

DIRECTORS' REPORT

Year Ended June, 2021

To the Members of
Square Textiles

In terms of provisions of Section 184 of the Companies Act 1994, Rule 12 (and the schedule there under) of the Bangladesh Securities and Exchange Rules 1987, BSEC Notification on CGC dated 3rd June, 2018 and IAS-1 (International Accounting Standards-1) codes as adopted by The Institute of Chartered Accountants of Bangladesh (ICAB), it is the pleasure of the Board of Directors to submit its Report to the Members of the Company for the year ended 30 June, 2021 in the following paragraphs:

OPERATIONAL OVERVIEW:

TEXTILES SECTOR

Bengle was one of the most prominent textile manufacturing centers from the 16th through the 18th century, while it was under Mughal rule. Since 1971, after the liberation war, Bangladesh's economy was primarily agriculture oriented. At that time, Bangladesh, though initially had adopted industrialization on the "Import-substitution" concept, but it gradually changed to "Export" oriented industrialization by focusing on the textile sector. And at present, Bangladesh has become the world's second largest RMG exporter.

Bangladesh textile sector registered a double-digit growth in demand for inspections (increasing work orders) for textile and garment items from international retailers and brands in the first quarter of 2021 compared to Q1 of 2020 and 2019, indicating sustained expansion over pre-pandemic levels rather than a simple rebound.

Bangladesh's modern textile industry is now one of the most significant sectors of the Bangladeshi economy. This industry employs around 20 million people in the country. Most of the workforce in the textile industry is made

up of women, and is a key driving force in the country's economy.

Bangladesh has become the 2nd largest RMG exporter in the world and it contributes 20% to Bangladesh's GDP.

With robust demand in the garment sector, Bangladesh's textile industry has a very bright future. However, there are several hurdles that Bangladesh must overcome in order to survive and grow in this field. We all know that plentiful natural gas, cheap labor, and energy are the backbone of this sector. In recent years, this issue has become antagonistic, though policy-makers are consciously formulating the necessary adjustments to protect this vital sector.

However, infrastructure like as ports, highways, technical institutions, and unions expanded, and soon a slew of Asian countries will become home to the world's finest seamstresses.

OPERATIONAL PERFORMANCE

Bangladesh's textile spinning industry is having a boom time, as yarn sales and consumption by local garment factories are increasing rapidly.

Spinning mills have also fared exceptionally well in the previous two and a half years, from the beginning of 2019 to July 2021.

Although the pandemic caused by the novel Coronavirus has been going on for more than a year and a half, which has caused disruption for the millers as well as for the whole apparel supply chain and the textile companies were adversely affected at one point during the COVID-19 pandemic in 2020.

However, beginning from November 2020, demand for yarn in both the domestic and

international markets had been increasing at a faster rate and is continuing. On top of that, the yarn prices increased at a higher ratio in comparison with the raw material prices.

And Square Textiles attained a higher growth in revenue by 25.45% and 28.42% during the year 2020-2021 at Standalone and Consolidated levels.

STANDALONE

The Revenue from operations and Operating Profit stood at BDT 11,924.70 and 1,094.44 million, compared to BDT 9,505.33 and 443.97 million respectively in the previous year, an increase of 25.45% and 146.51%.

The Net Profit increased by 1,110.30% to BDT 621.63 million, up from BDT 51.36 million the previous year.

CONSOLIDATED

The Revenue from operations and Operating Profit stood at BDT 13,293.57 and 1,166.76 million, compared to BDT 10,351.45 and 476.12 million respectively in the previous year, an increase of 28.42% and 145.06%.

The Net Profit for the year was also registered an upward trend that reached BDT 671.86 million, against BDT 53.33 million in the previous year, an increase of 1,160%.

COMPANY'S OPERATIONS

Square Textiles has more than 24 years of experience and competency in the yarn spinning arena, and is one of the largest producers of knitting and weaving yarns in Bangladesh.

Today it has one of the most sophisticated vertically integrated set-ups in which Square Textiles group enterprises produce around 153 tons of yarn every day.

Square Textiles focuses on more sustainable and eco-friendly products, namely Organic, BCI, Tencel, Re-cycle (Cotton and Polyester) etc. They are also developing more value-added products, i.e., Galaxy, Flutter, Lurex, Mozaik, Neppy, Snow, Siro etc., which are more fashion trendy and higher export value.

Products by Square Textiles are internationally recognized by its loyal clients for their exceptional quality and devoted services.

CAPACITY/PRODUCTION

During the last few years, we have faced hard competition in the national and international markets. To cope with the situation, we have adopted multiple product mix to attain high margin benefits as an alternative production technique. Hence, we have restated the production capacity installation criterion and actual production quantity to make them (The production data) equivalent and comparable. The production efficiency increased in 2020-21 to 98.14% from 97.03%, more than that of 2019-20.

The total installed production capacity (at an average of 30s Ring and 14s O/E counts) as on June 30, 2021 was as follows:

Spindles/Rotors	In Nos.	
	2020-21	2019-20
Installation:		
Spindle Installed	125,878	125,878
Rotor head Installed	4,792	3,960
Vortex head Installed	2,784	2,784
Operation:		
Spindle Operated	125,878	125,878
Rotor head Operated	4,792	3,960
Vortex head Operated	2,784	2,784

Product Capacity Installed	in Kg	
	2020-21	2019-20
Equivalent to-		
30s Count (Ring Yarn)	19,343,617	18,795,241
14s Count (O/E Yarn)	10,741,362	91,74,634
30s Count (Vortex Yarn)	10,426,317	10,305,628
Total -	40,511,296	38,275,503

Actual Production	in Kg	
	2020-21	2019-20
Actual Production	42,831,924	38,857,870
Equivalent to-		
30s Count (Ring Yarn)	19,008,553	18,305,990
14s Count (O/E Yarn)	10,521,594	8,810,382
30s Count (Vortex Yarn)	10,228,368	10,021,643
Total -	39,758,515	37,138,015

Production Efficiency	in %	
	2020-21	2019-20
Equivalent to-		
30s Count (Ring Yarn)	98.27	97.40
14s Count (O/E Yarn)	97.95	96.03
30s Count (Vortex Yarn)	98.10	97.24
Total (Average) -	98.14	97.03

COST OF PRODUCTION

The production cost has fluctuated throughout the years, owing mostly to wide fluctuations in the prices of raw cotton, packaging materials, fuel & power and spare parts, all of which were beyond the Management's control.

The level of costs and their incidence are given below:

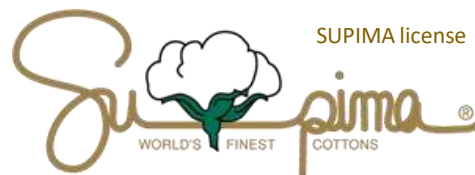
	in Ton	
	2020-21	2019-20
Output of Yarn	42,832	38,858

Cost of Major Items	in Tk. '000	
	2020-21	2019-20
Raw Material Consumed	7,660,971	6,631,043
Packing Materials	119,096	89,354
Fuel/Power etc.	850,559	628,469
Spare Parts	224,258	181,561
Other Overhead	1,572,883	1,386,070
Total Cost -	1,0427,767	8,916,497

Unit Cost/Kg.	in Tk.	
	2020-21	2019-20
Raw Material	178.86	170.65
Packing Materials	2.78	2.30
Fuel/Power etc.	19.86	16.17
Spare Parts	5.24	4.67
Other Overhead	36.72	35.67
Total Unit Cost-	243.46	229.46
Raw Material Cost % of Total Cost-	73.47%	74.37%

The above result illustrates that, while raw material costs per unit increased by 4.81%, packing materials costs increased by 20.87%, fuel/power impact on its financials increased by 22.82%, spare parts costs increased by 12.21%, and other overhead costs increased by 2.94%, leading to a total unit cost increase of 6.10% in 2020-21 over 2019-20.

Due to the COVID-19 pandemic, the price of raw cotton on the international market was significantly unstable during the financial year under review.



MARKETING OPERATIONS:

MARKET EXPOSURE

Over the years, the company's marketing operations maintained an emphasis on export sales, as depicted below:

	in '000	
	2020-21	2019-20
Quantity Sold (Kg)		
Export Sales	43,485	38,361
Total -	43,485	38,361
Sales Revenue (Tk.)	in '000	
	2020-21	2019-20
Export Sales	11,924,705	9,505,326
Total -	11,924,705	9,505,326

According to the figures above, it illustrates that the sales volume increased by 13.36% while the sales revenue increased by 25.45% in the year 2020-2021 over 2019-2020.

UNIT SELLING PRICES ATTAINED

The selling prices (Taka/Kg) have changed over the years, as shown below:

	2020-21	2019-20
Export Sales	274.23	247.79
Total -	274.23	247.79

A 10.67% increase in the Selling Price in the year 2020-2021 under review over the previous year 2019-2020, depicts the aforementioned data, which caused the export demand and the price of cotton yarn to increase in the international market.

CAPITAL EXPENDITURES

In order to continuously upgrade and increase the productive facilities, Square Textiles made an additional net capital expenditure of Tk. 593.35 million during the year 2020-2021, which is depicted below:

	in '000	
	2020-21	2019-20
Land/Civil Construction	13,251	115,621
Plan & Machinery	573,771	724,867
Other Fixed Assets	6,329	32,793
Total -	593,351	873,281

SALES



INDUSTRY OUTLOOK

In the wake of changing world demand structure of Bangladesh is on the right track of progressive higher demand for garments of mid to higher quality brands due to fiscal war between the large economics such as USA, China, EU etc.

The sector offers great scope of expansion and double the foreign exchange earnings provided Government rationalizes fiscal/ monetary policies and provide necessary both monetary/non- monetary support/incentives to local as well as strategic investors.

FINANCIAL RESULTS

The Company's operating financial results, as compared to the previous year are summarized hereunder:

Particulars	2020-2021	2019-2020	↑↓ in %
Turnover	11,924,704,664	9,505,326,369	25.45 ↗
Cost of Goods Sold	10,588,987,142	8,822,382,013	20.02 ↗
Gross Profit	1,335,717,522	682,944,356	95.58 ↗
Administrative Expenses	224,235,269	225,411,308	0.52 ↘
Selling & Dist. Expenses	17,039,457	13,562,392	25.64 ↗
Operating Income	1,094,442,796	443,970,656	146.51 ↗
Finance Cost	344,165,255	365,116,812	5.74 ↘
Other Income	19,475,519	15,793,123	23.32 ↗
Net profit before WPPF	769,753,060	94,646,967	713.29 ↗
Contribution WPPF	36,654,908	4,506,998	713.29 ↗
Net profit (Before Tax)	733,098,152	90,139,969	713.29 ↗
Provision for Income Tax	63,473,385	59,784,898	6.17 ↗
Provision for Deferred Tax	47,990,713	-21,006,764	328.45 ↘
Net Profit (After Tax)	621,634,054	51,361,835	1,110.30 ↗
Gross Profit Margin	11.20%	7.18%	55.99 ↗
Net Profit Margin (AT)	5.21%	0.54%	864.81 ↗
EPS (Earning Per Share) in Taka	3.15	0.26	1,111.54 ↗

The Turnover, Gross Profit and Net Profit (After Tax) increased by 25.45%, 95.58% and 1,110.30% respectively during the year 2020-2021 in comparison to previous year of 2019-2020.

Gross Profit Margin, Net Profit Margin and Earning per Shares (EPS) rose by 55.99%, 864.81% and 1,111.54% respectively during the year under review.

The financial result of the Company for the year 2020-2021 depicts a significant increase due to higher productivity raising output by 4,000 tons (approx.) through BMRE in capital machineries with modern technologies and increasing manpower efficiencies. During the period, the selling price of yarn also jumped up to meet increased demand in the RMG

sector in both the local and international markets. These circumstances led to reduction the unit cost of production, which resulted in higher profitability during the year over in the previous year.

LOANS AND GUARANTEES

Details of loans granted and guarantees given during the year under review are depicted in Note No. 10, 14 and 37 of the standalone financial statement.

RELATED PARTY TRANSACTION

Square Textiles has engaged in a number of related party transactions, the details of which are detailed in Note No. 41 of the standalone Accounts.

FOREIGN EXCHANGE EARNED/SAVED

Square Textiles contributed substantially to the Foreign Exchange Reserve of the country during the year under review through its export marketing operation. This amounted to Tk. 3,213.63 million, which is 176.46% higher than that of the previous year. Details are depicted below:

	in '000	
	2020-21	2019-20
Total Export	11,130,595	8,805,045
Less Import		
Raw Materials	7,103,639	6,717,353
Spare Parts	270,282	193,588
Misc. (with BMRE)	543,047	731,680
Net Export	3,213,627	1,162,424

RISK & CONCERN

Absence of sustainable long range planning, inadequate strategic investment policies, variable/ uncertain fiscal & monetary policies, disorderly employment crises, Buyers' dominance, international trade barriers, internal law and order situation especially in transport sector and lack of appropriate infrastructure etc. offer risk of business and investment.

It is however, heartening to note that the Government recognizing the above mentioned factors is now taking various measures as a result of which Bangladesh has begun to step up its position in the "Doing Business" Index of the World Bank Ranking Hall of Progress.

INVESTMENT IN SUBSIDIARIES

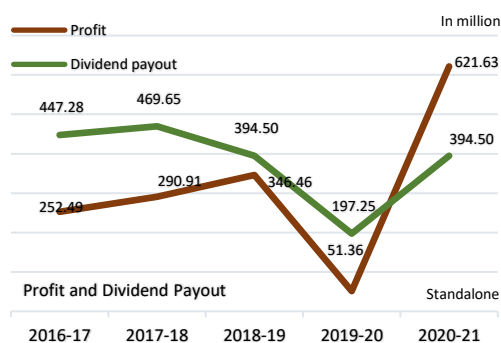
Square Textiles has invested Tk. 489,333,960 as equity holder (99.88%) in the capital of Square Texcom Limited.

As per provision of the Company Act 1994, Square Texcom Limited is a subsidiary of Square Textiles Limited and, as such, the Directors Report, along with the Auditors' Report and Audited Financial Statement, have been included as part of this report.

APPROPRIATION OF PROFIT

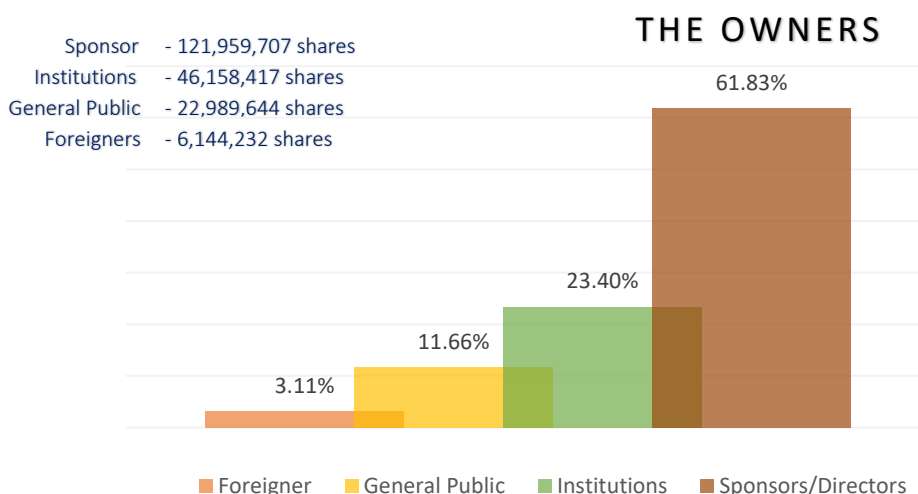
The Board of Directors recommended the appropriation of the net profit earned for the year ended June 30, 2021 in the following manner:

	in Taka
❖ Net profit (after tax) for the year ended June 2021.	621,634,054
❖ Recommended for Cash Dividend @20%.	394,504,000
❖ Net Un-appropriated Profit (for ploughing back)	227,130,054



MINORITY INTERESTS

In compliance with Condition No. 1(5) (xvi) of the Corporate Governance Code 2018 of BSEC, the Board hereby confirms that the interests of the minority shareholders have been duly protected in the Company.



CONTRIBUTION TO NATIONAL EXCHEQUER

Square Textiles contributed an amount of Tk. 136.82 million during the year to the National Exchequer as against Tk. 81.47 million in the previous year.

EXTRA-ORDINARY ACTIVITIES

The Company did not engage in or continue any extraordinary activities, and as a result, it did not suffer or gain any loss or gain as a result of such activities.

ELECTION OF DIRECTORS

Mrs. Anita Chowdhury and Mr. Tapan Chowdhury, Directors of the Company, retire as per articles 125 & 126 of the Articles of Association and being eligible, offer themselves for re-election.

A brief resume and other information about the above-mentioned directors are depicted in Annexure-ii.

APPOINTMENT OF STATUTORY AUDITORS

The existing Statutory Auditors of the Company, M/s K.M. Hasan & Co., Chartered Accountants, retired at this 26th Annual

General Meeting and being eligible, have offered themselves for reappointment as Statutory Auditors of the Company for the year 2021-2022.

The Board of Directors, in its meeting held on October 21, 2021, recommended their appointment.

APPOINTMENT OF COMPLIANCE AUDITORS

M/s Chowdhury Bhattacharjee & Co., Chartered Accountants, retired at this Annual General Meeting and being eligible, offered themselves for re-appointment as Compliance Auditor of the Company for the year 2021-2022.

The Board of Directors, in its meeting held on October 21, 2021, recommended their appointment.

TO APPROVE THE SALE OF GOODS TO THE SISTER CONCERN OF SQUARE TEXTILES LTD.

Square Textiles Ltd. is required to obtain approval of the shareholders with regard to the sale of goods to the sister concern amounting to 10% or above of the total revenue or turnover as shown on the

statement of profit or loss and comprehensive income for the immediate preceding financial year as per clause 1 of the Notification No. BSEC/CMRRCD/ 2009-193/10/Admin/118 dated March 22, 2021 by the Bangladesh Securities and Exchange Commission.

MANAGEMENT'S DISCUSSION & ANALYSIS

A Management's Discussion and Analysis signed by the Managing Director and presenting a detailed analysis of the company's position and operations, along with a brief discussion of changes in the financial statements and other requirements of the Corporate Governance Code, is disclosed in Annexure- iii of this report.

COSOLIDATION OF ACCOUNTS

In terms of BSEC Regulations, the company has consolidated the Accounts following the codes of International Accounting Standard - 28 & IFRS-10 reflecting shareholders gross benefits/value of investments.

The consolidated financial statements are included in this Annual Report.

CORPORATE GOVERNANCE COMPLIANCE REPORT

In accordance with the requirements of the Corporate Governance Code 2018 of the Bangladesh Securities and Exchange Commission, an additional statement in pursuance of Clause 1 (5), resume of the directors who shall be reappointed, Management Discussion Analysis, Certificate from the CEO and CFO to the Board, Certificate on Compliance of the Conditions of the Corporate Governance Code 2018 by the Compliance Auditors and Status of

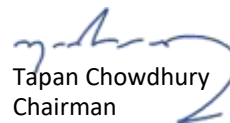
Compliance are depicted in the Annexure – i, ii, iii, iv, v, and vi respectively.

The Audit Committee Report, the Nomination and Remuneration Policy, and the Dividend Distribution Policy are also presented in the Annual Report.

MANAGEMENT APPRECIATION

The Board of Directors records with deep appreciation the performance of the management, the officers, staff and workers whose relentless efforts helped to increase productivity as well as the turnover despite the natural and unnatural adverse factors of production and marketing throughout the country and the world. It is expected the employees and management will continue to improve the results in the interest of shareholders, whose unwavering trust in management has always been an inspiration to the Board of Directors.

The Directors humbly express their gratitude and acknowledge with keen interest the cooperation and unflinching support they have received from various agencies, including the Bangladesh Securities and Exchange Commission, the Stock Exchanges, the National Board of Revenue and other agencies of the public and private sector. We look forward to a brighter future for all of us.


Tapan Chowdhury
Chairman

- In the event of conflict between English text and Bangla text of this report, English text shall prevail.