

Directors' report RAK Ceramics (Bangladesh) Limited

Dear Shareholders,

Assalamu Alaikum!

The Board of Directors of RAK Ceramics (Bangladesh) Limited are pleased to present the Directors' Report, along with the audited financial statements of the Company for the year ended 31 December 2020, and the Auditor's Report thereon, for your valued consideration, approval and adoption.

Principle activities

RAK Ceramics (Bangladesh) is the country's largest and foremost tiles and sanitary-ware brand. The Company is engaged in the manufacture and sale of a wide range of ceramic tiles, bathroom sets and sanitaryware products. Over its two-decade journey, the Company has created industry-leading designs and patterns for wall and floor tiles and borders and corners, etc., which have been well-accepted by customers and have emerged as benchmarks in their own categories. Further, many of RAK Ceramics' models come in modular designs which open up ample choice for our customers, suiting their space requirements and budgets.

Industry outlook and possible future developments

Details about this section are discussed in the 'Industry outlook and possible future developments' on the Annual Report and 'Management discussion and analysis' on the Annual Report.

Segment-wise performance

RAK Ceramics (Bangladesh) operates with an annual production capacity of 10.32 mn sqm of tiles and 1.45 mn pieces of sanitary-ware with over 50+ active designs, thus ensuring the widest range of products available in the industry. Details about segment-wise or product wise performance is disclosed in the 'Segment wise performance' in the Annual Report.

Financial results

The Company reported consolidated sales of BDT 5,288.92 mn in 2020, vs. BDT 6,463.86 mn reported in 2019 and consolidated gross profit of BDT 1,189.80 mn in 2020, against BDT 1,907.74 mn reported in 2019. The Company's consolidated net profit of BDT 310.65 mn in 2020 stood against BDT 754.03 mn achieved in 2019. Details of operational results are discussed in the 'General review of our 2020 performance' on the Annual Report.

Appropriations of profit and key operating and financial data of preceding five years

The Directors are pleased to report the financial results for the year 2020 and recommend the following appropriations:

Particulars	(Amount in BDT mn)	
	2020	2019
Profit before tax *	447.54	1,044.40
Less: Provision for tax	136.88	290.38
Profit after tax *	310.65	754.03
Add: Un-appropriated profit brought forward	1,601.28	1,628.69
Less: Prior year adjustment (leases)	-	3.32
Profit available for distribution	1,911.93	2,379.40
Less: Appropriation of dividend	641.95	778.12
Un-appropriated profit C/F	1,269.98	1,601.28

Profit after tax is exclusive of non-controlling interest. Key operating and financial data of the preceding five years is given in 'Annexure-1' on the annual report.

Reserves and surplus

In 2020, retained earnings of the Company stood at BDT 1,269.98 mn, against BDT 1,601.28 mn in 2019.

Dividend

The Board of Directors is pleased to recommend dividend @ 10% in cash of the paid-up capital of the Company, representing an amount of BDT 427,968,701 for the year ended December 31, 2020. This dividend will be paid from out of profit of the company for the year 2020 and from undistributed accumulated profits. The Company paid dividend @15% in cash of the paidup capital of the Company for the year 2019. No bonus shares or stock dividend has been declared as interim dividend.

(Amount in BDT mn)

Recommended Dividend Annual	427.97
From profit of the year	310.65
From undistributed accumulated profits	117.32
Total proposed dividend payable	<u>427.97</u>

Contribution to the national exchequer

RAK Ceramics (Bangladesh) is committed to timely disbursement of its direct and indirect tax obligations. During the year 2020, the Company, including its subsidiaries, contributed a total sum of BDT 2,332.05 mn to the national exchequer. Details about the contribution to the national exchequer during the year is discussed in the 'Contribution to national exchequer' section on the Annual Report.

Extraordinary gain or loss

There was no extraordinary activities during the year 2020 affecting any extraordinary gain or loss.

Variance between quarterly and annual financial statements

There are significant variances in the financial results between quarterly and annual financial statements. There are also significant deviations from the last year's operating results. The unprecedented COVID-19 pandemic enforced country-wide lockdowns in Bangladesh since the 26th of March 2020, which caused closure of outlets/stores of the Company's dealership, suspension of production in the factory and disruption of the supply chain, which thus effected reduction in sales and net profit as well as EPS and NOCFPS.

Material change or change in the nature of business

During the year under review, there are no material changes in the nature of business of the Company or its subsidiaries.

Risk and concerns

Risk assessment and mitigation is an integral part of the Company. The Company has an appropriate and effective risk management framework which carries out risk identification and assessment and ensures that risk mitigation plans are in place. The Board of Directors regularly monitor, assess and identify potential risks and threats to profitability and sustainable growth. Details of risks and concerns, including internal and external risk factors are discussed in the 'Risk management and control' section on the Annual Report.

Auditors

M/s ACNABIN, Chartered Accountants (an independent member of BAKER TILLY INTERNATIONAL), were the statutory auditors of the Company for previous three consecutive years including the year 2020, shall retire at the 22nd AGM and are not eligible for re-appointment, as per the Bangladesh Securities and Exchange Commission notification dated 20 June 2018.

The Company invited and received proposals from shareholders for appointment of auditors of the Company for the year 2021. The Audit Committee of the Board scrutinised the proposals and recommended to appoint M/s A. Qasem & Co., Chartered Accountants, as the statutory auditors of the Company for the year 2021. The Board of Directors also recommend to appoint M/s A. Qasem & Co., Chartered Accountants, which will be placed before the 22nd AGM for shareholders' approval. Remuneration of the auditor will also be fixed by the shareholders at the 22nd AGM.

The statutory auditors of the Company have given reports on the financial statements of the Company for the year ended 31 December 2020, which forms part of the Annual Report. There is no qualification, reservation, adverse remark, comments, observations or disclaimer given by the statutory auditors in their reports.

Parent and subsidiary companies

RAK Ceramics PJSC, UAE (the Company), is the parent company of RAK Ceramics (Bangladesh). It is one of the largest ceramics' brands in the world, specializing in ceramic and gres porcelain wall and floor tiles and sanitary-ware. It has an annual production capacity of 110 mn sqm of tiles and 5 mn pcs of sanitary-ware at 16 state-of-the-art plants located all over the world, including Bangladesh.

The Company serves clients in 150+ countries through its network of operational hubs in Europe, the Middle East and North Africa (MENA), Asia, North and South America and Australia. It is listed on the Abu Dhabi Securities Exchange in the United Arab Emirates and, as a Group, it has an annual turnover of around US\$1 billion. RAK Ceramics (Bangladesh) has two subsidiaries: RAK Power Pvt. Ltd and RAK Security and Services (Pvt) Ltd, which are fully-owned subsidiaries of the Company. The principal activities and status of these subsidiaries are separately disclosed in the 'Segment wise performance' on the Annual Report.

Related party transactions

Details on related parties with whom transactions have taken place and their relationship as identified and certified by the management is disclosed in the 'Related party disclosures under IAS-24' section on the Annual Report.

Corporate social responsibility

The Company understands its responsibility towards social welfare and contributed an amount of BDT 1.92 mn during the year 2020. Details of the Company's CSR activities during the year is discussed in the 'Corporate social responsibilities' section on the Annual Report.

Human resources and staff welfare

RAK Ceramics (Bangladesh) accords the highest priority to its human resources and towards sustainable staff welfare. The Company believes that its employees are integral to its success. The Company is also committed to ensures a safe and healthy working environment for all. The Company currently has 1,921 full-time employees on its rolls and offers best-in-class compensation packages for employees to encourage professionalism, productivity, build talent and skills, enhance leadership capabilities and also maximise their own personal and professional potential.

The employees of the Company enjoy benefits of contributory Provident Fund, gratuity scheme and group life insurance, etc. Further, the Company has also established a "Workers Profit Participation Fund and Welfare Fund". In year 2020, the Company contributed 5% of its profit before tax (PBT) towards Workers' Profit Participation and Welfare Fund, amounting to BDT 22.82 mn.

Board of Directors

The Board of Directors of the Company comprise five members, including an Independent Director. Names and profiles, including the nature of expertise in specific functional areas of the Directors of the Company are indicated in the 'Directors' profile' on the Annual Report.

Appointment/reappointment of Directors

In accordance with the articles 93, 94 and 95 of the Articles of Association of the Company, Mr. Pramod Kumar Chand will retire from his office as Director by rotation at the 22nd Annual General Meeting and, being eligible, offers himself for re-election in accordance with the terms of Article 96 of the Articles of Association of the Company. Mr. Wassim Moukahhal, who was appointed by the Board on October 27, 2020 as an Additional Director, will retire from his office as Director at the 22nd Annual General Meeting and, being eligible, offers himself for re-election in accordance with the terms of Article 99 of the Articles of Association of the Company.

Remuneration of Directors, including Independent Directors

The Company did not pay any remuneration to any Director, including Independent Director, except Board meeting attendance fees and 3% of profit before tax to the Managing Director.

Board of Directors' meetings and attendance

The Board of Directors of the Company met six times during the year 2020. The number of Board meetings held and the attendance of each Director during the year is disclosed in 'Annexure-2' on the Annual Report.

Code of conduct

In compliance with the conditions of Corporate Governance Code, the Board has laid down a code of conduct for the Chairman of the Board and other Board members of the Company, and annual compliance of the code is recorded accordingly.

Pattern of shareholding

In accordance with the conditions of corporate governance, the shareholding pattern of the Company is disclosed in 'Annexure-3' on the Annual Report.

Directors' statement on financial reporting

The Directors, in accordance with the Corporate Governance Code, 2018 of the Bangladesh Securities and Exchange Commission dated June 03, 2018, confirm the following to the best of their knowledge:

- a. The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity. b. Proper books of accounts of the issuer Company have been maintained.
- c. Appropriate accounting policies have been consistently applied in the preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in the preparation of the financial statements, and any departure therefrom has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. The minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.

g. There is no significant doubt upon the issuer Company's ability to continue as a going concern.

Management's discussion and analysis

In accordance with the conditions of Corporate Governance Code, 'Management discussion and analysis' has been duly signed by the Managing Director of the Company and is included on the Annual Report.

Declaration by MD and CFO

In accordance with the conditions of Corporate Governance Code, a declaration on financial statements for the year ended December 31, 2020 duly signed by the MD and CFO is included on the Annual Report.

Credit rating report

RAK Ceramics (Bangladesh) assigned CRISL, a credit rating company, on 02.12.2020 in consideration of its audited financials up to 31st December 2019, unaudited financials up to 30th September 2020, and other relevant quantitative as well as qualitative information up to the date of rating declaration:

- Long-term rating: "AA+" ("Double A Plus" indicating higher safety for timely repayment)
- Short-term rating: "ST-1" (Indicating highest certainty for timely repayment)
- Outlook: "Stable"

Details of the credit rating report are available on the website of the Company and also discussed in the 'Credit rating report' on the Annual Report.

Corporate governance

To ensure that the spirit of governance is embraced with full accountability for inspiring confidence and trust of investors, regulators, financiers and other stakeholders, RAK Ceramics (Bangladesh) is committed to comply with all the requirements of Corporate Governance Code, 2018 of Bangladesh Securities and Exchange Commission. Details about corporate governance are discussed in the 'Corporate governance report' on the Annual Report.

Reporting and compliance of corporate governance

The Company has complied with the conditions of the Corporate Governance Code, 2018 of the Bangladesh Securities and Exchange Commission dated June 03, 2018. Detailed status of compliance on corporate governance, along with the corporate governance compliance certificate, has been included on the Annual Report.

Membership with BAPLC

RAK Ceramics (Bangladesh) has membership of the Bangladesh Association of Publicly Listed Companies (BAPLC). A certificate of BAPLC membership has been included in the Annual Report.

Post balance sheet events

There are no material events which have occurred after the balance sheet/reporting date, the non-disclosure of which could affect the ability of users of these financial statements to make an appropriate evaluation.

Appreciation

The Board would like to take this opportunity to thank the government authorities, shareholders, investors, bankers, employees and other stakeholders for their continuous commitment, cooperation, confidence and support in achieving the Company's objectives and outcomes.

For and on behalf of the Board of Directors,

Sd/-
(Abdallah Massaad)
Chairman
February 03, 2021