

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1 ACTIVITIES

Muscat Gases Company SAOG (“the Company”) is an Omani Joint Stock Company incorporated in the Sultanate of Oman on 13 November 1989 under a trade license issued by the Ministry of Commerce & Industry. The Company’s Head Office is located at Al-Rusayl Industrial Area and its registered address is P O Box 2918, Ruwi, Postal Code 112, Sultanate of Oman.

The principal activities of the Company are manufacturing and selling of cooking gases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis and are presented in Rial Omani (“RO”), which is the Company’s functional currency. This is the first set of annual financial statements, in which IFRS 9 and IFRS 15 have been applied. Changes to accounting policies relating to IFRS 9 and IFRS 15 are described in note 2.1.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman.

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1.1 New and amended standards and interpretations to IFRS

For the year ended 31 December 2018, the Company has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IAS 40 (amendments) Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 1 Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures

The adoption of these standards and interpretations has not resulted in any major changes to the Company’s accounting policies except IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial instruments” whose effects on the Company’s financial statements are mentioned below:

IFRS 15 — Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company’s adoption of IFRS 15 under modified retrospective method had no material impact on the financial statements of the Company.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1.1 New and amended standards and interpretations to IFRS (continued)

IFRS 9 — Financial Instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below:

a) Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

- (1) Financial assets carried at amortised cost;
- (2) Financial assets carried at fair value through other comprehensive income (FVOCI); and
- (3) Financial assets carried at fair value through profit or loss (FVTPL)

(1) Financial assets at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- (a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below. Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Financing income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages Companies of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected). The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1.1 New and amended standards and interpretations to IFRS (continued)

IFRS 9 — Financial Instruments (continued)

a) Classification of financial assets (continued)

(1) Financial assets at amortised cost (continued)

(b) SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

(2) Financial assets at fair value through other comprehensive income (FVOCI):

(i) Debt instruments at FVOCI

The Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in statement of comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss.

The Company does not have debt instruments at FVOCI.

ii) Equity instruments at FVOCI

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

The Company does not have equity instruments at FVOCI.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1.1 New and amended standards and interpretations to IFRS (continued)

IFRS 9 — Financial Instruments (continued)

a) Classification of financial assets (continued)

(3) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company does not have financial assets at fair value through profit or loss.

b) Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all debt financial assets not held at FVTPL. The Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience as adjusted for forward-looking factors.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company considers a financial asset in default when contractual payment is 60 to 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

c) Hedge accounting

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges. The company does not have any hedge instrument.

d) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and fair value reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1.1 New and amended standards and interpretations to IFRS (continued)

IFRS 9 — Financial Instruments (continued)

d) Transition (continued)

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets as measured at FVOCI.

Impact of adopting IFRS 9

The adoption of this change in accounting policy has increased the retained earnings as at 1 January 2018 by RO 11,935 as follows:

	Retained earnings RO
Closing balance at 31 December 2017 as reported	<u>2,159,009</u>
<i>Impact on recognition of ECL on trade receivables:</i> ECL under IFRS 9 for trade receivables at amortised cost	11,935
Total transition adjustment on adoption of IFRS 9 as at 1 January	<u>11,935</u>
Adjusted opening balance as at 1 January 2018	<u><u>2,170,944</u></u>

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

2.1.1 New and amended standards and interpretations to IFRS (continued)

IFRS 9 — Financial Instruments (continued)

d) Transition (continued)

Classification of financial assets on the date of initial application of IFRS 9

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018.

	Original classification on (IAS 39)	New classification (IFRS 9)	Original Carrying amount RO	Re- measureme nt – ECL RO	Re- measurement - Others RO	New carrying amount RO
Financial assets						
Bank balances and cash	Loans and receivables	Amortised cost	4,477,794	-	-	4,477,794
Trade, related parties and other receivables (excluding advances and prepayments)	Loans and receivables	Amortised cost	857,937	11,935	-	869,872
Total Financial assets			5,335,731	11,935	-	5,347,666

The adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

Judgments, estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following judgments, which has the most significant effect in the amounts recognised in the financial statements:

Classification of financial assets - policy applicable from 1 January 2018

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets at amortised cost - policy applicable from 1 January 2018

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ended 31 December 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9: Prepayments features with negative compensation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle (issued in December 2017)
 - o IFRS 3 Business Combinations
 - o IFRS 11 Joint Arrangements
 - o IAS 23 Borrowing Costs
 - o IAS 12 Income Taxes

Management does not expect that the adoption of the above new and amended standards and the interpretation to a standard will have a significant impact on the Company's financial statements, except for the IFRS 16 "Leases" whose effects on the Company's financial statements are explained below.

IFRS 16 Leases

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Company will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. While the Company is in process of assessing the impact of the initial application. Management believes that the most significant impact will be that the Company will need to recognise a right of use assets and lease liability for land on which their depots, office and bulk storage facilities are constructed, currently treated as an operating lease. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Company, are not expected to have a material impact on the Company's financial statements.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Company's investment in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of comprehensive income outside operating profit.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are initially recognised at their cost being their purchase price plus any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

The Company uses the revaluation model, whereby land will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation will be performed every three years by an independent valuer.

After initial recognition, the property, plant and equipment (except lands) are carried, in the statement of financial position, at their cost less any accumulated depreciation and any accumulated impairment. The depreciation charge for each period is recognised in the profit or loss.

Depreciation is calculated on a straight line basis, which reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Company over the estimated useful life of the assets as follows:

	Years
Plant buildings	20 - 25
Plant and machinery	10 - 25
Head office building	8 - 25
Motor vehicles	4 - 20
Furniture and fixtures	4 - 10
Office equipment	3 - 10

Land is not depreciated as it is deemed to have an indefinite life.

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Capital work-in-progress

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to appropriate property, plant and equipment category and depreciated in accordance with the Company's policies.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (policy applied before 1 January 2018)

Financial assets and financial liabilities are recognized when the Company has become a party to the contractual provisions of the instrument. Financial assets are recognized and derecognized on the trade date when the Company becomes party to the contractual provisions of the instruments. The financial assets are initially recognized at fair value plus transactions costs. The financial assets which are non-derivative financial assets with fixed or determinable payments that are not quoted in active market are included in current assets, except for maturities greater than 12 months after the reporting date. They are classified as non-current assets.

Financial assets (policy applied before 1 January 2018)

Initial recognition and measurement

Financial assets are classified at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss, has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a Company of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realized gain and loss are recognised in the statement of income.

The principal financial assets are cash and bank balances, trade and other receivables and available-for-sale investments.

Trade and other receivables

Trade and other receivables are initially measured at their fair value and subsequently measured at amortised cost, using the effective interest method. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

Available-for-sale investments

Investments representing 'available-for-sale' financial assets are initially recognized at fair value and the transaction cost.

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NOTES TO THE FINANCIAL STATEMENTS

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (policy applied before 1 January 2018) (continued)

Available-for-sale investments (continued)

Subsequent to initial recognition, the investments are re-measured at fair value. Un-realized gains and losses on re-measurement to fair value are reported as a separate component of equity as 'investment revaluation reserve' until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit or loss for the year.

Impairment and uncollectibility of financial assets (policy applied before 1 January 2018)

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Financial liabilities (policy applied before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through statement of income, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs

The principal financial liabilities are trade and other payables.

Trade and other payables

Payables with no stated interest rate are measured at the original invoice amount, in cases where the imputed interest is immaterial. However, in cases where the imputed interest rate factor is material, accounts payables are stated at amortized cost, through application of the discounted cash flows method at market interest rate available on short-term borrowings with comparable average periods of maturity.

De-recognition of financial instruments (policy applied before 1 January 2018)

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial instruments (policy applied before 1 January 2018) (continued)

Financial assets (continued)

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Inventories

Inventories are stated at the lower of cost or at the new realizable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated cost to completion and costs to be incurred in marketing, selling and distribution.

Impairment of assets (policy applicable before 1 January 2018)

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets (if any) to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any, being the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of asset's fair value less costs to sell and the value in use. The asset's fair value is the amount for which that asset could be exchanged between knowledgeable, willing parties in arm's length transaction. The value in use is the present value of the future cash flows expected to be derived from the asset. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognized in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991, are recognised as an expense in the statement of comprehensive income as incurred.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (policy applied from 1 January 2018)

The Company's principal activity is manufacturing and selling of cooking gases.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of cooking gases

Revenue from sale of cooking gases is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit terms are 30 to 120 days upon delivery/receipt. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the Company considers the effects of variable consideration.

Interest income

Interest and other income is accounted for under the accrual basis of accounting.

Dividends

Revenue is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

Revenue recognition (policy applicable before 1 January 2018)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of returns. Revenue from sale of goods is recognised in the statement of profit or loss and other comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous

Deferred tax is calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefits will be realized.

Directors' remuneration

The Directors' remuneration is governed by the rules as set out in the Commercial Companies Law of 1974, as amended and the regulations issued by the Capital Market Authority.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders and provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of cash flows statement, cash and cash equivalents consist of bank balances and cash with a maturity of less than three months from the date of placement, net of outstanding bank overdrafts.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are translated to Omani Rials at the rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Omani Rials at year end rates. Any gain or loss arising from changes in exchange rates subsequent to the date of the transaction is recognized in the profit or loss.

Provisions

Provisions are present obligations (legal or constructive) resulted from past events, the settlement of the obligations is probable and the amount of those obligations can be estimated reliably. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Company would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

Provisions are reviewed and adjusted at each reporting date. If outflows, to settle the provisions, are no longer probable, reversal of the provision is recorded as income. Provisions are only used for the purpose for which they were originally recognised.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Current vs. Non-Current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

MUSCAT GASES COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3 COST OF SALES

	2018	2017
	RO	RO
Raw materials consumed	6,386,600	5,902,361
Salaries and related costs	434,441	750,766
Vehicles expenses	259,628	330,819
Depreciation of property, plant and equipment (note 8)	214,897	311,847
Cylinder testing charges	57,564	140,830
Sales commission	43,392	49,656
Others	304,585	381,507
	<u>7,701,107</u>	<u>7,867,786</u>

4 ADMINISTRATIVE AND GENERAL EXPENSES

	2018	2017
	RO	RO
Salaries and related costs	294,432	466,340
Legal and professional	134,798	392,830
Directors' sitting fees (note 21)	43,800	65,600
TSA charges	34,670	9,651
Interest and bank charges	33,107	29,494
Travelling expenses	19,923	7,881
Depreciation of property, plant and equipment (note 8)	13,032	23,351
Allowance for expected credit loss (note 11)	12,055	32,650
Insurance	10,854	12,538
Communication expenses	10,248	18,534
Printing and stationery	4,812	6,366
Vehicle expenses	3,546	2,734
Allowance for slow-moving inventories (note 10)	3,000	7,500
Advertisement and promotion	2,165	4,700
Repairs and maintenance	1,053	8,416
Utilities	-	1,680
Miscellaneous	64,181	30,239
	<u>685,676</u>	<u>1,120,504</u>

5 OTHER INCOME

	2018	2017
	RO	RO
Interest income on bank deposits	48,773	8,460
TSA income	43,391	16,773
Propane tolling charges	26,276	4,614
Gain on disposal of property, plant and equipment (net)	15,237	10,000
Scrap sales	6,680	21,671
Gain on foreign currency exchange	4,967	4,125
Dividend income	1,241	8,767
Miscellaneous income	25,643	26,169
	<u>172,208</u>	<u>100,579</u>

MUSCAT GASES COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

6 EARNINGS PER SHARE

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:

	2018	2017
Net profit for the year (RO)	<u>219,938</u>	<u>1,386,766</u>
Weighted average number of ordinary shares	<u>30,000,000</u>	<u>30,000,000</u>
Earnings per share – basic (RO)	<u>0.007</u>	<u>0.046</u>

As the Company has not issued any instruments during 2018 and 2017 which would have a dilution impact on earnings per share hence the basic and diluted earnings per share are the same.

7 TAXATION

Income tax is provided as per the provisions of the “Law of Income Tax on Companies” in Oman after adjusting the items which are non-assessable or disallowed. Income tax is calculated at 15% (2017: 15%) on the adjusted taxable income.

	2018	2017
	RO	RO
Statement of comprehensive income:		
Income tax		
Current year	87,941	292,014
Prior year	(2,322)	(94)
Deferred tax		
Current year	<u>4,691</u>	<u>(6,800)</u>
	<u>90,310</u>	<u>285,120</u>

Statement of financial position

Non-current liability:		
Deferred tax	<u>199,010</u>	<u>194,320</u>
Current liability:		
Current year tax	<u>87,941</u>	<u>292,014</u>

The total charge for the current year tax can be reconciled to the accounting profits as follows:

	2018	2017
	RO	RO
Profit for the year before tax	<u>310,248</u>	<u>1,671,886</u>
Tax @ 15% (2017: 15%)	46,537	250,783
Tax effect of items non-deductible for tax purposes	41,404	41,231
Prior year tax	(2,322)	(94)
Tax effect of deferred tax	<u>4,691</u>	<u>(6,800)</u>
Tax charge for the year	<u>90,310</u>	<u>285,120</u>

MUSCAT GASES COMPANY SAOG
 NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

7 TAXATION (Continued)

Deferred tax

Deferred income tax is calculated on all temporary differences using a tax rate of 15% (2017: 15%).

Recognised deferred tax assets and (liabilities) are attributable to the following items:

	At 1 January 2018 RO	Charge to statement of income RO	At 31 December 2018 RO
Asset			
<i>Provisions</i>	(10,644)	(2,258)	(12,902)
Liability			
Revaluation of land	166,634	22,723	189,357
IFRS 9 transition impact	-	1,790	1,790
Tax effect of depreciation	38,330	(17,565)	20,765
Net	<u>194,320</u>	<u>4,690</u>	<u>199,010</u>
	1 January 2018 RO	Tax charge/ (credit) RO	31 December 2018 RO
Deferred tax liability	<u>194,320</u>	<u>4,690</u>	<u>199,010</u>

The Company is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Company is 15% (2017-15%). For determining tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to this adjustments, the average effective tax rate is estimated to be 29.10% (2017-17.05%).

Status of tax assessment

The Company's income tax assessments have been finalised upto 2013. The management believes that additional taxes, if any, in respect of open tax years would not be material to the Company's financial position as of 31 December 2018.

MUSCAT GASES COMPANY SAOG
 NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8 PROPERTY, PLANT AND EQUIPMENT

	<i>Land RO</i>	<i>Plant buildings RO</i>	<i>Plant and machinery RO</i>	<i>Motor vehicles RO</i>	<i>Furniture and fixtures RO</i>	<i>Office equipment RO</i>	<i>Total RO</i>
Cost							
At 1 January 2018	1,775,000	578,348	1,847,813	1,645,455	16,775	109,046	5,972,437
Additions during the year	-	-	36,647	30,000	479	2,190	69,316
Disposals	-	-	-	(199,142)	(2,349)	(18,439)	(219,930)
At 31 December 2018	<u>1,775,000</u>	<u>578,348</u>	<u>1,884,460</u>	<u>1,476,313</u>	<u>14,905</u>	<u>92,797</u>	<u>5,821,823</u>
Depreciation							
At 1 January 2018	-	424,504	1,540,521	1,240,769	13,008	77,757	3,296,559
Charge for the year	-	18,921	59,320	132,738	1,604	15,346	227,929
Related to disposal	-	-	-	(199,142)	(2,349)	(15,556)	(217,047)
At 31 December 2018	<u>-</u>	<u>443,425</u>	<u>1,599,841</u>	<u>1,174,365</u>	<u>12,263</u>	<u>77,547</u>	<u>3,307,441</u>
Net carrying amount: At 31 December 2018	<u>1,775,000</u>	<u>134,923</u>	<u>284,619</u>	<u>301,948</u>	<u>2,642</u>	<u>15,250</u>	<u>2,514,382</u>

The depreciation charge for the year has been allocated in the statement of comprehensive income as follows:

	2018 RO	2017 RO
Cost of sales (note 3)	214,897	311,847
General and administrative expenses (note 4)	13,032	23,351
	<u>227,929</u>	<u>335,198</u>

- The factory premises are located on land leased from the Public Establishment for Industrial Estate, Rusayl. (note 22)
- Land at Al Wadi Al Kabir is jointly registered in the name of Muscat Gases Company SAOG and Mr. Abdul Hamed Bin Amer Bin Abdullah Al Qiyumi.
Lands were revalued in 2015 by an independent valuer on an open market basis. This resulted in an upward revaluation of RO 1,262,372. The amount added to revaluation reserve net of deferred tax liability (note 7) was RO 1,110,887. The carrying cost of lands before revaluation was RO 512,628.
- Motor vehicles include assets under finance lease amounts to RO 199,711 (2017: RO 237,825) (note 16).

MUSCAT GASES COMPANY SAOG
 NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land RO</i>	<i>Head office building RO</i>	<i>Plant buildings RO</i>	<i>Plant and machinery RO</i>	<i>Motor vehicles RO</i>	<i>Furniture and fixtures RO</i>	<i>Office equipment RO</i>	<i>Capital work-in- progress RO</i>	<i>Total RO</i>
Cost:									
At 1 January 2017	1,775,000	232,304	1,124,667	5,403,136	2,191,437	49,533	101,895	15,218	10,893,190
Additions during the year	-	-	-	129,386	300,194	1,339	7,151	331,238	769,308
Disposals	-	(232,304)	(546,319)	(3,684,709)	(846,176)	(34,097)	-	(346,456)	(5,690,061)
At 31 December 2017	1,775,000	-	578,348	1,847,813	1,645,455	16,775	109,046	-	5,972,437
Depreciation									
At 1 January 2017	-	26,406	513,713	2,934,754	1,686,032	38,537	60,144	-	5,259,586
Charge for the year	-	5,808	32,579	135,573	140,351	3,274	17,613	-	335,198
Related to disposal	-	(32,214)	(121,788)	(1,529,806)	(585,614)	(28,803)	-	-	(2,298,225)
At 31 December 2017	-	-	424,504	1,540,521	1,240,769	13,008	77,757	-	3,296,559
Net carrying amount: At 31 December 2017	<u>1,775,000</u>	<u>-</u>	<u>153,844</u>	<u>307,292</u>	<u>404,686</u>	<u>3,767</u>	<u>31,289</u>	<u>-</u>	<u>2,675,878</u>

MUSCAT GASES COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

9 INVESTMENT IN AN ASSOCIATE

	% holding	Year of incorporation	2018 RO	2017 RO
United Industrial Gases Company LLC	30%	2017	1,839,874	1,984,296
			1,839,874	1,984,296

Effective 1 October 2017, the Company acquired a 30% shareholding in United Industrial Gases Company LLC (UIGC), a company engaged in the manufacturing and selling of industrial gases. United Industrial Gases Company LLC is registered in the Sultanate of Oman as a limited liability company.

There are no contingent liabilities relating to the Company's interest in the above mentioned associate company.

The associate as mentioned above have share capital consisting solely of ordinary shares, which is directly held by the Company.

The following table illustrates summarised financial information of the Company's investment in the associate:

Share of associate's revenue and profit:

	2018 RO	2017 RO
Revenue	900,173	158,987
Profit	(144,422)	3,464

Share of associate's balance sheet:

Current assets	599,215	613,424
Non-current assets	1,676,901	1,621,310
Current liabilities	177,559	246,021
Non-current liabilities	258,683	4,417
Net assets	1,839,874	1,984,296

MUSCAT GASES COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

10 INVENTORIES

	2018	2017
	RO	RO
Gas cylinders	132,465	142,711
Raw-materials and spare parts	46,554	39,321
LPG bulk	26,088	15,529
	205,107	197,561
Less: allowance for slow-moving inventories	(45,000)	(42,000)
	160,107	155,561

Gas cylinders include LPG cylinders amounting to RO 113,471 (2017: RO 114,522) given to non-corporate customers on loan basis against post-dated cheques as security.

The movement in allowance for slow-moving inventories:

	2018	2017
	RO	RO
At 1 January	42,000	197,769
Charge for the year	3,000	3,000
Provision reversed	-	(158,769)
At 31 December	45,000	42,000

11 TRADE AND OTHER RECEIVABLES

	2018	2017
	RO	RO
Trade receivables	1,209,538	886,897
Less: allowances for expected credit losses	(29,080)	(28,960)
Net trade receivables	1,180,458	857,937
Due from related parties (note 21)	498,627	565,036
Advance to suppliers	23,679	23,749
Prepaid expenses	19,346	17,527
Other receivables	4,978	863
	1,727,088	1,465,112

Movement in the allowance for expected credit losses is as follows:

	2018	2017
	RO	RO
At the beginning of the year	28,960	69,314
Adjustment on initial application of IFRS 9 (note 2.1)	(11,935)	-
Add: Charge for the year	12,055	32,650
Less: Written off for the year	-	(73,004)
At 31 December	29,080	28,960

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11 TRADE AND OTHER RECEIVABLES (continued)

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	<i>Past due but not impaired</i>				
	Total RO	0 - 120 days RO	121 - 180 days RO	> 181-365 days RO	> 365 days
Weighted loss rate	2.40%	1.16%	3.26%	4.42%	5.69%
Gross carrying amount	1,209,538	744,336	45,075	390,316	29,811
Expected credit losses	(29,080)	(8,661)	(1,470)	(17,252)	(1,697)
2018	1,180,458	735,675	43,605	373,064	28,114
2017	857,937	524,672	169,863	163,402	-

The average credit period given to customers on sale of goods is 60 to 120 days. Receivables past due but not impaired are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

12 CASH AND CASH EQUIVALENTS

	2018 RO	2017 RO
Cash at bank (Current accounts)	417,291	581,557
Cash in hand	3,400	4,400
Short-term deposit	2,165	3,891,837
Fixed-term deposit	1,773,910	-
Cash and bank balances	2,196,766	4,477,794
Bank overdrafts	-	(350,088)
Cash and cash equivalents	2,196,766	4,127,706

Short term deposits were placed in 2018 with commercial bank in Oman and Finance Company carries interest of 3.2% to 4.25% per annum.

13 SHARE CAPITAL

	2018 RO	2017 RO
Authorised share capital	6,000,000	6,000,000
Issued and fully paid up capital	3,000,000	3,000,000

The Company has one class of ordinary shares of 100 Baisas each, which carry no right to fixed rate.

Details of shareholders of the Company who own 10% or more of the Company's shares and the number of shares they hold are as follows:

	2018		2017	
	%	Share	%	Share
Takamul Investment Co. SAOC	32.66	9,799,000	32.66	9,799,000
Civil Service Employees Pension Fund	15.00	4,500,000	15.00	4,500,000
Al Saud Co. Ltd (OAB)	10.09	3,027,525	10.10	3,030,645

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

14 STATUTORY RESERVE

In accordance with the Commercial Companies Law of the Sultanate of Oman, 10% of the profit for the period is required to be transferred to a statutory reserve until the reserve is equal to one third of the issued share capital. The Company has resolved to discontinue such transfers as the reserve totals one third of the issued share capital. The reserve is not available for distribution.

15 SPECIAL RESERVE

This represents the balance amount transferred from the share premium in accordance with Article 78 of the Commercial Companies Law and decision of the Board of Directors. This reserve is not available for distribution.

16 FINANCE LEASE

	2018	2017
	RO	RO
Current portion of finance lease	55,055	40,564
Non-current portion of finance lease	144,656	197,261
Present value of minimum lease payments	199,711	237,825

Finance lease are secured against the leased vehicles, which are jointly registered in the name of the Company and providers of finance lease under islamic financing facility with a profit share of 5.5% p.a; reviewed semi annually.

That portion of the finance lease which is repayable within 12 months of the statement of financial position date is disclosed as current portion of finance leases.

17 EMPLOYEES' END OF SERVICE BENEFITS

	2018	2017
	RO	RO
At January 1	120,644	190,438
Charge for the year	15,085	33,702
Payment during the year	(82,499)	(103,496)
At December 31	53,230	120,644

18 TRADE AND OTHER PAYABLES

	2018	2017
	RO	RO
Trade payables	678,294	615,778
Due to related parties (note 21)	192,253	23,273
Accruals	161,273	59,036
Other payables	66,678	138,700
	1,098,498	836,787

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

19 DIVIDEND

The Board of Directors has proposed a cash dividend of RO Nil (2017: RO 2,159,009) to be distributed to the shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting on 31st March 2019.

During the year, the Company has transferred to the investors trust maintained by the Capital Market Authority unclaimed dividends of RO 90,367 in 2018 (2017: RO 25,898).

20 NET ASSETS PER SHARE

Net assets per share are calculated by dividing the net assets attributable to the shareholders of the Company by the number of shares outstanding at the year end as follows:

	2018	2017
Net assets at December 31 (RO)	6,799,827	8,726,963
Weighted average number of shares outstanding at December 31	30,000,000	30,000,000
Net assets per share (RO)	0.227	0.291

21 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Outstanding balances at the year-end arise in the normal course of business. Outstanding balances at the reporting date are unsecured and settlement occurs in cash. For the year ended 31 December 2018, the Company has not recorded any impairment in respect of amounts owed by related parties (2017: Nil).

(a) Balances with related parties included in the statement of financial position are as follows:

	2018	2017
	RO	RO
Due from related parties:		
Air Products Leasing BV (Affiliate)	498,627	565,036
	498,627	565,036
Due to related parties:		
Oman Oil Marketing Co. SAOG (Shareholder)	15,115	17,293
United Industrial Gases Co.LLC (Associate)	177,138	5,980
	192,253	23,273

MUSCAT GASES COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

21 RELATED PARTY TRANSACTIONS (continued)

b) Transactions with related parties included in the statement of comprehensive income are as follows:

	2018	2017
	RO	RO
Revenue and other services	<u>322,463</u>	<u>4,983,516</u>
Purchase of goods and services	<u>1,516,457</u>	<u>561,377</u>
Dividend received	<u>-</u>	<u>8,767</u>

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2018	2017
	RO	RO
Short-term benefits and post-retirement benefits	<u>139,194</u>	<u>256,672</u>
Directors sitting fees	<u>43,800</u>	<u>65,600</u>

22 EXPENDITURE COMMITMENTS AND CONTINGENCIES

The following summarises the significant commitments and contingencies:

	2018	2017
	RO	RO
Letter of Guarantees	<u>402,738</u>	<u>457,020</u>
Capital commitments	<u>474,640</u>	<u>37,450</u>

Lease commitments

The Company has leased a plot of land for factory premises at Rusayl Industrial Estate, Sohar Industrial Estate and Nizwa Industrial Estate in 1999, 2007 and 2014 respectively from the Public Establishment for Industrial Estate for a period of 25 years which is renewable for a further period of 25 years. At the reporting date, lease commitments details are as follows:

	2018	2017
	RO	RO
Due within one year	7,501	7,501
Due after one year but within five years	30,004	30,004
Due after five years	<u>15,003</u>	<u>22,504</u>
	<u>52,508</u>	<u>60,009</u>

Please refer note 2.2 for the impact on leases due to the adoption of IFRS 16.

23 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the key decision makers that are used to make strategic decisions. The Company operates only in one business segment, namely, production and sale of cooking gases in the Sultanate of Oman. The Company's assets are located in the Sultanate of Oman. The Company sells its products primarily in Sultanate of Oman. All the relevant information relating to the assets, liabilities, revenue and expenses is disclosed in the statements of financial position, comprehensive income, cash flows and notes to the financial statements.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

24 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments consist of financial assets and liabilities. The principal financial assets and liabilities carried on the statement of financial position include cash and bank balances, trade and other receivables, available-for-sale investments and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, credit risk, liquidity risk and foreign currency risk. The Management reviews and agrees policies for managing each of these risks which are summarised below:

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables and balances with banks.

The carrying amount of each financial asset in the statement of financial position represents the maximum exposure to credit risk.

Exposure to credit risk

The Company's bank accounts are placed with reputed financial institutions.

The Company has no significant concentration of credit risk in respect of trade and other receivables with exposure spread over a large number of customers. The Company maintains a credit policy that states dealing with only creditworthy parties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Company monitors regularly, the credit ratings of its debtors and the volume of transactions with those debtors during the year. Ongoing credit evaluation is performed on the financial condition of debtors. However credit risk exposures are insignificant.

The exposure to credit risk at the reporting date was on account of:

	2018	2017
	RO	RO
Trade receivable	1,209,538	886,897
Due from related parties	498,627	565,036
Bank balances	419,456	4,473,394
Advance to suppliers	23,679	23,749
Other receivables	4,978	863
	<u>2,156,278</u>	<u>5,949,939</u>

The age of trade receivables and related expected credit losses at reporting date was :

	2018		2017	
	Gross RO	Impairment RO	Gross RO	Impairment RO
Not past due	744,336	8,661	524,672	-
past due 120 days - 1 year	435,391	18,722	360,192	26,927
More than 1 year	29,811	1,697	2,033	2,033
	<u>1,209,538</u>	<u>29,080</u>	<u>886,897</u>	<u>28,960</u>

The average credit period given to customers on sale of goods is 60 to 120 days. Receivables past due but not impaired are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

24 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The below schedule shows the maturity profile of the financial liabilities:

31 December 2018

	Carrying amount RO	6 months or less RO	6-12 months RO	1-2 Years RO	More than 2 Years RO
Finance lease	220,804	32,683	32,088	62,236	93,797
Trade payables	678,294	678,294	-	-	-
Due to related parties	192,253	192,253	-	-	-
Other payables	66,678	66,678	-	-	-
	1,158,029	937,225	32,088	62,236	93,797

31 December 2017

	Carrying amount RO	6 months or less RO	6-12 months RO	1-2 Years RO	More than 2 Years RO
Finance lease	237,825	27,528	27,528	55,055	127,714
Trade payables	615,778	615,778	-	-	-
Due to related parties	23,273	23,273	-	-	-
Directors remuneration	2,808	2,808	-	-	-
Other payables	138,700	138,700	-	-	-
	1,018,384	808,087	27,528	55,055	127,714

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity price affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(iv) Foreign currency risk

The Company's functional and presentation currency is Rial Omani and the Company's performance is substantially independent of changes in foreign currency rates. There are no significant financial instruments denominated in foreign currency and consequently foreign currency risk is not significant.

(v) Interest rate risk

The Company manages its interest rate risk through using fixed rate debts and deposits. The Company does not have any interest bearing assets and liabilities with floating interest rates. The Management has estimated the effect on profit for the year due to increases or decreases in interest rates to be insignificant.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

24 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(vi) Price risk

Price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issues, or factors affecting all securities traded in the market. The Company is not exposed to market risk with respect to its investments since its investment is in a non listed entity.

25 CAPITAL MANAGEMENT

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on equity, which the company defines as net profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Management believes that the fair values of all financial assets and liabilities of the Company are not different from their carrying amounts at 31 December 2018.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of account receivables (policy applicable from 1 January 2018)

On 1 January 2018 IFRS 9 “Financial Instruments” replaced the ‘incurred loss’ impairment model in IAS 39 “Financial Instruments: Recognition and Measurement” with an ‘expected credit loss’ (ECL) impairment model. The new impairment model requires forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. It also requires management to assign probability of default to various categories of receivables. Probability of default constitutes a key input in measuring an ECL and entails considerable judgement; it is an estimate of the likelihood of default over a given time horizon, the calculation of which involves historical data, assumptions and expectation of future conditions. In the previous year, the impairment review of trade receivables was performed only for receivables for which management had an indication for impairment. That also entailed significant judgement. It was determined by reference to past default experience of a counterparty and an analysis of the counterparty’s financial situation, but the “incurred loss” model disregarded entirely the current and expected future conditions. As a result, it is expected that under the new impairment model credit losses will be recognised earlier.

Impairment of accounts receivable (policy applied before 1 January 2018)

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were RO 1,209,538 (2017: RO 886,897), and the provision for doubtful debts was RO 29,080 (2017: RO 28,960). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Net realisable value of inventories (applicable for 2017 and 2018)

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventory was RO 210,226 (2017: RO 197,561), with provisions for old and obsolete inventories of RO 45,000 (2017: RO 42,000). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Classification of financial assets (policy applicable from 1 January 2018)

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets at amortised cost (policy applicable from 1 January 2018)

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Useful lives of property, plant and equipment (applicable to 2017 and 2018)

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Going concern (applicable to 2017 and 2018)

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Taxation (applicable to 2017 and 2018)

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of Company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.