United Gulf Investment Corporation B.S.C.

Consolidated financial statements
for the year ended 31 December 2018

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

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 December 2018

On behalf of the Board of Directors and employees of United Gulf Investment Corporation (UGIC)I would like to review the annual report and financial results of the company for the year ended on 31 December 2018.

First, the net profit of the Group amounted to BD130,231 before Zakat provision of BD559,380 therefore incurring a net loss of BD429,149 for year 2018.

On the local market side, year 2018 was flashed by implementation of VAT in Saudi Arabia that affected the business sector and the trend of development, the year-end results were impacted by the reaction of the market as well as the reduction in building and construction sector that affect the demand for steel products finished goods, that is considered the main industry client for the Group operations in Saudi Arabia. On the international market side, the results of the Group were impacted in the fourth quarter of 2018 when India has started entering elections for year 2019 that resulted in its currency depreciation and reduction in prices of commodities that are linked to, which are considered the main products that the Group produces. This came in parallel with the shutdown of the furnaces of Sabayek for maintenance purposes for about 2 months in 2018.

UGIC results were still below expectations where its subsidiary "Gulf Ferro Alloys Company- SABAYEK" or "SABAYEK", which specializes in metal alloys is still suffering from the brunt of foreign imports, which come into GCC countries at cheaper prices, particularly to the UAE market. UGIC Group results were impacted by this continuous pressure on SABAYEK. SABAYEK sales amounted to SR406 million for 2018 down from SR439 million in year 2017.

We look forward to considering reasonable measures through the Gulf Cooperation Council ("GCC")for the dumping of imports from some countries in our market. This is to support and develop this strategic developing GCC industry.

SABAYEK has started diversifying its products to further reduce risk, where 2 additional products were added in year 2018 and we hope to add another 2 products in year 2019. SABAYEK is also working on development, implementation and adaptation of modern technological trends to improve its profit margins. Despite the difficulties it is facing, this industry has started utilizing local GCC raw material to add to the integration of the economy of the GCC countries 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 industry in the GCC, which will hopefully 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 GCC countries. We are optimistic about the future of SABAYEK if support is obtained from authorities.

Second, during 2018, UGIC's share of profit in "Dhahran Chemical Industries and Marketing" or "DCIM" investments, amounted to BD26,559, down from BD105,791 in 2017. DCIM has completed acquiring 51% shares of Synthomer Dubai in July 2018, that had net profit of Dhms3.8 million in 2018, whereas, Synthomer Dammam recorded SR2.8 million profits in 2018. This steep reduction in profits resulted from fierce competition in Saudi Arabia in light of the drop in real estate and construction market accompanying it, along with the changes in KSA such as implementation of the VAT, hike in labour fees, dependent fees and others.

Third, it is expected that United Gulf Trading Company, a wholly-owned subsidiary of the Group, will endeavour its activities in new integrative fields in light of the overall strategy of United Gulf Investment Group, namely in the minerals ,mining, raw materials sector and the marketing of products in 2019 with grace of Allah. The work is progressively being developed in light of the company's vision and market dynamics.

Incorporated on 18/02/1991 Authorized Capital of BD 40 Million. Subscribed & Paid up capital of BD 20 Million. CR # 24377
Tel: (973) 17581654, Fax: (973) 17581644 Suite 3202, Al Moayyed Tower, Seef District, P.O. Box 10177, Manama, Kingdom of Bahrain
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Outlook:

DCIM expects 2019 to be difficult and accompanied by maintenance activities for many of its units that will be re-qualified to raise efficiency in the light of fierce competition with the reduction in the size of the domestic market. SABAYEK also expects the first half of 2019 to be difficult due to pressure from the depreciation of the Indian currency and commodities linked to it, after that it expects a gradual improvement during the second half of 2019, God willing. The Group, expects that the economic activity in 2019 will not be strong in the GCC countries due to the introduction of VAT in many countries for the first time in its history and therefore expect a negative change in the behaviour of local consumers. Moreover, it expects that there will be a global demand for goods, especially in the US market as a result of tax cuts. Accordingly, we expect the year 2019 to witness an increase in external demand relative to stability in GCC demand for the year 2019 for SABAYEK and United Gulf Trading Company. We expect the consolidated outcome of the 2019 to be close to 2018 for UGIC Group.

Appropriation/ Recommendations

Based on the financial results, the Board of Directors does not recommend to pay any cash dividends or taking provisions on current investments. Also, recommends continuous diversification in activities and products in subsidiaries and affiliated companies taking in consideration the directions of growth trends of private sector in the GCC countries for the year 2019 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 labor 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, His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Deputy Supreme Commander of the Defense Force, to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and his Royal Highness Crown Prince Mohammad bin Sakman of Kingdom of Saudi Arabia, and to their Majesties and Highnesses the leaders of the Gulf Cooperation (GCC) for their continuous support to us.

Our gratitude is also extended 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

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

Opinion

We have audited the consolidated financial statements of United Gulf Investment Corporation B.S.C. ("the Group") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018. 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 21 and other income as disclosed in Note 23 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 as financial assets at fair value through profit or loss as disclosed in Notes 9 of 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.

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

Other information
Management is responsible for the other information. The other information comprises the Annual Report and 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.

Those Charged With Governance 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.

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.

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

- 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.

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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, Decree Number 21 of 2001, 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 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 Order No. (19) of 2018 issued on 29 March 2018 in respect of Article 8 of section 2 of Chapter 1 of the Bahrain Corporate Governance Code, we report that:

(1) the Company has appointed a Corporate Governance Officer; and
(2) the Company 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, Decree Number 21 of 2001, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) rules and procedures of the Bahrain Bourse or its Articles of Association, which would materially affect its activities, or its financial position as at 31 December 2018.

BDO

Manama, Kingdom of Bahrain
26 February 2019

BDO Public Accountants Reg. No. 151 Nair Venkitachalam Viswanath

United Gulf Investment Corporation B.S.C.
Consolidated statement of financial position as at 31 December 2018
(Expressed in Bahrain Dinars)

	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	37,493,410	39,736,965
Investment in an associate	7	913,107	886,548
		38,406,517	40,623,513
Current assets			
Financial assets at fair value through profit or loss	9	256,000	256,000
Inventories	10	16,275,306	17,357,933
Trade and other receivables	11	4,803,676	5,629,782
Mudaraba deposits	12	2,142,934	2,195,717
Cash and bank balances	13	10,418,816	8,167,224
		33,896,732	33,606,656
Total assets		72,303,249	74,230,169
EQUITY AND LIABILITIES			
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	6,484,698	7,182,182
Equity attributable to the shareholders of the Parent Company		29,454,629	30,152,113
Non-controlling interest	17	7,249,613	7,443,888
		36,704,242	37,596,001
Non-current liabilities			
Non-current portion of term loans	18	25,127,745	28,527,188
Employees' terminal benefits	19	593,023	544,668
		25,720,768	29,071,856
Current liabilities			
Current portion of term loans	18	3,434,000	2,929,000
Trade and other payables	20	6,444,239	4,633,312
		9,878,239	7,562,312
Total equity and liabilities		72,303,249	74,230,169

The consolidated financial statements, set out on pages 9 to 47, were approved and authorised for issue by the Board of Directors on 26 February 2019 and signed on their behalf by:

Rashed Abdullla Al Suwaiket Al Hajri
Chairman

Abdulla Fahad. Al-Subaie
Vice - Chairman

United Gulf Investment Corporation B.S.C.
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018
(Expressed in Bahrain Dinars)

	Notes	2018	2017
Sales	21	41,005,001	44,342,601
Cost of sales	22	(39,406,073)	(42,586,851)
Gross profit		1,598,928	1,755,750
Other income	23	190,807	53,264
		1,789,735	1,809,014
Expenses			
General and administrative expenses	24	(1,425,349)	(1,405,309)
Finance costs	25	(260,714)	(233,200)
		(1,686,063)	(1,638,509)
Net profit for the year before tax and share of profit from investment in an associate		103,672	170,505
Share of profit from investment in an associate	7	26,559	105,791
Net profit for the year before tax		130,231	276,296
Provision for Zakat	26	(559,380)	(517,832)
Net loss and total comprehensive loss for the year		(429,149)	(241,536)
Net loss and total comprehensive loss for the year attributable to:			
Shareholders of the Parent Company		(347,381)	(191,937)
Non-controlling interest	17	(81,768)	(49,599)
		(429,149)	(241,536)
Basic and diluted losses per share attributable to shareholders of the Company	27	(1.74 fils)	(0.96 fils)

The consolidated financial statements, set out on pages 9 to 47, were approved and authorised for issue by the Board of Directors on 26 February 2019 and signed on their behalf by:

Rashed Abdullla Al Suwaiket Al Hajri
Chairman

Abdulla Fahad Al-Subaie
Vice - Chairman

United Gulf Investment Corporation B.S.C.
Consolidated statement of changes in shareholders' equity for the year ended 31 December 2018
(Expressed in Bahrain Dinars)

		Attributable to the shareholders of the Parent Company							
					Other reserves				
	Note	Share capital	Statutory reserve	Share premium	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total
At 31 December 2016		20,000,000	2,853,603	116,328	4,329,043	3,045,076	30,344,050	7,493,487	37,837,537
Transferred during the year									
Total comprehensive loss for the year		-	-	-	-	(191,937)	(191,937)	(49,599)	(241,536)
At 31 December 2017		20,000,000	2,853,603	116,328	4,329,043	2,853,139	30,152,113	7,443,888	37,596,001
Effect of adoption of IFRS 9	3	-	-	-	-	(350,103)	(350,103)	(112,507)	(462,610)
Adjusted balance at 1 January 2018		20,000,000	2,853,603	116,328	4,329,043	2,503,036	29,802,010	7,331,381	37,133,391
Total comprehensive loss for the year		-	-	-	-	(347,381)	(347,381)	(81,768)	(429,149)
At 31 December 2018		20,000,000	2,853,603	116,328	4,329,043	2,155,655	29,454,629	7,249,613	36,704,242

United Gulf Investment Corporation B.S.C.
Consolidated statement of cash flows for the year ended 31 December 2018
(Expressed in Bahrain Dinars)

	Notes	2018	2017
Operating activities			
Net loss for the year		(429,149)	(241,536)
Adjustments for:			
Depreciation	6	2,341,335	2,626,106
Share of profit from investment in an associate	7	(26,559)	(105,791)
Impairment loss on trade receivables		(462,610)	-
Bank interest income	23	(68,571)	(31,792)
Finance costs	25	260,714	233,200
Changes in operating assets and liabilities:			
Inventories		1,082,627	2,049,265
Trade and other receivables		826,106	908,097
Trade and other payables		1,810,927	1,069,564
Employees' terminal benefits, net		48,355	36,823
Net cash provided by operating activities		5,383,175	6,543,936
Investing activities			
Purchase of property, plant and equipment	6	(97,780)	(409,950)
Dividends received from investment in an associate	7	-	80,580
Net movement in Mudaraba deposits		52,783	(2,195,717)
Bank interest income received	23	68,571	31,792
Net cash Provided by/(used in) investing activities		23,574	(2,493,295)
Financing activities			
Finance costs paid	25	(260,714)	(233,200)
Repayment of term loans	33	(2,894,443)	(2,777,500)
Net cash used in financing activities		(3,155,157)	(3,010,700)
Net increase in cash and cash equivalents		2,251,592	1,039,941
Cash and cash equivalents, beginning of the year		8,167,224	7,127,283
Cash and cash equivalents, end of the year	13	10,418,816	8,167,224

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 and Commerce 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 Company owns 75.68% (2017: 75.68%) shareholding interest in Gulf Ferro Alloys Company (SABAYEK) W.L.L. and 100% in United Gulf Trading S.P.C ("the subsidiaries").

2 Structure of the Group

The structure of the Group is as follows:

Subsidiaries:

Name of the subsidiary	Country of incorporation	Proportion of ownership interest 31 December 2018	Non-controlling interest ownership /voting interest 31 December 2018
Gulf Ferro Alloys Company (SABAYEK) W.L.L.	Kingdom of Saudi Arabia	75.68% (2017: 75.68%)	24.32% (2017:24.32%)
United Gulf Trading S.P.C. (UGT)	Kingdom of Bahrain	100% (2017:100%)	- (2017: Nil)

The principal activities of the subsidiary (Sabayek) production and marketing of ferro silicon, ferro manganese, silicon manganese silicon and micro silicate.

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

The total assets, liabilities and net profit for the year of the subsidiaries have been extracted from unaudited management accounts prepared as at, and for the year ended, 31 December 2018.

The details of the company's investment in an associate is as follows:

Associate

Name of the associate	Country of incorporation	Description of shares held	Proportionate ownership interest held 2018	2017
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, Decree Number 21 of 2001 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 one of the subsidiaries is the 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, amendments and interpretations effective and adopted in 2018

The following new standards, amendment to existing standards or interpretations to published standards are mandatory for the first time for the financial year beginning 1 January 2018 and have been adopted in the preparation of the consolidated financial statements:

Standard or interpretation	Title	Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018

IFRS 9 - "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are as set out in Note 4. In accordance with the exemptions available as per the transitional provisions in IFRS 9, the standard is applied using the cumulative catch-up method and the comparative figures have not been restated.

3 Basis of *preparation* (continued)

Impact of adoption

a) Trade and other receivables

IFRS 9 has fundamentally changed the loan loss impairment methodology. The standard has replaced the incurred loss approach under IAS 39 with a forward-looking Expected Credit Loss (ECL) approach. The Group is required to record an allowance for expected losses for all trade receivables and other debt type financial assets not held at FVTPL. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group has established a policy to perform an assessment by considering the change in the risk of default occurring over the remaining life of the financial instrument. To calculate ECL, the Group has estimated the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between: the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the effective interest rate of the loan. The Group has applied an expected credit loss model to calculate impairment loss on its trade and other receivables and recorded an additional provision of BD462,610 on 1 January 2018.

The table below summarises the impact of transition to IFRS 9:

	Impact on adoption IFRS 9 on opening balance
Retained earnings as at 31 December 2017	2,853,139
Less : recognition of expected credit loss under IFRS 9 (excluding NCI)	(350,103)
Adjusted retained earnings as at 1 January 2018	2,503,036

The effect of adopting IFRS 9 on the carrying amounts as at 31 December 2017, the adjusted balances as at 1 January 2018 and each affected line items in the financial statements are as follow:

Consolidated statement of financial position	As reported under IAS 39	Effect	New amounts under IFRS 9	As at 31 December 2018
Trade and other receivables	5,177,977	(462,610)	4,715,367	4,803,676
Other reserves	7,182,182	(350,103)	6,832,079	6,484,698
Non-controlling interest	7,443,888	(112,507)	7,331,381	7,249,613
Consolidated statement of profit or loss and other comprehensive income	As reported under IAS 39	Effect	New amounts under IFRS 9	As at 31 December 2018
Provision of impaired trade receivables	-	462,610	462,610	374,301

3 Basis of preparation (continued)

IFSR 15- “Revenue from Contracts with Customers”

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Upon transition to IFRS 15 on 1 January 2018, there was no impact on the Group’s consolidated financial position and results of operations.

Standards, improvements, amendments and interpretations issued and effective but not relevant in 2018

The following new standards, improvements, amendments and interpretations issued by the IASB are effective for the first time for periods beginning on or after 1 January 2018 but have not been adopted as these are not considered to be relevant to the Group’s operation:

Standard or interpretation	Title	Effective for annual periods beginning on or after
IAS 28	Investments in associates and joint Ventures	1 January 2018
IAS 40	Investment property	1 January 2018
IFRS 1	First-time adoption of International Financial Reporting Standards	1 January 2018
IFRS 2	Share-based payment	1 January 2018
IFRS 4	Insurance contracts	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018

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.

3 Basis of preparation (continued)

New standards, interpretations and amendments issued but not yet effective in 2018

The following new accounting standards, interpretations and amendments have been issued, but are not mandatory and hence, have not been early adopted by the Group in preparing the financial statements for the year ended 31 December 2018. The Group intends to apply these standards from application date as indicated in the table below:

Standard or interpretation	Title	Effective for annual periods beginning on or after
IAS 12	Income taxes	1 January 2019
IAS 19	Employee benefits	1 January 2019
IAS 23	Borrowing costs	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
IFRS 11	Joint arrangements	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 3	Business combinations	1 January 2019
IFRS 9	Financial instruments	1 January 2019
IFRS 17	Insurance contracts	1 January 2021

There would have been no change in the financial position and operational results of the Group for the year ended 31 December 2018 had the Group early adopted any of the above standards applicable to the Group except for the adoption of IFRS 16 which is discussed below:

IFRS 16 "Leases"

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date. The Group is working towards implementation of IFRS 16 and intends to adopt this standard from 1 January 2019 and therefore will only recognise leases on balance sheet as at 1 January 2019. At 31 December 2018, operating lease commitments under existing accounting standard IAS 17 amounted to BD1,985,011 which may be different on adoption of IFRS 16 for the year ended 31 December 2019.

Instead of recognising an operating expense for its operating lease arrangements, the Group will recognise finance cost on its lease liabilities and amortisation on its right-of-use assets. This will increase the reported EBITDA by the amount of its operating lease cost.

4 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements is set out below. These policies have been constantly applied to all the years presented as stated below, except for those changes due to adoption of IFRS 9 and 15:

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 ("the Group") 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.

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

4 Significant accounting policies (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.

4 Significant accounting policies (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 in the following:

a) at fair value through other comprehensive income; and
b) 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 carried 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.

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.

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).

The Group's financial assets measured at amortised cost comprise of trade and other receivables and cash and bank balances in the consolidated statement of financial position.

Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalent comprise cash on hand 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.

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.

4 Significant accounting policies (continued)

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.

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 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.

Employees' 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.

4 Significant accounting policies (continued)

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

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 ,anganese, 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).

4 Significant accounting policies (continued)

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;
- Investment income foreign; and
- Investment income domestic.

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;

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 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;
- fair value measurement;
- revenue recognition; and
- contingencies.

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

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.

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

Financial assets

From 1 January 2018, 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.

During the year ended 31 December 2018, in the opinion of the management, an amount of BD374,301 is required for impaired trade receivables (2017: BD462,610).

Other non-financial assets

Impairment tests on goodwill are undertaken annually at the financial year-end. 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"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment changes are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

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

Inventories

The Group also creates provision for obsolete and slow-moving raw materials and consumable stores. At 31 December 2018, in the opinion of the Group's management, no provision is required for obsolete and slow-moving raw materials and consumable spares (2017: 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.

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 measurements 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 financial liabilities of the Group that either require fair value measurement or only fair value disclosures as at 31 December 2018 and 2017 is shown 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.

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.

6 Property, plant and equipment

	Building and leasehold land	Machinery and equipment	Furniture and fittings	Office equipment	Motor vehicles	Tools and lab equipment	Total
Cost							
At 31 December 2016	13,335,245	52,750,736	181,952	367,306	1,004,839	1,878,996	69,519,074
Additions	-	-	212	285,155	2,121	122,462	409,950
At 31 December 2017	13,335,245	52,750,736	182,164	652,461	1,006,960	2,001,458	69,929,024
Additions	18,635	10,952	707	4,778	16,160	46,548	97,780
At 31 December 2018	13,353,880	52,761,688	182,871	657,239	1,023,120	2,048,006	70,026,804
Accumulated depreciation							
At 31 December 2016	7,484,533	17,147,048	163,411	318,094	705,657	1,747,210	27,565,953
Charge for the year	416,285	2,022,459	297	11,831	151,476	23,758	2,626,106
At 31 December 2017	7,900,818	19,169,507	163,708	329,925	857,133	1,770,968	30,192,059
Charge for the year	420,011	1,691,806	291	64,044	118,033	47,150	2,341,335
At 31 December 2018	8,320,829	20,861,313	163,999	393,969	975,166	1,818,118	32,533,394
Net book amount							
At 31 December 2018	5,033,051	31,900,375	18,872	263,270	47,954	229,888	37,493,410
At 31 December 2017	5,434,427	33,581,229	18,456	322,536	149,827	230,490	39,736,965

The Company operates from premises rented at a monthly rent of BD1,707 (2017: BD1,707 per month).

The Group's Subsidiary operates from premises rented at a monthly rent of BD7,635 (2017: BD7,635 per month).

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 2018	31 December 2017
Cost of sales (Note 22)	2,172,308	2,369,080
General and administrative expenses (Note 24)	169,027	257,026
	2,341,335	2,626,106

7 Investment in an associate

	31 December 2018	31 December 2017
Opening balance	886,548	-
Transferred from available-for-sale investments (Note 8)	-	861,337
Dividends received during the year	-	(80,580)
Share of profit for the year	26,559	105,791
Closing balance	913,107	886,548

The investment in an associate represents the Group's 20% ownership interest in Dhahran Chemical Industries Marketing ("DCIM"). This associate owns 51% shareholding interest in Synthomer Middle East ("Synthomer"), which effectively give the Group an ownership control of 10.20% in Synthomer. The associate does not have any other major assets or liabilities other than its investment in Synthomer. The carrying value of the investment and the share of profit in an associate represents the Group's 10.20% effective ownership interest in Synthomer.

The Group's share in the net assets and results of operations of the associate has been extracted from the unaudited management accounts of Synthomer prepared as at, and for the year ended, 31 December 2018 and 2017. The carrying value of the investment in associate include the value of goodwill amounting to BD251,111 being excess consideration paid to acquire the associate. In the opinion of the management, the carrying value of goodwill is not impaired as at 31 December 2018.

During 2017, the Group has gained significant influence over the associate due to change in the composition of the associate's key management personnel. Accordingly, this investment has been re-classified as investment in an associate.

7 Investment in an associate

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

	31 December 2018	31 December 2017
As at 31 December		
Current assets	7,607,623	7,642,569
Non-current assets	2,705,386	2,371,985
Current liabilities	(3,822,850)	(3,784,779)
Net assets	6,490,159	6,229,775
Group's share of net asset (10.2%)	661,996	635,437
Goodwill	251,111	251,111
Carrying values as at 31 December	913,107	886,548
For the year ended 31 December		
Revenue	18,259,588	19,479,365
Net profit for the year	260,378	1,037,169
Total comprehensive income	260,378	1,037,169

8 Available-for-sale investments

	31 December 2018	31 December 2017
At 1 January	-	861,337
Transferred during the year (Note 7)	-	(861,337)
As at 31 December	-	-

During 2017, the Group has gained significant influence over the associate due to change in the composition of the associate's key management personnel. Accordingly, this investment has been re-classified as investment in an associate.

9 Financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Closing balance	256,000	256,000

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 Company 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

	31 December 2018	31 December 2017
Raw materials	7,159,115	6,385,219
Finished goods and work-in-process	6,680,320	8,670,317
Consumable spares	2,435,871	2,302,397
	16,275,306	17,357,933

11 Trade and other receivables

	31 December 2018	31 December 2017
Trade receivables	2,296,397	3,631,399
Less: provision for impairment of trade receivables	(374,301)	-
	1,922,096	3,631,399
Prepayments and other receivables	2,881,580	1,998,383
	4,803,676	5,629,782

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. In the opinion of the management, the fair value of the trade and other receivables is not expected to be significantly different from their carrying amount as at 31 December 2018 and 2017.

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

	31 December 2018	31 December 2017
Balance as at 31 December	-	-
Increase in provision for impaired trade receivables upon adoption of IFRS 9 (Note 3) on 1 January 2018	462,610	-
Adjusted balance as at 1 January 2018	462,610	-
Provision written back during the year(Note 23)	(88,309)	-
Balance as at 31 December	374,301	-

The Group applies the IFRS 9 simplified approach to measuring 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.

11 Trade and other receivables (continued)

On that basis, the allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

31 December 2018	0-90 days overdue	91-180 days overdue	181-360 days overdue	361-720 days overdue	721+ days overdue	Total
Expected loss rate	2.09%	21.18%	51.40%	74.32%	100.00%	
Trade receivables	18,512,727	96,074	131,250	993,935	2,493,331	22,227,317
Loss allowance	386,076	20,347	67,467	738,725	2,493,331	3,705,946

1 January 2018	0-90 days overdue	91-180 days overdue	181-360 days overdue	361-720 days overdue	721+ days overdue	Total
Expected loss rate	2.94%	22.87%	36.49%	46.71%	100.00%	
Trade receivables	29,564,860	1,311,359	125,008	2,980,315	1,972,903	35,954,445
Loss allowance	869,845	299,869	45,621	1,392,055	1,972,903	4,580,293

12 Mudaraba deposits

Mudaraba deposits represent deposits placed with financial institutions, earned profit rate of 3.25% per annum during 2018 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.

13 Cash and bank balances

	31 December 2018	31 December 2017
Balances in call and current accounts with banks	10,414,659	8,162,592
Cash on hand	4,157	4,632
	10,418,816	8,167,224

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

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

Currency	31 December 2018	31 December 2017
United States Dollars	8,472,640	4,826,633
Saudi Arabian Riyals	1,822,834	3,124,931
Bahrain Dinars	123,342	215,660
	10,418,816	8,167,224

14 Share capital

	31 December 2018	31 December 2017
Authorised		
400,000,000 shares of 100 fils each (2017: 400,000,000 shares of 100 fils each)	40,000,000	40,000,000
Issued and fully paid-up		
200,000,000 shares of 100 fils each (2017: 200,000,000 shares of 100 fils each)	20,000,000	20,000,000

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	Percentage of shareholding of interest 2018	2017
Mr Rashed Abdullah Al-Hajiri	Kingdom of Saudi Arabia	58,418,336	29.21%	29.21%

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

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

	Number of shareholders	Number of shares	Percentage of total outstanding shares 2018	2017
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%
	1,181	200,000,000	100.00%	100.00%

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

	31 December 2018	31 December 2017
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
	58,718,336	58,718,336

15 Statutory reserve

In accordance with the provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001, 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 2017, as Group incurred losses no amount has been transferred to the statutory reserve (2017: 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.

17 Non-controlling interest

	31 December 2018	31 December 2017
Opening Balance	7,443,888	7,493,487
Effect of adoption of IFRS 9	(112,507)	
Share of non-controlling interest in the total comprehensive loss of the subsidiary	(81,768)	(49,599)
Closing balance	7,249,613	7,443,888

17 Non-controlling interest (continued)

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

	Year ended 31 December 2018	Year ended 31 December 2017
Income statement items		
Sales	41,005,001	44,342,601
Cost of sales	(39,406,073)	(42,586,851)
Gross profit	1,598,928	1,755,750
Administrative expenses	(895,304)	(799,761)
Other expenses	(341,974)	(430,374)
Operating profit	361,650	525,615
Other income	122,236	21,472
Finance expense	(260,714)	(233,200)
Net profit before tax	223,172	313,887
Provision for zakat	(559,380)	(517,832)
Net loss after tax	(336,208)	(203,945)
Net loss and total comprehensive loss allocated to non-controlling interest	(81,768)	(49,599)
Cash flow statement items		
Cash flows from operating activities	3,771,257	3,215,541
Cash flows from investing activities	(92,644)	(352,295)
Cash flows from financing activities	(1,010,000)	(1,515,000)
Net cash inflows	2,668,613	1,348,246

	31 December 2018	31 December 2017
Assets:		
Property, plant and equipment	33,162,247	35,406,402
Inventories	16,275,306	17,357,933
Trade and other receivables	6,817,961	7,594,864
Cash and cash equivalents	8,524,368	5,877,184
Liabilities:		
Trade and other payables	5,458,089	2,895,636
Term loans	28,561,745	32,203,010
Provisions	576,469	529,643
Accumulated non-controlling interests	7,249,613	7,443,888

18 Term loans

	31 December 2018	31 December 2017
Saudi Industrial Development Fund 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 on ending 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).	20,614,100	21,624,100
Saudi Electric Company 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 2018, SAR2 million from November 2018 to March 2021 including the final instalment of SAR1.1 million in accordance with the repayment schedule.	7,947,645	9,832,088
	28,561,745	31,456,188
Less: current portion of term loans	(3,434,000)	(2,929,000)
Non-current portion of term loans	25,127,745	28,527,188

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 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 2018 amounted to BD9,120 (2017: BD10,589).

Expatriate employees

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

	31 December 2018	31 December 2017
Opening balance	544,668	507,845
Accruals for the year	72,007	77,618
Payments during the year	(23,652)	(40,795)
Closing balance	593,023	544,668
Number of staff employed by the Group	99	131

The employees' terminal benefits accrued in the accounting records of the subsidiary in accordance with the Saudi Labour and Workmen Law amounted to BD529,643 (2016: BD496,087).

20 Trade and other payables

	31 December 2018	31 December 2017
Trade payables	3,068,587	1,275,142
Accruals and other payables	3,375,652	3,358,170
	6,444,239	4,633,312

Trade payables are normally settled within 30 days from the suppliers' invoice date and are mainly in Saudi Arabian Riyals and Bahrain Dinars.

Accrued and other payables include the amount payable to Saudi Electricity Co. (SEC) by the subsidiary is for the electrical power supply to the subsidiary and cost of the Jubail electricity station expansion. During 2014, the Group renegotiated the term of repayment of the power supply dues, resulting in payments over 24 equal monthly instalments of BD141,400 each starting from 3 November 2014 and ended 3 October 2016. At year end 2016 the Company has agreed to make instalment for SEC regarding outstanding liability of 2015 and 2016 in vary instalments. Company has paid its dues as per schedule during 2018.

Accruals and other payables include the zakat and income tax payable by the subsidiary (Note 26).

21 Sales

	Year ended 31 December 2018	Year ended 31 December 2017
Domestic sales (Kingdom of Saudi Arabia)	26,708,019	24,225,454
Gulf Co-operation Countries (GCC) sales	2,384,633	5,747,323
Foreign sales	11,912,349	14,369,824
	41,005,001	44,342,601

Sales represents income generated from activities relating to business unit service within the SMS Group recognised at a point in time in the following major product lines:

Year ended 31 December 2018	Total
Product type	
Silico manganese	37,519,410
Ferro manganese	3,485,591
	41,005,001
Contract counterparties	
Direct to customers	41,005,001
Timing of revenue recognition	
At a point in time	41,005,001

This represents the sales made by the subsidiary of the Company.

22 Cost of sales

	Year ended 31 December 2018	Year ended 31 December 2017
Raw materials consumed	25,914,123	27,774,828
Depreciation (Note 6)	2,172,308	2,369,080
Other direct costs	11,319,642	12,442,943
	39,406,073	42,586,851

This represents the cost of sales made by the subsidiary of the Company.

23 Other income

	Year ended 31 December 2018	Year ended 31 December 2017
Provision for trade receivable written back (Note 11)	88,309	-
Bank interest income	68,571	31,792
Miscellaneous income	33,927	21,472
	190,807	53,264

24 General and administrative expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Staff costs	374,377	380,761
Depreciation (Note 6)	169,027	257,026
Directors' sitting fees (Note 28)	8,244	7,200
Other administrative expenses	873,701	760,322
	1,425,349	1,405,309

25 Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
Interest on term loans	260,714	233,200

26 Provision for Zakat

	Year ended 31 December 2018	Year ended 31 December 2017
Provision for Zakat	559,380	517,832

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.

As at 31 December 2018, in the opinion of Group's management, a provision of BD221,898 (equivalent to SAR2,197,009) is required for Zakat and income tax (2017: BD1,017,832 equivalents to SAR10,077,545).

27 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 2018	Year ended 31 December 2017
Net loss attributable to the shareholders of the Parent Company	(347,381)	(191,937)
Weighted average number of ordinary shares in issue during the year	200,000,000	200,000,000
Basic and diluted losses per share	(1.74fils)	(0.96 fils)

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

28 Dividends and directors' remuneration

Declared and paid

The Board of Directors did not declare dividends to the shareholders during the year ended 31 December 2018 (2017: 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 2018 (2017: BDNil). This is subject to the approval by the shareholders in their Annual General Meeting.

Directors' sitting fees

An amount of BD8,244 has been accrued and expensed as Directors' sitting fees for the year ended 31 December 2018 (2017: BD7,200). The payment was approved by the shareholders in the Annual General Meeting held on 4 April 2018.

29 Operating lease commitments

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Not later than 1 year	100,150	100,150
Between one year and five years	366,464	366,464
Later than five year	1,526,932	1,710,163
	1,993,546	2,176,777

30 Segmental information

Business segments

As at, and for the year ended 31 December 2018	**Smelting**	**Investment activities**	**Total**
Revenue	41,005,001	-	41,005,001
Other income	122,236	63,137	185,373
Operating costs	(39,406,073)	-	(39,406,073)
Provision for Zakat	(559,380)	-	(559,380)
Segment profit	1,161,784	63,137	1,224,921
Other income			5,434
Share of profit from investment in an associate			26,559
Other expenses			(1,686,063)
Net loss for the year			(429,149)

30 Segmental information (continued)

Business segments (continued)

Assets and liabilities	Smelting	Investment activities	Total
Addition to non-current asset	97,180	-	97,180
Total segment assets	64,779,882	7,523,367	72,303,249
Total segment liabilities	34,589,895	1,009,112	35,599,007

As at, and for the year ended 31 December 2017	Smelting	Investment activities	Total
Revenue	44,342,601	-	44,342,601
Other income	21,472	31,792	53,264
Operating costs	(42,586,851)	-	(42,586,851)
Provision for Zakat	(517,832)	-	(517,832)
Segment profit	1,259,390	31,792	1,291,182
Share of profit from investment in an associate			105,791
Other expenses			(1,638,509)
Net loss for the year			(241,536)

Assets and liabilities	Smelting	Investment activities	Total
Addition to non-current asset	409,950	-	409,950
Total segment assets	66,236,383	7,993,786	74,230,169
Total segment liabilities	35,622,356	1,011,812	36,634,168

Geographical segments - secondary reporting format

	Segment assets		Segment liabilities	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Kingdom of Bahrain	7,523,367	7,993,786	1,009,112	1,011,812
Kingdom of Saudi Arabia	64,779,882	66,236,383	34,589,895	35,622,356
	72,303,249	74,230,169	35,599,007	36,634,168

31 Financial assets and liabilities and risk management

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 2018 and 2017.

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, 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 2018	31 December 2017
Term loans	28,561,745	31,456,188
Trade and other payables	6,444,239	4,633,312
Less: cash and bank balances	(10,418,816)	(8,167,224)
Net debt	24,587,168	27,922,276
Share capital	20,000,000	20,000,000
Statutory reserve	2,853,603	2,853,603
Share premium	116,328	116,328
Other reserves	6,484,698	7,182,182
Equity attributable to shareholders of the Company	29,454,629	30,152,113
Total capital and net debt	54,041,797	58,074,389
Gearing ratio	45.50%	48.08%

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.

31 Financial assets and liabilities and risk management (continued)

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.

At 31 December 2018	Total	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	More than 2 years
Interest bearing	28,561,745	858,501	2,575,503	3,434,000	21,693,741
Non-interest bearing	5,458,089	5,458,089	-	-	-
	34,019,834	6,316,590	2,575,503	3,434,000	21,693,741

At 31 December 2017	Total	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	More than 2 years
Interest bearing	31,456,188	732,249	2,196,747	2,929,000	25,598,192
Non-interest bearing	4,535,942	4,535,942	-	-	-
	35,992,130	5,268,191	2,196,747	2,929,000	25,598,192

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 2018 and 2017, in the opinion the management, operational risk exposures are considered to be acceptable in the circumstance.

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.

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.

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.

31 Financial assets and liabilities and risk management (continued)

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 believes 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 2018, all other variables held constant, would have resulted to an increase/decrease in profit or loss of BD12,800 (2017: BD12,800) and net assets will correspondingly increase/decrease by the same amount.

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.

31 Financial assets and liabilities and risk management (continued)

As at 31 December 2018 and 2017, 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Trade and other receivables (excluding prepayments)	-	-		-	4,671,649	5,564,341	4,671,649	5,564,341
Cash and bank balances	1,822,834	4,826,633	123,342	215,660	8,472,640	3,124,931	10,418,816	8,167,224
Investment in an associate	-	-	-	-	913,107	886,548	913,107	886,548
Financial assets at fair value through profit or loss	-	-	256,000	256,000	-	-	256,000	256,000
	1,822,834	4,826,633	379,342	471,660	14,057,396	9,575,820	16,259,572	14,874,113

Financial liabilities

	Bahrain Dinars		Saudi Riyals		Total	
	2018	2017	2018	2017	2018	2017
Term loans	-	-	28,561,745	31,456,188	28,561,745	31,456,188
Trade and other payables (excluding employee benefits)	986,167	990,884	5,384,161	3,580,953	6,370,328	4,571,837
	986,167	990,884	33,945,906	35,037,141	34,932,073	36,028,025

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 2018	Balance as at 31 December 2018	Rating as at 31 December 2017	Balance as at 31 December 2017
Ahli United Bank	BB+[3]	34,960	BBB+[2]	44,206
Arab Banking Corporation	BBB-[3]	37,374	BBB-[3]	896,737
Arab National Bank	N.A[4]	9,060,068	N.A[4]	7,021,442
Ithmaar Bank	N.A[4]	1,944,514	N.A[4]	2,086,578
Samba Financial Group	N.A[4]	58,785	A+[2]	44,908
Various	N.A[4]	1,426,048	N.A[4]	269,069

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.

Financial instruments not measured at fair value on recurring basis but for which fair value needs to be disclosed include trade and other receivables (excluding prepayments), cash and bank balance, current portion of term loans and trade and other payables (excluding employee benefits). The fair value of long-term portion of term loans has been estimated based on the expected contractual future cash flows at the current market interest rates. In the opinion of the management, due to the nature of these financial instruments, the fair value of these financial instruments is not significantly different from their carrying amounts as at 31 December 2018 and 2017.

31 Financial assets and liabilities and risk management (continued)

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:

	Fair value at 31 December	Level of hierarchy	Valuation technique used and key inputs	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value
Financial assets at fair value through profit or loss	BD256,000 (2017: BD256,000)	L1	Quoted prices from stock exchanges	Not applicable	Not applicable
Investment in an associate	BD913,107 (2017: BD886,548)	L2	Prices from market participants	Not applicable	Not applicable

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 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 2018	Year ended 31 December 2017
Directors' sitting fees (Note 28)	8,244	7,200
Remuneration to key management personnel	109,900	109,900

A summary of significant transactions with the associate:

	Year ended 31 December 2018	Year ended 31 December 2017
Share of profit for the year	26,559	105,791
Dividends received during the year	-	80,580

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 2018	Obtained during the year	Finance cost accrued	Principal repaid during the year	Finance costs paid	31 December 2018
Term loans	31,456,188	9,975,659	260,714	(12,870,102)	(260,714)	28,561,745

	1 January 2017	Obtained during the year	Finance cost accrued	Principal repaid during the year	Finance costs paid	31 December 2017
Term loans	34,233,688	6,607,340	233,200	(9,384,840)	(233,200)	3,1456,188

34 Events after the reporting period

There were no events occurring subsequent to 31 December 2018 and 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).