

Prospectus: Sonargaon Textiles Limited

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TAX HOLIDAY (Section 45 of Income Tax Ordinance 1984):

As per National Board of Revenue Letter No. 11(86)/Tax-2/93/1918 dated 17/07/93, the Company's income, profits and gains from its activities qualify for exemption from income tax as provided in Section 45(2A) (2B) (2C) of the Income Tax Ordinance 1984 for a period of nine years w.e.f. 1993.

EXEMPTION FROM INCOME TAX:

Investment in shares of this Company will qualify for investment tax credit under the Income Tax Ordinance 1984.

INSURANCE ACT APPROVAL:

Application has been made to the Controller of Insurance, for the purpose of "Approved Investment" under clause (3A) of Section 2 of the Insurance Act, 1938, for Insurance Companies registered in Bangladesh.

MANAGER TO THE ISSUE:

First Capital Securities Limited (FCSL) is the Manager to the Issue. The fee payable for the services to be rendered by the Manager to the Issue shall be one percent of the nominal amount of public issue.

PART-III

APPLICATION FOR SUBSCRIPTION

1. Application for Shares may be made for any number subject to a minimum of 50 Shares or multiple thereof and should be made on the Company's printed forms. Application forms and prospectus may be obtained from the Registered Office of the Company, the Dhaka Stock Exchange Limited or from any of the Bankers to the issue. If adequate forms are not available, intending investors may have the same printed/cyclostypled/photocopied.

2. All complete application forms together with payment for the full amount payable on application should be lodged with any of the following Bankers to the issue:

a) Bank of Small Industries and Commerce Ltd. (BASIC)

Dhaka Main Branch, 73 Motijheel C/A, Dhaka.
Dilkusha Branch, 13 Dilkusha, Dhaka.
Tanbazar Branch, 16/1 S.M. Maleh Road, Narayanganj.
Zinda Bazar Branch, 8 Zinda Bazar, Sylhet.
Khulna Branch, 107 Sir Iqbal Road, Khulna.
Rajshahi Branch, Anam Plaza, Shaheb Bazar, Rajshahi.
Asadganj Branch, 40-41 Ramjoy Mohajan Lane, Chittagong.

b) Bangladesh Shilpa Bank (BSB)

Dhaka Commercial Branch, 8, Rajuk Avenue, Dhaka.

c) National Bank Limited (NBL)

Dilkusha Branch, Dhaka.
Foreign Exchange Branch, Dhaka.
Kawran Bazar Branch, Dhaka.
Narayanganj Branch, Narayanganj.
Agrabad Branch, Chittagong.
Khulna Branch, Khulna.
Barisal Branch, Barisal.
Zinda Bazar Branch, Sylhet.

d) International Finance Investment and Commerce Bank Limited (IFIC)

Federation Branch, 60 Motijheel C/A, Dhaka.
Santinagar Branch, 24 Santinagar, Dhaka.
Dhanmondi Branch, Road # 2 House # 2, Dhanmondi, Dhaka.
Elephant Road Branch, 73/1 Elephant Road, Dhaka.
Gulshan Branch, Road # 1 House # 113, Gulshan, Dhaka.
Agrabad Branch, 30 Agrabad C/A, Chittagong.
Khulna Branch, Fatema Building, 81 Lower Jessore Road, Khulna.
Rajshahi Branch, Shaheb Bazar, Ghoramara, Rajshahi.
Jessore Branch, 59 N.S.C. Road (Garikhana Road), Jessore.
Barisal Branch, 95 Sadar Road, Barisal.

e) Rupali Bank Limited

Local Branch, Dilkusha C/A, Dhaka.
Foreign Exchange Branch, Motijheel C/A, Dhaka.
Rupali Sadan Branch, Motijheel C/A, Dhaka.
Sadar Road Branch, Barisal.
S.K. Road Branch, Narayanganj.

f) Sonali Bank

Dilkusha Branch, Dilkusha C/A, Dhaka.
Ramna Branch, Ramna, Dhaka.

g) Investment Corporation of Bangladesh (ICB)

Head Office, Dhaka
Khulna Branch
Rajshahi Branch
Sylhet Branch
Barisal Branch
Chittagong Branch

3. [a] The subscription money collected by the Bankers to the Issue will be remitted to the Company's Authorized account in BASIC A/C No. 04000676. Public subscription money against Initial Public Offer (IPO) can not be utilised for the purpose for which money has been raised, before allotment to the successful applicants and refund to the unsuccessful applicants have been made.

[b] The amount of subscription to be collected by ICB as banker to the issue will be retained by ICB in a separate account in IFIC Bank, Motijheel Branch A/C No. 0134052156 till issuance of allotment letters and settlement of bridging loans and for which ICB will not pay any interest to the company on the amount retained by ICB.

4. Payment may be made with one of the above mentioned Bankers to the Issue in cash or by cheque or draft. The cheque or draft shall be made payable to the BANK to which it is sent and marked A/C SONARGAON TEXTILES LIMITED and shall bear the crossing "ACCOUNT PAYEE ONLY".

5. Joint application from more than two persons will not be accepted, in the case of a joint application each party must sign the application form.

6. An application must be in full name of individuals and not in the name of minors or persons of unsound mind. Application from financial and Market Intermediaries must be accompanied with Memorandum of Association & Articles of Association.

7. An applicant can submit not more than two applications, one in his own name and another jointly with another person. In case an applicant makes more than two applications, those in excess of two applications shall not be considered for allotment purpose.

APPLICATION NOT IN CONFORMITY WITH THE ABOVE REQUIREMENTS IS LIABLE TO BE REJECTED.

ALLOTMENT:

The Company reserves the right of accepting any application in part. Where any application is not accepted in full, the balance of money received on application will be refunded to the applicant by cheque without interest. Where allotment is made in whole or in part in respect of joint application, the allotment letter will be despatched to the person whose name appears first on the application form, notwithstanding that the Share have been allotted to the joint applicants. Where joint application is accepted in part the balance of any amount paid on application will be refunded without interest to the person named first in the application form. * Successful applicants will be notified by despatch of an allotment letter by registered post. Letter of allotment will be issued within forty days of the closing of subscription list and share certificates will be issued within ninety days of the date of letter of allotment. In case of failure to refund the subscription money to the unsuccessful applicants within the said 40 days, the directors, in addition to the company, shall be responsible collectively and severally to refund the money with interest at 3% above the bank rate.

PART-IV

THE PROJECT AND ITS OPERATIONS

Sonargaon Textiles Limited is a spinning mill, financed by Bangladesh Shilpa Bank (BSB), having an installed capacity of 14,400 spindles located at Rupatali, Barisal. The Company has currently taken up necessary steps to expand its production capacity upto 24,960 spindles (and upto 28,640 spindles later on) in phases. The Company's main products are cotton yarn of counts ranging between 40s and 60s and polyester yarn of 45s. The expanded capacity will only produce cotton yarn of 82 counts. The Company's products are manufactured at its unit in Barisal. The Company's expansion is expected to come on line in July 1995.

PRODUCT LINE:

Yarn can be spun out of several techniques but the choice of the process depends upon the desired properties of the yarn to be produced. Ring spinning is used for higher count yarn whereas for lower count yarn open-end spinning (rotors) can be used. The Company is equipped for production up to 82 counts.

PRODUCTION PROCESS

The production process consists of passing raw cotton through various machines to produce yarn of the desired count. Conversion of fibers into yarn for any kind of yarn involves basically the same process. Raw cotton fibers are cleaned manually as well as put through a filtering system (blowers) to remove any dirt and undesirable elements. The cotton form the filtering system is fed to the carding machines which produces cotton slivers. The slivers are then passed through the drawing frames which twists and further refines the slivers and turns them into thick cards. The count requirement is considered during the drawing process and the drawing machine is adjusted accordingly.

If "Carded Yarn" is to be produced, then the cards are put on the simplex frame which further this out the cards and wounds them onto bobbins. The bobbins are then taken to the ring spinning department where the technical specification for the count and quality of the yarn is further implemented. The twisting machine further twists the yarn to achieve desired quality and then the spindles (six at a time) are put onto the autoconer machine where the yarn is wound onto the final cone. For Combed Yarn the slivers from the carding machine are fed to separate drawing machines and then taken to the comber machine. The comber machines straighten and refine the slivers to a greater extent and select only uniform length fibers for spinning. The remaining process of manufacturing yarn is the same as carded yarn.

Polyester Cotton Yarn (PCY) requires raw cotton and polyester fibre. The polyester fibre is currently being imported into Bangladesh. After passing the filtering system and the carding machine, the polyester fibre is combined with raw cotton by putting it through the drawing machine. The sliver, thus produced, has both cotton and polyester fibres and is then fed to the comber machine.

RAW MATERIALS

The Company imports almost all of its raw material requirements. To safeguard disruptions in the supply process the Company keeps an adequate raw material on hand. In order to hedge itself against unfavorable price movements the Company purchases most of its raw cotton requirement on the forward market. Another raw material imported by the Company is polyester viscose yarn. Other raw materials including packaging materials are procured locally.

TAXES AND DUTIES

The Company is exempt from Corporate Income Tax on profits for 9 years ending in 2002. There are no Value Added Tax (VAT), except excise duty on sales at the current rate of Tk.1.5 per Kg.

ENERGY

The current unit of the Company requires an electrical generating capacity of 1000 Kilowatts. After the expansion in capacity the electricity requirement will increase to 1,600 Kilowatts. The Company has not experienced any material interruptions in the availability of electric power for its operations.

INSURANCE

The Company has insurance coverage which it considers reasonably adequate to cover all normal risks associated with normal business operations.

MARKET OF THE COMPANY

Currently the Company is selling their product through wholesalers/distributors/dealers whom it pays commission.

The textile spinning industry in Bangladesh has the unique characteristics, for a developing country, that it is based almost entirely on imported raw materials. This situation has emerged as a result of the liberal trade policies of the Government of Bangladesh (GOB). The current tariff regime encourage the import of cheap raw materials for processing into value added exports.

The garment industry is the most important segment of the Bangladeshi textile industry and is also the main consumer of cotton and blended yarn. The garment industry has witnessed tremendous growth over the last few years due to Garment export increase from Tk.13.8 billion (US\$ 345 million) in 1988-89 to Tk.48.0 billion (US\$ 1.2 billion) in 1992-93, an average annual growth rate of 36.6%. The main reason for the rapid growth witnessed by the garment industry are low tariffs on imported raw materials, other fiscal incentives and liberal quota policies favoring Bangladesh followed by OECD countries.

The textile spinning industry has also grown considerably over the past decade. The growth is mostly due to the growth in domestic demand for yarn arising out of the country's flourishing garment industry. The GOB has provided numerous incentives to the textile spinning sector which include tax exemption and elimination of duties on imported raw material. Cash incentive of 25% also given by the government to the weaving and knitting units if they produce fabric made out of locally manufactured yarn. This has tremendously increased the demand for the locally manufactured yarn. Total yarn production increased from 46.4 million Kgs in 1988-89 to 55.1 million Kgs in 1992-93. During the same period, 52 new spinning units commenced production in Bangladesh, bringing the total installed spinning capacity of the country to 1.97 million spindles.

To retain a leading position in Bangladesh's textile industry, the Company is currently expanding its textile production facilities. The principal purpose of this program is to enhance production efficiency and increase the production of higher value added yarn in the product mix. The additional capacity will be solely devoted to producing yarn of 82s count.

PART-V

PERFORMANCE OF THE COMPANY

The following are the main factors to consider about its performance.

[a] Financial Performances: The Company has been in profitable operation for last two years. In 1993 nine months operation has been recorded and ten months in 1994.

Tk in million

	August 1994 (upto)	December 1993
Sales	98.0	115.0
Net Profit	6.9	1.5
Paid up Capital	49.6	29.6
Retained Earning	8.5	1.6
Wet Asset Value per Share	117.0	105.0
EPS	16.29	5.59

The EPS after annualizing will be Tk. 24.44 in 1994. At a issued price of Tk. 100, PER will be 4 times of 1994 earnings, and EPS growth of 228%.

[b] Break up value (Book Value): The break up value per share based on the paid up capital and reserves stands at Tk. 117.17 as on 31 August 1994. This is the resultant of two years profitable operations.

Note: The Company did not revalue its assets. If revalued, the Net Asset Value (NAV) will be much higher.

PART-VI

AUDITORS' REPORT TO THE SHAREHOLDERS

The Shareholders
Sonargaon Textiles Limited
Sena Kallyan Bhaban
195, Motijheel C/A
Dhaka.
22 February, 1995

Ladies/Gentlemen,

We have examined the annexed Balance Sheet as at 31st October, 1994 and the annexed Cost of Goods Sold & Income Statement for the period ended on the date with notes thereto and we state that we have obtained all the information and explanations which we have required and after proper verification thereof, we report that:-

- In our opinion proper books of account have been maintained by the company as required under Section 181 of Companies Act, as amended and adopted in Bangladesh.
- In our opinion, the Balance Sheet and the Income Statement have been drawn up in conformity with:
 - The Companies Act 1994
 - The Securities & Exchange Rules
- In our opinion and to the best of our information and according to the explanations given to us:
 - The Balance Sheet and the Income Statement which are in agreement with the books of account read in conjunction with the annexed notes, exhibit a true and correct view of the state of company's affairs
 - The expenditure was for the purpose of company's business
 - The provision of the capital Issues (Continuance of Control) Act 1947 since repealed have been complied with.

Thanking you
B B SAHA & Co.
Chartered Accountants

SONARGAON TEXTILES LIMITED BALANCE SHEET AS AT

PROPERTY AND ASSETS	NOTES	31/10/94	31/12/93	31/12/92
Fixed Assets Less Depreciation:	2	250,527,344	238,173,582	227,537,302
Land & Development		7,179,774	6,003,571	5,544,600
Building & Construction		67,281,928	50,399,485	43,238,802
Plant & Machinery		173,523,154	179,777,523	178,135,140
Furniture & Fixture		619,694	392,381	248,310
Vehicles		739,744	887,595	290,613
Sundry Assets		1,183,049	713,027	82,837
Preliminary Expenses		86,574	86,574	86,574
Unallocated Revenue Expenditure	3	363,423	0	0
Current Assets:		56,592,313	27,431,048	9,142,115
Stock in Trade	4	28,942,036	17,058,284	4,982,600
Goods in Transit		249,496	226,735	273,919
Sundry Debtors		18,347,497	4,770,452	0
Excise Duty Prepaid		19462	0	0
Advances, Deposits & Prepaid		6,561,367	3,144,960	486,099
Cash & Bank Balance	5	224,455	189,617	934,227
TOTAL ASSETS:		307,569,654	265,691,204	236,765,991

CAPITAL AND LIABILITIES

Authorised Capital 20,000,000 Ordinary Shares of Tk. 100 each		200,000,000	200,000,000	200,000,000
Issued, Subscribed, Calledup & Paidup Capital 296,000 Ordinary Shares of Tk. 100 each		49,600,000	29,600,000	29,600,000
Add: 200,000 Ordinary Shares of Tk. 100 each		29,600,000	29,600,000	29,600,000
		20,000,000	0	0
Longterm Loan & Deferred Liabilities		222,911,904	222,911,904	199,779,171
Loan from BSB	6	132,215,454	132,215,454	128,215,454
Loan from ICB & its led consortium Bank	7	20,621,600	20,621,600	20,621,600
Sponsors Bridge Loan	8	8,977,900	8,977,900	8,977,900
Deferred Liability (IDCP)		51,906,226	51,906,226	41,964,217
Deferred Liability (EFAS)		9,190,724	9,190,724	
Current Liabilities & Provisions		24,510,013	11,623,556	7,401,856
Cash credit Hypo (Rupali Bank, Barisal)		1,802,603	2,461,579	
Cash credit pledge, Barisal		6,717,200	3,796,000	
Sonali Bank (L/C value & Interest provision)		5,271,187	1,114,117	
Outstanding Electricity Bill		757,150	11,118,018	409,518
Outstanding Telephone Bill & Others		27,370	10,365	
Outstanding Insurance Premium			541,332	
Sundry Creditors		3,399,206	1,871,611	6,789,740
Outstanding salary & wages		0	710533.68	
Interest due on bridge loan				184048
Earnest money against bobbin supply				18550
Provision for Bank Interest (BSB & Others)		6,515,389	0	
National Bank Limited (O/D)		19,908	0	
Profit & Loss Account:		10,547,737	1,555,744	(15,036)
Net Profit/(Loss) as per last A/C		1,555,744	(15,036)	
Net Profit during the year		8,991,993	1,570,780	(15,036)
CAPITAL AND LIABILITIES		307,569,654	265,691,204	236,765,991

SONARGAON TEXTILES LIMITED Trading and Profit & Loss Account for

	NOTE	Ten month ended 31/10/94	Year ended 31/12/93	Year ended 31/12/92
Sales		125,076,378	114,745,230	13,735,430
Cost of Goods Sold	9	91,006,258	98,461,677	12,181,722
Gross Profit		34,070,120	16,283,553	1,553,708
Administrative, Selling, Distribution and other Expenses	10	7,218,036	9,601,916	1,384,695
Net Operating Profit		26,852,084	6,681,637	169,013
Proceeds from waste sale		547,810	472,990	0
Other Income		70,149		0
Profit before Tax & Interest		27,470,043	7,154,627	169,013
Interest Expenses	11	18,478,050	5,583,847	184,048
Profit before tax		8,991,993	1,570,780	(15,036)

SONARGAON TEXTILES LIMITED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR TEN MONTH ENDED 31ST OCTOBER 1994.

SOURCE OF FUND:

Fund Generated from Operation:

Net Profit	8,991,993
Adjustment of items not involved in movement of fund:	
Depreciation	13,497,631
Other Sources:	
Additional Capital	20,000,000
Decrease in Working Capital	42,489,624

APPLICATION OF FUND:

Increase in Fixed Assets	25,851,393
Increase in Working Capital	16,638,231
	42,489,624

MOVEMENT IN WORKING CAPITAL:

Increase in Stock	11,883,752
Increase in Goods in Transit	229,761
Increase in Debtors	13,577,045
Increase in Adv. Deposits & Pre payments	3,435,869
Increase in unallocated Rev. Exp.	363,423
Increase in Cash Balance	34,838
Decrease/(Increase) in O. D.	(19,908)
Increase in liabilities for goods	(1,527,595)
Increase in other current liabilities	(11,338,954)
Increase/(Decrease) in Working Capital	16,638,231