

CASE STUDY

Total Marks: 100 Time: 4 Hours

1. Check that your question paper contains all the exhibits as mentioned in page 3. The consecutive page numbering may be found under the base line at the foot of each page.

2. Use the answer script provided by the Institute. Write your name, roll no., registration no. and name of the subject on the upper portion of the cover page of the answer script. Candidates are asked not to write any particulars of identification in any other place of the answer script and additional pages if taken.

3. Questions must be answered in English.

4. The answer should be referenced to the relevant workings.

5. Answer script and additional page(s) taken to write answer, used or unused, must not be removed or taken away from the Examination Hall.

Requirements & Marks Allocation:

You are Tabeen Hassan, a senior articled student of Ahmed Hassan & Co., Chartered Accountants. The senior partner of the firm, Sarfaraz Hassan FCA has given you an e-mail detailing of your assignment.

Requirements:

You are required to prepare a draft report to your partner Sarfaraz Hassan FCA. Your report should comprise the following elements:

- ❖ An executive summary
- ❖ Your responses to the detailed requirements (a), (b) and (c) set out in **Exhibit -1**.
- ❖ State clearly any assumptions that you make.

Marks Allocation:

All of the marks in the Case Study are awarded for the demonstration of professional skills, allocated broadly as follows:

Requirements	Profession Skills					Total
	Assimilating and using information	Structuring Problems and solutions	Applying Judgment	Conclusions and making recommendations	Integrative & multidisciplinary skills	
Executive Summary	3	5	4	3	-	15
Requirement (a)	8	12	10	7	1	31
Requirement (b)	6	9	7	6	2	29
Requirement (c)	3	4	4	4	2	25
Total	20	30	25	20	5	100

In planning your report, **you should be aware that not attempting one of the requirements**, including an executive summary, **will have a significantly detrimental effect on your chances of success**. In addition, as indicated above, all four skills areas will be assessed under each of the four elements of your report.

You should be clear that marks are awarded for demonstrating your professional skills, not for reproducing facts from the case. In order to be successful, you will need to:

- Demonstrate your knowledge of the case material and make use of your analysis.
- Carryout relevant analysis of the problems and structure your proposed solutions.
- Apply your judgment on the basis of the analysis that you have carried out.
- Draw conclusions from your analysis & judgment & develop them into practical recommendations.
- Identify ethical issues keeping your focus on-
 - ✓ Lack of professional independence or objectivity
 - ✓ Conflict of interest among stakeholders
 - ✓ Doubtful accounting or commercial practice or market competition
 - ✓ Inappropriate pressure to achieve a reported result.
 - ✓ Disproportionate/alluring fess & remunerations for the assigned works.
- Demonstrate integrative & multidisciplinary skills covering-
 - ✓ Environmental issues
 - ✓ Social and economic impacts with regard to employment, business competitiveness, etc.

LIST OF EXHIBITS

Exhibit	Description	Page reference
1	E-mail from Sarfaraz Hassan FCA, Partner in Ahmed Hassan & Co., Chartered Accountants to you, Tabeen Hassan.	4
2	E-mail from Imtiaz Ahmed, CEO & Chairman of Zihan Textile Ltd., a client of your firm, to Sarfaraz Hassan FCA	5
3	Audited Financial Statements of Zihan Textile Ltd.	6-7
4	Calculation of “offer price” and uses of IPO proceeds	8-9
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**Ahmed Hassan & Co.
Chartered Accountants**

From : Sarfaraz Hassan FCA
To : Tabeen Hassan
Re : Zihan Textile Ltd.
Date : 02 December 2013

Dear Tabeen,

We have received an e-mail from Imtiaz Ahmed, CEO & Chairman, Zihan Textile Ltd., a large textile company incorporated in Bangladesh in 2002, which I have attached to this e-mail (**Exhibit 2**). The Board of Zihan Textile wanted to raise capital to meet increasing need of working capital, to finance the expansion of production capacity and pay-off substantial parts of bank loans. For this purpose they have decided to raise the paid up capital of the company through initial public offerings (IPO) of shares.

We have been asked by Zihan Textile board to carry out a review of company's financial stability and business viability along with review of offering price for IPO. We have received financial statements for 3 years of Zihan Textile Ltd. and other relevant information for your review (**Exhibits 3-8**).

I would like you to prepare a report to the Board of Directors of Zihan Textile Ltd. for which you should:

- a) Draft an evaluation report to the Board of Directors of Zihan Textile Ltd. on the financial performances, fund raising & investment plans along with the recalculation of indicative "Offer Price".
- b) Critically evaluate the strengths, weaknesses, opportunities and threats (SWOT) to the company.
- c) Evaluate the ethical issues and comment on environmental, social and economic impacts involved therein.

I look forward to receiving your draft report on or before 23 December 2013.

Best regards

Sarfaraz
Senior Partner

ZIHAN TEXTILE LTD.

From : Imtiaz Ahmed
To : Sarfaraz Hassan FCA
Re : Evaluation of business Performance of Zihan Textile & validation of “Offer Price” for initial public offerings (IPO) of shares, etc.
Date : 25 November 2013

Dear Mr. Sarfaraz,

Zihan Textile Ltd. is established in 2002 as a public limited company under Company Act 1994 in Bangladesh. It is operating in Ready-made Garments (RMG) segments as an export oriented company since inception. The demand of the product of the company is increasing over the periods and hence company has decided to expand its production capacities to cater future demands of the products and earn higher profit for the company.

Based on our discussion, you are hereby appointed as our consultant to evaluate financial stability & business performance of Zihan Textile Ltd. for last 3 years and also review of the “offer price” calculated by our Accounts Department based on the financial statements audited by SM Ali & Company, Chartered Accountants. We came to know that “offer price” may also be calculated by capitalization of earnings, the rate of capitalization being determined by following Capital Assets Pricing Model (CAPM). We expect CAPM based “offer price” would be higher than the offer price calculated by our accounts department. However, the final offer price will be as per your validation/recalculation. Besides the validation of “offer price” your assignment includes getting the validated price approved from Bangladesh Securities and Exchange Commission (BSEC). You will be paid professional fee of Tk. 1 million for determining the final “offer price”. You will also be allotted 20,000 ordinary shares without cost against your services for getting the approval from BSEC and against incurring related cost of negotiation with the regulator. In addition, you will be inducted in the Board as an “Independent Director” of the company.

I am attaching company’s audited financial statements (**Exhibit -3**), calculation of “offer price” and uses of IPO proceeds (**Exhibit - 4**), relevant market information on the security being offered (**Exhibit -5**, external auditor’s findings reported by SM Ali & Co. Chartered Accountants (**Exhibit -6**), Observations of a foreign buyer on the state of RMG industry in Bangladesh (**Exhibit -7**) and a brief note on the social & economic aspects of RMG industry in Bangladesh (**Exhibit -8**) for your validation and consideration for the intended purposes.

Besides the evaluation report on the financial performances, fund raising & investment plans and validation/ recalculation of offer price, you are also requested to evaluate the strengths, weaknesses, opportunities and threats (SWOT) to the company. In addition, your comment on ethical issues and environmental, social and economic impacts involved herein would be highly appreciated.

I look forward to receiving your report on or before 25 December 2013.

Yours sincerely

Imtiaz

Audited Financial Statements of Zihan Textile Ltd.

Statements of Financial Position

As at 30 June 2011-2013

Particulars	2013 (Taka)	2012 (Taka)	2011 (Taka)
Non- current Assets	1,264,632,813	1,334,458,810	1,329,227,816
Property, plant and equipment	1,264,632,813	1,277,626,960	1,312,542,943
Capital work-in-progress	-	6,831,850	16,684,873
Investment in Shares	100,000	100,000	100,000
Current Assets	1,328,882,431	869,684,008	985,017,655
Inventories	1,062,261,231	649,393,620	814,679,459
Bills receivable	238,264,517	169,623,426	98,570,245
Advances, deposits and prepayments	9,917,145	10,801,499	9,376,803
Advance income tax	9,819,036	5,421,924	4,506,301
Cash and bank balance	8,620,502	34,443,539	57,884,847
TOTAL ASSETS	2,593,615,245	2,204,242,818	2,314,345,471
EQUITY AND LIABILITIES			
Shareholders' Equity	1,159,414,122	1,150,327,583	1,074,196,126
Share Capital @Tk. 10 per share	250,000,000	250,000,000	100,000,000
Revaluation Surplus	758,302,475	772,765,090	787,227,704
Retained Earnings	151,111,647	127,562,493	186,968,422
LIABILITIES:			
Non current liabilities	164,791,045	181,930,534	161,677,463
Long term borrowing net off current maturity	162,124,131	181,930,534	90,677,463
Liabilities for imported machineries	2,666,914	-	71,000,000
Current liabilities and provision	1,271,715,776	850,849,088	1,057,336,271
Trade Creditors	4,889,388	6,227,083	4,578,950
Current portion of Long term Loan	113,624,253	122,571,800	126,595,411
Lease obligation	-	-	571,451
Current portion of liabilities for imported machineries	-	-	24,000,000
Short term loan	989,711,504	595,127,758	559,269,975
Provision for income tax	9,819,036	5,421,924	4,506,301
Liabilities for expenses	53,236,950	57,742,376	51,862,819
Bills Payable	98,128,947	84,893,761	307,086,974
Total Liabilities	1,436,506,820	1,032,779,621	1,219,013,734
TOTAL EQUITY AND LIABILITIES	2,593,615,245	2,204,242,818	2,314,345,471

Comprehensive Income Statement
For the years ended 30 June

Particulars	2013 Taka	2012 Taka	2011 Taka
Sales	2,282,433,504	1,355,481,103	1,153,444,646
Less: Cost of goods sold	1,975,191,449	1,174,092,178	1,023,682,420
Gross Profit	307,242,055	181,388,925	129,762,226
Administrative expenses	(9,371,362)	(5,399,058)	(5,436,381)
Selling and distribution expenses	(39,993,334)	(23,960,230)	(19,084,812)
Operating profit	257,877,359	152,029,637	105,241,033
Non-operating income	-	-	-
Financial expenses	(154,539,086)	(66,183,973)	(48,236,129)
Workers' Profit Participation Fund (WPPF)	(5,166,914)	(4,292,283)	(2,850,245)
Net profit before income tax for the period	98,171,359	81,553,381	54,154,659
Less: Provision for income tax	(9,819,036)	(5,421,924)	(2,883,612)
Net profit after tax for the period	88,352,323	76,131,457	51,271,047
Earnings Per Share (EPS)	3.53	3.05	2.05

Statements of Cash flow
For the years ended 30 June

Particulars	2013 Taka	2012 Taka	2011 Taka
Cash flow from operating activities			
Cash received from customers	2,142,739,232	1,284,427,922	1,107,440,664
Cash paid to suppliers	(2,334,840,268)	(1,246,032,172)	(1,048,555,187)
Cash paid for operating expenses	(154,539,086)	10,044,986	39,927,478
Cash paid for financial expenses	(57,169,370)	(66,183,973)	(48,236,129)
Income tax paid	(9,819,036)	(5,421,924)	(2,883,612)
Net cash (used in)/flow from operating activities	(413,628,528)	(23,165,161)	47,693,214
Cash Flow from Investing Activities			
Purchase of fixed assets	(26,675,708)	(8,780,573)	(130,571,439)
Capital work in progress	-	(40,146,977)	(7,025,690)
Net cash used in investing activities	(26,675,708)	(48,927,550)	(137,597,129)
Cash Flow from Financing Activities			
Short term loan received	414,605,982	28,969,783	168,648,909
Payment of Lease obligation	(571,451)	(571,451)	(1,031,537)
Long term loan received/(repaid)	446,668	20,253,071	(85,630,706)
Net cash flow from financing activities	414,481,199	48,651,403	81,986,666
Net deficit in cash and bank balance for the period	(25,823,037)	(23,441,308)	(7,917,249)
Cash and bank balances at beginning of the period	34,443,539	57,884,847	65,802,096
Cash and bank balances at end of the period	8,620,502	34,443,539	57,884,847

Calculation of “Offer Price” and uses of IPO proceeds

The initial offer price is determined at Tk.25.00 each including a premium of Tk.15.00 per share is calculated as below:

Justification of Offering Price Under Different Methods		BDT
Method 1: Net Asset Value (NAV) per share	(a) Considering Revaluation Surplus	46.38
	(b) Without Considering Revaluation	16.04
Method 2: Historical Earnings based value per share		40.30

Method-1: Equity based Value per share

Particulars	Amount(BDT)
Paid-up Capital	250,000,000
Revaluation Surplus	758,302,475
Retained Earnings	151,111,647
Total shareholders' Equity	1,159,414,122
Total number of shares	25,000,000
Equity Based Value Per Share considering revaluation surplus	46.38
Equity Based Value Per Share without considering revaluation surplus	16.04

Method-2: Earning based Value per share

Period	Paid Up Capital	Adjusted Net Profit After Tax	Weight of total Net Profit after tax	Weighted Net Profit after tax
July 2012 to June 2013	250,000,000	88,352,323	35.88%	31,704,566.45
July 2011 to June 2012	250,000,000	76,131,457	30.92%	23,540,417.24
July 2010 to June 2011	100,000,000	51,271,047	20.82%	10,676,532.98
July 2009 to June 2010	100,000,000	20,636,504	8.38%	1,729,649.57
July 2008 to June 2009	100,000,000	9,823,453	3.99%	391,935.15
Total		246,214,784	100.00	68,043,101.39

Number of Shares outstanding before IPO 25,000,000

Weighted average EPS stands 3.49

Market PE on June 30, 2113 is 11.55

Earning Base Value Per Share (3.49 X 11.55) = 40.30

USE OF IPO PROCEEDS

Zihan Textile Ltd. will raise paid-up capital of Tk. 500 million by issuing ordinary shares of Tk.10 fully paid up through Initial Public Offering (IPO) in order to meet increasing needs for working capital, expansion of production capacity and repayment of its debt as follows:

Utilization of Fund	Amount in BDT (Crore)	Implementation Schedule
A. Working capital	5.00	Within one month after receiving IPO Fund
B. Repayment of Term Loan	20.00	Within one month after receiving IPO Fund
C. Expansion of production capacity	25.00	Within 3 months after receiving IPO fund
Total	50.00	

Expansion of Production Capacity

The Board of Directors of Zihan Textile is likely to invest the IPO proceeds in most profitable ways. The company has two investment options:

- (i) to invest for expansion of production capacity horizontally so that they can stop the “sub-contracting” activities which will generate benefit in two ways –
(a) to get cash incentive @ 5% on the increased export of Tk. 40 core per annum and (b) cost savings equals to 1 percent of cost of goods sold of 2013. It will also increase the quality assurance and customer satisfaction because of direct in-house supervision. Tax is deducted at source @0.80 percent by the bank while crediting the export proceeds which is deemed as final tax liability. However, income from cash incentive will be taxed @27.50%. The life of the project is 10 years.
- (ii) to vertically invest in spinning mills to stop importing wool yarn for producing sweaters. Income from spinning mills will be 100 percent tax exempted for initial 2 years. Tax rate for subsequent 3 years is only for 5 percent and 15 percent thereafter. Value of wool yarn to be produced is equal to the value of the wool yarn presently imported which is Tk. 35 crore. The cost of producing the said wool yarn will be 90 percent of the value of the imported yarn. The life of the project is 10 years.

Benefit from Loan Repayment and Working Capital Financing by using IPO Proceeds

Zihan Textile Ltd. Will save 75 percent of its financial expenses incurred in 2012-2013. However, due to cost escalation administrative and selling and distribution expenses will go up by 8% over 2012-2013 for next 5 years and 15% thereafter.

Relevant Market Information on the Security being offered**Market and industry EPS and P/E Ratio**

The market capitalization of all securities listed in DSE Ltd. as on 05 December 2013 was Tk. 2,690,640 million and market P/E Ratio is 15.90 where general DSE Index was 4128.

Sector	Market Capital (BDT million)	Turnover in BDT million	Turnover %	Dividend yield % per annum	P/E ratio	Sectoral capital gain yield over 6 months (%)
Bank	425,343	395	8.69%	4.1	13.73	-2.75
Financial Institutions	146,583	126	2.77%	3.06	21.50	2.25
Mutual Fund	34,904	75	1.65%	7.84	-	-16.61
Pharmaceuticals & Chemicals	232,098	454	9.99%	1.61	18.05	22.59
Engineering	106,632	506	11.14%	1.7	20.15	29.88
Cement	94,363	114	2.51%	2.64	18.06	8.91
Fuel & Power	276,899	362	7.97%	3.44	10.78	2.26
Services & Real Estate	10,375	55	1.21%	2.65	25.69	17.41
Food & Allied	132,610	252	5.55%	0.67	22.45	53.23
IT Sector	5,138	45	0.99%	9.06	24.16	-1.79
Textile	89,729	1,023	22.52%	3.00	13.37	4.50
Travel & Leisure	34,318	82	1.80%	3.02	17.26	-6.44
Ceramic	20,378	157	3.46%	2.76	25.32	-2.58
Telecommunication	306,257	194	4.27%	4.07	20.62	11.34
Tannery Industry	16,921	115	2.53%	1.59	14.73	38.76
Paper & Printing	566	2	0.04%	1.68	66.46	62.84
Insurance	710,444	480	10.57%	1.16	15.09	62.32
Miscellaneous	46,503	99	2.18%	0.82	13.86	-3.99
Jute	579	7	0.15%	1.16	53.41	3.18
Total	2,690,640	4,543	100%	-	15.90	-

The expected **beta (β)** for Zihan Textile is 1.30. The average risk free rate of return is 7%. The average market return from investment in similar securities (comprising of dividend and capital gain yield) is 12% per annum. It is expected that the DSE market index may not go down further, instead it may continue around 4100 level.

External auditor's findings reported by SM Ali & Co. Chartered Accountants

The following observations are extracted from the Management Letter issued by the external auditor of Zihan Textile Ltd.:

Accounting Issues:

- i) Bills receivable includes Tk. 10 million from a customer in Turkey. It was accounted for being goods delivered under an open order. The amount is receivable in USD from the customer. However, exchange permission was denied the customer in Turkey for remitting the same.
- ii) The company sold, in one year credit term, some office equipments on 1 April 2013 for Tk. 10 million (re-valued written down value Tk. 24.3 million). These assets were re-valued on 1 April 2011, the revaluation surplus corresponding to these assets stood at Tk. 20 million. Depreciation rate was 10% on WDV method. The full year depreciation is charged in the year of purchase/revaluation and no depreciation is charged in the year of sale. The asset was originally purchased on 1st July 2010 at Tk. 10 million. The impact of the transactions was not accounted for in the audited financial statements.
- iii) The company had entered into a lease agreement for 5 years for its corporate office building on 1st July 2012. The monthly rental is Tk. 50,000 for first 2 years and then Tk. 80,000 per months for next 3 years. Finance Manager charged rental Tk. 50,000 per month for the year 2012-2013 and the tax rate is 37.50% being Zihan Textile Ltd. is a private limited company. (However, tax rate will go down to 27.50% after IPO.)

Market of the Products:

Zihan Textile Ltd is a 100% export oriented sweater manufacturing Company that exports non branded products basically to European Union and Turkey. Dependency on a single product for overall revenue generation creates some product non diversification risk, but its widely diversified customer base and sound relationship maintenance make them a successful player in the relevant market. Most importantly their buyer composition remains more or less same over last three years.

Contract with Principal Suppliers/Customers:

There is no contract with principal suppliers or customers other than the normal course of business. The Company has acquired no Patents, Trademark, Licenses or Royalty Agreements.

Observations of a Foreign Buyer on the state of RMG industry in Bangladesh**Inadequate Power & Gas to run factory**

Total requirement of power of the project is about 5446 KW, out of which 630 KW is met up from Rural Electrification Board (REB) and rest 3916 KW is met up from Gas, Diesel and Furnace oil Generators numbering 8(eight). There are 2(two) gas generators of 1064 KW and 880 KW imported from USA, brand name General Electronics Company (GEC). There are 4(four) diesel generators run with Furnace oil. The company could not produce orders & make shipment on time because of frequent power failure in the country and break-down of generator. Moreover, excessive uses of gas and fuel create carbon dioxide and carbon monoxide that causes to air pollution and global warming.

Employees' position as on 30.6.2013

Monthly Salary Range	Employees		Total Employee
	Permanent Basis	Total Employee	
Below 5000	Nil	Nil	Nil
Above 5000	3,225	8,790	12,015
Total	3,225	8,790	12,015

As per Labor and Industrial Law of the country, the company should have some facilities for the workers e.g. cafeteria, adequate washrooms and ambulance for workers which compliance is in question. There were complains of physical and mental abuse/harassment of factory workers which, however, could not be proved by any hard evidence.

Production Capacity and Current Utilization

The factory of the company operates at 89.50% capacity level and there is no backup plan for crisis management. The factory currently runs in one shift (8 hours) where most of workers' average working time is 12 hours (extra 4 hours being paid at normal wage rate.)

Operational risk

Shortage of power supply, labor unrest, unavailability or price increase of raw material, natural calamities like flood, cyclone, earth quack etc. may disrupt the production of the Company and can adversely impact the profitability of the Company. The compensation as well the benefit package will restrain the employees to leave their assignment and go for any employee movement for higher benefit packages.

Withdrawal of GSP Facilities and it impact in Export market

The US and EU countries have withdrawn the GSP facilities on the RMG products manufactured in Bangladesh which may reduce export of goods from Bangladesh due to competitive price with other countries.

Seasonal Aspects

The company is a 100% export oriented company. So, in general demand for sweater is prevailed in whole year yet from April to August demand goes at high.

Known Trends, Events or Uncertainties

The business operation of the Company may be affected by some known events such as Down-trend demand at international market, Entrance of new technology, Increase competition, Political unrest, Natural disaster etc.

Brief note on the social & economic aspects of RMG industry in Bangladesh

Women Labour in the garment industry

Garment sector is the largest employer of women in Bangladesh. The garment sector has provided employment opportunities to women from the rural areas that previously did not have any opportunity to be part of the formal workforce. This has given women the chance to be financially independent and have a voice in the family because now they contribute financially. However, the women workers are facing many problems. Most women come from low income families. Low wage of women workers and their compliance have enabled the industry to compete with the world market. Women are paid far less than men mainly due to their minimum education. Women are reluctant to unionize because factory owners threaten to fire them. Even though trade unionization is banned inside the Export processing Zones (EPZ), the working environment is better than that of the majority of garment factories that operate outside the EPZs. But, pressure from buyers to abide by labor codes has enabled many factories to maintain satisfactory working conditions.

Child Labor & Schooling

As of 2012-13 child labor was common in Bangladesh in rural and urban areas with about 10% of children between age 5 and 14 in the work force and about 7% of the children between age 7 and 14 attending school and working; about 81% of the children between the age of 5 and 15 attend school without working. The legislation tried to enroll more children into school and away from work. This was not the outcome. Some children enrolled in school, but many sought other work. Due to the law, many kids took more dangerous jobs in the informal economy, including; prostitution, street hawkers, stone welding, and as maids. Schooling is compulsory only to age 10.

Child labour is a deterrent to schooling. Child labour in Bangladesh includes van pulling. Many working children earn less than 10 US\$ per month. Most child labourers in Bangladesh work in agriculture. Domestic servants in child-age in many cases have a massive amount of labour.

Low wages

In recent times, garment workers have protested against their low wages. The first's protests broke out in 2006, and since then, there have been periodic protests by the workers. This has forced the government to increase minimum wages of workers. In 2012-13, Bangladesh made a moderate advancement in efforts to eliminate the worst forms of child labor. Bangladesh passed the Human Trafficking Deterrence and Suppression Act 2012 which makes human trafficking (including labor trafficking) a capital offense, developed and fully funded a Child Labor Monitoring Information System to manage child labor related data and began implementation of a \$9 million child labor project. However, legal protections regarding child labor are limited and the capacity to enforce child labor laws remains weak. Bangladesh maintains a low compulsory education age. Children in Bangladesh are engaged in the worst forms of child labor, primarily in dangerous activities in agriculture and domestic service. Garment workers' minimum wage was set at roughly \$37 a month in 2012 but since 2010 Bangladesh's double-digit inflation with no corresponding rise in minimum wage and labor rights, has led to protests.

Compliance

Five deadly incidents from November 2012 through May 2013 brought worker safety and labor violations in Bangladesh to world attention putting pressure on big global clothing brands such as Primark, Loblaw, Joe Fresh, Gap, Walmart, Nike, Tchibo, Calvin Klein and Tommy Hilfiger, and retailers to respond by using their economic weight to enact change. No factory owner has ever been

prosecuted over the deaths of workers. Other major fires 1990 and 2012, resulting in hundreds of accidental deaths, include those at That's It Sportswear Limited and the fire at Tazreen Fashions Ltd. Spectrum Sweater , Phoenix Garments, Smart Export Garments, Garib and Garib, Matrix Sweater, KTS Composite Textile Mills and Sun Knitting. major foreign buyers looking for outsourcing demand compliance-related norms and standards regarding a safe and healthy work environment which includes fire-fighting equipment, evacuation protocols and mechanisms and appropriate installation of machines in the whole supply-chain. RMG insiders in Bangladesh complain about the pressure to comply and argue that RMG factory owners are hampered by a shortage of space in their rental units. In spite of this the industry exports totaled \$19 billion in 2011-2012 and over \$22 billion in 2012-2013.

Scott Nova of the Worker Rights Consortium, a rights advocacy group, claimed that auditors, some of whom were paid by the factories they inspect, sometimes investigated workers right issues such as hours or child labour but did not properly inspect factories' structural soundness or fire safety violations. Nova argued that the cost of compliance to safety standards in all 5,000 clothing factories in Bangladesh is about \$3 billion.

In 2000 garment entrepreneurs had a reputation for avoiding custom duties, evading corporate taxes, remaining absent in capital markets, avoiding social projects such as education, healthcare, and disaster relief but these entrepreneurs took the risks needed to build the industry too. Bangladesh successfully competes in the manufacturing industry by maintaining "lowest labor costs in the world."

On 24 April 2013, 910 textile workers factories making clothes for Western brands, were killed when a garment factory collapsed. The Savar building collapse was in the Rana Plaza complex. It was the "world's deadliest industrial accident since the Bhopal disaster in India in 1984. While some 2,500 were rescued from the rubble including many who were injured, the total number of those missing remained unknown weeks later. The eight-story building, owned by Sohel Rana, associated with a big and influential political party, was constructed on a "pond filled with sand". It only had planning approval for five floors. Owners used "shoddy building materials, including substandard rods, bricks and cement, and did not obtaining the necessary clearances." An engineer raised safety concerns after noticing cracks in the Rana Plaza complex the day before its collapse. In spite of this factories stayed open to fill overdue orders. When generators were restarted after a power blackout the building caved in. Six garment factories also in Rana Plaza were cleared to re-open after inspectors allegedly issued safety certificates.

After these events, that BGMEA initiated to review structural safety of all RMG factories and Zihan Textile needs to rework a part of its factory and fire exit stair case. This part of the factory may disqualify to operate as a factory. Moreover, the company has no dedicated person identified as "Fire warden" and "Fire Marshal". Even they do not hold any fire drill during the year.

Alliance for Bangladesh Worker Safety

After the Rana Plaza incident, the Alliance for Bangladesh Worker Safety was founded by a group of North American apparel companies and retailers and brands who have joined together to develop and launch the Bangladesh Worker Safety Initiative, a binding, five-year undertaking that will be transparent, results-oriented, measurable and verifiable with the intent of improving safety in Bangladeshi ready-made garment (RMG) factories. Collectively, these Alliance members represent the overwhelming majority of North American imports of RMG from Bangladesh, produced at more than 620 factories.

The Alliance for Bangladesh Worker Safety started its operation in Bangladesh to improve building and fire safety standards across the Bangladesh ready-made garment industry. Prior to this, they announced a number of essential milestones achieved during October 2013. These include (a) list of Alliance member factories, (b) adoption of fire and building safety standards, (c) investments in the organization's technical expertise and on-the-ground staffing in Bangladesh. The association will complete factory inspection works by July 2014 and continue factory development works as per referred standards in next 5 years.