

Directors' Report

Dear Shareholders,

Assalamu Alaikum

The Board of Directors of RAK Ceramics (Bangladesh) Limited is pleased to present this Directors' Report, along with Audited Financial Statements of the Company for the year ended 31 December 2016 and the Auditors' Report thereon, for your valued consideration, approval and adoption.

Principle activities

RAK Ceramics (Bangladesh) Limited is engaged in the manufacture and sale of ceramic tiles, bathroom sets and sanitary ware products. The Company offers a wide range of tiles and sanitary wares in ceramic sector of Bangladesh since the year 2000. Excellent designs and patterns have been created using specially selected designs for wall and floor tiles, borders, corners etc. Many of RAK Ceramic's models come in modular designs which offer ample choice to customers through years. The unique ambience patterns created using ceramic tiles and also gres porcellanato tiles appeal to most discerning customers.

Industry Outlook

The detail about industry outlook and possible future developments in the industry is discussed in Management Discussion and Analysis on page 34 in this annual report.

Production capacity

RAK Ceramics (Bangladesh) Limited presently operates with an annual standard production capacity of 11.68 MN sq. of tiles and 1.45 MN pieces of sanitary ware with over 30 active designs and widest ranges.

Business review/Operational results

The Company reported consolidated sales of BDT 5,661.41mn in 2016 against BDT 5,059.30 MN in 2015. The consolidated net profit after tax attributable to the equity holders of the Company was BDT 915.25 MN against BDT 1,094.34 MN in 2015. The consolidated net profit in 2015 was high mainly due to gain on disposal of subsidiary and associates. The detail of operational results of the Company is discussed in General Review of the Performance of the Company on page 40 in this annual report.

Financial results and appropriations

The Directors are pleased to report the financial results for the year 2016 and recommend the following appropriations:

| Particulars | 2016 | 2015 |
|--|-------------|-------------|
| Profit before tax * | 1,270.66 | 1,479.39 |
| Less: Provision for tax | 355.40 | 385.05 |
| Profit after tax * | 915.26 | 1,094.34 |
| Add: Un-appropriated profit brought forward | 1,196.44 | 1,077.28 |
| Less: Equity & non controlling adjustment due to acquisition | - | 133.05 |
| Profit available for distribution | 2,111.70 | 2,038.57 |
| Less: Appropriation of dividend | 842.13 | 842.13 |
| Un-appropriated profit C/F | 1,269.57 | 1,196.44 |

* Profit before/after tax exclusive of non controlling interest. The key operating and financial data of preceding five years is given in Annexure-1 on page 54 in this annual report.

Fixed assets additions

During the year 2016 total additions to the fixed assets including subsidiary companies was BDT 2,086.19 mn. The major additions to the fixed assets were factory building, office building, purchase of plant and machinery, mobile plant, electrical installment, Gas pipeline, furniture & fixture, office equipment, communication equipment, tools and appliances, office vehicles etc.

Reserve and surplus

Retained earnings of the Company in 2016 stood at BDT 1,269.57 MN against BDT 1,196.44 MN in 2015.

Dividend

The Board of Directors of the Company is pleased to recommend dividend @ 20% in cash and 5% in stock of the paid up capital of the Company for the year 2016. The Company paid cash dividend @ 25 percent of paid up capital of the Company for the year 2015.

Contribution to national exchequer

RAK Ceramics (Bangladesh) limited regularly pays its direct and indirect tax obligations in time. During the year 2016, RAK Ceramics (Bangladesh) Ltd. had contributed to National Exchequer total of BDT 2,190.58 MN, by way of Corporate Income tax of BDT 355.40 MN, withholding tax and vat from suppliers and service providers of BDT 244.54 MN, VAT of BDT 934.49 MN, supplementary duty of BDT 505.43 MN and other duties/taxes of BDT 150.72 MN.

Risks and concerns

The detail of risks and concerns of the Company is discussed in Risk Management and Control Environment on page 37 in this annual report.

Auditors

M/s A. Qasem & Co., Chartered Accountants (a member firm of Ernst & Young Global Limited, UK) shall retire in the 18th AGM, being eligible, they offered themselves for re-appointment and the Board also recommended re-appointing them for the year 2017. Remuneration of the auditor will be fixed by the shareholders at this Annual General Meeting.

Parent and subsidiary companies

RAK Ceramics Co. PJSC, UAE is the parent company of RAK Ceramics (Bangladesh) Limited. It is a public joint stock company and is a UAE based leading tiles and sanitary ware manufacturing Company. RAK Ceramics an annual turnover approximately around USD 1 billion global conglomerate that supplies to over 150 countries and has been officially recognized as the world's largest ceramics manufacturer with a global annual production output of 110 million square meters of tiles, 5 million pieces of sanitary ware. RAK Ceramics (Bangladesh) Limited has two subsidiaries namely RAK Power Pvt. Ltd. and RAK Security and Services (Pvt.) Ltd. and these are fully owned subsidiary of the Company. The principal activities and status of these subsidiaries are separately disclosed in Statement of Subsidiaries on page 43 in this annual report.

Basis for related party transactions

The detail list of the related parties with whom transactions have been taken place and their relationship as identified and certified by management is disclosed in related party disclosures under BAS-24 on page 113 in this annual report.

Corporate Social Responsibility

The Company understands its responsibility towards social welfare and contributed an amount of BDT 5.74 MN as CSR during the year under review. The detail of the CSR activities of the Company during the year is discussed in Corporate Social Responsibility on page 44 in this annual report.

Human resources and staff welfare

RAK Ceramics (Bangladesh) Limited gives the highest priority on human resources and staff welfare. The Company ensures the safe and healthy working environment for its employees. The Company is currently has 1,689 full time employees. It offer well designed compensation package for the employees to encourage professionalism, stimulate team work and promote innovation reinforced with high ethical standards. The employees of the Company enjoy benefits of Contributory Provident Fund, Gratuity Scheme and Group Life Insurance, etc. The Company established "Workers Profit Participation Fund and Welfare Fund". In year 2016, the Company contributed 5 (five) percent of its profit before tax towards Workers' Profit Participation and Welfare Fund amounting to BDT 61.06 MN.

Internal control

The Board has the ultimate responsibility of establishing effective systems of internal control. To ensure the internal control regarding risk management, financial control and compliance legislation, the Company follows the principle of decentralization and delegation combined with responsibility and accountability matrix. It has been designed to mitigate the risk of failure to achieve the objectives of the Company. The Company has established internal audit department to function under an Independent Head of Internal Audit to ensure internal control and compliances in place.

Board of Directors

The Board of Directors of the Company is comprised with 5 (Five) members including 2 (two) independent directors. Names and profiles including nature of expertise in specific functional areas of the Directors of the Company are shown in Short Profile of the Directors on page 16 in this annual report. A statement for each of their involvement in other corporate bodies within the group is disclosed in Annexure-4 on page 57 in this annual report. The Board of Directors of the Company met together 5 (Five) times for meeting during the year under review. The number of Board meeting held and the attendance of each director during the year 2016 is disclosed in Annexure-2 on page 55 in this annual report.

Appointment/re-appointment of directors

In accordance with the Article 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 in the 18th 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. Faheemul-Huq, Barrister-at-Law, has been appointed by the Board on July 27, 2016 as independent director of the Company for 3 (three) years and shall be placed for approval by the shareholders in the 18th Annual General Meeting in compliance with the condition of the corporate governance guidelines issued by the Bangladesh Securities and Exchange Commission (BSEC) on August 07, 2012.

Code of Conduct

In compliance with the corporate governance, the Board has laid down a code of conduct of all Board members and annual compliance of the code is recorded accordingly. The Company did not pay any remuneration to any director including the independent directors, except board meeting attendance fee and 3% of profit before tax to Managing Director.

Pattern of shareholding

In accordance with the condition of the corporate governance guidelines issued by the Bangladesh Securities and Exchange Commission (BSEC) on August 07, 2012, the shareholding pattern of the Company is disclosed in Annexure-3 on page 56 in this annual report.

Financial reporting standards

The Directors, in accordance with BSEC's notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated August 07, 2012 confirms the following to the best of their knowledge:

- a. The financial statements prepared by the management of 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 Company have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts of the Company's ability to continue as a going Concern.
- g. The significant deviations from the last year's operating results of the Company have been highlighted in the report and reasons thereof have been explained.

Corporate Governance

To ensure the spirit of the corporate governance with accountability for inspiring confidence of investors, regulators, financier and other stakeholders, RAK Ceramics (Bangladesh) Limited is committed to comply with all the requirements of corporate governance as required by the Bangladesh Securities and Exchange Commission (BSEC). The detail about corporate governance is discussed in Corporate Governance Report on page 60 in this annual report.

Reporting and Compliance of Corporate Governance

The Company has complied with the conditions of corporate governance guidelines of the Bangladesh Securities and Exchange Commission (BSEC) Notification no. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012. The detail status on corporate governance along with the certificate on compliance of conditions of corporate governance has been included on page 65 in this annual report.

Membership with BAPLC

Being a publicly traded company RAK Ceramics (Bangladesh) Limited has a membership with the Bangladesh Association of Publicly Listed Companies (BAPLC). A certificate of BAPLC membership has been included on page 58 in this annual report.

Post balance sheet events

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

Appreciation

The Board would like to take this opportunity to thank the Government bodies, its shareholders, investors, bankers and employees for their continuous commitment, cooperation, confidence and support in achieving the Company's objectives.

For and on behalf of the Board of Directors,

Sd-

(Abdallah Massaad)

Chairman
January 23, 2017
Ras Al Khaimah, UAE