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AIMS backs down on pledges to underwrite Modern Food

Audited accounts differ from prospectus statement

By M Shamsur Rahman

An asset management firm yesterday refused to underwrite and subscribe the privately-placed shares of a company as pledged earlier after it came to know that the company had default on loans, a fact which it was not apprised of by the issue managers.

In a letter to the Securities and Exchange Commission (SEC) and managers to the issue, the asset management company said that they had earlier made commitments to subscribe and underwrite the issue based on the audited accounts for the year ended on June 30, 1999.

But the audited accounts of the company, which was submitted to the asset management firm, differed from that of the financial statement published in the company's prospectus.

On February 22, Asset and Investment Management Services (AIMS) of Bangladesh gave its consent to underwrite Mod-

ern Food Products Ltd. shares worth Tk 50 lakh and subscribe Tk 10 lakh worth of shares under private placement.

"It appears that the 'information memorandum' and unqualified accounts of the company, based on which our due diligence was made, differ significantly from the contents of the company's published prospectus," said Yawer Sayeed, Managing Director of AIMS in a letter to the issue managers.

"In view of the above digression, we regret to inform you that we can't live up to our underwriting and private placement pledges," said the MD's letter.

Talking to The Daily Star, Sayeed said that his firm's commitments were based on the auditor's report which gave a better picture of Modern Food.

The published report by the auditors made a number of disclosures that were not known to AIMS, he said, adding "we

wouldn't have invested in the company if we were apprised of these facts earlier," Sayeed said.

He said that according to the prospectus, the company has outstanding working capital loans from Janata and Pubali Banks and project loans from MIDAS. The company has defaulted in paying back both these loans, he added.

"The auditors' published report said that the fixed asset schedule had not been prepared according to Bangladesh standard of accounting 4 and 16. The auditors also did not show the accumulated depreciation," he said.

Besides, the cash at sales centre was not physically verified by the auditors, and for the lack of up-to-date records, its subsequent position could not be ascertained by them, the AIMS CEO said, justifying his company's decision.

When contacted, Maruf

Khan, Managing Director of Capital Market Services -- the issue manager of Modern Foods -- said the audited report of a company stands valid for 180 days. If the SEC fails to approve the report within the stipulated time, then the company has to file another new report, which is a time-consuming process.

"The prospectus of Modern Foods was approved on the last day and as such, there was no scope for the issue managers to communicate the disclosures to the underwriters," said Maruf Khan.

He also said that AIMS, being the underwriter, did the right thing by cancelling its commitments as they did not have the information in the prospectus.

The MD, however, refused to make any comments when asked about the responsibility and due diligence of the issue managers.