



REPORT OF THE BOARD OF DIRECTORS

for the year ended 30 June 2012

Under Section 184 of the Companies Act 1994 and Notification No. SEC/CMRRCD/2006- 158/ Admin/02-08 dated 20 February 2006 of the Securities and Exchange Commission.

Dear Valued Shareholders,

Brief History of the Cement Industry

Before 1990 about 95% of country's demand for cement met through import. Only one unit i.e. Chhatak Cement Company a basic plant, was the only cement production project in the country with a production capacity of 240,000 MT annually. From 1992, Cement industry began to grow in the country. At one stage nearly 68 or so number of big and small units were established including some non-standard industrial units and began to produce cement. But with the passage of time and facing hard competition about half of the plants shut down and went out of operation. Presently about 40 units are in regular operation including five foreign owned ones, having total production capacity of about 20 million MT. With the increase of demand, all the leading industrial groups are expanding their plants, nearly doubling their capacities, presuming about 15% yearly growth in demand and foreseeing the future potentiality.

State of the Company's Affairs

The accounting year ended 30 June 2012 is another successful year of your Company. During the year, the operation of the newly installed 4th Unit with an installed capacity of 3000 metric ton (60,000 bags) per day has been started. The production of cement using the partial capacity of the newly installed 4th Unit started to add its contribution towards the turnover of the reporting year. As a result, the turnover has raised to Tk. 5,657.60 million in the current year as against Tk. 4,022.27 million of the last year.

But with the Pace of growth in the current year's turnover, the Gross Profit and the Operating Profit did not match with the similar trend. Because, increase in cost of imported raw materials due to the adverse fluctuation of exchange rate of Bangladeshi Taka against US Dollar during the reporting year.

Market for the Cement Industry

Construction takes up an important role in the economy (about 10% of the GDP). Annual demand for cement in the country is about 15.00 million MT. Understandably, the market has a capacity overhang. Presently, there is small market for export of cement that exists mainly to the small northeastern states of India about 250 lac MT a year. There is a prospect in exporting cement to Myanmar, but it has not yet grown and activated. Another prospective country is Maldives; market is to be created there also. There are four categories of cement consumers in the country. The largest with about 60% of the consumption are the individual home builders. This is also the most price sensitive segment. Real estate developers, especially in the country's urban area constitute about 8% of the market. Construction contractors constitute another 3% of the market. Lastly, various government projects including defense sector take up to about 30% of the total cement consumption.

Industry Outlook and Future Prospect of the Cement Industry

Historically, Bangladesh in the past did not depend much on cement, gradually the transition of traditional low rise building to high rise one has pushed up the use of cement. But as the economy continue to remain agro based, construction sectors have not been able to gain momentum and as the infrastructure development is selective, cement remains a product of low demand in relation to the neighboring countries, not to speak the developing countries of the world. The situation is gradually changing. Increase in demand for cement has soared up due to mainly the property sector boom and infrastructure



Signing Ceremony between M.I. Cement Factory Ltd. & China National Heavy Machinery Corporation.

development concentrated in Dhaka Metropolitan and other major urban areas of the Country. With the implementation of large-scale infrastructure projects, exhilarated pace of urbanization, construction of apartment buildings and multi-storied shopping complexes in urban areas and change in the taste and economical position to a large number of rural people, aspiring for modern houses the demand for cement has been gaining momentum day by day.

Statistical data of per capita cement utilization among some developing countries will prove the potentiality of cement industry in the country. The present per head cement consumption in Bangladesh is about 83 KG, which is fairly low compared to India (174 KG), Malaysia (590 KG), Pakistan (131 KG), Thailand (425 KG), Sri Lanka (178 KG) and Vietnam (408 KG). It is also observed that the real estate sector is booming day by day, the country's physical infrastructure needs to be developed to a great extent, the capital and other cities of the country needs civil construction with heavy structures, our rural areas are stepping towards a modern look with the improvement of the rural economy all these factors are prospective in the development of the cement industry in the country.

Last year, the International Monetary Fund (IMF) indicated that Bangladesh's economy had become the 48th largest in the world. The UK Investors Chronicle has identified Bangladesh as one of the world's seven hottest emerging markets due to its relatively stable currency with solid foreign reserves and record foreign remittances, as well as 6.7% real growth rate in 2011. The Bangladesh government has set itself the challenge to transform into a middle-income country by 2021. In line with this strategic vision, the government has undertaken massive programs for infrastructure development in partnership with the private sector. As the government allows 100% foreign direct investment (FDI), the infrastructure sector offers an interesting mix of opportunities for overseas interest leading to high growth in cement industry.

On the other hand, we are exploring the possibilities of exporting cement to overseas countries. Presently Bangladesh is exporting to the northeastern states of India and we are the top most exporters, sharing of about 40% of the total cement export of the country. Our another neighboring country Myanmar is showing another prospective field for export of cement to boost up and develop the cement export, this industrial sector needs government emphasized patronization. To reduce production cost sufficient gas and electricity supply should be ensured.

Risk Factor

Though a booming sector with great potentiality cement industry has also some risk factors. Firstly, it is threatened by over supply resulting from huge capacity expansion by almost all leading industry players. Secondly, almost all raw materials of cement are imported, if the supplies of the same are cut-off due to adverse political cause, war or other disturbance, the industry will go out of operation though possibility of arising such situation is very remote. Exports also predict some problems in the future, especially regarding cement prices.



The country imports most of its clinker from abroad and with the increasing value of the US Dollar against local currency, the price of cement is rocking up along with most construction materials. If the opportunities are explored adroitly and threats can be addressed properly, cement industry is likely to become one of the most attractive industries of the country.

Discussions on Cost of Goods Sold, Gross Profit Margin and Net Profit Margin

As it is presented in the Statement of Comprehensive Income that the Cost of Goods Sold for the year ended 30 June 2012 is Tk. 4,906.99 million as against Tk. 3,254.01 million for the corresponding period of last year. As we have said earlier, the expenditure to start operation of the 4th Unit had to incur from the date of beginning of the commissioning of the Unit but the optimum level of capacity utilization could not be reached. Hence the additional sales represents only a few months production from the newly installed 4th Unit. Another reason for reduction in Gross and Operating Profit of the current year is increased cost of imported raw materials due to the adverse fluctuation of exchange rate of Bangladeshi Taka against US Dollar during the current year.

Quality of our Product

Bangladesh's Cement Industry is dependent upon imported Raw Materials, namely – Clinker, Gypsum, Lime Stone, Fly Ash and Slag. Of these Raw Materials Clinker is the major component which constitutes about 70% for our Portland Composite Cement (PCC) and 95% for Ordinary Portland Cement (OPC). We import Clinker from Thailand, Vietnam, China, South Korea and occasionally from Japan. Slag is being imported from China, India and mainly from Japan and Gypsum mainly comes from Thailand. In procuring these Raw Materials we give much emphasis on quality, for which we do not hesitate to incur extra costs. Before importing the Raw Materials we test samples, collecting from the suppliers in our well-equipped Laboratory. We import the Raw Materials only when we are satisfied with our test results. Consequently, it gives us the opportunity of producing Quality Cement. After production of the finished goods, sample tests are carried out for every batch of the products. It is not marketed until it passes our exclusive testing criteria. In addition to the above, our cement is duly approved by the Bangladesh Standard and Testing Institution (BSTI), Bureau of Indian Standards (BIS) and Bangladesh University of Engineering and Technology (BUET). At the same time our cement is being tested regularly by the user group as well. We received ISO 9001:2008 certificate issued by ISO Certification Body, Moody International Certification Ltd. In Bangladesh our National Standard Certification Body 'BSTI' adopted European Standard as Bangladesh Standard. We produce two types of Cement i.e. OPC and PCC of Bangladesh Standard BDS-EN 197-1:2003, CEM – I, 52.5N and BDS – EN 197 – 1:2003, CEM – II / A-M, 42.5N respectively corresponding to American Standard ASTM Type 1 C – 150 and ASTM Type – 1P / 1S C – 595 respectively. All these processes have helped us earning remarkable goodwill both at home and abroad.

Export

M.I. Cement Factory Ltd. is the largest cement exporter in Bangladesh. The major export market of our product 'Crown Cement' is the northeastern states of India including Tripura, Meghalaya, eastern and western region of Assam.

The company has won National Export Trophy (Gold) for consecutive two years (2008-2009 and 2009-2010) and received the trophy at a ceremony organized by Ministry of Commerce and Export Promotion Bureau for its extraordinary contribution to the country's economy through foreign currency earnings. During the year under review we earned foreign exchange to the tune of about US \$ 9 million.



Seminar on "Management in Construction" at Agartala Press Club (India)

M.I. CEMENT FACTORY LTD.

Information Technology

From the beginning of the journey, M.I. Cement Factory Ltd. is an IT Driven Company. The Company depends on an ERP Software to run its entire business. All the activities, like - Sales Collection, Supply Chain and Human Resources Management are automated by the ERP. As the company is providing all relevant information to its stakeholders, it publishes all relevant information through the website regularly. Your Company is now planning to accommodate more facilities to its stakeholders by enhancing the IT facilities.

Shifting of the Head Office

The Head Office of your company has been shifted to House No. 1 & 7, Road No. 95, Block No. CEN(A), North Avenue, Gulshan - 2, Dhaka-1212 in the month of May 2012. Shifting of the company Head Office at Gulshan area will position your company in a more prominent way and would bring more convenience in operation of its activities.

Health Safety and Environment

Your Company gives top most priority towards the Health, Safety and Environment related issues in relation to the employees and the neighboring people. We took necessary measures to avoid any sort of risky matter in connection with these issues. In this respect, awareness programs are conducted for avoidance of any sort of health hazardous activities at each and every level of activities in the production process.

At the same time, we have taken necessary measures in our factory to make the environment pollution free. M.I. Cement Factory Ltd is very much aware in keeping the surroundings healthy and safe.

Financial Results

The financial results for the year ended 30 June 2012 is given below:

Retained earnings (Carried forward from previous year)	Tk.	303,370,870
Add: Revaluation reserve realized	Tk.	2,787,687
Add: Net Profit for the year	Tk.	<u>559,465,867</u>
Total funds available for appropriation	Tk.	865,624,424
Proposed Dividend:		
Cash Dividend @ 35%	Tk.	<u>472,500,000</u>
Stock Dividend @ 10%	Tk.	<u>135,000,000</u>
	Tk.	<u>607,500,000</u>
Unappropriated profit carried forward to next year	Tk.	<u>258,124,424</u>

Dividend

The Board of Directors is pleased to recommend total dividend of 45%, which consists of cash dividend @ 35% i.e. Tk. 3.50 for each share of Tk. 10.00 & stock dividend @ 10% i.e. 1 bonus share for each 10 ordinary shares for the year ended 30 June 2012.

Contribution to the National Exchequer

During the accounting year ended 30 June 2012, the company has contributed Tk. 1,461,146,352 to the National Exchequer in the Form of Corporate Tax, Customs Duty, VAT etc.

Election of Directors

Pursuant to the provisions of the Companies Act 1994 and clause No. 81 of the Articles of Association of the Company one-third of the Directors shall retire by rotation in every Annual General Meeting. Accordingly, 2 (two) directors of the company will retire in the 18th Annual General Meeting. The retiring directors are:

1. Mr. Md. Almas Shimul and
2. Mr. Md. Mizanur Rahman Molla

Being eligible they offer themselves for re-election.

Re-appointment of 2 (two) Additional Managing Directors

Because of gradual expansion of business activities of your Company the Board of Directors has appointed two Additional Managing Directors (AMD) from among the Directors of the Company. The term of the two AMD's will expire on 31 December 2012.

To run the business activities of the Company smoothly, the two AMD's may be re-appointed for the next term of 5 years w.e.f 1 January 2013.

Independent Directors

As per the Corporate Governance Guidelines dated 3 July 2012 issued by the Securities and Exchange Commission our existing Independent Director Mr. Wali-ul-Marooof Matin resigned because of conflict of interest for being a Managing Director of an Asset Management Company. His resignation was accepted and in his place one Independent Director namely Mr. Golam Mohammad has been appointed. Another Independent Director will be appointed within the time frame of the Corporate Governance Compliance Guidelines i.e. within 31 December 2012.

Auditors

The existing auditors of the company M/S. ACNABIN, Chartered Accountants will retire at the 18th Annual General Meeting as per the SEC'S Order No. SEC/CMR/PCD/2009-193/104/Admin... dated 27 July 2011. We have received a Letter of Intent (LOI) from M/S. Hoda Vasi Chowdhury & Co. Chartered Accountants for appointment of auditors of the company for the year ending 30 June 2013. The Board of Directors has accepted the letter of Hoda Vasi Chowdhury & Co., for appointment as auditors, which is being placed in the 18th Annual General Meeting for shareholders approval.

Post Balance Sheet Events

Subsequent to the Balance sheet date, the Board of Directors recommended an aggregate dividend of 45% which consists of 35% Cash Dividend and 10% Stock Dividend. Your company has purchased an Ocean Going Mother Vessel for facilitating transportation of raw materials from abroad, the registration of which has been completed after the Balance Sheet Date. Again, the foreign currency loan of US \$15 million for purchasing the Ocean Going Mother Vessel, has been approved after the Balance Sheet Date.

IPO Fund Utilization

The details of the proposed expenditure plan of the IPO Fund as disclosed in the prospectus along with the actual investment made is given below for kind information of our valued shareholders:

Sl.No.	Item	Proposed in the Prospectus (million Tk.)	Investment made (million Tk.)	Reasons for more/less investment.
1	Land & Land Development	138.72	96.74	This expenditure has been optimized by ensuring efficient use of existing land in conjunction with the new land procured.
2	Buildings	443.90	577.82	Increase of price level of construction materials along with necessary modification of estimation are main reasons behind the variance.
3	Foreign Machinery	1,880.77	2,476.85	a) Actual price of the mother vessel was much higher than the estimate as we procured younger aged one. b) Increased installation cost involving foreign experts and c) Unfavorable fluctuation of the Foreign Exchange rate.
4	Local Machinery	70.10	29.39	Estimated local machinery purchase has been partially met by machinery purchased from abroad.
5	Vehicles	726.03	216.56	Instead of purchasing all the vehicles estimated, we are outsourcing the logistics support from our sister concerns.
6	Survey, Plan & Drawing	4.40	3.25	We have lowered this cost by negotiation.
7	Installation, Erection & Commission	81.50	58.30	Installation cost required for foreign machineries excluded from this head.
8	Furniture & Fixture	1.00	8.17	Modern and additional furniture & fixtures were purchased for new and expanded unit for which we have to pay extra amount.
9	Other Expenses	4.10	10.12	Additional expenses incurred in 4 th Unit inauguration ceremony to promote the company.
	Total	3,350.52	3,477.21	

CSR Activities

Corporate Social Responsibility (CSR) has become a fundamental business practice and has gained much attention from Board of Directors and executive management team of M.I. Cement Factory Ltd. The company understands that a strong CSR program is an essential element in achieving good business practices and efficient leadership. That's why the company has made a clear vision for CSR activities.

In recent years M.I. Cement Factory Ltd. has made social contribution through:

- Providing Merit Scholarship
- Sponsoring Culture & Sports
- Sponsoring Environmental Issues
- Sponsoring Skill Development Program
- Extending Education Support to a number of Under Privileged Students
- Extending Financial Support to Autistic People



Contribution to the Local Culture



Indo-Bangla Trade Fair-2012

Audit Committee of the Board

The Board of Directors of M.I. Cement Factory Ltd. constituted an Audit Committee as per the earlier Corporate Governance Guidelines dated 20 February 2006. The Audit Committee was consisted with the following members:

1. Chairman : Mr. Molla Mohammad Majnu, Director
2. Member : Mr. Mohammed Alamgir Kabir, Director
3. Member : Mr. Wali-ul-Marooof Matin, Independent Director

Subsequently, Mr. Wali-ul-Marooof Matin, Independent Director resigned and Mr. Golam Mohammad was appointed as Independent Director in his place in the Board Meeting held on 15 November 2012. Now the newly constituted Audit Committee is as under:

1. Chairman : Mr. Golam Mohammad, Independent Director
2. Member : Mr. Molla Mohammad Majnu, Director
3. Member : Mr. Mohammed Alamgir Kabir, Director

M.I. CEMENT FACTORY LTD.

Audit Committee Report for the year ended 30 June 2012

The scope of the Audit Committee :

- a. Monitor choice of accounting policies and principles and internal control risk management Process.
- b. Oversee the financial reporting process and hiring and performance of external auditors.
- c. Review the Quarterly, Half-yearly and Annual Financial Statements and submit to the Board for approval.
- d. Review the adequacy of internal audit function.
- e. Review Management Letters / Letter of Internal Control weakness issued by statutory auditors.
- f. Review the uses of the IPO Fund.

The Audit Committee performed following activities during the year under reference:

1. Reviewed the Internal Audit procedure of the Company.
2. Recommended to the Board to introduce a workable Internal Audit Manual for the Internal Audit Department of the company.
3. Reviewed along with the Management, the Quarterly and Half – yearly Financial Statements before submission to the Board for approval.
4. Reviewed along with the management, the Annual Financial Statements before submission to the Board for approval.
5. Reviewed and reported the findings on the following, where appropriate:
 - a) Conflict of interest.
 - b) Suspected or presumed fraud or irregularity or material defect in the Internal Control System.
 - c) Suspected infringement of laws, including securities related laws, rules and regulations.
 - d) Any other matter which should be disclosed to the Board of Directors immediately.
6. Reviewed the application of funds raised through Initial Public Offering (IPO) on a quarterly basis, half-yearly basis and annual basis.

Corporate Governance

The Securities and Exchange Commission has recently issued the Notification No. SEC/CMRRCD/2006-158/129/Admin/43 dated 3 July 2012 on the Corporate Governance Guidelines to be followed by the companies listed with any Stock Exchange in Bangladesh. The time frame for implementation of this Guideline is up to 31 December 2012. Our Company values the compliance of this Guideline as its responsibility. By the end of the stipulated time frame i.e. within 31 December 2012, all the compliance issues will be met by us. However, the Report under condition No. 5.00 i.e. status of compliance with the conditions imposed by the Securities and Exchange Commission Notification No. SEC/CMRRCD/2006-158/Admin/02-08 dated 20 February 2006 issued under section 2CC of the Securities and Exchange Ordinance, 1969 is given in the Directors Report as annexure-1.

Acknowledgements

We take this opportunity to express our heartfelt thanks and gratitude to the esteemed shareholders for the co-operation extended by them. We also acknowledge and give our heartfelt thanks for the co-operation extended to us by the Securities and Exchange Commission, the Dhaka Stock Exchange Limited, the Chittagong Stock Exchange Limited, the Bangladesh Bank, Various Government Agencies, Non-Government Agencies, Autonomous Bodies, Banks, Insurance Companies, the Suppliers, Customers, Dealers, Retailers, Bangladesh Cement Manufacturers Association (BCMA) and our well wishers.

Last but not the least, the Board of Directors place on records their deep sense of appreciation for the dedicated services and loyalty of all the Executives, Officers, Staff and Workers who maintained an excellent working atmosphere conducive to high level of performance of the company.

On behalf of the Board



(Mohammed Jahangir Alam)
Chairman

Dated Dhaka
15 November 2012