

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৯৭

তারিখঃ ১১ ফেব্রুয়ারি, ২০১৮ ইং

আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 2(g) মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অতঃপর ইস্যুয়ার বলে উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MABS & J Partners, Chartered Accountants, was appointed as special auditors for auditing of utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL).

As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants, submitted special audit report;

Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expenses:**

As per Para 7 of Part C of the Consent Letter all the expenditures and transactions should have been made through certain banking channel. But DSSL made more than 53% of the total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machineries and spare parts, purchase of building materials, payment for IPO expenses and payments for working capital, DSSL has made cash payments, violating the above mentioned condition laid in the Consent Letter in addition to common practice and norms. Followings are the details of cash payments in respect of separate heads of expenditure:

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since ledgers for imported machineries and spare parts were not maintained separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
Total:		214,485,250	53.62%	

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any banking channel. Cash payments cover 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
- Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.
- DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO Fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rather retained in the working capital as deferred payment, resultant overstatement of profit.
- IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

CFD's Comments: The Company has transacted Tk. 214,485,250 as cash violating Para 7 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO fund of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. Details are as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.
- DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

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CFD's Comments:

1. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.
2. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:
 - a). The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
 - b). Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

03. Implementation schedule has not been followed as per approved/published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:

- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

04. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 320 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of

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such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

05. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These we opined, made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

01. It appears from the auditors' report that DSL has done following wrong activities:
- Significant amount of expenditure was made through cash and not charged as expenses;
 - Books of accounts was not maintained properly;
 - Machineries were not purchased in accordance with published Prospectus;
 - Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
 - Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৬ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিম্নোক্ত বিষয়গুলির উল্লেখ আছে:-

"We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



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Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir, plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

Obervation02. Books of accounts were not maintained properly:

Query: “Imported Machinery” and “Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost” are separate head as per approved and published prospectus but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to **BAS** not as material name. There is no accounting head name in **BFRS** like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In- progress.

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Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machinerries were not purchased in accordance with published Prospectus.

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).

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However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust Fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts heads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July- 2016 subject to availability of supporting documents

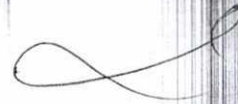
Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clack and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO fund, when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems. ”



বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/২৭

তারিখঃ ২২ ফেব্রুয়ারি, ২০১৮ ইং

যেহেতু, Dragon Sweater & Spinning Limited (DSSL)এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, উক্ত কোম্পানির নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL)স্বীকার করেছে, যা ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা পুঁজিবাজারের উন্নয়নের পাশাপাশি বাজারের শৃংখলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 [যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত] এ প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর চেয়ারম্যান জনাব মোস্তফা কামরুস সোবহান এর উপর ৫ (পাঁচ) লক্ষ টাকা জরিমানা ধার্য্য করল যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর তরফে ইস্যুকৃত ব্যাংক ড্রাফট/পোস্ট অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে-



মো: আমজাদ হোসেন
কমিশনার

বিতরণঃ

জনাব মোস্তফা কামরুস সোবহান, চেয়ারম্যান, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন
ই-৬/সি, শের-ই-বাংলা নগর
আগারগাঁও, ঢাকা-১২০৭।

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আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 2(গ) মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অতঃপর ইস্যুর বলে উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MABS & J Partners, Chartered Accountants, was appointed as special auditors for auditing of utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL).

As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants, submitted special audit report;

Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expenses:**

As per Para 7 of Part C of the Consent Letter all the expenditures and transactions should have been made through certain banking channel. But DSSL made more than 53% of the total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machineries and spare parts, purchase of building materials, payment for IPO Expenses and payments for working capital, DSSL has made cash payments, violating the above mentioned condition laid in the Consent Letter in addition to common practice and norms. Followings are the details of cash payments in respect of separate heads of expenditure:

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since ledgers for imported machineries and spare parts were not maintained separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
	Total:	214,485,250	53.62%	

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any banking channel. Cash payments cover 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
 - Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.
 - DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO Fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rather retained in the working capital as deferred payment, resultant overstatement of profit.
 - IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.
- CFD's Comments:** The Company has transacted Tk. 214,485,250 as cash violating Para 7 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO fund of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. Details are as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.
- DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.



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CFD's Comments:

3. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.
4. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:
 - a). The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
 - b). Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

06. Implementation schedule has not been followed as per approved/published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:


- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part D of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

07. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 320 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of



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such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

08. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These we opine, made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

02. It appears from the auditors' report that DSL has done following wrong activities:

- Significant amount of expenditure was made through cash and not charged as expenses;
- Books of accounts was not maintained properly;
- Machineries were not purchased in accordance with published Prospectus;
- Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
- Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৬ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিয়োক্ত বিষয়গুলির উল্লেখ আছে:-

“We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



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Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir, plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

Obervation02. Books of accounts were not maintained properly:

Query: "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to BAS not as material name. There is no accounting head name in BFRS like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In- progress.

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/ই ৬-

তারিখ: ২৫ ফেব্রুয়ারি, ২০১৮

Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machineries were not purchased in accordance with published Prospectus

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).



বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/১৬

তারিখঃ ২৬ ফেব্রুয়ারি, ২০১৮ ইং

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust Fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts heads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July- 2016 subject to availability of supporting documents

Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clerk and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO fund, when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems.”

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সিকিউরিটিজ কমিশন ভবন
ই-৬/সি, শের-ই-বাংলা নগর
আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৩৬৮-

তারিখঃ ১৫ ফেব্রুয়ারি, ২০১৮ ইং

যেহেতু, Dragon Sweater & Spinning Limited (DSSL)এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, উক্তটির নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL)স্বীকার করেছে যা ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা পুঁজিবাজারের উন্নয়নের পাশাপাশি বাজারের শৃংখলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 [যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত] এ প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর ব্যবস্থাপনা পরিচালক জনাব মোস্তফা গোলাম কুদ্দুস এর উপর ৫ (পাঁচ) লক্ষ টাকা জরিমানা ধার্য করল যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর অনুকূলে ইস্যুকৃত ব্যাংক ড্রাফট/পে-অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে

মো: আমজাদ হোসেন
কমিশনার

বিতরণঃ

জনাব মোস্তফা গোলাম কুদ্দুস, ব্যবস্থাপনা পরিচালক, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন
ই-৬/সি, শের-ই- বাংলা নগর
আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/১১)

তারিখঃ ২০ ফেব্রুয়ারি, ২০১৮

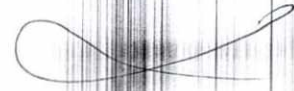
আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অতঃপর উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MAB Partners, Chartered Accountants, was appointed as special auditors for auditing of utility initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL). As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants submitted special audit report; Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expense**
As per Para 7 of Part C of the Consent Letter all the expenditures and transactions have been made through certain banking channel. But DSSL made more than 53% total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machinery and spare parts, purchase of building materials, payment for IPO Expenses and payment for working capital, DSSL has made cash payments, violating the above condition laid in the Consent Letter in addition to common practice also. Followings are the details of cash payments in respect of separate heads of expenditure:

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since imported machinery and spare parts were not purchased separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
Total:		214,485,250	53.62%	



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বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন
ই-৬/সি, শের-ই-বাংলা নগর
আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৭৭৭

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any banking channel. Cash payments cover 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
- Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.
- DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO Fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rather retained in the working capital as deferred payment, resultant overstatement of profit.
- IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

CFD's Comments: The Company has transacted Tk. 214,485,250 as cash violating Para 7 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO fund of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. Details are as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.
- DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.



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সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৮২

তারিখঃ ০৫ ফেব্রুয়ারি, ২০১৮ খ্রিঃ

CFD's Comments:

5. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.
6. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:
 - a). The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
 - b). Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

09. Implementation schedule has not been followed as per approved/published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:

- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

10. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 320 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of

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সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৭৫৫

তারিখঃ ২৫ ফেব্রুয়ারি, ২০১৮ ইং

such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

11. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These were opinion made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

03. It appears from the auditors' report that DSL has done following wrong activities:
- Significant amount of expenditure was made through cash and not charged as expenses;
 - Books of accounts was not maintained properly;
 - Machineries were not purchased in accordance with published Prospectus;
 - Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
 - Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৬ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিয়োক্ত বিষয়গুলির উল্লেখ আছে:-

"We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৩৩

তারিখঃ ২৫ ফেব্রুয়ারি, ২০১৮ ইং

Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir, plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.



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সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

Obervation02. Books of accounts were not maintained properly:

Query: "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to **BAS** not as material name. There is no accounting head name in **BFRS** like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In- progress.

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Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machineris were not purchased in accordance with published Prospectus.

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).

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However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust Fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts heads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July- 2016 subject to availability of supporting documents

Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clack and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO fund, when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems. ”



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যেহেতু, Dragon Sweater & Spinning Limited (DSSL)এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, উক্ত নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL)স্বীকার করেছে, যা ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা পুঁজিবাজারের উন্নয়নের পাশাপাশি বাজারের শৃঙ্খলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 (যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত) এ প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর পরিচালক জনাবা ফজলুতুন নেছা এর উপর ৫ (পাঁচ) লক্ষ টাকা জরিমানা ধার্য করা যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর অনুকূলে ইস্যুকৃত ব্যাংক ড্রাফট/পে-অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে-



মো: আমজাদ হোসেন
কমিশনার

বিতরণঃ

জনাবা ফজলুতুন নেছা, পরিচালক, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।

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আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 2(g) মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অতঃপর ইস্যুয়ার বলে উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MABS & J Partners, Chartered Accountants, was appointed as special auditors for auditing of utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL).

As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants, submitted special audit report;

Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expenses:**

As per Para 7 of Part C of the Consent Letter all the expenditures and transactions should have been made through certain banking channel. But DSSL made more than 53% of the total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machineries and spare parts, purchase of building materials, payment for IPO Expenses and payments for working capital, DSSL has made cash payments, violating the above mentioned condition laid in the Consent Letter in addition to common practice and norms. Followings are the details of cash payments in respect of separate heads of expenditure:

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since ledgers for imported machineries and spare parts were not maintained separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
Total:		214,485,250	53.62%	

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) paid against Machineries and Spare Parts without using any banking channel. This covers 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
- Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purchase of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been paid through cash. Cash payment covers 97.22% of total expenditure incurred under the Building and Other Civil Construction.
- DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the period from December 2015 to March 2016, which was not included in the proposed utilization of IPO Proceeds Fund, as per published approved prospectus. Moreover, this amount has not been charged to profit rather retained in the working capital as deferred payment, resultant overstatement of profit.
- IPO expenses have been incurred through cash instead of cheque. During the period from December 2015 to March 2016, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been paid through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure. **CFD's Comments:** The Company has transacted Tk. 214,485,250 as cash violating clause 15.1 C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO Proceeds of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books which were necessary to ensure accountability of utilization of IPO Proceeds, as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement as Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has shown the same amount as Tk. 168,628,089 in the Fund Utilization Statement with the ratio mentioned in the Material Management Policies of DSSL. Later, we observed that the company has maintained two separate lists of Machinery and Spare Parts for the same amount as reported in the Fund Utilization Statement.
- DSSL did not maintain ledger and other supporting documents in line with the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the purpose specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/২৫৬

তারিখঃ ২৫ ফেব্রুয়ারি, ২০১৮ ইং

CFD's Comments:

7. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.
8. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:
 - a). The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
 - b). Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

12. Implementation schedule has not been followed as per approved/published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:

- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,050 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

13. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 320 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of



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নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/২০৮

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such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

14. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These were made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

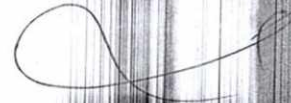
CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

- 04.** It appears from the auditors' report that DSL has done following wrong activities:
- Significant amount of expenditure was made through cash and not charged as expenses;
 - Books of accounts was not maintained properly;
 - Machineries were not purchased in accordance with published Prospectus;
 - Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
 - Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৬ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিম্নোক্ত বিষয়গুলির উল্লেখ আছে:

"We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



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Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir, plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.



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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

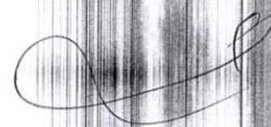
Obervation02. Books of accounts were not maintained properly:

Query: "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to BAS not as material name. There is no accounting head name in BFRS like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In- progress.



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তারিখঃ ২২ ফেব্রুয়ারি, ২০১৮

Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machineries were not purchased in accordance with published Prospectus.

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).



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তারিখঃ ২০ ফেব্রুয়ারি, ২০১৮ ইং

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust Fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts reads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July 2016 subject to availability of supporting documents

Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clerk and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO fund when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems. ”

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তারিখঃ ২৫ ফেব্রুয়ারি, ২০১৮ ইং

যেহেতু, Dragon Sweater & Spinning Limited (DSSL) এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, জনাব জনাব নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL) স্বীকার করেছেন, যা ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা পঞ্জীয়নকারীর উদ্যোগের পুনঃপ্রতিষ্ঠা বাজারের শৃংখলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 [যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত] এ প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর পরিচালক জনাবা ফৌজিয়া কামরুন তানিয়া এর উপর ৫ (পাঁচ) লক্ষ টাকা জরিমানা ধার্য করল যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর অফিসে ইস্যুকৃত ব্যাংক ড্রফট/পে-অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে

মো: আমজাদ হোসেন
কমিশনার

বিতরণঃ

জনাবা ফৌজিয়া কামরুন তানিয়া, পরিচালক, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই- বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/১৮১

তারিখঃ ১২ ফেব্রুয়ারি, ২০১৮ ইং

আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 2(g) মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অতঃপর ইন্স্যুরার বলে উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MABS & J Partners, Chartered Accountants, was appointed as special auditors for auditing of utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL).

As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants, submitted special audit report;

Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expenses.**

As per Para 7 of Part C of the Consent Letter all the expenditures and transactions should have been made through certain banking channel. But DSSL made more than 53% of the total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machineries and spare parts, purchase of building materials, payment for IPO Expenses and payments for working capital, DSSL has made cash payments, violating the above mentioned condition laid in the Consent Letter in addition to common practice and norms. Followings are the details of cash payments in respect of separate heads of expenditure:

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since ledgers for imported machineries and spare parts were not maintained separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
	Total:	214,485,250	53.62%	

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any banking channel. Cash payments cover 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
 - Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.
 - DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO Fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rather retained in the working capital as deferred payment, resulting overstatement of profit.
 - IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.
- CFD's Comments:** The Company has transacted Tk. 214,485,250 as cash violating Para 7 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO fund of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. Details are as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.
- DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

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CFD's Comments:

9. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.
10. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:
- The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
 - Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

15. Implementation schedule has not been followed as per approved/published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:

- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i.e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No. SEC/CI/IPO-181/2012/621 dated December 15, 2015.

16. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 320 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of

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such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

17. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These we opined made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

05. It appears from the auditors' report that DSL has done following wrong activities:

- Significant amount of expenditure was made through cash and not charged as expenses;
- Books of accounts was not maintained properly;
- Machineries were not purchased in accordance with published Prospectus;
- Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
- Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৯ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিম্নোক্ত বিষয়গুলির উল্লেখ আছে-

"We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



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Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir, plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

Obervation02. Books of accounts were not maintained properly:

Query: "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to BAS not as material name. There is no accounting head name in BFRS like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In-progress.

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Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i. e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machineris were not purchased in accordance with published Prospectus.

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from Africa should have been procured for Tk. 24,200,000 but actually procured a generator of 1500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).



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However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts heads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July- 2016 subject to availability of supporting documents

Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clerk and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. ০১৭০৩৪ (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO fund, when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems.”

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/১০০

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যেহেতু, Dragon Sweater & Spinning Limited (DSSL) এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, অন্যান্য নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL) স্বীকার করেছে, যা ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা পুঁজিবাজারের উন্নয়নের পাশাপাশি বাজারের শৃংখলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 (যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত) এ প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর পরিচালক জনাবা তাসনিয়া কামরুন আনিকা এর উপস্থিতিতে (পিচ) ক্ষমতায় জরিমানা ধার্য করল যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর অনুকূলে ইস্যুভুক্ত ব্যাংক ড্রফট/পে-অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে।

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে-

মোঃ আমজাদ হোসেন
কমিশনার

বিতরণঃ

জনাবা তাসনিয়া কামরুন আনিকা, পরিচালক, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।

Ordinance
নং-২৪০৭/২০১৭/১০০

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সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

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আদেশ

যেহেতু, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর section 17(g) মোতাবেক Dragon Sweater & Spinning Limited (DSSL), 'issuer' হিসাবে অভিহিত (অভিহিত হিসাব রাখা উল্লেখিত);

যেহেতু, Commission's decision, for the interest of general investor/ public, M/s. MABS & J Partners, Chartered Accountants, was appointed as special auditors for auditing of utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited (DSSL).

As per instruction of the commission, M/s. MABS & J Partners, Chartered Accountants, submitted special audit report;

Whereas, M/s. MABS & J Partners, Chartered Accountants, among others, made following observations/ violations in their special audit report on utilization of initial public offering (IPO) proceeds of Dragon Sweater & Spinning Limited:

01. **Significant amount of expenditure was made through cash and not charged as expenses:**

As per Para 7 of Part C of the Consent Letter all the expenditures and transactions should have been made through certain banking channel. But DSSL made more than 53% of the total IPO Fund of Taka 400,000,000 in cash. In every cases i. e. purchase of machineries and spare parts, purchase of building materials, payment for IPO Expenses and payments for working capital, DSSL has made cash payments, violating the above mentioned condition laid in the Consent Letter in addition to common practice and norms. Followings are the details of cash payments in respect of separate heads of expenditure:-

Sl. No.	Heads of expenditure	Purchased through cash	% of total proceeds	Remarks
1	Imported Machinery and Spare parts & Cleaning Erection, Loading/Unloading, Transportation & Installation Cost	8,712,816	2.18%	Since ledgers for imported machineries and spare parts were not maintained separately.
2	Building & other Civil Construction	178,943,389	44.74%	
3	Working Capital	25,587,024	6.40%	
4	IPO Expenses	1,242,021	0.31%	
	Total:	214,485,250	53.42%	

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- Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any banking channel. Cash payments cover 5.17% of total expenditure of Tk. 168,628,089 of machineries and spare parts.
- Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount, Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.
- DSSL paid an amount of Tk. 25,587,024 in cash as salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO Fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rather retained in the working capital as deferred payment, resulting overstatement of profit.
- IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

CFD's Comments: The Company has transacted Tk. 214,485,250 as cash violating Para 7 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/62) dated December 15, 2015. From the aforesaid activities it appears that the company has diverted its IPO fund of Tk. 214,485,250. Enforcement department may take necessary action regarding this.

02. Books of accounts were not maintained properly:

During the audit work, we observed that DSSL did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. Details are as follows:

- "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover, DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading, and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.
- DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

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CFD's Comments:

11. The audited financial statements for the year ended on June 30, 2016 have been prepared including transaction of IPO proceeds. So, the financial statements for the year ended on June 30, 2016 do not reflect true & fair view of the company affairs and result of its operation.

12. Director's declaration as to financial statements in the annual report (page# 23 of 56) for the period ended 30 June 2016 that:

- The financial statements prepared by the management of the company present fairly its state of affairs, the result of its operation, cash flows and changes in equity.
- Proper books of account of the company have been maintained etc.

But, it appears from auditors' report that the company did not maintain some books of accounts which were necessary to ensure accountability of utilization of IPO Proceeds. The directors have provided false and misleading information to the Commission and investors. From the aforesaid activities the directors have violated the provision of Section 18 of the Securities and Exchange Ordinance, 1969.

18. Implementation schedule has not been followed as per approved published prospectus.

Full amount of the IPO Proceeds has not been utilized and implemented within the specified time as mentioned in page no. 21 of published approved prospectus. The cases where implementation schedule has not been met:

- As per published approved prospectus (Pg. # 21), Building and other Civil Construction should have been completed within six months after receiving the IPO Fund (i.e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.
- Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time-line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO Proceeds in February 2016.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

19. Machineries were not purchased in accordance with published Prospectus

Imported Machinery & Spare Parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 sets of UPS for Tk. 2,415,000, 6 sets of exhaust fan for Tk. 108,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of the published approved Prospectus, does not include such items.

As per published approved prospectus, Generator of 1400KV originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 2500 KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured from IPO proceeds. Furthermore, 32 sets of Knitting machine (Originated from China) were purchased for Tk. 1,552,000 each whereas only 10 sets of

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such machines should have been procured for Tk. 2,000,000 each, as per published approved prospectus (Pg.# 19).

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimated to BSEC & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

20. Errors of omission/commission of accounting entries

In some cases, we observed accounting error in recording transactions. These we opine, made due to error of omission/commission in making entries in the books of records.

Some instances are as follows:

- Underwriting fee of Tk. 1,000,000 in relation to IPO Expense was paid in June 2016 but not recorded in the books of accounts.
- IPO Expenses of Tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statements for the year ended 30 June 2016.
- DSSL has paid total of Tk. 545,000 through the cheque no. 6237364 (NBL) to a travel agency namely, Destination Travel Services Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

CFD's Comments: From the aforesaid activities the Company has violated Para 8 of Part C of the Commission Consent Letter No.SEC/CI/IPO-181/2012/621 dated December 15, 2015.

CFD's more comments regarding the said special audit report:

06. It appears from the auditors' report that DSL has done following wrong activities:

- Significant amount of expenditure was made through cash and not charged as expenses;
- Books of accounts was not maintained properly;
- Machineries were not purchased in accordance with published Prospectus;
- Complete disclosure with regard to imported machineries have not been provided in the financial statements/books of accounts; and
- Errors of omission/commission of accounting entries

যেহেতু, কমিশন উপরোল্লিখিত আইন পরিপালনে ব্যর্থতার দরুন Dragon Sweater & Spinning Limited (DSSL) এর বরাবরে একটি show-cause-cum-hearing notice সূত্র নং- BSEC/Enforcement/2407/2017/169 তারিখ ১৩ জুন, ২০১৭ প্রেরণ করে এবং ২৬ জুলাই ২০১৭ তারিখে শুনানীর দিন ধার্য করে এবং ধার্যকৃত তারিখে Dragon Sweater & Spinning Limited (DSSL) এর ব্যবস্থাপনা পরিচালক, কোম্পানী সচিব এবং অন্যান্য পরিচালকদের পক্ষে প্রতিনিধি উপস্থিত হয়ে ২৭ জুলাই ২০১৭ তারিখে চিঠির মাধ্যমে কোম্পানীর লিখিত বক্তব্য দাখিল করেন। যাতে অন্যান্যের মধ্যে, নিম্নোক্ত বিষয়গুলির উল্লেখ আছে-

"We received your letter no. BSEC/Enforcement/2407/2017/169 dated June 13, 2017 and we appreciate Bangladesh Securities and Exchange Commission for its efforts and monitoring to protect interest of general investors and public.



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Observation 01. Significant amount of expenditure was made through cash and not charged as expenses:

Query: Total of Tk. 8,712,816 (Tk. 1,546,850 for Machineries and Tk. 7,165,966 for Spare Parts) were paid against Machineries and Spare Parts without using any Banking channel. Cash payments cover 5.17% of total expenditure of tk. 168,628,089 of machineries and spare parts.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. Some spare parts like weir plastic box, Steel Box, Hole cutting, Tube light and Cable Tray Cover have to be purchased by cash because of they are small traders.

Query: Till November 2016, the company has utilized IPO Proceeds of Tk. 184,053,555 for the purpose of Building and Other Civil construction. Out of this amount Tk. 178,943,389 has been spent through cash. Cash payment covers 97.22% of total expenditure incurred under the head of Building and Other Civil Construction.

Explanation: The factory is located in a remote area, where there is no whole seller and dealer who accepts cheque. Some of those suppliers ask for 5-7% up charge for supplying the construction materials against cheques but instant delivery with 5-7% lower rate or price is available. The company has taken advantage of cheaper price by paying cash. This is the reason why majority of the expense was paid in cash.

Query: DSSL paid an amount of Tk. 25,587,024 in cash as Salary and wages to employees for the months from December 2015 to March 2016, which was not included in the proposed utilization of IPO fund, as per published approved prospectus. Moreover, this amount has not been charged against profit rater retained in the working capital as deferred payment, resultant overstatement of profit.

Explanation: Since its inception, Dragon Sweater & Spinning Limited had always paid all its salary & wages through cash. This is why it was all paid in cash. However, now that garments industries are moving towards other methods of disbursement, Dragon Sweater & Spinning Limited is currently in negotiations with Dutch-Bangla Bank Limited mobile banking division so that all salary & wages can be paid through mobile banking. Due to the company size, it will be implemented in phases. In accordance with prospectus page # 19, we had declared that working Capital Tk. 2.97 crore . From that fund, we have incurred salary and wages to the employees. DSSL has been maintaining accrual basis of accounting as per BFRS, so salary and wages has been provision in every month according to BAS-37.

Query: IPO expenses have been incurred through cash instead of cheque. During the period under audit, Tk. 1,242,021 out of Tk. 14,611,591 (Total IPO expense as per ledger) has been spent through cash. Cash payments cover 8.50% of total expenditure under this head of expenditure.

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Explanation: There were some technical and petty expenses that had to be incurred with a view to ensure smooth completion of the IPO. Lottery was organized by the post issue manager due to the fact that 23 times more application were received which had to be allotted by lottery. Mentioned petty cash of Tk. 12.43 lacks was spent in cash. As a matter of fact not all expenses were paid in cash Tk. 501,104 was paid to BUET authority by issuing pay order number-0081459 dated-14/02/16 from SBAC Bank. Balance Tk. 730,621 were paid in cash as there was no supplier available for supplying hanging banners, posters, decoration, stationary, sound systems, tonners, food packets, water, launch boxes, security forces, transportation and conveyance, flowers etc. Therefore cash purchase was allowed for those instant purchases to assure smooth and quick completion to the satisfaction of the post issue managers after approvals of the management.

Obervation02. Books of accounts were not maintained properly:

Query: "Imported Machinery" and "Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost" are separate head as per approved and published prospectus, but DSSL has maintained one ledger for these two heads representing total amount of Tk. 168,628,089. Moreover DSSL has shown above mentioned two heads in the Fund Utilization Statement, Tk. 157,938,707 for Imported Machinery and Tk. 10,689,382 for Spare Parts & Clearing, Erection, Loading/Unloading and Transportation & Installation Cost. The company has spent for Spare Parts & Clearing, Erection, Loading/Unloading, Transportation & Installation Cost in accordance with the ratio mentioned in the Material Management Policies of DSSL. Later, we were provided with two separate lists of Machinery and Spare Parts for the same amount as reported above.

Explanation: Dragon Sweater & Spinning Limited has been maintaining one head of accounts Plant & Machinery in the General Ledger since long. But the company did not maintain separate head of accounts in the General Ledger for Spare Parts and accordingly it has been reflected in the Financial Statement. However, it has been segregated in the Prospectus and IPO fund statement for a better and clearer understanding. In future DSSL will maintain two head of accounts for Plant & Machinery and Spare Parts if necessary.

Query: DSSL did not maintain ledger and other supporting documents in line with the breakdown of Building and Other Civil Constructions as mentioned in the published approved prospectus (Pg. # 20-21) which made it difficult to trace out that IPO proceeds have been utilized for the heads as specified in the prospectus (Pg. # 20-21) against Building and Other Civil Construction.

Explanation: Building construction material detail have been given in prospectus page # 20-21 but accounting has been prepared according to **BAS** not as material name. There is no accounting head name in **BFRS** like RCC work, Rod, Brick work and Grill work. For that reason DSSL has maintained above expenses as Capital Works- In- progress.

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন
ই-৬/সি, শের-ই- বাংলা নগর
আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/ ২৩২

তারিখ: ২৩ ফেব্রুয়ারি, ২০১৮

Observation03. Implementation schedule has not been followed as per approved/published prospectus.

Query: As per published approved prospectus (Pg. # 21), Building and Other Civil Construction should have been completed within six months after receiving the IPO Fund (i.e. August 2016). But construction of building has not yet been completed. Besides, no work completion certificate or any other similar documents were provided to us to understand the present status of the construction work. Moreover, expenses in this regard have been exceeded by Tk. 936,055 than the amount of Tk. 183,117,500 allocated for this head.

Explanation: Since this is a multi-storied building with a very heavy structure, group casting could not be made possible unless it is approved by the engineers. As you will agree, construction has various problems and issues which arise unpredictably. Since we are not experts, we can only go as per the expert's advice. Sufficient progress has been made in its implementation. Moreover, with added and unplanned work come added expenses. All materials such as bricks, rods, sand, cement and labour prices have increased since IPO application which is why there is an increase in expenditure when compared to the allotted amount as per the provided documents. The completion certificate or any other similar documents could not be produced by appropriate authority unless the entire construction is completed.

Query: Implementation schedule as mentioned in the published approved prospectus has been violated by making delayed payment of Audit Fee on 23rd November 2016, whereas expenditure time line for this expense was specified as within 3-4 months after receiving IPO Fund, where the company received IPO proceeds in February 2016.

Explanation: Previously DSSL maintained financial year was January to December. Now it has been changed as a result financial year January to June. For that reason audit has been conducted for the period 18th month accordingly accounting year completed 30th June 2016. For that reason audit fee has been paid on 23rd November 2016.

Obervation04. Machineries were not purchased in accordance with published Prospectus.

Query: Imported Machinery & spare parts including 12 sets of Air conditioner for Tk. 1,285,000, 100 set of UPS for Tk. 2,415,000, 6 set of exhaust fan for Tk. 48,000, one Generator (mini) for Tk. 1,250,000 and 235 pcs of Plastic Box for Tk. 180,950 were purchased using IPO Fund. However, under the head of "Use of IPO Proceeds" in page no. 18 to 21 of published approved Prospectus does not include such items.

As per published prospectus, Generator of 1400KVA originated from America should have been procured for Tk. 24,200,000 but actually procured a generator of 1100KVA originated from England for Tk. 23,712,000. Five pcs of Ring Spinning machine (Originated from Germany) should have been procured for Tk. 22,800,000 but no such machines were procured through IPO fund. Furthermore, 320 set of Knitting machine (Originated from of China) were purchased for Tk. 1,552,000 each whereas only 10 set of such machines should have been procured for Tk. 2,000,000 each as per published approved prospectus (Pg# 19).

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

সিকিউরিটিজ কমিশন ভবন

ই-৬/সি, শের-ই-বাংলা নগর

আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/২০২

তারিখ: ২০ ফেব্রুয়ারি, ২০১৮ ইং

However, in accordance with Para 8 of Part C of the Consent Letter, no prior approval from the shareholders in the shareholders' meeting was found to have obtained and intimation to BSE & Stock Exchanges for aforesaid cases. It is a serious violation of aforesaid Para of the Consent Letter.

Explanation: These are the integral part of capital machineries in order to control and regulate power fluctuations and proper operation and maintenance of the machines. Without these peripherals, such as AC, UPS, Exhaust fan, Plastic box etc. purchase & operation of these machines will result in a total financial and operational loss. DSSL changed the decision for purchasing UK made Generator instead of American Generator because the competitive price is less and the performance and warranty period will be better as per market study. Moreover, AGM of DSSL was held in November 2016. Therefore separate specific approvals of each item were not possible. As per utilization schedule shown in the prospectus the DSSL was authorized to spend Tk. 169,540,000 for purchasing Machinery & Spare Parts but the DSSL has kept the expenditure under Machinery & Spare Parts within the approved limit. DSSL spent Tk. 168,628,089 for purchasing 320 sets of Knitting Machine, Generator, AC, UPS, Exhaust Fan, Plastic Box etc. As there was no scope to give more detail under Machinery & Spare Parts heads as shown in the Prospectus, the DSSL has shown all the above mentioned expenditures under the head of Plant & Machinery while submitting the IPO fund utilization certificate.

Observation 05. Errors of omission/commission of accounting entries

Query: Underwriting fee of tk. 1,000,000 in relation to IPO Expenses was paid in June 2016 but not recorded in the books of accounts.

Explanation: Underwriting fee of tk. 1,000,000 has been accounted for in July-2016 subject to availability of supporting documents

Query: IPO Expenses of tk. 914,484 was wrongly charged under the head of Salary and Wages in the Financial Statement for the year ended 30 June 2016.

Explanation: It is a clerical mistake which is done by accounts clerk and subsequently it is corrected in proper head of accounts by Journal entry

Query: DSSL has paid total of Tk. 545,000 through the cheque no. 6237164 (NBL) to a travel agency namely, Destination Travel Service Limited against purchase of air tickets but wrongly charged to Working Capital which is contradictory to the Para 8 of Part C of the Consent Letter.

Explanation: Working capital includes marketing activities as well in order to generate revenue and new orders for the company

It is worth mentioning that during the period the company made expenses out of IPO funds when the Chief Accountant of the company who was responsible for recording the expenses subsequently left the company without handing over the book of accounts related with expenses. For that reason, we were faced problems.”

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন

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আগারগাঁও, ঢাকা-১২০৭।

নং-বিএসইসি/এনফোর্সমেন্ট/২৪০৭/২০১৭/৩০২

তারিখঃ ০৩ ফেব্রুয়ারি, ২০১৮ ইং

যেহেতু, Dragon Sweater & Spinning Limited (DSSL) এর লিখিত বক্তব্য থেকে সুস্পষ্ট প্রতীয়মান হয় যে, বেনলিভ নোটিশের অভিযোগসমূহ Dragon Sweater & Spinning Limited (DSSL) স্বীকার করে গ্রহণ ইচ্ছাকৃত এবং সিকিউরিটিজ আইন পরিপালনে ব্যর্থতা বিধায় section 22 of the Securities and Exchange Ordinance, 1969 অনুযায়ী শাস্তিযোগ্য অপরাধ এবং যা ক্ষমার অযোগ্য;

যেহেতু, কমিশনের বিবেচনায়, সিকিউরিটিজ আইন পরিপালনে উল্লিখিত ব্যর্থতার জন্য, তথা সিকিউরিটিজের উন্নয়নের পক্ষে পানি বাজারের শৃংখলা ও স্বচ্ছতা রক্ষার স্বার্থে উক্ত ইস্যুয়ার এবং উহার পরিচালকগণকে জরিমানা করা প্রয়োজন ও সমীচীন;

অতএব, সেহেতু, কমিশন, উল্লিখিত যাবতীয় বিষয় বিবেচনাপূর্বক, Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) এর Section 22 (যা The Securities and Exchange (Amendment) Act, 2000 দ্বারা সংশোধিত) এর প্রদত্ত ক্ষমতাবলে:

ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড এর পরিচালক জনাবা সাফিয়া সোবহান চৌধুরী এর উপর ০২ (দুই) লক্ষ টাকা জরিমানা ধার্য করল যা অত্র আদেশের ১৫ (পনের) দিনের মধ্যে 'সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন' এর অফিসে ইস্যুকৃত বাংক ড্রকট/পে-অর্ডারের মাধ্যমে কমিশনে জমা করতে হবে

বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশনের পক্ষে

মোঃ আহম্মদ হোসেন
কমিশনার

বিতরণঃ

জনাবা সাফিয়া সোবহান চৌধুরী, পরিচালক, ড্রাগন সোয়েটার এন্ড স্পিনিং লিমিটেড।