বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন
Bangladesh Securities and Exchange Commission

Jiban Bima Tower, 10 Dilkusha C/A, Dhaka-1000, Bangladesh
Phone (PABX): 0088-02 9568101-2, 0088-02 9561525,Fax: 0088-02 9563721, 717660

SEC/Enforcement/947/2011/52 **Registered with AD**
January 27, 2013

1. Legacy Footwear Limited, Robin Tower (5th floor), 42/43, Purana Paltan, Dhaka-1000.
2. Directors, Legacy Footwear Limited, Robin Tower (5th floor), 42/43, Purana Paltan, Dhaka-1000.
3. Managing Director, Legacy Footwear Limited, Robin Tower (5th floor), 42/43, Purana Paltan, Dhaka-1000.
4. Company Secretary, Legacy Footwear Limited, Robin Tower (5th floor), 42/43, Purana Paltan, Dhaka-1000.

Subject: Penalty Order: Non-compliance of Section 18 of Securities and Exchange Ordinance, 1969.

Dear Sir,

Commission's penalty order No. SEC/Enforcement/947/2011/51 dated January 27, 2013 is enclosed herewith for your kind information and necessary action.

For Bangladesh Securities and Exchange Commission

Mustari Jahan
Deputy Director (Enforcement Dept.)

Distribution:
Chief Executive Officer, Dhaka Stock Exchange Limited
Chief Executive Officer, Chittagong Stock Exchange Limited

Copy for information:
P.O to Commissioner (Enforcement), SEC
P.O to Executive Director (Surveillance), SEC
P.O to Executive Director (MIS), SEC
Chairman's office, SEC

<u>**Order**</u>

Whereas, as per section 2(g) of the Securities and Exchange Ordinance, 1969(ORDINANCE No. XVII of 1969) Legacy Footwear Limited is an issuer (herein after referred to as an "issuer");

Whereas, on the basis of the investigation report of Dhaka Stock Exchange Limited on unusual trading in shares of Legacy Footwear Limited, a show cause-cum-hearing notice No. SEC/Enforcement/947/2011/ 403 dated August 08, 2012 was issued to Legacy Footwear Limited,it's all directors,Managing Director and Company Secretary to appear at the hearing. In the show cause-cum-hearing notice among others following were mentioned;-

"Whereas, "Prohibition of false statements, etc.- No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish, or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular."

Whereas, an investigation has been conducted by DSE on unusual trading in shares of Legacy Footwear Limited. Investigation Team among others reported the following;

"Findings on Unaudited Financial Statements submitted by Legacy Footwear (Z):

Based on the unaudited financial statement for the period 01 January, 2010 to 31 March, 2010, 01 January, 2010 to 30June, 2010 and 01 January, 2010 to 30 September, 2010 and subsequently data provided by Legacy Footwear (Z) dated May 19, 2011[1], findings of the investigation team are as follows:

1. As per the letter of Legacy Footwear Ltd. dated May 19, 2011 ***"…………………It is to be noted here that the Bank has not charged any interest for Long Term Loan during the quarters as stated above. As a result, no interest was charged in the accounts. This was because of the fact that Legacy Footwear Ltd applied for further re-scheduling of the loan by exempting the bank interest. ………"***

   As per the quote, Bank has not charged any interest for Long Term Loan during the quarters as stated above. As a result, no interest was charged in the accounts. Whereas, as per Para 27 of BAS 1 ***"An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting."***

   Legacy Footwear Ltd. applied for further re-scheduling of the loan by exempting the bank interest. However, it is not clear to Dhaka Stock Exchange Ltd. on what basis you have not charged the Financial Expenses for the period from 1st January 2010 to 31st March 2010, from 1st January 2010 to 30th June 2010 and from 1st January, 2010 to 30th September, 2010 without getting the evidence for exemption from the bank.

2. As per the unaudited Income Statements for the period from 1st January, 2010 to 31st March, 2010, from 1st January 2010 to 30th June 2010 and from 1st January 2010 to 30th September 2010, Legacy Footwear Ltd. have shown **Earning Per Share of 0.29, 0.69 and 0.96 consecutively**.

Whereas, according to reschedule terms of payment on dated 07.10.2008 (as per note 12 of Annual Report-2009), **Earning per Share should be 0.18, 0.37 and 0.48** for the said periods. Details of which are given below:

	2009	01-Jan-10 to 31-March-10	01-Jan-10 to 30-June-10	01-Jan-10 to 30-Sep-10
Turnover	78,605,359.00	21,638,473.00	43,366,946.00	61823089
Less: COGS	60,258,609.00	16,961,775.00	33,953,800.00	48375430
Gross Profit	18,346,750.00	4,676,698.00	9,413,146.00	13,447,659.00
Less: Administrative and Selling Overhead	11,863,106.00	3,066,600.70	6,146,166.48	9,205,643.44
Administrative Overhead	*4,970,470.00*	*1,358,617.00*	*2,729,927.00*	*4119173*
Sales Expenses	*1,070,320.00*	*251,581.00*	*518,625.00*	*735613*
Financial Expenses	*5,822,316.00*	*1,456,402.70*	*2,897,614.48*	*4,350,857.44*
Net Profit/(Loss) before Tax	6,483,644.00	1,610,097.30	3,266,979.52	4,242,015.56
Less: Provision for Income Tax	1,215,683.00	301,893.24	612,558.66	795,377.92
Net Profit/(Loss) after Tax	5,267,961.00	1,308,204.05	2,654,420.86	3,446,637.65
No. of Share Outstanding	7,250,000	7,250,000	7,250,000	7,250,000
	0.73	0.18	0.37	0.48

Particulars	2009	As on 31-March-10	As on 30-June-10	As on 30-Sep-10
i) Interest Suspense Account	66,598,268.00	66,598,268	66,135,538	66,135,538
ii) Long Term Loan	51,893,077.00	51,921,665.00	51,650,882.00	51,703,594.00
Long Term Loan From Rupali Bank	118,491,345.00	118,519,933.00	117,786,420.00	117,839,132.00

*As per Annual Report-2009, figure shown in (i) above shall be payable in 48 quarterly equal installment from 07.01.2009 in 12 years which bears no interest.

**As per Annual Report-2009, figure shown in (ii) shall be payable in 48 quarterly equal installment from 07.01.2009 in 12 years which bears @ 11% interest.

Whereas, as per rule 13 of Securities and Exchange Rules, 1987, ***"……………..half yearly financial statements which shall be prepared in the same manner and form as the annual financial statements.***"

Whereas, as per rule 12(2) of Securities and Exchange Rules, 1987, "***The financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the schedule and the International Accounting Standards as adopted by the Institute of Chartered Accounts of Bangladesh."***

Whereas, as per 1 of PART II of SCHEDULE of Securities & Exchange Rules, 1987 ***"The profit and loss account shall be so made out as to disclose clearly the result of the working of the company during the period covered by the account and shall show, arranged under the most convenient heads, the gross income and the gross expe0nditure of the company during the period, disclosing every material feature and in particular the following:-***

…………………………………..

1(G)(1*) the amount of interest on borrowing, showings separately the amount of interest on the company's debenture, on other long term loans and on short term loans,…………….…………….*"

Legacy Footwear Ltd. was requested to clarify their position through DSE letter No. No. DSE/LC/2011/Inv/4767 dated May 22, 2010[2].

Legacy Footwear Ltd. replied through letter No. Nil dated May 19, 2011[3],***"…………..the interest was not accounted for in the accounts since the bank did not charged any quarterly interests in the bank statements for the year 2010. ……"***

It indicates that Legacy Footwear Ltd. followed Cash Basis Accounting. Whereas, as per Para 27 of BAS 1 "An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting."

Not only that as per reschedule letter from Rupali Bank Ltd. (collected from Legacy Footwear Ltd.)[4] , rescheduled was sanctioned on 03.02.2011 and interest on Long Term Loan was Tk. 7,713,691.00 for the year 2010.

Therefore, the Q1, Q2 and Q3 unaudited financial statements of Legacy Footwear Ltd. do not reflect the true and fair view of the state of affairs and the results of its operation because the financial expenses (interest) were not recognized quarterly, which tantamount to furnishing incorrect information to Dhaka

Stock Exchange Ltd. and so the market. **The incorrect information submitted by Legacy Footwear Ltd. may provoke unusual trading of the shares of Legacy Footwear Ltd**."

Contravention: It is reported that you have violated Section 18 of Securities and Exchange Ordinance, 1969.."

Whereas, hearing has been conducted. Quazi Rafi Ahmed (Managing Director),Md Abul Quasem (Company secretary), Syed Mahatab Hossen (CFO has attended the hearing. They submitted a reply letter No.NIL dated September 16, 2012.In the letter among others they stated the following:

……." The above noted matter has been investigated by the Monitoring, Investigation and Compliance Department of Dhaka Stock Exchange Ltd. (Letter reference no. DSE/LC/2011/Inv/4745 dated May 18, 2011, copy enclosed) for which we have appeared on May 19, 2011 and talked to Mr.Khandaker Asad Ullah, Deputy General Manager, Monitoring, Investigation and Compliance along with our written reply (copy enclosed) and supporting documents. We have told him that no interest on bank loan was charged in the un-audited quarterly statements for the quarter ending March 31, 2010; June 30, 2010 and September 30, 2010 since the bank did not charged any interest in the above noted quarters in the bank statements (copy of bank statements enclosed) as we have applied to the bank on September 02, 2009 for re-scheduling of our loan (copy enclosed). Since the bank did not charged any interest we have also prepared the un-audited quarterly reports without showing any bank interests in the reports. We have also admitted the fact and told him that this was done unintentionally but by mistake. We should have charged bank interest by making provisions in the accounts. However, in the annual audited accounts for 2010 we have charged full year's bank interest in the accounts. We assured Mr. Khandaker Asad Ullah that this mistake will be rectified in the 1st Quarter 2011, 2nd Quarter 2011 and 3rd Quarter 2011 respectively (copy enclosed) in the comparative figures.

The matter once again raised in the above mentioned subject letter. In this connection we would like to reiterate that the unintentional mistakes have been rectified in the annual audited accounts for 2010 and subsequent quarterly reports for 2011 (in the comparative figures).

We are the0refore requesting you to kindly forgive us for this mistake. In this connection we would like to inform you that we are following the rules and regulations of SEC, DSE and CSE in fully. We are also incompliance with BAS and BFRS in preparing accounts of our Company."

Whereas, Commission has observed that the issuer has showed the **Earning Per Share of 0.29, 0.69 and 0.96** instead of **0.18, 0.37 and 0.48** consecutively for the period from 1st January, 2010 to 31st March, 2010, from 1st January 2010 to 30th June 2010 and from 1st January 2010 to 30th September 2010.Therefore, it is proved before the Commission that the allegation of violating Section 18 of Securities and Exchange Ordinance, 1969 (By showing incorrect EPS) is correct. Their written explanation is not acceptable to the Commission.

Whereas, the aforesaid activities are tantamount to non-compliance of securities law that appears deliberate and clear contravention of Section 18 of Securities and Exchange Ordinance, 1969 attracting penal provision of section 22 of the Securities and Exchange Ordinance, 1969

Whereas, to protect the discipline and transparency of the capital market along with it's development the Commission deems it appropriate and necessary to impose penalty upon Legacy Footwear Limited for the stated violation.

Now, therefore, Bangladesh Securities and Exchange Commission, in exercise of the power conferred by section 22 (amended by the Securities and Exchange (Amendment) Act, 2000) of the Securities and Exchange Ordinance, 1969 (XVII of 1969) hereby imposes penalty for Tk.5.00 (Tk.Five) Lac upon Legacy Footwear Limited which is to be deposited to the Commission in the form of Bank Draft/Payorder favouring 'Bangladesh Securities and Exchange Commission' within 15 days from the date of issuance of this order.

By order of the Bangladesh Securities and Exchange Commission

Professor Dr. M. Khairul Hossain
Chairman

Distribution:
Legacy Footwear Limited,Robin Tower (5th floor), 42/43, Purana Paltan, Dhaka-1000