

Report of the Board of Directors to the Shareholders

Dear Shareholders,

Welcome to the 14th Annual General Meeting of Active Fine Chemicals Limited. The Directors are immensely pleased to present the Annual Report together with Directors' Report and the Audited Financial Statements for the year ended 30th June, 2019 in accordance with the prevailing Rules and Regulations.

Corporate Status and Background:

Active Fine Chemicals Limited (AFCL) was established on 1st December, 2004 as a private limited company with a vision to produce the bulk drugs and lab reagents. Subsequently it was converted to "Public" limited company on 9th December, 2009. AFCL has set up a multi-purpose bulk drugs and fine chemicals manufacturing facility at Munshigonj, 20 km away from the capital city Dhaka. The plant is established on the 3.60 acre land.

The Company has obtained license from the Directorate of Drug Administration of Bangladesh to operate as a manufacturer of Biological & other special products. The Company has started its commercial production on 5th October, 2009. The key driving force of AFCL is the opportunity to serve a fast growing pharmaceutical sector of Bangladesh which is heavily import dependent for its raw materials. AFCL's goal is to provide highest quality materials at a very competitive price.

Business Activities:

Active Fine Chemicals Ltd. has been producing Bulk Drugs/ Active Pharmaceutical Ingredients (API) and different Laboratory Reagents.

1. Active Pharmaceutical Ingredients (API):

Therapeutic Category	Products	BP/USP
Macrolides	Azithromycin Dihydrate	BP/USP
	Erythromycin Ethyl Succinate	BP/USP
	Erythromycin Stearate	BP/USP
Anti-ulcerent	Esomeprazole Magnesium Trihydrate	BP/USP
	Esomeprazole Magnesium Pellets	BP/USP
	Pantoprazole Sodium Sesquihydrate	BP/USP
Anti-fungal	Fluconazole	BP/USP
Lipid –lowering	Atorvastatin Calcium	USP
Anti-histamine	Cetirizine Hydrochloride	BP/USP
	Fexofenadine Hydrochloride	BP/USP
	Desloratadine	INN
Anti-depressant	Venlafaxine HCL	INN

Antibiotic	Cefixime Trihydrate	BP/USP
	Cefuroxime Axetil	BP/USP
Anti-diabetic	Metformin Hydrochloride	BP/USP
	Sitagliptin Phosphate Monohydrate	INN
	Vidagliptin	INN
	Gliclazide	BP
	Glimepiride	INN
Anti-epileptic	Pregabalin	INN
Anti-hypertensive	Losartan Potassium	BP/USP
	Amlodipine Besylate	BP
NSAID	Etoricoxib	INN
	Ketorolac Tromethamine	USP
Anti-Platelet	Ticagrelor	INN

2. Laboratory Reagents:

Wide varieties of chemical substances are needed for production and quality control by pharmaceutical laboratories. Main purpose of these laboratories is to maintain quality of the raw materials and finished goods. Hence they require various chemical reagents for conducting laboratory experiments. AFCL also manufactures some of these Laboratory reagents. Bangladeshi companies used to import these chemicals and our products are import substitutes. Major products of AFCL under Laboratory Reagent category are as follows:

HPLC Grade solvents
Solvents
Powder reagents

Net Turnover for the year ended 30th June, 2019 is Taka 241.92 crore, a growth of 12.22% over last year's turnover of Taka 215.57 crore. Profit after tax during the period Taka 71.19 crore whereas last year profit after tax was Taka 82.54 crore.

Industry outlook and possible future development in the industry:

Active Fine Chemicals Ltd. has been established in 2004 with a vision to serve the bulk drugs market in Bangladesh. The key driving force is the opportunity to serve a fast-growing pharmaceutical local market. Now Active Fine takes pride in being a number one API Manufacturer in Bangladesh meeting local demand since its inception.

Since it is growing fast and exporting our products to Asian countries, it is time to meet the global needs. AFC is working hard on capacity building to ensure relentless production for international market. In order to do that, our next focus is CEP Certification from EDQM.

EDQM - European Directorate for the Quality of Medicines and Health Care.

CEP- Certificate of Suitability to the monographs of the European Pharmacopoeia.

The role of a Certificate of Suitability (CEP) is to certify the compliance of a material with the requirements laid down in the relevant monograph of the European Pharmacopoeia. Active pharmaceutical ingredients for which a Certificate of Suitability has been granted are suitable for use in medicinal products.

For this certification procedure, we have our foreign consultant beside us to execute our work plan accordingly.

Advantages of the CEP

- Increase of overall domestic sales
- Encourages joint venture investors
- Recognized by all Member States of the European Pharmacopoeia Convention (36 countries) as well as by other countries,
- Easing of the management of applications for marketing authorization (MAA) for medicinal products in these countries,
- Recognized by the following countries and institutions:
 - US (FDA),
 - Canada (HPFB),
 - Australia (TGA),
 - New Zealand,
 - Tunisia and Morocco.
- Simplifies the trading with pharmaceutical substances and ingredients.

Risks and Concerns:

Though a booming sector with great potentiality, API industry has also some risk factors such as political unrest, devaluation of foreign currency, increasing govt. duty etc.

Discussion on Cost of Goods Sold, Gross Profit Margin and Net Profit Margin:

The Statement of Profit or Loss and Other Comprehensive Income shows that the Cost of Goods Sold for the year ended 30th June, 2019 is Tk. 128.20 crore against Tk. 118.15 crore for the last year. Gross Profit for the year ended 30th June, 2019 is Tk. 113.71 crore against Tk. 97.43 crore for the last year. Net Profit after tax for the year ended 30th June, 2019 is Tk. 71.19 crore against Tk. 82.54 crore for the last year.

Continuity of any Extra-Ordinary Gain or Loss:

Active Fine Chemicals Limited has no any Extra-Ordinary Gain or Loss for the year ended 30th June, 2019.

Related party Transaction:

- (a) During the year there are no related party transactions except investment in associated companies, in the normal course of business. The name of the related parties and nature of this transaction have been set out in accordance with the provision of IAS 24: Related Party Disclosures.

Name of Related Party	Nature of Transactions	30.06.2019	30.06.2018
AFC Capital Ltd.	Investment	62,000,000	62,000,000
AFC Solvents Ltd.	Investment	50,000	50,000
AFC Agro Biotech Ltd.	Investment	60,050,000	60,050,000
AFC Agro Biology Ltd.	Investment	100,000	100,000
AFC Health Ltd.	Investment	123,774,000	123,774,000
AFC Health Ltd.	Short Term Loan	99,131,396	19,725,000

(b) Further AFC Agro Biotech Limited is one of the suppliers of Active Fine Chemicals Limited. During this year Active Fine Chemicals Limited purchases products Tk. 46,288,872 from AFC Agro Biotech Limited and paid Tk. 42,347,761 against purchases after adjusting payable balance of Tk. 4,042,998 and balance payable to AFC Agro Biotech Limited as on 30.06.2019 was Tk. 3,941,111.

(c) Related party transaction took place during normal course of business with AFC Agro Biotech Limited.

(d) Transaction with key management personal

Key management personal compensation comprised the followings:

Director's remuneration

3,000,000 3,250,000

Board meeting fees

- 165,000

Total

3,000,000 3,415,000

The company's key management personal includes the company's directors. Compensation includes salaries, festival bonus and meeting attendance fees.

Directors Remuneration:

Directors don't receive any other facilities or prerequisites except remuneration. Total remuneration expenses of the Directors have been disclosed as an expense under the head of Administrative Expenses in the notes 22.00 of financial statements. Independent Directors do not take any remuneration from the company.

Corporate and Financial Reporting:

The Directors are pleased to confirm the following:

- 1) The financial statements prepared by the management of the company present fairly its statements state of affairs, the result of its operations, cash flows and changes in equity.
- 2) Proper books and accounts of the company have been maintained.
- 3) Appropriate accounting policies have been consistently applied in preparation of the financial statements and the accounting estimates are based on reasonable and prudent judgment.
- 4) International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.
- 5) The system of Internal Control is sound in design and has been effectively implemented and monitored.
- 6) There are no significant doubts upon the Company's ability to continue as a going concern.
- 7) There are no Profit Reduced deviations from last year in operating results but normal growth is there.
- 8) The financial data for the last five years are annexed.
- 9) No bonus shares or stock dividend has been or shall be declared as interim dividend.

Acquisition of Assets:

During the year under review, the Company invested a sum of Tk. 147.57 crore for acquisition of Fixed Assets such as land, building, plant and machinery.

Investment:

Investment in Securities-Listed Company	(Note-4.01)	60,050,000	60,550,000
Investment in Securities-Un Listed Company	(Note-4.02)	185,924,000	185,924,000
Short term loan to AFC Health Ltd.		99,131,396	19,725,000
Total		<u>345,105,396</u>	<u>266,199,000</u>

This short term loan represents the company's temporary investment with AFC Health Ltd. carrying interest 15% applicable after 2 years from the date of disbursement and this investment is returnable as when required by the company.

Shareholding Pattern:

Shareholding patterns of the company for the year ended 30th June, 2019 is shown in Annexure-II of this report.

Minority Shareholders:

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.

Corporate Governance Compliance Report:

Active Fine Chemicals Limited adheres to appropriate Corporate Governance principles.

The Company has also complied with all requirements of Corporate Governance as required by the Bangladesh Securities & Exchange Commission. Accordingly to Bangladesh Securities and Exchange Commission's notification no. SEC/CMRRCD/2006-158/207/Admin/80: dated 3rd June, 2018 a Corporate Governance Compliance Report is shown Annexure-V of this report.

Credit Ratings:

The summary of the up to date credit rating done by National Credit Ratings Limited (NCR) is presented below:

Long Term: A+

Short Term: ST-2

We express our warm thanks to all our customers and stakeholders for their continued support and cooperation.

Financial Result:

The Directors are pleased to report the financial results for the year 2018-2019:

Particulars	July 2018 To June 2019	July 2017 To June 2018
Net Profit Before Tax	712,664,891	641,661,887
Less: Provision for Income Tax	7,69,857	18,37,00,034
Net Profit After Tax	711,895,034	825,361,921
Add: Profit brought forward from previous year	1,643,523,099	1,216,833,393
Less: Dividend	399,894,300	399,894,300
Add: Revaluation Surplus Adjustment	6,19,055	667,603
Add: Tax Holiday Reserve	-	554,482
Less: Prior year Adjustment (Income Tax Provision)	102,093,375	
Profit Available for Appropriation	1,854,049,513	1,643,523,099
Less: Proposed Dividend	47,987,316	399,894,300
Un-appropriated Profit Carried Forward	1,806,062,197	1,243,628,799

Dividend:

During the year company earned Net Profit after Tax is Tk. 71.19 crore. The earning per share (EPS) is Tk. 2.97. Considering the satisfaction of shareholders, the Board of Directors has recommended 2% Cash Dividend for the year ended 30th June, 2019.

Interim Dividend:

No dividend was declared during the period under review as interim dividend.

Capital Structure:

Authorized capital of Active Fine Chemical Limited is Tk.300,00,00,000/- divided into 30,00,00,000 Ordinary shares of Tk.10.00 each. Paid up capital of the Company as on 30th June 2019 is Tk. 239, 93, 65,800/- divided into 23, 99, 36,580 Ordinary shares of Tk.10.00 each.

Management Discussion and Analysis:

The Year of 2018-2019 was a new horizon for Bangladeshi manufacturers of APIs and related products has emerged last year despite it being extremely competitive and snagging in all the sectors in Bangladesh because of internal and external effect. It may be cited that wages hike, price of raw materials increases, insufficient utilities support, Global recession, unfavorable trade deal and others make the business very difficult and troublesome and create obstacle keeping the pace of business growth consistent for business houses. All the effect ultimately impact on margin shrinkage.

To fight that, the Government of Bangladesh has approved a new set of policies to support this sector. These set of policies will definitely make a lot of difference. For instance, 20% cash incentive for export will add a lot of fuel for growth. This will also help us to compete with the foreign competitions. The export market size is over USD 250 billion. TRIPS treaty and incentive will help us to capture a good size of this market in the coming future. For local market growth GOB has approved VAT and AIT exemption until 2022 with some condition until 2032. This will help us to compete with the foreign competitors to gain local market share.

The management is also like to inform on the following issues:

- a) The company followed accounting policies and procedure for the preparation of Financial Statements with relevant International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) which has been disclosed in the notes to the Financial Statements.
- b) During the reporting period 2018-2019 accounting policies and procedures were followed on consistently basis in maintaining financial records and presentation. No changes were made during the financial year in the accounting policies and procedures.
- c) Comparative analysis (including effects of inflation) of financial performance or results and financial position as well as cash flows for current financial year with immediately preceding five years have been presented at the directors report.
- d) In discussion of financial and economic scenario of the country and the globe, Bangladesh sustained strong growth in fiscal year 2018-2019. The API sector is one of the fastest growing sectors of Bangladesh economy. It is also one of the largest foreign exchange earning sectors of Bangladesh. According to IMS Health Care Report, in 2012, the local market size stood at about Tk. 9,390. In 2017, it stood at Tk. 18,755.6 crore. Bangladesh's medicine exports soared 25.60 percent year-on-year to \$130 million last fiscal year thanks to continuous improvement of product quality and government support. The sector has built up skilled manpower and improved quality and at the same time more effort is being put to win the global market.
- e) About risks and concern issue, it has also been discussed in detailed in the Directors' report.

- f) The world business environment is now volatile and sluggish. The company is very much aware about the world business environment and compete with these challenges with strong management efficiency and stepping ahead for the sustainable growth of the shareholders and the country as well.

Appointment of Auditor:

The auditor M/S Khan Wahab Shafique & Co. Chartered Accountants will retire at the conclusion of ensuing 14th Annual General Meeting as per Bangladesh Securities & Exchange Commission Notification No. SEC/CMRRCD/2009-193/104/Admin dated 27th July 2011. We have received an offer from M/S Shafiq Basak & Co. Chartered Accountants for appointment as statutory auditor of the company for the year 2019 -2020. The Board of Directors & Audit committee reviewed the offer letter of M/S Shafiq Basak & Co. Chartered Accountants regarding appointment as statutory auditor and the Board recommended the proposal for appointment of M/S Shafiq Basak & Co. Chartered Accountants as statutory auditor for the year 2019-2020 subject to the approval of shareholders in 14th Annual General Meeting of the company.

Environmental Role:

The company maintains a high standard of pollution free environment as per Government laws. The company doesn't have any activity which is harmful to the environment or society.

Human Resources Development:

The human resources are actual asset of the company and the Board recommended maintaining regular training and development of the company personnel. The company also provides continuously relevant training for the employees to encourage self-development and to improve their efficiency as well as productivity. Excellent intermingle of young and skilled people ensure their best efforts towards growth of business.

Appointment of Professional Firm for the certificate on compliance with the Corporate Governance Code of BSEC:

M/S Mazumdar Sikder and Associates, Cost and Management Accountants, will retire at the conclusion of ensuing 14th Annual General Meeting. We have received an offer from M/S Mujib Rahman & Co. Cost and Management Accountants for appointment as compliance auditor of the company for the year 2019 -2020. The Board of Directors reviewed the offer letter of M/S Mujib Rahman & Co. Cost and Management Accountants and the Board recommended the proposal for appointment of M/S Mujib Rahman & Co. Cost and Management Accountants as the compliance auditor of the Company for the year 2019-2020 subject to the approval of shareholders in 14th Annual General Meeting of the company.

Compliance with Laws and Regulations:

The company always trying to comply the provision of the applicable laws and regulations of the country.

Board Meetings & Attendance:

During the year, 15 (Fifteen) Board Meetings were held. The attendance record of the Directors is shown in Annexure-I of this report. The Board of Directors did not take attendance fees during the year ended 30th June, 2019.

Going Concern:

The Board of Directors has reviewed & analyzed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly the Financial Statements are prepared based on the going concern concept.

Election of Directors:

Mr. Md. Zia Uddin, Director retired from the Board of Directors by rotation and he expressed his interest for re-election as Director.

Acknowledgements:

The Board of Directors expresses their sincere gratitude and appreciation for the assistance, cooperation and guidance received by the Company from Bangladesh Securities & Exchange Commission, Dhaka Stock Exchange Limited, Chittagong Stock Exchange Limited, Drug Administration, Bangladesh Bank, Commercial Banks, Shareholders, Suppliers, Clients, and Employees of Active Fine Chemicals Limited for their contribution and their continued support and confidence.

Thank you all

On behalf of the Board of Directors

Md. Zia Uddin
Chairman