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ADVANCE INFORMATION

Case Study: Aqua

Aqua is a local, medium-sized, family company which was formed in the early 1980s, and engaged in the business of manufacture and sale of electrical accessories. It offers a range of electrical accessories - from the light meter at the entry point to the light bulb for end usage. The company is mainly popular as a manufacturer of quality electrical switches and sockets. It operates in a competitive market, within a promising industry. It takes pride in its state-of-the-art technology, where products are manufactured under rigorous quality standards, by its manufacturing team. Aqua has been awarded the ISO 9000 series for its manufacturing excellence, and it attributes most of the efficiencies in its operations to the quality management systems practiced under ISO certification. Mr. Sanjeewa Salgadu, the present Managing Director (MD) always claims that winning such awards makes them look back and reflect on their humble beginnings and the distance they have sailed so far, in stormy waters. He says that the current achievements are a source of inspiration which drives them to perform better in the future. To maintain their excellence, the company constantly looks out for what is available to them in the market and keeps in touch with the changing technologies.

The Evolution in Brief

The MD of Aqua is a young entrepreneur who possesses a foreign degree in Electrical Engineering. Aqua being a company ingrained in family ownership and tradition, he secured the position subsequent to the demise of his father in the year 2006. His father, Mr. Steevan Salgadu who started the business a little over 3 decades ago was originally from a village in the Kurunegala district. Steevan was sent to the Maradana Technical College (MTC) by his father (Sanjeewa’s grandfather) to follow an Advanced Diploma in Electrical Engineering soon after completing his Advanced Level at Kurunegala Maliyadeva Boys’ College (KMBC). From time to time Sanjeewa recollects that his father stated how reluctantly he came to Colombo to study electrical engineering. Sanjeeewa’s grandfather who was a landed proprietor and the village headman wielded considerable power in his neighbourhood. He also had enough wealth to give his six children a good start in life. Steevan’s reluctance to leave home was simply because he did not want to lose the caring and joyful life he had at home surrounded by siblings, friends and relatives.

The initial homesickness and loneliness that Steevan felt due to being away from home did not last long. He was attracted to both student politics and the subject matter at Maradana Technical College. Student politics that he had engaged in at MTC had a profound impact on his later life specially in developing his own enterprise, Aqua. As a student leader he learned the importance of strong determination and tireless effort to achieve difficult goals. However, Sanjeewa remembers that his father stated that their politics never went beyond what mattered to the students and education in general. At the end of his student career at Maradana, Steevan joined Browns Engineering as a Trainee Electrician on the recommendation of Thomas White, the principal lecturer in Electrical Engineering at the Maradana Technical College at that time. Within a short span of time, he became an Electrical Foreman and then an Electrical Superintendent at Browns. Despite his initial success at Browns in 1974, he decided to resign from the company and leave for Italy with his family to improve his prospects. At that time Sanjeewa was only 4 years old. (His sister, Yalina was born later). The company where he found employment in Italy was a middle sized electrical supplies and fittings manufacturing firm, which was very much in line with the area of knowledge and experience he had gathered at Browns in Sri Lanka.

The owner-managing director of the company, Antonio Morayasu was a kind and caring gentleman. Steevan was able to learn the operation of the factory from A to Z within a very short period and become the Factory Manager of the company within three and a half years. Despite the success he attained within a relatively short span of time in Italy, he was highly worried about their children's upbringing in an alien culture with different values and ethos. His wife too held the same view. By this time, Sanjeewa was nearly 9 years old and his sister who was born in Italy was just five. They thought if they did not take their children back to Sri Lanka now it would be too late. However, It was not easy for Steevan to make up his mind to return to Sri Lanka. He continued for a few more months in Italy.

In October 1980 Steevan and his wife finally decided to communicate their intention of leaving Italy to Antonio Morayasu. Since then Steevan was waiting for an opportunity to speak to Antonio. At last, he got the chance to talk to him at a Christmas party in 1980. Antonio listened to him quietly for a moment and suddenly he broke his silence saying "What! What's wrong with us? You have never brought any complaints or grievances to me." He continued saying "Look here. Italy has become your home country now. I don't think you can again settle in Sri Lanka with your children. Be calm! "He thought that no way he could let Mr. Antonio down and leave Italy. The dialogue continued for several months. At one point of their dialogue, Antonio even offered a 15% salary increase to Steevan. After continued persuasion by Steevan, one day Antonio replied saying "Yes, I can understand what you mean." However, Antonio wanted Steevan to stay for at least another six months so that he could replace somebody as the Factory Manager, the position Steevan held until he left Italy in June 1981.

Antonio worried about Steevan's future in Sri Lanka. He knew that a Sri Lankan company could not offer a comparable job, especially in terms of pay and other benefits. It was Antonio who suggested that Steevan should start a similar business in Sri Lanka. Steevan thought that the idea was excellent because he knew this line of business well. However Steevan was worried about finding the initial capital. During their discussion Antonio had become aware of Steevan's worry and considered presenting him a few machines from his (Antonio's) factory. Antonio's wife too agreed that they should help Steevan. Antonio conveyed their decision at the farewell party organized for Steevan. Although Steevan knew Mr.Antonio to be a kind hearted principled man, at first he could not believe his ears. If he were to purchase the machinery second hand it would cost several hundred thousand Italian Liras. Now Steevan had no choice, but to start his own plant in Sri Lanka. In any case, he had been turning over this idea in his head for quite some time. Steevan had never thought he could be so lucky.

Steevan and his family got on the flight bound for Colombo from Milan Linate Airport on 22 June 1981 with mixed feelings. Antonio, his wife and several other friends had come to the airport to send them off. Steevan was disturbed as he knew that he would never meet a gentleman like Antonio Morayasu with such good qualities. Antonio's and Steevan's families had been very close up to the time Steevan left Italy. They frequently spent their leisure together. Steevan was upset thinking he would never see Mr. Antonio again. At the same time he was very happy about the new plant that he was planning to start in Sri Lanka. It was the realisation of a long held dream.

The consignment of machinery sent by Antonio reached the Colombo Port within about a month of his arrival in the Island. At that time he was not yet decided about the location in which to start the factory.

Though Steevan wanted to set up the factory and his residence on a piece of land belonging to the family given to him by his father, the idea was not supported by his wife who wanted to live at least in a suburb of Colombo. Finally, he decided to buy a block of land off Kiribathgoda. The extent of the land was nearly 2 acres and he had to spend all his savings to buy it. The land was large enough for the factory and to build a house for the family. However, initially he had to rent another house in Kiribathgoda for them to reside in. The machinery sent by Antonio was stored in the garage and in the storeroom of the rented house. As he had hardly any money to proceed from that point, he consulted Jagath Ramanayake, a Chartered Accountant by profession, who had been one of his classmates at Kurunegala Maliyadewa. Jagath's advice was to divide the land into two separate blocks one for the factory and the other for his residence and to register a private company as it has the feature of limited liability. Accordingly, two hundred perches were set aside from the original two acres, for the factory. A separate deed was executed and the 200 perches were transferred to the brand new company Aqua (Pvt) Limited.

A valuation report from an internationally recognized valuation company in Italy was obtained and sent by Mr.Antonio for customs clearance purpose in Sri Lanka in respect of the machinery shipped from Italy. A copy of the initial balance sheet of the company prepared to be included in the project proposal for a bank loan is shown below.

Aqua (Pvt) Limited
The Balance Sheet as at 01-08-1981

	Rs.
Fixed Assets	
Land	3,300,000
Machinery	5,450,000
Current Assets	
Cash	750,000
Total Assets	9,500,000
	9,500,000
Share Capital	9,500,000

The loan application together with the project report was prepared by Jagath Ramanayake. The company approached the bank to obtain a Rs. 8 million loan. However, after several site inspections, the bank suggested Steevan increase the equity capital to Rs. 12 million and to deposit available cash balance in hand in the bank in order to approve a loan up to the balance requirement of Rs. 5.5 million. In this event, Steevan did not have any option but to sell a few acres of coconut, a part of the family property inherited from his parents. He raised the share capital to Rs. 12 million by selling part of the property given by his parents. Finally, the bank approved a loan up to Rs. 5.5 million. Within a period of 3 months, the factory was completed, according to a plan sent by Mr. Antonio. The inaugural function was held on November 15, 1981.

The function was attended by some key staff of the bank, Steevan's parents, close relatives, Jagath and his family, and the already recruited initial staff of 10 people. The chief guest the occasion was Mr. Antonio from Italy.

He was accompanied by his wife. Even today there is a photograph of this opening ceremony hanging in the MD's office. It shows everyone happily clapping as Mr. Antonio wearing a garland cut the ribbon at the main entrance to the factory premises.

Shareholders of the company at the beginning were: Steevan Salgadu; his wife, Amara Salgadu and his friend, Jagath Ramanayake and they respectively held 60 percent 35 percent and 5 percent of the share capital. It was Steevan who generously decided to give 5 percent of the shares of the company to Jagath for his services. During the initial six months the company had a very hard time and it was not able to reach the expected sales targets. It was forced to maintain very low margins in order to be competitive in the market. When things sales began to move again, Jagath proposed the idea of organizing free workshops for Electricians about best practices in the field. He personally recruited about 15 Electricians for the initial workshop through his professional contacts. There were about another 20 directly registered applicants for the workshop as a response to a paper advertisement. Some Site Engineers were also invited for the inaugural session. All the participants were briefed about the company's Italian affiliation, quality standards, and the product range before starting the actual training on best practices. The company recognized that its sales were rapidly growing after the series of workshops. It was an excellent opportunity for the company to learn about the industry requirements from those who had direct links with those in the field. Gradually the company started growing. The government policy that prevailed at the time was a blessing for the company. The one million housing programme sponsored by the government, the accelerated Mahaweli project which enhanced the electricity generation of the country several fold, and the land settlement implemented in newly irrigated lands had a very positive impact on the company's initial growth.

Rapid Growth

By the mid1980s, Aqua had become a household name in the country for electrical supplies and fixtures. The company experienced a rapid growth in sales, which could not be supported by its plant capacity. Therefore, the company launched a huge expansion project in 1985. With these developments, Steevan decided to go to Italy and meet Antonio to get his help to order new machinery required to support the on-going expansion. Steevan ordered some machinery worth more than Rs. 100 million on Antonio's recommendation. He also did not forget to collect new samples that were manufactured in Antonio's plant. After returning to Sri Lanka, within a month, he made the required changes to the factory building so that the new machines could be installed without delay on their arrival. Within a month, installation of the new machinery was completed. Though the entire project cost the company over Rs. 125 million, it took only Rs. 30 million temporary facility from the bank as it had enough reserves. By the year 1988, the company's annual sales had grown to over Rs. 450 million and its total assets stood at over Rs. 100 million at the end of 1988. Its asset turnover was around 4.5 times, well ahead of Antonio's company in Italy.

Difficult Times

The company growth came to a standstill in the year 1989 with the growing civil unrest both in the Northern and Southern parts of the country. The management of Aqua was compelled to implement drastic cost reduction plans. The advertising and training budgets were heavily slashed. Factory work was confined to one shift without any overtime.

As a result, an average employee's take home salary came down by about 25%. However, thankfully, its workforce of over 150 was very understanding and there was not even a single protest during this difficult period. This was the time the company accessed the Maldivian market. Initially the company approached Sri Lankan contractors and hoteliers operating in the Maldives. Gradually the name Aqua, became popular in the Maldives. Finally, the company was able to secure continuous orders from two major wholesalers of electric supplies and fittings in the Maldives.

The government was able to stop the Guerrilla war that originated from the South by the end of the decade. The sales of the company started improving slowly in the early 1990s. The heavy duty imposed on the imports to help the deteriorating public finance and the balance of payment situations of the country substantially curtailed the imports of electrical supplies and fittings to the country. This was the major reason behind the improved local sales of the company during the early 1990s.

Change of Management

The untimely demise of Mr. Steevan Salgadu in 2006 was a huge shock not only to the family members and close relatives but also to all the employees of Aqua. Subsequently his wife became the Chair-person of the company as the main shareholder. Their son, Sanjeewa was entrusted with the position of MD, and was given the freedom to manage the company.

Sanjeewa never envisaged that he would have to shoulder the responsibility for their company and the family just as he turned 36 years. Nobody in the family had thought of a succession plan for the company. Sanjeewa knew more about the business than anyone else in the family as he had been brought up in the factory environment. He has had a fair knowledge about the factory and its production process since grade school days as he had spent most of his time after school at the factory. Restrictions came from his father when he was preparing for his G. C. E. O/L examination as this practice could interrupt his education. Soon after his A/L examination in 1989 he was sent to Australia to study Electrical Engineering. At the University of Queensland, he studied Electrical Engineering Single Major. His course was concerned with electrical and electronic devices and systems. The scope of the course was very wide and covered a variety of equipment ranging from heavy power generators to tiny computer chips together with the designs and systems. Though Sanjeewa wished to continue his studies, his father Steevan wanted him to return and join the company, upon graduation from the University of Queensland in 1993. Although he was given a position as the Director Technical, to his frustration, Sanjeewa was not allowed to carry out as many experiments as he wished. As a result the business remained static despite his entry as a qualified Electrical Engineer. However, Sanjeewa made up his mind and started studying various new things utilizing the relative free time he had. His key interests ranged from management, marketing to finance. He attended a number of prestigious workshops and seminars on these subjects held in Colombo open to public during this period.

He could get the father's consent to attend a few short programmes held in India and Singapore too. Moreover, he started reading a lot on the same lines. He was proud about his growing knowledge. However, he rarely had any opportunity to practice what he learnt.

In the new millennium, Aqua experienced a new challenge from cheap Chinese imports coming into the country. However, Aqua was not prepared to compromise quality for price. On the other hand, the country's economy and the business atmosphere were not conducive due to the ongoing internal war. The ceasefire agreement signed by the Sri Lankan Government and the LTTE in February 2002 helped to improve the business conditions in the country temporarily. As a result, Aqua also experienced a temporary growth in its sales till early 2004. With the acceleration of the internal war in 2005, the business condition in the country started to decline again. Aqua was facing a situation, "burning the candle at both ends"; on one hand local market was shrinking due to the war, on the other hand cheap Chinese products were penetrating into the local market. It was Sanjeewa's idea to look for new markets outside Sri Lanka for the company products. This idea was welcomed by his father. On his recommendation, the company took part in a number of industrial exhibitions especially in the Asian region. Further, he took initiatives to get compliance certification from British Standards, PSB certification of Singapore and JBE standard of Malaysia and Indian Standards for the company products which were operating only with SLS certification. These efforts helped the company to secure a few orders from the South Asian region.

At the time Sanjeewa became the MD (in 2006), the Company exports accounted for about 20 percent of the total revenue. Within a few months' time Sanjeewa realized that the most favourable export destination was Bangladesh. He started discussions with their main business partner, Dhaka Electricals. This led to starting of a joint venture business with Dhaka Electricals in a suburb in Dhaka to assemble electrical switches and sockets under a new brand name, "Milan Electricals". All the components required were sent from Colombo to Dhaka. The product was promoted as a "Bangladesh product with Italian technology". The ceremony held to launch the product was attended by Mr. Antonio and his wife from Italy. The Bangladesh assembly line was a big success for Aqua. Through Bangladesh, the product has already penetrated to the neighbouring Myanmar and East Indian markets.

The Bangladesh assembly line helped to offset the company's falling local sales to a great extent owing to deteriorating business conditions in Sri Lanka due to the increasing tensions between the LTTE and the armed forces since 2006. When the North and a greater part of the East was completely shut off from the rest of the country in 2008 due to the intensified war situation, Aqua experienced a considerable drop in its local sales. Aqua was able to retain its employees without laying off and it was able to sustain without having heavy cash flow problems due the work undertaken for the Bangladeshi assembly line. The Bangladeshi assembly line was profitable mainly due to cheap labour there; which was about 70 to 75 percent lower than in Sri Lanka. The components produced in the Sri Lankan factory were invoiced to Bangladesh keeping around 20 percent mark-up. In Bangladesh the brand, "Milan" has been gaining recognition for quality products compared to many other brands. On the other hand, despite various challenges, Aqua has successfully positioned its products in the local market as value for money goods with an established brand name. It is the market leader in the local market thanks to the efforts of an excellent marketing team, led by Director Sales and Marketing.

Sanjeewa's mother Mrs Amara Salgadu, the Chair-person of the company was very happy that the son had been able to carry forward his father's business with much success to date. As typical to a family business, the power to control operations vests in the very hands of the MD, and ownership and control is closely intertwined.

With the decision making power in the MD's hands the company decisions coming from him are accepted by others without much debate. The MD likes to try out new things and 'do something different'. He has been the driving force in many new initiatives. While taking the product to the outside markets he implemented various new systems in the company from computerization projects to new techniques in manufacturing operations such as six-sigma, 5S, TQM and continuous improvement in the recent past.

Organizational Structure and the Management

The organizational structure of Aqua is formal. In the hierarchy, the topmost is Amara Salgadu, Chair-person. However, the MD leads the company in its operations. Three main subordinates report to him: Director Finance (DF), his sister who is CIMA qualified; Director Operations (DO), in charge of the manufacturing arm of the company; and Director Sales and Marketing, in charge of sales, marketing and distribution of finished products. In the company structure while the two functions; manufacturing and sales dominate, accounting, information technology and human resource management play a supportive role. In fact both managers, Information Technology and Human Resource Management report to the Director Finance. Nevertheless, Sanjeewa gets involved in major decisions in all areas in his capacity as the MD of the Company.

The management style of the present MD is quite different from his father. While the father was very much principle oriented and kind-hearted, he did not have too big plans for expansion. Given his basic technical knowledge, he mainly relied on his Italian exposure in managing his business. In a way he was imitating his ex-boss in Italy, and displayed a dependent mentality, and was less ambitious, and did not want to go beyond a point. He successfully managed the business by practicing excellent people skills, which he learnt from his ex-boss in Italy. He trusted his employees and his employees also respected his human qualities and did their best for the business. While he did not interfere with his father's management style, once he got the power he adopted a rather different management style. Influenced by his foreign education and the subsequent training through various seminars and workshops, he is very much performance oriented, and independent. He is less people oriented and always strives for results. But he is willing to reward his employees for performance.

Plan for Expansion

The company anticipated a steady growth in sales in the local market after concluding the 30-year old civil conflict in the country. Contrary to what was expected, since 2011 the company has been experiencing a decline in sales. The situation has been aggravated by the increasing cost of production. (Annex –I). The MD who is not complacent with the performance in the recent years and thinks that the peace dividends seem to be over in the economy. He further believes that in business time to time one should adopt new strategies and be willing to take calculated risks to succeed, as no one is certain of success. In this backdrop, he wishes to convert the Bangladeshi assembly line into a full scale factory. As he understands there is great potential to move through this market and there are fewer barriers to carry out the business there.

In the meantime, he also has plans to further expand the local business, as Aqua has been experiencing fluctuating sales in its existing product portfolio. The MD's idea is to diversify its product range by introducing advanced electrical products such as power generators and storage devices, voltage stabilizers, transformers, battery chargers, energy savers, transformers etc. where he could use his own expertise to maintain the product quality.

In a recent board paper submitted by the MD, he has justified two project proposals highlighting the following points.

1. Converting Bangladeshi assembly line into a fully- fledged factory:

- As of now, more than 75 percent of the work gets completed in Sri Lanka when components are dispatched to Dhaka. Dhaka assembly line simply makes them ready for the market by assembling and packing. As the cost of labour is 25 to 30 percent cheaper in Bangladesh, it is better to convert Dhaka assembly line to a fully-fledged factory.
- Aqua imports most of the material required for its operations mainly from the East Asian region. Therefore, the shipping cost is added twice into products finally assembled in Dhaka. At least 10 to 12 percent of material cost could be saved if required material can be directly imported to Dhaka from the respective destinations.
- Bangladesh offers attractive incentives for foreign investments by way of tax holidays, accelerated depreciation etc., our investment in Bangladesh will easily be qualified for some of these incentives provided by the Bangladesh government. (Annex-II)
- Bangladesh is becoming a popular investment destination for Sri Lankan businesses. The Sri Lankan garment sector was the first to move there in large scale. Others are also slowly moving there due favourable business conditions in the country.
- Through Bangladesh it is easily accessible to the markets of the other neighbouring countries such as Myanmar, Bhutan, Nepal and East India. Moreover, through Bangladesh operations, the company would be able to offer a range of products at competitive prices.

2. Introducing a new product range into the Sri Lankan market:

- Aqua is currently popular as a manufacturer of quality electrical switches and sockets. This good name can be used to introduce a new range of advanced products in the field. As a company, Aqua should not be doing the same thing over the years. Therefore, it is high time for Aqua to diversify its product portfolio. Besides, the margins of the existing product range are declining due to cheap imports and new operators in the market. Therefore, it is suggested to introduce a new class of advanced products.
- Expansion of the product range would help to shift some employees from the existing production lines due to the anticipated reduction of volumes with the start of Bangladeshi new operation.
- The competition from cheap imports and other local brand would not be that severe for the proposed range of products as these are customised high-end products where buyers look for reliability and quality of the brand. Therefore, the company would be able to have better margins from the new series.
- This will be a stepping stone for the company to go into further advanced products in the future.
- Moreover, the company would be able to bring down the volatility in its sales and profits with the introduction of the new product range.

The board of directors were happy with the two detailed proposals submitted by the MD. Everybody knew that all these require a huge injection of capital, and that Aqua cannot finance this expansion internally. According to preliminary estimate the company needs to raise Rs. 3.25 billion. While the MD is contemplating to go for an IPO, he has not completely ignored the possibility of raising a part of this requirement via debt. However, he knows that this is going to be a major decision which he cannot take on his own, without the consent of his mother and sister, the two other major shareholders.

The board of directors of the company currently consists of six people including three family members. The exhibit below shows the composition of the shareholdings by the board of directors.

Director	***Number of shares held***	***percentage***
Mrs. Amara Salgadu, Chair-person	64,000,000	64.00
Mr. Sanjeewa Salgadu, Managing Director	15,450,000	15.45
Mrs. Yalina Ellepola (nee Salgadu), Director Finance	15,450,000	15.45
Mr. Janak Dikkumbura, Director Operations	50,000	0.05
Mr.Rohitha Nanayakkara, Director Sales and Marketing	50,000	0.05
Mr.Jagath Ramanayake (Non-Executive Director)	5,000,000	5.00
	100,000,000	100.00

The board of directors had a number of special meetings in order to deliberate Sanjeewa’s proposals for business expansion and the related IPO. The primary concern of the MD was the mechanism to be adopted to raise the required capital for the proposed factory in Bangladesh and the local expansion; financing options with regard to equity vs debt and striking a balance between the two; how to decide on a price for the intended share issue. Ideas were sought from all the directors and the senior management. The important ideas aroused at discussions are listed below.

- Mrs. Amara Salgadu, the Chair-person felt that the company should not issue too much of its share capital outside the family as it would lead to a situation where the family will lose control of the business one day.

- According to Yalina, the company has not optimized the utilization of debt. At one of the meetings, she said “I am sure we can reduce our cost of capital by utilizing more debt, I mean even using more bank funding for our projects. After all, debt interest is tax deductible.” She continued saying “we may raise bank loans not only from our banks here, for our overseas operations we may also touch banks there”. She also articulates, “if we list the company in the exchange any time we know the value of the company and our individual holdings”. She continued saying “then the company is something beyond our family, but that’s fine”.

- Jagath pointed out the need for revaluation of assets and capitalization of valuation reserves prior to any public issue. He suggested converting the revaluation surplus and all available reserves to the share capital. Otherwise there would be a huge delusion in the ownership interest of the existing shareholders, according to him.

- Janak and Rohitha represent their views mainly on behalf of the entire staff. They view that it is always good to go for an employee shareholding plan with the public issue. Both articulated the view that the company has to issue some percentage of shares to employees so as to create an incentive aligned environment within the company.

Even after several meetings the board of directors could not come to a complete agreement on the modality of raising new capital through a public issue. Also, they just could not think of a price at which the IPO should be launched. Further, they were not fully convinced about the *modus operandi* to be adopted in Bangladesh in order to get the maximum benefit as a foreign investor.

Annex - I

Aqua (Pvt) Limited

Statements of Financial Position

As at 31st March	*2008* *Rs.'000*	*2009* *Rs.'000*	*2010* *Rs.'000*	*2011* *Rs.'000*	*2012* *Rs.'000*
Assets					
Non-current Assets					
Property	250,000	250,000	250,000	250,000	250,000
Plant and machinery	864,000	986,000	1,059,000	1,108,524	1,106,312
Automobiles	280,000	303,200	458,000	468,880	463,200
Furniture and office equipment	68,240	72,150	78,200	84,150	86,200
	1,462,240	**1,611,350**	**1,845,200**	**1,911,554**	**1,905,712**
Investments					
Investments in Bangladesh plant	248,000	248,000	248,000	248,000	248,000
Long-term investments	68,200	52,120	78,200	104,200	176,800
	316,200	**300,120**	**326,200**	**352,200**	**424,800**
Current Assets					
Inventory	372,681	418,720	520,150	568,200	562,213
Account receivables	264,720	301,620	378,688	440,522	468,121
Related party receivables	121,401	128,240	175,660	208,301	251,422
Short term investments	34,221	47,321	52,432	57,122	88,240
Cash and cash equivalents	12,327	13,477	14,152	12,234	15,234
	805,350	**909,378**	**1,141,082**	**1,286,379**	**1,385,230**
Total Assets	**2,583,790**	**2,820,848**	**3,312,482**	**3,550,133**	**3,715,742**

As at 31st March	*2008 Rs.'000*	*2009 Rs.'000*	*2010 Rs.'000*	*2011 Rs.'000*	*2012 Rs.'000*
Owners Equity and Liabilities					
Equity					
Stated capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Capital reserves	500,000	600,000	700,000	800,000	900,000
Revenue reserves	595,448	798,369	1,056,136	1,262,271	1,280,615
Total Equity	**2,095,448**	**2,398,369**	**2,756,136**	**3,062,271**	**3,180,615**
Long-term Loans					
Bank Loans	332,450	248,872	353,780	288,840	346,586
Deferred tax liabilities	27,550	39,128	54,220	42,560	28,214
	360,000	**288,000**	**408,000**	**331,400**	**374,800**
Current Liabilities					
Accounts payable	103,120	102,326	112,111	118,110	136,150
Income tax payable	25,100	32,010	36,100	38,210	24,050
Other payables	122	143	135	142	127
	128,342	**134,479**	**148,346**	**156,462**	**160,327**
Total Liabilities	**488,342**	**422,479**	**556,346**	**487,862**	**525,127**
Total Equity and Liabilities	**2,583,790**	**2,820,848**	**3,312,482**	**3,550,133**	**3,715,742**

Aqua (Pvt) Limited
Income Statement

For the year ended 31st March	*2008* *Rs.'000*	*2009* *Rs.'000*	*2010* *Rs.'000*	*2011* *Rs.'000*	*2012* *Rs.'000*
Turnover	**1,897,117**	**2,997,582**	**3,524,101**	**3,553,241**	**3,371,134**
Cost of production	(1,400,338)	(2,173,188)	(2,463,826)	(2,626,709)	(2,688,357)
Gross profit	**496,779**	**824,394**	**1,060,275**	**926,532**	**682,777**
Other income	5,451	3,236	4,567	9,265	7,486
Profit transfers from Bangladesh	36,120	41,343	48,370	53,400	42,200
Administrative expenses	(8,327)	(92,245)	(128,124)	(126,689)	(127,245)
Marketing and distribution expenses	(121,240)	(172,245)	(221,243)	(214,256)	(222,453)
Net finance income	5,421	7,572	10,831	9,066	10,252
Profit before tax	414,204	612,055	774,676	657,318	393,017
Income tax	(115,977)	(159,134)	(216,909)	(151,183)	(74,673)
Profit after tax	**298,227**	**452,921**	**557,767**	**506,135**	**318,344**
Capital Reserve	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Dividends	(100,000)	(150,000)	(200,000)	(200,000)	(200,000)
Balance after allocations/distributions	**98,227**	**202,921**	**257,767**	**206,135**	**18,344**
Balance brought forward	497,221	595,448	798,369	1,056,136	1,262,271
Balance carried forward	**595,448**	**798,369**	**1,056,136**	**1,262,271**	**1,280,615**
EPS	**2.98**	**4.53**	**5.58**	**5.06**	**3.18**
DPS	**1.00**	**1.50**	**2.00**	**2.00**	**2.00**

Annex – II

From the Board of Investment, Bangladesh

Investment Climate in Bangladesh

Bangladesh offers an unparalleled investment climate compared to the other South Asian economies. Here are eight key pointers to Bangladesh's investment climate today.

1. Bangladesh is a largely homogeneous society with no major internal or external tensions and a population with great resilience in the face of adversity (e.g. natural calamities).
2. Bangladesh is a liberal democracy. The population of this country irrespective of race or religion have been living in harmony and understanding for thousands of years.
3. Broad non-partisan political support for market oriented reform and the most investor-friendly regulatory regime in South Asia.
4. Trainable, enthusiastic, hardworking and low-cost (even by regional standards) labour force suitable for any labour-intensive industry.
5. The geographic location of the country is ideal for global trade, with very convenient access to international sea and air routes.
6. Bangladesh is endowed with abundant supply of natural gas, water and its soil is very fertile.
7. Although Bengali (Bangla) is the official language, English is generally used as a second language. The majority of the educated population can read, write and speak in English.
8. As a result of low per capita GDP, present domestic consumption is not significant. However, it should always be considered that there exists a middle class with over 10% of the population. As economic growth picks up, the purchasing power will also grow substantially.

Bangladeshi products enjoy duty free and quota free access to almost all the developed countries. This access to the global market is further helped by the fact that the policy regime of Bangladesh for foreign direct investment is by far the best in South Asia. Most Bangladeshi products enjoy complete duty and quota free access to EU, Canada, Australia and Norway. Though in limited scale, Bangladesh products already found their access with lower duty in the markets of Thailand, India and Pakistan. However, talks are underway with China, Russia, Malaysia and other neighbouring countries in this regard.

Fiscal and Non Fiscal-incentives

Bangladesh offers some of the world’s most competitive fiscal non-fiscal incentives. BOI can advise further on this matter.
In summary and in most cases, these amount to the following:

- Remittance of royalty, technical know-how and technical assistance fees.
- Repatriation facilities of dividend and capital at exit.
- Permanent resident permits on investing US$ 75,000 and citizenship on investing US$ 500,000.
- Tax holidays
  - In the Dhaka & Chittagong Divisions: 100% in first two years: 50% in the year three and four: and 25% in the year five.

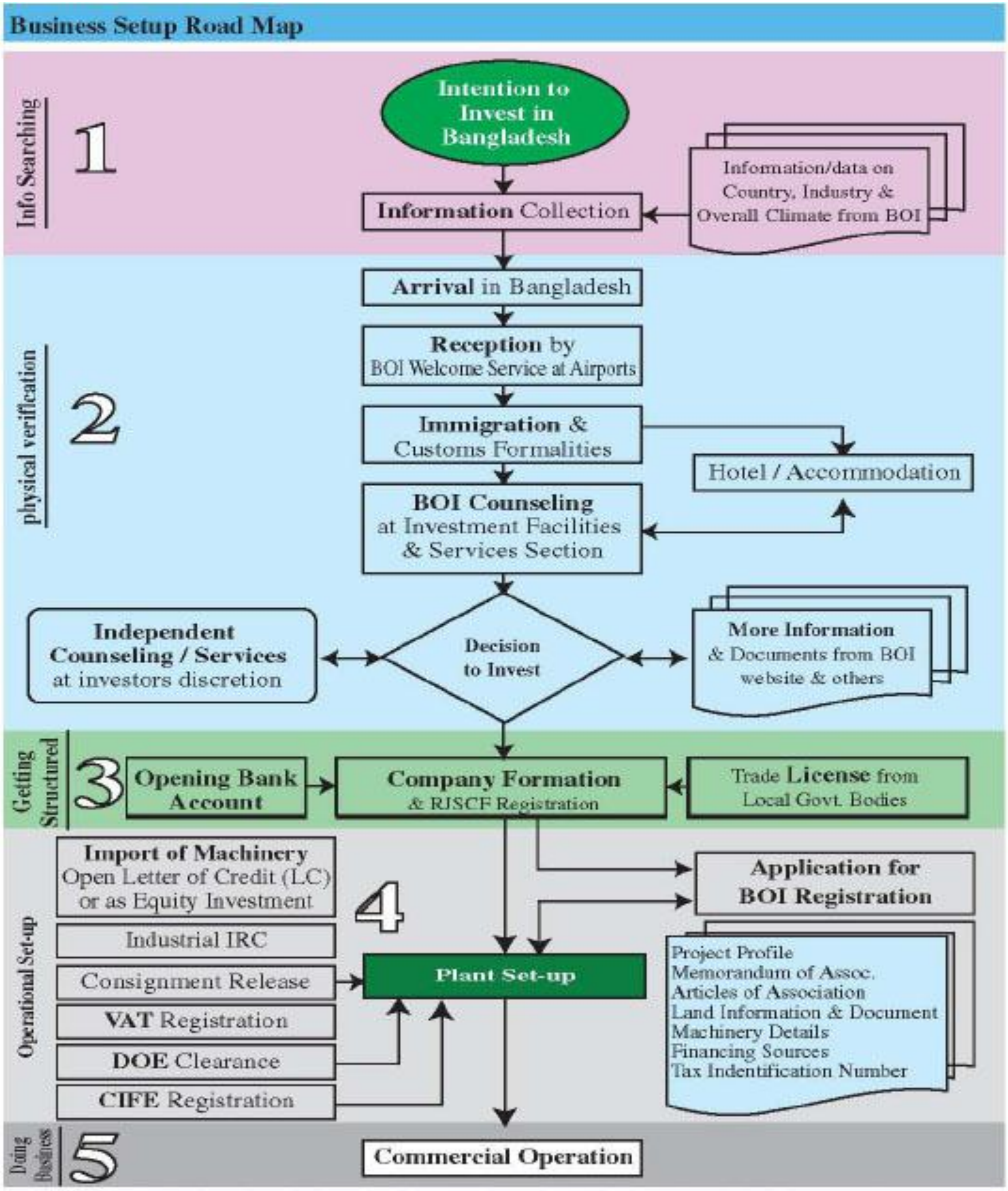
  - In the Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts: 100% for first three years, 50% for next three years, 25% for year seven.

- Depreciation allowances
  - Accelerated depreciation for new industries is available at the rate of 50%, 30% and 20% for the first, second and third years respectively, on the cost of plant and machinery.
- Cash and added incentives to exporting industries
  - Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares, bonded warehousing.
  - 90% loans against letters of credit and funds for export promotion.
  - Export credit guarantee scheme.
  - Domestic market sales of up to 20% is allowed to export oriented business located outside an EPZ* on payment of relevant duties.
  - Cash incentives and export subsidies are granted on the FOB** value of selected exports ranging from 5% to 20% on selected products.

***EPZ=Export Processing Zone   **FOB=Free on Board**

Step By Step Procedure to Setup Business in Bangladesh

Implementing a private sector industrial project in Bangladesh either local, joint venture or 100% foreign follows a rather simplified process. Once an investor to do business in Bangladesh, the first thing is to have relevant, sufficient and reliable information on the investment and business climate, opportunities, competitive strengths, industry structure etc.


Business Setup Road Map
Info Searching
1
Intention to Invest in Bangladesh
Information Collection
Information/data on Country, Industry & Overall Climate from BOI
physical verification
2
Arrival in Bangladesh
Reception by BOI Welcome Service at Airports
Immigration & Customs Formalities
Hotel / Accommodation
BOI Counseling at Investment Facilities & Services Section
Independent Counseling / Services at investors discretion
Decision to Invest
More Information & Documents from BOI website & others
Getting Structured
3
Opening Bank Account
Company Formation & RJSCF Registration
Trade License from Local Govt. Bodies
Operational Set-up
4
Import of Machinery Open Letter of Credit (LC) or as Equity Investment
Industrial IRC
Consignment Release
VAT Registration
DOE Clearance
CIFE Registration
Plant Set-up
Application for BOI Registration
Project Profile
Memorandum of Assoc.
Articles of Association
Land Information & Document
Machinery Details
Financing Sources
Tax Indentification Number
Doing Business
5
Commercial Operation

FDI in Bangladesh

Foreign Direct Investment (FDI) has played a key role in the modernisation of the Bangladesh economy for the last 15 years.

Inflows of Foreign Direct Investment

There was an inflows of $666m foreign direct investment in 2007 which raised significantly in 2008 to $1086m. As of 2011, inflows of foreign direct investment recorded to $1136.38m.

Private Investment Statistics

Year	Proposed Local Investment		Proposed Foreign Investment		Total Proposed Investment		Growth %
	Project	BDT	Project	BDT	Project	BDT	
2005-2006	1754	18370	135	24986	1889	43356	124.62
2006-2007	1930	19658	191	11925	2121	31583	-27.15
2007-2008	1615	19553	143	5433	1758	24986	-20.89
2008-2009	1336	17117	132	14749	1468	31867	27.54
2009-2010	1470	27414	160	6261	1630	33678	5.67
2010-2011	1298	39976	148	26935	1446	66912	98.71
2011-2012	1604	497078	209	338910	1813	835989	212

*** March, 2012**

Source: Bangladesh Economic Review-2011 (Bangla version), Ministry of Finance

Foreign and Joint Venture Investment

In the year 2009-10 (February), there were 89 new foreign and joint venture investment projects registered to BOI which amount to $590m. The projects were invested to mainly in the service, engineering, clothing and agricultural sectors.

Source: Bangladesh Economic Review-2011 (Bangla version), Ministry of Finance

Country wise foreign and joint venture investment during 2009-2010*

Country	No. of Projects	Proposed Investment (US$ m)
Saudi Arabia	3	478.652
Australia	4	2.036
USA	5	2.990
Finland	2	3.023
India	9	8.451
South Korea	12	33.768
Malaysia	3	3.056
Netherlands	5	8.544
China	12	21.000
United Kingdom	5	3.507
Pakistan	2	0.990
Japan	8	2.624
Denmark	1	1.217
Sri Lanka	2	0.646
Canada	2	1.017
Taiwan	1	0.502
Singapore	4	1.929
Turkey	1	0.150
Greece	1	0.156
Italy	2	1.039
Hong Kong	5	14.805
Total	89	590.102

Source: http://www.boi.gov.bd/index.php/cost-of-doing-business/step-by-step-procedure

Daily News
Sri Lanka's National Newspaper Since 1918
Saturday, 6 April 2013

More opportunities for Lanka, Bangladesh trade

Sara Pathirana

There are opportunities and potential for enhanced trade and investment between Sri Lanka and Bangladesh," said High Commissioner for Bangladesh High Commission in Sri Lanka M. Sufiur Rahman. An interactive seminar was held with the intent of familiarizing with Bangladesh and recognizing the potentials of bilateral trade between the two countries.

If Sri Lanka were to do trade with Bangladesh, ideal industries for import from Bangladesh would encompass polymer, jute, footwear, rubber based products, spices, coffee, cocoa, pharmaceuticals, hospitality, tourism, nursing and ICT and similar products and services.

Asela De Livera, President, Sri Lanka Bangladesh Business Cooperation Council presenting a token of appreciation to M. Sufiur Rahman, Bangladesh High Commission in Bangladesh. Picture by Saliya Rupasinghe

Sri Lanka's exports to Bangladesh have risen by around 150 % between 2006 and 2011. The value of imports from Bangladesh has also increased by 100%. New areas that Bangladesh is looking to attract in foreign investment and service are for infrastructure development and also for technical education.

"The introduction of regular weekly flights to Bangladesh through Mihin Lanka has also helped to promote both tourism and economic ties between the two countries," Bangladesh can be introduced as a very resilient country and is socially and culturally assured and enjoys excellent political relationship with Sri Lanka," Asela De Livera, President, Sri Lanka Bangladesh Business Cooperation Council said.

The event was organised by the National Chamber of Commerce Sri Lanka (NCCSL) and was conducted at the Chamber's auditorium on Wednesday. NCCSL conducts seminars regularly and comprise of awareness with tax incentive entities, educational seminars, activities for members' benefits and also plan to conduct future meetings with government bodies.

"Bangladesh aims to reach middle income status by 2021. In terms of human development, Bangladesh has done better, along with sound economic fundamentals in the country," Rahman acknowledged.

With Sri Lanka's economic improvement, the time was favourable enough for having conducted a seminar on business relationships and two priority areas that were being identified for discussions was connectivity through maritime links and trade.

A presentation on the current economic and cultural stability in Bangladesh was conducted by Counsellor F. M. Borhan Uddin, Bangladesh High Commission in Sri Lanka. He explained the effectiveness of bilateral trade and investment between the two countries and said Bangladesh is the 49th largest economy in the world. Poverty has gone down 13% from 2002.

"Bangladesh is strategically located for global trade with internationally accessible sea and air routes. Domestic revenue generated has increased significantly in recent years with an impressive growth in agriculture," Borhan Uddin added.

Currently there are about 40-50 Sri Lankan textile and other factories in Bangladesh and recently, Munchee Biscuits signed a contract to set up a factory.