

# Director's report to the Shareholders

DEAR SHAREHOLDERS:

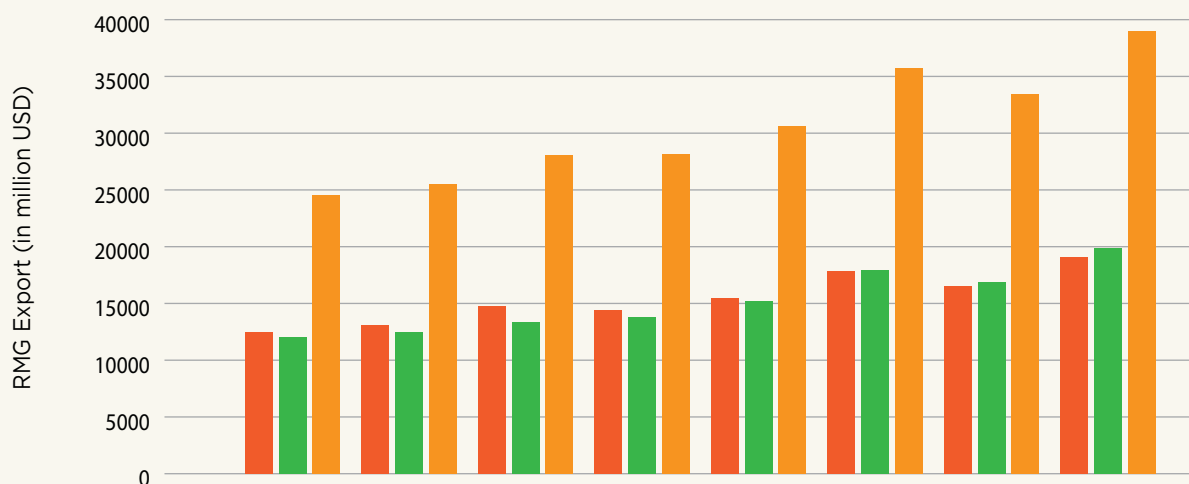
In terms of provisions of section 184 of the companies Act 1994, Rule 12 (and the schedule thereunder) of Bangladesh Securities and Exchange Rules 1987, BSEC Notification No. BSEC/CMRRCD/2006-158/207/Admin/80 dated 03 June 2018 on compliance of corporate governance code, it is the pleasure of the Members of the company for the year ended 30 June, 2020 in the followings paragraphs:

## INDUSTRY OUTLOOK

Bangladesh's export earnings began to dip in March 2020, with RMG export dropping to \$2.25 billion that from \$2.82 billion in the same month last year, after the pandemic began in China in late 2019.

Since the detection of the first corona infection in the country on March 8 last, apparel exports recorded the highest negative growth of over 82 per cent in April, as production in most apparel units remained suspended due to the pandemic-induced lockdown.

Bangladesh RMG Export Market, by Process Type



MY : Market year

During this period, China closed its shipment of raw materials, as a result some factories were forced to shut down their operations. It is noted that most of the Bangladeshi garments factories are dependent on China for their raw materials and other necessary accessories for production of garments. As the customers also banned shipments or cancelled orders, the factory owners faced problems from both supply side and demand side. In fact, the whole apparel supply chain was disrupted from top to bottom. Brands and retailers cancelled or postponed order as well as deferred payments. Primark, Arcadia Group, M&S, H&M, Nordstrom, American Eagle, VF Corporation, PVH Corp, Levi's, Target and similar high-end brands either cancelled or paused new orders.

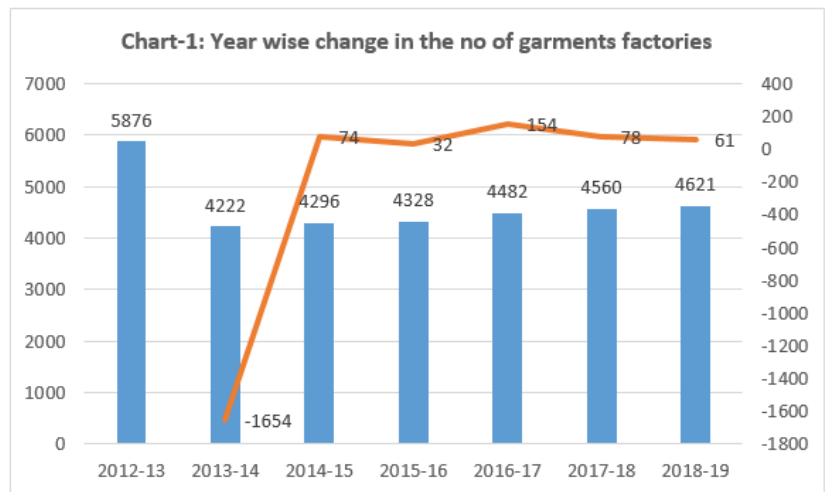
Banhladesh fetched \$2.25 billion, \$374.67 million, \$1.23 billion, \$2.24 billion and \$3.24 billion in March, April, May, June and July respectively of this year, representing a decline of 20.14 per cent, 85.25 per cent, 62.06 per cent, 6.63 per cent and 1.98 per cent during the months between March and July of this year over the corresponding months of last year, according to the BGMEA data.

The sector slowly began to turn around when the factories started to reopen following an improvement in the pandemic situation in Europe. Bangladesh exported garments worth \$1.23 billion in May and \$2.24 billion in June cushioning the economic crisis.

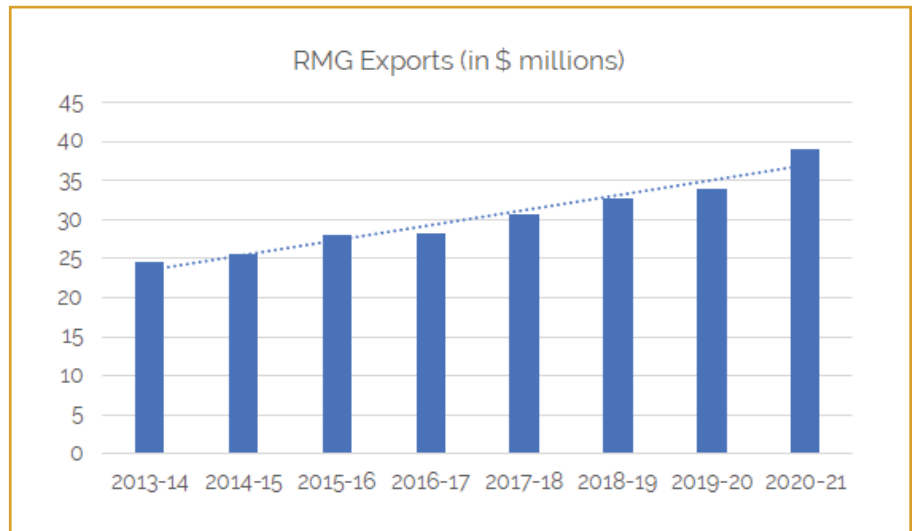
The apparel sector posted growth in export in August and September after several months but returned to the negative zone in October.

Bangladesh's forex-fetching readymade garment industry had begun to show signs of revival with expectations of a surge in foreign orders before the Christmas after a huge slump in export. But it is now staring at loss again as a second wave of coronavirus infection has hit the US and Europe.

A drop in the product price against rising production costs has also hit the industry. New work orders dropped in November and December in comparison with the same period last year



The sector profile shows that the total no. of garments factories registered under BGMEA is 4621 now. The number of new factories being added every year is decreasing. There was a big drop in the number of industries in 2013-14 when accord and alliance came in to action. After that every year the on average around 75 new industries being added in total. Furthermore, around 200 industries has been shut down in the recent times which indicated the newly added industries fully compliance and they are here to stay. So, though the number of new industries every year is decreasing but the quality of the newly launched industries are far better taking Bangladesh in the next level as a role model of green industries and sustainable practices. Overall, the total number of LEED-certified garment factories in Bangladesh is 90 now, including the 24 platinum rated buildings, according to the USGBC. Although the buyers are not paying any extra money for green buildings, such initiative still helps a lot in branding and it is necessary for our own survival.



## BUSINESS OUTLOOK

The RMG industry has played a central role in the revitalization of Bangladesh's economy, making a crucial contribution to GDP, export growth, and employment. Today, the sector accounts for over 80% of total export earnings, contributes around 12% to GDP, and employs around four million workers, of whom the vast majority are female.

In the first half of 2019, apparel exports from Bangladesh to the US rose 11.5% to reach US\$3.57 billion. Bangladesh is ranked sixth as a supplier of textiles and apparel to the U.S., after China, India, Vietnam, Pakistan and Mexico. However, Bangladesh's market share has been growing in double digits, while China's is sliding.

The recovery of this industry is critical for the revival of our economy. The Covid-19 pandemic has provided an enormous challenge to the RMG industry.

To make the \$50bn target, Bangladesh will have to grow exports by 10.9% annually. Over the past six years the garment industry has grown by an average of 13.9% annually – which makes \$50bn by 2021 seem within reach.

## SNAPSHOT: BANGLADESH GARMENTS AND TEXTILE INDUSTRY

- World's second-largest apparel manufacturing economy
- Exports apparel goods to around 160 countries worldwide
- Accounts for 80% of total national export earnings
- Contributes approximately 12% of national GDP
- Employs approximately four million workers

Source: *Dragon Sourcing Nov 2019, Forbes, The Financial Express*

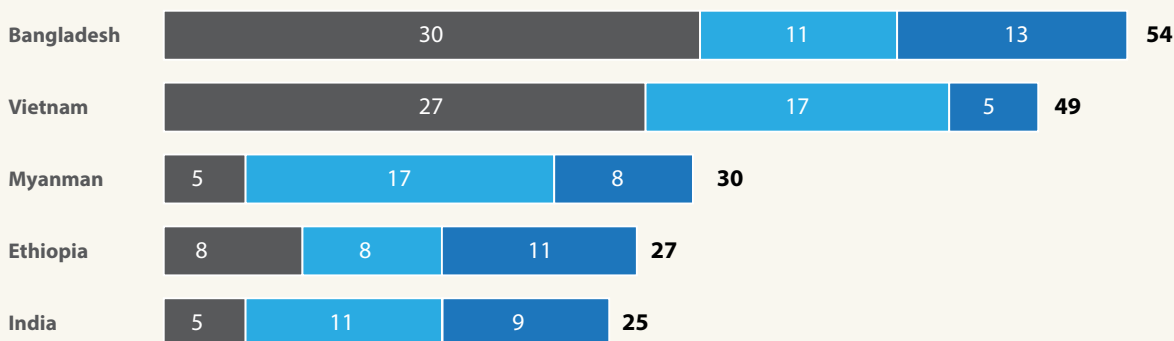
## GOALS: THE BANGLADESH GARMENTS AND TEXTILE INDUSTRY

- Achieve US\$50 billion in apparel exports by 2021 – representing up to 10% of global apparel exports, up from approximately 7% today
- Maintain upwards value-chain movement, raising per-piece prices and adding greater value at design and manufacturing stages
- Capture a growing share of supply chain diversification and trade redirection in the U.S.-China “trade cold war” and post COVID-19 environment

### Bangladesh still seen as most interesting destination, but gap of Vietnam is closing

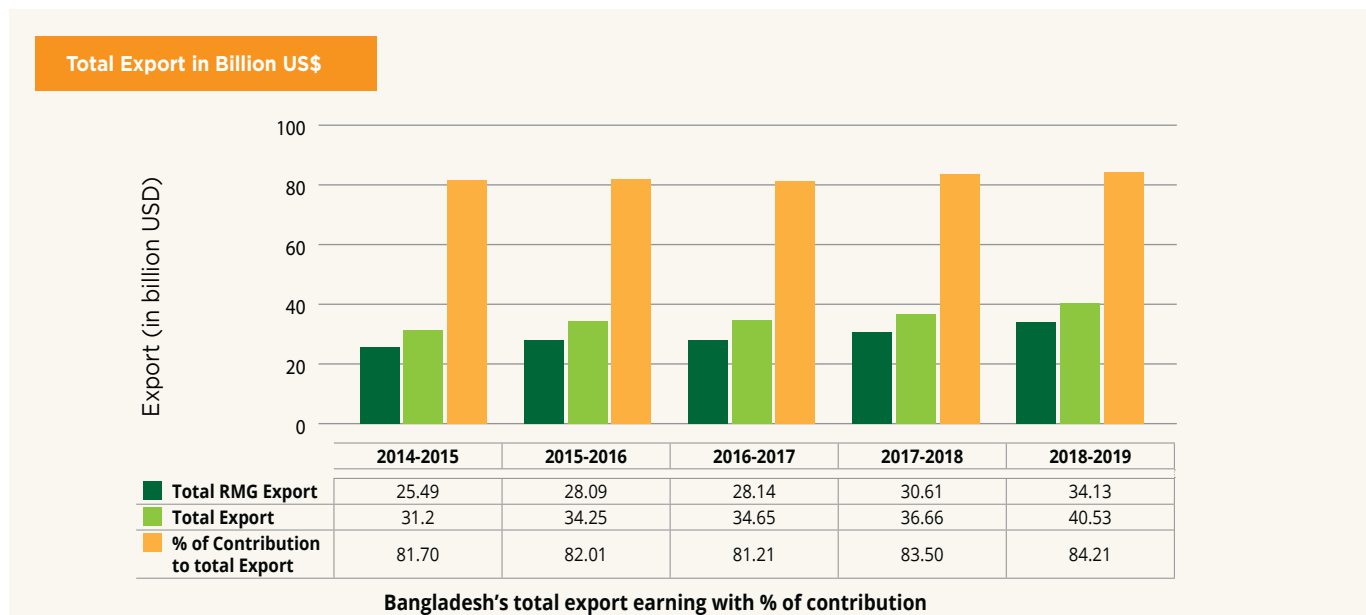
“What do you see as the top 3 country hot spots up to 2025?”

Percentage of respondents, n=64



SOURCE: McKinsey Apparel CPO Survey 2019

The threat to Bangladesh's future prosperity is real. First the next two three years when the industry will be recovering from the shock of the sudden drop of demand. Then to look forward at the longer term.



The technology of the industry will have completely changed within few years and the current comparative advantage of Bangladesh's low-cost labor force will be largely irrelevant. To prosper for the next decade will require major change starting immediately to maintain a competitive edge.

The central bank of Bangladesh and the government seem to have a view that everything will come back quickly and we can expect full recovery by 2021.

For the garment sector, prosperity rests completely on the behavior of the North American and European economies. The IMF forecasts for the advanced economies conclude that the GDP in 2022 will be the same as 2018.

### Bangladesh is predicted to see the biggest economic rise by 2030

#### Projected ranking changes by 2030 compared with 2018

Biggest economies (in 2030)				Biggest risers			Biggest fallers		
	Country	Ranking change		Country	Ranking change		Country	Ranking change	
1.	China	+1	(2 to 1)	Bangladesh	+16	(42 to 26)	Norway	-10	(27 to 37)
2.	US	-1	(1 to 2)	Philippines	+11	(38 to 27)	Denmark	-9	(33 to 42)
3.	India	+4	(7 to 3)	Pakistan	+10	(40 to 30)	Finland	-7	(41 to 48)
4.	Japan	-1	(3 to 4)	Vietnam	+8	(47 to 39)	Austria	-5	(26 to 31)
5.	Germany	-1	(4 to 5)	Malaysia	+5	(34 to 29)	Portugal	-4	(45 to 49)

Source: HSBC estimates and projections. The full ranking of 75 countries by GDP and by population can be found on page 11

Source: HSBC

The prospects for Bangladesh's RMG industry look good. From a first shipment of shirts in 1978 to an industrial engine driving an economy expected to become the world's 26th largest in a decade's time, RMG businesses are proud to say **"Made in Bangladesh."**

### THE STATE OF THE COMPANY COMPANY'S AFFAIRS

Esquire Knit Composite Limited is a cent percent export oriented Company. It produces different types of Knit garments through its six units namely, knitting units, fabric dyeing unit, printing, embroidery, industrial laundry and garments units and sells the same to foreign buyers.

The company earned certificate for confidence in Textile by Oeko-Tex Standard 100 for usage of Environmental dyes stuffs 1st in Bangladesh. Since inception Esquire Knit Composite Limited has commenced its business with a view to developing high quality and sophisticated products to the international market. The company's accessible optimum running capacity in Textile 8,030 MT (Kg) and in Apparels 24.96 million (pcs)



## CAPACITY AND UTILIZATION

Particulars	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016
Textile (Kg)	8,030,000	8,030,000	8,030,000	8,030,000	8,030,000
Actual Production (Kg)	5,485,972	5,969,502	5,969,502	5,969,502	5,959,501
Capacity utilization (%)	68.32	74.34	74.34	74.34	74.22
Apparels (Pcs)	24,960,000	24,960,000	24,960,000	24,960,000	24,960,000
Actual Production (Pcs)	18,126,428	22,464,000	17,808,384	17,808,384	18,264,192
Capacity utilization (%)	72.62	90	71.35	71.35	73.17

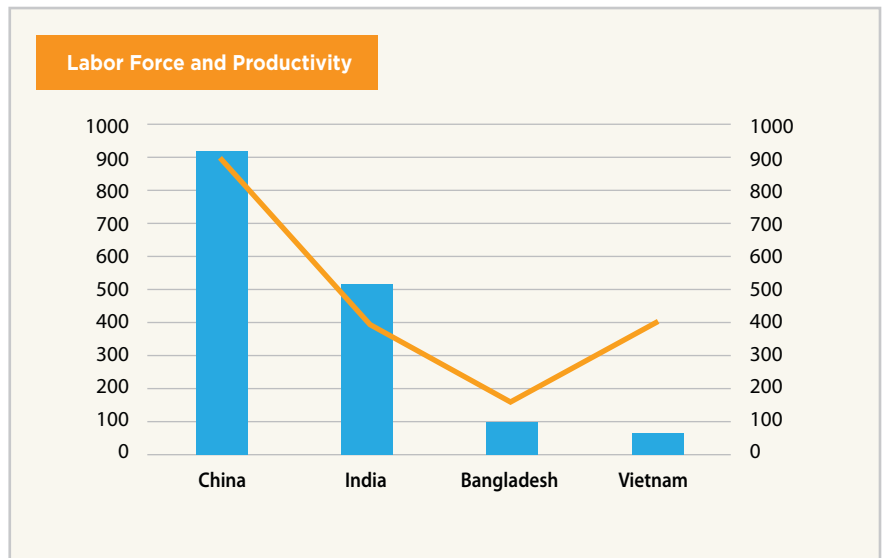
## RISK AND CONCERN

Since the Bangladesh's garments industry is a cent percent export-oriented, its growth is always dependent on importing country preferences and standards. Bangladesh will graduate to middle-income country status in 2024, which means it could lose EU trade preferences if it does not continue on the path of legislative reforms in compliance with international standards.

The company is concern and ready to take up- coming challenges and aware of its various following risks.

**Industry Market Risk-** Bangladesh needs to ward off competition. As the garments industry keeps searching for competitive production hubs worldwide, countries like Cambodia, Vietnam, Myanmar and now Ethiopia present new challenges for the local industries.

**BUSINESS RISK-** Managing Compliance – Currently RMG buyers specially the large buyers are very demanding and constantly tightening the compliance criteria. EKCL has been in the forefront of compliance among the RMG exporters in the county. They have compliant plants with effluent water treatment facility, childcare facility, adequate ventilation, spacious infrastructure lay out, etc. Till now they were able to meet all the compliance challenge in their 30 year plus business experience and is likely to do so in the coming years. EKCL mitigates compliance risk since it is WRAP certified and passed other audits from Department of Environment (DOE) and overseas buyers.



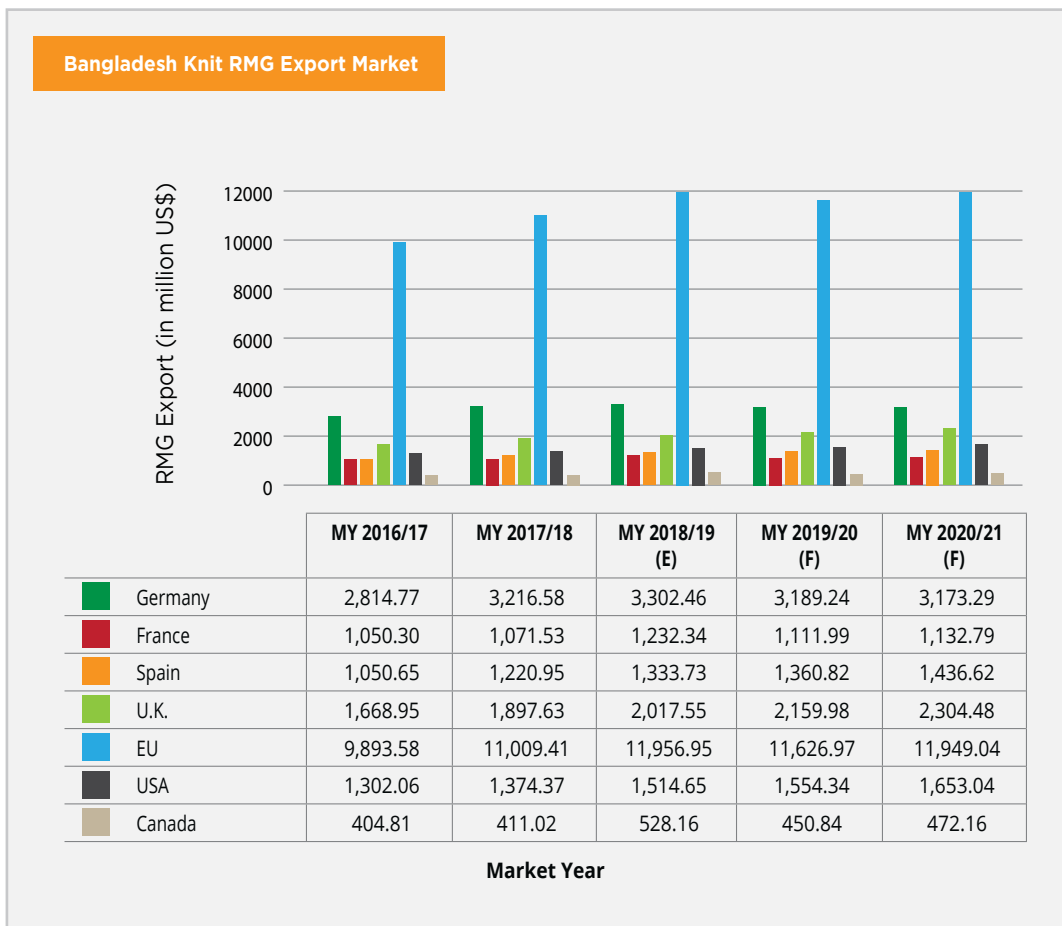
**Financial Risk-** the Company's risk management policies have been established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies, procedures and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company has exposure to the following risks from its use of financial instruments.

**Raw Material Risk-** yarn price in the Local and World market is unstable. The company receives yarn, dyes & chemicals both from local as well as foreign suppliers. Import based supplies are likely to be affected by any uncontrollable event or country risk to transaction or political barrier. Since inception the company did not face any such uncontrollable events so far because of maintaining good supply chain relationship with the suppliers of raw materials and in exceptional cases, it is confident to make alternative arrangement at shorter notice.

**Foreign Exchange Risk-** Exchange rate risk arises from currency fluctuation in international trade. If Bangladeshi Taka is devalued and/or foreign currency revalued than the price of imported raw materials will go up which will decrease the overall profit margin. As the company is dependent upon the import for yarn, dyes, chemicals & accessories and in future it will be the same, volatility of exchange rate will have an impact on profitability of the company. For last couple of years, Bangladeshi Taka found carrying floated value and expected to follow the same which expose the company to significant exchange rate risk.

**Power Generation Risk-**

The industrial bases of Bangladesh are mainly aided by natural gas-driven power generation which causes disruption occasionally and the weaving industry is not an exception. Smooth availability of gas will ensure the maximum functioning of the machineries. EKCL uses natural gas to produce power from captive power plant. Currently a circular from government has emerged to arrange alternate of gas due to recent acute gas crisis. The company is connected with 15 PSI gas line and currently does not any problem of gas pressure. So other things being constant, EKCL does not foresee significant risk for power generation.



**Interest Risk-** The Company is enjoying banks finance in the form of working capital as well as term loan. As a bank fund borrower, the entity has to pay a significant amount of loan interests and charges. Bangladesh Bank has moved to remove the interest rate ceiling on lending in the wake of a massive liquidity crisis in the financial market letting the price to be determined by functioning of demand-supply interaction. This measure may invite interest rate instability, which may create volatility in the profitability of business like EKCL. It is the company risk of gain or losses on assets and liabilities due to changes in interest rates.



### **CONTINUITY OF EXTRAORDINARY GAIN OR LOSS**

There was no any extraordinary gain or loss in the Financial Statements.

### **RELATED PARTY TRANSACTIONS**

Related party transactions are depicted in note-31 in the notes to the Financial Statements.

### **UTILIZATION OF PROCEEDS RAISED THROUGH PUBLIC ISSUE (IPO)**

The Company has raised taka 150 crores from the market and as mentioned in the prospectus, it is committed to spend the fund for expansion the business and equity collection cost. The IPO proceeds has been utilized in line with the condition of the commission's consent letter. As of November 2020, the Company has utilized the IPO proceeds as follows:

Sl. No.	Purpose Mentioned in the Prospectus	Status of Utilization		Status of Un-tilization		Remarks
		Upto this month	Utilized (%)	Total Un-utilized Amount	Un-utilized (%)	
1	Building and civil construction	502,636,443	50.05	501,579,057	49.95	
2	Machineries	58,600,000	13.58	372,796,000	86.42	
3	IPO Expenses	64,388,500	100	-	-	
	<b>Total</b>	<b>625,624,943</b>		<b>874,375,057</b>		

Explanation if the financial result deteriorate after the Company goes for Initial Public Offering (IPO)

The Company's financial performance did not deteriorate after IPO listing; however, recent past years performances are quite consistent.

Explanation of significant variance occurs between Quarterly Financial Performance and Annual Financial Statements

No significant variance between Quarterly Financial Performances and Annual Financial Statements has been arisen.

### **REMUNERATION TO DIRECTORS INCLUDING INDEPENDENT DIRECTORS**

Remuneration of Directors has been shown in Note-34 in the notes to the financial statements. No such remuneration is given to the Independent Directors.

### **FAIR PRESENTATION OF FINANCIAL STATEMENT**

The financial statements prepared by the management of the Company present fairly its state of affairs, result of its operations, cash flows, and changes in equity.

### **MAINTENANCE OF PROPER BOOKS OF ACCOUNT**

Proper books of account of the Company have been maintained.

### **ADOPTION OF APPROPRIATE ACCOUNTING POLICIES AND ESTIMATES**

Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

### **IAS AND IFRS IN PREPARATION OF FINANCIAL STATEMENTS**

International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.

### **INTERNAL CONTROL SYSTEM**

The Board of Directors assures the shareholders that the Company has a risk management process to ensure that the system of internal control is sound in design and has been effectively implemented and monitored. Although it is possible

that all risks to the business are not known at present, the Company takes reasonable steps to identify material risks that may hamper business results and systematically reviews these risks in light of the changing internal and external environment in order to assess that the controls in place are adequate to address these risks.

### **MINORITY SHAREHOLDER INTEREST**

As being the Company's has no any subsidiary or associate so that there has no activities to protect the interest of minority shareholders.

### **GOING CONCERN**

The Company has adequate resources to continue its operation for foreseeable future and hence, the Financial Statement have been prepared on going concern basis. As per management's assessment there are no significant doubts about the Company's ability to continue as a going concern.

### **DIVIDEND**

The Board of Directors have recommended 15% Cash Dividend per share for the year ended 30 June 2020 for shareholders' subject to approval by the shareholders in the 20th Annual General Meeting.

### **INTERIM DIVIDEND**

No bonus or stock dividend was declared during the period under review as interim dividend

### **BOARD MEETINGS**

During the period from 01.07.2019 to 30.06.2020 five board meetings were held. The attendance status of all the meetings is as follows:

Name of Directors	Position	Meeting Held	Attended
Md. Mofazzal Hossain	Chairman	5	5
Md. Ehsanul Habib	Managing Director	5	2
Arifur Rahman	Director	5	2
Md. Muddasar Hossain	Director	5	5
Mrs. Peara Begum	Director	5	5
Swapan Kumar Sarkar	Independent Director	5	5
Placid Gomes, FCA	Independent Director	5	5

### **SHAREHOLDING PATTERN**

Pattern of Shareholding as on 30 June 2020:

Shareholdings Category	Number of Shares	In %
Sponsors/Directors	63,355,970.00	46.95
Individual Shareholders	17,532,756.00	13.00
<b>Institutional Shareholders</b>	<b>54,007,107.00</b>	<b>40.05</b>
Esquire Group	36,644,030.00	27.17
Others	17,363,077.00	12.88
Foreign Shareholders	-	-
<b>Total</b>	<b>134,895,833.00</b>	<b>100.00</b>

## DIRECTORS' APPOINTMENT AND RE-APPOINTMENT

With regard to the appointment, retirement and re-appointment of Directors, the company is governed by its Articles of Association, the Company Act 1994 and other related legislation. Md. Mofazzal Hossain and Md. Ehsanul Habib, will retire and re-elected by rotation at the 20th Annual General Meeting (AGM).

### **Md. Mofazzal Hossain**

*Chairman*

Mr. Md. Mofazzal Hossain has business experience for more than 30 years. He has a long experience in managing export oriented readymade garments industry, textile dyeing industry, trading of electronics goods and many other business. He has successfully started journey by Esquire Electronics Ltd. in July 1989 for trading of electronics goods. Moreover, he is also the pioneer and leading in electronics product marketing and textile dyeing industry. Mr. Hossain is a visionary entrepreneur and founder of the Esquire Group. His particulars of Directorship are narrated in note-31 (ii) at notes to the Financial Statements.

### **Md. Ehsanul Habib**

*Managing Director*

Mr. Md. Ehsanul Habib is the Managing Director of Esquire Knit Composite Ltd. He is one among new generation entrepreneurs those who have nourished and successfully flourished the export oriented RMG industry of the country. After successfully completing his education in Business Administration from USA, Mr. Habib joined Esquire Group. By virtue of his own merit and dynamic decision making capacity, he has been able to materialize a number of successful ventures. He has a keen interest in latest developments in textile sector and gathered advanced knowledge in management, marketing and technical knowhow. Mr. Habib is entrusted with the responsibility of overall management of textile division who is assisted by other directors, professional managers, local and foreign specialists and technologists in the respective functional areas of the Company. His particulars of Directorship are narrated in note-31 (ii) at notes to the Financial Statements.



## **STATUTORY AUDITORS**

The existing auditor's M/S ACNABIN, Chartered Accountants, BDDL Bhaban (Level 13-14) 12 Karwan Bazar C/A, Dhaka-1215 regret to conduct audit and M/S Mahfel Huq & Co. Chartered Accountants was accepted appointment to conduct audit. The Board of Directors recommended to appoint M/S Mahfel Huq & Co. Chartered Accountants as Auditor of the Company for the year ended 30 June 2020 at a remuneration as per rules of ICAB plus VAT and to continue till conclusion of the 20th AGM.

## **COMPLIANCE AUDITOR**

M/S Chowdhury Bhattacharjee & Co., Chartered Accountants, the present compliance auditor of the company, retired at this Annual General Meeting, being eligible, offered themselves for re-appointment. The Board in its meeting held on 03 November 2020 recommended to re-appoint M/S Chowdhury Bhattacharjee & Co., Chartered Accountants as the compliance auditor of the Company for the year 2020-2021 at such remuneration fix in the Annual General Meeting.

## **REPORT ON COMPLIANCE OF THE CORPORATE GOVERNANCE CODE**

Corporate Governance practices described on page no. 58 to 64 of the Annual Report.

In compliance with the BSEC notification dated 3 June 2018, Chowdhury Bhattacharjee & Co., Chartered Accountants in practice issued the Corporate Governance Compliance Certificate which is shown on page no. 57 of this report.

## **ACKNOWLEDGMENT**

The Board of Directors express their heartfelt appreciation and gratitude for the continued support and patronage of the valued shareholders to run the Company. The Board also extends its appreciation to the regulators, government agencies and stakeholders especially Bangladesh Securities and Exchange Commission, Bangladesh Bank, Central Depository Bangladesh, Dhaka Stock Exchange, Chittagong Stock Exchange, Department of Customs, Income Tax, Bankers, Insurers, Vendors, press and media and customers. The Board also extends felicitations to the management and employees for their dedication and working hard despite all adversity. We look forward to continue support of all concerned for marching towards better performance.



**Mrs. Peara Begum**  
Chairman of the Board