

The image shows a large industrial facility, likely an oil refinery or petrochemical plant, at night. The scene is illuminated by numerous lights, highlighting the complex network of pipes, scaffolding, and large storage tanks. In the foreground, there is a large, rectangular structure with a grid-like metal framework. In the background, several tall distillation columns and other industrial structures are visible against a dark sky. A large orange wave graphic is positioned at the bottom of the image, separating the photograph from the company logo and name.

# ANNUAL REPORT 2020

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## Administration and contact details as at 31 December 2020

<b>Commercial registration no.</b>	24377-1 obtained on 18 February 1991		
<b>Board of Directors</b>	Rashed Abdullah Al Suwaiket Al Hajri	-	Chairman
	Abdulla Fahad Al-Subaie	-	Vice - Chairman
	Qusay Khalil Yusuf Al-Khalili		
	Abdulla Mubarak Abdulla Al-Suwaiket		
	Waleed Fahad Al-Tharman		
<b>Authorised persons</b>	Rashed Abdullah Al Suwaiket Al Hajri Qusay Khalil Yusuf Al-Khalili		
<b>Chief Executive Officer and Secretary to the Board</b>	Qusay Khalil Yusuf Al-Khalili		
<b>Audit Committee</b>	Rashed Abdullah Al Suwaiket Al Hajri	-	Chairman
	Waleed Fahad Al-Tharman		
<b>Registered office</b>	Office 3202, Building 2504 Road 2832, Block 428 PO Box 10177, Al-Seef District, Kingdom of Bahrain		
<b>Principal Bankers</b>	Ahli United Bank Arab National Bank - Dammam Ithmar Bank Alinma Bank		
<b>Auditors</b>	BDO 17th Floor Diplomat Commercial Offices Tower PO Box 787, Manama, Kingdom of Bahrain		
<b>Registrars</b>	Karvy Computershare W.L.L. PO Box 514, Manama, Kingdom of Bahrain		
	Bahrain Clear B.S.C. (c) Bahrain Financial Harbour Harbour Gate – Level 4 PO Box 3203 , Manama, Kingdom of Bahrain		

## Director's report to the shareholders for the year ended 31 December 2020

On behalf of the Board of Directors and employees of United Gulf Investment Corporation B.S.C. (UGIC), I would like to review the annual report and financial results of the company for the year ended on 31 December 2020

First, results for the Group amounted to net loss of BD1,071,835 after zakat for year 2020 compared to loss of BD5,681,838 in 2019.

Saudi Arabia has continued increasing VAT from 5% to 15% which is three folds, despite having COVID-19 lockdowns and impacts on global businesses which severely impacted purchasing power and local demand. Steel sector in Saudi had suffered during first three quarters of 2020, while the last quarter showed some improvement. Saudi government provided support to cushion the COVID-19 impact by way of a 30% reduction in the electricity bill for 2 months Whereas, cost continued to increase in Saudi Arabia from huge increase in labour and dependent fees to high cost of local contractors prices. Another factor for economic slowdown is due to a lot of expats started sending their families back home due to these increases in cost of living in Saudi Arabia.

Therefore, the demand dropped in Saudi Arabia on ferroalloys, which is UGIC's group main sales line. The high electricity cost along with high cost of imported raw material pushed the Group into a loss situation. The Group managed to secure some long term contracts with Emirates, Bahrain and Kuwait to overcome the drop in demand from local Saudi market, but unfortunately at lower prices. Force majeure terms came into action from exports to USA and Canada due to lockdowns which impacted the Group.

Fortunately, Saudi Arabia has also increased the customs duties on imports of our material from 5% to 15% in case of ferromanganese, and from 5% to 12% for silicomanganese and from 55 to 155 for Ferrosilicon, which came into action in July 2020 during the lockdowns accompanied with the 15% hike in VAT. Therefore, the positive impact needs time to show on the Group financials and recovery of local demand from COVID. Some companies are enjoying custom duty exemptions given without our permission or notice which we will need to stop that in coordination with ministry of industry.

The Group's results were impacted by this continuous pressure on SABAYEK which is one of the Group's subsidiaries operating in Saudi Arabia. SABAYEK sales amounted to SR335 million for 2020 up from SR309 million in 2019 due to improvement in Q4 as lockdowns started to ease down. SABAYEK also successfully had a settlement agreement of SR5.4 million with zakat authority which impacted the results for 2020.

SABAYEK is working on tackling all some issues such as requesting a reduction in electrify tariff, developing the new projects to reduce the cost, adding new cluster of Nobel ferroalloys, developing local raw material). The delay was due to late approvals to start the development projects which include jigging plant, diversifying its products, and entering into recycling business of slag. These projects will materialize in 2021 and should result to positive impacts on the overall performance of the Group.

Despite the difficulties it is facing, this industry is still working on utilizing local GCC raw material to add to the integration of the economy of the Gulf cooperation Council (GCC) and increasing local content to higher levels according to vision 2030, that is inspired by the insights and wisdom of the leaders of the Gulf states (May Allah bless them) towards the development of the Mining industries in the GCC, which will hopefully will give a strong impetus parallel to the petroleum era in the future and to potentially become the future wealth, God willing, that creates promising well-paying jobs for the citizens of the Gulf cooperation Council (GCC). We are looking forward to their necessary support.

## Director's report to the shareholders for the year ended 31 December 2020

Second, in 2020, the Group's share in the profit of Dhahran Chemical Industries and Marketing, the Group's associate, was about BD127 thousand up from BD17 thousand in 2019. DCIM has completed acquiring 51% shares of Synthomer Dubai in July 2019.

This increase in profits is due to better market conditions in last quarter of 2020 in Saudi Arabia and the expansion the associate had in UAE. These results are still below expectations due to COVID-19 impact, but are promising for the associate in 2021. As the bank loan will be settled by end of 2021, this will allow the Group to start distributing profits.

Third: The operations of United Gulf Trading W.L.L., another subsidiary of the Group, have been delayed due to delay in supply of raw materials from local suppliers in Saudi Arabia. However, we will endeavour its activities in new integrative fields in light of the overall strategy of the Group, namely, in the minerals, mining, raw materials sector and the marketing of products in 2021 with grace of Allah. We will need to issue a commercial registration and VAT registration for UGT in Saudi Arabia as a local Saudi company.

### Outlook:

Godwilling, the Group expects that the local economic activity will start to move by Q2 of 2021 and accordingly, we expect the year 2021 to witness a better performance than 2020 for the subsidiaries. If the Saudi government initiates its supporting program for steel industries and its affiliates, the market should recover massively in 2021. Moreover, SABYAEK is still facing challenges to settle the electricity dues from the Saudi Electricity Company, as the settlement agreement is very challenging, it will also continue to settle all related government expenses during 2021.

### Appropriation/Recommendations

Based on the financial results, the Board of Directors does not recommend any cash dividends or taking provisions on current investments. Also, recommends to quickly start the development project for diversification in activities and reduction in cost of products in subsidiaries and affiliated companies in view of the changes and transformations taking place in the GCC market, increments in cost, Taxes, big increases of fees, and structural changes of the labour market.

Finally, the Chairman and members of the Board of Directors, on his behalf and on behalf of the shareholders, take this opportunity to express his sincere appreciation and thanks to His Majesty King Hamad bin Isa Al Khalifa of Bahrain, and to His Royal Highness and His Royal crown Prince Salman bin Hamad Al Khalifa , and Prime Minister and Deputy Supreme Commander of Defence Force, as well to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and his Royal Highness Crown Prince Mohammad bin Salman of Kingdom of Saudi Arabia, and to their Majesties and Highnesses the leaders of the Gulf Cooperation (GCC) for their continuous support to us.

We also express our condolences to the people of Kingdom of Bahrain and GCC citizens for the loss of Khalifa bin Salman Al Khalifa, Prime Minister of Bahrain. May Allah Bless his soul in heaven.

We would like to express our gratitude to all government authorities specially to, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse, the Central Bank, Capital Markets Supervisory Directorate (CMSD) and the General Secretariat of the Cooperation Council for the Arab Gulf States, wishing all the prosperity and prosperity of the GCC countries in light of this glorious era for its leaders.



Rashed Abdullah Al-Hajri  
Chairman  
22 February 2021

## Independent auditor's report to the shareholders of United Gulf Investment Corporation B.S.C.

### Report on the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of United Gulf Investment Corporation B.S.C. ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in accordance with the Code of Ethics for Professional Accountants ("IESBA Code") issued by International Ethics Standards Board for Accountants and we have fulfilled our other ethical responsibilities in accordance with its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

#### *Revenue recognition*

Revenue primarily consists of sales as disclosed in Note 22 and other income as disclosed in Note 24 of the consolidated financial statements. Revenue is considered to be a key performance measure and by default, this area has a fraud risk element and is therefore always considered as a significant risk.

Our audit procedures included, considering the appropriateness of the Group's revenue recognition policies and assessing compliance with the policies in light of the applicable accounting standards. We have tested the effectiveness of internal controls implemented by the Group over the revenue cycle and have also performed analytical procedures over the revenue streams and tested the relevant supporting documents on a sample basis to confirm their reasonableness and accuracy.

#### *Classification and valuation of investments*

The Group's investments are classified either as investment in associates or financial assets at fair value through profit or loss as disclosed in Notes 7 and 9 to the consolidated financial statements. The valuation and classification of the investments involve significant management judgment and hence contains relatively higher risk element.

Our procedures included testing the management's assessment on classification of the investments with reference to the relevant accounting standards and the related supporting documents. We also tested the reasonableness of fair valuation performed by the management and tested the ownership with reference to the relevant supporting documents.

## Independent auditor's report to the shareholders of United Gulf Investment Corporation B.S.C. (continued)

### Report on the consolidated financial statements (continued)

#### Key audit matters (continued)

##### *Right-of-use of assets and lease liabilities*

As described in Note 8 and 19 to the consolidated financial statements, the carrying values of right-of-use of assets and lease liabilities as at 31 December 2020 amounted to BD365,630 and BD648,594, respectively. The useful life of the right-of-use of assets is based on management's estimate of the period that the asset would generate revenue. Similarly, carrying value of lease liabilities are determined on a number of factors including management certainty to exercise the lease options to extend/terminate the lease, variable elements such as future lease payments and incremental borrowing rates. Changes to these assumptions could have a significant impact on either the carrying values or the amount charged to statement of profit or loss or both.

Our audit procedures included, review of reasonableness and consistency of the assumptions used by the management as well as the management process for determining the carrying values. We have further verified the relevant supporting documents on a sample basis to confirm the accuracy of management calculations.

#### Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of management and Those Charged With Governance ("TCWG") for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

TCWG are responsible for overseeing the Group's financial reporting process.

#### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## **Independent auditor's report to the shareholders of United Gulf Investment Corporation B.S.C. (continued)**

### **Report on the consolidated financial statements (continued)**

#### **Auditor's responsibilities for the audit of the consolidated financial statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the management and TCWG regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide TCWG with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with TCWG, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Independent auditor's report to the shareholders of United Gulf Investment Corporation B.S.C. (continued)

### Report on other legal and regulatory requirements

- a) As required by the Bahrain Commercial Companies Law, in case of the Company, we report that:
1. we have obtained all the information we considered necessary for the purpose of our audit;
  2. the Company has carried out stock-taking in accordance with recognised procedures, has maintained proper books of account and the financial statements are in agreement therewith; and
  3. the financial information included in the Directors' report is consistent with the books of account of the Company.
- b) As required by the Ministry of Industry, Commerce and Tourism in its letter dated 30 January 2020 in respect of the requirements of Article 8 of Section 2 of Chapter 1 of the Bahrain Corporate Governance Code, we report that the Company:
1. has appointed a corporate governance officer; and
  2. has a Board approved written guidance and procedures for corporate governance.

In addition, we report that, nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or of its Memorandum and Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2020.

BDO

Manama, Kingdom of Bahrain  
22 February 2021



**Name of Company: United Gulf Investment Corporation B.S.C  
Commercial Registration No. 24377**

## **CORPORATE GOVERNANCE REPORT FOR THE YEAR 2020**

### **1- Description of the actions taken to complete the Corporate Governance Code during the year 2020 and how they were applied.**

United Gulf Investment Corporation B.S.C, "UGIC" as part of being listed in Bahrain Bourse has adopted Corporate Governance Code 2018 as part of its transparency and legal compliance with Volume 6 of CBB rulebook and MOIC's Commercial Companies Law promulgated by Legislative Decree No.21 of 2001.

Purpose of this code :-

To establish best practice of Corporate Governance in Kingdom of Bahrain. It aims primarily to provide guidance to companies on the best ways to manage, lead, organize and monitor their businesses through a series of transparent, clearly defined policies, processes and procedures.

Purpose of Governance:-

The purpose of governance is to establish a system that governs and controls the companies businesses and practices. This helps to create an efficient institution the contributes to build a strong and competitive national economy for the purpose of reducing any adverse effects on the national economy, acting parties and local community due to not committing to the best practices in managing joint stock companies.

### **2- Related parties transactions & Balances**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the shareholders, key management personnel and their close family members and such other companies over which the Group or its shareholders, key management personnel and their close family members can exercise significant influence or can be significantly influenced by those parties. Transactions with the related parties are authorised by the management are on arm's length basis. Further, there are no loans due from any of the Directors of the Group.

#### **Related parties transactions**

Key management personnel compensation

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group including the Chief Executive Officer of the Group.

	Year ended 31 December 2020	Year ended 31 December 2019
Directors' sitting fees (Note 32)	-	7,800
Remuneration to key management personnel	93,600	109,900

A summary of significant transactions with the associate:

	Year ended 31 December 2020	Year ended 31 December 2019
Share of profit for the year	126,679	16,876

### 3- Composition of the Board:

a. Description of the current Board composition as given below:

1. Mr. Rashed Al Abdullah Al Suwaiket Al Hajri - Chairman

Date of Appointment: 3rd March 2016

Qualifications:-

PhD from John Morris University Liverpool - UK

MBA degree from KFUPM

BA from Warren Pacific University, Portland State, USA

Has a long record of attending international conferences and symposiums in BA.

Other Directorships:-

- Salama Cooperative Insurance company
- Raysan Arabian Company
- Dhahran Chemical Industries & Marketing
- Al-Ruwais International Development
- Machinery Rental Trade Real Estate & Cars Company
- United Gulf Trading S.P.C.

2. Abdulla Fahad Al Subaie – Vice Chairman – Independent

Date of Appointment: 22 March 2016

Qualifications:-

Bachelor of Science in Marketing from King Fahd University of Petroleum and Minerals in 1998.

Other Directorships:-

- Deputy Chairman of the Committee Contractors in the Eastern Province, KSA – From 2005
- Member of the National Committee of the Council of Saudi Chambers contractors, KSA 1999 – 2005
- Member of the Bahraini Saudi Arabian Business Council from 2005.
- Chairman of Al Qadisiya News from 2008 to 2012.
- General Manager of Al-Hazza Heavy Equipment from 2006.

3. Mr. Abdullah Mubarak Al Suwaiket – Director

Date of Appointment: 22 March 2016

Qualifications:-

Bachelor Security Graduate – King Fahd Security College. Riyadh

Other Directorships:-

- Executive Director & Vice President - Al Suwaiket Group – AlKhobar – KSA.
- Executive Director – DNATA Travel. KSA

4. Mr. Waleed Fahad Al Tharman – Director - Independent

Date of Appointment: 22 March 2016

Qualifications:-

BA in Financial Management from King Fahd University of Petroleum and Minerals in 1999

Other Directorships:-

- CEO Jaffer Trading & Contracting Co.
- A partner in the firm Uhde Arabia Ltd. in Saudi Arabia
- Member of the Board of Directors of Saudi Arabia Petrument
- A partner in the company MIDOM - Saudi Arabia

5. Mr. Qusay Al Khalili – Director / Chief Executive Officer

Date of Appointment: 3rd April 2019 as Director.

2013 – Till Date CEO

2009 – 2013 as Investment Manager

Qualifications:-

Bachelor of Electrical Engineering - University of Bahrain – Excellent in 2001

MBA- Finance - University of Bahrain – Excellent in 2004

Master of Engineering Design – Victoria University - Australia - with honors in 2005.

Degree of administration in Banking & Finance – B I B F – Kingdom of Bahrain in 2007

Certificate in Leadership and Management - Leadership Trust Institute - United Kingdom 2008

The second level of the Chartered Financial Analyst program - Virginia - United States CFA (Chartered Financial Analyst Program 2009)

Attended many courses in Sales, Statistical Analysis, Banking Operations, Credit and Portfolio management at Citigroup, Bahrain Institute of Banking and the United Kingdom.

Other Directorships

- United Gulf Investment Corporation.B.S.C
- United Gulf Trading S.P.C.

B. Description of the following:

1. Total remunerations paid to the directors for the year 2020 was nil.

C. Board meetings

Four Board Meetings were held during the year 2020 which was attended by all the Members of the Board. The meeting dates are as given below.

Meeting Dates :-

1. 25th February 2020
2. 12th April 2020
3. 12th August 2020
4. 11th November 2020

D. The Description of the Board's duties and competences: -

The board of directors of the company is responsible for the overall management and providing directions to the senior management of the company. The board's main role is to create value addition to its shareholders to approve company's strategic objectives, to ensure that the necessary financial and other resources are made available to enable the company to meet those objectives. The BOD also performs other function which is included in the Board Charter. Regarding disclosure policies, BODs overlooks the responsibility of developing and recommending

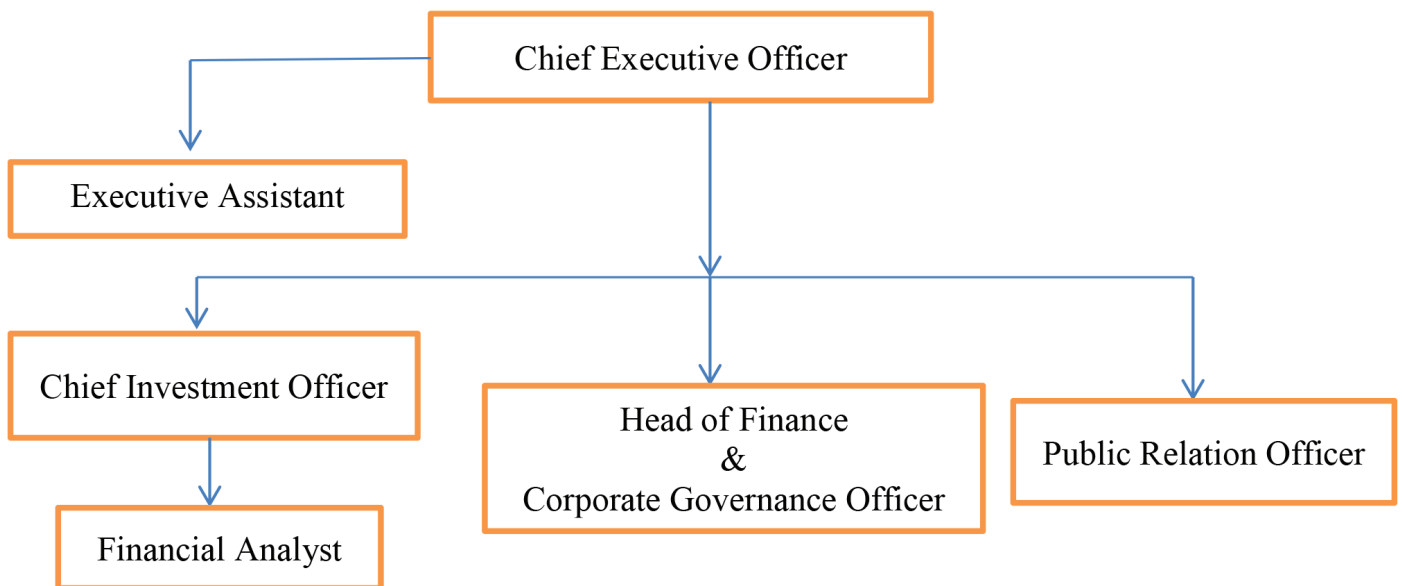
changes to corporate governance policy framework as set by MOIC. All the major transactions of the company, including with shareholders are subject to prior approval of the BOD. As a part of social corporate responsibility BOD's overlooks proper disposal of waste generated in the subsidiaries, adhering to standard norms set by government authorities for safeguarding the environment from pollution.

The Board is accountable to the Members and Participants of the Company for the business operations and affairs of the Company. Specifically Board's responsibilities include but are not limited to:

- Strategic Planning and Budgeting.
- Corporate governance.
- Key personnel management.
- Financial management.
- Risk management.
- Internal control system.

The directors are responsible, both individually and collectively, for performing these responsibilities. Although the Board may delegate certain functions to the management it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

#### E. Company's organizational structure:



F. Total remunerations paid to the key executive officers (the top five employees), for the year amounts BD 93,600.

#### 4. External Auditors:

a. Providing shareholders with the auditor's profile and overview of its professional performance.

A leading international audit firm, BDO provides external audit services to the Company. The auditor has completed the audit of consolidated financial statements for the year ended 31 December 2020 and have provided a unqualified opinion on the consolidated financial statements of the Group.

b. Fees and charges for the audit or services provided by the external auditor during the year 2020, in addition to a description of the auditor's years of service as the Company's external auditor. According to the following table:

<b>Name of the audit firm</b>	
<b>Years of service as the Company's external auditor</b>	10 years
<b>Name of the partner in charge of the Company's audit</b>	Nath Venkitachalam
<b>The partner's years of service as the partner in charge of the Company's audit</b>	9 Years
<b>Total audit fees for the financial statements for the year 2020 (BD)</b>	BD 4,450.000
<b>Other special fees and charges for non-audit services other than auditing the financial statements for the year 2020 (BD) if any. In the absence of such fees, this shall be expressly stated</b>	BD 6,050.000 2020 Quarterly reviews and AUP reports.

#### 5. Audit Committee:

(A) Audit committee's members:-

Mr. Waleed Al Tharman – Chairman of the Audit Committee

Mr. Rashed Abdullah Al Suwaiket Al Hajri – Director

(B) **Duties & Responsibilities:-**

The Audit Committee has been established by the Board of Directors to oversee the standards of quality and reliability of the financial information submitted to the Board by the management, internal and external auditors. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility. During the financial year 2020 two meetings were held by the committee.

#### **6. Nomination and Remuneration Committee (NRC):**

(A) NRC committee's members.

Mr. Rashed Abdullah Al Suwaiket Al Hajri – Chairman

Mr. Abdullah Fahad Al-Subaie – Director

Mr. Waleed Al Tharman – Director

(B) The NRC committee members duty is to review the company's policies relating to the remuneration of the Directors and Senior Executives, which shall be approved by the shareholders. Make recommendations to the Board on remuneration policies subject to the rules and provisions of the Commercial Companies Law concerning the payment of remunerations and other benefits. During the financial year 2020 one meeting was held by the committee

#### **7. Governance Committee:**

(A) Governance committee's members.

Mr. Rashed Abdullah Al Suwaiket Al Hajri – Chairman

Mr. Abdullah Fahad Al-Subaie – Director

Mr. Waleed Al Tharman - Director

#### **(B) Summary of the committee performance report during the year 2020**

This committee is responsible for developing and making recommendations on the changes required under the company's corporate governance policy from time to time. It also monitors the implementation of the Corporate Governance framework by working with the Executive Management and Audit Committee.

8. UGIC has appointed its Head of Finance Mr. Vinod Ramakrishnan as its Corporate Governance Officer. He has over 14 years of experience in this company and has taken care of all the Compliance issues. He is one of the pioneers in implementing an effective Corporate Governance Code in the establishment in line with the regulatory authorities guidelines issued from time to time. He was appointed in the year 2006 and he can be reached in the Company's registered landline.

9. The company has not paid any penalties to the regulatory authorities during the year 2020.

10. UGIC and its subsidiaries on a yearly basis pay Zakat in KSA of about 3 Million SAR by law which goes ultimately to charity purposes in KSA. There was an extra amount paid of SR 5.4 Million towards prior years audit fees.



a. Statement of shareholders' equity as of 31/12/2020 (individuals, corporate, government or organizations) to be classified as follows: Local, Gulf, Arab, and foreign.

#	Shareholder classification	Shareholding %			
		Individuals	Corporate	Government or Organizations	Total
	Local	4.44%	1.91%	0.02%	6.37%
	GCC/ MENA	81.23%	12.40%	-	93.63%
	Foreign				
	<b>Total</b>	85.67%	14.31%	0.02%	100.00%

b. Description of the shareholders who hold 5% or more of the Company's share capital, indicating the name of the natural person who holds the shares, the final beneficiary, as at 31/12/2020 as follows:

#	Name	Number of shares held	Shareholding %	Name of the natural person, the final beneficiary
1	Rashed Abdullah Al Suwaiket Al Hajri	58,418,336	29.21%	Rashed Abdullah Al Suwaiket Al Hajri

c. Description of how shareholders are distributed according to their respective shareholding as at 31/12/2020 as follows:

#	Shareholding (share)	No of shareholders	Number of shares held	Shareholding %
1	<50,000	925	8,595,785	4.30%
2	50,000 to 500,000	203	29,588,308	14.79%
3	500,000 to 5,000,000	56	77,585,803	38.79%
4	>5,000,000	4	84,230,104	42.12%

d. There was no significant event recorded in the company for the year 2020.

a. Statement of shareholders' equity as of 31/12/2020 (individuals, corporate, government or organizations) to be classified as follows: Local, Gulf, Arab, and foreign.

#	Shareholder classification	Shareholding %			
		Individuals	Corporate	Government or Organizations	Total
	Local	4.44%	1.91%	0.02%	6.37%
	GCC/ MENA	81.23%	12.40%	-	93.63%
	Foreign				
	<b>Total</b>	85.67%	14.31%	0.02%	100.00%

b. Description of the shareholders who hold 5% or more of the Company's share capital, indicating the name of the natural person who holds the shares, the final beneficiary, as at 31/12/2020 as follows:

#	Name	Number of shares held	Shareholding %	Name of the natural person, the final beneficiary
1	Rashed Abdullah Al Suwaiket Al Hajri	58,418,336	29.21%	Rashed Abdullah Al Suwaiket Al Hajri

c. Description of how shareholders are distributed according to their respective shareholding as at 31/12/2020 as follows:

#	Shareholding (share)	No of shareholders	Number of shares held	Shareholding %
1	<50,000	925	8,595,785	4.30%
2	50,000 to 500,000	203	29,588,308	14.79%
3	500,000 to 5,000,000	56	77,585,803	38.79%
4	>5,000,000	4	84,230,104	42.12%

d. There was no significant event recorded in the company for the year 2020.

11. Compliance with the provisions of the Corporate Governance Code, as follows:

Principle	Non-compliant	Partially Compliant	Fully Compliant	Explanation in case of non-compliance
Principle 1: The Company shall be headed by an effective, qualified and expert board.		Yes		Chairman is not independent as he is the major shareholder of the company. Dependency of Chairman is already declared and approval of appointment was already taken in the AGM and shareholders is also aware of that fact.
Principle 2: The directors and executive management shall have full loyalty to the company.			Yes	
Principle 3: The Board shall have rigorous controls for financial audit and reporting, internal control, and compliance with law.			Yes	
Principle 4: The Company shall have effective procedures for appointment, training, and evaluation of the directors			Yes	
Principle 5: The Company shall remunerate directors and senior officers fairly and responsibly.			Yes	As per AGM's Approval.
Principle 6: The Board shall establish a clear and efficient management structure for the Company and define the job titles, powers, roles and responsibilities.		Yes		The Company does not have any designated internal auditor though the job is taken care by Head of Finance. **
Principle 7: The Company shall communicate with shareholders, encourage their participation, and respect		Yes		**

their rights.				
Principle 8: The Company shall disclose its corporate governance.			Yes	
Principle 9: Companies which offer Islamic services shall adhere to the principles of Islamic Shari'a.			Not Applicable	
Principle 10: The Board shall ensure the integrity of the financial statements submitted to shareholders through appointment of external auditors.			Yes	
Principle 11: The Company shall seek through social responsibility to exercise its role as a good citizen.		Yes		Board is evaluating alternative options available to fulfil its corporate social responsibility.
<hr style="border-top: 1px dashed black;"/>				

\*\* - The Bod will take all necessary steps to adhere to all the new regulations as mentioned in the Corporate Governance Code 2018 and overcome the short comings in the area of being "Partially Compliant" in the coming Financial Year 2021.

#### Summary of Board Charter Report (BCR)

This report is designed to brief the Board about the roles and responsibilities they have, and about the committees they are in and includes a disaster recovery plan for the company. It is reviewed annually by board members.

#### Summary of Disaster Recovery Plan (DRP):

UGIC's policy is to maintain some level of liquidity in more than one country (Saudi Arabia & Bahrain) to sustain its expenses in case of any unexpected events arising.

UGIC maintains hard copy records as well as soft copy records of all transactions and contracts. No specific software is required. UGIC has developed its server to maintain backup of all communication and has obtained a permanent IP address for security reasons.

UGIC subsidiary " SABAYEK" has enhanced insurance policy since consolidation to 75.68% to include mechanical, electrical, property and plant and discontinuity of business. SABAYEK continues to evaluate risks and put contingency plans. Mostly operational risks do exist as well as others such as electricity dues and possible negotiation from major clients on pricing or losing major clients, which can mitigated by negotiation of long term contracts.

Anti-money laundering.

The Company's principal line of business is investing in Industrial Projects in the Gulf region. The Company has not come across any suspicious transactions that could be related to money laundering or terrorism financing. Further, the Board is fully aware of the Anti-Money Laundering Policies in accordance with the CBB.

Risk management strategies and policies.

Risk management is essentially about identifying, monitoring, and controlling all material risks that the organization may be subjected to. The main types of risks faced by the Company are securities and stock markets and operational issues within its subsidiaries.

For current Assets, most important risks include: Electricity dues over Sabayek, and market crash in commodity, these risks could be mitigated by negotiating long term contracts with Saudi Electricity, obtaining cheaper raw material, seeking local Saudi Manganese ore, adding new product lines, and implementing cost cutting techniques, Achieving higher efficiency rates in production and recovery. The Company identifies, assesses, monitors, controls and manages the various risks on an on-going basis. Ugc management has successfully managed to increase the customs duty on importing the finished products of Sabayek from 5% to 12% which will help to avoid dumping and going into huge losses

For new Assets, The investment risks are clearly highlighted in any investment approval request forwarded to the Investment Committee and implementation of the project is subject to their approval. The Investment Committee continuously monitors the investment portfolio and the risks involved and take proactive measures to mitigate the risks.

The Audit Committee is charged with the responsibility of ensuring that adequate internal controls are in place to mitigate any existing or potential risks.

CEO Signature



Official Seal of the Company

Date: 03/03/2021

## Consolidated statement of financial position as at 31 December 2020 (Expressed in Bahrain Dinars)

	Notes	31 December 2020	31 December 2019
		<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	6	34,015,881	35,293,094
Investment in an associate	7	1,056,662	929,983
Right-of-use asset	8	365,630	422,406
		<u>35,438,173</u>	<u>36,645,483</u>
Current assets			
Financial assets at fair value through profit or loss			
	9	256,000	256,000
Inventories	10	17,945,431	18,653,121
Trade and other receivables	11	10,461,011	6,745,497
Mudaraba deposits	12	1,914,128	1,903,323
Cash and bank balances	13	1,693,571	4,429,240
		<u>32,270,141</u>	<u>31,987,181</u>
<b>Total assets</b>		<u><u>67,708,314</u></u>	<u><u>68,632,664</u></u>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Share capital	14	20,000,000	20,000,000
Statutory reserve	15	2,853,603	2,853,603
Share premium	16	116,328	116,328
Other reserves	16	1,312,512	2,113,464
Equity attributable to the shareholders of the Parent Company			
		24,282,443	25,083,395
Non-controlling interest	17	5,624,067	5,894,950
		<u>29,906,510</u>	<u>30,978,345</u>
Non-current liabilities			
Non-current portion of term loans	18	21,799,727	24,622,745
Non-current portion of lease liabilities	19	369,124	447,638
Employees' terminal benefits	20	663,273	655,624
		<u>22,832,124</u>	<u>25,726,007</u>

## Consolidated statement of financial position as at 31 December 2020 (Expressed in Bahrain Dinars)

	Notes	31 December 2020	31 December 2019
Current liabilities			
Current portion of term loans	18	8,974,839	7,127,183
Current portion of lease liabilities	19	279,470	236,675
Trade and other payables	21	5,715,371	4,564,454
		<u>14,969,680</u>	<u>11,928,312</u>
Total equity and liabilities		<u>67,708,314</u>	<u>68,632,664</u>

The consolidated financial statements were approved, authorised for issue by the Board of Directors and signed on their behalf by:



\_\_\_\_\_  
Rashed Abdulla Al Suwaiket Al Hajri  
Chairman



\_\_\_\_\_  
Abdulla Fahad Al-Subaie  
Vice - Chairman

## Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Sales	22	33,546,423	30,985,263
Cost of sales	23	(32,348,591)	(35,155,134)
Gross profit/(loss)		1,197,832	(4,169,871)
Other income	24	242,934	211,189
		1,440,766	(3,958,682)
Expenses			
General and administrative expenses	25	(1,374,479)	(1,301,987)
Finance costs	26	(325,991)	(324,202)
		(1,700,470)	(1,626,189)
Net loss for the year before tax and share of profit from investment in an associate		(259,704)	(5,584,871)
Share of profit from investment in an associate	7	126,679	16,876
Net loss for the year before tax		(133,025)	(5,567,995)
Provision for Zakat	27	(938,810)	(113,843)
Net loss and total comprehensive loss for the year		(1,071,835)	(5,681,838)
Net loss and total comprehensive loss for the year attributable to:			
Shareholders of the Parent Company		(800,952)	(4,337,890)
Non-controlling interest	17	(270,883)	(1,343,948)
		(1,071,835)	(5,681,838)
Basic and diluted losses per share attributable to shareholders of the Company	28	(4.00 fils)	(21.69 fils)

The consolidated financial statements were approved, authorised for issue by the Board of Directors and signed on their behalf by:

  
 Rashed Abdulla Al Suwaiket Al Hajri  
 Chairman

  
 Abdulla Fahad Al-Subaie  
 Vice - Chairman



## Consolidated statement of changes in shareholders' equity for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### Attributable to the shareholders of the Parent Company

	Share capital	Statutory reserve	Share premium	Other reserves			Non-controlling interest	Total
				Revaluation reserve	Retained earnings	Total		
Adjusted balance at 1 January 2019	20,000,000	2,853,603	116,328	4,329,043	2,122,311	29,421,285	7,238,898	36,660,183
Total comprehensive loss for the year	-	-	-	-	(4,337,890)	(4,337,890)	(1,343,948)	(5,681,838)
At 31 December 2019	20,000,000	2,853,603	116,328	4,329,043	(2,215,579)	25,083,395	5,894,950	30,978,345
Total comprehensive loss for the year	-	-	-	-	(800,952)	(800,952)	(270,883)	(1,071,835)
At 31 December 2020	<u>20,000,000</u>	<u>2,853,603</u>	<u>116,328</u>	<u>4,329,043</u>	<u>(3,016,531)</u>	<u>24,282,443</u>	<u>5,624,067</u>	<u>29,906,510</u>

## Consolidated statement of cash flows for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

	Note	Year ended 31 December 2020	Year ended 31 December 2020
<b>Operating activities</b>			
Net loss for the year		(1,071,835)	(5,681,838)
Adjustments for:			
Depreciation		2,189,416	2,217,942
Amortisation of right-of-use asset	6	56,776	56,775
Share of profit from investment in an associate	8	(126,679)	(16,876)
Reversal of excess provision for impaired trade receivables	7	(173,015)	(95,606)
Interest income	24	(56,495)	(103,281)
Provision for impaired trade receivables	24	255,638	150,255
Interest expense on term loans	25	270,811	264,129
Interest expense on lease liabilities	26	55,181	60,073
Changes in operating assets and liabilities:	26		
Inventories		707,690	(2,377,815)
Trade and other receivables		(3,798,137)	(1,953,924)
Trade and other payables		1,150,917	(1,778,785)
Employees' terminal benefits, net		7,649	62,601
Net cash used in by operating activities		<u>(532,083)</u>	<u>(9,196,350)</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(912,203)	(17,626)
Net movement in Mudaraba deposits	6	(10,805)	239,611
Interest income received		56,495	60,735
Net cash (used in)/provided by financing activities		<u>(866,513)</u>	<u>282,720</u>
<b>Financing activities</b>			
Interest expense on term loans paid		(270,811)	(264,129)
Proceeds from term loans	26	8,029,561	8,031,201
Repayment of term loans	33	(9,004,923)	(4,843,018)
Repayment of principal element of lease liabilities	33	(35,719)	-
Repayment of interest on lease liabilities		(55,181)	-
Net cash (used in)/provided by financing activities		<u>(1,337,073)</u>	<u>2,924,054</u>
Net decrease in cash and cash equivalents		(2,735,669)	(5,989,576)
Cash and cash equivalents, beginning of the year		<u>4,429,240</u>	<u>10,418,816</u>
Cash and cash equivalents, end of the year	13	<u><u>1,693,571</u></u>	<u><u>4,429,240</u></u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 1. Organisation and activities

United Gulf Investment Corporation B.S.C. (“the Company” or “the Parent Company”) and its subsidiaries comprise “the Group”. The Company is a public shareholding company registered with the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain and operates under commercial registration number 24377 obtained on 18 February 1991.

According to the terms of its Memorandum and Articles of Association, the duration of the Company is for 50 years, renewable for further similar periods unless terminated earlier by the operation of law or as provided for in the Articles of Association.

The Company is engaged in property leasing, buying and selling of properties for the Company only, third grade industrial maintenance works, buying and selling of shares and securities for the Company only and investment in local industrial projects.

The Company’s registered office is in the Kingdom of Bahrain.

The consolidated financial statements, set out on pages 9 to 48, were approved and authorised for issue by the Board of Directors on 22 February 2021.

### 2. Structure of the Group

The structure of the Group is as follows:

Subsidiaries:

<u>Name of the subsidiary</u>	<u>Country of incorporation</u>	<u>Proportion of ownership interest 31 December 2020</u>	<u>Non-controlling interest ownership /voting interest 31 December 2020</u>
Gulf Ferro Alloys Company (“SABAYEK”) W.L.L.	Kingdom of Saudi Arabia	75.68% (2019: 75.68%)	24.32% (2019:24.32%)
United Gulf Trading W.L.L. (“UGT”)	Kingdom of Bahrain	100% (2019:100%)	- (2019: Nil)

The Company owns 75.68% (2019: 75.68%) shareholding interest in Gulf Ferro Alloys Company (SABAYEK) W.L.L. and 100% in United Gulf Trading W.L.L (“the subsidiaries”).

The principal activities of SABAYEK include the production and marketing of ferro silicon, ferro manganese, silicon manganese silicon and micro silicate.

The principal activities of UGT are other professional, scientific and technical activities, real estate activities on fee or contract and sale/trading in other industrial products/raw materials.

SABAYEK’s total assets, liabilities and net profit for the year of have been extracted from unaudited management accounts prepared as at, and for the year ended, 31 December 2020 while UGT’s total assets, liabilities and net profit for the year have been extracted from audited financial statements prepared as at, and for the year ended, 31 December 2020.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 2. Structure of the Group (continued)

The details of the Group's investment in an associate, as follows:

Name of the associate	Country of incorporation	Description of shares held	Proportionate ownership interest held	
			2020	2019
Dhahran Chemical Industries Marketing ("DCIM")	Kingdom of Saudi Arabia	Ordinary shares of SAR100 per share	20%	20%

### 3. Basis of preparation

#### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and the requirements of the Bahrain Commercial Companies Law, and associated resolutions, rules and procedures of the Bahrain Bourse.

#### **Basis of presentation and functional currency**

The consolidated financial statements have been prepared using the going concern assumption and under the historical cost convention except for the financial asset at fair value through profit or loss which are stated at their fair values and investment in an associate which is equity accounted.

The consolidated financial statements have been presented in Bahrain Dinars in which the share capital of the Company and its transactions are primarily denominated while the functional currency of SABAYEK is Saudi Riyals. In the opinion of the management, there is no significant currency exchange impact due to the difference between the functional currency and presentation currency as both are pegged to the United States Dollars.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5 to these consolidated financial statements.

#### **Standards, improvements, amendments and interpretations effective and adopted in 2020**

The following new standards, improvements, amendments and interpretations issued by the IASB are effective for the first time for accounting periods beginning on or after 1 January 2020 and have been adopted in the preparation of these consolidated financial statements:

Standard or interpretation	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of financial statements	1 January 2020
IAS 8	Accounting policies, changes in accounting estimates and errors	1 January 2020

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 3. Basis of preparation (continued)

#### **Standards, improvements, amendments and interpretations effective and adopted in 2020 (continued)** **IAS 1 – “Presentation of financial statements” and IAS 8 – “Accounting policies, changes in accounting estimates and errors”**

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify the definition of ‘material’ in the context of applying IFRS. The revised definition of ‘material’ is that Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of the amendments to IAS 1 and 8 did not have any significant impact on the Company’s financial position and results of operations for the year ended 31 December 2020 nor on the opening balance of retained earnings.

Standards, amendments and interpretations issued and effective but not relevant in 2020

The following new standards, amendments and interpretations issued by the IASB are effective for the first time for accounting periods beginning on or after 1 January 2020 but have not been adopted as these are not considered to be relevant to the Group’s operation:

<u>Standard or interpretation</u>	<u>Title</u>	<u>Effective for annual periods beginning on or after</u>
IAS 39	Financial instruments: recognition and measurement	1 January 2020
IFRS 3	Business combinations	1 January 2020
IFRS 7	Financial instruments: Disclosures	1 January 2020
IFRS 9	Financial instruments	1 January 2020
IFRS 16	Leases	1 June 2020

#### Improvements/amendments to IFRS/IAS

Improvements/amendments to IFRS/IAS contained numerous amendments to IFRS/IAS that the IASB considers non-urgent but necessary. ‘Improvements to IFRS’ comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Group’s future accounting period with earlier adoption.

New standards, interpretations and amendments issued but not yet effective in 2020

The following new accounting standard has been issued, but is not mandatory and hence, has not been early adopted by the Group in preparing the consolidated financial statements for the year ended 31 December 2020. The Group intends, where relevant, to apply this standard from application date as indicated in the table below:

<u>Standard or interpretation</u>	<u>Title</u>	<u>Effective for annual periods beginning on or after</u>
IAS 39	Financial instruments: recognition and measurement	1 January 2021
IFRS 4	Insurance contracts	1 January 2021
IFRS 7	Financial instruments: Disclosures	1 January 2021
IFRS 9	Financial instruments	1 January 2021
IFRS 16	Leases	1 January 2021

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 3. Basis of preparation (continued)

#### *New standards, interpretations and amendments issued but not yet effective in 2020 (continued)*

Standard or interpretation	Title	Effective for annual periods beginning on or after
IAS 16	Property, plant and equipment	1 January 2022
IAS 37	Provisions, contingent liabilities and contingent assets	1 January 2022
IFRS 3	Business combinations	1 January 2022
IAS 1	Presentation of financial statements	1 January 2023
IFRS 17	Insurance contracts	1 January 2023

There would have been no change in the consolidated financial position and operational results of the Group for the year ended 31 December 2020 had the Group early adopted any of the above standards applicable to the Company.

### 4 Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements is set out below. These policies have been constantly applied to all the years presented as stated below, unless stated otherwise.

#### **Basis of consolidation**

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a changes in any of these elements of control.

De-facto control exists in situations where the Group has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Group considers all relevant facts and circumstances, including:

- The size of the Group's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the Group and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of profit or loss and other comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Leases*

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- (a) There is an identified asset;
- (b) The Group obtains substantially all the economic benefits from use of the asset; and
- (c) The Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease. In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### Leases (continued)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is re-measured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Based on the exemptions available in IFRS 16, low value and short-term leases are not capitalised in the statement of financial position. All payments made towards such leases are charged to the statement of profit or loss and other comprehensive income on a straight line basis over the period of the lease.

#### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Except for machinery and equipment of the subsidiary, where the depreciation is calculated on the basis of units of production method, depreciation on other property, plant and equipment items are calculated on the straight-line method to write-off the cost of property, plant and equipment to their estimated residual values over their expected economic useful lives as follows:

Building and freehold land	-	25 years
Machinery and equipment	-	Unit of production method
Furniture and fittings	-	Between 4 and 5 years
Office equipment	-	Between 4 and 5 years
Motor vehicles	-	Between 4 and 5 years
Tools and lab equipment	-	5 years
Other equipment	-	4 years



## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Property, plant and equipment (continued)*

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining net profit.

Repairs and renewals are charged to the consolidated statement of profit or loss and other comprehensive income when the expenditure is incurred.

The carrying values of the property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property, plant and equipment are written-down to their recoverable amounts.

#### *Investment in an associate*

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group 's share of post-acquisition profits and losses and other comprehensive income is recognised in the statement of profit and loss and other comprehensive income (except for losses in excess of the Group 's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group 's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, which is determined on the first-in first-out basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Where necessary, an allowance is made for obsolete and slow-moving inventories.

#### *Finished goods*

Finished goods are measured at the lower of cost of production or net realisable value. The cost of production of finished goods is determined by dividing the total production cost by the saleable output of the finished goods.

Production costs include cost of raw materials, smelting costs, treatment and refining costs, other cash costs and depreciation of operating assets.

#### *Work-in-process*

Work-in-process is valued at net cost of production based on the percentage of completion method.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Inventories (continued)*

##### Stores and materials

Stores and materials, which consist of consumable spares, are valued at weighted average cost less provision for obsolete and slow-moving items.

#### *Financial assets*

The Group classifies its financial assets either at fair value through profit or loss or at amortised costs.

##### a) *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Financial assets at fair value through profit or loss are initially recognised at cost and subsequently re-measured at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value of investments listed on active markets is determined by reference to the quoted market prices. The fair value of the unquoted securities, where available, is the Group's proportionate share of the net assets of the investee. In the absence of active markets or other appropriate methods from which to derive reliable fair values, the unquoted securities are stated at amortised cost.

##### b) *Financial assets at amortised cost*

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. The Group's financial assets measured at amortised cost comprise the trade and other receivables (excluding prepayments), Mudaraba deposits and cash and bank balances in the consolidated statement of financial position.

##### b-1) *Trade and other receivables (excluding prepayments)*

Impairment provisions for current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Financial assets (continued)*

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the statement of comprehensive income (operating profit).

#### b-2) Mudaraba deposits

Mudaraba deposits have original maturity period of more than 90 days but less than 365 days and are stated at amortised cost. Interest on these deposits are recognised using the effective interest method.

#### b-3) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalent comprise cash on hand, Mudaraba deposits with maturity period of up to 90 days from inception date and balances with banks.

#### Financial liabilities

The financial liabilities of the Group consist of bank borrowings and trade and other payables (excluding employee benefits). These financial liabilities are initially recognised at fair value and are subsequently re-measured at amortised cost using the effective interest method.

#### a) Borrowings and borrowing costs

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, these are stated at amortised cost using the effective yield method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

#### b) Trade and other payables (excluding employee benefits)

Trade and other payables (excluding employee benefits) are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Share capital*

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

#### *Non-controlling interests*

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from shareholders' equity.

#### *Dividends and Board of Directors remuneration*

Dividends and board remuneration are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is recognised when declared by the Board of Directors. In the case of final dividends and board remuneration, this is recognised when approved by the shareholders at the Annual General Meeting.

#### *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future and the amount of the obligation can be reliably estimated.

#### *Employee benefits*

##### Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Post-employment benefits*

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Group contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of profit or loss and other comprehensive income in the year to which they relate. In respect of this plan, the Group has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits. The expatriate employees of the Group are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Group accrues for its liability in this respect on an annual basis.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Revenue recognition*

Performance obligation and timing of revenue recognition

The majority of the Group's revenue is derived from the sale of ferro silicon, ferro manganese, silicon manganese, silicon metal, and micro silicate with revenue being recognised at a point in time depending on when the control of goods has been transferred to the customer. There is limited judgment needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery), retains none of the significant risks and rewards of the goods in question and conclusion of the work performed.

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that performance obligation from sale of goods is satisfied at the point in time when control of the asset is transferred to the customer, usually on delivery of the goods when the ownership of title is transferred.

Bank interest income is recognised on accrual basis as time passes while dividend income is recognised when the right to receive the payment is established.

#### *Determining the transaction price*

Most of the Group's revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices.

#### *Allocating amounts to performance obligations*

For most of the contracts, there is a fixed unit price for each product sold, with reductions given for bulk orders placed at a specific time. Therefore, there is no judgment involved in allocating the contract price to each unit ordered in such contracts (it is the total contract price divided by the number of units ordered). Where customer orders more than one product line, the Group is able to determine the split of the total contract price between each product line by reference to each product's standalone selling prices (all product lines are capable of being, and are, sold separately).

#### *Segmental reporting*

The Group's primary segment reporting format is business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

The Group's primary business segments are:

- Smelting; and
- Investment activities.

The Group's secondary reporting format is geographic segments which are based on the geographical location of the Group's operations. The Group mainly operates in:

- Kingdom of Bahrain; and
- Kingdom of Saudi Arabia.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 4. Significant accounting policies (continued)

#### *Foreign currency transactions*

Foreign currency transactions are accounted for at the rates of exchange prevailing on the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation, at the year-end rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the consolidated statement of profit or loss and other comprehensive income. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### 5. Critical accounting judgments and key source of estimation uncertainty

Preparation of consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management's judgments, estimates and assumptions relate to:

- economic useful lives of property, plant and equipment;
- power to exercise significant influence;
- classification of investments;
- impairment of assets;
- contingencies;
- fair value measurement;
- revenue recognition;
- determination of lease term and borrowing rates; and
- economic life of right-of-use assets.

#### *Economic useful lives of property, plant and equipment*

Except for the machinery and equipment of the subsidiary, where the depreciation is calculated on the basis of unit of production method, the Group's smelting assets, classified within property, plant and equipment, are depreciated on a straight-line basis over their economic useful lives. The economic useful lives of property, plant and equipment is reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

#### *Power to exercise significant influence*

Where the Group holds over 20% of voting rights (but not over 50%) and the Group does not exercise significant influence, the investment is treated as either financial assets at fair value through profit or loss or fair value through other comprehensive income. More information is disclosed in Note 7 to these consolidated financial statements.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 5. Critical accounting judgments and key source of estimation uncertainty (continued)

#### *Classification of investments*

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments designated at fair value through other profit or loss, at fair value through other comprehensive income or amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

#### *Impairment of assets*

##### a) *Financial assets*

The Group assesses on a forward looking basis the expected credit losses associated with its trade receivables and FVTPL. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. In addition, with respect to its bank balances, the amounts are deposited with reputable banks with low credit risk.

During the year ended 31 December 2020, in the opinion of the management, a provision of BD511,573 is required towards impaired trade receivables (2019: BD428,950) (Note 11). Further, in the opinion of the management, amounts due from related parties and bank balances are not considered to be impaired (2019: BDNil).

##### b) *Inventories*

The Group also creates provision for obsolete and slow-moving inventories. At 31 December 2020, in the opinion of the Group's management, no provision is required for obsolete and slow-moving raw materials and consumable spares (2019: BDNil). Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the date of the consolidated financial position to the extent that such events confirm conditions existing at the end of the period.

##### c) *Other non-financial assets*

Other non-financial assets (excluding inventories) are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs").

Impairment changes are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income.

#### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 5. Critical accounting judgments and key source of estimation uncertainty (continued)

#### ***Fair value measurement***

A number of assets and liabilities included in the consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurement are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item and transfers of items between levels are recognised in the period they occur.

The financial assets and liabilities of the Group are initially recorded at fair value and subsequently re-measured at amortised cost while those which require fair value re-measurement are disclosed in Note 31.

#### ***Revenue recognition***

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

#### ***Determination of lease term and the borrowing rates for leases***

In case where the Group is a lessee, the Group's management exercises judgment in determining if it is reasonably certain to exercise the lease options to extend or terminate the lease at the commencement as well as during the lease term. The carrying value of lease liabilities are revised based on certain variable elements of the future lease payments like rates or index. Determination of incremental borrowing rates used to determine the carrying value of lease liabilities and the discount rates used to determine the carrying value of right-of-use of lease rights involve, to certain extent, management estimates. Any changes to management estimate may have an impact on the term as well as the carrying values of the lease assets and liabilities.

#### ***Economic life of right-of-use assets***

Right-of-use assets are amortised over their economic useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of profit or loss in specific periods.

The Group's right-of-use assets are amortised on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Economic useful lives of right-of-use assets are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.



## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

6 Property, plant and equipment	Building and leasehold land	Machinery and equipment	Furniture and fittings	Office equipment	Motor vehicles	Tools and lab equipment	Total
<b>Cost</b>							
At 31 December 2018	13,353,880	52,761,688	182,871	657,239	1,023,120	2,048,006	70,026,804
Additions	-	-	-	3,183	-	14,443	17,626
At 31 December 2019	13,353,880	52,761,688	182,871	660,422	1,023,120	2,062,449	70,044,430
Additions	26,910	826,930	-	2,339	-	56,024	912,203
At 31 December 2020	13,380,790	53,588,618	182,871	662,761	1,023,120	2,118,473	70,956,633
<b>Accumulated depreciation</b>							
At 31 December 2018	8,320,829	20,861,313	163,999	393,969	975,166	1,818,118	32,533,394
Charge for the year	420,011	1,676,240	193	61,432	11,380	48,686	2,217,942
At 31 December 2019	8,740,840	22,537,553	164,192	455,401	986,546	1,866,804	34,751,336
Charge for the year	417,275	1,665,575	184	60,021	4,845	41,516	2,189,416
At 31 December 2020	9,158,115	24,203,128	164,376	515,422	991,391	1,908,320	36,940,752
<b>Net book amount</b>							
At 31 December 2020	4,222,675	29,385,490	18,495	147,339	31,729	210,153	34,015,881
At 31 December 2019	4,613,040	30,224,135	18,679	205,021	36,574	195,645	35,293,094

The Group operates from premises rented at a monthly rent of BD9,342 (2019: BD9,342 per month).

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 6. Property, plant and equipment (continued)

The depreciation charged for the year has been allocated in the consolidated statement of profit or loss and other comprehensive income, as follows:

	31 December 2020	31 December 2019
Cost of sales (Note 23)	2,027,118	2,050,934
General and administrative expenses (Note 25)	162,298	167,008
	<u>2,189,416</u>	<u>2,217,942</u>

### 7. Investment in an associate

	31 December 2020	31 December 2019
Opening balance	929,983	913,107
Share of profit for the year	126,679	16,876
Closing balance	<u>1,056,662</u>	<u>929,983</u>

The investment in an associate represents the Group's 20% ownership interest in Dhahran Chemical Industries Marketing ("DCIM").

The Group's share in the net assets and results of operations of the associate has been extracted from the unaudited management accounts of DCIM prepared as at, and for the year ended, 31 December 2020 and 2019.

Summarised financial information of the Group's investment in the associate as extracted from the unaudited management accounts prepared as at, and for the year ended, 31 December is as follows:

	31 December 2020	31 December 2019
<b>As at 31 December</b>		
Current assets	2,538,953	2,986,460
Non-current assets	2,792,526	2,843,060
Current liabilities	(48,164)	(801,574)
Non-current liabilities	-	(378,028)
Net assets	<u>5,283,315</u>	<u>4,649,918</u>
Group's share of net asset	<u>1,056,662</u>	<u>929,983</u>
	Year ended 31 December 2020	Year ended 31 December 2019
Net profit of the associate for the year	<u>63,395</u>	<u>84,380</u>
Total comprehensive income of the associate	<u>63,395</u>	<u>84,380</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 8. Right-of-use assets

	<u>Leasehold land</u>
At 1 January 2019	479,181
Amortisation charge for the year (Note 25)	<u>(56,775)</u>
At 31 December 2019	422,406
Amortisation charge for the year (Note 25)	<u>(56,776)</u>
At 31 December 2020	<u><u>365,630</u></u>

### 9. Financial assets at fair value through profit or loss

	<u>31 December 2020</u>	<u>31 December 2019</u>
Opening and closing balance	<u>256,000</u>	<u>256,000</u>

Financial assets at fair value through profit or loss are denominated in Bahrain Dinars. These consist of marketable equity securities listed on the Bahrain Bourse and are fair valued annually at the close of business on 31 December. Fair value is determined by reference to stock exchange quoted prices. In addition, the Group also holds 403,591 unquoted shares in TAB Energy Limited. In the opinion of the management, the fair values of the financial assets at fair value through profit or loss are not significantly different from their carrying amount.

### 10. Inventories

	<u>31 December 2020</u>	<u>31 December 2019</u>
Finished goods and work-in-process	9,756,285	11,334,817
Raw materials	5,873,634	4,909,497
Consumable spares	<u>2,315,512</u>	<u>2,408,807</u>
	<u><u>17,945,431</u></u>	<u><u>18,653,121</u></u>

### 11. Trade and other receivables

	<u>31 December 2020</u>	<u>31 December 2019</u>
Trade receivables	5,386,231	2,424,877
Less: provision for impairment of trade receivables	<u>(511,573)</u>	<u>(428,950)</u>
	4,874,658	1,995,927
Prepayments and other receivables	<u>5,586,353</u>	<u>4,749,570</u>
	<u><u>10,461,011</u></u>	<u><u>6,745,497</u></u>

Trade receivables are generally on 60 to 180 days credit terms and are primarily denominated in Saudi Riyals. It is not the policy of the Group to obtain collateral against trade and other receivables and, therefore, is all unsecured. The carrying value of trade and other receivables classified at amortised cost approximates fair value.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 11. Trade and other receivables (continued)

The movement in the provision for impaired trade receivables is as follows:

	31 December 2020	31 December 2019
Opening balance	428,950	374,301
Provision during the year (Note 25)	255,638	150,255
Reversal of excess provision for impaired trade receivables (Note 24)	(173,015)	(95,606)
Closing balance	<u>511,573</u>	<u>428,950</u>

The Group applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

The expected loss rates are based on the Group's historical credit losses experienced over a number of years prior to the year end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified the gross domestic product (GDP) and inflation rate as the key macroeconomic factors in the countries where the Group operates.

On that basis, the expected loss allowance for trade receivables was determined as follows:

	0-90 days overdue	91-180 days overdue	181-360 days overdue	361-720 days overdue	721+ days overdue	Total
<b>31 December 2020</b>						
Expected loss rate	1.08%	19.44%	58.56%	83.59%	100.00%	
Trade receivables	4,890,614	1,502	72,294	34,718	387,103	5,386,231
Loss allowance	52,821	292	42,335	29,022	387,103	511,573
<b>31 December 2019</b>						
Expected loss rate	1.97%	29.16%	65.36%	83.77%	100.00%	
Trade receivables	1,992,225	46,535	23,828	10,984	351,305	2,424,877
Loss allowance	39,298	13,571	15,575	9,201	351,305	428,950

### 12. Mudaraba deposits

Mudaraba deposits represent deposits placed with financial institutions, earned profit rates ranging between 2.25% to 5.15% per annum during 2020 (2019: between 2.25% to 5.15% per annum) and have original maturities of more than 90 days but less than 365 days. The profits on these deposits have been recognised over the term of the related contract.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 13. Cash and bank balances

	31 December 2020	31 December 2019
Balances in call and current accounts with banks	1,662,954	4,330,536
Short-term Mudaraba deposits	26,425	94,375
Cash on hand	4,192	4,329
	<u>1,693,571</u>	<u>4,429,240</u>

The current account balances with banks are non-profit bearing.

The cash and bank balances are denominated in the following currencies:

Currency	31 December 2020	31 December 2019
United States Dollars	808,179	2,933,851
Saudi Arabian Riyals	783,378	1,316,017
Bahrain Dinars	102,014	179,372
	<u>1,693,571</u>	<u>4,429,240</u>

### 14. Share capital

	31 December 2020	31 December 2019
Authorised 400,000,000 shares of 100 fils each (2019: 400,000,000 shares of 100 fils each)	<u>40,000,000</u>	<u>40,000,000</u>
Issued and fully paid-up 200,000,000 shares of 100 fils each (2019: 200,000,000 shares of 100 fils each)	<u>20,000,000</u>	<u>20,000,000</u>

The names and nationalities of the major shareholders who have an interest of 5% or more of the issued and fully paid-up share capital are as follows:

Name of the shareholder	Nationality	Number of shares	2020	Percentage of shareholding of interest 2019
Mr Rashed Abdullah Al-Hajiri	Kingdom of Saudi Arabia	<u>58,418,336</u>	<u>29.21%</u>	<u>29.21%</u>

The Group has only one class of equity shares and the holders of the shares have equal voting rights.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 14. Share capital (continued)

The distribution schedule of equity shares, setting out the number of shareholders and percentages in the following categories is as follows:

	<u>Number of shareholders</u>	<u>Number of shares</u>	<u>2020</u>	<u>Percentage of total outstanding shares 2019</u>
Less than 1%	1,161	76,907,817	38.45%	38.45%
1% up to less than 5%	19	64,673,847	32.34%	32.34%
20% up to less than 50%	1	58,418,336	29.21%	29.21%
	<u>1,181</u>	<u>200,000,000</u>	<u>100.00%</u>	<u>100.00%</u>

The details of the shares owned by the Directors as at 31 December:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Mr Rashed Abdullah Al-Hajiri	58,418,336	58,418,336
Mr Abdulla Fahad Al-Subaie	100,000	100,000
Mr Abdulla Mubarak Abdulla Al-Suwaiket	100,000	100,000
Mr Waleed Fahad Abdulrahman Al-Tharman	100,000	100,000
	<u>58,718,336</u>	<u>58,718,336</u>

### 15. Statutory reserve

In accordance with the provisions of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Group's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the issued share capital is set aside. During the year ended 31 December 2020, as Group has incurred losses, no amount has been transferred to the statutory reserve (2019: BDNil). The reserve is not available for distribution except for dividend payment as permitted by Bahrain Commercial Companies Law.

### 16. Other reserves

#### Share premium

This represents the amount subscribed for share capital in excess of nominal value. Share premium is not available for distribution.

#### Retained earnings

This represents all other net gains and losses and transactions with shareholders not recognised elsewhere. This reserve is available for distribution.

#### Revaluation reserve

Revaluation reserve represents surplus arising from the fair valuation of property, plant and equipment of the subsidiary. This reserve is not available for distribution.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 17. Non-controlling interest

	31 December 2020	31 December 2019
Opening balance	5,894,950	7,249,613
Effect of adoption of IFRS 16	-	(10,715)
Share of non-controlling interest in the total comprehensive loss of the subsidiary	<u>(270,883)</u>	<u>(1,343,948)</u>
Closing balance	<u><u>5,624,067</u></u>	<u><u>5,894,950</u></u>

Summarised financial information in relation to the non-controlling interest of the subsidiary, before intra-group eliminations, is presented below:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Income statement</b>		
Sales	33,546,423	30,985,263
Cost of sales	<u>(32,348,591)</u>	<u>(35,155,134)</u>
Gross profit/(loss)	1,197,832	(4,169,871)
Administrative expenses	(665,943)	(849,450)
Other expenses	<u>(346,553)</u>	<u>(170,900)</u>
Operating profit/(loss)	<u>185,336</u>	<u>(5,190,221)</u>
Other income	13,424	102,165
Finance expense	<u>(270,811)</u>	<u>(324,202)</u>
Net loss before tax	(72,051)	(5,412,258)
Provision for zakat	<u>(938,810)</u>	<u>(113,843)</u>
Net loss after tax	<u>(1,010,861)</u>	<u>(5,526,101)</u>
Net loss and total comprehensive loss allocated to non-controlling interest	<u><u>(270,883)</u></u>	<u><u>(1,343,948)</u></u>
<b>Cash flow statement items</b>		
Cash flows from operating activities	(945,244)	3,134,446
Cash flows from investing activities	(912,203)	(17,626)
Cash flows from financing activities	<u>(909,000)</u>	<u>(505,000)</u>
Net cash inflows	<u><u>(2,766,447)</u></u>	<u><u>2,611,820</u></u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 17. Non-controlling interest (continued)

	31 December 2020	31 December 2019
<b>Assets:</b>		
Property, plant and equipment	29,684,718	30,961,931
Right-of-use asset	365,630	422,406
Inventories	17,945,431	18,653,121
Trade and other receivables	10,458,889	6,732,359
Cash and cash equivalents	1,553,975	4,111,452
<b>Liabilities:</b>		
Trade and other payables	4,816,530	3,570,367
Term loans	30,774,566	31,749,928
Provisions	643,661	637,542
Lease liabilities	648,594	684,313
Accumulated non-controlling interest	5,624,067	5,894,950

### 18. Term loans

	31 December 2020	31 December 2019
<b>Saudi Industrial Development Fund</b>		
In 1996, the subsidiary obtained a long-term loan from SIDF amounting to SAR323 million by pledging the property, plant and equipment of the subsidiary and the guarantee of the subsidiary's shareholders against the loan. The total withdrawal against this loan amounted to SAR319 million.		
The loan agreement initially stated that the loan should be repaid in 16 instalments starting from 28 July 1999 and ended on 8 October 2006.		
Subsequently, the subsidiary negotiated with SIDF for the extension of the repayment schedule of the loan to a later period. SIDF accepted the subsidiary's proposal and extended the loan repayment period to 35 years beginning from 17 April 2008, with half yearly intervals, vide their letter dated 7/11/1427 Hijri (Arabic date).		
	19,200,100	20,109,100



## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 18. Term loans

	31 December 2020	31 December 2019
<b>Saudi Electric Company</b>		
Payable to SEC includes payable towards substation amounting to SAR23 million and payables towards electricity charges amounting to SAR8 million. Due to cash shortage, the subsidiary could not pay the dues towards the usage of electricity charges to SEC on time. The management re-negotiated with SEC for instalment payments against energy bills to which SEC agreed. At the end of 2016, SABAYEK agreed to make instalment payments for its 2015 and 2016 liabilities where SABAYEK is required to pay SAR 1 million each month 'till October 2017, SAR1.5 million from November 2017 to October 2019, SAR2 million from November 2019 to December 2020, SAR5 million from January 2021 to June 2022 including the final instalment of SAR4.9 million in accordance with the repayment schedule. In addition, a payment of SAR20 million at September 2020 and a further SAR20 million at December 2020.	11,574,466	11,640,828
	30,774,566	31,749,928
Less: current portion of term loans	(8,974,839)	(7,127,183)
Non-current portion of term loans	21,799,727	24,622,745

That portion of the loans which is repayable within one year from the consolidated statement of financial position date is disclosed as current portion of term loans.

### 19. Lease liabilities

	31 December 2020	31 December 2019
At 1 January	684,313	624,240
Lease payments	(90,900)	-
Interest expenses (Note 26)	55,181	60,073
At 31 December	648,594	684,313
Less: current lease liabilities	(279,470)	(236,675)
Non-current lease liabilities	369,124	447,638
Maturity analysis - contractual undiscounted cash flows:		
	31 December 2020	31 December 2019
Not later than 1 year	91,616	91,616
Between one year and five years	458,079	458,079
Later than five year	38,173	129,789
Total undiscounted lease	587,868	679,484

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 20. Employees' terminal benefits

#### Local employees

The contributions made by the Company towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2020 amounted to BD8,250 (2019: BD9,120).

#### Expatriate employees

The movement in leaving indemnity liability applicable to expatriate employees is as follows:

	31 December 2020	31 December 2019
Opening balance	655,624	593,023
Accruals for the year	65,380	72,515
Payments during the year	(57,731)	(9,914)
Closing balance	<u>663,273</u>	<u>655,624</u>
Number of staff employed by the Group	<u>88</u>	<u>101</u>

The employees' terminal benefits accrued in the accounting records of the subsidiary in accordance with the Saudi Labour and Workmen Law amounted to BD643,661 (2019: BD637,542).

### 21. Trade and other payables

	31 December 2020	31 December 2019
Trade payables	1,396,226	741,815
Accruals and other payables	4,319,145	3,822,639
	<u>5,715,371</u>	<u>4,564,454</u>

Trade payables are normally settled within 30 days from the suppliers' invoice date and are mainly in Saudi Arabian Riyals and Bahrain Dinars. The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

Accruals and other payables also include the zakat and income tax payable by the subsidiary.

### 22. Sales

	Year ended 31 December 2020	Year ended 31 December 2019
Product type:		
Silico manganese	29,356,298	26,111,452
Ferro manganese	4,190,125	4,873,811
	<u>33,546,423</u>	<u>30,985,263</u>
Contract counterparties:		
Direct to customers	<u>33,546,423</u>	<u>30,985,263</u>
Timing of revenue recognition:		
At a point in time	<u>33,546,423</u>	<u>30,985,263</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 22. Sales (continued)

Geographical information of sales during the years:

	Year ended 31 December 2020	Year ended 31 December 2019
Domestic sales (Kingdom of Saudi Arabia)	24,333,856	28,918,225
Gulf Co-operation Countries (GCC) sales	5,868,032	11,647
Foreign sales	3,344,535	2,055,391
	<u>33,546,423</u>	<u>30,985,263</u>

### 23. Cost of sales

	Year ended 31 December 2020	Year ended 31 December 2019
Raw materials consumed	20,318,435	21,802,997
Other direct costs	10,003,038	11,301,203
Depreciation (Note 6)	2,027,118	2,050,934
	<u>32,348,591</u>	<u>35,155,134</u>

### 24. Other income

	Year ended 31 December 2020	Year ended 31 December 2019
Reversal of excess provision for impaired trade receivables (Note 11)	173,015	95,606
Interest income on Mudaraba deposits	56,495	103,281
Foreign currency exchange gains	-	5,243
Miscellaneous income	13,424	7,059
	<u>242,934</u>	<u>211,189</u>

### 25. General and administrative expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Other general and administrative expenses	622,658	529,548
Staff costs	277,109	390,601
Provision for impaired trade receivables (Note 11)	255,638	150,255
Depreciation (Note 6)	162,298	167,008
Amortisation of right-of-use assets (Note 8)	56,776	56,775
Directors' sitting fees (Note 29)	-	7,800
	<u>1,374,479</u>	<u>1,301,987</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 26. Finance costs

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expense on term loans	270,810	264,129
Interest expense on lease liabilities (Note 19)	55,181	60,073
	<u>325,991</u>	<u>324,202</u>

### 27. Provision for Zakat

	Year ended 31 December 2020	Year ended 31 December 2019
Provision for Zakat	<u>938,810</u>	<u>113,843</u>

In accordance with the Saudi Organisation for Certified Public Accountants (SOCPA), Accounting Standard No.11 for Zakat and income tax has set a uniform presentation for Zakat and income tax due on companies with mixed Saudi and foreign partners, as a direct charge to the consolidated statement of profit or loss and other comprehensive income.

### 28. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2020	Year ended 31 December 2019
Net loss attributable to the shareholders of the Parent Company	<u>(800,952)</u>	<u>(4,337,890)</u>
Weighted average number of ordinary shares in issue during the year	<u>200,000,000</u>	<u>200,000,000</u>
Basic and diluted losses per share	<u>(4.00fils)</u>	<u>(21.69fils)</u>

The Company does not have any potentially dilutive ordinary shares, hence, the diluted earnings per share and basic earnings per share are identical.

### 29. Dividends and directors' remuneration

#### Declared and paid

The Board of Directors did not declare dividends to the shareholders during the year ended 31 December 2020 (2019: BDNil).

#### Proposed by the Board of Directors

The Board of Directors do not propose to pay any dividend to the shareholders for the year ended 31 December 2020 (2019: BDNil). This is subject to the approval by the shareholders in their Annual General Meeting.

## United Gulf Investment Corporation B.S.C.

### Notes to the consolidated financial statements for the year ended 31 December 2020

#### 29. Dividends and directors' remuneration (continued)

##### *Directors' sitting fees*

No amount has been paid as Directors' sitting fees for the year ended 31 December 2019 (2019: BD7,800 has been paid for the year ended 31 December 2018).

#### 30. Segmental information

##### *Business segments*

##### *As at, and for the year*

##### *ended 31 December 2020*

	<u>Smelting</u>	<u>Investment activities</u>	<u>Total</u>
Revenue	33,546,423	-	33,546,423
Other income	186,439	56,495	242,934
Operating costs	(32,348,591)	-	(32,348,591)
Provision for Zakat	(938,810)	-	(938,810)
<b>Segment profit</b>	<u>445,461</u>	<u>56,495</u>	<u>501,956</u>
Share of profit from investment in an associate			126,679
Other expenses			(1,700,470)
Net loss for the year			<u>(1,071,835)</u>

##### **Assets and liabilities**

	<u>Smelting</u>	<u>Investment activities</u>	<u>Total</u>
Addition to non-current asset	912,203	-	912,203
Total segment assets	<u>60,520,216</u>	<u>7,188,098</u>	<u>67,708,314</u>

##### **Total segment liabilities**

	<u>Smelting</u>	<u>Investment activities</u>	<u>Total</u>
As at, and for the year ended 31 December 2019	<u>37,500,392</u>	<u>301,431</u>	<u>37,801,823</u>

	<u>Smelting</u>	<u>Investment activities</u>	<u>Total</u>
Revenue	30,985,263	-	30,985,263
Other income	102,165	109,024	211,189
Operating costs	(35,155,134)	-	(35,155,134)
Provision for Zakat	(113,843)	-	(113,843)
<b>Segment (loss)/profit</b>	<u>(4,181,549)</u>	<u>109,024</u>	<u>(4,072,525)</u>
Share of profit from investment in an associate			16,876
Other expenses			(1,626,189)
Net loss for the year			<u>(5,681,838)</u>

##### **Assets and liabilities**

	<u>Smelting</u>	<u>Investment activities</u>	<u>Total</u>
Addition to non-current asset	17,626	-	17,626
<b>Total segment assets</b>	<u>61,310,219</u>	<u>7,322,445</u>	<u>68,632,664</u>
<b>Total segment liabilities</b>	<u>37,295,419</u>	<u>358,900</u>	<u>37,654,319</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 30. Segmental information (continued)

#### Geographical segments – secondary reporting format

	Segment assets		Segment liabilities	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Kingdom of Bahrain	7,188,098	7,322,445	301,432	358,900
Kingdom of Saudi Arabia	60,520,216	61,310,219	37,500,392	37,295,419
	<u>67,708,314</u>	<u>68,632,664</u>	<u>37,801,824</u>	<u>37,654,319</u>

### 31. Financial assets and liabilities and risk management

**Financial assets and liabilities** carried on the consolidated financial position include financial assets at fair value through profit or loss, trade and other receivables (excluding prepayments), Mudaraba deposits, cash and bank balances, term loans, lease liabilities and trade and other payables (excluding employee benefits). The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### Capital management

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. No changes were made in the objectives, policies and processes during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, lease liability, term loans and trade and other payables less cash and bank balances. Capital includes share capital and reserves attributable to the shareholders of the Group.

	31 December 2020	31 December 2019
Lease liabilities	648,594	684,313
Term loans	30,774,566	31,749,928
Trade and other payables	5,715,371	4,564,454
Less: cash and bank balances	<u>(1,693,571)</u>	<u>(4,429,240)</u>
Net debt	35,444,960	32,569,455
Share capital	20,000,000	20,000,000
Statutory reserve	2,853,603	2,853,603
Share premium	116,328	116,328
Other reserves	1,312,512	2,113,464
Equity attributable to shareholders of the Company	24,282,443	25,083,395
Total capital and net debt	<u>59,727,403</u>	<u>57,652,850</u>
Gearing ratio	<u>59.34%</u>	<u>56.49%</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 31. Financial assets and liabilities and risk management

#### Risk management

The Board of Directors have the overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's risk and compliance function. The Board of Directors receive quarterly reports from the Risk and Compliance Department through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board of Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group is exposed, through its operations, to various financial risks which include liquidity risk, operational risk, regulatory risk, investment risk, legal risk, reputational risk, market risk, credit risk and fair value measurement.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Finance Department headed by the Finance Manager, in coordination with the Managing Director, is primarily responsible for the regular monitoring of the liquidity requirements of the Group. The Board is being provided with quarterly liquidity reports for their review and decision making.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of non-derivative financial liabilities based on the earliest date on which the Group can be required to make payments.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of non-derivative financial liabilities based on the earliest date on which the Group can be required to make payments.

	<u>Total</u>	<u>Up to 3 months</u>	<u>Between 3 and 12 months</u>	<u>Between 1 and 2 years</u>	<u>More than 2 years</u>
<b><i>At 31 December 2020</i></b>					
Interest bearing	30,774,566	2,243,709	6,731,127	8,974,839	12,824,891
Non-interest bearing	<u>5,009,862</u>	<u>5,009,862</u>	-	-	-
	<u>35,784,428</u>	<u>7,253,571</u>	<u>6,731,127</u>	<u>8,974,839</u>	<u>12,824,891</u>
	<u>Total</u>	<u>Up to 3 months</u>	<u>Between 3 and 12 months</u>	<u>Between 1 and 2 years</u>	<u>More than 2 years</u>
<b><i>At 31 December 2019</i></b>					
Interest bearing	31,749,928	1,781,796	5,345,388	7,127,183	17,495,561
Non-interest bearing	<u>3,762,983</u>	<u>3,762,983</u>	-	-	-
	<u>35,512,911</u>	<u>5,544,779</u>	<u>5,345,388</u>	<u>7,127,183</u>	<u>17,495,561</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 31. Financial assets and liabilities and risk management (continued)

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems or external events. The Group seeks to minimise this risk by continuously framing policies and procedures to identify, control and manage these risks. As at 31 December 2020 and 2019, in the opinion the management, operational risk exposures are considered to be acceptable in the circumstance.

Investment risk is defined as the uncertainty about the future benefits to be realised from an investment. The Group has well-defined policies for managing investment risk. These policies cover investment authority limits and investment assessment practices. The Board of Directors in coordination with the Chief Executive Officer studies the impact of transactions on the Group's consolidated statement of financial position and monitors the investment portfolio on a continuous basis. Every investment application is reviewed by a designated body depending on the size and the nature of the transaction. Fair valuation is generally conducted on a quarterly basis. The Group has a policy to ensure the conservatism convention and to make the necessary provisions when they are warranted.

Regulatory risk is the risk of non-compliance with regulatory and legal requirements in the Kingdom of Bahrain and Kingdom of Saudi Arabia. The Group's Compliance Department is responsible for ensuring all regulations are adhered to on timely basis.

Legal risk includes the risk of unexpected losses from transactions and/or contracts not being enforceable under applicable laws or from unsound documentation. The Group deals with several external law firms to support it in managing the legal risk.

Reputation risk is the risk that negative perception regarding the Group's business practices or internal controls, whether true or not, will cause a decline in the Group's investor base and lead to costly litigations which could have an adverse impact on the liquidity of the Group. The Board of Directors examines the issues that are considered to have reputation repercussions for the Group and issues directives to address these.

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in profit rate, currency rate, and equity price risk. The Group closely monitors the market forces and suitably revises the strategy to minimize the market risk.

#### **Profit rate risk**

It is the policy of the Group that significant borrowings are obtained by way of fixed profit rate that is most advantageous in the local market. Although the Group considers that this policy does not entirely eliminate the risk of paying profit rates in excess of market rates nor eliminates fully cash flow risk associated with variability in profit payments, however, is in the opinion that it achieves an appropriate balance of exposure to these risks. The Group's term loans bear fixed profit rate while the other financial liabilities are non-profit bearing. In the opinion of the Group's management, risk exposures to fluctuations in profit rate are minimal.

#### **Equity price risk**

The Group holds equity investments in other companies for strategic purpose. The Board of Directors believe that the exposure to market price risk from this activity is acceptable in the Group's circumstance.

The effect of a 5% increase/decrease in the value of the equity investments as at 31 December 2020, all other variables held constant, would have resulted to an increase/decrease in profit or loss of BD12,800 (2019: BD12,800) and net assets will correspondingly increase/decrease by the same amount.



## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 31 Financial assets and liabilities and risk management (continued)

#### Market risk (continued)

##### Currency rate risk

Currency rate risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign exchange rates. The Group's foreign currency transactions are primarily in United States Dollars and other GCC currencies which are effectively pegged to the Bahrain Dinar. Accordingly, management assesses the Group's exposure to currency rate risk as insignificant.

As at 31 December 2020 and 2019, the Group's financial assets and financial liabilities were denominated in the following currencies:

#### Financial assets

	United States Dollars		Bahrain Dinars		Saudi Arabian Riyals		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Trade and other receivables (excluding prepayments)	-	-	-	-	10,405,534	6,692,149	10,405,534	6,692,149
Cash and bank balances	783,378	2,933,851	102,014	179,372	808,179	1,316,017	1,693,571	4,429,240
Investment in an associate	-	-	-	-	1,056,662	929,983	1,056,662	929,983
Financial assets at fair value through profit or loss	-	-	256,000	256,000	-	-	256,000	256,000
	<u>783,378</u>	<u>2,933,851</u>	<u>358,014</u>	<u>435,372</u>	<u>12,270,375</u>	<u>8,938,149</u>	<u>13,411,767</u>	<u>12,307,372</u>

#### Financial liabilities

	Bahrain Dinars		Saudi Riyals		Total	
	2020	2019	2020	2019	2020	2019
Term loans	-	-	30,774,566	31,749,928	30,774,566	31,749,928
Trade and other payables (excluding employee benefits)	898,860	801,487	4,904,447	3,678,015	5,803,307	4,479,502
	<u>898,860</u>	<u>801,487</u>	<u>35,679,013</u>	<u>35,427,943</u>	<u>36,577,873</u>	<u>36,229,430</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 31. Financial assets and liabilities and risk management (continued)

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is mainly exposed to credit risk in respect of its credit sales and cash and cash equivalents. In respect of credit sales, it is the practice of the Group to evaluate each new customer for credit worthiness before entering into contracts. The management also regularly monitors the credit worthiness of its existing customers through review of trade receivables ageing analysis. The Group mainly provides credit only to large size, established and well-known companies. Concentrations of credit risk with respect to trade receivables are limited due to the Group's small number of customers that have a variety of end markets in which they operate. The management believe that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables. In respect of its bank balance, cash is placed with national and multi-national banks with good credit ratings.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases, may take steps to mitigate such risks if it is sufficiently concentrated. The carrying amounts of the financial assets represent the Group's maximum exposure to credit risk.

A significant amount of bank balances is held with the following institutions:

	Rating as at 31 December 2020	Balance as at 31 December 2020	Rating as at 31 December 2019	Balance as at 31 December 2019
Ahli United Bank	BBB-1	49,305	BBB-1	122,841
Arab Banking Corporation	BBB-1	37,248	BBB-1	37,311
Arab National Bank	N.A2	342,091	N.A2	2,153,166
Ithmaar Bank	N.A2	1,697,132	N.A2	1,796,695
Various	N.A2	1,477,731	N.A2	2,218,221

1 Fitch's long term issuer default rating

2 Rating not available

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table sets out the fair value hierarchy of financial instruments measured at fair value on recurring basis along with valuation techniques and significant unobservable inputs used in determining the fair value measurement of financial instruments as well as the inter-relationship between unobservable inputs and fair value:

	<u>Fair value at 31 December</u>	<u>Level of hierarchy</u>	<u>Valuation technique used and key inputs</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between unobservable inputs and fair value</u>
Financial assets at fair value through profit or loss	BD256,000 (2019: BD256,000)	L1	Quoted prices from stock exchanges	Not applicable	Not applicable

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 32. Related parties transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the shareholders, key management personnel and their close family members and such other companies over which the Group or its shareholders, key management personnel and their close family members can exercise significant influence or can be significantly influenced by those parties. Transactions with the related parties are authorised by the management on an arm's length basis. Further, there are no loans due from any of the Directors of the Group.

#### *Key management personnel compensation*

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group including the Chief Executive Officer of the Group.

	Year ended 31 December <u>2020</u>	Year ended 31 December <u>2019</u>
Directors' sitting fees (Note 29)	<u>-</u>	<u>7,800</u>
Remuneration to key management personnel	<u>93,600</u>	<u>109,900</u>

A summary of significant transactions with the associate:

	Year ended 31 December <u>2020</u>	Year ended 31 December <u>2019</u>
Share of profit for the year	<u>126,679</u>	<u>16,876</u>

### 33 Notes supporting statement of cash flows

IAS 7 "Statement of Cash Flows" requires additional disclosures about changes in an entity's financing liabilities arising from both cash flow and non-cash flow items.

	1 January <u>2020</u>	Obtained during the year	Finance cost accrued	Principal repaid during the year	Finance costs paid	31 December <u>2020</u>
Term loans	<u>31,749,928</u>	<u>8,029,561</u>	<u>270,810</u>	<u>(9,004,923)</u>	<u>(270,810)</u>	<u>30,774,566</u>
	1 January <u>2019</u>	Obtained during the year	Finance cost accrued	Principal repaid during the year	Finance costs paid	31 December <u>2019</u>
Term loans	<u>28,561,745</u>	<u>8,031,201</u>	<u>264,129</u>	<u>(4,843,018)</u>	<u>(264,129)</u>	<u>31,749,928</u>

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 34. Events after the reporting period

The World Health Organisation (WHO) had declared the outbreak of a novel coronavirus - Covid19 as a pandemic during the previous year and as of date, the virus continues to spread globally. This outbreak has made many countries to take several restrictive measures such as limiting travelling, limiting operational hours and implementing lockdowns to control the spread. This has caused disruption across several commercial activities, impacted several industries and investments in the bonds and equities during the year ended 31 December 2020.

Even subsequent to the year-end till this point in time, the COVID19 related restrictions continue to have impact in the geographical location in which the Group operates. The extent of the disruption on the Group's operation is uncertain and is difficult to estimate. Management is actively assessing the situation and will take necessary mitigating action to minimise the impact on Group's operation, financial position and liquidity in the fiscal year 2021.

Other than the above, there were no significant events subsequent to 31 December 2020 and occurring before the date of the report that are expected to have a significant impact on these consolidated financial statements.

### 35. Zakat

The subsidiary of the Company has accrued the amount of Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (GAZT), Kingdom of Saudi Arabia. The Saudi shareholders of the subsidiary will be liable for the payment of Zakat (SABAYEK).

### 36. Significant events and transactions

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, a Group has experienced significant disruption to its operations in the following respects:

- Decreased demand in domestic market for certain products as a consequence of social distancing requirements and recommendations;
- Decreased demand for products has compelled to Group to reduce selling price by 20%;
- Closure of international borders has significantly disrupted overseas sales of Group's primary products; and
- Significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for Group's primary products.

Based on the nature of operations and the industry in which it operates, the Group's management assessed the significant impact of COVID-19 in the below areas:

- Increase in sales;
- Government grants; and
- Commitments and contingencies.

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Expressed in Bahrain Dinars)

### 36. Significant events and transactions

#### a) Increase in sales and cash flows;

The Group has experienced elevation in sales which is represented by one of the subsidiaries, SABAYEK since pandemic effect was widespread during the year ended 31 December 2020. The principal activities of SABAYEK include the production and marketing of ferro silicon, ferro manganese, silicon manganese, silicon and micro silicate. While there was a decrease in demand of primary products in the domestic market, overseas sales increased as the Group has dropped its selling prices of certain products in the last quarter of 2020 while increasing the volume causing the increase in sales by 8% as compared to prior year.

#### b) Government grants

The Group has applied for Government support programs introduced in response to the global pandemic. The Group has received a Government grant of BD158,306 to support the payroll of the Group's employees, electricity and water charges. The Group has elected to present this Government grant by reducing the related expenses. The Group had to commit to spending the assistance on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have any unfulfilled obligations relating to this program.

#### c) Commitments and contingent liabilities

The Group has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among the Group, customers and suppliers, with a view of potential increase in contingent liabilities and commitments and no issues were noted.

The below table summarises the impact of COVID-19 for the year ended 31 December 2020:

<u>Financial statement area</u>	<u>Nature of impact</u>	<u>Amount in BD</u>
Sales	Increase	2,561,160
Government grant	Increase	158,306

No other significant impact has been noted by the management on other financial statement areas during the year ended 31 December 2020.