Notes to the financial statements

1 ACTIVITIES

Omani Packaging Company SAOG ("the Company") was formed in 1993 and is registered in the Sultanate of Oman as a public joint stock company. The Company's principal activity is the manufacture and sale of corrugated packing materials.

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the relevant disclosure requirements of the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. The financial statements are presented in Omani Rials.

2.2 New and amended IFRS adopted by the Company

The financial statements have been drawn up based on accounting standards, interpretations and amendments effective at 1 January 2023. The Company has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee, which were effective for the current accounting period:

- IFRS 17 'Insurance contracts' establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The Company does not have any contract that meets the definition of insurance contract under IFRS 17.

- Amendments to IAS 1 'Presentation of financial statements' require an entity to disclose its material accounting policy information rather than its significant accounting policies. The related guidance and examples have been detailed in IFRS Practice Statement 2 'Making materiality judgements'.

- Amendments to IAS 8 'Accounting policies, changes in accounting estimates and errors' introduce the definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also help entities distinguish changes in accounting estimates from changes in accounting policies.

- Amendments to IAS 12 'Income taxes' narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The Management believes the adoption of the above amendments has not had any material impact on the recognition, measurement, presentation and disclosure of items in the financial statements for the current accounting period.

Notes to the financial statements

2 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS (Continued)

2.3 New and amended IFRS which are in issue but not yet effective

At the end of the reporting period, the following significant new and revised standards were in issue but not yet effective:

- Amendments to IAS 1 (Non-current liabilities with covenants) clarify the requirements for presentation of liabilities in the statement of financial position as current or non-current. The amendments clarify that if a liability is subject to covenants, the Company may only classify a liability as non-current if it meets the covenant tests as at the reporting date, even if the lender does not test compliance until a later date. The meaning of settlement of a liability is also clarified. The mandatory application date of this amendment has been deferred from 1 January 2023 to 1 January 2024.

- Amendments to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures' clarifies the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods commencing on or after 1 January 2024.

- Amendments to IFRS 16 (Lease liability in a sale and leaseback) clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are applicable for annual periods commencing on or after 1 January 2024.

- Amendments to IAS 21 'The effects of changes in foreign exchange rates' added the definition of exchangeable currency and estimating the spot exchange rate when exchangeability is lacking. The amendments are applicable for annual periods commencing on or after 1 January 2025.

The Management believes the adoption of the above amendments is not likely to have any material impact on the recognition, measurement, presentation and disclosure of items in the financial statements for future periods.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the Management is required to make estimates and assumptions which affect reported income and expenses, assets, liabilities and related disclosures. The use of available information and application of judgement based on historical experience and other factors are inherent in the formation of estimates that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, estimates that involve uncertainties and judgements which have significant effect on the financial statements include:

- *Useful lives of property, plant and equipment*

  Estimation of useful lives of the property, plant and equipment is based on Management's assessment of various factors such as the operating cycles, the maintenance programs and normal wear and tear using its best estimates.

Notes to the financial statements

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- *Provision for slow and non-moving inventories*

  Provision for slow and non-moving inventories is based on Management's best estimates of the realizable value of the inventories based on the Company's provisioning policy and historical experiences considering the usage of the inventories.

- *Allowance for expected credit losses (ECLs)*

  The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period.

  The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP growth, oil prices and inflation rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

  At every reporting date, the default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between default rates, forecast economic conditions and ECLs require the use of estimates. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

  ECL on bank balances is determined using credit rating information supplied by independent rating agencies, where available. ECL on bank balances is provided if the amount is deemed material.

- *Impairment of non-financial assets*

  At the end of the reporting period, the Management has assessed if there is any indicators of impairment of non-financial assets (property, plant and equipment and right of use assets). Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The computation of value in use and fair value less costs to sell require the use of estimates.

  The Management has concluded based on assessment of available evidence, that impairment has not arisen in the carrying values of the non-financial assets at the end of the reporting period.

- *Estimation of lease term and right of use assets*

  The Management determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Management applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease by considering all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION

The following accounting policies have been consistently applied in dealing with items considered material to the Company's financial statements.

a) Accounting convention

These financial statements have been prepared under the historical cost convention.

b) Revenue from contracts with customers

Revenue is recognised at the point in time when control of the asset (finished goods) is transferred to the customer, generally on their delivery. Revenue is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The average credit term is 90 to 120 days upon delivery.

c) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Following initial recognition at cost, expenditure incurred to replace a component of an item of property, plant and equipment which increases the future economic benefits embodied in the item of property, plant and equipment is capitalised. All other expenditures are recognised in the statement of income as an expense as incurred.

Items of property, plant and equipment are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the statement of income in the year the item is derecognised.

Capital work in progress is stated at cost and not depreciated. Depreciation is charged to the statement of income on a straight-line basis over the estimated useful economic lives of property, plant and equipment, which are as follows:

	Years
Buildings – civil works	25
Buildings – electromechanical	10
Plant, machinery and dies	8 – 20
Furniture, fixtures, office and laboratory equipment	6.67
Motor vehicles	5

d) Inventories

Inventories are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost, which is determined on weighted average cost basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

e) Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business and represent the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). They are generally due for settlement within 90 to 120 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing component, when they are recognised at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

f) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of cash and bank balances with an original maturity of less than three months.

g) Financial assets

Recognition and initial measurement

The Company's financial assets comprise trade and other receivables, bank balances and cash. These financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

<u>Financial assets at amortised cost:</u>

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income from financial assets, if any, is included in interest income using the effective interest rate method. Impairment losses are presented as separate line item in the statement of income.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

h) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. The Company measures the impairment using the expected credit loss (ECL) model for different categories of financial assets.

Trade receivables

The Company recognises allowance for expected credit losses (ECLs) applying a simplified approach for trade receivables, at an amount equal to lifetime ECLs. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the trade receivables and the economic environment.

Other financial assets

For other financial assets, which are subject to impairment, the ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a lifetime ECL is recognised for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For bank balances, cash and other receivables, the ECL adjustments are made only if they are material.

Write off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Non-financial assets

At the end of each reporting period, the Management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the Management estimates the recoverable amount of the asset or cash generating unit (CGU) and recognises an impairment loss in the statement of income.

The recoverable amount is assessed as higher of asset's or CGU's value in use (VIU) and fair value less costs to sell. In assessing the VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects market assessments of the time value of money and other asset specific risks. The Management also assesses if there is any indication that an impairment loss recognized in prior years no longer exists or has reduced. The resultant impairment loss reversals are recognised immediately in the statement of income.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

i) Employees' end of service benefits

Payment is made to the Government of the Sultanate of Oman's Social Security Scheme as per Royal Decree number 72/91 (as amended) for Omani employees. Provision is made for amounts payable as per the Sultanate of Oman's Labour Law issued under Royal Decree number 53/2023 applicable to expatriate employees' accumulated periods of service at the end of the reporting period.

j) Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

k) Trade and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

l) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

m) Financial liabilities

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost.

n) Foreign currency transactions

Foreign currency transactions are translated into Omani Rials at the exchange rate prevailing on the transaction date. Foreign currency monetary assets and liabilities are translated into Rials Omani at the exchange rate prevailing at the end of the reporting period. Exchange differences arising are taken to the statement of income.

o) Taxation

Taxation is provided for in accordance with the Sultanate of Oman's fiscal regulations.

Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled and is based on the rates (and laws) that have been enacted at the end of the reporting period.

Deferred tax assets in relation to carry forward losses or timing differences are recognised to the extent that it is probable that future taxable profits will be achieved.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

p) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components whose operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

q) Directors' remuneration

The Company follows the Commercial Companies Law of the Sultanate of Oman, and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration and meeting attendance fees. Directors' remuneration and meeting attendance fees are charged to the statement of income in the year to which they relate.

r) Leases

The Company leases its factory, office premises, staff accommodation and certain motor vehicles under various leasing arrangements. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices unless it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Lease liabilities include (wherever applicable) the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise the option, and
- penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used.

Lease payments are allocated between the principal and finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs, if applicable.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

r) Leases (Continued)

Payments associated with short-term leases and low-value assets are recognised on a straight-line basis as an expense in the statement of income.

s) Dividend

The Board of Directors recommends to the shareholders the dividend to be paid out of the Company's profits. The Company's Board of Directors take into account appropriate parameters including the requirements of the Commercial Companies Law of the Sultanate of Oman, and other relevant directives issued by CMA while recommending the dividend. Dividends are recognized as a liability only in the period in which the dividends are approved by the Shareholders.

5 PROPERTY, PLANT AND EQUIPMENT

a) The movement of property, plant and equipment for the years 2023 and 2022 are set out on pages 31 and 32 respectively.

b) Buildings have been constructed on various plots of lands leased from Madayn in the Rusayl Industrial Estate under leasing arrangements as detailed in note 6 a).

c) Certain plant and machinery are mortgaged with commercial banks as security for the term loan obtained [note 12 b)].

d) The depreciation charge for the year has been allocated as follows:

	2023 RO	2022 RO
Direct costs (note 16)	422,821	367,244
General, administration and selling (note 18)	38,130	37,780
	460,951	405,024

e) Capital work in progress at the end of the reporting period pertains to costs incurred towards plant and machinery awaiting installation. The installation is expected to be completed during the year 2024.

6 LEASES

a) At the end of the reporting period, the leasing arrangements entered into by the Company as a lessee are as follows:

- Leasing arrangements for the staff accommodation that are for short term, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.
- Leasing arrangements for the plots of factory land in the Rusayl Industrial Estate. These arrangements expire in May 2027, March 2033, March 2036 and July 2042 [note 5 b)].
- The Company has also entered into leasing arrangements for motor vehicles. The average lease term is 5 years.

Notes to the financial statements

6 LEASES (Continued)

b) The movement in the right of use assets during the year is as follows:

Year 2023	Land RO	Motor vehicles RO	Total RO
At the beginning of the year	253,232	5,313	258,545
Depreciation for the year [note f)]	(19,231)	(3,616)	(22,847)
At the end of the year	234,001	1,697	235,698

Year 2022	Land RO	Motor vehicles RO	Total RO
At the beginning of the year	272,463	12,189	284,652
Depreciation for the year [note f)]	(19,231)	(6,876)	(26,107)
At the end of the year	253,232	5,313	258,545

c) At the end of the reporting period, lease liabilities are analysed as follows:

	2023 RO	2022 RO
Non-current portion	253,888	272,583
Current portion	18,695	20,210
	272,583	292,793

d) The movement in lease liabilities during the year is as follows:

	2023 RO	2022 RO
At the beginning of the year	292,793	315,528
Interest on lease liabilities expensed [note f)]	13,058	14,144
Paid during the year	(33,268)	(29,583)
Lease rental concession	--	(7,296)
At the end of the year	272,583	292,793

e) The contractual maturity analysis of the undiscounted cash flows of the lease liabilities is as follows:

	2023 RO	2022 RO
Upto 1 year	30,829	33,529
Between 1 year to 5 years	111,381	118,795
Above 5 years	252,552	257,806
	394,762	410,130

Notes to the financial statements

6 LEASES (Continued)

f) The amounts included in the statement of comprehensive income relating to leases comprise:

	2023 RO	2022 RO
Depreciation (note 16)	22,847	26,107
Interest on lease liabilities (note 20)	13,058	14,144
Payments for short term leases	46,203	46,324

g) The total cash outflow for leases amounted to RO 79,471 (2022 – RO 75,907).

7 INVENTORIES

	2023 RO	2022 RO
Raw materials	1,366,553	1,428,395
Spare parts	917,638	966,466
Consumables	33,588	38,006
Work-in-progress	54,032	39,492
Finished goods	46,569	67,122
	2,418,380	2,539,481
Less: provision for slow and non-moving inventories	(164,815)	(164,815)
	2,253,565	2,374,666

The following further note applies:

At the end of the reporting period, finished goods represent approximately 2 days (2022 – 2 days) of annual sales.

8 TRADE AND OTHER RECEIVABLES

	2023 RO	2022 RO
Trade receivables	4,283,262	5,280,062
Less: allowance for expected credit losses [note a) below]	(442,015)	(490,728)
	3,841,247	4,789,334
Amounts due from related parties [note 15 c)]	91,912	151,505
Advances, prepayments and other receivables	88,918	85,813
	4,022,077	5,026,652

Notes to the financial statements

8 TRADE AND OTHER RECEIVABLES (Continued)

The following further notes apply:

a) The movement in allowance for expected credit losses is as follows:

	2023 RO	2022 RO
At the beginning of the year	490,728	426,569
Provided during the year (note 18)	--	68,453
Reversed during the year (note 17)	(48,713)	(4,294)
At the end of the year	442,015	490,728

b) The estimation for allowance for expected credit losses has been detailed under note 26 b).

9 BANK BALANCES AND CASH

	2023 RO	2022 RO
Bank balances	549,753	429,403
Cash in hand	660	662
	550,413	430,065

10 SHARE CAPITAL

a) At the end of the reporting period, the authorized, issued and fully paid-up share capital of the Company is RO 3,243,586 comprising 32,435,860 shares of RO 0.100 each (2022 – share capital of RO 3,243,586 comprising 32,435,860 shares of RO 0.100 each).

b) At the end of the reporting period, shareholders who own 5% or more of the Company's share capital, and the number of shares they hold are as follows:

	% of Holding	2023 and 2022 RO
Salim Saeed Hamad Al Fannah Al Araimi	15.87	5,145,970
Al Saud Co. Ltd / Ubar Financial Investments	14.18	4,600,000
Bin Omier Investment LLC	12.56	4,073,262
Al Baraka Investments Co. LLC	11.41	3,700,485
Al Rawas Holding Company LLC	6.68	2,167,313
Bakhit Saeed Salem Al Shanfari	6.12	2,000,000
Dhofar International Development & Investment Holding Company SAOG	5.20	1,687,048

11 RESERVES

a) *Share premium*

In accordance with Article 126 of the Commercial Companies Law of Oman, the share premium reserve was established in an earlier period and relates to the excess of share issue expenses collected over expenses incurred.

Notes to the financial statements

11 RESERVES (Continued)

b) Legal reserve

In accordance with Article 132 of the Commercial Companies Law of Oman, annual appropriation of 10% of the net profit for the year has been made to the legal reserve until the reserve equals one third of the Company's share capital. The reserve is not available for distribution but can be utilized to set off against any accumulated losses and increasing the Company's share capital by issuing shares. No transfer has been made to the legal reserve as the reserve has reached the statutory minimum of one third of the share capital.

12 TERM LOAN

	2023 RO	2022 RO
Term loan	505,000	1,010,000
Less: current portion	(505,000)	(505,000)
Non-current portion	--	505,000

The following further notes apply:

a) Term loan was obtained from a local commercial bank and carries interest at commercial rate. The loan is repayable in 8 equal quarterly installments of RO 126,250 which commenced from January 2023.

b) The term loan and bank borrowings (note 13) are secured by the following:

- Commercial mortgage over plant and machinery purchased against the term loan [note 5 c)];
- undertaking to route proceeds from customers through the bank; and
- pari-passu charge over trade receivables and inventories.

c) At the end of the reporting period, the maturity analysis of the term loan is as follows:

	2023 RO	2022 RO
Within one year	505,000	505,000
Between 1 and 2 years	--	505,000
	505,000	1,010,000

d) The term loan and bank borrowings (note 13) are subject to certain restrictive covenants which, if violated, could permit the lenders to demand early repayment of the facilities provided [note 26 d)].

13 BANK BORROWINGS

Bank borrowings at the end of the reporting period represent working capital borrowing facilities which are obtained from local commercial banks in the Sultanate of Oman and carry interest at commercial rates. The interest rates are subject to re-negotiation with the banks upon renewal of the facilities, which generally takes place annually.

Notes to the financial statements

14 TRADE AND OTHER PAYABLES

	2023 RO	2022 RO
Trade payables	1,575,290	2,282,766
Accrued expenses	174,234	145,692
Advance from customers	47,481	45,847
Proposed Directors' remuneration (see note below)	45,000	--
Other payables	122,410	95,865
	1,964,415	2,570,170

The following further note applies:

The proposed Directors' remuneration is subject to approval at the forthcoming Annual General Meeting.

15 RELATED PARTY TRANSACTIONS

The Company enters into transactions in the ordinary course of business with key management personnel (including Board of Directors), and entities in which the key management personnel / significant Shareholders of the Company have significant influence or control. Prices and terms of payment for these transactions are approved by the Management and the Board of Directors. These transactions are entered into on terms and conditions approved by the Management and Board of Directors and subject to Shareholders' approval at the Annual General Meeting.

a) The nature and volume of significant related party transactions were as follows:

	2023 RO	2022 RO
Revenue from contract with customers	348,459	397,815

b) The key management personnel compensation for the year comprises:

	2023 RO	2022 RO
Short term employment benefits	221,067	218,079
Employees' end of service benefits	11,015	11,230
Directors' meeting attendance fees (note 18)	52,250	52,250
Directors' remuneration (note 18)	45,000	--
Board advisory fees (note 18)	18,000	18,000
	347,332	299,559

c) The amounts due from related parties are unsecured, repayable on demand and not subject to interest (2022 – similar terms).

16 DIRECT COSTS

	2023 RO	2022 RO
Cost of materials consumed	6,623,377	9,441,869
Salaries and employee related costs [note 19 a)]	1,003,365	969,958
Depreciation on property, plant and equipment [note 5 d)]	422,821	367,244
Cost of spare parts consumed	274,221	216,823
Depreciation on right of use assets [note 6 f)]	22,847	26,107
Other direct costs	547,474	624,210
	8,894,105	11,646,211

Notes to the financial statements

17 OTHER INCOME

	2023 RO	2022 RO
Scrap sales	188,400	341,362
Reversal of allowance for expected credit losses [note 8 a)]	48,713	4,294
Gain on disposal of property, plant and equipment	--	613
Miscellaneous income	16,095	11,640
	253,208	357,909

18 GENERAL, ADMINSTRATION AND SELLING

	2023 RO	2022 RO
Salaries and employee related costs [note 19 a)]	476,321	420,617
Transportation and vehicle expenses	333,002	323,760
Directors' meeting attendance fees [note 15 b)]	52,250	52,250
Legal and professional	46,347	40,861
Directors' remuneration [note 15 b)]	45,000	--
Depreciation on property, plant and equipment [note 5 d)]	38,130	37,780
Board advisory fees [note 15 b)]	18,000	18,000
Printing and stationery	11,684	11,880
Communication	9,900	10,564
Advertisement and sales promotion	9,728	10,198
Loss on disposal / write off of property, plant and equipment	6,531	--
Postage and courier	3,373	2,535
Allowance for expected credit losses [note 8 a)]	--	68,453
Miscellaneous	23,932	24,744
	1,074,198	1,021,642

19 SALARIES AND EMPLOYEE RELATED COSTS

a) Salaries and employee related costs are allocated as follows:

	2023 RO	2022 RO
Direct costs (note 16)	1,003,365	969,958
General, administration and selling (note 18)	476,321	420,617
	1,479,686	1,390,575

b) Salaries and employee related costs include the following:

	2023 RO	2022 RO
Cost of end of service benefits for expatriate employees	69,441	35,502
Contributions to defined contributions retirement plan for Omani employees	39,652	44,464
	109,093	79,966

Notes to the financial statements

19 SALARIES AND EMPLOYEE RELATED COSTS (Continued)

c) The movements in employees' end of service benefits liability recognised in the statement of financial position are as follows:

	2023 RO	2022 RO
At the beginning of the year	178,759	176,128
Expense for the year	69,441	35,502
Settled during the year	(39,592)	(32,871)
At the end of the year	208,608	178,759

20 FINANCE CHARGES

	2023 RO	2022 RO
Interest on term loan	38,408	30,782
Interest on bank borrowings	35,385	65,408
Interest on lease liabilities [note 6 f)]	13,058	14,144
	86,851	110,334

21 OPERATING SEGMENTS

The Company operates in one business segment, that of manufacture and sale of corrugated packing materials. All relevant information relating to the primary segment is disclosed in the statement of income, statement of financial position and notes to the financial statements. The geographical information in respect of the operating segment is as follows:

	2023		2022	
	Revenue RO	Trade receivables RO	Revenue RO	Trade receivables RO
Sultanate of Oman	10,247,144	3,910,966	12,505,609	4,995,999
United Arab Emirates	252,064	346,426	124,460	229,159
Qatar	69,084	25,870	156,505	54,904
	10,568,292	4,283,262	12,786,574	5,280,062

Approximately 15% (2022 - 10%) of the annual sales were to one customer based in the Sultanate of Oman [note 26 b)].

Notes to the financial statements

22 TAXATION

	2023 RO	2022 RO
Statement of income		
Current year [note c)]	103,923	79,193
Prior years	--	24,336
Deferred tax charge / (credit) [note d)]	11,030	(27,875)
	114,953	75,654
Statement of financial position		
Non-current assets		
Deferred tax asset [note d)]	229	11,259
Current liabilities		
Current year [note c)]	103,923	79,193
Prior years	--	(1,664)
	103,923	77,529

The following further notes apply:

a) Tax is provided at 15% (2022 – 15%) on the profit for the year adjusted for taxation purposes.

b) The tax assessments for the years 2021 and 2022 have not been finalised by the Tax Authority. The Management believes that the tax assessed, if any, in respect of unassessed tax years would not be material to the Company's financial position at the end of the reporting period.

c) The reconciliation of tax on the accounting profit with the current tax charge for the year is as follows:

	2023 RO	2022 RO
Tax charge on accounting profit	114,952	54,944
(Less) / add tax effect of:		
- Depreciation	(5,098)	14,211
- Provision and others	(5,931)	10,038
Current tax charge	103,923	79,193

d) The movement in deferred tax asset shown in the statement of financial position at the end of the reporting period is as follows:

	Accelerated tax depreciation RO	Provisions RO	Total RO
At 31 December 2021	105,323	(88,707)	16,616
Credited to the statement of income	(13,113)	(14,762)	(27,875)
At 31 December 2022	92,210	(103,469)	(11,259)
At 31 December 2022	92,210	(103,469)	(11,259)
Charged to the statement of income	4,118	6,912	11,030
At 31 December 2023	96,328	(96,557)	(229)

Notes to the financial statements

23 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2023	2022
Net profit for the year (in Rials Omani)	651,393	290,642
Weighted average number of shares in issue during the year	32,435,860	32,435,860
Basic earnings per share (in Rials Omani)	0.020	0.009

As there are no dilutive potential shares, the diluted earnings per share are identical to the basic earnings per share.

24 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets at the end of the reporting period by the number of shares outstanding as follows:

	2023	2022
Net assets (in Rials Omani)	7,714,218	7,387,184
Number of shares outstanding at the end of the reporting period	32,435,860	32,435,860
Net assets per share (in Rials Omani)	0.238	0.228

25 PROPOSED DIVIDEND

a) Subsequent to the end of the reporting period, the Board of Directors of the Company, in its meeting held on 7 February 2024, has proposed a cash dividend of 12 baizas per share amounting to RO 389,230 for the year 2023, which is subject to the approval of the Shareholders at the forthcoming Annual General Meeting to be held on 7 March 2024.

b) During the year, the proposed cash dividend of 10 baizas per share amounting to RO 324,359 for the year 2022 was approved at the Annual General Meeting held on 28 February 2023. The dividend was paid during the year.

Notes to the financial statements

26 FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company's activities expose it to various financial risks, primarily being, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The risk management is carried out internally in accordance with the approval of the Board of Directors.

a) Market risk

Currency risk

The Company operates in international markets and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar, UAE Dirham, Euro and Japanese Yen.

As the Omani Rial and UAE Dirham are pegged against the US Dollar, the Management does not believe that the Company is exposed to any material currency risk from these currencies. The exposure to Euro and Japanese Yen was not material to the Company's financial position at the end of the reporting period.

Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing liabilities (term loan, lease liabilities and bank borrowings). The Company manages its exposure to interest rate risk by ensuring that significant borrowings are on a fixed rate basis. Additionally, the Company borrows at interest rates on commercial terms and constantly monitors the changes in interest rates and avails lower interest-bearing facilities.

For every 0.5% change in interest rate, the impact on the statement of income will approximate to RO 3,525 (2022 – RO 9,050) based on the level of financial liabilities at the end of the reporting period.

b) Credit risk

Trade receivables

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

The carrying value of trade and other receivables approximate their fair values due to the short-term nature of those receivables. 25% (2022 – 25%) of the trade receivables are due from 3 customers.

Expected credit losses (ECL)

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and amounts due from related parties.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2023 or 31 December 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Notes to the financial statements

26 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

b) Credit risk (Continued)

Trade receivables (Continued)

Expected credit losses (ECL) (Continued)

On that basis, the expected credit losses were determined for trade receivables as follows:

31 December 2023	0 - 120 days	121 - 180 days	181 – 365 days	Above 365 days	Impaired	Total
Expected loss rate %	2.12	6.93	11.10	22.22	100.00	
Carrying value	2,829,740	583,612	269,149	371,677	229,084	4,283,262
Loss allowance	60,034	40,449	29,869	82,579	229,084	442,015

31 December 2022	0 - 120 days	121 - 180 days	181 – 365 days	Above 365 days	Impaired	Total
Expected loss rate %	2.04	6.71	10.52	22.61	100.00	
Carrying value	3,605,529	682,968	249,252	513,229	229,084	5,280,062
Loss allowance	73,576	45,819	26,215	116,034	229,084	490,728

Amounts due from related parties

Amounts due from related parties are expected to have low credit risk. Accordingly, no expected credit losses on such dues have been provided.

Bank balances

Credit risk from bank balances maintained in current accounts with local commercial banks are managed by ensuring balances are maintained with reputed banks only. The ECL on bank balances are not expected to be material to the Company's financial position at the end of the reporting period and have accordingly not been provided.

Other receivables

The Management has estimated that the ECL on other financial assets are not expected to be material to the Company's financial position at the end of the reporting period and have accordingly not been provided.

c) Liquidity risk

The Company maintains sufficient bank balances and has availed credit facilities from banks to meet its obligations as they fall due for payment. Accordingly, the Company is not subject to significant liquidity risk.

The maturity analysis in respect of the lease liabilities and term loan is disclosed in notes 6 e) and 12 c) respectively. All other financial liabilities are expected to be repaid within 6 months from the end of the reporting period.

Notes to the financial statements

26 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

d) Capital management

The Company's objectives when managing capital are:

- to safeguard its 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 services and goods commensurate with the level of risk.

The Company sets capital in proportion to risk and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the Shareholders, return capital to Shareholders or raise additional capital.

In the context of managing capital, the Company has also covenanted with banks providing external debt to maintain specified ratios. At the end of the reporting period, the Company is in material compliance with the covenants.

27 COMMITMENTS

The Company has the following commitments arising in the normal course of business at the end of the reporting period:

	2023 RO	2022 RO
Capital commitments	33,633	--
Purchase commitments	869,627	863,308
	903,260	863,308

28 COMPARATIVES

Comparative figures have been regrouped or reclassified, wherever necessary, to conform to the presentation adopted in these financial statements for the current year.

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2023	Buildings - civil works RO	Buildings - electro mechanical RO	Plant, machinery and dies RO	Furniture and fixtures RO	Office equipment RO	Laboratory equipment RO	Motor vehicles RO	Capital work in progress RO [note 5 e)]	Total RO
Cost									
At 31 December 2022	2,108,842	735,932	7,268,922	157,379	126,511	41,462	378,900	1,315,738	12,133,686
Additions during the year	750	1,100	90,195	4,825	2,571	4,082	7,170	52,291	162,984
Transfers during the year	--	--	1,290,228	--	32,500	--	--	(1,322,728)	--
Disposals / written off during the year	--	--	(20,359)	(7,328)	(7,188)	(3,745)	(9,450)	--	(48,070)
At 31 December 2023	2,109,592	737,032	8,628,986	154,876	154,394	41,799	376,620	45,301	12,248,600
Depreciation									
At 31 December 2022	1,252,299	710,589	5,359,768	135,754	100,063	38,343	321,622	--	7,918,438
Charge for the year	66,656	6,457	342,167	6,579	11,978	962	26,152	--	460,951
Relating to disposals / write off	--	--	(12,874)	(7,135)	(6,698)	(1,399)	(9,448)	--	(37,554)
At 31 December 2023	1,318,955	717,046	5,689,061	135,198	105,343	37,906	338,326	--	8,341,835
Net book values									
At 31 December 2023	790,637	19,986	2,939,925	19,678	49,051	3,893	38,294	45,301	3,906,765
At 31 December 2022	856,543	25,343	1,909,154	21,625	26,448	3,119	57,278	1,315,738	4,215,248

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2022	Buildings - civil works RO	Buildings - electro mechanical RO	Plant, machinery and dies RO	Furniture and fixtures RO	Office equipment RO	Laboratory equipment RO	Motor vehicles RO	Capital work in progress RO [note 5 e)]	Total RO
Cost									
At 31 December 2021	2,046,507	735,932	7,202,874	153,860	124,272	41,462	375,370	68,268	10,748,545
Additions during the year	--	--	69,127	6,424	2,239	--	25,035	1,309,805	1,412,630
Transfers during the year	62,335	--	--	--	--	--	--	(62,335)	--
Disposals during the year	--	--	(3,079)	(2,905)	--	--	(21,505)	--	(27,489)
At 31 December 2022	2,108,842	735,932	7,268,922	157,379	126,511	41,462	378,900	1,315,738	12,133,686
Depreciation									
At 31 December 2021	1,187,935	702,357	5,074,963	131,679	90,044	36,647	315,364	--	7,538,989
Charge for the year	64,364	8,232	285,987	6,963	10,019	1,696	27,763	--	405,024
Relating to disposals	--	--	(1,182)	(2,888)	--	--	(21,505)	--	(25,575)
At 31 December 2022	1,252,299	710,589	5,359,768	135,754	100,063	38,343	321,622	--	7,918,438
Net book values									
At 31 December 2022	856,543	25,343	1,909,154	21,625	26,448	3,119	57,278	1,315,738	4,215,248
At 31 December 2021	858,572	33,575	2,127,911	22,181	34,228	4,815	60,006	68,268	3,209,556