

Report of the Board of Directors to the Shareholders

Dear Shareholders,

Welcome to the 16th 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, 2021 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-ulcerate	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, 2021 is Taka 182.12 crore and last year's turnover of Taka 130.78 crore. Profit after tax during the period Taka 3.82 crore whereas last year profit after tax was Taka (5.60) 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, 2021 is Tk. 145.96 crore against Tk. 96.09 crore for the last year. Gross Profit for the year ended 30th June, 2021 is Tk. 36.16 crore against Tk. 34.69 crore for the last year. Net Profit after tax for the year ended 30th June, 2021 is Tk. 3.82 crore against Tk. (5.60) 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, 2021.

Related party Transaction:

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 these transaction have been set out in accordance with the provision of IAS 24: Related Party Disclosure.

Name of Related Party	Nature of Transactions	30.06.21	30.06.20
AFC Capital Ltd.	Investment	112,000,000	112,000,000
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	-	59,870,712

b) Further AFC Agro Biotech Limited is one of the supplier of Active Fine Chemicals Limited. During this year Active Fine Chemicals Limited purchases products Tk. 3,82,09,356/-from AFC Agro Biotech Limited and paid Tk. 3,72,84,118/- against purchases after adjusting payable balance of Tk. 42,95,156/- and balance payable to AFC Agro Biotech Limited as on 30.06.2021 was Tk.52,20,394/-

(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	3,000,000
Board meeting fees	-	-
Total	3,000,000	3,000,000

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

Directors Remuneration:

Only Managing Director of the company take remuneration from the company. Total remuneration expenses of the Directors have been disclosed as an expense under the head of Administrative Expenses and Selling & Distribution Expenses in the notes 25.00 and 26.00 of financial statements. Independent Directors do not take any remuneration from the company.

Sl.No.	Name	Monthly Remuneration	Total
1	Md. Saifur Rahman	2,50,000 x12	30,00,000.00
		Total=	30,00,000.00

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 significant variance that occurs between Quarterly Financial Performance:

Particulars	Total Up to Quarter-3 (a)	Average per Quarter	Quarter-4 (b)	Annual C= (a+b)
Sales	127,33,77,248	42,44,59,082	54,78,81,983	182,12,59,231
Net profit /(Loss) after Tax	41,752,560	1,39,17,520	(34,76,388)	3,82,76,172
Earnings Per Share	0.17	0.06	(0.01)	0.16

From March 2020 WHO declared a global pandemic due to COVID-19 and Government of Bangladesh has also taken a number of measures like general holiday, enforcement of lock down, social distancing etc. The turnover and profit of the company significantly affected from quarter - 3 to quarter -4 due to COVID-19 impact.

- 8) Signification deviation in Earning per share (EPS):EPS for the year ended on 30 June 2021 is Tk. 0.16 whereas it was Tk. (0.23) for the same period of the previous year. This was mainly significant increase in the business income due to COVID-19 impact on business last quarter.
- 9) The financial data for the last five years are annexed.
- 10) 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. 57.82 crore for acquisition of Fixed Assets such as land, building, plant and machinery.

Investment:

This consists of as follows:

	30-Jun-21	30-Jun-20
Investment in Securities-Listed Company (Note-4.01)	60,050,000	60,050,000
Investment in Securities-Un Listed Company (Note-4.02)	235,924,000	235,924,000
Short term loan to AFC Health Ltd.	-	59,870,712
Total	295,974,000	355,844,712

Shareholding Pattern:

Shareholding patterns of the company for the year ended 30th June, 2021 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/CMRRC/2006-158/207/Admin/80: dated 3rd June, 2018 a Corporate Governance Compliance Report is shown Annexure-V of this report.

Financial Result:

The Directors are pleased to report the financial results for the year 2020-2021:

Particulars	July 2020 To June 2021	July 2019 To June 2020
Net Profit Before Tax	57,755,492	(55,163,194)
Less: Provision for Income Tax	(19,479,320)	(839,161)
Net Profit After Tax	38,276,172	(56,002,355)
Add: Profit brought forward from previous year	1,750,600,093	1,854,049,513
Less: Dividend	-	(47,987,316)
Add: Revaluation Surplus Adjustment	3,018,803	574,815
Add: Tax Holiday Reserve	-	-
Less: Prior year Adjustment (Income Tax Provision)	-	(34,564)
Profit Available for Appropriation	1,791,895,069	1,750,600,093
Less: Proposed Dividend	10,552,411	-
Un-appropriated Profit Carried Forward	1,781,342,658	1,750,600,093

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.

Dividend:

During the year company earned Net Profit after Tax is Tk.3.82 crore. The earning per share (EPS) is Tk. 0.16. Considering the satisfaction of shareholders, the Board of Directors has recommended 0.50% Cash Dividend only general shareholders (other than Board of Directors) for the year ended 30th June, 2021.

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 2021 is Tk. 239, 93, 65,800/- divided into 23, 99, 36,580 Ordinary shares of Tk.10.00 each.

Management Discussion and Analysis:

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. 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 2020-2021 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 2020-2021. 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.

With Best Regards

S.M Saifur Rahman
Managing Director

Appointment of Auditor:

The auditor M/S Shafiq Basak & Co. Chartered Accountants expressed their interest to continue as auditor for the year 2021-2022. The Board recommended the proposal for appointment of M/S Shafiq Basak & Co. Chartered Accountants, as the auditor of the Company for the year 2021-2022 subject to the approval of shareholders in 16th 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:

Mujibur Rahman & Co. Cost and Management Accountants will retire at the conclusion of ensuing 16th Annual General Meeting. We have received an offer from A.KM. Delwer Hussain & Associates, Cost and Management Accountants for appointment as compliance auditor of the company for the year 2021 -2022. The Board of Directors reviewed the offer letter of A.KM. Delwer Hussain & Associates, Cost and Management Accountants and the Board recommended the proposal for appointment of A.KM. Delwer Hussain & Associates, Cost and Management Accountants as the compliance auditor of the Company for the year 2021-2022 subject to the approval of shareholders in 16th 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, 7 (Seven) 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, 2021.

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.

Basis for Qualified Opinion

- i. Provision for current income tax and deferred tax required as per para 12 & 15 of IAS 12 has not been made except for other income, as disclosed in note # 20, based on gazette No-26.00.0000.100.42.008.17-54 dated 14-05-2018 by Commerce Ministry under the caption

“National Active Pharmaceutical Ingredients (API) & Laboratory Reagents Production and Export Policy” regarding tax exemption. Special Regulatory Order (SRO) has been published by National Board of Revenue (NBR) on October 11, 2021 (SRO # 315) stating some conditions and guidelines to be followed by the company for enjoying such exemption but necessary steps (application to NBR) by the company to have exemption certificate are yet to be taken. Further, payment for purchase of fixed assets and raw materials was made during the year without complying provisions of section 30(m) of Income Tax Ordinance 1984.

- ii. As per notification no. SEC/CMRRCD/2009-193/120/Admin of Bangladesh Security Exchange Commission dated December 07, 2011, “The Sponsors/promoters and directors of any listed company shall hold jointly minimum 30% shares”. But the sponsors and directors of the Company hold only 12.04% shares which is violation of the said notification.
- iii. Impairment analysis for property, plant and equipment to be done by management as per para 9 of IAS 36 has not been completed as of balance sheet date considering the external and internal source of information regarding impairment of assets in accordance with para 12 of the same standard.
- iv. We have observed that the entity did not pay 10% of the WPPF of earlier years’ balances to the government exchequer as per section 234 of Labor Act 2006 (amended in 2015).
- v. Analysis of accounts receivable and related cash flow reveals that a major portion of accounts receivable of earlier year(s) remains uncollected. Although, a provision of 2.5% considering Expected Credit Loss (ECL) on accounts receivables in accordance with IFRS-9 has been maintained but it is not adequate considering doubtful of recovery.

- vi. Cash at banks includes some uncleared cheques amounting to Tk. 167,828,000 which are shown in the reconciliation statements as “uncleared lodgement” but till our reporting date those cheques were not cleared.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bangladesh, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Institute of Chartered Accountants of Bangladesh (ICAB) Bye Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Dividend Distribution Policy:

Active Fine Chemicals Limited (AFCL) maintains a dividend distribution policy for its own purpose. The said policy is prepared for resulting proper distribution of declared dividend to the shareholders of the company. As dividend policy of the company serves to enhance corporate market value.

The Board of Directors of Active Fine Chemicals Limited has adopted the dividend distribution policy to comply with Bangladesh Securities and Exchange Commission (BSEC) Directive No. BSEC/ CMRRCD/ 2021-386/03 dated January 14, 2021 which is mandatory for the listed company.

Dividend Recommendation and Approval Process:

The Board of Directors of the company would be recommended Dividend based on the Audited Financial Statements of the company which is subject to the approval of the Shareholders at an Annual General Meeting.

Entitlement of the Dividend:

The Shareholders, whose names shall appear in the Share Register of the Company or in the Depository Register of CDBL on the “Record Date” will be entitled to attend the AGM and receive the Dividend.

Disbursement of Dividend:

AFCL shall pay off the final dividend to the entitled shareholders within 30(thirty) days from the date of approval by shareholders in AGM. Cash dividend and stock dividend shall be distributed in the following manner and procedures:

Cash Dividend

AFCL shall pay off cash dividend directly to the bank account of the entitled shareholders as available in the BO account maintained with the depository participant (DP) or the bank account as provided by the shareholders in paper form, through BEFTN.

- AFCL may pay off such cash dividend through bank transfer or any electronic payment system as recognized by the Bangladesh Bank, if not possible to pay off through BEFTN.
- Upon receiving the claim on cash dividend from a stock broker or a merchant banker or a portfolio manager for the margin client or customer who has debit balance or margin loan, or as per intention of the client of stock broker or merchant banker or portfolio manager.
- AFCL shall pay off such cash dividend to the consolidated customer’s bank account (CCBA) of the stock broker or to the separate bank account of the merchant banker or portfolio manager through BEFTN.
- In case of non-availability of bank account information or if not possible to distribute cash dividend through BEFTN or electronic payment system, AFCL shall issue cash dividend warrant and shall send it by post to the shareholders.
- AFCL shall maintain detailed information of unpaid/unclaimed cash dividend and rationale thereof, as per BO account of the shareholders and shall also disclose the summary of aforesaid information in the annual report and shall also report in the financial statements of financial position as a separate line item ‘Unclaimed Dividend Account’. AFCL shall publish the year-wise summary of its unpaid or unclaimed cash dividend in the website.

Stock Dividend:

AFCL shall credit stock dividend directly to the BO account of the entitled shareholders within 30 (thirty) days of declaration or approval or record date, as the case may be, subject to clearance of the exchange(s) and the Central Depository Bangladesh Limited (CDBL). AFCL shall follow the provision cÖweavb 46 of the wWcwRUwi (e“enwWiK) cÖweavbgvjv,2003 for issuance of bonus shares.

- AFCL shall maintain a suspense BO account for undistributed or unclaimed stock dividend or bonus shares and shall also follow the under mentioned procedures for ensuring the rightful ownership:
- AFCL shall send reminders to the entitled shareholders.
- The Suspense BO Account shall be held under Block Module and such undistributed or unclaimed stock dividend or bonus shares shall not be transferred in any manner except for the purpose of allotting the bonus shares as and when the allottee approaches to the issuer.
- Any corporate benefit in terms of shares accrued on such undistributed or unclaimed stock dividend or bonus shares shall be credited to the Suspense BO Account.
- AFCL shall upon receiving application from the allottee and after proper verification of identity and his entitlement ,credit the bonus shares lying with the Suspense BO Account to the BO account of the allottee or issue bonus shares to the allottee, as applicable within 15 (fifteen) days of receiving application with an intimation to the commission and exchange(s).
- Any voting rights on such undistributed or unclaimed stock dividend or bonus shares shall remain suspended till the rightful ownership claim of the shareholders is established.

Payment of unpaid/unclaimed cash dividend and stock dividend:

AFCL shall not forfeit any unclaimed cash dividend and stock dividend till the claim becomes barred by the law of land in force. AFCL shall follow the rules & regulations of the regulators issued from time to time regarding payment of unclaimed cash dividend and stock dividend to the entitled shareholders.

Disclosure of the Policy:

The dividend distribution policy shall be disclosed in the annual report and on the website of the company.

Submission of dividend distribution compliance report:

AFCL shall submit a dividend distribution compliance report to BSEC, DSE & CSE in a specified format issued by the regulator (s) within stipulated time of completion of dividend distribution to the entitled shareholders.

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