

SEC/Enforcement/2141/2014/15
January 20, 2014

By Courier

MP Spinning Mills Limited
1005/2,1872,CDA Avenue
East Nasirabad
Chittagong

Attention: Managing Director/CEO

Subject: Penalty Order: non-compliance of securities related laws in connection with capital raising

Dear Sir,

Commission's penalty order No. SEC/Enforcement/2141/2014/14 dated January 20, 2015 is enclosed herewith for your kind information and necessary action.

For Bangladesh Securities and Exchange Commission

Mustari Jahan
Deputy Director (Enforcement)

Distribution:

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

Copy for information:

P.O to Commissioner (Enforcement), BSEC
P.O to Executive Director (CI), BSEC
P.O to Executive Director (MIS), BSEC
Chairman's office, BSEC

Order

Whereas, as per section 2 (cc) of the Securities and Exchange Ordinance, 1969 (ORDINANCE No. XVII of 1969) "Commission" means Bangladesh Securities and Exchange Commission constituted under Bangladesh Securities and Exchange Commission Act 1993;

Whereas, as per section 2(g) of the Securities and Exchange Ordinance, 1969 (XVII of 1969), MP Spinning Mills Limited is an "issuer" (here in after referred to as "issuer");

Whereas, on the basis of the observation report of the Capital Issue Department of BSEC regarding non-compliance of securities related laws in connection with capital raising, a show cause-cum-hearing notice No. SEC/Enforcement/2141/2014/652 dated: November 03, 2014 was issued to MP Spinning Mills Limited to appear at the hearing accusing for violating Condition no.1 (imposed under Section 2CC of Securities and Exchange Ordinance, 1969) of the commission's consent letter no.SEC/CI/CPLC-310/2011/27 dated January 09,2014 by raising paid up capital from the other than existing share holder and Rule-19 of Securities and Exchange Commission (Public Issue) Rules, 2006 by giving misstatement in the draft prospectus regarding 4,24,00,000 (2,65,00,000+1,59,00,000) shares instead of 2,65,00,000 shares in the statement of ownership of the company's securities as on **31st December 2013** whereas the issuer has obtained commission's consent for issuing 1,59,00,000 bonus shares on **09/01/2014**:. Hearing has been conducted with the accused. In the show cause-cum-hearing notice following have been mentioned among others;-

Quote

Whereas, as per condition no.1 (imposed under Section 2CC of Securities and Exchange Ordinance, 1969) of the commission's consent letter no.SEC/CI/CPLC-310/2011/27 dated January 09, 2014;

"The company shall issue shares to the existing shareholders of the company;"

Whereas, as per Rule-19 of Securities and Exchange Commission (Public Issue) Rules, 2006, "If any issuer or its representative violates any of the provisions of these Rules or furnishes false, incorrect, misleading information or suppresses any information, the Securities and Exchange Commission may take appropriate action under the Securities and Exchange Ordinance, 1969."

Whereas, MP Spinning Mills Limited have proposed for issuing 1,20,00,000 (One Crore Twenty Lac) ordinary shares @Tk.10.00 totaling Tk. 12,00,00,000 (Twelve Crore) .

Whereas, Capital Issue Department, BSEC has reported that-

As on September 30, 2013, paid up capital of MP Spinning Mills Limited was Tk.26,50,00,000. From the ownership of the company's securities in draft prospectus (**P:49**) it appears the following existing shareholders as **on December 31, 2013:**

SI. NO.	Name of the Shareholders	Status	Number of Shares	% of Total Shareholding
1.	Mr. Ratan Kumar Datta	Director	1,974,625	4.66
2.	Ms. Laxmi Dutta	The Chairman	1,888,970	4.46
3.	Mr. Miki Dutta	Shareholder	128,485	0.30
4.	Ms. Pinky Dutta	Shareholder	128,485	0.30
5.	Jeans Express Ltd.	Managing Director & Director	30,013,576	70.79
6.	Sagarika Accessories Industries Ltd.	Director	8,051,717	18.99
7.	Lax Lingerie Ltd	Shareholder	214,142	0.51
Total			42,400,000	100.00%

Subsequently the company again submitted updated draft prospectus on May 25, 2014 where from it appears that MP Spinning Mills Limited issued 2,00,00,000 ordinary shares paid in cash on April 09, 2014 to other than existing shareholders. But, from the Commission's consent letter No. SEC/CI/CPLC-310/2011/27 dated January 9, 2014 it appears that consent has been given under Securities and Exchange Commission (Issue of Capital) Rules, 2001 for raising the paid up capital of MP Spinning Mills Limited from Tk.26,50,00,000 to Tk.62,40,00,000 by issuing of 1,59,00,000 bonus shares of Tk.10 each totaling Tk.15,90,00,000 and 2,00,00,000 ordinary shares of Tk.10 each totaling Tk.20,00,00,000 **only to the existing shareholders of the company.** Thus, MP Spinning Mills Limited, issuer and First Securities Services Limited, issue manager have given misstatement in the prospectus of 4,24,00,000 shares instead of 2,65,00,000 shares regarding ownership of the company's securities as on 31st December 2013.

Because, MP Spinning Mills Limited obtained consent on January 9, 2014 to issue the aforesaid bonus share.

Contravention: MP Spinning Mills Limited has violated

1. Condition no.1 (imposed under Section 2CC of Securities and Exchange Ordinance, 1969) of the commission's consent letter no.SEC/CI/CPLC-310/2011/27 dated January 09,2014 by raising paid up capital from the other than existing share holder.

2. Rule-19 of Securities and Exchange Commission (Public Issue) Rules, 2006 by giving misstatement in the draft prospectus regarding 4,24,00,000 (2,65,00,000+1,59,00,000) shares instead of 2,65,00,000 shares in the statement of ownership of the company's securities as on **31st December 2013** whereas the issuer has obtained commission's consent for issuing 1,59,00,000 bonus shares on **09/01/2014**.

Unquote

Whereas, Mr.Shatadal Das (CFO, MP Spinning Mills Limited) and Mr. R.K.Datta (Director,MP Spinning Mills Limited) have attended the hearing. They have submitted an explanation letter no. NIL dated August 24, 2014 to the Commission. In the letter they have stated the following among others;

Quote

We, please refer to your letter regarding Show Cause cum Notice for Hearing Notice No. SEC/Enforcement/2141/2014/652 dated 03.11.2014 and are pleased to explain against your letter as to why appropriate actions should not be taken by the Commission against us.

We, M/s, M P Spinning Mills Ltd (here-in-after referred as “the Company”), Chittagong based spinning Company, is writing you and most humbly submit to consider of our written explanation as well as verbal on rejection of our IPO application by BSEC allegedly for non compliance of date and number of shareholders for capital raising of the Company.

The Company received consent from BSEC to raise its paid up capital on 09.01.2014 by issuing 1,59,00,000 bonus shares of Tk. 10 each and further 2,00,00,000 shares of Tk. 10 each to the existing shareholders of the Company. The Company accordingly issued 1,59,00,000 bonus shares to eligible shareholders on 11.01.2014. Thereafter, the Company filed Return of Allotment on 11.01.2014 with the Registrar of Joint Stock Companies and Firms (RJSC) for allotment of 1,59,00,000 shares.

After receiving the Return of Allotment dated 11.01.2014, Our Issue Manager First Securities Service Limited (FSSL) updated the “Ownership of Company's Securities” section of the draft prospectus in page 49 considering the allotment of 1,59,00,000 bonus shares on 11.01.2014.

However, most inadvertently the date mentioned in the said page 49 of the draft prospectus was wrongly mentioned "As on Dated: December 31, 2013" instead of the correct date of March 24, 2014, i.e. the date on which the draft prospectus was submitted to BSEC. The mistake was completely unintentional and the Company deeply apologizes for such inadvertent mistake. The mistake was not deliberate and also FSSL had no intention at any point of time to provide any misstatement in the draft prospectus.

Subsequently, **the company made further allotment of 2,00,00,000 shares to its existing shareholders on 09.04.2014 and filed Return of Allotment dated 09.04.2014 with the RJSC.** Accordingly, FSSL updated the "Ownership of Company's Securities" section of the draft prospectus in page 49-52 considering the allotment of 2,00,00,000 shares on 09.04.2014. The said section reflected the correct position of the ownership of Company's securities as on 20.05.2014. The said section at that stage reflected both the allotment of 1,59,00,000 bonus shares and further 2,00,00,000 shares of the issuer company. **The latest update after the allotment on 09.04.2014 was also intimated to BSEC by submission of an updated draft prospectus on 25.05.2014 along with the latest Return of Allotment dated 09.04.2014.** The latest Schedule X dated 23.12.2014 of MP Spinning Mills Ltd and FSSL also submitted the same to BSEC with the updated draft prospectus on 25.05.2014.

However, in addition to the above, upon reviewing the prospectus and its related evidences, it is apparent that the mistakes were placed s inadvertently and **subsequently all the mistakes have been rectified and informed the BSEC by submitting latest draft prospectus on 24.03.2014 in which the ownership of Company's securities position was inadvertently mentioned to be as on December 31, 2013 instead of March 24, 2014.**

In fact, we have executed and provided all the information to the Issue Manger as advised by Issue Manager. We never contemplated that the Issue Manger did not work according to the BSEC rules as applicable and action initiated was impaired the BSEC law. We are very transparent and have not any intention to violate the laws. What were happened towards to Issue.

In view of the above, we are very much sorry and apologies to the hon'ble Commission for our miss communications and mistakes and kindly prays for withdrawal/ cancellation of the show cause cum notice for hearing notice No. SEC/Enforcement/2141/2014/653 dated 03.11.2014.

Unquote

Whereas, the issuer has been given consent to issue 2,00,00,000 ordinary shares to its existing shareholder but the issuer has issued the shares to the other than existing shareholders which is treated as the deliberate contravention of the Condition no.1 (imposed under Section 2CC of Securities and Exchange Ordinance, 1969) of the commission's consent letter no.SEC/CI/CPLC-310/2011/27 dated January 09,2014.

Whereas, the issuer has given misstatement in the draft prospectus regarding 4,24,00,000 (2,65,00,000+1,59,00,000) shares instead of 2,65,00,000 shares in the statement of ownership of the company's securities as on **31st December 2013** but the issuer has obtained commission's consent for issuing 1,59,00,000 bonus shares on **09/01/2014**. Issuer's such activities are treated as deliberate contravention of Rule-19 of Securities and Exchange Commission (Public Issue) Rules, 2006.

Whereas, the issuer's explanation regarding the contravention is not acceptable to the Commission.

Whereas, the issuer's aforesaid activities are tantamount to non-compliance of securities law that appears deliberate and clear contravention of Condition no.1 (imposed under Section 2CC of Securities and Exchange Ordinance, 1969) of the commission's consent letter no. SEC/CI/CPLC-310/2011/27 dated January 09, 2014 and Rule-19 of Securities and Exchange Commission (Public Issue) Rules, 2006 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 its development the Commission deems it appropriate and necessary to impose penalty upon MP Spinning Mills Limited (issuer).

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 10.00. (Tk.Ten) Lac upon MP Spinning Mills Limited (issuer) 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

Md.A.Salam Sikder
Commissioner

Distribution

Managing Director
MP Spinning Mills Limited
1005/2,1872,CDA Avenue
East Nasirabad
Chittagong