

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF RAYSUT CEMENT COMPANY SAOG

Report on the audit of the parent company and consolidated financial statements

Qualified opinion

We have audited the parent company and consolidated financial statements ('the financial statements') of Raysut Cement Company SAOG ('the parent company') and its subsidiaries ('the Group'), which comprise the statement of financial position as at 31 December 2020, and statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the parent company and the Group as at 31 December 2020, and their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

- 1) Prepayments, advances and other receivables are carried in the parent company and consolidated statements of financial position at RO 11.2 million and RO 9.5 million respectively. Trade receivables -net are carried in the parent company and consolidated statements of financial position at RO 13.8 million and RO 20.7 million respectively. These amounts include an amount due from an associate with a total carrying amount of RO 4.04 million. We were unable to obtain sufficient and appropriate audit evidence about the carrying amount due from the associate, as the associate has not confirmed the balance and we were unable to verify management's assertion that the amount due from the associate is recoverable. Consequently, we were unable to determine whether any adjustments were necessary to these receivables from the associates.
- 2) As disclosed in Note 42 of the financial statements the parent company has signed a "Natural Gas Sales Agreement" with "The Ministry of Energy and Minerals ('MEM') of the government of the Sultanate of Oman on 1 January 2020, in which the parent company has agreed to purchase gas from MEM at a price of USD 4.64 per MMBTU. Subsequently, at the request of the parent company, MEM has agreed to reduce the gas price to USD 3.48 per MMBTU, with effect from 1 January 2021. However, during the year 2020, the parent company has accounted the purchase price of gas at USD 3.48 per MMBTU. We were unable to satisfy ourselves the basis for accounting gas price at USD 3.48 per MMBTU. Accordingly, the cost of sales and loss for the year ended 31 December 2020 has been understated by RO 3.27 million.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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Basis for qualified opinion (continued)

- 3) As stated in note 10 of the financial statements one of the subsidiaries of the Group, RCC Trading DMCC, has not complied with the IFRS 16 Leases requirements relating to charter hire contracts for ships leased to transport the Group's products. Another subsidiary of the Group, Duqm Cement Factory LLC, has not complied with IFRS 16 requirements relating to 30 years land lease rental agreement entered with Duqm Industrial Land Company LLC. Accordingly, the Group has not recognized right-of-use assets amounting to RO 29.11 million and lease liabilities amounting to RO 29.92 million. Has this been accounted, the loss for the year would have been higher by RO 800,000.
- 4) As stated in Note 42, one of the subsidiaries of the Group has disputes with regards to the charter hire contracts and legal proceedings have been initiated for termination of these contracts. The matter is pending before arbitration. Based on the modified opinion issued by the subsidiary company's auditor, the claims are not quantified in the books of accounts as at 31 December 2020. Consequently, we are unable to determine whether any adjustment relating to the arbitration might have been necessary as at 31 December 2020 and the consequential impact for the year ended 31 December 2020.

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 parent company and consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the parent company and consolidated financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF RAYSUT CEMENT COMPANY SAOG (continued)

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of goodwill</i>	
<p>As at 31 December 2020, the carrying value of goodwill amounted to RO 49.11 million, or 21% of the Group's total assets, as disclosed in note 8 to the consolidated financial statements. Out of this, major goodwill is relating to the acquisition of Pioneer Cement Industries amounting to RO 45.8 million.</p> <p>In accordance with IAS 36 Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually.</p> <p>An impairment is recognized in the consolidated statement of comprehensive income when the recoverable amount is less than the carrying amount. The determination of the recoverable amount is based on discounted future cash flows and benchmarking the values with market multiples.</p> <p>We considered the impairment of goodwill to be a key audit matter, given the method for determining the recoverable amount and the significance of the amount in the Group's consolidated financial statements.</p> <p>In addition, the recoverable amounts are based on the use of important assumptions, estimates or assessments made by management, in particular future cash flow projections, the estimate of the discount rates and long-term growth rates.</p> <p>Refer note 8 to the consolidated financial statements for further details relating to goodwill.</p>	<p>Management has involved independent third-party expert to test the impairment of goodwill relating to Pioneer acquisition.</p> <p>We have reviewed the goodwill impairment models and the key assumptions used by independent third-party valuer. Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Understanding the business process for the impairment assessment, identifying the relevant internal controls over the impairment assessment process and testing their design and implementation; • Evaluating whether the cash flows in the models used by management to calculate recoverable value are in accordance with IAS 36 Impairment of Assets; • Obtaining and analysing the approved business plans for each Cash generating Unit to assess accuracy of the computations and the overall reasonableness of key assumptions; • Comparing actual historical cash flow results with previous forecasts to assess forecasting accuracy; • Assessing the methodology used by the Group to estimate the Weighted average Cost of Capital (WACC) and benchmarking that with discount rates used by other similar business and other external sector related guidelines; • Benchmarking the values with market multiples, where applicable; and • Assessing the disclosure in the consolidated financial statements relating to goodwill against the requirements of IFRSs.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
RAYSUT CEMENT COMPANY SAOG (continued)**

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Business combination</i>	
<p>During the current year, the Parent Company acquired 75% stake in Raysut Maldives Cement Company for RO 3.2 Million. As per IFRS 3 business combination, all assets acquired, including goodwill and other intangible assets, should be stated on the financial statements at fair value. The Group has performed a purchase price allocation on the date of acquisition for accounting in consolidated financial statements. Based on the purchase price allocation, management has identified goodwill to the extent of RO 2.51 Million.</p> <p>We considered the purchase price allocation as a key audit matter, on account of fair valuation exercise and the significance of the amount in the Group's consolidated financial statements.</p>	<p>Management has involved independent third-party expert to perform purchase price allocation on the date of acquisition.</p> <p>We have reviewed the purchase price allocation report issued by independent third-party. Our audit procedures included the following:</p> <ul style="list-style-type: none">• We have reviewed the fair value determined by the management at the time of acquisition;• We have reviewed the purchase price allocation report to verify whether all assets acquired, including goodwill and other intangible assets, are stated on the financial statements at fair value; and• We have evaluated whether any other intangible assets to be assigned as part of acquisition.

Other matters

The parent company and consolidated financial statements for the year ended 31 December 2019 were audited by another auditor, whose report dated 4 March 2020, expressed a qualified opinion on those parent company and consolidated financial statements.

Other information included in the Group's 2020 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2020 Annual Report but does not include the parent company and consolidated financial statements and our auditor's report thereon. We have obtained the other information comprising the Chairman's Report, Corporate Governance Report and Management Discussion and Analysis Report prior to the date of our auditor's report, and we expect to obtain the published 2020 annual report after the date of our auditor's report.

Our opinion on the parent company and consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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Other information included in the Group's 2020 Annual Report (continued)

In connection with our audit of the parent company and 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 parent company and 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 on the other information obtained prior to the date of auditor's report, 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 for the parent company and consolidated financial statements

Those charged with governance is responsible for the preparation and fair presentation of the parent company and consolidated statements in accordance with IFRSs, the disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of the Sultanate of Oman, and for such internal control as management determines is necessary to enable the preparation of parent company and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the parent company and 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 has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Parent Company and the Group's financial reporting process.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and 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 the parent company and consolidated financial statements.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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**Auditor's responsibilities for the audit of the parent company and consolidated financial statements
(continued)**

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

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and 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 parent company and consolidated financial statements, including the disclosures, and whether the parent company and 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 those charged with governance 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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF RAYSUT CEMENT COMPANY SAOG (continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the parent company and 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.

Report on other legal and regulatory requirements

Further, we report that the parent company and consolidated financial statements as at and for the year ended 31 December 2020, comply in all material respects, with the applicable provisions of the Commercial Companies Law of the Sultanate of Oman, and the disclosure requirements for Public Joint Stock Companies, issued by the Capital Market Authority.

CROWE MAK GHAZALI LLC

Davis Kallukaran
Managing Partner

Muscat, Sultanate of Oman
23 February 2021

