted prospective suppliers, which is still in the negotiation stage. and soon we will be able to finalise the purchase of European machinery from a prospective vendor.
3. Furthermore, we would also like to inform you that after starting its commercial operation in November 2007, the Company has already established a presence in the cotton yarn market of the country on the back of long-standing relationships with clients through its diversified product range and product quality in the last decade. Keeping up with ACFL's esteem reputation both in the national and international market, it is steadfast in fully complying with the terms and conditions with respect to IPO utilization as well as applicable laws of the country.

Allegation (b) – We found that the IPO fund was used for the repayment of the IBBL loan accordingly (amounting to Tk. 2,15,77,775). Repayment was traced on 14th August 2018 from City Bank Limited (A/C 2921399871001). However, for Union Capital, the loan was repaid of only Tk. 1,37,54,440/- out of Tk. 8,00,47,225/-. This covers only 17.18% of the required repayment criteria. Till our verification the loan of Union Capital was not fully paid.

4. With respect to allegation (b), We would like to inform you that from our IPO fund, we have fully repaid Islami Bank Bangladesh Limited's (“IBBL”) entire loan amount which has been



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affirmed and acknowledged by the special auditor as evident from your show cause notice dated 16.06.2021. Moreover, the loan was repaid to Union Capital Limited in the amount of Tk. 11,282,835/- only on various dates from ACFL's own account before establishing IPO fund. Thereafter, we have also paid an amount of Tk. 2,471,605/- from the IPO proceed and Tk. 1,48,30,025/- from the Company's own fund. Given that we have paid an aggregated amount of Tk. 26,112,860/- in favour of Union Capital on various occasions. It is pertinent to note that the Commission has allowed us to raise paid-up capital through IPO on 3rd May 2018. However, before receiving the IPO fund, we were required to repay the loan amount from ACFL's own account to Union Capital; otherwise, ACFL would have suffered an irreparable loss. Furthermore, ACFL, in their shareholders 14th Annual General Meeting, approved that the rest of the balanced amount of Tk. 5,39,34,365/- will be paid from the Company's own fund to Union Capital Limited.

Allegation (c) – We observed that out of a total repayment of Tk. 1,37,54,440/- only Tk. 24,71,605/- was used from the IPO account and the rest of Tk. 1,12,82,935/- was found to be repaid even before the IPO fund was credited in designated Bank account (The City Bank Limited A/C- 29213998710001). The further loan from Union Capital was repaid from escrow accounts (Woori Bank) of Tk. 25,14,815/- due to insufficient balance on IPO accounts.

5. ACFL is categorically rejecting the allegation (c) claimed by the special auditor. In response to allegation (c), it is stated that ACFL, on July 28, 2016, applied to the BSEC for permission to raise paid-up capital through an IPO, and the BSEC provided its consent on May 3, 2018, for the same. Prior to receiving IPO funds, i.e. the period before 2018, ACFL, as part of its loan repayment obligation, made a payment of Tk. 1,12,82,835/- to Union Capital on various dates from the its own funds; otherwise, ACFL would have been exposed to substantial monetary burden in the form of bank interests. Owing to such reasoning ACFL had repaid those outstanding loan amounts from ACFL's own fund instead of the IPO fund. Subsequently, ACFL reimbursed such loan repayment amount from the IPO fund for their expenditure which it earlier used from its own fund. Table 1.1 below shows the breakdown of IPO expenditure.

Allegation (d)- We found that the IPO fund was utilized for the payment of IPO Expenses, amounting to Tk. 3,47,60,628/-. Out of the total IPO expense, Tk. 1,96,78,584/- was spend before fund money was credited and Tk. 1,50,82,044/- only was used from the IPO fund.

6. As stated above, ACFL applied to the Commission for raising paid-up capital through IPO on 28th July, 2016 and subsequently received consent from BSEC on 3rd May, 2018. Before receiving IPO fund in 2018, ACFL was required to repay the loan amount of Tk. 1,12,82,835/- only on various dates from its own fund in favour of Union Capital. Moreover, ACFL also paid an amount of Tk. 3,48,11,028/- from its own fund on account of audit fees, subscription fees, perquisite expenses, marketing expense etc as IPO expenses. It is pertinent to note that since the said IPO expenses were to be incurred even before receiving the IPO fund it was implausible to wait for the IPO fund and as such, those expenses had to be expended from its own fund; otherwise ACFL would have been subjected to significant monetary burden. To mitigate that undue financial burden, ACFL decided to pay various expenses related to IPO from their own fund. Later after receiving the IPO fund, ACFL reimbursed the amount (Tk. 3,00,00,000/-) it had incurred from its own fund between IPO application date to IPO Fund receipt date. Furthermore, upon receiving the IPO fund, we have utilized an amount of Tk. 1,50,84,344/- for the purpose of IPO expenses from the IPO proceeds. A breakdown is presented for your kind consideration:



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Table 1.1

SL	Nature of Expenses	Amount (BDT.)
01.	IPO Expenses up to date	3,48,11,028
02.	Loan repayment Union Capital Before IPO fundfrom ACFL's own account	1,12,82,835
	Total	4,60,93,863
03	Less: Expenses incurred from IPO Bank Accounts	1,50,84,344
04	Expenses incurred from ACFL's own accounts	3,10,09,519
05	Less: Re-imburement form IPO Bank Accounts to ACFL's own account	3,00,00,000
	Balance Amount	10,09,519

Furthermore, the Balance amount of Tk. 10,09,519/- will be re-imburement after maturity of FDR.

Allegation (e) – Findings on FDR Investment:

- It is submitted that the allegation made in paragraph (e) of the show cause letter sent by the Commission are frivolous, concocted, based on surmise and incorrect. Pursuant to COVID-19 insurgents all over the world, Tk. 663,375,000.00 has not been utilised for the acquisition and installation of machinery to date. Given that situation, on December 26, 2018, ACFL, at their 13th Annual General Meeting, approved FDR investments of Tk.73.00 crore in various banks for safeguarding the interests of the shareholders. The related copy of the meeting resolution was sent to the BSEC on January 9, 2019 as per condition No. 6 of Part – C of the consent letter dated 05.03.2018. It is submitted that such deviation in respect of utilization of proceeds was carried out in complete compliance with the procedure as mentioned in condition No. 6 of Part – C of the consent letter dated 05.03.2018. The decision was duly passed in the presence of the requisite Quorum for conducting such meeting.
- The said FDR was lien for enjoying credit facilities as and when required in favour of Aman Foods Limited and Akin Carriers Limited, which the shareholders also approved in the Annual General Meeting. The said FDR would be encashed when ACFL requires funds for business expansion as well as acquisition and installation of the machinery for the project. ACFL has no where disregarded any existing laws of Bangladesh; instead, they have invested Tk 73.00 crore for the benefits of the shareholders.
- Moreover, the legal notice sent by Mr. Md. Shofiqul Islam and Mr. Md. Toufiqul Islam to Mr. Md. Rafiqul Islam and Mr. Md. Toriqul Islam resulted from their internal conflict in the business, which has already been resolved between themselves.

Allegation (f) – Findings on IPO fund utilization certificates issued by CA Firms:

- It is submitted that Malek Siddique Wali, Chartered Accountants presented their report based on the proper investigation of the ACFL financial accounts. Their decision to resign from ACFL is purely their corporate decision, and ACFL is in no way responsible for their decision.

Allegation (g) – Loan repayment from the other account after receiving IPO fund:

- It is submitted that the allegation made in paragraph (e) of the show cause letter by the Commission are false, misconceived and devoid of substance. Malek Siddique Wali, Chartered Accountants, stated in its report for August to October 2019 that a sum of Tk. 12,358,420/- has been paid from the company's own funds due to a shortage of funds in the escrow account, and that the whole amount will be repaid after the FDR's maturity. However, the allegation regarding Malek Siddique Wali, Chartered Accountants audit report was entirely incorrect. Malek Siddique



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Wali, Chartered Accountants have conducted their audit report correctly and have never given the Commission or investors any inaccurate or misleading information.

Allegation (1) – Books and accounts of ACFL were not maintained properly. The client provided us the closing trial balance which was matched with the audited financial statement but when we printed the trial balance from software in presence of Director and CFO of ACFL, it was fully a different one and no balance was matched with the audited FS. There was an imbalance of Tk. 35.28 crore in opening balances.

12. It is submitted that the company has kept books of accounts in accordance with the Companies Act 1994 and International Financial Reporting Standards. The Trial Balance was delivered to the special auditors in accordance with ACFL's software data. However, software data may be displayed indiscriminately due to any technical issues; otherwise, ACFL's software balance has always matched with the financial statements. Special auditors disregarded the possibility of technical difficulties at that time and did not seek any additional clarifications from us. This allegation is very speculative, as we have no such software in our control that displays one sort of data but displays a different type of data when printed out.

Allegation (2)- Out of 262 requisitions, 157 requisitions were not received by the auditors', 31 requisitions in proper condition and rest 74 requisitions not up to the mark.

13. It is submitted that the allegation made in paragraph (12) of the show cause letter by the Commission are misleading, false and misconceived in respect of ACFL. ACFL would like to inform you that special auditors had conducted their inquiry while our head office was closed pursuant to the COVID-19 strict lockdown in Bangladesh. At that time, most of the central personals and other employees were not present in the company. Given that situation, ACFL's management tried best in their capacity to cooperate entirely with the audit team. Furthermore, ACFL has made available all of the auditors' criteria to them via email, Google Drive, and hard copy as appropriate.

Allegation (3)- We observed that multiple heads were created for the same party. This makes it difficult to trace the total value of transactions amounting to a single party. Also following head of accounts/ledgers were not maintained by the Company:

- Ledger for loss of stock (i.e., damages/obsolete stock)
- Ledger for goods-in-transit
- Ledger for bad debt expense and provision
- No ledger for interest expense and interest income for loans given to/taken from related parties.

14. It is submitted that ACFL has provided special auditors with all the required ledgers that were in our possession and needed for their inquiry to complete. Regarding the multiple ledgers from the same party, we would like to inform you that we received numerous orders through LCs from a single buyer throughout the year. Thereafter, we prepare ledger in respect of each LC based on the orders that we received. Subsequently, when the party pays the bills against the LC, we delivered those requisite products under those LC. Thus, we have maintained several ledgers for the same party. Moreover, ACFL is pleased to report that there have been no stock losses, products in transit, bad debts, or transactions. As a result, we were unable to provide the ledgers as mentioned above to them.



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Allegation(4)- Depreciation calculations/schedules were not maintained by ACFL. Management could not provide any supporting documents for the depreciation charged in the Financial Statements.

15. It is submitted that the allegation made in paragraph (4) of the show cause letter by the Commission are misconceived, fictitious and devoid of substance. ACFL has always devalued its property, plant, and equipment in a systematic manner over its expected lifetime. Depreciation on all Property, Plant & Equipment has been applied on the Reducing Balance method, which can be found in the Annexure A of the detailed calculation in the financial report of Property, Plant & Equipment. The said financial report is annexed with this written response.

Allegation (5) – We observed that in the Financial Statement “Statement of Changes in Equity” the signature for the company secretary appeared twice. This was very unusual and shows that FS was not prepared carefully.

16. It is submitted that the company secretary's signature appearing twice was due to a typing error.

Allegation (6)- Upon analysis of the Sales receivable control ledger, we observed that 18% of the sales were made to related parties. As per BSEC notification no. SEC/CMRRC/2008-183/Admin/03-30, dated 01 June 2009, no company, except approval by the shareholders, enter into any contract with related parties exceeding 1% through transfers of assets and liabilities.

17. It is submitted that according to IAS-24 "Related Party Disclosure," related party to the company are those who has considerable influence over the business matter and control over the company's management affairs. Given that, related party transactions were made due to the benefit of the company's sale operations. Those sales were necessary as people entrusted their investment with us. Moreover, in our prospectus, we identified related party business activities within the group and their impact on financial performance (page-74 of the ACFL's prospectus). Moreover, in Minutes of the 15th Annual General Meeting (AGM), ACFL has approved the transactions under agenda-15-05-2020 and also notified the BSEC regarding this matter.

Allegation (7) – We gave our initial requisition for all receivable ledgers on 5th July 2020. However, due to lack of cooperation, received ledgers for selected clients, except related parties, on 16th August 2020. The subsequent collection could not be checked due to the unavailability of receivables ledgers. ACFL provided required receivable ledgers amounting to Tk. 50,38,08,523/- but the year-end receivable balance was Tk. 52,57,64,330/- (showing difference of Tk. 21,937,807). No reconciliation was provided for the variance amount. For instance, sales transactions with Aman Tex limited, related party of ACFL, shows opening and closing balance of Tk. 6,34,62,207/- and having no transaction during the year. With these sorts of mismatch between sales ledger, receivable ledger and audited financial statement, we are unable to comment on the accuracy and authenticity of the financial data and financial statement of the company.

18. It is submitted that the allegation made in paragraph (7) of the show cause letter by the Commission are frivolous, concocted, based on surmise and incorrect. ACFL would like to inform you that due to the loss and gain in foreign currency rates the company received an amount of Tk. 503,808,523/- instead of Tk. 525,764,330, resulting in a difference of Tk. 21,937,807. This is the ground reality of international business. As ACFL's international business heavily depended on the



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dollar thus, dollar price fluctuation resulted in a significant impact on the business's receivable amount. We provided all necessary documents promptly in this respect, yet the special auditors did not include this information in their audit report.

Allegation (8) – ACFL does not maintain any calculation for interest receivables from loans to sisters' concerns, neither does it maintain any separate ledgers for it. We have calculated the rate of interest (using a rate of 11% as approved by the Management) in. The Rate of the interest was approved on 17th May 2017 and has remained the same since them.

19. It is submitted that the allegation made in paragraph (8) of the show cause letter by the Commission are false, concocted, based on surmise and incorrect. ACFL would like to inform you that the company's management has kept all ledgers in accordance with the latest accounting transactions. ACFL even assisted special auditors with the appropriate ledgers as per their requisition. As a result, the Company disregarded the special auditors' allegation against us. It is pertinent to note that ACFL has charged a higher interest rate on loans to sister concerns than the current bank rate, which is beneficial for ACFL.

Allegation (9)- Ledgers of other income, receivables, and other supporting documents. We were unable to verify whether all Sales and its corresponding collection have been recorded or not. This was because, we obtained few of the receivable ledgers on 13th August 2020 (given requisition on 5th July), and the rest was received on 16th August, (the day team was withdrawn). Also, sales invoices and L/C files were provided to us on the last day of our assignment. Even though sales ledgers were received at an early date, without the verification of accounts receivables, we were unable to check proper recording/book-keeping and timely settlement of receivables.

20. It is submitted that the allegation made in paragraph (9) of the show cause letter by the Commission are misleading, false and misconceived in respect of ACFL. The Company would like to inform you that, we presented them with purchase ledgers, VAT returns, and withholding tax statements. The authenticity of the sales report can be verified by the VAT return, which the Company has presented before them during the special auditor's inquiry at our company. Moreover, the PRC report can also be used for verification of the legitimacy of our sales report. It is pertinent to note that, ACFL is exclusively VAT exempted; thus, there is no need for collecting a VAT refund. As a result, we didn't have a VAT current account in respect of this.

Allegation (10) – Inventory movement and daily position cannot be traced from the Head office, as the system does not account for inventory movement. Also, no copies of GRN are preserved at the Head office. This shows poor internal control and maintenance over the movement of inventory at the factory end.

21. It is submitted that the allegation made in paragraph (8) of the show cause letter by the Commission are false, invented, based on inference and improper. ACFL would like to inform you that all the documents have been safely kept in our head office and presented before the special auditors. However, it appears that, the special auditors have taken a shutter gun approach, ignoring the fact that the Company has submitted all of the documentation before them as per their requisition. Thus, ACFL rejected this contention of special auditors.

Allegation (11) – We observed that, in the FS, note# 28 Office rent expenses are shown as Tk. 9,81,000/- (for both years 2018 and 2019), whereas in the Related Party Disclosure (Note 35), the same expense is shown as Tk. 9,00,000/- in the year of 2018 and zero in 2019. Also, the Lease rent agreement between ACFL and Aman Group illustrate a monthly rent of Tk. 75,000/- per month,



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which amounts to Tk. 9,00,000/- annually. As per the Rent agreement, neither of the balance in Notes# 28 and 35, are presented correctly. We also found that some ledgers were not created for transactions with related parties including loan given to Anwara Mannan (Tk. 5,20,00,000/-), Islam Brothers (Tk. 1,50,62,500/-) and Rent payment to Aman Group (Tk. 9,00,000). The same related party ledgers printed on two different dates shown different closing balances. As such, cross-checking of transactions is exceedingly difficult and raises questions about the authenticity of transactions.

22. It is submitted that the allegation made in paragraph (11) of the show cause letter by the Commission are fabricated, inappropriate, and devoid of substance. The information presented by the special auditors was incorrect, as ACFL paid Aman Group Limited an amount of Tk. 981,000 along with Vat Tk. 81,000 @ 9% on the rent amount. Furthermore, the Company has paid an advance amount in favour of Anwara Mannan Textile Mills Ltd. and Islam Brothers for land purchases, which ACFL has recorded in its ledger in advance. As the documents are in order, thus the Company can firmly acknowledge that all the ledgers concerning the related party were presented before the special auditors.

Allegation (12)- Allegation (12)- ACFL does not maintain any fixed assets schedule in their records, nor are there any depreciation calculations. This raises questions upon the open balances of accumulated depreciation charged in the FS, hence the balance of Non-current assets, as it does not have any explanation/source data. We asked Management to provide us with a preparation date, with company seal and initials, but they refused to provide so. We even asked for Management representation for the status of fixed assets, but none was provided to us.....

23. It is submitted that the allegation made in paragraph (12) of the show cause letter by the Commission are false, fabricated, misapprehended and erroneous and hence denied. ACFL has provided all the related documents as per the special auditors' requisition. It is pertinent to note that since 2007, the Company has been maintaining a fixed asset register at our company's head office and our audit report also contains the description of all the fixed assets, which can be found under the head of Annexure-A Annexure of Property, Plant and Equipment. This document has also been enclosed with this written response before the Commission. Moreover, concerning CWIP transfer, the Company has provided them with a certificate of capitalization from our civil department.

Allegation (13) – Management could not provide us the proper calculation sheet for deferred tax, rather they converted Note No. 17 in excel and provided that to us.

24. It is submitted that the allegation made in paragraph (2) of the show cause letter by the Commission are misleading, false and misconceived in respect of ACFL. We would like to inform that ACFL has considered the WPPF and IPO expenses to be allowable expenses for preparing the financial statements and submitted adequate Tax as per current Tax expenses reported which can be found in Note 32 of the financial statements. All of the documents we presented to the special auditors were genuine and in compliance with the law.

Under the above-mentioned circumstances, it is submitted that the show cause notice dated June 16, 2021, is highly prejudicial and as a representative of the Company I am deeply wronged by the said show cause notice. As such, finding no other alternative and with a view to have a fair and just decision on this issue from the Hon'ble Commission, I am lodging this written submission with all the supporting documents for the kind appraisal of the Hon'ble Commission. By considering our application, I request you to pass necessary orders directing the concerned authority not to proceed

