

Report of the Board of Directors for 2021

In the name of Allah, Most Gracious, Most Merciful

The year 2021 witnessed drastic fluctuations in global markets as a result of the continuation of the Covid-19 pandemic and its impact on the global economy and the ease of trade movement globally. The impact on food and consumer goods was huge, where reports by the World Food Organization (FAO) indicated that food prices on average rose by not less than 28% compared to the previous year, and freight charges rose by about 400% from some ports, especially from the Far East and Latin America. Accordingly, global inflation has reached a level that the world has not seen in more than ten years.

The local markets in the Kingdom of Bahrain were not spared from these exceptional circumstances, and the region was affected by the interruption of the food supply chain, the delay of shipments, and the attempt of the food merchants sector under the pressure of the decline in the volume of sales and the fear of the expiry dates of some goods, to dispose the stock at less than the cost, which negatively affected the gross profit margin in the first half of the year.

The group continued its commercial operations unabated, and despite some disruption in import operations and delay in shipments, we managed to maintain our market share in the basic commodities that we deal with; such as frozen chicken, dairy products, canned goods, grains, and catering supply commitments for some public and private institutions, albeit with a slight decline in the overall Sales volume. The total sales this year amounted to BD 35.72m compared to BD 36.87m in the previous year, with a decrease of 3% and the net profit attributable to the group's shareholders amounted to BD 1.30m, compared to BD 1.44m in 2020, with a decrease of 10%.

During the year, the Board of Directors approved the retirement of the former CEO, Mr. Sridhar, who served the company for 28 years, thanking him for his meritorious service and wishing him happy life. At the same time, Mr. Azzam Moutragi, a Bahraini national, was appointed starting from May 2021, who had served in several positions in the company, since he joined in 2005. He has long experience in the FMCG operations, sales & marketing, whether within the Kingdom of Bahrain or in other GCC countries. The Board of Directors hopes he will have a positive role in the management of the group during the coming period.

Also, during this year the Board of Directors took a decision to transform the company (Metro Markets W.L.L.), which was 100% owned by the group and specialized in retail branches, to a department of the parent company and to cancel its separate commercial registration as an independent entity and restructure the management and its activities to maintain the current retail outlets and to focus in the coming period on wholesale points and catering services. We hope that this decision in terms of reducing the overhead expenses and focusing on wholesale services will have positive results for the benefit of the group.

Awal Dairy Company W.L.L.

The sister company's total sales for this year amounted to BD 15.10m compared to BD 14.70 in the previous year, with an increase of 2.65%. The performance of the company's branches in both the State of Kuwait and the Eastern Province in the Kingdom of Saudi Arabia was commendable with improved revenue despite the intense competition for our products in those countries. The increase of the value added tax in Saudi Arabia from 5% to 15% had a noticeable impact on the sales volume, especially for small packages of dairy products, juices and ice cream. The cost of raw materials used in production and paper packaging increased significantly, and after the company gradually depleted its purchased stock at previous prices, especially in the second half of the year, the impact of the cost increase on the product began and the gross profit margin declined significantly. More so, since the company relies entirely on importing materials from international markets. During the last quarter of the year, some companies decided to raise the selling prices of many of the products available in the Bahrain markets. The Board of Directors decided at the time to keep the selling prices on our products on the shelves unchanged, which supported the company and its products garnered a good reputation among the consumers in the Kingdom of Bahrain. We noticed a remarkable increase in the sales volume of some dairy products. Although this decision was in favor of consumers, the continued rise in international prices of dairy raw materials significantly reduced the profit margin, and the company's management hopes that the increase in sales volume will cover a part of this decline.

The company plans to increase its investments in this sector. During the new year, it is expected that new equipment will be purchased and installed to have additional production lines, especially for filling tomato paste, costing approximately BD 750k. The company is also continuing its operations of exporting to countries in the region and some African countries, and it has also obtained new contracts to fill private label products under the trade names of some international and local companies, which reassure the quality of the company's products and the confidence of our customers.

Bahrain Water Bottling and Beverage Company W.L.L.

The bottled water market sector witnessed additional competition and a price war, especially due to the decline in sales in the hotel sector and catering companies, the increase in the number of factories that produce bottled water in the Kingdom of Bahrain, and the focus on retail sales and direct selling to consumers, and therefore wholesale prices recorded a noticeable decline. As a result, although the company continues to obtain orders to fill water under different brands of third parties, the total sales decreased compared to the previous year by 4.82% from BD 1.60m to BD 1.52m this year, and the significant decline in the profit margin had a greater impact on the net profit, which fell sharply from BD 42k to BD 20k this year. The management expects better results during the coming year, as the equipment and machines that were previously purchased will be completely installed in the coming months, which will raise the production capacity of the factory by about 75% to meet the increasing demand.

Trafco Logistics Company W.L.L.:

The demand for logistics and warehousing services for refrigerated and frozen goods continued to grow in the first quarter of the fiscal year, with a decrease in the stock of suppliers and wholesalers, disruption in the supply chain and delays in the shipping sector. There was a decline in the middle of the year, but the demand for storage increased in the last quarter of the year and continued with the beginning of this new year. The company recorded a total storage fee for the year of about BD 782k, a decrease of 3% from the previous year, while the company's net profit decreased by a greater percentage, as it reached BD 66k this year, compared to BD 106k the previous year, noting that the company had benefited in 2020 from Government support for the COVID-19 pandemic against nil support this year.

The company's management plans to expand with the construction of new warehouses in its location in the land leased from Edamah in Samaheej area in Muharraq, after an agreement with the landowners to extend the lease for an additional period of 15 years, as was announced earlier. The management hopes that it will complete the planning procedures, the preparation of drawings, and the tendering of the project before the middle of the current year. The group's board of directors approved a budget of BD 2 million for construction and equipment for this project.

Bahrain Fresh Fruits Company W.L.L.:

The overall performance of this company, wholly owned by the group, has improved as a result of re-arranging and restructuring the management, focusing on fast moving consumer goods and working to reduce administrative expenses. As a result, the company achieved a net profit of BD 24k, compared to loss of BD (5k) in the previous year, and recorded total sales of BD 2.10m, with a decrease of 2.28% for the corresponding period.

Bahrain Livestock Company W.L.L.:

The total sales of this sister company were significantly affected as a result of the sharp decline in sales in the catering sector and sales to hotels and restaurants during the year due to the impact of the Covid-19 pandemic and the complete or partial closure of restaurants for intermittent periods. The disruption in supply chain and the flow of goods and the risks of increasing inventory and expiry dates, in addition to the steady rise in the prices of food commodities that it deals with, caused a decrease in the volume of imports and stocks, and the company continued to rely on buying locally as needed, which meant a decrease in the profit margin. As for fresh and chilled meat, the company continued its operations and was able during the year, especially during the holiday season, to intensify work in the company's central slaughterhouse and to import several shipments of live sheep from different sources.

Issues Related to Corporate Governance Process:

The group complies with all the requirements of governance, and there are specialized committees from the board of directors and the executive management that follow up on these matters periodically and take the necessary measures to implement any instructions or observations made by the supervisory or financial control authorities and the internal or external auditor. The attached financial report shows in detail the group's commitment to the requirements of governance and information about the members of the board of directors, their activities and their participation in the group's committees or companies. The Board of Directors would also like to inform the shareholders that some members of the Board of Directors in their personal capacity have an interest or have stakes in companies that have been engaged, for a long time, in similar business to some or all of the goods and activities of the Group and its subsidiaries. At the same time, the Board of Directors confirms that all transactions with All relevant parties, including members of the board of directors or companies in which they have an interest, are

carried out in full transparency and on a purely commercial basis. The volume of transactions with related parties during the year is included in the financial statements for review.

In compliance with the requirements of the Companies Law and in implementation of the decisions of the supervisory authorities, the detailed table below shows remuneration to each member of the Board of Directors received during the year attendance fees, and the second table shows the total of salaries and bonuses paid to the top six executives during the fiscal year 2021

Board of directors' remuneration details

(Amount in BD)

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total		(Does not include expense allowance)	
First: Independent Directors:													
	-	-	-	-	-	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:													
Mr. Ebrahim Mohamed Ali Zainal	18,000	3,150	-	-	21,150	9,000	-	-	-	9,000	-	30,150	-
Mr. Yusuf Saleh Abdulla Alsaleh	-	3,150	-	-	3,150	11,250	-	-	-	11,250	-	14,400	-
Mr. Khalid A. Rahman Khalil Almoayed	-	900	-	-	900	9,000	-	-	-	9,000	-	9,900	-
Dr. Esam Abdulla Yousif Fakhro	-	3,150	-	-	3,150	9,000	-	-	-	9,000	-	12,150	-
Mr. Ebrahim Salahuddin Ahmed Ebrahim	-	4,500	-	-	4,500	9,000	-	-	-	9,000	-	13,500	-
Mr. Sami Mohammed Yusuf Jalal	-	1,800	-	-	1,800	9,000	-	-	-	9,000	-	10,800	-
Mr. Jehad Yusuf Abdulla Amin	-	4,500	-	-	4,500	9,000	-	-	-	9,000	-	13,500	-
Mr. A. Redha Mohamed Redha Aldailami	-	4,500	-	-	4,500	9,000	-	-	-	9,000	-	13,500	-
Mr. Ali Yusuf A. Rahman A. Rahim	-	4,500	-	-	4,500	9,000	-	-	-	9,000	-	13,500	-
Mr. Fuad Ebrahim Khalil Kanoo	-	2,250	-	-	2,250	9,000	-	-	-	9,000	-	11,250	-
Third: Executive Directors:													
	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	18,000	32,400	-	-	50,400	92,250	-	-	-	92,250	-	142,650	-

Executive management remuneration details

(Amounts in BD)

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO and Senior Financial Officer.	270,230	8,935	11,743	290,908

Net profit and recommendation on how to distribute it:

The net profit attributable to the shareholders of Trafco Group for the financial year ended 31 December 2021 as per the audited financials was BD 1,301,101.

The Board of Directors recommends the distribution of these profits as follows subject to the approval of the annual general meeting:

• General reserve	BD 50,000
• Cash dividends for shareholders at 14%	BD 1,038,766
• Allocation to Donations & Charity (to be adjusted next year)	BD 50,000

The Directors remuneration of BD 92,250 (subject to the approval of the annual general meeting) was already provided from the above net profit.

The final retained earnings carried to next year will be as follows:

• Balance profit carried from this year	BD 212,335
• Retained earnings carried from previous year	BD 3,263,579
• Gain on disposals of Investment	BD 162,949
• Total retained earnings carried to next year 2022	BD 3,638,863

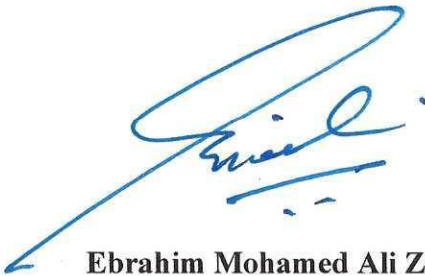
It is worth noting, that the group achieved profits on the sale of investment of BD 163k which was not included in the statement of income but was included in the shareholders' equity through other comprehensive income in compliance with the IFRS requirements.

Acknowledgment

Concluding this report, on behalf of all the shareholders of the company we are pleased to extend our sincere thanks, gratitude and appreciation to the wise leadership of His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister and Ministers and officials from the ministries and institutions of the Kingdom of Bahrain for the material and moral support they provided to local companies and commercial establishments to enable them to continue working and overcome the difficulties that resulted from the Covid-19 pandemic and help to reduce its negative effects on the economy and social life. We especially remember with appreciation and thank the efforts of the members of the national medical team who are still doing their best to handle the successive waves of this epidemic and work to protect members of society and maintain the health and safety of everyone.

We also do not forget to gratefully appreciate the efforts of the executive management and all the group's employees for their dedication to work to achieve positive results under these difficult circumstances. We also thank all the Group's customers and suppliers and their support for the Group's products, subsidiaries, and associates, and for effective cooperation in distributing our products to the consumers.

105: And say (O Muhammad saw) "Do Deeds, Allah Will See Your Deeds And (so will) His Messenger and The Believers": Al Tawba, The Holy Qur'an.



Ebrahim Mohamed Ali Zainal
Chairman
Kingdom of Bahrain
27 February 2022