

# Directors' Report

Dear Shareholders,

On behalf of the Board of Directors of Shepherd Industries Ltd., I have the pleasure of welcoming you all to 20th Annual General Meeting. The Board of Directors is pleased to take the opportunity to present you the Audited Financial Statements of the Company for the Financial Year 2020-2021, Auditors' Report and the Directors' Report thereon along with Company's performance and other matters in terms of Companies ACT 1994, the guideline issued by Bangladesh Securities and Exchanges Commission and Bangladesh Accounting Standards.

## **AN INDUSTRY OUT LOOK AND POSSIBLE FUTURE DEVELOPMENTS IN THE INDUSTRY:**

Before the pandemic hit, the manufacturing industry was working to regain the momentum it had reached after the 2008 recession. However, after the first wave of pandemic-driven shutdowns, segment recoveries for various manufacturers have been uneven. Looking ahead to 2021, the recovery may take longer to reach pre-pandemic levels, as Deloitte projections based on the Oxford Economic Model (OEM) anticipate a decline in annual manufacturing GDP growth levels for 2020-2021, with a forecast of -6.3% for 2020 and 3.5% for 2021.

Reeling from the effects of a global pandemic-driven shutdown, US industrial production (-16.5% year over year) and US total factory orders (-22.7% year over year) saw a steep decline in April, followed by suppressed improvement. The current US Industrial Production Index stands at 105.7 in December (the most recent month available), a substantial dip from its pre-pandemic level of 110. Production and order levels are still below 2019 levels, but the trajectory of the decline has slowed. Total industrial capacity utilization improved to 74.5% in December, up from 64.1% in April; however, it's still below pre-pandemic levels of 77%.

2020 also experienced a significant dip in manufacturing employment levels, largely due to forced shutdowns in the early days of the pandemic and suppressed orders, with April recording manufacturing's lowest employment levels since 2010. Despite recent gains from much of the country's manufacturing base back in operation, employment levels in December are still 543,000 lower than in February. All of these indicators have created an environment of ongoing uncertainty, although 63% of executives in Deloitte's post-election poll are showing a somewhat or very positive outlook on business.

The managements are always careful about to sustain up the shareholder's wright. The company is in the process of implementing a new product line Knit Fabrics as a part of the ongoing expansion and product diversification to cope up with the competitive business condition. In this regard the company has completed installation of machineries of the Knit Fabrics Unit and successful trial production of which is already initiated. Total cost of machineries for establishment of the Knit Fabrics Unit is approximately US\$11,41,931. The management of the company has already decided to start commercial production of the Knit Fabrics unit on October 26, 2021.

Knit Fabrics has a huge demand and the new product line will contribute an additional Tk. 120 crore (Approx) to the revenue of the Company and the Net profit of the Company will increase by BDT 10.00 Core after tax (Approx.).

## **SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE**

The company operates in single segments, so segment reporting is not applicable.

## **RISK EXPOSURE**

### **Interest rate risk**

Interest rate risk is the risk that Company faces due to unfavorable movements in the interest rates. Changes in the government's monetary policy, along with increased demand for loans/ investments tend to increase the interest rates. Such rises in interest rates mostly affect companies having floating rate loans or companies investing in debt securities.

### **Management perception**

The Company maintains low debt/ equity ratio and accordingly, adverse impact of interest rate fluctuation is insignificant. Considering the global economy and inflection of overseas financing, financial institutions in Bangladesh reducing lending rate creating an opportunity for saving in financial cost.

### **Exchange rate risk**

Exchange rate risk occurs due to changes in exchange rates. As the Company imports materials and equipment from abroad and also earns revenue in foreign currency, unfavorable volatility or currency fluctuation may affect the profitability of the Company. If exchange rate increases against local currency, opportunity arises for generating more profit.

**Management perception**

The company purchase raw materials and sells finished product mostly in US\$ currency and the transaction would settle within very short period. Therefore, volatility of exchange rate will have no impact on profitability of the Company.

**Industry risks**

Industry risk refers to the risk of increased competition from foreign and domestic sources leading to lower prices, revenues, profit margin, and market share which could have an adverse impact on the business, financial condition and results of operation.

**Management perception**

Management is optimistic about growth opportunity in textile sector in Bangladesh. Furthermore, there is untapped international market.

**Market risks**

Market risk refers to the risk of adverse market conditions affecting the sales and profitability of the company. Mostly, the risk arises from falling demand for the product or service which would harm the performance of the company. On the other hand, strong marketing and brand management would help the company increase their customer base.

**Management perception**

Management is fully aware of the market risk and act accordingly. Market for textile products in Bangladesh is growing at an exponential rate. Moreover, the company has a strong marketing and brand management to increase the customer base and customer loyalty.

**Operational risks**

Non-availabilities of materials/equipment/services may affect the smooth operational activities of The Company. On the other hand, the equipment may face operational and mechanical failures due to natural disasters, terrorist attacks, unforeseen events, lack of supervision and negligence, leading to severe accidents and losses.

**Management perception**

The company perceives that allocation of its resources properly can reduce this risk factor to great extent. The Company hedges such risks and also takes preventive measures therefore.

**Liquidity risk**

Liquidity risk is defined as the risk that the Company will not be able to settle or meet its obligations on time or at a reasonable price.

**Management perception**

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically, management ensures that it has sufficient cash and cash equivalent to meet expected operational expenses, including the servicing of financial obligation through preparation of the cash forecast, prepared based on time line of payment of the financial obligation and accordingly arrange for sufficient liquidity/fund to make the expected payment within due date.

**Environment Risk**

One of the main Elements for Dyeing and Washing are water and which extracting only from underground source as a result day by day underground water level is going deeper and cost of water is also increasing. On the other hand, it's discharging waste water which is heavily contaminated by dyes and chemicals which also very harmful for human as well as animals those are lived in water. Above the environmental effects may increase the product cost in future. To overcome these obstacles, we have set up a biological ETP which is less costly than chemical ETP.

**DISCUSSION ON COST OF GOODS SOLD, GROSS PROFIT MARGIN AND NET PROFIT MARGIN**

Particulars	30-06-2021	30-06-2020	30-06-2019	30-06-2018	30-06-2017
Cost of goods sold	2,274,825,151	2,296,231,926	2,486,725,163	2,402,730,555	2,263,558,771
Gross Profit	72,962,088	260,925,935	380,808,916	364,644,304	315,409,707
Net Profit after Tax	(154,957,029)	(23,026,200)	122,764,458	156,769,556	127,992,497

**DISCUSSION ON CONTINUITY OF ANY EXTRA-ORDINARY GAIN OR LOSS**

There is no extra-ordinary gain or loss in the financial statements.

**RELATED PARTY DISCLOSURES**

The Company has entered into transactions with other entities that fall within the definition of related party as contained in IAS-24 "Related Party Disclosures" The Company opines that terms of related transaction do not significantly differ from those that could have been obtained from third parties. Total transactions of the significant related parties as at 30.06.2021 are as follows:

Name of Related Party	Common Management	Nature of Transaction	Opening Balance as on July, 01, 2020	Transaction during the period Dr./ (Cr.)	Closing Balance as on June, 30, 2021
Shepherd Textile (BD.) Limited	"	Office & Land Rent	18,786	153,496	172,282
Taiwan Food & Processing Industries Ltd.	"	Office & Land Rent	74,870	484,243	559,113
Shepherd Fancy Yarn Ltd	"	Office & Land Rent	-	700,678	700,678
Shepherd Jeans Ltd.	"	Office & Land Rent	-	362,367	362,367
Shepherd Textile (BD.) Limited	"	Received as Loan	(45,425,645)	3,939,680	(41,485,965)
Shepherd Jeans Ltd.	"	Received as Loan	(69,846,750)	9,714,445	(60,132,305)
Kao Wen Fu	Managing Director	Loan from Shareholder's	(10,554,794)	-	(10,554,794)
Ever Priority Ltd.	Director	"	(18,786,859)	-	(18,786,859)
Chen Che Seng	Shareholder	"	(6,597)	-	(6,597)
Eternal Flame Int'l Co. Inc.	Director	"	(4,351,405)	-	(4,351,405)
Chung Wen Kuei	Chairman	"	(29,278)	-	(29,278)

**UTILIZATION OF PROCEEDS FROM PUBLIC ISSUE**

The company raised Tk. 20.00 Crore by issuing 20,000,000 Ordinary Shares of Tk. 10 each from the capital market in order to meet up the fund requirements for the purpose of Civil Construction, Acquisition & Installation of Machineries (Dyeing, Washing, Duties, Insurance, L/C Commission, Inland Carrying, C & F, Erection and Installation), Expansion of ETP, repayment of short-term bank loan and IPO Expenses. Utilization of IPO proceeds has been completed during the month of March 2019. The Utilization of IPO proceed has been audited by Ahmed Zaker & Co, Chartered Accountants.

**EXPLANATION ON THE FINANCIAL RESULTS DETERIORATE AFTER IPO**

Not Applicable.

**SIGNIFICANT VARIANCE BETWEEN QUARTERLY FINANCIAL PERFORMANCE AND ANNUAL FINANCIAL STATEMENTS**

Significant variations haven't occurred between Quarterly Financial performance and Annual Financial Statements.

**DIRECTOR'S REMUNERATION**

Director's Remuneration has been paid during the year 2021 was Tk. 1,375,380 and Tk. 1,477,171 for the year 2020 which is shown in note no. 28 in the financial statements. The independent director didn't receive any remuneration during the year.

**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 results of its operations, cash flow and changes in equity

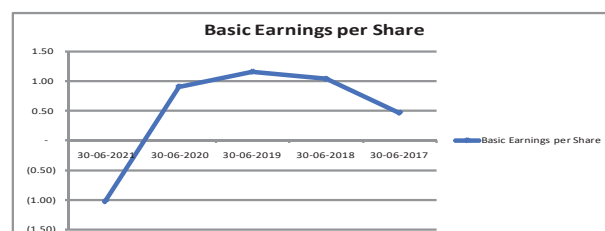
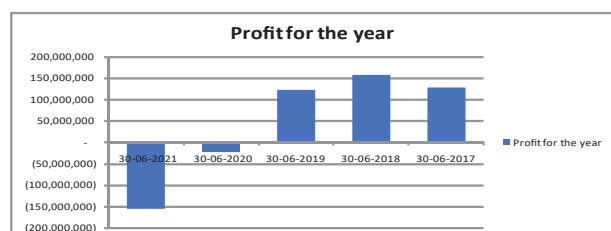
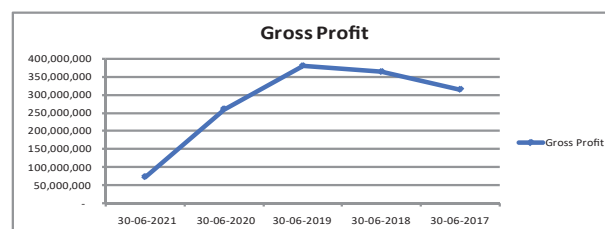
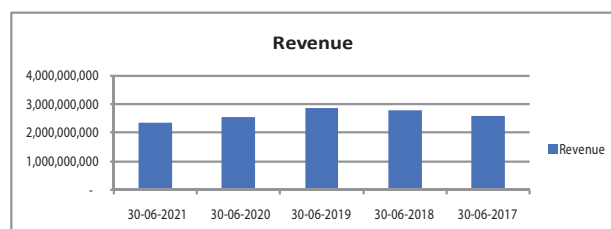
- i) Proper books of accounts of the company have been maintained.
- ii) Appropriate accounting policies have been applied consistently in preparation of the financial statements and the accounting estimates are based on reasonable and prudent judgment.
- iii) The international Financial Reporting Standards, as applicable in Bangladesh, have been followed in the preparation of the financial statements and any departure there from has been adequately disclosed.
- iv) The systems of internal control are sound and have been implemented and monitored effectively.

## Annual Report 2020-2021

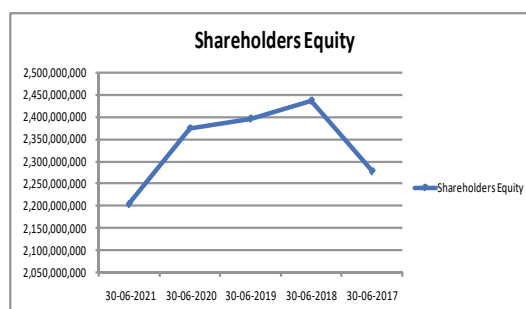
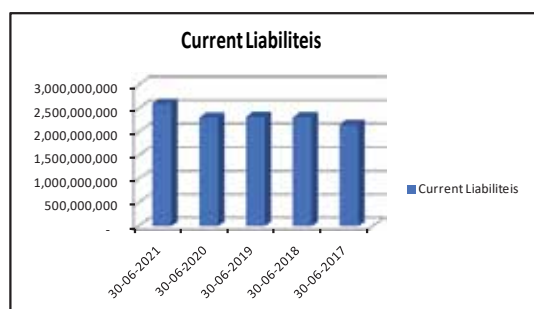
- v) There are no significant doubts upon the company's ability to continue as a going concern.
- vi) The significant deviations from the last year's operating results are shown in note no. 38 as additional disclosure of note to the financial statements.
- vii) The key operating data and financial data for the last two years are shown in the next chapter of this Directors Report.

### KEY OPERATING AND FINANCIAL DATA

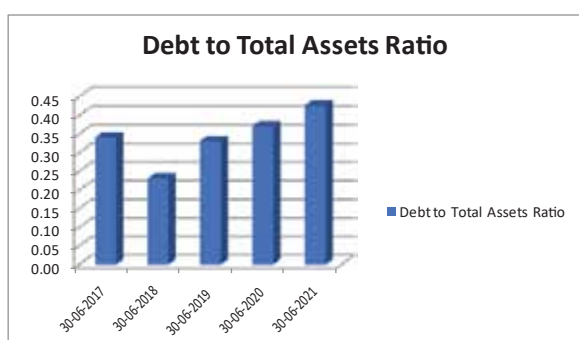
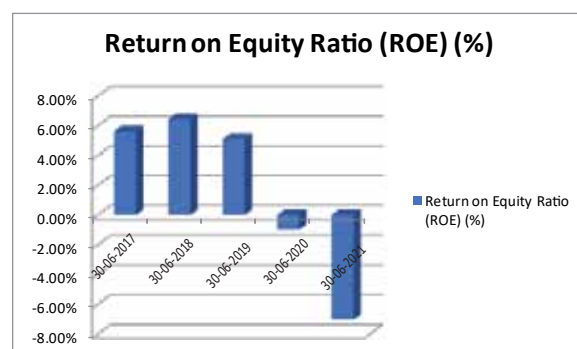
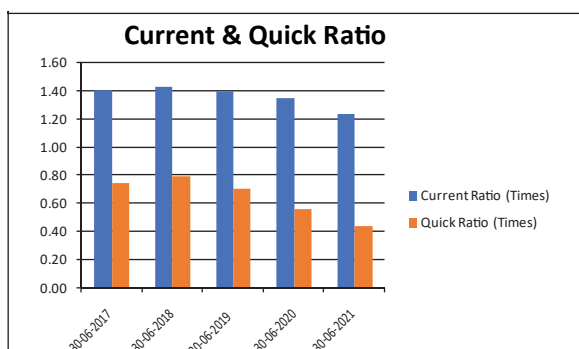
Operational Result	Amount in Taka				
	30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
Revenue	2,347,787,239	2,557,157,861	2,867,534,079	2,767,374,859	2,578,968,478
Gross Profit	72,962,088	260,925,935	380,808,916	364,644,304	315,409,707
Operating Income	1,525,890	189,816,888	308,512,660	314,780,541	272,338,655
Net Profit before Tax	(140,491,826)	(1,868,047)	146,460,011	187,370,366	163,425,097
Profit for the year	(154,957,029)	(23,026,200)	122,764,458	156,769,556	127,992,497
Basic Earnings per Share	(1.03)	(0.15)	0.90	1.15	1.03



Operational Result	Amount in Taka				
	30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
Non-Current Assets	1,723,028,274	1,693,228,137	1,605,264,241	1,564,687,213	1,526,266,925
Current Assets	3,217,510,180	3,118,653,444	3,241,521,443	3,312,886,185	3,039,003,195
Shareholders' Equity	2,204,475,160	2,373,556,970	2,395,578,568	2,435,704,809	2,277,761,951
Non-Current Liabilities	134,096,806	132,336,031	127,904,351	131,481,214	132,726,294
Current Liabilities	2,601,966,488	2,305,988,580	2,323,302,765	2,310,367,375	2,154,781,875
Net Asset Value per Share	14.67	15.79	17.53	17.83	18.34



Key Financial Ratio	30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
<b>Liquidity Ratios:</b>					
Current Ratio (Times)	1.24	1.35	1.40	1.43	1.41
Quick Ratio (Times)	0.44	0.56	0.70	0.79	0.74
<b>Operating Efficiency Ratios:</b>					
Accounts Receivables Turnover Ratio	2.01	1.86	1.83	1.87	2.13
Inventory Turnover Ratio (Times)	1.22	1.37	1.61	1.65	1.73
Assets Turnover Ratio (Times)	0.48	0.53	0.59	0.57	0.56
<b>Profitability Ratios:</b>					
Return on Capital Employed (ROCE) (%)	0.07%	7.57%	12.23%	12.26%	11.30%
Gross Margin Ratio (%)	3.11%	10.20%	13.28%	13.18%	12.23%
Operating Profit Ratio (%)	0.06%	7.42%	10.76%	11.37%	10.56%
Net Profit Ratio (%)	(6.60%)	(0.90%)	4.28%	5.66%	4.96%
Return on Assets Ratio (%)	(3.14%)	(0.48%)	2.53%	3.21%	2.80%
Return on Equity Ratio (ROE) (%)	(7.03%)	(0.97%)	5.12%	6.44%	5.62%
Earnings per Share (Basic EPS)	(1.03)	(0.15)	0.90	1.15	1.03
<b>Solvency Ratios:</b>					
Debt to Total Assets Ratio	0.43	0.37	0.33	0.23	0.34
Debt Equity Ratio (Times)	0.95	0.75	0.65	0.46	0.69
Time Interest Earned Ratio (Times)	1.07	(0.01)	2.02	2.69	4.00
<b>Cash Flow Ratio:</b>					
Net Operating Cash Flow per Share	(1.61)	(1.07)	(1.87)	4.65	(6.00)
Net Operating Cash Flow per Share/EPS	(1.56)	(7.13)	(2.08)	4.04	(5.83)



**DIVIDEND**

The Board of Directors has recommended **2.5% Cash & 2.5% Stock (Total 5%) Dividend** for the all shareholders for the year ended on June 30, 2021 (subject to the approval in the forthcoming AGM) whose names appear in the Share Register of the Company and/or Depository Register of CDBL as on record date: November 24, 2021.

**History of our dividend payment for the last 04 (four) years is as follows:**

Year	Dividend Payout (%)
2019-2020	1% Cash Dividend
2018-2019	10% Stock Dividend
2017-2018	12% Cash Dividend
2016-2017	10% Stock Dividend

**TOTAL NO. OF BOARD MEETINGS HELD DURING THE YEAR AND ATTENDANCE BY EACH DIRECTOR**

10 Board of Directors Meeting held during the year and details of attendance by each director are as follows:

Name of Directors	Attendance
Chung Wen Kuei, Chairman	10
Kao Wen Fu, Managing Director	10
Kao Chen Tsai, Director (Representative of Ever Priority Ltd.)	6
Yang Ming Te, Director (Representative of Eternal Flame Int'l Co. Inc.)	4
Md. Monzur Alam Khan, Independent Director	4

**REPORT ON THE PATTERN OF SHAREHOLDING**

Parent or Subsidiary or Associated Companies:

Name of Company	Relation	No. of shares	Percentage
		Nil	Nil

**Directors, CEO/MD, CS, CFO, HIAC and their spouses and minor children:**

Name	Designation/Relation	No. of shares	Percentage
Chung Wen Kuei	Chairman	3,946,311	2.63%
Kao Wen Fu	Managing Director	4,498,233	2.99%
Ever Priority Limited	Director	52,073,136	34.65%
Eternal Flame Int'l Co. Inc.	Director	13,172,761	8.76%

**Executives:**

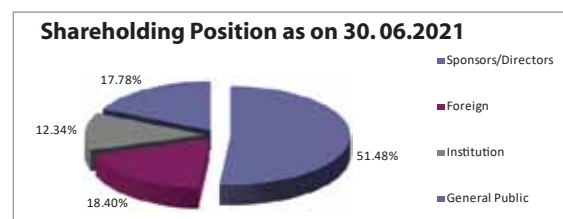
Name	Designation/Relation	No. of shares	Percentage
Md. Abdul Mannan	Deputy Managing Director	0	0.00%
Md. Ataur Rahman	Chief Financial Officer	0	0.00%
Mohammad Maruf Bin Wali	Company Secretary	0	0.00%
Shahnaz Akther	Head of Internal Audit	0	0.00%

**Shareholding 10% or more voting interest:**

Name of shareholder	No. of shares	Percentage
Ever Priority Limited	52,073,136	34.65%

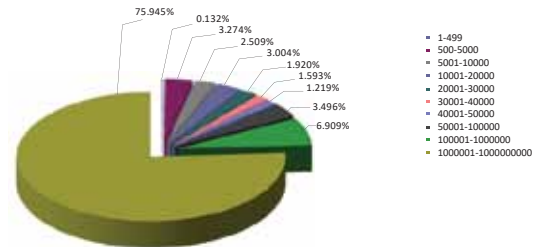
**Shareholding Position as on 30.06.2021**

Particulars	Percentage
Sponsors/Directors	51.48%
Foreign	18.40%
Institution	12.34%
General Public	17.78%
<b>Total :</b>	<b>100.00%</b>



**Shareholding Range as on 30.06.2021**

Range	Percentage
1-499	0.132%
500-5000	3.274%
5001-10000	2.509%
10001-20000	3.004%
20001-30000	1.920%
30001-40000	1.593%
40001-50000	1.219%
50001-100000	3.496%
100001-1000000	6.909%
1000001-1000000000	75.945%
<b>Total :</b>	<b>100.00%</b>

**Shareholding Range as on 30.06.2021****Closing Price (12 Months)****TOP 10 (TEN) SHAREHOLDERS AS ON 30 JUNE 2021**

Sl. No.	Name	Shares	Percentage
1	EVER PRIORITY LIMITED	52,073,136	34.65%
2	ETERNAL FLAME INT'L CO. INC.	13,172,761	8.76%
3	ICB	6,829,574	4.54%
4	KAO WEN FU	4,498,233	2.99%
5	ICB UNIT FUND	4,286,172	2.85%
6	LIN WEN YU	4,284,497	2.85%
7	CHUNG WEN KUEI	3,946,311	2.63%
8	CHEN CHEN YEN	3,240,026	2.16%
9	YIN SHIH WEN	3,170,355	2.11%
10	ICBMS	2,739,063	1.82%
<b>Total :</b>		<b>98,240,128</b>	<b>65.37%</b>

**ROTATION OF DIRECTOR**

In order to comply with the provision mentioned under Section 91(2) of the Company Act 1994, at least one-third of the Directors shall retire from the office in 20th Annual General Meeting (AGM) of the company and the retiring Directors are eligible for re-election.

Office of the directors of Mr. Chung Wen Kuei and Mr. Kao Wen Fu will be rotated by retiring and re-election as per provision mentioned under Section 91(2) of the Company Act 1994.

#### **COMPLIANCE OF NOTIFICATION NO. BSEC/CMRRCD/2006-158/207/ADMIN/80 DATED 03 JUNE 2018**

##### **Board Size:**

The number of members of the Board of Directors stands at 05 (including one Independent Director) which are within the limits given by BSEC.

##### **Independent Director:**

The office of the Independent Director will be expired two tenures [i.e. six years] on **February 25, 2022** as per Corporate Governance Code of BSEC's Notification No. SEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018. The Board of Directors has approved the retirement Md. Monzur Alam Khan from the position of Independent Director of the company and appointed Md. Delwar Hossain as a new Independent Director of the company on **February 26, 2022** subject to approval of shareholders in 20th Annual General Meeting of the company.

##### **Qualification of New Independence Director:**

Md. Delwar Hossain is a retired commissioner of taxes. He was BCS cadre as an Assistant Commissioner of Taxes and serves the nation in 1979. He also serves as lecturer in English in two Govt. College from 1973 to 1979. He also serves as Second Secretary (Taxes) in Tax Audit & Tax Holiday of NBR. His wisdom experience, dedication towards the different circle & NBR. He will help Shepherd Industries Limited to get a new Director in the more efficient ethical business process.

#### **COMPANY SECRETARY, CFO & INTERNAL AUDITOR**

As per Corporate Governance Code of BSEC's Notification No. SEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018 the Company has allocated the responsibilities as follows:

Company Secretary	: Mohammad Maruf Bin Wali
Chief Financial Officer	: Md. Ataur Rahman
Head of Internal Auditor	: Shahnaz Akhter

#### **AUDIT COMMITTEE**

The Audit Committee, as a sub-committee of the Board, has been constituted as per Corporate Governance Code of BSEC's Notification No. SEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018 with three Directors, one of whom is an Independent Director and others are non-executive director. The Company Secretary acts as Secretary to the Audit Committee. The Committee assists the Board in ensuring that the financial statements reflect a true and fair view of the state of affairs of the Company. Audit Committee is responsible to the Board of Directors and its roles and responsibilities are clearly set forth.

#### **AUDIT COMMITTEE HAS BEEN FORMED AS FOLLOWS:**

Md. Monzur Alam Khan, Independent Director	: Chairman
Yang Ming Te, Director (Representative of Eternal Flame Int'l Co. Inc.)	: Member
Kao Wen Tsai, Director (Representative of Ever Priority Ltd.)	: Member
Mohammad Maruf Bin Wali, Company Secretary	: Secretary

#### **NRC COMMITTEE**

NRC Committee has been constituted as per Corporate Governance Code of BSEC's Notification No. SEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018. The Committee has been formed as follows:

Md. Monzur Alam Khan, Independent Director	: Chairman
Kao Wen Tsai, Director (Representative of Ever Priority Ltd.)	: Member
Chung Wen Kuei, Chairman	: Member
Mohammad Maruf Bin Wali, Company Secretary	: Secretary

#### **APPOINTMENT OF EXTERNAL AUDITORS**

In the 19th Annual General Meeting of the company was appointed M/S Ahmed Zaker & Co., Chartered Accountants for the year ended on June 30, 2021. They have completed their 2nd year of audit and as per The Bangladesh Securities and Exchange Commissions' Notification No. BSEC/CMRRCD/ 2006-158/208/Admin/81 dated June 20, 2018 and they are eligible for re-appointment as the statutory auditor for year ended on June 30, 2022 (subject to the approval in the forthcoming AGM).

#### **APPOINTMENT OF COMPLIANCE AUDITOR FOR CORPORATE GOVERNANCE CODE**

Mahfel Huq & Co., Chartered Accountants expressed their interest to report and provide certificate on compliance of Corporate Governance Code for year ended on June 30, 2021 as per Clause 9(2) of The Bangladesh Securities and Exchange Commissions' Notification No. BSEC/CMRRCD/ 2006-158/207/Admin/80 dated June 03, 2018 and they are eligible for re-appointment as the Compliance Auditor for Corporate Governance Code for year ended on June 30, 2022 (subject to the approval in the forthcoming AGM).



**APPOINTMENT OF INDEPENDENT SCRUTINIZER**

M M Yasin & Co., Chartered Accountants expressed their interest as Independent Scrutinizer of the 20th Annual General Meeting (AGM) for Compliance Certificate as required with the Directive no. BSEC/CMRRCD/2009-193/08 dated 10 March 2021 issues under section 20A of the Securities and Exchange Ordinance, 1969 by Bangladesh Securities and Exchange Commission (BSEC).

**ACKNOWLEDGEMENT**

On behalf of the Board of Directors, I take this opportunity to thank all our shareholders wholehearted cooperation and active support in assisting me and the Board of Directors to effectively discharge our duties during the year under review. We would also like to express our gratitude to the Bangladesh Securities and Exchange Commission, Dhaka Stock Exchange Limited, Chittagong Stock Exchange Limited, RJSC and other business associates for their valuable suggestions, continuous support and cooperation extended to the company. We would also like to thank our Auditor, Ahmed Zaker & Co., Chartered Accountants for their efforts for timely completion of the audit. We would like to express our gratitude to our bankers, customers and suppliers for providing all the necessary and timely support to enable and enhance our growth and profitability. Lastly, we would like to express our deepest appreciation for the services and the loyalty of all our executives, officers and employees of the company at all levels, without whom it would have been impossible to have delivered such a solid performance.

I now request the valued shareholders to kindly accept and approve the Auditors' Report, Annual Audited Accounts 2020-2021 and the Directors Report placed before you.

Thanking you,

For and on behalf of the Board of Directors



**Chung Wen Kuei**  
Chairman