Qatar Cinema and Film Distribution Company
Qatari Joint Stock Company (PJSC)

Dividend Payment

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Distribution of the Profits

The profit distribution policy is one of the most important financing policies in the companies due to its direct relationship to the shareholders and its reflection on the share price in the market.

As it pertains to the decision to divide the company's net profits into the profits distributed among the shareholders and the retained earnings. According to the shares pricing model, the share price in the stock market is influenced by the policy of profits adopted by the company. On the other hand, the share price also increases in proportion to the company's growth rate, which is affected in turn and in directly by the amount of profits that are retained and re-invested in the company. In the case of retaining more profits (as a result of distributing a smaller amount of the dividends), this leads to an increase in the growth rate and thus an increase in the share price, while reducing the retained earnings results in an increase in the amount of profits distributed to a decrease in the growth rate, which in turn leads to a reduction in the share price.

Based on the above-mentioned, it becomes clear to us that the increase in the amount of the profits distributed has a positive impact on the share price, and it leads at the same time to reduce the retained earnings and thus reduce the growth rate, which negatively affects the share price. Since the company's objective is to maximize the shareholders' wealth in order to reach the highest possible level of share price, achieving such objective requires the adoption of profits distribution policy that achieves the balance between the dividend distributed to shareholders and the growth rate in the profits.

Advantages and importance of both retained and distributed profits for the companies:

Retained Profits:

The retained earnings are considered one of the sources of financing in the property and they are less expensive than the issuance of ordinary shares and they may also be the only source of financing in the property if the company operates in an economy in which there are no financial markets or the company is owned by a small number of individuals and they have no desire to introduce new shareholders with them, or the company is small and new and its capabilities to enter the financial markets for financing are still limited. The financing using the retained earnings impliedly indicates that the company has profitable investments and that these investments will result in higher profits in the future, which will reflect positively on the share price in the market.

Distributed Profits:

The distributed profits represent the cash flow that the shareholders receive as a tangible return on their investments in the shares owned by them in the company, and they represent a current income that many shareholders wait for and expect on their current consumption of goods and services. Therefore, the level of the distributed profits and their change has a direct impact on the share price in the market.

We conclude from the above that the decision to distribute the profits to the shareholders is regarded as one of the most important decisions in relation to the financing policy in the company, while the decision to retain the profits is associated with the investment and financing decisions in the company.

Types of Profits Distribution Policies:

There are many policies followed by the companies with regard to distributing the profits, most important of which are:

- **Stable Profits Distribution Policy:**

  This policy is represented in that the company pays distributed profits of stable value and allows the rate of dividend distribution to fluctuate according to the change in the company's profits. The stable profits distribution policy means that the company does not tend to increase the distributed profits to the shareholders whenever its profits increase, because this implies an implicit commitment on the part of the company's management to maintain this higher level of distributed profits that may not be justified by the prospects of declining the company's profits in the future. Also, this policy means that the company does not intend to reduce the distributed profits whenever the company's profits decrease, as the company's profits may decrease in a year; however, it continues to distribute the profits to the shareholders at the usual value, unless the management deems that the decrease in the profits is the result of fundamental reasons related to the general economic situation. In fact, we find that many companies follow a stable dividend distribution policy, as they believe in that the shareholders in general prefer such approach, and therefore such policy has a positive impact on the share price of the company in the market.

Surplus Policy:

According to this policy, the company retains the profits and re-invests them once more whenever it has investment projects that achieve a higher rate of return than the shareholders could achieve when investing their funds by themselves. The application of this policy results in fluctuation in the cash return to be distributed to the shareholders from year to year depending on the availability of the investment projects that can be funded through retained earnings. In case they are not available, the company will distribute the profits as a cash return to the shareholders.

In light of the implementation of the surplus policy, the companies achieving high growth rates resort to retaining the profits to finance expansion projects, while companies with low growth rates distribute the greater part of their profits as a cash return to the shareholders due to the lack of the need to reinvest those profits.

The policy of Distributing a Fixed Percentage of Profits:

This policy depends on the distribution of a fixed percentage of the profits as a cash return to the shareholders. As for fluctuation of the profits from one year to another, the cash return that is distributed to the shareholders will also fluctuate according to this policy. To avoid the negative effects of the fluctuating levels of cash return on the share prices, then the distribution percentage selected at the time of implementing this policy represents the average targeted percentage that the company seeks to achieve in the long term and not the percentage that is strictly applied each year. This indicates that such percentage may be exceeded from year to another depending on the conditions witnessed by the company. To mitigate the occurrence of such transcendence, the selection is made after extensive studies of the levels of profits expected during the forthcoming years.

Distribution of a low cash amount with the addition of another amount during the boom years:

This policy is represented in that the company shall be obliged to distribute a low cash volume as a return to the shareholders on a regular basis every year, with the possibility of distributing another cash amount as an additional return to be distributed in the years in which the company's profits increase significantly. The supporters of this policy deem that distribution of such additional return in years of profitability helps the company to avoid giving the shareholders a false impression that the increase in the profits is a permanent increase that can be relied upon permanently.

Upon the implementation of such policy, the company may increase the cash return that is distributed every year, after the company's management makes sure that the profit levels during the forthcoming years will allow it to cover this new level of annual cash return.

Profit Distribution Procedures:

The Board of Directors of the company in the joint stock companies proposes determination of the distributed profits in the light of its evaluation of the current and expected performance of the company. Usually, the value of the distributed profits does not vary from the past, unless there are indications indicating a fundamental improvement or decline in the company's profitability. For the applicable procedures to the distribution of the profits to the shareholders, they are established on four important dates, which are: The announcement date of the profits distribution, the date regarding forfeiture of the right to collect the dividends, the announcement date of the names of the shareholders in the records and date of payment.

Announcement Date of the Profits Distribution: After the Board of Director's meeting is held concerning distribution of the profits, an official statement is prepared indicating date of the meeting, distribution policy of the profits for the concerned period to the shareholders registered as of a specified date and date of payment of such dividends.

Registration Date of the Shareholder:

The date of losing the dividends: It shows a traditional custom that clarifies that the right to distribute the profits remains associated with the shareholder until four days before the date of registration of the shareholders. On the fourth day before the date of registration, we find that the right to distribute the profits does not belong to the new shareholder. The date on which the distributions are separated from the shares sold is so-called as the date of separation of the entitlement of share's purchase from the distributions.

The company already sends cheques to the holders of the ordinary shares on the date of payment specified in the announcement.

<u>Distribution of the Profits in the form of Shares (Bonus shares)</u>

Sometimes, the companies distribute the return to the shareholders in the form of additional shares in lieu of cash, which is known as the bonus shares. In such case, each shareholder gets a number of additional shares in proportion to the number of shares he owns before announcing these distributions. The reason why the company distributes the return in the form of shares is attributable to several main reasons, namely:

1- **The desire to expand the company's ownership base, so that some investors sell the additional shares they acquire as a return to the new investors, which extends the company's ownership base.**
2- **The desire to reduce the share price for the purpose of attracting many investors who can only purchase the share when the price falls to appropriate levels, and such approach is achieved through these distributions that lead to an increase in the number of the owners' shares, which leads to a decrease in the portion of each share in the company's assets and therefore reducing the share price in the market.**
3- **The possibility of increasing the cash return obtained by the investors in the future, so that the number of shares held by each investor will be increased as a result of distributing the return in the form of shares.**

   In case of distributing the profits in the form of shares, the company reduces the retained earnings balance by the market value of the additional shares that have been distributed to the investors, together with increasing the balances of other elements of the property rights by such value.

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Profits Distribution Policy

According to the Company's Memorandum of Association, the profits are distributed as follows:

First: **A percentage of the non-net profits shall be retained annually, as designated by the Board of Directors for the depreciation of the company's assets and to compensate the deterioration thereof. These funds are utilized for the purchase of the necessary materials, machineries and facilities or repair of the same. These funds shall not be distributed to the shareholders.**

Second: Distribution of the Net Profits as follows:

1- **Ten percent of the annual net profits shall be allocated for the legal reserve, and such retention may be ceased whenever the reserve reaches 50% of the paid capital. In case the legal reserve falls below the said percentage, the retention shall be resumed until the reserve reaches such percentage. The legal reserve shall not be distributed to the shareholders, but the amount exceeding half of the paid capital shall be utilized in distributing the dividends to the shareholders up to 5% during the years in which the company's profits cannot secure such distribution limit.**
2- **A portion of the profits set by the General Assembly shall be retained to meet the obligations imposed on the company under the labor laws.**
3- **The General Assembly may, upon a proposal from the Board of Directors, decide to retain a portion of the net profits for an optional reserve, and such reserve shall be utilized in the aspects set by the General Assembly.**
4- **The amount needed to distribute an initial share of the profits at least equivalent to 5% of the amount paid out of the share value to the shareholders shall be deducted; however, if the profits of one year do not permit the distribution of such share, it is not permissible to claim for the same from the profits of the following years.**
5- **Upon fulfillment of the above-mentioned, no more than 10% of the net profit shall be retained, after deducting the**

depreciation, reserves and the profit distributed according to the former paragraph, as remunerations for the members of the Board of Directors.

6- **The remaining profits shall be distributed to the shareholders as an additional share of the profits, or they may be carried forward, upon a proposal from the Board of Directors, to the next year, or they may be allocated for the creation of a reserve or funds for the unordinary consumption.**

Fourth: The dividends shall be paid to the shareholders in the place and on the time specified by the Board of Directors, provided that it shall not exceed one month from the date of General Assembly's order of distribution.