

No. SEC/Enforcement/571/2007/647

Dated: June 3, 2007

Bangladesh Services Limited (Issuer)
1 Minto Raod, Ramna, Dhaka-1000

Managing Director
Bangladesh Services Limited, 1 Minto Raod, Ramna, Dhaka-1000

Directors
Bangladesh Services Limited, 1 Minto Raod, Ramna, Dhaka-1000

Company Secretary
Bangladesh Services Limited, 1 Minto Raod, Ramna, Dhaka-1000

Sub: Alleged non-compliance with securities related laws in connection with the audited financial statements for the year ended on December 31, 2005: Warning.

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

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

As required by rule 12 of the Securities and Exchange Rules, 1987, the issuer submitted the audited financial statements for the year ended on December 31, 2005 to the Commission and others concerned;

It appeared from the said audited financial statements that the auditors have made, among others, the following observations/qualified opinion on the financial statements:

“(A) Relating to Dhaka Sheraton Hotel (Hotel):

1. Inventories include obsolete items of engineering stores worth Tk 7,810,670.00 (including Tk 669,638.00 owned by Bangladesh Services Limited) against which the company has made a provision of Tk 5,452,095.00 leaving a shortfall of Tk 2,358,575.00. In our opinion, full provision should have been made.

2. Payroll tax on expatriate employees' salary has been paid amounting to Tk 4,269,774.00 but the Hotel had made a provision for payroll tax on expatriate employees' salary during the year amounting to Tk 2,013,998.00 leaving a short provision of Tk 2,255,776.00. In our opinion, this short provision amount should have been fully provided for within the year.

3. The Civil Aviation Authority of Bangladesh has claimed Tk. 19,421,732.13 for the rent of Balaka Restaurant and Bar upto 16 February 2003, as there is no signed rental agreement between the Hotel and the Civil Aviation Authority of Bangladesh. As per our calculation based on rate claimed by Civil Aviation Authority a provision of Tk 26,274,209.00 should have been made for rent of Balaka Restaurant and Bar upto 31 December 2005, but the Hotel has made provision for the rent amounting Tk 13,942,763.00 leaving a shortfall of Tk 12,331,446.00. In our opinion, this shortfall amount should be fully provided for.

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4. The Hotel has not provided any leased asset and leased liability valued in accordance with Bangladesh Accounting Standards (BAS) 17: Lease. The Hotel has engaged in lease agreements which should have been treated as finance lease as per BAS 17 but the Hotel treated the leases as operating lease. If these had been treated as finance lease there would be leased assets amounting Tk 15,412,000.00 and leased liability amounting Tk 13,084,203.00 to be shown in Balance Sheet and also interest on lease amounting Tk 1,662,255.00 and depreciation on leased assets of Tk 3,082,400.00 should be charged to Profit and Loss Account and the lease rent Tk 3,990,052.00 should not be charged in Profit and Loss Account.

5. Assets and liabilities outstanding in foreign currencies are not valued at year end exchange rate as required by Bangladesh Accounting Standards (BAS) 32: Foreign Currency. If these would have been valued as per BAS 32 cash in hand will increased by Tk 12,218.00 and liabilities will increase by Tk 817,486.00 and loss on foreign currency amounting Tk 805,268.00 should have been charged to Profit and Loss Account.

(B) Relating to Bangladesh Services Limited:

6. During the year the company has sold furniture, equipment and vehicle for tk 680,531.00 and the entire sale proceeds have been shown as other income. No amounts have been deducted from the cost and accumulated depreciation of the fixed assets sold. As no register of property, plant and equipment has been maintained by the company, we are not been able to ascertain the cost and accumulated depreciation of the assets sold. Therefore, the value of property, plant and equipment has been over stated to the extent of book value of assets sold up to date.

7. Deferred tax assets and deferred tax liabilities have not been accounted for as required by BAS- 12.”

As a result of the above, the audited financial statements of the issuer for the years ended on December 31, 2005 do not portray true and fair view of the financial position.

A show cause cum hearing notice No. SEC/Enforcement/571/2007/383 dated April 12, 2007 was issued to the issuer as well as its directors and company secretary to explain the above and also to provide an opportunity of being heard by the Commission. The hearing was conducted on May 6, 2007.

Mr. Aminul Bar Chowdhury, Company Secretary; Mr. Nishar Ahmed, Cheif of Accounts & Finance; Mr. AKM Monirul Islam, Finance Controller and Mr. Nazrul Islam, Manager (A & F) of the issuer appeared for the hearing. In course of hearing, the issuer submitted a letter No. BSL-123/2007/461 dated May 3, 2007 stating, among others, the following:

(A) Relating to Dhaka Sheraton Hotel (DSH):

i. Earlier, as per board decision, attempts were taken to dispose of the items through auction. But, as the auction price was very low, the items were not disposed of.

ii. The payment of payroll tax of Tk. 22,52,776 was not actually short provision to the profit and loss accounts as this amount was the part payment of payroll tax related to the year 2006.

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- iii. DSH and Civil Aviation & Tourism Authority of Bangladesh are trying to settle the matter as soon as possible.
- iv. DSH, the operating company of BSL took lease of motor vehicles under an operating lease agreement to use the same as operating asset, hence the asset was not treated as financial lease under BAS-17.
- v. Assets and liabilities should have been valued at year-end exchange rate as per BAS-32 , which was not done inadvertently.

(A) Relating to Bangladesh Services Ltd. (BSL):

- i. This relates to housekeeping items comprising of so many small items which were not easily identifiable with assets. BSL has taken steps to update the fixed assets register for the backlog period.
- ii. As the assessment of tax liability is made by BSL on the basis of taxable profit determined as per taxation law of Bangladesh, so, there is no scope of over or understatement of tax liability due to temporary timing difference or deductible temporary difference and hence the compliance of BAS-12 in respect of deferred tax is automatically maintained by the company.
- iii. The above qualifications were discussed in the 33rd AGM of the company where it was decided to settle the matter at the earliest. Accordingly, necessary actions are being taken to dispose of the issues.

However, the Commission, considering the submissions of the issuer, has decided to dispose of the proceedings against themselves by placing on record the Commission's dissatisfaction on the stated activities of the issuer and its directors as well, with a warning to ensure compliance of all securities related laws in future.

Please note that this disposal does not absolve you from your lawful responsibilities/obligations to any person, if affected, as a result of your above said default/contravention.

For the Securities and Exchange Commission

Mansur Alam
Executive Director

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