

## Bismillahir Rahmanir Rahim

### Directors' Report to Shareholders for the year ended 30<sup>th</sup> June, 2020

Dear Esteemed Shareholders,  
Assalamu Alaikum,

I am pleased to welcome you to the 43<sup>rd</sup> Annual General Meeting of the company. First, I wish good health and safety for you and your family in the COVID-19 pandemic. This pandemic has changed our daily activities and given us a New Normal Life. Consequently this year we are holding our AGM through virtual platform. 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 30<sup>th</sup> June, 2020 for your kind consideration and approval.

#### INDUSTRY OUTLOOK:

COVID-19 has originated from Wuhan, China from February, 2020 and has hit Bangladesh end of March, 2020. Supplies of RMG mostly depended on China factories which were shutdown gradually since February, 2020 and has an impact the supply chain in the world as well as Bangladesh RMG sector. The coronavirus pandemic has had a devastating effect on the Bangladeshi ready-made garment (RMG) industry. In recent years, it has been the driving force of the country's economy, accounting for 80 per cent of its export earnings. Revenue generated by RMG factories was a key factor in predictions that Bangladesh would reach middle-income status by 2021. However, with the arrival of COVID-19, it is no exaggeration to say that the industry has 'fallen off a cliff' as many factories have closed and cannot pay wages. Orders worth USD 3.17 billion have been cancelled or suspended, threatening the employment and financial security of millions of workers – the majority of whom are women. As per Media reports, by June 2020, 70,000 workers had lost their jobs and up to one million jobs were likely to remain at risk until the end of the year. Desh Garments Ltd. has also severely affected by the COVID-19. 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. Noorul Quader, the founder Chairman and Managing Director of Desh Garments Limited signed contract with Daewoo Corporation of South Korea for providing technical and marketing collaboration for setting up garments factory in Bangladesh. This was the first contract in the private sector of Bangladesh with any foreign company. Mr. Quader, under that contract got 128 young Bangladeshis including eleven young ladies adequately trained for 6 months in all aspects 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 up to 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 had been able to introduce Back to Back L/C System for non-funded import of raw materials, and Customs Bonded Warehousing system for storing and using of imported raw materials without payment of customs duty for two years. His these three contribution namely (1) making technical knowhow available, (2) allowing non-funded financing for 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\$ 34.11 billion** in the year 2018-19 which was 84.21% of total foreign earnings, but in the year 2019-20, the country's readymade garment (RMG) exports declined by 18.79 percent

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to **US\$ 27.70 billion**. The RMG industry is 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., has been reduced in this financial year by 35.34% from BDT 671.21 million to BDT 434.00 million mainly affected by COVID-19. Despite such a devastating situation, we have been able to make a slight margin in the business of BDT 3.14 million in the year 2019-20.

## **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, along with the whole world we are affected by COVID-19 pandemic. Total revenue of the company decreased by 35.34% from BDT 671.21 million to BDT 434.00 million mainly affected by COVID-19 as said above.

Gross profit in percentage has been 11% (BDT 46.03 million) in the year 2019-2020 which is an improvement in operation as compared to last year's gross profit of 10% (BDT 67.12 million). Despite having a good performance in operation i.e. 11% of gross profit, there has been a reduction in gross profit by BDT 21.09 million due to lower sales. Administrative & Selling Expenses has been incurred BDT 24.70 million this year against BDT 31.94 million of last year which is a substantial reduction in cost and contributed BDT 7.24 million to net profit.

Statement of related parties to operating expenses has been disclosed in the Annual Report. Basis of all parties' 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.

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## FINANCIAL RESULT:

Summarized comparative results for the years 2019-20 and 2018-19 are given below:

Figure in BDT	Yr- 2019-2020	Yr-2018-2019
Turnover (Exports)	434,005,332	671,209,539
Cost of Goods Sold	(387,976,885)	(604,089,929)
Gross Profit	46,028,448	67,119,610
Operating Profit	21,333,091	35,181,542
Other income	4,885,642	2,166,561
Net Profit before tax	6,410,549	18,043,005
Net Profit after tax	3,140,508	16,985,225
Earnings Per Share (EPS) - (Restated)	0.43	2.32
Net Assets Value (NAV) - (Restated)	20.01	19.60
Face Value of share (Tk.)	10.00	10.00
Net Operating Cash Flows per share - (Restated)	(0.67)	2.50

## Board Meeting and Attendance:

Seven (7) board meetings were held during the year 2019-20. The attendance record of the directors is as follows:

Name of Directors	Position	No. of Meetings	Attended
Mrs. Rokeya Quader	Chairman	07	07
Mr. Omar Quader Khan	Managing Director	07	06
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

The tenure as Independent Director of Mr. B.M. Nurul Azim expired on 28<sup>th</sup> October, 2020, the Board took decision that another Independent Director will be appointed.

## Status of Shareholding

The Pattern of shareholding as on 30<sup>th</sup> June, 2020 is as follows:

Sl. No.	Name-wise details	No. of Shareholding	Percentage %	Remarks
	Parent/Subsidiary/Associate Company			
i)	<b>Directors, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children:</b>			
	<b>Directors:</b>			
	Mrs. Rokeya Quader	595,043	8.13	
	Mr. Omar Quader Khan	2,546,060	34.80	
	Ms. Vidiya Amrit Khan	110,0194	15.03	

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Mr. B.M. Nurul Azim, FCA	215	Independent Director
Mr. Subash Chandra Bose	215	Independent Director
Company Secretary (CS)	-	-
Chief Financial Officer (CFO)	-	-
Head of Internal Audit (HIA)	-	-
<b>ii) Executives (Top five salaried persons) other than CEO, CS, CFO, HIA)</b>		
Mr. Induka Nilupul Sudirikku	-	-
Mr. Md. Zafrul Enayet Ullah	-	-
Mr. Mohammed Nowsharat Shah	-	-
Mr. Imam Hossain	-	-
Mr. Mohammad Kamal Hossian	-	-

## Shareholders holding 10% or more voting right

Sl. No.	Name of shareholders	No. of Shareholding	Percentage %
1.	Mr. Omar Quader Khan	2,546,060	34.80
2.	Ms. Vidiya Amrit Khan	1,100,194	15.03

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.

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## WORKERS' PROFIT PARTICIPATION & WELFARE FUND:

Workers' Profit Participation & Welfare Fund is created regularly. But due to COVID-19 pandemic company faced insufficient fund flow. So company has not paid against Worker Profit Participation & Welfare Fund during the financial year.

## DIVIDEND PAYABLE

Dividend payable under sponsor's portion appearing since long. Directors decided not to withdraw the dividend due to them till improvement of financial position of the company so that normal business activities remain undisturbed with required cash flow.

## WITHHOLDING TAX & VAT

Withholding Tax and VAT payment is being maintained properly in Book of Accounts.

## IFRS – 16 (LEASE)

IFRS-16 (Lease) implement to be made in the financial year 2020-21.

## DIVIDEND

The Profit after Tax earned during the financial year under the report is BDT 3,140,508 Considering the current years' profit, the directors, recommend 3% stock dividend to all shareholders of the company.

## DIRECTOR'S REMUNERATION

The Managing Director didn't draw any remuneration during the year under the report. Independent Directors are given allowance of BDT 5,000 per meeting.

## RETIREMENT OF DIRECTOR BY ROTATION

Ms. Vidiya Amrit Khan has retired by rotation as per Article 122 of the Articles of Association of the Company according to her being eligible and seek for re-election as per Article 124.

## INDEPENDENT DIRECTOR

As an Independent Director Mr. B.M. Nurul Azim has completed his tenure of 2 (two) terms of services and retired from the Board. The Board has taken decision to appoint another one Independent Director in his place as per BSEC's Notification No.SEC/CMRRCD/2006-207/Admin/80 dated 03<sup>rd</sup> June, 2018.

## APPOINTMENT OF AUDITORS

M/s. Pinaki & Company, Chartered Accountants retire at this Annual General Meeting and M/s. MABS & J Partners, Chartered Accountants have expressed their willingness as per their offer letter No.T-530 MABS & J(B) 2020-21/957 dated 26<sup>th</sup> October, 2020 to be the Financial Auditors for the year 2020-21. The Auditors are required to be appointed at this Annual General Meeting and their remuneration for the year ended 30<sup>th</sup> June, 2021 is to be fixed accordingly.

## APPOINTMENT OF COMPLIANCE AUDITORS

M/s. Anisur Rahman & Co. Chartered Accountants have expressed their willingness as per their offer letter dated 27<sup>th</sup> October, 2020 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 company's key personnel and the disclosure of benefit.

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Sl.	Name	Position	Short term employee benefit	Long term employee benefit	Other Long term benefit	Termination benefit	Share based payment
1	Mr. Md. Mizanur Rashid	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. Induka Nilupul Sudirikku	Head of Garments	No	No	No	No	No
5	Mr. Md. Zafrul Enayet Ullah	DGM, Commercial	No	No	No	No	No
6	Mr. Mohammed Nowsharat Shah	AGM, Merchandising & Marketing	No	No	No	No	No
7	Mr. Imam Hossain	Merchandising & Marketing	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 07<sup>th</sup> August, 2012 as latest amended by notification No.BSEC/CMRRCD/2006-158/207/Admin/80 dated 03<sup>rd</sup> June, 2018 of Bangladesh Securities and Exchange Commission is given in Annexure-02 and the audit committee report for the year 2019-20 is also enclosed vide Annexure-03. The company has already form emuneration committee as per latest BSEC Corporate Governance Guidelines the Committee has started working on total activities, policy during the financial year, annual report.

Thanking you,



**Rokeya Quader**

Chairman

Dated : **28<sup>th</sup> October, 2020**