

## **DIRECTORS' REPORT TO THE SHAREHOLDERS**

Bismillahir Rahmanir Rahim  
Dear Shareholders  
Assalamu Alaikum,

It is my great pleasure to welcome you at the 16th Annual General Meeting of Saiham Cotton Mills Ltd. I, on behalf of the Board of Directors, have the pleasure to present before you the report for the year ended June 30, 2017 along with the audited financial statements and auditors' report thereon.

### **BACKGROUND**

Saiham Spinning Mills Limited was incorporated on May 30, 2002 as a Private Limited Company vide incorporation No.C-459289(2401)/2002 and with effect from April 16, 2003 the name of the company has been changed to Saiham Cotton Mills Ltd. It has been converted into a Public Limited Company on March 25, 2010. The Authorized capital of the company is Tk. 2,000 million and paid up capital is Tk. 1487 million. The company was listed with the Dhaka Stock Exchange Ltd. and Chittagong Stock Exchange Ltd. and share trading started in both the houses on June 24, 2012.

### **REVENUE**

The company is a deemed exporter, exporting its product to the apparel manufacturer. The business is directly related to the export order performance of this sector. The year under review has been a challenging one for the apparel industry due to number of unavoidable circumstances namely the US election, the after effect of Brexit, the German and French election left its subdued mark in the apparels trade orders. Locally even though we were fortunate to have a benign political environment yet the company suffered greatly due to shortage of gas pressure as such the performance was hampered. Yet inspite of all these obstacles the prudent management succeeded to run the company efficiently and generated more profit compare to last year. Extra care and investments were being done in the utility sector especially the Electricity generation and Gas supply line, to avoid further disruption in future. We strongly believe the investment will reap good results in the coming days.

### **Financial Result and Appropriation of Profit:**

| <b>Particulars</b>   | <b>June 30, 2017</b> | <b>June 30, 2016</b> |
|--|----------------------|----------------------|
| Net Profit for the year (after tax)                          | 15,81,30,539         | 14,02,99,262         |
| Add: Adjustment for revaluation of P.P.E and deferred tax    | 2,95,71,786          | 3,17,99,912          |
| Add: Adjustment reclassification of the status of investment | -                    | (8,46,90,273)        |
| Add: Previous year's surplus                                 | 54,61,03,429         | 66,15,69,528         |
| <b>Recommended for appropriations:</b>                       |                      |                      |
| Dividend   | (14,87,75,000)       | (20,28,75,000)       |
| <b>Total</b>   | <b>58,50,30,753</b>  | <b>54,61,03,429</b>  |

### **Segment-wise or product-wise performance**

Mentioned in notes 20 of the notes to the financial statements.

### **Industry outlook and possible future developments in the industry**

As mentioned Saiham Cotton Mills Ltd. is a backward industry to the apparel trade of the country. The outlook of the company is directly correlated to export orders received by the end users. We believe Bangladesh has come a long way in establishing itself as a sustainable apparel manufacture in the world and should enjoy the benefit in the coming days. The recessionary global outlook even though will be persistent, yet we believe the country image will enhance for the trade to grow in this country. Moreover, costly labour and production cost with the competitive countries will also help Bangladesh to do better and move forward in this industry.

We focus on optimum capacity utilization, differentiation in portfolio and uniform quality standards to keep us ahead of the curve. At Saiham Cotton Mills Ltd., we have incurred a capital expenditure of around Tk. 197 crore in the last five years. Currently, we operate at near 100% utilization levels in the yarn business, catering to diverse customer requirements. We are also consolidating our spinning business and are focusing on expanding capacity in this space.

**Risks and concerns**

Every business has its own risk and concerns and Saiham Cotton Mills Ltd. is not exception. We being a deemed exporter the effect of global apparel trade has a direct influence on the business activity. Also, the Global Geo Political changes and unrest is a great concern as the Economy is related to Geo Politics.

The main raw material is raw cotton which is a commodity and traded in New York Cotton Exchange. The volatility on call position, Margin Loan etc. drives the exchange and has a concrete effect on the commodity price. There is also the physical side of cotton where any supply disruption in the name of crop failure or quality loss puts great threat to the business.

The inflationary interest rate is a great concern for the business. With the US dollar Libor rate on an increasing trend and the project loan being financed in foreign currency, it will have a negative effect on the cash flow. However, the prudent management has fixed the interest rate in certain cases to avoid any negative effect. Also, the local currency money market is showing uptrend after many years as such will also be a concern, yet the company conducting most of its financial activities in foreign currency will be able to avoid the calamity.

Moreover, risks and concern of the industry solely depends on the upcoming Government policy as well. However, Garments being the major foreign currency earner has always enjoyed special consideration from all the successive Governments and expectation is that it will continue in the future

**A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin.**

| <b>Particulars</b>      | <b>June 30, 2017</b>   | <b>June 30, 2016</b>   |
|-------------------------|------------------------|------------------------|
| Cost of goods sold      | 270,53,58,038 (90.48%) | 215,23,39,674 (90.12%) |
| Gross profit            | 28,44,69,133 (9.51%)   | 23,58,72,435 (9.88%)   |
| Net profit for the year | 15,81,30,539 (5.29%)   | 14,02,99,262 (5.87%)   |

**Discussion on continuity of any Extra-Ordinary gain or loss**

There is no significant extra-ordinary gain or loss during the financial year.

**Related party transactions**

The Company has transactions with its Associate Companies which have been disclosed in related party transaction in note nos. 24 of the notes to the financial statements.

**Utilization of Proceeds from public issues:**

With the IPO fund the company has set up a brand new 100% export oriented spinning unit.

**Variance within the Quarterly Financial Statement and Annual Financial Statements**

There was no event of significant variance between quarterly financial performances during the year under reporting.

**Fairness of Financial Statements**

The financial statements together with the notes thereon have been drawn up in conformity with Bangladesh Accounting Standard/Bangladesh Financial Reporting Standard, Companies Act 1994 and Securities and Exchange Rules 1987. These statements present fairly the Company's state of affairs, the results of its operations, Cash flow and Changes in equity.

**Proper Books of Accounts**

Proper books of accounts of the Company have been maintained.

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## Accounting Policies

Appropriate accounting policies have been consistently applied in preparation of the financial statements and the accounting estimates are based on reasonable and prudent judgment.

## Application of IAS/BAS/IFRS/BFRS

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.

## Internal Control

Saiham Cotton Mills Ltd. continued its focus in creating an aesthetic, environment-friendly industrial habitat in its factory units, mobilizing support and generating interest among staff and labour for maintaining hygienic and green surrounding. The Company continues to focus on maintenance and performance improvement of related pollution control facility at its manufacturing locations. The company recognizes protection and management of environment as one of its highest priority and every effort is made to conserve and protect the environment.

## Going Concern

There are no significant doubts about the Company's ability to continue as a going concern.

## Contribution to the National Exchequer

Saiham Cotton Mills Ltd. is paying and facilitating collection of government revenue. During the year 2016-2017 the company contributed 25.19 million to the National Exchequer in the form of corporate tax, custom duty, and Value added Tax (VAT).

## DIRECTORS

In terms of Article 108 of the Articles of Association of the Company,

S.F.A.M. Shahjahan and Syed Shafqat Ahmed MBA Directors retire by rotation from the Board in the 16th Annual General Meeting. Being eligible under Article 110 of the Articles of Association of the Company, the retiring Directors have offered themselves for re-election.

## Disclosure of information of the directors who are willing to be re-elected.

### S.F.A.M. Shahjahan

Mr. S.F.A.M. Shahjahan son of Late Syed Sayed Uddin Ahmed is one of the Director of Saiham Cotton Mills Ltd. He is also the Director of Saiham Textile Mills Ltd. and has more than 30 years of experience in textile business. His expertise is in the field of Marketing and Administration. He is also associated with different socio-cultural and philanthropic organization.

## Names of companies in which Mr. S.F.A.M. Shahjahan holds the directorship:

| Interest in other Company: | Designation |
|----------------------------|-------------|
| Saiham Textile Mills Ltd.  | Chairman    |
| Saiham Cotton Mills Ltd.   | Director    |
| Saiham Knit Composite Ltd. | Director    |

### Syed Shafqat Ahmed MBA, Director

Mr. Syed Shafqat Ahmed MBA graduated in Economics from Michigan State University and completed MBA from University of Texas at Arlington. He specializes in financial management and structuring/restructuring of organizations. He worked as a financial analyst at Salomon Smith Barney, an investment bank and as pricing analyst in Bowne of Dallas. His expertise in workflow designing was the key behind Saiham Cotton Mills Limited's winning the "Best It Use Award" in 2005 awarded by BASIS Bangladesh. He is currently acting as the Managing Director of Saiham Knit Composite Ltd a sister Concern of Saiham Textile Mills Ltd a 100% export oriented knit factory.

**Names of companies in which Syed Shafqat Ahmed MBA holds the directorship:**

| <b>Interest in other Company:</b> | <b>Designation</b> |
|-----------------------------------|--------------------|
| Saiham Textile Mills Ltd.         | Director           |
| Saiham Cotton Mills Ltd.          | Director           |
| Faisal Spinning Mills Ltd.        | Director           |
| Saiham Knit Composite Ltd.        | Managing Director  |

**BOARD MEETINGS**

In accordance with directives of the regulatory authorities, the Board supervises, study and review the activities of the Company and make businesses decisions, etc. During the year, 6 (six) board meetings were held.

**Remuneration to directors including independent director**

The independent Director of the Company is receiving a sum of Taka 15,000/- (Fifteen thousand) as board meeting fee. The information regarding Directors remuneration is incorporated in the notes no 25.00 of the notes to the financial statement on page 47.

**Number of Board meetings held during the year and attendance by each director**

| <b>Name of Directors</b> | <b>Number of Board Meeting held during the financial year ended 30.06.2017</b> | <b>Number of Board Meeting attended</b> | <b>Remarks</b> |
|--------------------------|--|---|----------------|
| Mr. S. M. Faisal         | 6  | 6                                       |                |
| Engr. Syed Ishtiaq Ahmed | 6  | 6                                       |                |
| Mr. S. F.A. M. Shahjahan | 6  | 6                                       |                |
| Syed Shafqat Ahmed, MBA  | 6  | 6                                       |                |
| Mr. Mostafa Moin         | 6  | 6                                       |                |

**DIVIDEND**

The Board of Directors has recommended 12% cash dividend for the year ended June 30, 2017 (subject to the approval in the forthcoming AGM) whose names will appear in the share register of the Company and/or Depository Register of CDBL as on Record Date i.e. November 14, 2017.

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of Saiham Cotton Mills Ltd. is a sub- committee of the Board of Directors; and is appointed and authorized by the Board in pursuance of BSEC Circular to review the activities of business. The Audit committee consists of the following members:

|  |            |
|--|------------|
| Mr. Mostafa Moin, Independent Director | : Chairman |
| Mr. S.F.A.M. Shahjahan, Director       | : Member   |
| Syed Shafqat Ahmed MBA, Director       | : Member   |

**Scope of work of Audit Committee**

The Committee is authorized to investigate any matter within its terms of reference, access all documents and information of the company, seek information from any director or employee of the Group and co-opt any resources (including external professional assistance) it sees fit in order to fulfill its duties. However, the Committee has no executive function and its primary objective is to review and challenge, rather than assume responsibility for any matters within its remit. The Committee presents a summary of its activities to shareholders and other interested parties by means of this report, and the committee Chairman attends all general meetings of the Company's shareholders to answer any questions on the committee's activities.

**Review of financial statements by the Audit Committee**

Audit Committee reviewed the annual financial statements for the year June 30, 2017 and placed its recommendation to the Board of Directors.

**External audit**

Rahman Mostafa Alam & Co. a Chartered Accountant firm registered in Bangladesh acted as the external auditors to the company throughout the year. The auditors are not engaged on any material non-audit work such as:

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- Appraisal or valuation services or fairness opinions;
- Financial information systems design and implementation;
- Book-keeping or other services related to the accounting records or financial statements;
- Broker-dealer services;
- Actuarial services; and
- Internal audit services;

### **Independence of External Auditor**

As a policy, the Committee would not allow the external auditors to perform any work that they may subsequently need to audit, or which might otherwise create a conflict of interests. The Committee also monitors the balance between audit and non-audit related functions to ensure that auditor independence can be shown to be maintained. The Chief Financial Officer is permitted to engage the external auditors on matters that do not create such conflicts.

The Audit Committee appraised the expertise, resources, independence and objectivity of external auditor and also reviewed their effectiveness as external auditors before reaching the recommendation to the Board that their re-election should be proposed to shareholders.

### **Resolutions of the Audit Committee meeting:**

The Committee met four times during last financial year 2016-17 to carry out the following tasks:

- The Audit Committee reviewed the financial statements for the year ended June 30, 2017;
- Reviewed and discussed the Management Letter, by external auditor Rahman Mostafa Alam & Co. for the year ended June 30, 2017 on the annual audit on financial statements of Saiham Cotton Mills Ltd;
- The expression of interest sent by the audit firm was reviewed by the Audit Committee and recommended Rahman Mostafa Alam & Co. Chartered Accountants, as auditor of the Company for the year to be ended June 30, 2018;
- Reviewed various reports of Internal Control & Compliance Department on operational, financial procedures and branch activities;

Based on the review and above discussions, the Audit Committee is of the view that the internal control and compliance procedures are adequate to present a true and fair view of the activities and financial status of the company and to ensure that its assets are safeguarded properly.

### **Report from the Audit Committee**

Dated: October 12, 2017.

The Board of Directors  
Saiham Cotton Mills Ltd  
House # 2, Road # 55  
Gulshan-2, Dhaka

### **Audit Committee Report**

The Committee reviewed and discussed the procedure and task of the internal audit, financial report preparation and the external auditors' observations in their reports on the draft financial statements of the Company initialed by the auditors for the year ended 30 June 2017. The Committee found the statements adequate arrangement to present a true and fair view of the financial status of the Company; and did not find any material deviation, discrepancies or any adverse finding/observation in the areas of reporting and disclosures.

Sd/-

**(Mostafa Moin)**

Chairman  
Audit Committee  
Saiham Cotton Mills Ltd.

### **Corporate Social Responsibility**

During the year, as a part of our corporate responsibility initiative, we focused on education, healthcare and community development. We assisted government schools near our locations by providing adequate infrastructure. We provided



medical facilities to rural population in the vicinity of our plants, who have hardly any access to basic healthcare needs. We are also focusing on empowerment of women near our plants by providing them with relevant employment opportunities. Besides donation to mosque, madrasha and other welfare organization such as setting up of eye camp and distribution of blanket in winter season.

**ENVIRONMENTAL ROLE**

The company is committed to maintain high standard of pollution free environment at mill area. Accordingly tree plantation activities is implementing every year at mill premises.

**APPOINTMENT OF AUDITORS**

The present Auditor, Rahman Mostafa Alam & Co. Chartered Accountants will retire at 16th Annual General Meeting being eligible has offered themselves for reappointment for the year 2018. The Board of Directors endorsed the recommendation of the Audit Committee for appointment of the auditors for the year 2017-2018 subject to the approval in the Annual General Meeting.

**Corporate Governance Compliance Report**

In accordance with the requirement of BSEC Notification no. SEC/CMRRC/2006-158/134/admin/44 dated 07 August 2012 is shown in Annexure 2 of the Annual Report.

**CORPORATE & FINANCIAL REPORTING:**

The Company is determined to ensure good governance by complying with all the applicable rules and regulations of Corporate Governance Guidelines of Bangladesh Securities & Exchange Commission. It has complied with all the requirements of Corporate Governance and the Directors are pleased to confirm the following:

The financial statements together with the notes thereon have been drawn up in conformity with the Companies Act, 1994 and Securities and Exchange Rules 1987. These statements present fairly the Company’s state of affairs, the result of its operations, cash flow and changes in equity.

Proper books of accounts of the Company have been maintained.

Appropriate Accounting Policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.

The International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements.

The systems of internal control are sound and have been effectively implemented and monitored.

There are no significant doubts upon the Company’s ability to continue as a going concern.

There are no significant deviations in operating result of the business of the company compared to last year.

**Pattern of Shareholding**

| <b>Name wise details</b>  | <b>No. of Shares held</b> |
|---|---------------------------|
| Parent/Subsidiary/Associated Companies and other related parties  |                           |
| Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouse and minor children: |                           |
| Mr. S. M. Faisal - Chairman   | <b>3,03,87,500</b>        |
| Engr. Syed Ishtiaq Ahmed - Managing Director  | <b>69,59,017</b>          |
| Mr. Shafqat Ahmed MBA - Director  | <b>1,29,59,017</b>        |
| Mr. S.F.A.M. Shahjahan - Director   | <b>42,90,000</b>          |
| Chief Financial Officer, Company Secretary and Head of Internal Audit and their spouse and minor children:                                  | <b>Nil</b>                |
| Executives  | <b>Nil</b>                |
| Shareholders holding ten percent (10%) or more voting interest in the Company.  | <b>Nil</b>                |

## **SAIHAM COTTON MILLS LTD.**

### **Key operating and financial data**

The summarized key operating financial data of five years is annexed (Annexure : 1).

On behalf of the Board of Directors we convey our sincerest gratitude and warmest respect to our valued shareholders. We highly cherish the confidence bestowed upon us by our honorable sponsors, shareholders, patrons and well-wishers. The Board of Directors also expresses deepest thanks to Bangladesh Securities and Exchange Commission (BSEC), Joint Stock Companies & Firms, Dhaka Stock Exchange, Chittagong Stock Exchange and Central Depository Bangladesh Limited for their cordial help and assistance. The Board of Directors also highly appreciates the financial institutions, insurers and the contribution of the management and all members of staff for their meritorious and relentless services with extreme sincerity and dedication.

### **For and on behalf of the Board**

Sd/-

**( Engr. Syed Ishtiaq Ahmed )**

Managing Director

October 15, 2017