Muscat Thread Mills SAOG

Financial Statements
31 December 2023

Registered office

P O Box 122
Postal Code 124, Rusayl
Sultanate of Oman

Principal place of business

Road 18
Rusayl Industrial Estate
Sultanate of Oman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUSCAT THREAD MILLS SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Muscat Thread Mills SAOG ("the Company"), set out on pages 5 to 31, which comprise the statement of financial position as at 31 December 2023, and the 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and its 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 (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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 Company's 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 opinion.

Key Audit Matters

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

We have determined the matters described below to be the key audit matters to be communicated in our report.

a) Allowance for expected credit losses (ECL) of trade receivables

At the end of the reporting period, the trade receivables (net of allowance for expected credit losses) amounted to RO 763,293 (2022 – RO 667,857), which represents 24% of the total assets of the Company and is significant to the Company as on 31 December 2023.

Under the current market conditions, credit risk has generally risen resulting in high degree of estimation uncertainty for collectability of the trade receivables. Accordingly, we have considered the estimation of allowance for ECL and impairment of trade receivables as a key audit matter.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUSCAT THREAD MILLS SAOG (Continued)

Key Audit Matters (Continued)

a) *Allowance for expected credit losses (ECL) of trade receivables (Continued)*

Our audit procedures in this regard included:

- Obtaining an understanding of the Company's process for estimating ECL and assessing the appropriateness of the ECL methodology against the requirements of IFRS 9;
- Testing the key controls established by the Management to ensure identification of impaired debts;
- Obtaining the ageing analysis for receivables and testing, on a sample basis, its correctness;
- For a sample of material trade receivables and past due debts, assessing the recoverability status by considering subsequent receipts; and
- Considering adequacy and appropriateness of related disclosures.

Additional information regarding the impairment for trade receivables is set out in notes 9 and 27 b) to the financial statements.

b) *Inventory provisioning*

At the end of the reporting period, the inventories (net of provision for slow moving inventories) amounted to RO 1,256,571 (2022 – RO 1,143,908), which represents 40% of the total assets of the Company.

The Management estimates the provision for slow moving inventories based on the Company's provisioning policy. Since the inventories are material to the financial position and the provisioning estimates are subject to Management judgement, we have considered inventory provisioning as a key audit matter.

Our audit procedures in this regard included:

- Testing the key controls established by the Management to ensure identification of slow moving inventories;
- Obtaining the ageing analysis for inventories and, on a sample basis, testing its correctness;
- Attendance at the inventory count to identify any slow moving and obsolete inventories;
- Assessing the appropriateness of the existing provisioning policy; and
- Ensuring the correctness and adequacy of the provision for slow moving inventories established in the light of the above factors.

The disclosures regarding the provision for slow moving inventories are detailed under note 8 to the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUSCAT THREAD MILLS SAOG (Continued)

Other information

The Management and the Board of Directors are responsible for other information. The other information comprises the Chairman's report, Management Discussion and Analysis report and Corporate Governance report. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and the Board of Directors for the Financial Statements

The Management and the Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, the disclosure requirements for public joint stock companies issued by the Capital Market Authority and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management and the Board of Directors are responsible for assessing the Company'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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUSCAT THREAD MILLS SAOG (Continued)

Auditor's Responsibilities for the Audit of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the 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 the Regulatory Requirements

The financial statements also comply, in all material respects, with the relevant requirements 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.

The engagement partner on the audit resulting in this independent auditor's report is Mr Vinod Raman.

5 February 2024

Statement of financial position

	Note	2023 RO	2022 RO
ASSETS			
Non-current assets			
Property, plant and equipment	5	607,695	618,589
Right-of-use assets	6 c)	166,936	162,633
Deferred tax asset	16	55,559	95,149
Total non-current assets		830,190	876,371
Current assets			
Inventories	8	1,256,571	1,143,908
Trade and other receivables	9	861,936	800,977
Bank balances and cash	10	211,051	94,946
Total current assets		2,329,558	2,039,831
Total assets		**3,159,748**	**2,916,202**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	1,607,265	1,607,265
Legal reserve	12	222,316	210,343
Retained earnings		120,525	12,767
Total equity		1,950,106	1,830,375
Liabilities			
Non-current liabilities			
Non-current portion of lease liabilities	6 d)	187,382	165,417
Non-current portion of term loan	13	--	21,823
Employees' end of service benefits	21 c)	143,109	121,315
Total non-current liabilities		330,491	308,555
Current liabilities			
Current portion of lease liabilities	6 d)	4,646	3,783
Current portion of term loan	13	21,823	38,400
Bank borrowings	14	188,047	259,706
Trade and other payables	15	628,257	454,610
Taxation	16	36,378	20,773
Total current liabilities		879,151	777,272
Total liabilities		1,209,642	1,085,827
Total equity and liabilities		**3,159,748**	**2,916,202**
Net assets per share	17	**0.121**	**0.114**

These financial statements were approved and authorized for issue by the Board of Directors on 5 February 2024 and signed on their behalf by:

Chairman	Director	Finance Manager	General Manager

The attached notes 1 to 27 form part of these financial statements.

Statement of comprehensive income

	Notes	2023 RO	2022 RO
INCOME			
Revenue from contracts with customers	4 b)	3,282,061	3,617,576
Cost of goods sold	18	(2,461,132)	(2,789,305)
Gross profit		820,929	828,271
Other income		3,490	6,572
Provision for slow moving inventories written back	8	14,726	--
Allowance for expected credit losses against trade and other receivables written back	9 b)	1,020	--
		840,165	834,843
EXPENSES			
Selling and distribution	19	411,356	492,063
General and administration	20	198,905	199,428
Provision for slow moving inventories	8	--	64,893
Allowance for expected credit losses against trade and other receivables	9 b)	--	6,709
		610,261	763,093
Profit from operations		229,904	71,750
Finance charges	24	(41,499)	(55,423)
Profit for the year before taxation		188,405	16,327
Taxation	16	(68,674)	(2,855)
Net profit and total comprehensive income for the year		**119,731**	**13,472**
Basic earnings per share	22	**0.007**	**0.001**

Note: The Company does not have any items under other comprehensive income.

The attached notes 1 to 27 form part of these financial statements.

Statement of changes in equity

	Share capital RO (note 11)	Legal reserve RO (note 12)	Retained earnings RO	Total RO
At 31 December 2021	1,591,352	208,996	60,318	1,860,666
Net profit and total comprehensive income for the year	--	--	13,472	13,472
Issue of bonus shares	15,913	--	(15,913)	--
Transfer to legal reserve	--	1,347	(1,347)	--
Dividend paid	--	--	(43,763)	(43,763)
At 31 December 2022	1,607,265	210,343	12,767	1,830,375
At 31 December 2022	1,607,265	210,343	12,767	1,830,375
Net profit and total comprehensive income for the year	--	--	119,731	119,731
Transfer to legal reserve	--	11,973	(11,973)	--
At 31 December 2023	1,607,265	222,316	120,525	1,950,106

The attached notes 1 to 27 form part of these financial statements.

Statement of cash flows

	2023 RO	2022 RO
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year before taxation	188,405	16,327
Adjustments for:		
Depreciation on property, plant and equipment	58,213	63,425
Depreciation on right-of-use assets	10,704	10,769
Loss on modification of leases	12,671	--
Employees' end of service benefits	21,794	15,140
Finance charges	41,499	55,423
Rent concession received	--	(2,271)
Loss on disposal of property, plant and equipment	2,800	--
Provision for slow moving inventories	(14,726)	64,893
Allowance for expected credit losses	(1,020)	6,709
Cash flows from operations before working capital changes	320,340	230,415
Working capital changes:		
Inventories	(97,937)	131,092
Trade and other receivables	(59,939)	292,458
Trade and other payables	173,647	(363,398)
Cash flows generated from operations	336,111	290,567
Tax paid	(13,479)	(13,626)
Net cash generated from operating activities	322,632	276,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(50,119)	(12,959)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net movement in term loan	(38,400)	(37,200)
Net movement in bank borrowings	(71,659)	(48,709)
Lease liabilities paid	(15,095)	(12,821)
Finance charges paid	(31,254)	(45,472)
Dividend paid	--	(43,763)
Net cash used in financing activities	(156,408)	(187,965)
Increase in cash and cash equivalents during the year	116,105	76,017
Cash and cash equivalents at the beginning of the year	94,946	18,929
Cash and cash equivalents at the end of the year	**211,051**	**94,946**

The attached notes 1 to 27 form part of these financial statements.

Notes to the financial statements

1 ACTIVITIES

Muscat Thread Mills SAOG (the "Company") is a public joint stock company, which was incorporated on 1 August 1997, in the Sultanate of Oman. The Company is engaged in the manufacturing and marketing of sewing thread. The principal place of business of the Company is Rusayl Industrial Estate.

The Company holds 99% shareholding and a 100% beneficial ownership in Muscat Thread (BD) Limited (the subsidiary), which was incorporated in December 2012. The subsidiary, registered in Bangladesh, has not commenced commercial operations and is currently under liquidation.

The Company's Board of Directors in their meeting held on 23 December 2019 have decided to change the legal status of the Company from public joint stock company (SAOG) to a closed joint stock company (SAOC) subject to approval of Shareholders, regulatory authorities and by complying with all required procedures. At the end of the reporting period, the Company is yet to complete the required procedures.

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 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 judgements 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 recognized 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 are as follows:

- *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.

- *Valuation of inventories*

  The calculation of the Company's work in progress and finished goods requires the use of estimates. Overheads are charged on a percentage basis to items of work in progress and finished goods based on Management's estimate.

Notes to the financial statements

3 CRITICAL ESTIMATES AND JUDGEMENTS (Continued)

- *Provision for slow moving inventories*

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

- *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 all 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.

  ECL on other receivables and amounts due from a subsidiary is determined based on increase in credit risk.

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

  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.

- *Impairment of non-financial assets*

  At the end of the reporting period, the Management has assessed if there are 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 Management has concluded based on assessment of available evidence, that impairment has not arisen in the carrying values of property, plant and equipment and right of use assets at the end of the reporting period.

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 from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

Revenue is recognised at the point in time when control of the asset (finished goods) is transferred to the customer, generally on their delivery. The average credit term is 90 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 derecognized.

Depreciation is charged on property, plant and equipment so as to write off their cost less their estimated residual values over their estimated useful lives using the straight-line method. The estimated useful lives of the assets are as follows:

	Years
Buildings on leasehold land	10 – 20
Plant and machinery	3 – 20
Furniture, fixtures and office equipment	3 – 5
Motor vehicles	4

Capital work in progress:
Capital work in progress is stated at cost and includes all expenditures incurred on engineering, design work, borrowing costs and costs directly attributable to the project engineering, procurement and construction / installation until such time the assets are put to use, when these will be allocated to property, plant and equipment. Capital work in progress is not depreciated.

d) Investment in a subsidiary

An entity over which the Company exercises control is classified as a subsidiary. Control is achieved where the Company has power over the investee, that exposes or gives rights to variable returns from its involvement with the investee, and the Company is able to use its power to affect the amount of returns from the investee. Generally, control is achieved with a shareholding of more than one half of the voting rights over the relevant activities of the investee.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

e) 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. The cost of inventories is based on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost of finished goods and work in progress includes cost of direct materials, direct labour and applicable direct overheads.

f) 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 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.

g) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of bank balances and cash, net of short-term borrowings.

h) Financial assets

Initial measurement

The Company's financial assets comprise trade and other receivables, amounts due from a subsidiary and 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)

i) 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.

<u>Trade receivables</u>

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.

<u>Other financial assets</u>

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 and cash, amounts due from a subsidiary and other receivables, the ECL adjustments are made only if they are material.

<u>Write off</u>

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)

j) Dividends

The Board of Directors recommends to the Shareholders the dividend to be paid out of profits. The 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. Dividend distribution to the Shareholders is recognized as a liability in the Company's financial statements only in the period in which the dividends are approved by the Shareholders.

k) Employees' end of service benefits

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

l) 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.

m) Trade and other payables

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

n) Leases

The Company leases land for its factory premises, staff accommodation and offices 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 interest. The interest 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.

Notes to the financial statements

4 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

n) Leases (Continued)

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

- the amount of the initial measurement of lease liability
- 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.

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

o) 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.

p) 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.

q) 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 and whose operating results are regularly reviewed by the Management and Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

r) 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. Directors’ remuneration and meeting attendance fees are charged to the statement of income in the year to which they relate.

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT

a) The balances and movement of property, plant and equipment during the years 2023 and 2022 are set out on pages 30 and 31.

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

	2023 RO	2022 RO
Cost of goods sold (note 18)	42,521	44,762
General and administration (note 20)	15,692	18,663
	58,213	63,425

c) Buildings are constructed on two plots of land leased from the Public Establishment for Industrial Estates - Rusayl Industrial Estate under lease agreements which expire on 31 December 2049 [note 6 a)].

d) The property, plant and equipment (except buildings) are mortgaged against term loans and other facilities obtained from a local commercial bank [note 13 c)].

e) Capital work in progress at the end of the reporting period, relates to costs incurred towards various equipment and machinery pending installation.

6 LEASES

a) The Company has entered into a leasing agreement with the Public Establishment for Industrial Estates for two plots of land on which the factory is constructed [note 5 c)]. The average lease term for the lands is around 30 years.

During the year, the lease term for the factory land has reduced and accordingly, a loss on modification was recognised in the statement of income amounting to RO 12,671 (note 18).

b) The Company has also entered into a leasing arrangement for staff accommodation. The average lease term for the staff accommodation is around 5 years.

c) At the end of the reporting period, right-of-use assets comprise the following:

Year 2023	Factory lands RO	Staff accommodation RO	Total RO
At the beginning of the year	158,521	4,112	162,633
Modifications during the year	(10,932)	25,939	15,007
Less: depreciation for the year [note g)]	(5,466)	(5,238)	(10,704)
At the end of the year	142,123	24,813	166,936

Year 2022	Factory lands RO	Staff accommodation RO	Total RO
At the beginning of the year	164,038	9,364	173,402
Less: depreciation for the year [note g)]	(5,517)	(5,252)	(10,769)
At the end of the year	158,521	4,112	162,633

Notes to the financial statements

6 LEASES (Continued)

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

	2023 RO	2022 RO
Non-current portion	187,382	165,417
Current portion	4,646	3,783
	192,028	169,200

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

	2023 RO	2022 RO
At the beginning of the year	169,200	174,341
Modifications during the year	27,678	--
Interest on lease liabilities [note g)]	10,245	9,951
Lease rental concessions received	--	(2,271)
Paid during the year	(15,095)	(12,821)
At the end of the year	192,028	169,200

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

	2023 RO	2022 RO
Upto 1 year	15,095	13,812
Between 1 year to 5 years	64,337	37,744
Above 5 years	310,764	342,142
	390,196	393,698

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

	2023 RO	2022 RO
Depreciation	10,704	10,769
Interest on lease liability (note 24)	10,245	9,951
Payments for short term leases	7,616	7,729

h) The total cash outflow for leases amounted to RO 22,711 (2022 – RO 20,550).

Notes to the financial statements

7 INVESTMENT IN A SUBSIDIARY

a) The details of investment in a subsidiary are as follows:

Name of company	Number of shares	% Holding	2023 and 2022 RO
Muscat Thread (BD) Limited	400,000	100%	19,654

The subsidiary is registered in Bangladesh and has not commenced commercial operations and is in the process of liquidating. At 31 December 2023, the assets, liabilities and results of the subsidiary are not material and hence not consolidated with the Parent Company in view of the subsidiary not having commenced commercial operations and therefore there is no material effect of the assets, liabilities and results of the Group.

b) The Board of Directors and the Management have assessed the investment as impaired in accordance with IAS 36 'Impairment of Assets'. Accordingly, an impairment to the extent of the cost has been recognised against the investment in subsidiary in a prior year.

8 INVENTORIES

	2023 RO	2022 RO
Raw materials	877,225	980,191
Work in progress	41,813	16,819
Finished goods	171,109	199,233
Spare parts and consumables	105,682	105,252
	1,195,829	1,301,495
Less: provision for slow moving inventories (refer note below)	(168,282)	(183,008)
	1,027,547	1,118,487
Goods in transit	229,024	25,421
	1,256,571	1,143,908

The following further note applies:

The movement in provision for slow moving inventories is as follows:

	2023 RO	2022 RO
At the beginning of the year	183,008	118,115
Established during the year	--	64,893
Written back during the year	(14,726)	--
At the end of the year	168,282	183,008

Notes to the financial statements

9 TRADE AND OTHER RECEIVABLES

	2023 RO	2022 RO
Trade receivables	884,370	1,054,135
Less: allowance for expected credit losses [note a) below]	(121,077)	(386,278)
	763,293	667,857
Amounts due from a subsidiary [note 23 c)]	107,352	107,352
Less: allowance for expected credit losses [note a) below]	(107,352)	(107,352)
	--	--
Other receivables	42,929	65,838
Less: allowance for expected credit losses [note a) below]	(11,367)	(11,367)
	31,562	54,471
Advances to suppliers	41,253	57,625
Prepayments	25,828	21,024
	861,936	800,977

The following further notes apply:

a) Allowance for expected credit losses at the end of the reporting period comprise:

	2023 RO	2022 RO
Allowance for expected credit losses on trade receivables	121,077	386,278
Allowance for expected credit losses on amounts due from a subsidiary	107,352	107,352
Allowance for expected credit losses on other receivables	11,367	11,367
	239,796	504,997

b) The movement in allowance for expected credit losses during the year is as follows:

	2023 RO	2022 RO
At the beginning of the year	504,997	498,288
Established during the year	--	6,709
Written back during the year	(1,020)	--
Written off during the year	(264,181)	--
At the end of the year	239,796	504,997

c) The estimation for allowance for expected credit losses has been detailed in note 27 b).

10 BANK BALANCES AND CASH

	2023 RO	2022 RO
Bank balances	210,711	94,387
Cash in hand	340	559
	211,051	94,946

Notes to the financial statements

11 SHARE CAPITAL

a) The authorised share capital of the Company comprises 25,000,000 ordinary shares of 100 baizas each (2022 – 25,000,000 ordinary shares of 100 baizas each). The issued and fully paid-up share capital is RO 1,607,265 (2022 – RO 1,607,265) comprising 16,072,653 shares of 100 baizas each (2022 – 16,072,653 shares of 100 baizas each).

b) The details of Shareholders who own 10% or more of the Company's shares are as follows:

	2023		2022	
	Number of shares	%	Number of shares	%
Qais Omani Establishment LLC	3,047,073	18.96	3,047,073	18.96
Muscat Overseas LLC	2,820,977	17.55	2,820,977	17.55
Al Barij International LLC	2,001,425	12.45	2,001,425	12.45
Masterbaker Marketing Limited	1,906,005	11.86	1,906,005	11.86

c) Subsequent to the end of the reporting, the Board of Directors have proposed a cash dividend of RO 0.005 per share (2022 – nil) amounting to RO 80,363 and a stock dividend of RO 0.002 per share (2022 – nil) amounting to RO 32,145 for the year 2023, which is subject to Shareholders' approval at the forthcoming Annual General Meeting to be held on 4 March 2024. Dividend per share is determined by dividing the proposed dividend amounting for the year by the weighted average number of ordinary shares outstanding of 16,072,653.

12 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 is 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.

13 TERM LOAN

	2023 RO	2022 RO
Term loan	21,823	60,223
Less: current portion of term loan	(21,823)	(38,400)
Non-current portion of term loan	--	21,823

The following further notes apply:

a) The term loan was obtained from a local commercial bank and is subject to interest at 6.5% to 7% per annum (2022 – 6% to 6.25% per annum) and is repayable in quarterly instalments of varying amounts.

b) The interest rates on term loan and other borrowings are subject to re-negotiation with the bank on a semi-annual basis.

c) The term loan and other facilities [note 14 b)] are secured by the following:

- first and comprehensive commercial charge on the Company's fixed assets (except building);
- assignment of joint insurance over the Company's assets;
- commercial charge over the Company registration documents; and
- adequate insurance cover over the assets held as security.

d) The facilities agreement with the bank contains certain restrictive covenants which, if violated, could permit the bank to suspend the facilities [note 27 d)].

Notes to the financial statements

14 BANK BORROWINGS

	2023 RO	2022 RO
Loans against trust receipts	166,765	244,378
Bank overdraft	--	3,650
Credit card	21,282	11,678
	188,047	259,706

The following further notes apply:

a) Bank borrowings obtained from local commercial banks carry interest at commercial rates (2022 – same terms). The interest rates are subject to re-negotiation with the banks upon renewal of the facilities, which generally takes place annually.

b) Bank borrowings are secured as disclosed under note 13 c).

15 TRADE AND OTHER PAYABLES

	2023 RO	2022 RO
Trade payables	350,127	203,496
Other payables	150,050	102,420
Accrued expenses	128,080	148,694
	628,257	454,610

16 TAXATION

	2023 RO	2022 RO
Statement of income		
Current year	29,084	13,479
Deferred tax charge / (credit)	39,590	(10,624)
	68,674	2,855
Statement of financial position		
Current liabilities		
Current year	29,084	13,479
Prior years	7,294	7,294
	36,378	20,773
Non-current assets		
Deferred tax asset [note d) below]	55,559	95,149

The following further notes apply:

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

b) The Company's 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 the unassessed tax years would not be material to the financial position of the Company at the end of the reporting period.

Notes to the financial statements

16 TAXATION (Continued)

c) The reconciliation of tax on the accounting profit with the current year tax expense in the financial statements is as follows:

	2023 RO	2022 RO
Tax charge on accounting profit	28,261	2,449
Net effect of depreciation and other disallowances	823	11,030
	29,084	13,479

d) The movement in deferred tax asset as presented in the statement of financial position is as follows:

	Accelerated tax depreciation RO	Provisions RO	Others RO	Total RO
At 31 December 2021	(10,883)	94,926	482	84,525
(Charged) / credited to the statement of income	(1,155)	11,276	503	10,624
At 31 December 2022	(12,038)	106,202	985	95,149
At 31 December 2022	(12,038)	106,202	985	95,149
(Charged) / credited to the statement of income	(327)	(42,042)	2,779	(39,590)
At 31 December 2023	(12,365)	64,160	3,764	55,559

17 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:

	2023 RO	2022 RO
Net assets (RO)	1,950,106	1,830,375
Number of shares at year end	16,072,653	16,072,653
Net assets per share (RO)	0.121	0.114

18 COST OF GOODS SOLD

	2023 RO	2022 RO
Cost of materials consumed	1,710,930	2,027,986
Salaries and employee related costs [note 21 a)]	399,930	379,741
Utilities	125,146	143,977
Labour charges	84,932	107,826
Depreciation on property, plant and equipment [note 5 b)]	42,521	44,762
Loss on modification of leases [note 6 a)]	12,671	--
Depreciation on right-of-use assets [note 6 g)]	10,704	10,769
Other factory overheads	74,298	74,244
	2,461,132	2,789,305

Notes to the financial statements

19 SELLING AND DISTRIBUTION

	2023 RO	2022 RO
Freight and export handling	166,189	275,939
Salaries and employee related costs [note 21 a)]	115,576	131,307
Agency commission	54,971	15,788
Advertisement and promotion	22,419	9,254
Vehicle rent, repairs and maintenance	13,037	11,995
Export insurance	12,761	20,716
Courier charges	8,829	11,684
Travelling and conveyance	7,822	5,744
Utilities	4,001	4,284
Miscellaneous	5,751	5,352
	411,356	492,063

20 GENERAL AND ADMINISTRATION

	2023 RO	2022 RO
Salaries and employee related costs [note 21 a)]	113,919	103,401
Legal and professional charges	28,695	35,428
Directors' meeting attendance fees [note 23 b)]	17,200	17,900
Depreciation on property, plant and equipment [note 5 b)]	15,692	18,663
Foreign exchange loss	9,342	9,999
Printing and stationery	3,382	2,491
Loss on disposal of property, plant and equipment	2,800	--
Utilities	2,670	2,733
Miscellaneous	5,205	8,813
	198,905	199,428

21 SALARIES AND EMPLOYEE RELATED COSTS

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

	2023 RO	2022 RO
Cost of goods sold (note 18)	399,930	379,741
Selling and distribution (note 19)	115,576	131,307
General and administration (note 20)	113,919	103,401
	629,425	614,449

b) Salaries and employee related costs included under cost of goods sold (note 18), selling and distribution (note 19) and general and administration (note 20) comprise:

	2023 RO	2022 RO
Salaries and wages	445,966	468,420
Cost of end of service benefits for expatriate employees	31,938	20,914
Contribution to defined retirement plan for Omani employees	14,445	19,273
Other employee benefits	137,076	105,842
	629,425	614,449

Notes to the financial statements

21 SALARIES AND EMPLOYEE RELATED COSTS (Continued)

c) Movement in expatriate employees' end of service benefits liability recognised in the statement of financial position is as follows:

	2023 RO	2022 RO
At the beginning of the year	121,315	106,175
Expense during the year	31,938	20,914
Settled during the year	(10,144)	(5,774)
At the end of the year	143,109	121,315

22 BASIC EARNINGS PER SHARE

	2023 RO	2022 RO
Net profit for the year (RO)	119,731	13,472
Weighted average number of shares outstanding during the year	16,072,653	16,043,442
Basic earnings per share (RO)	0.007	0.001

23 RELATED PARTY TRANSACTIONS AND BALANCES

a) The Company enters into transactions in the ordinary course of business with key management personnel (including Board of Directors), subsidiary 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.

b) The details of compensation to key management personnel during the year are as follows:

	2023 RO	2022 RO
Short term employment benefits	49,753	46,975
Employees' end of service benefits	4,937	1,166
Directors' meeting attendance fees (note 20)	17,200	17,900
	71,890	66,041

c) The amounts due from a subsidiary are interest free and repayable on demand (2022 – same terms). The Management has assessed the amount to be impaired and have accordingly established an allowance for expected credit loss against the entire amount in a prior year.

24 FINANCE CHARGES

	2023 RO	2022 RO
Bank charges	19,106	20,838
Interest on lease liabilities [note 6 g)]	10,245	9,951
Interest on bank borrowings	9,857	19,785
Interest on term loan	2,291	4,849
	41,499	55,423

Notes to the financial statements

25 COMMITMENTS AND CONTINGENCIES

a) At the end of the reporting period, the Company had the following contingent liabilities:

	2023 RO	2022 RO
Bank guarantee	30,000	30,000

b) At the end of the reporting period, the Company had the following capital and purchase commitments in the normal course of business:

	2023 RO	2022 RO
Purchase commitments	382,668	198,115
Capital commitments	12,816	3,200
	395,484	201,315

26 OPERATING SEGMENTS

a) The Company has only one reportable segment comprising of manufacturing of sewing threads. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as Management believes that such information is the most relevant factor in evaluating the results of the segment relative to other entities that operate within these industries.

b) The Company's total sales and trade receivables to external customers are as follows:

		2023		2022
	Sales RO	Trade receivables RO	Sales RO	Trade receivables RO
Local sales	453,683	32,797	371,500	24,290
Exports	2,828,378	851,573	3,246,076	1,029,845
Total	3,282,061	884,370	3,617,576	1,054,135

c) The Company exports to the following countries:

	2023 RO	2022 RO
South Asia	826,440	1,119,132
Middle East	1,622,425	1,720,013
Others	379,513	406,931
	2,828,378	3,246,076

Notes to the financial statements

27 FINANCIAL RISK AND CAPITAL MANAGEMENT

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

a) Market risk

Currency risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UAE Dirhams and US Dollar. As the Rial Omani and UAE Dirham are pegged against the US Dollar, the Management does not believe that the Company is exposed to any material currency risk.

Interest rate risk

The Company is exposed to interest rate risk on its interest bearing liabilities (term loan, lease liabilities and bank borrowings). The Management manages the interest rate risk by constantly monitoring the changes in interest rates. For every 0.5% change in interest rate, the net impact on the statement of income will approximate to RO 2,009 (2022 – RO 2,446) based on the level of interest bearing liabilities at the end of the reporting period.

b) Credit risk

Credit risk primarily arises from credit exposures to customers, including outstanding receivables, amounts due from a subsidiary and any bank balances held with commercial banks.

<u>Trade receivables and amounts due from a subsidiary:</u>

The Company has a credit policy in place for trade receivables 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. The credit exposure of trade receivables is further analyzed as follows:

- At the end of the reporting period, 56% (2022 – 40%) of the trade receivables are due from 4 customers; and

- At the end of the reporting period, RO 591,055 (2022 – RO 558,507) of the trade receivables are secured against ECGA, letters of credit and documents against acceptance.

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 a subsidiary.

To measure the ECL, 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 of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Notes to the financial statements

27 FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

b) Credit risk (Continued)

Expected credit losses (ECL) [Continued]

On that basis, the loss allowance was determined as follows for trade receivables and amounts due from a subsidiary:

Year 2023	Trade receivables RO	Amounts due from a subsidiary RO	Expected loss rate %	Loss allowance RO
Current	528,240	--	1.00%	5,282
Past due by:				
0 – 30 days	161,208	--	4.52%	7,289
31 – 90 days	30,367	--	9.89%	3,002
Above 90 days	85,334	--	30.80%	26,283
Impaired	79,221	107,352	100%	186,573
	884,370	107,352		228,429

Year 2022	Trade receivables RO	Amounts due from a subsidiary RO	Expected loss rate %	Loss allowance RO
Current	450,583	--	1.00%	4,506
Past due by:				
0 – 30 days	116,301	--	6.66%	7,740
31 – 90 days	72,817	--	11.33%	8,248
91 – 180 days	47,551	--	17.03%	8,100
Above 180 days	12,714	--	27.65%	3,515
Impaired	354,169	107,352	100%	461,521
	1,054,135	107,352		493,630

ECL on other receivables has been provided due to a significant increase in the credit risk.

<u>Bank balances</u>

Credit risk from bank balances maintained in current accounts with local commercial banks is 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.

c) Liquidity risk

The Company maintains sufficient bank balances and credit facilities to meet its obligations as they fall due for payment and is therefore not subject to significant liquidity risk. The maturity analysis of lease liabilities is disclosed in 6 f) to the financial statements. All other current financial liabilities are expected to be repaid within 6 months to 1 year from the end of the reporting period.

Notes to the financial statements

27 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 (equity), the Company has covenanted with a local commercial bank providing external debt to maintain specified financial ratios [note 13 d)]. At the end of the reporting period, the actual ratios were within the covenanted level.

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2023	Buildings on leasehold land RO	Plant and machinery RO	Furniture, fixtures and office equipment RO	Motor vehicles RO	Capital work-in-progress RO [note 5 e)]	Total RO
Cost						
At 31 December 2022	572,675	2,433,267	91,088	38,195	--	3,135,225
Additions during the year	--	12,619	--	--	37,500	50,119
Disposals during the year	--	(4,800)	--	--	--	(4,800)
At 31 December 2023	572,675	2,441,086	91,088	38,195	37,500	3,180,544
Depreciation						
At 31 December 2022	386,952	2,007,282	84,216	38,186	--	2,516,636
Charge for the year	14,421	42,521	1,271	--	--	58,213
Relating to disposals	--	(2,000)	--	--	--	(2,000)
At 31 December 2023	401,373	2,047,803	85,487	38,186	--	2,572,849
Net book value						
At 31 December 2023	171,302	393,283	5,601	9	37,500	607,695
At 31 December 2022	185,723	425,985	6,872	9	--	618,589

Notes to the financial statements

5 PROPERTY, PLANT AND EQUIPMENT (Continued)

Year 2022	Buildings on leasehold land RO	Plant and machinery RO	Furniture, fixtures and office equipment RO	Motor vehicles RO	Capital work-in-progress RO	Total RO
Cost						
At 31 December 2021	566,348	2,428,035	90,443	38,195	445	3,123,466
Additions during the year	6,327	5,232	1,400	--	--	12,959
Disposals during the year	--	--	(1,200)	--	--	(1,200)
Transfers during the year	--	--	445	--	(445)	--
At 31 December 2022	572,675	2,433,267	91,088	38,195	--	3,135,225
Depreciation						
At 31 December 2021	371,615	1,962,520	83,138	37,138	--	2,454,411
Charge for the year	15,337	44,762	2,278	1,048	--	63,425
Relating to disposals	--	--	(1,200)	--	--	(1,200)
At 31 December 2022	386,952	2,007,282	84,216	38,186	--	2,516,636
Net book value						
At 31 December 2022	185,723	425,985	6,872	9	--	618,589
At 31 December 2021	194,733	465,515	7,305	1,057	445	669,055