

DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors, I would like to submit herewith the 26th Annual Report of the Company together with the audited Financial Statements for the year ended June 30, 2020 and the Auditors' Report thereon.

Prime Activities

Hamid Fabrics Limited (HFL) is one of the leading manufacturers of high quality textiles in Bangladesh. Because of superior quality, HFL's products are nominated by globally renowned buyers such as GAP, Zara, Marks & Spencer, Tommy Hilfiger, H&M for sourcing textile to RMG manufacturers in Bangladesh.

The product range offers 100% cotton fabrics as well as blended fabrics such as cotton/polyester, cotton/viscose, nylon/cotton and cotton/lycra. The weaving unit produces gray fabrics in various design and constructions such as Twill, Canvas, Oxford, Rib stop, Rib cord, Ottoman, Herringbone, and various dobby designs with weight range of 100-450 GSM. The finishing mix of Hamid Fabrics Limited comprises water repellent, fire proof, wrinkle free, teflon coating, aero finish and chintz finish etc. The major markets for HFL's products are the United States of America and the European Union.

Financial Results

The financial results are presented in brief below:

Particulars	2019 -20(Taka)	2018-19(Taka)
Revenue	1,595,120,149	1,969,434,335
Gross Profit	383,359,343	501,030,283
Operating Profit	183,206,106	303,459,940
Profit Before Tax	68,230,173	166,128,112
Net Profit	38,014,465	113,574,239
Retained earnings brought forward	1,088,194,234	1,013,168,740
Profit available for appropriation	1,087,372,765	1,088,194,234
Appropriation:		
Proposed cash dividend	44,292,518	44,292,518
Retained earnings carried forward	1,043,080,247	1,043,901,716

Dividend

The Board of Directors of the Company is pleased to recommend dividend @10% cash for general shareholders only for the year 2019-20 i.e. for the Shareholders other than Directors.

Additional statements by the Board of Directors as per notification dated 3 June 2018 of Bangladesh Securities and Exchange Commission

(i) Industry outlook and possible future developments in the industry

The textile sector of the Country is passing a critical time now. Stiff competition with peers in the Country as well as with other countries in this region, the sector shows a declining trend of export for some time. Yet, means and ways are being devised by the industry and the local entrepreneurs to address the challenges ahead with past experience and stay competitive. The recent global trade war has created scope for better business prospect.

The government is providing fiscal and other incentives for the RMG sector to stay competitive in the changing global business arena. The entrepreneurs along with their association, BGMEA are devising ways and means that include more involvement in research and development activities, product diversification and value addition. Good news is that globally demand of readymade garments is increasing, but there is a shift of consumption pattern that needs to be adapted timely.

(ii) Segment/Unit wise or product wise performance

Hamid Fabrics Limited has three production units: 1) Woven Fabric, 2) Gray Fabric and 3) Yarn Dyeing which are interdependent. Woven Fabric has installed capacity to produce 32.40 million yards of finished dyed fabrics annually. Weaving unit is a renovated unit having annual capacity of 9.88 million yards of gray fabrics and Yarn Dyeing unit has an annual capacity of dyeing 1.37 million kg of yarn.

The following table illustrates the production capacity of different units and its utilization:

Particulars	Unit	Installed capacity	Utilization during the period	Utilization
Woven Fabric *	Yard	21,600,000	13,040,460	60.37%
Gray Fabric *	Yard	9,878,000	6,551,981	66.33%
Yarn Dyeing	Kg.	1,368,750	620,854	45.36%

*Production capacity for two shifts.

iii) Risks and concerns

Risk refers to the variability of expected outcome, which is a complex and multifaceted phenomenon. Investment in equity securities involves a high degree of risk, which needs to be explicitly evaluated while making an investment decision. Hamid Fabrics Ltd is operating in an industry that is subject to both external and internal risks. Some of these risks can be managed while some are beyond control, which may result in loss for investors. However, the management of the Company constantly explores ways and means for mitigating such risks.

MANAGEMENT RISK

The textile industry of Bangladesh already experiences a great shortage of skilled management personnel. Because of high demand from employers they tend to switch between jobs for financial and other benefits. Hence, if a key manager, executive or employee quits his/her job, it could affect business continuity, operating results and future growth of HFL. Management risk also arises from succession crisis if subsequent teams of leadership are not created within the organization.

Management perception about this Risk

The Company places a great importance to human resource and leadership development. The staff is brought under relevant on-the-job, in-house and external training programs. HFL recognizes the commitment and contribution of employees for the growth of the Company. A culture of objective performance appraisal and effective reward system has helped to create job-security and motivation of employees. As a result, HFL has relatively low employee turnover in key management positions. Key management team of HFL is almost unchanged for more than five years, which shows the general loyalty to the organization. HFL has developed layers of alternative leaderships in all critical areas of its activities.

OPERATIONS RISK

This involves the risk of not being able to maintain the expected performance by the Company. Such risk could arise from both internal and external factors discussed above such as industry, management, technology, regulations, utilities etc.

Management perception about this Risk

As explained above, operations risk could arise from a variety of factors. The risk mitigation strategies for such factors have been explained separately above. The experienced management team continuously monitors the new developments in these areas in order to take proactive measures to minimize any negative implications to the Company and capitalize on potential opportunities.

MARKET RISK

Market risk arises from adverse market conditions affecting sales and profitability of any Company. A few factors may trigger market risk for HFL such as changes in consumer behaviours, demographics, introduction of substitute products, competition and other unfavourable global conditions such as economic depression, wars etc.

Management perception about this Risk

HFL is a textile manufacturer producing inputs for the export oriented Ready Made Garment units in Bangladesh. Because of established track record of shorter lead time and quality of products, the Company enjoys a steady growth in supply orders. In addition to this, strong research & development, marketing and brand management have helped the Company to increase its customer base. As a result, HFL has already achieved recognition from globally renowned buyers like Marks & Spencer, H&M, PVH, Tema, Next, C&A, S'Oliver etc. and remains as one of the market leaders in Bangladesh for solid dyed fabrics.

INDUSTRY RISKS

Unexpected technological developments and regulatory changes that are specific to the Textile & Apparel industry might have an adverse impact on the business performance of the Company. It also involves the risk of increased competition arising from foreign and domestic textile manufacturers resulting in contraction of profit margin and loss of market share. Further, the textile industry is heavily dependent on the performance of RMG industry, which faces threats stemming from international competitors viz. China, India and Vietnam etc. Hence the textile industry of Bangladesh is always under pressure to deliver cost-efficient and quality fabrics.

Management perception about this Risk

HFL keeps pace with technological advancements using modern machineries and equipment. Moreover, the modern technology has not cannibalized the traditional manufacturing methods such as hand looms indicating a lower level of obsolescence risk. The Textile & Apparel is a priority sector for the Government and it is unlikely that the Government will impose unfavorable regulatory changes to this industry.

(iv) Discussion on Cost of Goods Sold, Gross Profit Margin and Net Profit Margin

Particulars	2019 -20 (Taka)	2018-19 (Taka)
Revenue	1,595,120,149	1,969,434,335
Cost of goods sold	(1,211,760,806)	(1,468,404,052)
Gross profit	383,359,343	501,030,283
Profit before tax	68,230,173	66,128,112
Net profit	38,014,465	113,574,239

Revenue, gross profit and net profit of current year have reduced by 19.01%, 23.49% and 66.53% respectively compared to that of last year due to COVID-19 pandemic, which has been disclosed in the Financial Statements under note no. 41.

- (v) Discussion of continuity of any Extra Ordinary gain or loss**
No such material gain or loss during the year.
- (vi) Basis for related party transactions**
Related party transactions are stated in note 34 of the Financial Statements.
- (vii) Utilization of proceeds from Public Issue**
No such incidence during this financial year.
- (viii) Explanation if the financial results deteriorate after the Company goes for IPO**
Explained under note no. 41 of the Financial Statements.
- (ix) Explanation of significant variance occurs between Quarterly Financial Performance and Annual Financial Statements**
During First Quarter ended on September 30, 2020; Revenue has reduced to Tk. 256.16 million from previous year of Tk. 440.37 million due to impact of COVID- 19 pandemic. As a result, profitability during the quarter has affected significantly.
- (x) Remuneration paid to Directors including Independent Directors**
Remuneration to Directors has been shown in note no. 27 of the Financial Statements.
- (xi) Fairness of Financial Statement**
The Financial Statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity. A declaration by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) in this regard is published on page 20.
- (xii) Maintenance of proper books of account**
Proper books of account have been maintained by the Company.
- (xiii) Adoption of appropriate accounting policies and estimates**
Appropriate accounting policies have been consistently applied in preparation of the Financial Statements and the accounting estimates are based on reasonable and prudent judgment.
- (xiv) Compliance with Accounting and Financial Reporting Standards**
International Accounting Standard (IAS), Bangladesh Accounting Standard (BAS), International Financial Reporting Standard (IFRS) and Bangladesh Financial Reporting Standard (BFRS), as applicable in Bangladesh, have been followed in preparation of the Financial Statements.
- (xv) Soundness of Internal Control System**
Internal Control System is sound in design and has been effectively implemented and monitored.
- (xvi) Protection of interest of minority shareholders**
The Board of Directors is very concerned of and committed to protection of interest of minority shareholders. Management has been instructed to take sincere and timely measures to address any valid grievances raised by the shareholders. Contact numbers with email address of the concerned person have been published on the website of the Company for communication.
- (xvii) Ability to continue as going concern**
There is no significant doubt upon the Company's ability to continue as a going concern.
- (xviii) Significant deviations in Operating Results compared to last year**
Revenue, gross profit and net profit of current year have reduced by 19.01%, 23.49% and 66.53% respectively compared to that of last year due to COVID-19 pandemic, which has been disclosed in the Financial Statements under note no. 41.

(xix) Key operating and financial data of preceding 5 (five) years

Provided on page no. 17

(xx) Reasons for not declaring dividend

Not applicable.

(xxi) No bonus share or stock dividend has been declared or shall be declared as interim dividend

Management asserts that no bonus share or stock dividend has been declared or shall be declared as interim dividend.

(xxii) Number of Board Meetings held during the year and attendance

Name of Directors	Meetings held	Meetings attended
Abdullah Al Mahmud	6	5
AHM Mozammel Hoque	6	6
Salina Mahmud	6	5
Nusrat Mahmud	6	4
Nabila Mahmud	6	5
Farhana Danesh	6	6
Riaz Ur Rahman	6	4
Dr. M. Waliuzzaman	6	5

(xxiii) Shareholding pattern as on June 30, 2020

(a) Parent/Subsidiary/Associated Companies and other related parties

Name	No. of Shares held	% of holdings
Crystal Insurance Co. Ltd. (Common Director)	2,015,000	2.21

(b) Shareholding position:

Directors/ Sponsors	46,786,161	51.38
Institute	26,097,763	28.66
General Public	18,176,388	19.96
Total	91,057,312	100.00

(c) Directors, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children

Name	Status	No. of Shares held	% of holdings
Abdullah Al Mahmud	Managing Director	28,975,635	31.82
AHM Mozammel Hoque	Chairman	1,837,166	2.02
Salina Mahmud	Director	4,809,131	5.28
Nusrat Mahmud	Director	4,647,431	5.10
Nabila Mahmud	Director	4,647,431	5.10
Farhana Danesh	Director	1,848,000	2.03
ASM Mijanur Rahman	Company Secretary	-	-
Md. Mushaddeque Ali	Chief Financial Officer	-	-
Md. MarufShahria	Head of Internal Audit	-	-

(d) Shareholdings of top five executives

Name	Status	No. of Shares held	% of holdings
Mir Azharul Islam	Chief Operating Officer	-	-
Mahmudul Alam Jewel	Dy. General Manager	10,000	0.01
Md. Rezaul Haque	Dy. General Manager	-	-
Sharif Mohammad Barea	Dy. General Manager	-	-
Ashok Kumar Das	Dy. General Manager	-	-

(e) Shareholders holding 10% or more voting interest in the Company

Name	Status	No. of Shares held	% of holdings
Abdullah Al Mahmud	Managing Director	28,975,635	31.82

(xxiv) Appointment/ re-appointment of Directors

The following Director will retire as per Articles of Association of the Company and be eligible for re-appointment:

Mr. AHM Mozammel Hoque will retire in the AGM to be held on 26-12-2020 and is eligible for re-election as per Articles of Association of the Company.

Brief resume of the Director:

Mr. AHM Mozammel Hoque is a Sponsor Director of Hamid Fabrics Limited (HFL). He completed his Bachelors of Commerce degree from Jagannath College in 1960. He has been actively involved in the textile sector for more than 21 years. Prior to joining HFL, he was Deputy Chief Accountant in Bangladesh Jute Mill Corporation (BJMC) for 25 years. After that, he entered the RMG business in 1993. Apart from being a founder director of HFL, Mr. Hoque is also founder Director of Hamid Weaving Mills Limited, Tazrian Weaving Mills Limited and Crystal Insurance Company Limited.

Directors Responsibilities for Financial Statements

The Financial Statements together with notes thereon have been drawn up in conformity with the Companies Act 1994 and Securities and Exchange Rules 1987. These statements present fairly the Company's state of affairs, the result of its operation, cash flow and changes in equity.

- i) Proper books of accounts of the Company have been maintained.
- ii) Appropriate accounting policies have been applied consistently in preparation of the Financial Statements and the accounting estimates are based on reasonable and prudent judgment.
- iii) The International Financial Reporting Standard, as applicable in Bangladesh, has been followed in the preparation of the financial statements.
- iv) The systems of internal control are sound and have been implemented and monitored effectively.
- v) There are no significant doubts upon the Company's ability to continue as a going concern.
- vi) The key operating data and financial data for the last 5 (Five) years stated on page – 17

Chief Financial Officer, Head of Internal Audit and Company Secretary

The Company has distributed clearly defined responsibilities to the following positions for smooth functioning of activities of the respective departments:

Chief Financial Officer	: Md. Mushaddeque Ali
Head of Internal Audit	: Md. Maruf Shahria
Company Secretary	: ASM Mijanur Rahman

Credit Rating

Credit Rating Agency of Bangladesh Limited (CRAB) has assigned the following ratings to Hamid Fabrics Limited:

Long Term	Short Term	Outlook
AA ₃	ST - 2	Stable

AA3 implies that companies rated in this category have very strong capacity to meet financial commitments. These companies have judged to be of very high quality, subject to very low credit risk.

ST – 2 indicates that the degree of safety regarding timely payment on loans/ facilities is strong. The outlook of the Company is projected to be stable.

Corporate Social Responsibilities

The Company provided financial support to the poor for medical treatment.

The Company provided financial support for performing holy Hajj.

Financial support made to poor and deserving people.

Priority of employment of facilities for eligible member of the deceased employees' families.

Statutory Auditors

The auditors, M/S Zoha Zaman Kabir Rashid & Co., Chartered Accountants will retire and being not eligible for reappointment, the Board recommended M/S Hoda Vasi Chowdhury and Co., Chartered Accountants for appointment as Auditors of the Company for the year 2020-21.

Compliance Auditors

The Board of Directors has recommended M/S Shafiq Mizan Rahman & Augustine, Chartered Accountants as Compliance Auditors for certification on Corporate Governance Code for the year 2020-21.

The Shareholders are now requested to consider and adopt the annual Financial Statements, Auditors' report, Directors' report, and other reports for the year 2019-20.

Thank you very much!

On behalf of the Board of Directors,

Sd/-

AHM Mozammel Hoque

Chairman