

Bismillahir Rahmanir Rahim

Directors' Report to Shareholders for the year ended on 30th June, 2017

Dear Shareholders,

Assalamu Alaikum,

I am pleased to welcome you to the 40th Annual General Meeting of the company being held at this pleasant morning, at the Auditorium of Muktiyuddha Shmritee Milonayaton, 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, 2017 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. Noorul Quader, the founder Chairman and Managing Director of Desh Garments Limited signed a contract with Daewoo Corporation of South Korea for providing technical and marketing collaboration for setting up of 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 130 young Bangladeshis, adequately trained for 6 months in all aspect of garments making and its business at Daewoo's factory at Busan, South Korea. This was the very first time women were sent abroad for any sort of industrial training. 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 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. Thus, in short, the four factors mentioned below were introduced, negotiated and were a major contribution by Noorul Quader as far as the methods to do business in Bangladesh were concerned. They were – (1) The first ever training of 130 people on the technical and marketing

know-how of the export oriented RMG industry, (2) Back-to-Back Letter of Credit banking system, (3) Custom Bonded Warehousing facility at the factory level and, finally, (4) Allowing of Utilization Permits on paper calculations. These factors 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 factories employing 120,000 workers and earning US\$ 31.57 million during 1982-83. The industry has grown into the highest export earner accounting for US\$ 28.14 billion, being 81.23 % of national export and becoming the highest employer of Bangladesh employing 4 million workers, out of which 80% are women.

The export of shirts, which is the main export item of Desh Garments Ltd., registered a sharp increase from \$1.24 billion (from country's total shirt exports) in 2009-10 to \$14.393 billion in 2016-17, growth in 7 years was 1161 % registering average annual growth of 166 % only in shirt exports. Further, the government has set annual export target of US\$ 50 billion from total RMG sector by 2020-21, from an earning of US\$ 28 billion of 2016-17 indicating expected growth of 178% in four years that is 44.42% per year. 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.

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. However, because of not getting higher prices our total export reduced to US\$4.82 million from previous US\$5.26 million, i.e. 8% lower. However, due to various cost control measures and strict disciplines at all levels the gross profit and net profit increased from US\$0.76 million and US\$0.33 million during last year to US\$0.79 million and US\$0.44 million during 2016-17, i.e. increase in gross profit and 33 % increase in net profit.

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 2016-2017 and 2015-2016 are given below:

	<u>2016-2017 (Taka)</u>	<u>2015-2016(Taka)</u>
Turnover (Exports)	375,722,677	410,453,025
Gross Profit/(Loss)	61,899,500	58,944,812
Operating Profit	42,198,716	37,569,189
Other income	2,561,813	2,673,495
Cost of Goods Sold	313,823,177	351,508,213
Net Profit before tax	39,460,147	32,718,665
Net Profit after tax	34,463,291	26,112,654
Earnings Per Share (EPS) - (Restated)	6.56	4.97
Net Assets Value (NAV) - (Restated)	19.08	13.77
Face Value of share (Tk.)	10.00	10.00
Net Operating Cash Flows per share - (Restated)	2.11	2.23

Board Meeting and Attendance:

Seven (7) board meetings were held during the year under review (2016-2017). 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	Director	07	07
Mr. B.M. Nurul Azim	Independent Director	07	05
Mr. Subash Chandra Bose	Independent Director	07	07

The tenure as Independent Director of Mr. B. M. Nurul Azim expired on 12.08.2017 as well as Board took decision, extension another one term as Independent Director which will be effect on 28.10.2017.

Shareholding

The Pattern of shareholding as on 30.06.2017 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	427,627	8.13	
	Mr. Omar Quader Khan	1,829,724	34.80	
	Ms. Vidiya Amrit Khan	790,654	15.03	
	Mr. B.M. Nurul Azim, FCA	156		Independent Director
	Mr. Subash Chandra Bose	156		Independent Director
	Company Secretary (CS)	156		
	Chief Financial Officer (CFO)	-	-	
	Head of Internal Audit (HIA)	-	-	
ii)	Executives (Top five salaried persons) other than CEO, CS, CFO, HIA)	-	-	
	Mrs. Jolly Hassan	-	-	
	Mr. Modasser Ahmed	-	-	
	Mr. Md. Zafrul Enayet Ullah	-	-	
	Mr. Alauddin Ahamed	-	-	
	Mr. Mahmudur Rahmman	-	-	

Shareholders holding 10% or more voting right

1.	Mr. Omar Quader Khan	1,829,724	34.80	
2.	Ms. Vidiya Amrit Khan	790,654	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.

ACCUMULATED LOSS

As it was reported earlier several times, the devastating cyclone and tidal bore that lashed the south-east coast of Bangladesh on the night of 29-30 April 1991 badly damaged our factory. The salty water from the tidal bore rushed into the factory with the tremendous force and inundated upto an average height of 5 ft. inside the factory. Entire machinery, fabrics, accessories, export ready goods stored in the godown and lying on the floor, and the fabrics awaiting clearance from the customs at Chittagong port were damaged beyond recovery. As a result of such unusual damages, we had suffered a net loss of Tk.6.56 crore in 1991-92. However, after restarting of the factory in 1994-95 with the new machineries, we have been earning profit in most of the years; however, the accumulated profit is still inadequate to offset the loss of 1991 cyclones. Our accumulated profit net of losses and the dividends paid till 2016-17 has been shown under the "Retained Earnings" section of the Balance Sheet.

REVALUATION 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. However, depreciation on the incremental value of the factory building and the electrical installation were not charged considering the shareholders interest.

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.34,463,291.00. Considering the current years' profits, the directors, recommend 15 % stock dividend and 5 % cash 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.

INDEPENDENT DIRECTOR

As three years services as Independent Director of Mr. B.M. Nurul Azim has expired and being agreeable, the Board has extended his tenure for another one term with effect from 28.10.2017 as per SEC's Notification No.SEC/CMRRCD/2006-158/134/Admin/44 dated 07.08.2012.

APPOINTMENT OF AUDITORS

M/s. MABS & J Partners, Chartered Accountants, retire at this Annual General Meeting and M/s. Pinaki & Company, Chartered Accountants have expressed their willingness as per their offer letter No.Pinaki/MHN/DESH/2017-01 dated 30.10.2017 Auditors are required to be appointed at this Annual General Meeting and fixed their remuneration.

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 amended by notification No.SEC/CMRRCD/2006-158/147/Admin/48 dated July 21, 2013 of Bangladesh Securities and Exchange Commission is given in Annex-02 and the audit committee report for the year 2016-2017 is also enclosed vide Annex-03.

Thanking you,

Sd/-

Rokeya Quader
Chairman

Dated : **28/10/2017**