FAR Chemical Industries Limited

Auditor's Report and Financial Statements
For the year ended June 30, 2020

SHIRAZ KHAN BASAK & CO.
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Independent Auditor's Report
To the Shareholders of
FAR Chemical Industries Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FAR Chemical Industries Limited (the "Company"), which comprise the Statement of Financial Position as at 30 June 2020 and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and other applicable laws and regulations.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's 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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note # 3.07 in the financial statements that the company has renewable lease arrangement with Bangladesh Export Processing Zone Authority (BEPZA) for industrial plot # 135-136 in Cumilla EPZ. Since inception to the last year, the lease has classified as operating lease as per IAS - 17 Leases.In the context of the application of IFRS 16, right-of-use assets and lease liabilities were recognized by the company onward on 1 July 2019 in accordance with the modified approach and without applying retrospective impact. In addition, the Company has decided not to apply the new guidance to leases whose term will end within twelve months of the date of initial application and leases of low-valued assets. In calculating the present value of lease payments, the company uses incremental borrowing rate 9% because the interest rate implicit in the lease is not readily determinable. Our opinion is not modified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of key audit matters	Our response to key audit matters
Revenue recognition	
At year end the company reported total revenue of BDT.756,684,767.The company generates revenue from sale of goods to export customers. The timing of the revenue recognized and realized increases the risk of exposure of revenue to foreign exchange fluctuations. There is also a risk that revenue may be overstated/understated due to the timing	We have tested the design and operating effectiveness of key controls focusing on the following: - Obtaining an understanding of and assessing the design and operating effectiveness of controls designed to ensure that revenue is recognized in the appropriate accounting period; - Segregation of duties in invoice creation and

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differences between L/C opening and goods exported. We identified revenue recognition as a key audit matter as it is one of the key performance indicators of the Company, which give risk to an inherent risk of the existence and accuracy of the revenue.	modification and timing of revenue recognition; - Assessing the appropriateness of the Company's accounting policies for revenue recognition and compliance of those policies with applicable accounting standards; - Obtain supporting documentation for sale transaction recorded either side of year end to determine whether revenue was recognized in the current period; - Comparing a sample of revenue transactions recognized during the year with the sale invoices and other relevant underlying documentation; - Critically assessing manual journals posted to revenue to identify unusual or irregular items, and finally assessed the appropriateness and presentation of disclosures against relevant accounting standards. ***[See note number 20 for details]***
Valuation of Inventory	
The inventory of BDT 535,592,517 as at 30th June 2020, held in warehouses and across multiple product lines in the factory. Inventory value is measured as follows: Inventories are stated at the lower of cost and net realizable value in accordance with IAS 2 'Inventories'. As a result, the management apply judgment in determining the appropriate values for value in use, work-in-progress, values for slow moving or obsolete items and need to apply impairment provision. While excess holding of inventories could impact efficient use of working capital similarly lower level of inventories can result in stock outs or irregular supply to the market.	We challenged the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by: - Evaluating the design and implementation of key inventory controls operating across the company's factory and warehouse; - Checked and verified the stock count report done by the management as on date. - We have reconciled the inventory with purchase, production and sales to ensure the physically shown stock as on date was accurate. - Reviewing the historical accuracy of inventory provisioning and the level of inventory write- offs during the year; - We have considered the risk of inventory being expired/damaged due to the effect of COVID-19 and checked whether any provision was required for any such expiry/ obsolescence. - Comparing the net realizable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; - Obtaining a detailed review with the subsequent sales to compare with the net realizable value. ***[See note number 06 for details]***

SHIRAZ KHAN BASAK & CO. Chartered Accountants Dhaka