

Desh Garments Limited

Bismillahir Rahmanir Rahim Directors' Report to Shareholders for the year ended on 30th June, 2018

Dear Shareholders,
Assalamu Alaikum,

I am pleased to welcome you to the 41st 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, 2018 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 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\$ 30.614 billion in the year 2017-2018, and becoming 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 \$15.426 billion in the year 2017-2018. Further, the government has set annual export target of US\$ 50 billion from total RMG sector by 2020-21 from US\$ 30 billion of 2017-18. 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.

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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. Our total export to Tk.53.57 crore of bdt from previous 35.57 crores of bdt, i.e.42.61% higher.

Our gross profit has been increased to 7.92 crore in the year 2017-2018 from 6.19 crore in the year 2016-2017. However, our net profit has been decreased to 2.80 crore in the year 2017-2018 from 3.44 crore in the year 2016-2017.

Rate of gross profit increase, was comparatively slower because, Desh Garments Ltd. never charged depreciation on revaluated assets since 1995-1996, where the auditor continuously given observation. From the current year, the board of directors decided to charge depreciation as per accounting standard. We also introduced deferred tax in the year 2017-2018 to comply with international accounting standard- 12.

Trade discount, marketing expenditure, finance expenses, deferred tax and lower margin order also affected the net profit despite increasing revenue. 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 where, we could not capitalized all expenses due to follow proper accounting standard.

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.

We also imported machineries to extend line and production capacity. We have taken loan from our bank (Jamuna Bank Ltd) for the imported machineries.

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 2017-2018 and 2016-2017 are given below:

	2017-2018 (Taka)	2016-2017 (Taka)
Turnover (Exports)	535,823,009	375,722,677
Gross Profit/(Loss)	79,200,416	61,899,500
Operating Profit	50,105,028	42,198,716
Other income	1,504,847	2,561,813
Cost of Goods Sold	456,622,593	313,823,177
Net Profit before tax	34,063,210	39,460,147
Net Profit after tax	28,010,879	34,463,291
Earnings Per Share (EPS)- (Restated)	4.63	5.70
Net Assets Value (NAV) - (Restated)	20.77	15.31
Face Value of share (Tk.)	10.00	10.00
Net Operating Cash Flows per share - (Restated)	1.97	1.83

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Board Meeting and Attendance:

Seven (7) board meetings were held during the year under review (2017-2018). 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	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. Subash Chandra Bose expired on 28.10.2018 as well as Board took decision, extension another one term as Independent Director which will be effect on 28.10.2018.

Shareholding

The Pattern of shareholding as on 30.06.2018 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	491,771	8.13	
	Mr. Omar Quader Khan	2,104,182	34.80	
	Ms. Vidiya Amrit Khan	909,252	15.03	
	Mr. B.M. Nurul Azim, FCA	179		Independent Director
	Mr. Subash Chandra Bose	179		Independent Director
	Company Secretary (CS)	-	-	
	Chief Financial Officer (CFO)	-	-	
ii)	Head of Internal Audit (HIA)	-	-	
	Executives (Top five salaried persons) other than CEO, CS, CFO, HIA)	-	-	
	Mr. Md. Nurul Islam	-	-	
	Mrs. Jolly Hassan	-	-	
	Mr. Modasser Ahmed	-	-	
	Mr. Md. Zafrul Enayet Ullah	-	-	
	Mr. Alauddin Ahamed	-	-	

Shareholders holding 10% or more voting right:

1.	Mr. Omar Quader Khan	2,104,182	34.80	
2.	M s. Vidiya Amrit Khan	909,252	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.

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.

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. 28,010,878.00 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:

Ms. Vidiya Amrit Khan 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. Subash Chandra Bose has expired and being agreeable, the Board has extended his tenure for another one term with effect from 28.10.2018 as per BSEC's Notification No.SEC/CMRRCD/2006-207/Admin/80 dated 03.06.2018.

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APPOINTMENT OF AUDITORS:

M/s. Pinaki & Co., M/s. Pinaki & Company, Chartered Accountants have expressed their willingness as per their offer letter No.Pinaki/MHN/DESH/2018-01 dated 27.10.2018 Auditors are required to be appointed at this Annual General Meeting and fixed their remuneration.

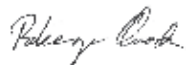
MANAGEMENT APPRECIATION:

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.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 for the year 2017-2018 is also enclosed vide Annex-03.The company has already form remuneration committee as per latest BSEC Corporate Governance Guidelines the Committee has started working on total activities, policy and the company will publish next financial year, annual report.

Thanking you,



Rokeya Quader
Chairman

Dated : 28/10/2018