

BismillahirRahmanir Rahim

Directors' Report to Shareholders for the year ended on 30th June, 2019

Dear Shareholders,

AssalamuAlaikum,

I am pleased to welcome you to the 42nd Annual General Meeting of the company being held at this pleasant morning, at the Auditorium of MuktijuddhaShmriteeMilonayaton, Institution of Diploma Engineers Bangladesh, Kakrail, Dhaka. In terms of section 184 of the Companies, Act, 1994 and the Rule 12 (and the schedule there under) of the Bangladesh Securities and Exchange Rules 1987, I am pleased to present, on behalf of the Board of Directors, the Report of the Directors on the activities of the company together with the Auditors' Report thereon for the year ended on 30th June, 2019 for your kind consideration and approval.

INDUSTRY OUTLOOK:

Ready Made Garments Industry (RMGI) is the main stay of Bangladesh economy at present. This industry was born in Bangladesh during 1976-78 when late M. NoorulQuader, the founder Chairman and Managing Director of Desh Garments Limited when he signed contract with Daewoo Corporation of South Korea for providing technical and marketing collaboration for setting up of garments factory in Bangladesh. This was first contract in the private sector of Bangladesh with any foreign company. Mr. Quader, under that contract got 128 young Bangladeshi including eleven young ladies adequately trained for 6 months in all aspect of garments making and its business at Daewoo's factory at Busan, South Korea. Thus he brought the technical knowhow in Bangladesh and built up his factory at Kalurghat Heavy Industrial Area, Chittagong. His factory started operations from 1980 but were almost without work upto 1982 because of non-availability of raw materials as sufficient foreign currency for importing raw materials was not available. Mr. Quader using his personality and influence over civil administration was able to introduce Back to Back L/C System for non-funded import of raw materials, and Custom Bonded Warehousing system for storing and using of imported raw materials without payment of custom duty for two years. His these three contribution namely (1) making technical knowhow available, (2) allowing non-funded opening of Back to Back L/Cs for procurement of raw materials, and (3) allowing of custom bonded warehouse facilities drastically reduced the investment requirement for setting up a garments industry bringing it within the reach of the entrepreneurs coming out from middle income families spawned the

Growth of RMG factories in Bangladesh, starting from only one factory in 1980, the number rose to 383 employing only 120,000 workers and earning only US\$ 31.57 million during 1982-83 has grown into the highest export earner accounting for US\$ 34.113 billion in the year 2018-2019, which is 84.21% of total foreign earnings. The RMG industry is also the highest employer of Bangladesh employing 40 lacs of which 80 % are women.

The export of woven garments, which is the main export item of Desh Garments Ltd., registered a sharp increase from \$8.432 billion in the year 2010-2011 to US \$17.244 billion in the year 2018-2019. Further, the government has set annual export target of US\$ 50 billion from total RMG sector by 2020-21 from US\$ 34 billion of 2018-19. All these figures indicate existence of very good opportunities for investment and expansion in this sector. We have planned to expand our production capacities from ten lines to twenty lines in future on coming.

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CURRENCY RISK:

The Company is exposed to foreign currency exchange rate fluctuation for its upcoming export of RMG products. Any major depreciation in foreign currency exchange rate will affect the company adversely; however, no exchange rate fluctuation risk is assumed by the company considering the past trend and current foreign exchange market condition

INTEREST RATE RISK:

The company has no foreign currency loan in its balance sheet and hence, it's not exposed to any foreign currency interest rate risk. The company has taken local working capital loan at a reasonable interest rate which is also in declining trend at this point in time.

OPERATIONS:

We have successfully completed another year of operation. During this year, we concentrated on increasing the efficiency in the production and financial side, strictly enforcing cost control measures. The company's total export revenue increased to Tk. 67.12 crore in the financial year 2018-19 from 53.58 crore of BDT from previous which is 26% growth year on year.

Our gross profit has been decreased to 6.71crore in the year 2018-2019 from 7.92 crore in the year 2017-2018. In line with the gross profit, the companies net profit also decreased from 2.80 crore to 1.68 crore in the financial year 2018-19

Desh Garments Limited

The companies gross profit and net profit declined due to increase minimum wages of worker in the year 2018. The government of Bangladesh has revised the minimum wages of worker for RMG industry which was affected from December, 2018. Before December, 2018 the minimum wages of worker was Tk. 5,300.00 per month which increased to Tk. 8,000.00 per month (51% increment).

Due to increase of interest rate, the companies finance cost also increased from Tk. 1.14 crore to Tk. 1.83 crore in the year 2018-2019. Increasing sales volume and buyer deferred letter of credit also caused the hike of financial expenses. Trade discount, marketing expenditure, finance expenses and lower margin order also affected the net profit despite increasing revenue.

As we have explained in last financial year, One of our buyer, Global brand group has been changed the payment policy from sight to 90 days deferred L/C, affected the working capital and cost of finance has been increased significantly. In the financial year 2017-2018, we have also completed Alliance recommended retro fitting works, bought some automated sewing machineries by availing loan from bank.

In the financial year 2017-2018, we have done our Alliance recommended retrofitting works and now the factory is Alliance and ACCORD approved where any buyer from Australia, Europe, Canada, USA and other countries can place the order for their goods.

Statement of related parties to operating expenses have been disclosed in the Annual Report. Basis of all party transactions is the funds received and funds paid only related to the business of exporting RMGs and importing related raw materials and payment of salaries/wages etc.

FINANCIAL RESULT:

Summarized comparative results for the years 2018-2019 and 2017-2018 are given below:

	<u>2018-2019 (Taka)</u>	<u>2017-2018 (Taka)</u>
Turnover (Exports)	671,209,539	535,823,009
Gross Profit/(Loss)	67,119,610	79,200,416
Operating Profit	35,181,542	45,681,278
Other income	2,166,561	1,504,847
Cost of Goods Sold	604,089,929	456,622,593
Net Profit before Tax	18,043,005	34,063,209
Net Profit after Tax	16,985,225	28,010,878
Earnings Per Share (EPS) - (Restated)	2.67	4.40
Net Assets Value (NAV) - (Restated)	22.50	19.70
Face Value of share (Taka)	10.00	10.00
Net Operating Cash Flows per share - (Restated)	2.87	1.87

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Board Meeting and Attendance:

Seven (7) board meetings were held during the year under review (2018-2019). The attendance record of the directors is as follows:

Name of Directors	Position	Meetings held	Attended
Mrs. Rokeya Quader	Chairman	07	07
Mr. Omar Quader Khan	Managing Director	07	07
Ms. Vidiya Amrit Khan	Deputy Managing Director	07	07
Mr. B.M. Nurul Azim	Independent Director	07	07
Mr. Subash Chandra Bose	Independent Director	07	07

Shareholding

The Pattern of shareholding as on 30.06.2019 is as follows:

Sl. No.	Name-wise details	No. of Shareholding	Percentage %	Remarks
	Parent/Subsidiary/Associate Company			
i)	Directors, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children:			
	Director:			
	Mrs. Rokeya Quader	540,948	8.13	
	Mr. Omar Quader Khan	2,314,600	34.80	
	Ms. Vidiya Amrit Khan	1,000,177	15.03	
	Mr. B.M. Nurul Azim, FCA	196		Independent Director
	Mr. Subash Chandra Bose	196		Independent Director
	Company Secretary (CS)	-	-	
	Chief Financial Officer (CFO)	-	-	
	Head of Internal Audit (HIA)	-	-	
ii)	Executives (Top five salaried persons) other than CEO, CS, CFO, HIA)			

Shareholders holding 10% or more voting right

1.	Mr. Omar Quader Khan	2,314,600	34.80	
2.	Ms. Vidiya Amrit Khan	1,000,177	15.03	

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The Directors also report that:

The financial statement of the company presented here reflects true and fair view of the company's state of affairs, result of its operations, cash flows, and changes in equity.

Proper Books of Accounts as required by the law have been maintained. Appropriate accounting policies have been followed in formulating the financial statements and the accounting estimates were reasonable and prudent. The financial statements were prepared in accordance with international Accounting Standard (IAS) as applicable in Bangladesh. The internal control system is sound in design and it's effectively implemented and monitored. There are no significant doubts upon the company's ability to continue as a going concern.

REVALUTION OF ASSETS:

The cost valuation of the assets of the company was calculated on the basis of actual costs incurred during 1978 to 1980. Since then the average price levels of the company assets had increased substantially. In order to find the real asset value of the company, the lands, factory building, electrical installation, and road, bridges, and fencing were revalued during 1994-95 and the balance sheet was reconstructed on that basis of the asset revaluation resulting in appreciation of the lands factory building, and electrical installation and depreciation of road, bridges, and fencing. As mentioned earlier, we have started charging depreciating on the revalued surplus amount from 2017-2018 financial year.

FIXED ASSET REGISTER

Fixed asset ledger was maintained properly throughout the year. Beside this, a fixed asset register is being maintained currently mentioning the code, location, and quantity of the company property, plant, and equipment.

DIVIDEND

The Profit after Tax earned during the financial year under the report is Tk. 1,69,85,225.00. Considering the current years' profits, the directors, recommend 10% stock dividend to all shareholders of the company.

MANAGING DIRECTOR'S REMUNERATION

The Managing Director didn't draw any remuneration during the year under the report. Independent Directors are given allowance of Tk.5,000.00 per meeting.

RETIREMENT OF DIRECTOR BY ROTATION

Mrs. Rokeya Quader is due to retire by rotation as per Article 122 of the Articles of Association of the Company and being eligible, she seeks re-election as per Article 124.

APPOINTMENT OF AUDITORS

M/s. Pinaki & Company, Chartered Accountants have expressed their willingness as per their offer letter No. Nil dated 27.10.2019 Auditors are required to be appointed at this Annual General Meeting and fixed their remuneration.

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APPOINTMENT OF PROFESSIONAL ACCOUNTANTS

M/s. LTR Associates, Cost & Management Accountants have expressed their willingness as per their offer letter No. Nil dated 27.10.2019 are required to be appointed at this Annual General Meeting and fixed their remuneration

Related Party Disclosure

Since the company does not have any compensation/ benefit policy other than labor law defined benefit for the key management personnel. Below is the companies key personnel ant the disclosure of benefit.

SI	Name	Position	Short term employee benefit	Long term employee benefit	Other long term benefit	Termination benefit	Share based payment
1	Md Kamruzzaman	Chief Financial Officer	No	No	No	No	No
2	Dr. K. Moulic	Company Secretary	No	No	No	No	No
3	Mr. Nazmul Huda Mullick	Head of Internal Audit	No	No	No	No	No
4	Mr. Md. Nurul Islam	Head of Garments	No	No	No	No	No
5	Mrs. Jolly Hassan	DGM, BOD	No	No	No	No	No
6	Mr. Modasser Ahmed	AGM, Commercial	No	No	No	No	No
7	Md. Zafrul Enayet Ullah	DGM, Commercial	No	No	No	No	No
8	Mr. Alauddin Ahmed	Sr. Manager, HR & Admin	No	No	No	No	No

MANAGEMENT APPRECIATION

The Management takes this opportunity to thank all the shareholders, well wishers, banks, and business associates for their sincere co-operation and understanding.

The Management also thanks the workers, staff, and officers of the company for their hard work and sincere efforts rendered which enabled the company to achieve a substantial growth during the reporting year.

The status of compliance as required in pursuance of notification no. SEC/CMRRCD/2006-158/134/Admin/44 dated August 07, 2012 as latest amended by notification No.BSEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018 of Bangladesh Securities and Exchange Commission is given in Annex-02 and the audit committee report and Nomination & Remuneration Committee Report (NRC) for the year 2018-2019 is also enclosed vide Annex-03.

Thanking you,



Rokeya Quader

Chairman

Dated : **28/10/2019**