

## SAIHAM COTTON MILLS LTD.

# DIRECTORS' REPORT TO THE SHAREHOLDERS

Bismillahir Rahmanir Rahim  
Dear Shareholders  
Assalamu Alaikum,

It is my great pleasure to welcome you at the 15<sup>th</sup> 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 period ended June 30, 2016 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. 1,487 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 produces high quality yarn for the Apparels industry in Bangladesh and is a 100% export oriented industry. The revenue of the company is solely depended on the international factors such as Market Demand, Global Economic Scenario and last but not the least the Commodity price specially the Raw Cotton Price in the New York Cotton Exchange. During the financial year 2015-16, the market can be attributed into two parts where the market was very much stagnant during the first half and then moving into volatile situation in the latter parts with raw cotton price spiking up. The sudden upward movements of the raw materials was not reflected completely in the yarn price and was had it's affect on the profitability. Overall with an average raw cotton price staying down compared to last year, there was a dull mood in the overall yarn market.

The company has invested BDT 33,06,02,978 over the last one year in upgrading the infrastructure of the factory and enhance the capacity of the production. As per decision of prior AGM the management has taken foreign loan and invested US \$19,39,919.66 in BDT 15,12,51,323 in capacity building and product diversification and enrichment. All the machineries have arrived in site and installed properly. The management believes the new addition of investment in the capital machinery will give the company much buoyancy required in the volatile market scenario and resulting in further profit generation.

### Financial Result and Appropriation of Profit:

Particulars	June 30, 2016 (2 Months)	April 30, 2016 (12 Months)	April 30, 2015 (12 Months)
Net Profit for the period/year (after tax)	24,692,083	138,728,613	189,629,548
Add: Adjustment for revaluation of P.P.E and deferred tax	4,986,754	32,175,790	34,607,034
Less: Unrealized loss on sale of financial assets	970,751	2,396,691	(7,625,656)
Add: Adjustment reclassification of the status of investment	-	(101,628,327)	-
Add: Previous year's surplus	518,421,834	649,624,067	558,429,233
Add: Proportion of associate income	-	-	9,833,909
<b>Recommended for appropriations:</b>			
Dividend	-	(202,875,000)	(135,250,000)
<b>Total</b>	<b>549,071,422</b>	<b>518,421,834</b>	<b>649,624,068</b>

### Segment-wise or product-wise performance

Mentioned in section 17 of the notes to the financial statements.

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

The volatility and uncertainty in global markets makes it difficult to provide profit guidance for the year ahead. However the company has always maintained its sterling performance over the years despite various challenges it faces over the previous years.

The last few years the apparels sector were busy for trying to overcome the image crisis of the building collapse and fire incidents. However with the dynamic approach of the entrepreneurs of this country, Bangladesh is emerging itself not only as a sustainable apparels sourcing country along with an international compliance fulfillment may become a dependable international sourcing as well. However all this good achievements might result in more investment in the backward integrations which was hampered for the unstable infrastructure specially the utility sector. As such the country could not achieve its desired goal due to non fulfillment of the expansion required.

Moreover in the international arena the aftermath of Brexit, with the British currency coming down almost 30% has taken its effect on the apparel trade of the country. With almost a quarter of our economic activities with Britain, the fallout has taken toll on the apparels unit price, resulting in less yarn price. The EU is also facing economic challenges, having their own problem which causes reduced order and resulting adverse economic activities for our country. The positive note during the period is the reemergence of the US economy. However the absence of GSP and the new TPP with the East Asian Block the yarn business has negated the desired growth in this market.

**RISKS AND CONCERNS**

The risk is relevant to the spinning sector and Saiham Cotton Mills Ltd. is not exception. The first and foremost risk is the volatility of raw cotton price. With sudden volatility taking its course the Company has the possibility of being caught on the wrong side of the cotton price cycle anytime resulting in high-cost inventory on the one hand while compelling it to market yarn at lower prices on the other. However, Saiham Cotton Mills Ltd. has mitigated the impact through creating a dedicated cotton procurement cell manned by experts; the cell tracks events across the global industry leading to informed decisions. Also ref. the marketing stand point the company emphasis on the product mix by comprising the niche market and also the value added market in negating any such abrupt change on a short term basis. Moreover marketing on a large customer base moderates an over-dependence on few customers.

The fast changing Global scenario causes concern for continuous risks. Any political incident or decision taken in Global context has its affect on the business portfolio of the company. The exit of Britan from EU, New upcoming administration in the US, textile policy of our neighboring country to become the 2<sup>nd</sup> largest apparels exporter after China removing Bangladesh, the US Federal interest rate change is all related to the risk and uncertainty of the business. However, with proper understanding and prudent and timely decisions taken the company has succeeded in facing the Global Geo Political, economic threat and been able to expand its business and believes in continuing it in the days to come.

Lastly, risks and concern of the industry solely depends on the upcoming Government policy. 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 thus enabling to negate a lot of unforeseen risks.

**A DISCUSSION ON COST OF GOODS SOLD, GROSS PROFIT MARGIN AND NET PROFIT MARGIN.**

<b>Particulars</b>	<b>June 30, 2016 (2 Months)</b>	<b>April 30, 2016 (12 Months)</b>	<b>April 30, 2015 (12 Months)</b>
Cost of goods sold	268,061,210 (84.63%)	2,261,134,157 (90.96%)	2,437,273,188 (89.41%)
Gross profit	48,680,096 (15.37%)	224,630,807 (9.04%)	288,810,286 (10.59%)
Net profit for the period/year	24,692,083 (7.80%)	138,728,613 (5.58%)	189,629,548 (6.96%)

**CHANGING OF FINANCIAL YEAR**

The Board of Directors of the Company in its meeting held on February 10, 2016 decided to change the financial year July 01 to June 30, instead of May 01 to April 30 in compliance with the provision of Section 09 of the Financial Act, 2015. Consequently a two month financial statement have been prepared and audited for period from May 01, 2016 to June 30, 2016. Accordingly the next yearly financial statement will be prepared and audited for the period from July 01, 2016 to June 30, 2017.

## **SAIHAM COTTON MILLS LTD.**

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

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

### **Related party transactions**

The Company has transactions with its Associate Companies which have been disclosed in related party transaction in note nos. 23 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. In the year 2014 that has been reported accordingly to the regulators. No further issue of any instrument was made during the period.

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

There was no event of significant variance between quarterly financial performances during the period 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.

### **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. The list of BAS/BFRS complied is listed on Note 1 of the audited accounts.

### **Internal Control**

The Board of Directors assures its Shareholders that the Company has a risk management process to ensure that the systems of internal control is sound in design and has been effectively implemented and monitored. Although it is possible that all risks to the business are not known at present. The company takes reasonable steps to identify material risks that may hamper business results and systematically reviews these risks in light of the changing internal and external environment in order to assess that controls are adequate to address these risks.

### **Going Concern**

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

## **DIRECTORS**

In terms of Article 127 of the Articles of Association of the Company Mr. S. M. Faisal and Engr. Syed Ishtiaq Ahmed Directors retire by rotation from the Board in the 15<sup>th</sup> Annual General Meeting. Being eligible under Article 128 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.**

#### **Mr. S. M. Faisal, Chairman**

Mr. S. M. Faisal M.A. LLB from Dhaka University set up one of the most sophisticated textile mills named Saiham Textile Mills Ltd. in the early 1980s in one of the remotest and most non-developed areas in Bangladesh i.e. Noyapara, Habiganj. Within 20 years the same area has been transformed into an industrial region and now more than Tk. 60,000 million of investment has made and employment of over 8,000 people. He is an ex-Director of Bangladesh Textile Mills Association (BTMA), the apex body of textile sector in Bangladesh and also an ex-Director of National Tea Company Limited. He was the Chairman of Saiham Cement Industries Limited, a cement manufacturing plant in Mongla. He is well renowned for his philanthropic work in the locality.

## SAIHAM COTTON MILLS LTD.

### Names of companies in which Mr. S. M. Faisal holds the directorship:

Interest in other Company:	Designation
Saiham Cotton Mills Ltd.	Chairman
Saiham Textile Mills Ltd.	Managing Director
Faisal Spinning Mills Ltd.	Chairman
Saiham Knit Composite Ltd.	Chairman

### Engr. Syed Ishtiaq Ahmed, Managing Director

Engineer Syed Ishtiaq Ahmd son of Mr. S. M. Faisal, is the Managing Director of Saiham Cotton Mills. He has graduated in Engineering from Michigan, USA and is also an MBA with a major in Finance from Institution of Business Administration (IBA), University of Dhaka. He has participated in training on "Industry and Management" in Prato, Italy sponsored by Ministry of Foreign Trade, Italy. He is one of the members of the Board of Directors of BTMA. He has represented BTMA on a high level mission of Garment Technology and Textile Processing to IMB cologne in Germany and also visited the London College of Fashion under University of the Arts London sponsored by United Nations Industrial Development Organizations (UNIDO). He has vast experience in technical marketing and financial aspects of business.

### Names of companies in which Engr. Syed Ishtiaq Ahmed holds the directorship:

Interest in other Company:	Designation
Saiham Cotton Mills Ltd.	Managing Director
Saiham Textile Mills Ltd.	Director
Faisal Spinning Mills Ltd.	Director
Saiham Knit Composite Ltd.	Director

### RE – APPOINTMENT OF MANAGING DIRECTOR

The Re-appointment of Syed Engr. Ishtiaq Ahmed as Managing Director of the company expired on April 15, 2016. He has been re-appointed as Managing Director of the Company for a further period of 5 (five) years effective from April 16, 2016 by the Board of Directors of the company in its meeting held on April 16, 2016. His appointment as Managing Director has been placed for the approval by the shareholders in this 15<sup>th</sup> Annual General Meeting.

### 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 period 8 (eight) Board Meetings were held.

### Remuneration to Directors including Independent Director

The Independent Director of the Company is receiving a sum of Taka 96,000/-(ninety six 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 no. 53

### Number of Board Meetings held during the period and attendance by each Director

Name of Directors	Number of Board Meeting held during the period ended 30.06.2016	Number of Board Meeting attended	Remarks
Mr. S. M. Faisal	8	8	
Engr. Syed Ishtiaq Ahmed	8	8	
Mr. S. F.A. M. Shahjahan	8	8	
Syed Shafqat Ahmed, MBA	8	8	
Mr. Mostafa Moin	8	8	

## **SAIHAM COTTON MILLS LTD.**

### **DIVIDEND**

The Board of Directors has recommended 10% cash dividend for the period ended June 30, 2016 (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 17, 2016.

### **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 period ended June 30, 2016 and placed its recommendation to the Board of Directors.

### **External audit**

Rahman Mostafa Alam & Co. a Chartered Accountants 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:

- 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 period 2015-16 to carry out the following tasks:

- The Audit Committee reviewed the financial statements for the period ended June 30, 2016;
- Reviewed and discussed the Management Letter, by external auditor Rahman Mostafa Alam & Co. for the period ended June 30, 2016 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, 2017;



- 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 09, 2016.

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 initiated by the auditors for the period ended 30 June 2016. 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/-  
(Mr. Mostafa Moin)  
Chairman  
Audit Committee  
Saiham Cotton Mills Ltd.

### **CONTRIBUTION TO THE NATIONAL EXCHEQUER**

During the period under review the Company has contributed amounting to BDT 3,25,91,137 the including VAT, Tax, Import duty, supplementary duty and others.

### **AWARDS & ACHIEVEMENTS**

Our stupendous performance and management in the year 2015 - 2016 has led us achieve some prestigious awards from different credible organizations.

- ICMAB Best Corporate Award 2015
- Highest Tax Payer Award 2015 - 2016

### **CORPORATE SOCIAL RESPONSIBILITY**

Over the years, our company's commitment to Corporate Social Responsibility (CSR) activities is a part and parcel of the company's business model. Our company has been contributing to the welfare of the community, research and development and protection of environment. Few initiatives of our company are mentioned below:

- Contributing donation to Primary school, High school, College, Mosque, Madrasha etc.
- Tree plantation program in patronizing a green environment.
- Distribution of blanket among distressed in winter season.
- Free eye treatment by setting up eye camp.

### **HUMAN RESOURCES**

The HR Department of our company operates with specific policy approved by the Board of Directors. We provide on-the-job training and development opportunities to enhance our employees career progression. To promote team spirit, integrity and employee relations our company organized an Annual Picnic during the year. Our company also contributed meal for labor concerning the good health.

## JAIHAM COTTON MILLS LTD.

### 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

Rahman Mostafa Alam & Co. Chartered Accountants will retire and being eligible has offered themselves for re-appointment for the year 2017. The Board of Directors of the Company recommend Rahman Mostafa Alam & Co. Chartered Accountants to be appointed as auditors of the Company for the year ended 30.06.2017 for onward approval by shareholders in AGM.

### Corporate Governance Compliance Report

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

Name wise details	No. of Shares held
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	3,03,87,500
Engr. Syed Ishtiaq Ahmed - Managing Director	1,29,59,017
Mr. Shafqat Ahmed - Director	1,29,59,017
Mr. S.F.A.M. Shahjahan - Director	42,90,000
Chief Financial Officer, Company Secretary and Head of Internal Audit and their spouse and minor children:	Nil
Executives	Nil
Shareholders holding ten percent (10%) or more voting interest in the Company.	Nil

**Key operating and financial data**

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

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 Ltd., Chittagong Stock Exchange Ltd. 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 16, 2016