



Meghna Cement Mills Ltd.



**KING BRAND
CEMENT**



Dividend Distribution

Policy

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**KING BRAND
CEMENT**

DIVIDEND DISTRIBUTION POLICY

[Pursuant to the Companies Act 1994 and Bangladesh Securities and Exchange Commission's rules and regulations]

PREFACE

The Dividend Distribution Policy has been prepared and adopted in compliance with the provisions of the Companies Act, 1994, the Directives Numbered SEC/CMRRCD/2009-193/18 /Admin/..... dated 09 February 2010, BSEC/CMRRCD/2021-386/03 dated 14 January 2021, BSEC/CMRRCD/2009-193/23/Admin/123 dated 30 June 2021 of the Bangladesh Securities and Exchange Commission (BSEC), and Bangladesh Secretarial Standard-4 issued by the Institute of Chartered Secretaries of Bangladesh (ICSB) regarding dividend declaration, pay off, disbursement and compliance following the Articles of Association of the Company, and Finance Act of the Country accordingly.

The Board of Directors (the Board) shall consider the above-stated provisions and directives to declare/ recommend dividends of the Company. The Dividend Policy stated hereunder shall not be an alternative to the decision of the Board in this regard. All the possible relevant circumstances enumerated hereunder to be considered to declare dividends for all shareholders including Directors.

INTRODUCTION

The subject matter of dividend policy remains one of the most controversial issues in corporate finance. For more than half a century, financial economists have engaged in modelling and examining corporate dividend policy. Dividend decision is one of the fundamental decisions which corporate organizations have to make on continuous basis. This involves the determination of the proportion of earnings to retain and the proportion to distribute to shareholders. This concern has prompted many studies on dividend policy. These studies focused on the nature of dividends and such areas as the relevance or irrelevance of dividend policy to the value of a firm; theories and the determinants of dividend yield and dividend payout rate. Types of dividend policy stated hereunder-

- Stable Dividend Policy
- Regular Dividend Policy
- Irregular Dividend Policy
- No Dividend Policy

LITERATURE REVIEW

Summarized views on dividend policy are-

- The view that relates dividend policy to a firm's financing and investment decisions;
- The view that relates dividend policy to level of dividends; and
- The view that relates dividend policy to dividend stability.

DEFINITIONS

Here the following terms are used with the meaning as specified below-

"Act" means the Companies Act, 1994 (Act No. XVIII of 1994), or any statutory modification or re-enactment thereof.

"Articles" means the Articles of Association of the company, as originally framed or as altered from time to time, including, where they apply, the Regulations contained in the Schedule-I of the Act.

"Board" means the Board of Directors of the company.

"Free Reserves" means the reserve which is not restricted in any manner.

"Member" means any person who agrees, either by subscribing to the Memorandum of Association of the company or by applying in writing, to become a member of the company and whose name is entered either in the Register of Members of the company or in the records of the depository as a Beneficial Owner (BO) at the book closing date or record date in respect of the shares of the company held by him.

"Preference Shareholder" means a holder of shares having a preferential right, in respect of Dividend, to a fixed amount or an amount at a fixed rate and, in respect of capital, to repayment of capital.

Unless the context otherwise requires, words and expressions used but not defined herein shall have the same meaning respectively as assigned to them under the Act.

ESSENTIALS OF A SOUND DIVIDEND POLICY

A Company's dividend decisions and policy signify its future and financial wellbeing focusing on-

- a) distributing profit to Shareholders, and
- b) driving the divisible profit back in to the business.

As per Weston and Brigham, *"Dividend policy determines the division of earnings between payments to shareholders and retained earnings."*

CONCEPT OF DIVIDEND

A dividend means a sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves). It may also be defined as part of the profit (divisible profit) the company decides to pay to its members (shareholders) in proportion to the amount paid by shareholders against each share in the form of cash and/ or stocks (Bonus shares).

Dividend can be divided into two categories considering the nature of declaration such as **interim dividend** and **final dividend**.

- An interim dividend is a dividend payment made before the company's Annual General Meeting (AGM) and the release of final financial statements (Audited Accounts). This declared dividend usually accompanies the company's interim financial statements. The interim dividend is typically the smaller of the two payments made to shareholders. Interim dividend shall be declared by the Board.
- A final dividend is recommended by the Board in a Board Meeting prior to AGM and declared & approved at the company's Annual General Meeting (AGM) for a given fiscal year. This amount is calculated after all year-end financial statements (based on the Company's annual profits) are recorded, audited and the directors are made aware of the company's profitability and financial health.

The decision about recommending or not recommending dividend and entitlement for such dividend, if recommended, shall be taken after considering the interim dividend already distributed and cannot be changed prior to holding the annual general meeting.

PARAMETERS FOR DECLARATION OF DIVIDEND

Dividend distribution policy mostly determined by two parameters, i.e., **Dividend Payout Ratio** and **Retention Ratio**.

$$\text{Dividend Payout Ratio} = \frac{\text{Total Dividends}}{\text{Net Income}} \times 100$$

$$\text{Retention Ratio} = \frac{\text{Retained Earnings}}{\text{Net Income}} \times 100$$

The Company, **M**eghna Cement Mills Limited, always prioritize the interest of the investors, i.e., Institutions and General Shareholders. The Board takes care of the rights of minority shareholders of the Company. From its very inception, the esteemed Board maintaining a very good dividend payout ratio till the present. They successfully have managed to balance between the two vital elements to the Dividend Distribution Policy of the Company, i.e., Dividend Payout Ratio and Retention Ratio.

Elements of dividend policy include: **paying a dividend vs reinvestment in company, high vs low payout, stable vs irregular dividends, and frequency of payment.**

SHAREHOLDERS MAY HOPE FOR DIVIDEND

If the company earns-

- adequate profit and availability of liquidity, and
- enough accumulated profits and positive growth.

MAY NOT EXPECT DIVIDEND

In the case of-

- non availability of profit, and
- demand for utilization of divisible amount as retained earnings.

VARIABLES TO THE DIVIDEND

Stock returns can depend on a variety of internal variables ranging from **volume of trade, P/E ratio, retained earnings, dividend payout ratio, retention ratio and external variables** such as economic policies, political situations and state of global economy and even on investors' psychology which is studied under the umbrella of behavioral finance. The different factors which determine the dividend policy of a company stated below-



IMPORTANCE OF DIVIDEND DISTRIBUTION POLICY

Dividend Distribution Policy provides as a base for all capital budgeting activities and in designing a company's capital structure. Following are some of the reasons for which dividend policy is essential in every business organization:

- Develop Shareholders' Trust
- Influence Institutional Investors
- Future Prospects
- Equity Evaluation
- Market Value Stability of Shares
- Market for Preference Shares and Debentures
- Degree of Control
- Raising of Surplus Funds
- Tax Advantage

DIVIDEND DECLARATION, PAY-OFF, DISBURSEMENT AND COMPLIANCE

1. Declaration / Recommendation of Dividend

1.1 Dividend shall be declared by the Members at the Annual General Meeting on the basis of recommendation of the Board. **The recommendation for Dividend shall not be made by any Committee of the Board or by way of a 'Resolution by Circulation'. Unless the Dividend has been recommended by the Board, the Members in General Meeting cannot on their own, declare any Dividend.** Members may declare a lower rate of Dividend than what is recommended by the Board. The amount or rate of Dividend recommended by the Board cannot be increased by the Members.

Where a company has an Audit Committee, this Committee will consider the financial statements before its submission to the Board. Dividend shall be recommended by the Board after consideration and approval of the financial statements. All requisite approvals and clearances, where necessary as applicable, be obtained before the declaration of Dividend.

1.2 Dividend shall relate to a financial year.

1.3 No Dividend shall be declared on equity shares for previous year(s) in respect of which annual financial statements have already been adopted at the respective Annual General Meeting(s).

1.4 Interim Dividend shall be declared by the Board of Directors. **Declaration of Interim Dividend shall not be made by any Committee of the Board or by way of a Resolution by Circulation.** Interim Dividend will be a part of the Final Dividend. Where a company has an Audit Committee, it will review the periodic financial statements then be submitted to the Board.

1.5 Dividend, once declared, becomes a debt of the company and cannot be revoked in any way.

2. Dividend out of Profits

2.1 Dividend shall be paid out of the profit of the company for the financial year or out of profit(s) for the previous financial year(s).

2.2 **Dividend shall not be declared out of the Share Premium Account or the Capital Reserve Account or Revaluation Reserve Account or out of profit earned prior to the incorporation of the company.**

2.3 Where applicable, no Dividend to be declared unless the prescribed percentage of profit is transferred to reserve(s).

2.4 Interim Dividend will be declared out of profit after considering the audited periodic financial statements.

3. Dividend out of Reserves

3.1 In a year in which the profits are inadequate, the company may declare and pay Dividend out of Free Reserves.

3.2 Interim Dividend shall not be declared out of reserves.

4. Entitlement to Dividend

4.1 Only the Members of the Company are entitled to receive Dividend.

Dividend shall be paid (i) in respect of shares held in electronic form, to those members whose names appear as Beneficial Owners (BO) in the statement(s) furnished by the Depository as on the record date; (ii) in respect of shares held in physical form, to those Shareholders whose names appear on the company's Register of Members after giving effect to all valid share transfers in physical form lodged with the company before the date of book closure; and (iii) in respect of share warrants, to the holders of such warrants.

4.2 Dividend shall be paid to the **Preference Shareholders** before payment of Dividend to the Ordinary Shareholders.

Preference shares carry a preferential right as to Dividend in accordance with the terms of issue and the Articles. However, this right is subject to the availability of distributable profits. In the case of Interim Dividend, the Board should set aside such sum as would be necessary to pay Dividend to Preference Shareholders at the contracted rate.

5. Payment of Dividend

5.1 Dividend shall be paid **within thirty days** of declaration, i.e., from the date of AGM, subject to comply with all circulars/directives of BSEC, Bangladesh Bank and/or other regulatory authority from time to time. The amount of Dividend after deducting tax at source, if applicable, will be deposited in a separate bank account immediately after declaration of Dividend.

5.2 Dividend shall be paid by Cheques or Dividend Warrants or through Electronic Transfer. Payment of Dividend through Electronic Transfer to be made to the bank accounts of the Members concerned as per depository record / to the bank account given by the Members concerned. The Cheque or Dividend Warrant will be sent to the registered address of the Member and, in the case of joint holders, to the registered address of the person named first in the register of members or to such person or to such address as the Member or the joint holders have directed in writing.

5.3 Dividends of the entitled margin clients of any Depository Participants (DP) shall pay-off to the Consolidated Customers' Bank Account (CCBA) of the DP or the separate bank account as instructed by the DP.

5.4 Dividends of the entitled foreign nationals and non-resident sponsor(s), director(s), shareholder(s), unit holder(s) or Foreign Portfolio Investor (FPI) to be transferred through custodian following **GFET** rules and orders, circulars of Bangladesh Bank and Bangladesh Securities and Exchange Commission in this regard.

5.5 Initial validity of the Dividend Warrant shall be for **six months**. Particulars of every revalidated Dividend warrant to be entered in a **Register of Revalidated Dividend Warrant** indicating the name of the person to whom the Dividend Warrant is issued, the number and amount of the Dividend Warrant and the date of revalidation.

5.4 A duplicate Dividend Warrant shall be issued, in case the original instrument is not tendered to the company, only after obtaining requisite declaration from the Member.

5.5 The Dividend Warrant must be accompanied by a statement in writing showing the amount of Dividend paid and the amount of tax deducted at source, if any.

5.6 The company shall credit bonus shares within 30 days of the declaration to the members designated BO account whose names appeared in the depository record in record date of the same year and issue bonus share certificates against the entitlement of paper shareholders of the Company.

6. Dividend Compliance Report

The issuer of listed securities shall submit a compliance report to the Exchange and to the Commission in the format prescribed by the Commission, time to time, in respect of dividend payment **within 07 (seven) working days**.

7. Unpaid / Unclaimed Dividend

7.1 The amount of Dividend which remains unpaid or unclaimed after **one year** from the date of declaration shall be transferred to a *special dividend account*, to be called '**Unclaimed Dividend Account**' of the Company. However, in the case of shares which have not been transferred because the ownership thereof is in dispute, or where attachment / prohibitory orders have been passed by a court or statutory authority, Dividend shall be held in abeyance by transferring to the unclaimed Dividend Account.

7.2 The Financial Statements of the company shall disclose the amount lying in the Unclaimed Dividend Account.

7.3 The company is responsible for transferring unclaimed dividend amounts to the Capital Market Stabilization Fund (CMSF) as directed by the Bangladesh Securities and Exchange Commission.

UTILIZATION OF RETAINED EARNINGS

The Company may utilize the retained earnings of the Company in a manner which is beneficial to the interest of the Company and its stakeholders, including but not limited to ensuring maintenance of a healthy level of minimum capital adequacy ratios, meeting the Company's future business growth/expansion and strategic plans or such other purpose as the Board may deem fit from time to time in the interest of the Company and its stakeholders. Subject to the provisions of the Act and other applicable laws, retained earnings may be utilized as under:

- Additional Capital requirements;
- Funding for capital expenditures/expansions/merger and acquisitions;
- Inorganic growth;
- General corporate purposes, including contingencies;
- It can be distributed (fully or partially) among the members in the form of dividends (cash dividend and bonus shares);
- Repayment of debts;

- It can be invested to expand the existing business operations;
- Other permissible usage as per the Act, rules and regulations of BSEC and other regulators as decided by the Board.

DISCLOSURE

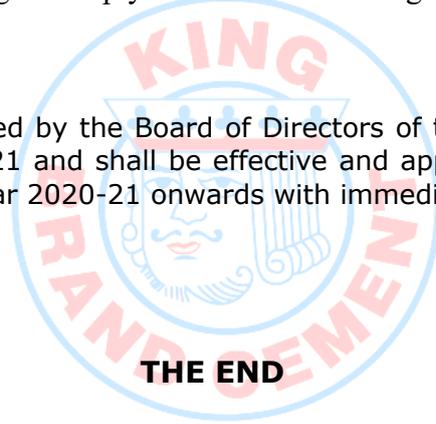
The Policy will be disclosed in the Company's Annual Report and will also be available on the Company's website: <http://www.meghnacement.com/>

REVIEW/ AMENDMENT

The Board of Directors of the Company shall review and may alter/amend this policy from time to time in a Board Meeting to comply with the rules and regulations of relevant authorities.

EFFECTIVE DATE

This Policy has been approved by the Board of Directors of the Company at its meeting held on 30th September, 2021 and shall be effective and applicable for dividend, if any, declared for the Financial Year 2020-21 onwards with immediate effect.¹



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¹ Drafted By- Company Affairs and Secretariat Dept. of MCML and Mr. Raihan Iqbal, Manager-Accounts, BICL;
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