

# Directors' Report

for the year ended June 30, 2020

## Dear Shareholders,

The Directors have pleasure in submitting hereunder their report, prepared under section 184 of the Companies Act, 1994, together with the Audited Financial Statements of the company for the year ended June 30, 2020 and Auditors' Report thereon.

## INDUSTRY OUTLOOK

Locally produced cosmetics and toiletries products are now playing a significant role that was previously dominated by imports. Most of the products in this sector are common consumer goods which have a large demand in the domestic market. Local manufacturer is able to satisfy most of the local customers by offering quality products with reasonable price. While most of the manufacturers focus primarily on meeting the demands of the local market, some firms have started exporting cosmetics and toiletries products from Bangladesh.

The production and sales scenario of major manufacturers over recent periods suggest that all the major firms including KCCL have experienced steady growth. The demand for cosmetic and personal care products is now huge and these types of products are increasingly becoming essentials for people belonging to all classes in society.

KCCL is working really hard to build consumer trust through producing good quality products and competes with two leading brands Unilever Bangladesh Ltd and Square Toiletries Limited. KCCL is the market leader among all the local companies and has been successfully competing with one multinational brand, Unilever Bangladesh Ltd. Since most of the people of Bangladesh live in rural area and the majority of them belong to lower income class, KCCL aims at serving these lower income customers relentlessly keeping the nation's economic condition in mind through door to door marketing network.

## HIGHLIGHTS ON FINANCIAL RESULTS

The Board of Directors takes pleasure in reporting the summary of the Financial Results of the company for the year ended June 30, 2020:

Amount in BDT

Particulars	2019-20	2018-19	%
Net Sales Revenue	3,899,549,785	3,995,804,807	(2.41%)
Cost of Goods Sold	3,171,924,005	3,275,506,984	(3.16%)
Gross Profit	727,625,780	720,297,823	1.01%
Operating Profit	228,137,247	247,161,878	(7.70%)
Net Profit (before tax)	223,641,117	232,305,010	(3.73%)
Net Profit (after tax)	167,963,360	174,349,009	(3.66%)
Earnings per Share	8.32	8.64	(3.70%)

The Company recorded 2.41% decrease in net sales revenue during the financial year 2019-20 over previous year mainly due to the negative impact of Covid-19 pandemic. The operating profit amounted to BDT 228.14 million showing a decrease of (7.70%) with respect to June 30, 2019. In addition, net profit after tax amounted to BDT 167.96 million showing a decrease of 3.66% compared to previous year.

## SEGMENT WISE OR PRODUCT WISE PERFORMANCE

Kohinoor Chemical Company (Bangladesh) Limited, a member of the cosmetics and toiletries industry of Bangladesh, is operating its business in a single market segment i.e consumer goods market within and outside the territory of Bangladesh. All products of Kohinoor Chemical Company (Bangladesh) Limited are categorized under three product lines :

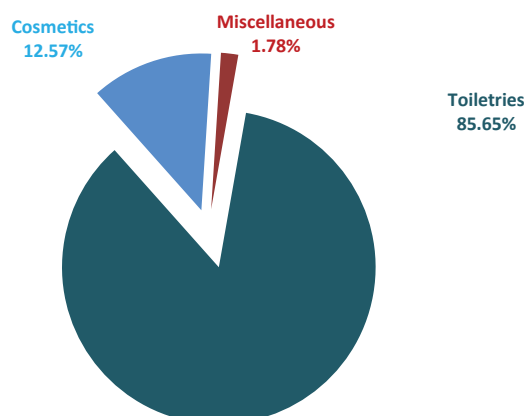
- Washing soap, toilet soap, tooth paste, shaving cream, detergent powder are classified as toilet ries products;
- Snow & Cream, Powder, Hair oil and Coconut oil are considered as cosmetics products; and
- All other products are included under miscellaneous products.

Product Line wise Gross Sales:

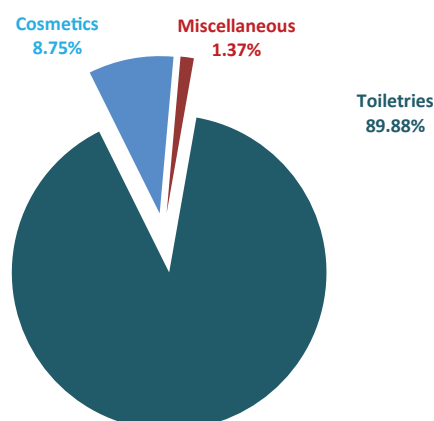
Amount in BDT

Year	Toiletries Products	Cosmetics Products	Miscellaneous Products	Total Revenue
2019-20	3,876,952,750	569,152,525	80,545,505	4,526,650,780
2018-19	4,161,542,407	404,913,943	63,422,109	4,629,878,459

Sales Portfolio in 2019-20



Sales Portfolio in 2018-19



## RISKS AND CONCERNS

The company's management is well aware of the fact that business is subject to variety of risks and uncertainties. The management is responsible to identify, communicate, and mitigate risks in order to minimize their potential impact on the business for which a special risk management framework has been established, where policies are established to identify and analyze the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Industry risks, regulatory risks, market risk, operational risk, legal risk, interest rate risk, exchange rate risk, potential changes in global or national policies, threats arising from the negative impacts on environment are some of the risks that Kohinoor Chemical Company (Bangladesh) Limited takes into consideration.

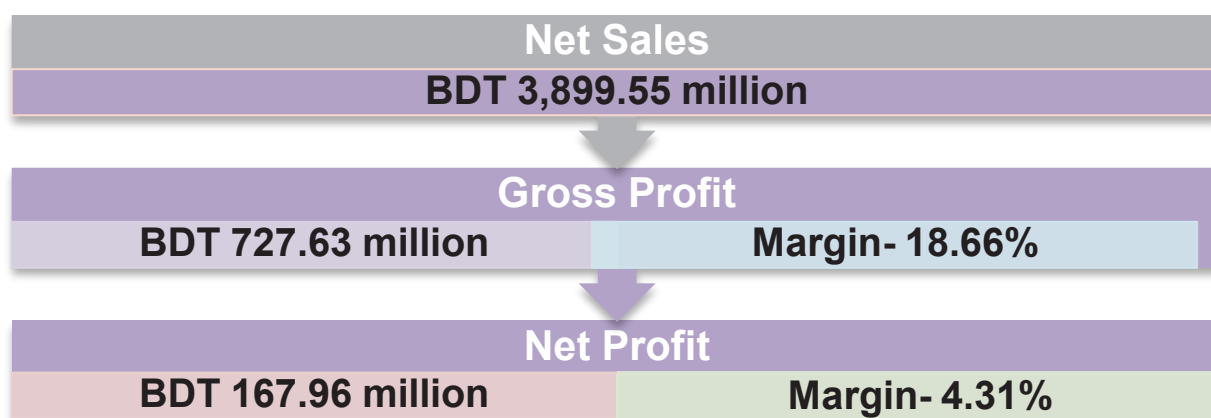
Kohinoor Chemical Company (Bangladesh) Limited has well defined it's risk management policies and introduced periodic monitoring system that act as an effective tool in mitigating various risks to which our businesses are exposed to in the course of its day-to-day operations as well as in its strategic actions. These policies are reviewed regularly to take into consideration changes in market conditions and the company's activities.

## COST OF GOODS SOLD, GROSS PROFIT MARGIN AND NET PROFIT MARGIN

The overall costs of direct materials as well as the cost of goods sold relative to net sales remained almost stable during the reporting year and the previous year. Direct material cost is 72% of net sales in reporting year and it was 75% in previous year. Cost of goods sold is 81% of net sales in reporting year and it was 82% in previous year.

Amount in BDT

COGS	Value in BDT		% of Total COGS	
	2019-20	2018-19	2019-20	2018-19
Direct Materials	2,803,549,611	2,994,937,763	88.39	91.43
Factory Overhead	317,820,969	300,137,598	10.02	9.16
<b>Manufacturing Cost</b>	<b>3,121,370,580</b>	<b>3,295,075,361</b>	<b>98.41</b>	<b>100.60</b>
WIP (Opening-Closing)	23,620,819	(10,274,934)	0.74	(0.31)
FG (Opening-Closing)	26,932,606	(9,293,443)	0.85	(0.28)
<b>Cost of Goods Sold</b>	<b>3,171,924,005</b>	<b>3,275,506,984</b>	<b>100.00</b>	<b>100.00</b>



## CAPITAL EXPENDITURES

Keeping in mind the importance to acquire or upgrade the physical assets to maintain or increase the scope of their operations, Kohinoor Chemical Company (Bangladesh) Limited made the following acquisitions during the year:

Amount in BDT

Additional Investment	2019-20	2018 -19
Plant and Machinery	5,557,456	21,745,521
Vehicles	4,016,970	6,161,186
Office Equipment	-	743,200
<b>Total</b>	<b>9,574,426</b>	<b>28,649,907</b>

## KEY OPERATING AND FINANCIAL DATA OF PRECEDING FIVE YEARS

A summarized statement stating the key operating and financial data of preceding 5 (five) years have been disclosed in this annual report. Various financial information in terms of Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial position, ordinary share related information and different financial ratios for preceding 5 (five) years are included in this statement. Key operating and financial data of the company of preceding 5 (five) years have been disclosed on page 51.

## **EXTRA-ORDINARY GAIN OR LOSS**

There is no extra-ordinary gain or loss in the financial statements prepared for the financial year 2019-20 under report.

## **RELATED PARTY TRANSACTION**

The Directors and other key management personnel are very cautious to avoid any conflicts of interest in conformity with the prevailing rules and regulations. Related party transactions, when undertaken, are carried out on the commercial basis. All related party transactions have been complied with the BSEC notifications (Notification No. BSEC/CMRRCD/2009-193/Admin/103 dated February 5, 2020) during the financial year. The related party transactions carried out by the company during the year have been disclosed in the Note-39.2 of the audited financial statements.

## **UTILIZATION OF PROCEEDS FROM PUBLIC ISSUES, RIGHT SHARES AND/OR THROUGH ANY OTHER INSTRUMENT**

Initial Public Offering (IPO) of Kohinoor Chemical Company (Bangladesh) Limited was made in 1988 and the fund raised thereby has already been utilized and reported accordingly to the respective regulators. No further issue of any instrument was made during the year.

## **EXPLANATION IF FINANCIAL RESULTS DETERIORATE AFTER THE COMPANY GOES FOR IPO, RPO, RIGHT OFFER, DIRECT LISTING**

As stated above, Kohinoor Chemical Company (Bangladesh) Limited went for IPO in 1988 and after that the company did not raise any fund by any sort of offerings like Repeated Public Offering, Right Issue, and Direct Listing during the financial year 2019-20. Therefore, no explanation is necessary in regards to this.

## **EXPLANATION ABOUT SIGNIFICANT VARIANCE BETWEEN QUARTERLY AND ANNUAL FINANCIAL STATEMENTS**

Significant variation has occurred between the quarterly and annual financial statements of the company during the year mainly due to impacts of Covid-19 on business and economy.

## **REMUNERATION TO DIRECTORS INCLUDING INDEPENDENT DIRECTORS**

The Directors including the Independent Directors of Kohinoor Chemical Company (Bangladesh) Limited did not receive any remuneration or other facilities or perquisites during the reporting financial year.

## **CORPORATE AND FINANCIAL REPORTING**

The Directors are pleased to conform to the following:

- The Financial Statements of the company present true and fair view of its state of affairs, the result of its operation, cash flows and changes of equity;
- Books of Accounts have been maintained properly as required by the law;
- Appropriate accounting policies have been consistently applied in formulating the financial statements and accounting estimates were reasonable and prudent;
- The financial statements were prepared in accordance with International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), as applicable in Bangladesh;
- Internal Control System is sound in design and implemented and monitored effectively;
- 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;
- No Bonus share or stock dividend has been or shall be declared as interim dividend; and
- Compliance report on IAS/IFRS is presented in Annexure E of the Directors' Report on page 89.

## **SIGNIFICANT DEVIATION FROM THE OPERATING RESULTS OF LAST YEAR**

During the year, significant deviation has occurred from the operating results of last year of the company mainly due to receipt of refundable AIT from NBR in the previous year which did not take place this year.

## APPROPRIATIONS OF PROFIT

Considering the annual accounts of Kohinoor Chemical Company (Bangladesh) Limited and also the interest of the Shareholders, the Board of Directors has proposed and recommended following appropriation of profit:

Net profit for the Year (2019-20)	167,963,360	
Add: Profit brought forward from previous year	<u>608,016,440</u>	
Profit available for distribution		775,979,800
Less: Appropriation proposed:		
Cash Dividend @ 35%	(70,638,750)	
Stock Dividend @ 10%	<u>(20,182,500)</u>	<u>(90,821,250)</u>
Transfer to retained earnings		685,158,550

## GOING CONCERN

Subsequent to the conduction of appropriate enquiries and analysis of the significant operating and financials, the Board ensures that the Company has the ability to continue its operation for a foreseeable future. The Directors have a reasonable anticipation that the resources are adequate to continue its operation without any major interruptions. Therefore, all these analyses qualify the company as a going concern and consequently the financial statements are also prepared on the basis of going concern assumption.

## CONTRIBUTION TO NATIONAL ECONOMY

During the financial year 2019-20, your company has contributed an amount of BDT 717.78 million Corporate Tax, Value Added Tax (VAT) and different other duties; compared to BDT 720.12 million in the last year. This contribution is equivalent to 18.41% of the company's Net Revenue.

## BOARD MEETINGS HELD

The number of Board Meetings and attendance of the Directors, CFO, CS and HIAC during the financial year 2019-20 were as follows:

Name	Status	Meeting held	Meeting Attended
Mr. Mohammad Obaidul Karim	Chairman	5	4
Mr. Md. Rezaul Karim	Managing Director	5	5
Mr. Md. Ebadul Karim	Director	5	5
Mrs. Arzuda Karim	Director	5	4
Mrs. Nurun Nahar	Director	5	3
Mrs. Shirin Akhter	Director	5	3
Mr. Quazi Mamun - UI-Ashraf	Independent Director	5	5
Prof. Dr. M. Shamsheer Ali	Independent Director	5	5
Mr. Md. Ferdous Jaman	Company Secretary	5	5
Mr. Abu Bakar Siddique	Chief Financial Officer	5	5
Mr. Mohd. Shamim Kabir	Head of Internal Audit and Compliance	5	5

## DECLARATION OF DIVIDEND

With the Directors' recommendation for a cash dividend of BDT 3.5 (35%) per share and stock dividend of 10% per share for the year under review, the Company will have a payout of BDT 90,821,250 subject to approval at the Annual General Meeting.

The dividend will be applicable for the shareholders whose names will appear in the share register of the Company and/or Depository Register of CDBL as on Record Date i.e. November 26, 2020.

## SHAREHOLDING POSITION

None of the Executives (top five salaried employees of the company, other than the Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer and Head of Internal Audit and Compliance) and the Company Secretary, Chief Financial Officer and Head of Internal Audit and Compliance hold any shares of the company other than the Directors. The pattern of shareholding disclosed on Annual Report 2019-20 in Annexure-D of the Directors' Report.

## ELECTION OF DIRECTORS

With regard to the appointment, retirement and re-appointment of Directors, the company is governed by its Articles of Association, the Companies Act 1994 and other related legislations. In order to comply with the provision mentioned under Section 91(2) of the Companies Act-1994, at least one third of the Directors shall retire from the office in each Annual General Meeting.

Pursuant to the above, Mrs. Nurun Nahar and Mrs. Shirin Akhter, will retire by rotation and as being eligible, the Board has recommended to re-elect and re-appoint them as the Directors of the Company, subject to approval of the shareholders in the upcoming Annual General Meeting.

## Appointment of Independent Director

Professor Dr. M. Shamsher Ali, the Independent Director, has completed his second tenure with great success and now, among the shortlisted candidates considering their qualification, skills, experience, expertise, positive attributes, the NRC has recommended to the Board of Directors to appoint Mr. Lt. Col. Kamal Ahmed, PSC (Retd.) as the new Independent Director, in compliance with the Notification No. BSEC / CMRRCD / 2006-158 / 207 / Admin / 80 dated June 03, 2018 issued by BSEC, subject to the approval of the shareholders in the ensuing AGM.

## DIVIDEND POLICY

At the end of yearly operation, the highest benefit i.e. dividend given to the shareholders by the management of the company after retaining a portion of earnings so that the company can maintain the ability to extend facilities to the shareholders in future also.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Detailed analysis of the company's position and operations have been presented in a Management's Discussion and Analysis signed by Mr. Rezaul Karim, Managing Director and Chief Executive Officer of the company. The statement depicts a brief discussion of changes in the financial statements, among others, focusing on:

- accounting policies and estimation for preparation of financial statements;
- changes in accounting policies and estimation, if any, clearly describing the effect on financial performance or results and financial position as well as cash flows in absolute figure for such changes;
- comparative analysis of financial performance or results and financial position as well as cash flows for current financial year with immediate preceding five years explaining reasons thereof;
- compare such financial performance or results and financial position as well as cash flows with the peer industry scenario;
- briefly explain the financial and economic scenario of the country and the globe;
- risks and concerns issues related to the financial statements, explaining such risk and concerns mitigation plan of the company; and
- future plan or projection or forecast for company's operation, performance and financial position.

A Management's Discussion and Analysis signed by CEO or MD has been presented on page 56 to 58.



## Annual General Meeting

In light of COVID-19 situation in Bangladesh, the 33rd Annual General Meeting of Kohinoor Chemical Company (Bangladesh) Limited will be held virtually on a digital platform on Monday, December 21, 2020, at 3:00 pm at the Company premises, considering the health and safety of all the shareholders, staff and other participants.

## Annual Report

The appropriate number of copies of the Annual Report for the financial year 2019-20 will be submitted to the shareholders of the company, Bangladesh Securities Exchange Commission, Dhaka Stock Exchange and Chittagong Stock Exchange at least fourteen days before the ensuing Annual General Meeting.

## ACKNOWLEDGEMENT

The Board of Directors record with deep appreciation the efforts made by the employees, workers, customers, creditors, suppliers, banks, insurance companies, utilities providers, Government Agencies, BSEC, RJSC, DSE, CSE and the Government in particular.

The Directors would also like to express profound gratitude to all other stakeholders including the Shareholders and Business Partners for their trust and confidence on the Company by supporting the activities of the Company and look forward to their continued support and cooperation in future.

On behalf of the Board

Sd/-

Mohammad Obaidul Karim  
Chairman

## ANNEXURE LIST:

- A. Declaration or Certification by the CEO and the CFO to the Board
- B. Certificate from Poddar & Associates, Chartered Accountants regarding compliance of conditions of the Corporate Governance Code
- C. Checklist on Compliance of the Corporate Governance Code
- D. Pattern of Shareholding
- E. Compliance Report on IAS and IFRS

## **DECLARATION OR CERTIFICATION BY THE CEO AND CFO TO THE BOARD**

As per the corporate governance code prescribed by BSEC, it is the responsibility of both CEO and CFO to certify to the Board on the preparation of financial statements as per the applicable IAS and IFRS after and the presentation of true and fair view of company affairs.

Declaration or certification on the financial statements by the CEO and the CFO to the Board is disclosed on page 67 to 68.

## **APPOINTMENT OF STATUTORY AUDITORS**

Regarding the appointment and reappointment of external or Statutory Auditors, Kohinoor Chemical Company (Bangladesh) Limited follows the Companies Act 1994, Securities and Exchange Rules 1987 and the notifications of BSEC.

S. F. Ahmed & Co, Chartered Accountants, was appointed as the Statutory Auditors of the company in the last Annual General Meeting and will retire in the forthcoming Annual General Meeting. Meanwhile, they have confirmed their eligibility and willingness to accept their office as the Statutory /external Auditors of the Company for the next financial year to be ended on June 30, 2021.

In this regard, being eligible, the Audit Committee has recommended to the Board of Directors to re-appoint S. F. Ahmed & Co, Chartered Accountants, as the Statutory Auditors of the company and the Board recommended the same for the approval of shareholders at the ensuing Annual General Meeting.

The remuneration of the Statutory Auditors will also be fixed by the shareholders of the company in the same General Meeting.

## **APPOINTMENT OF COMPLIANCE AUDITORS**

In compliance with the notification no: SEC/CMRRD/2006-158/207/Admin/80 dated June 03, 2018 imposed by BSEC, a listed company requires to obtain a certificate from a practicing Professional Accountant or Secretary (Chartered Accountant or Cost and Management Accountant or Chartered Secretary), who shall be appointed by the shareholders of the company in the AGM.

Poddar & Associates, Cost and Management Accountants has been appointed by the shareholders in the last AGM as the Compliance Auditors of the company. In light with the said notification, related securities laws and necessary observation regarding efficiency, transparency of job and experience, the Board of Directors has recommended to re-appoint Poddar & Associates, Cost and Management Accountants as the Corporate Governance Compliance Auditors of the company for the next financial year to be ended on June 30, 2021 subject to the approval of shareholders at the ensuing AGM.

## **STATUS OF COMPLIANCE**

Kohinoor Chemical Company (BD) Limited has been committed to abide high standards of Corporate Governance. We have the pleasure to confirm herewith that the Company has complied with all the necessary guidelines under the Bangladesh Securities and Exchange Commission's Notification No. SEC/CMRRCD/2006- 158/207/Admin/80 dated June 03, 2018 and Notification No. issued under section 2CC of the Securities and Exchange Ordinance 1969. The certificate from the Compliance Auditors of Kohinoor Chemical Company (Bangladesh) Limited on the conditions of Corporate Governance Code imposed by BSEC is disclosed on Annual Report 2019-20 in Annexure-B of the Directors' Report and the Checklist on Compliance of the Corporate Governance Code has disclosed in Annexure-C.