

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 Legal status and principal activities

Muscat Gases Company SAOG ("the Company") is a public joint stock company registered in the Sultanate of Oman, with its registered office in Rusayl, PO Box 11, PC 124, Sultanate of Oman. The principal activities of the Company are manufacturing and selling of cooking gases.

2 Basis of preparation and adoption of new and amended IFRS

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified to include the fair value of certain financial assets and liabilities.

Functional and presentation currency

The financial statements have been prepared in Rial Omani ("RO"), which is the functional and presentation currency of the Company.

Statement of compliance

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) of the IASB, the disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of the Sultanate of Oman.

Adoption of new IFRS

The financial statements have been prepared based on accounting standards effective for the accounting periods beginning on or after 1 January 2019. The Company has adopted IFRS 16 : Leases for the first time for the annual reporting period beginning from 1 January 2019:

IFRS 16: Leases

a) Overview

In the current year, the Company has adopted IFRS 16 Leases, that is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases in the statement of financial position. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

2 Basis of preparation and adoption of new and amended IFRS (continued)

Adoption of new IFRS (continued)

IFRS 16: Leases (continued)

b) *Impact*

The Company adopted IFRS 16 using the modified transition approach as of 01 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application and the previous year comparative amounts are not restated prior to the date of adoption of the standard.

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an impact assessment. The assessment has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

i) *Impact on lessee accounting*

IFRS 16 : Leases, changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases, the Company:

- a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in the statement of comprehensive income.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

2 Basis of preparation and adoption of new and amended IFRS (continued)

Adoption of new IFRS (continued)

IFRS 16: Leases (continued)

b) Impact (continued)

i) Impact on lessee accounting (continued)

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have any effect on the Company's financial statements.

Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings, if any. The impact on transition is summarised below.

	<u>01.01.2019</u>
	<u>RO</u>
Right-of-use assets at 01 January 2019 (note 5)	
- Land	222,535
- Buildings	74,805
	----- 297,340 -----

The Company's profit before tax for the year decreased by RO 12,479 due to adoption of IFRS 16.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7%.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018 existing	596,506
Weighted average incremental borrowing rate as at 1 January 2019	7%
Discounted operating lease commitments and lease liabilities at 1 January 2019 (note 13)	297,340
Less: Prepayments at 31 December 2018	(9,315)
	----- 288,025 -----

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

2 Basis of preparation and adoption of new and amended IFRS (continued)

Adoption of new IFRS (continued)

IFRS 16: Leases (continued)

b) *Impact (continued)*

ii) *Impact on lessor accounting*

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company does not have any transactions as a lessor.

Other standards, amendments and interpretations to existing IFRS effective 1 January 2019

The Company has adopted all other standards and amendments for the first time for the annual reporting period beginning from 1 January 2019, while has accounted for and disclosed only the relevant and applicable standards and amendments:

- Amendments to IFRS 9: 'Financial instruments' – Prepayment features with negative compensation;
- Amendments to IAS 28: 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRSs published in December 2017 (2015-2017 cycle);
- Amendments to IAS 19: 'Employee benefits plan'- Amendment, Curtailment or Settlement;
- IFRIC 23, 'Uncertainty over Income Tax Treatments'.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standards, amendments and interpretations to existing IFRS that are not yet effective

Certain new standards, amendments and interpretations to existing IFRS have been published that are not effective and mandatory for the Company's accounting period commenced on 1 January 2019, which management has decided to adopt from the applicable periods.

- IFRS 17: 'Insurance Contracts';
- Amendments to IAS 28: 'Investments in Associates and Joint Ventures', and IFRS 10: 'Consolidated Financial Statements' – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 3: 'Business Combinations' – Definition of a business;
- Amendments to IAS 1: 'Presentation of Financial Statements' and IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors', – Definition of material;
- Conceptual Framework, Amendments to references to the Conceptual Framework in IFRS Standards.

Management believes that adoption of the above new standards and amendments is not likely to have any material impact on the presentation and disclosure of items in the financial statements for future periods.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These accounting policies have been consistently applied by the Company to all the years presented, unless otherwise stated.

Income from operations

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 a 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.

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, where by 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 3-5 years by an independent valuer.

After initial recognition, the items of property, plant and equipment (except land) 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 statement of comprehensive income.

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 asset.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful economic lives of the assets are:

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

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

The estimated useful lives, residual values and depreciation methods 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 the statement of comprehensive income.

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.

Leases

Policy effective from 1 January 2019 under IFRS 16

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The right-of-use assets and the lease liability are presented as separate line items in the statement of financial position.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Leases (continued)

Policy effective from 1 January 2019 under IFRS 16 (continued)

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'impairment of non-financial assets' policy.

Policy effective before 1 January 2019 under IAS 17

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 comprehensive income on a straight-line basis over the lease term.

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.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Investment in an associate (continued)

The statement of comprehensive income reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income (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.

Inventories

Inventories are stated at the lower of cost or at the net 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 non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax asset) to determine whether there is any indication that those assets have suffered an impairment loss. 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).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the statement of comprehensive income. Recoverable amount is the higher of fair value less cost of disposal and value in use.

Where an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been net of depreciation or amortisation, had no impairment loss been recognised earlier.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Financial Instruments

i) 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 IFRS 9 measurement categories of financial assets are :

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

a) 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:

- The asset is held within a "business model" whose objective is to hold assets to collect contractual cashflows;
- The contractual terms of the financial asset give rise on specified dates to cashflows that are solely payments of principal and interest (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 statement of comprehensive income. Any gain or loss on derecognition is recognised in the statement of comprehensive income.

Business model assessment

The Company determines its business model at the level that best reflects how it manages the Company's 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 cashflows collected). The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Financial Instruments (continued)

a) *Financial assets at amortised cost (continued):*

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cashflows 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.

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 cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

Debt instruments at FVOCI

The Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both 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 the 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.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Financial Instruments (continued)

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

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 IAS32 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.

c) 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 cashflows 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 comprehensive income. The Company does not have financial assets at fair value through profit or loss.

ii) Impairment of financial instruments

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.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Financial Instruments (continued)

iii) 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.

The Company does not trade in any financial liabilities and does not classify or measure any financial liabilities as at fair value through profit or loss. Consequently, all financial liabilities are classified and subsequently measured at amortized cost.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

Cash and cash equivalents

For the purpose of the statement of cash flows, all bank balances and short term deposits with a maturity of three months or less from the date of placement are considered to be cash equivalents.

Employee' end of service benefits

Employees' 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.

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 years.

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 un used 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.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Trade and other payables

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

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

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.

Foreign currency transactions

Transactions in foreign currencies are translated to Omani Rials at the exchange 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 statement of comprehensive income.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law 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

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Estimates and judgments

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.

Impairment of trade receivables

The impairment model as per IFRS 9 "Financial Instruments" 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 counter party 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.

Net realisable value of inventories

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 223,850 (2018 : RO 205,107), with provisions for old and obsolete inventories of RO 48,000 (2018: RO 45,000). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Estimates and judgments (continued)

Classification of financial assets

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

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment 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.

Assessment for impairment of property, plant and equipment and right-of-use assets

Assessment for useful lives of property, plant and equipment

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 management believes the useful lives differ from previous estimates.

Going concern

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, management is not aware of any material uncertainties that may cast significant doubt up on the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Taxation

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 the 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.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Summary of significant accounting policies (continued)

Operating segment

Management has determined the operating segments based on the reports reviewed by the key decision makers that are used to make strategic decisions. 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.

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
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

4 Property, plant and equipment

Cost	<u>Land</u> <u>RO</u>	<u>Plant</u> <u>buildings</u> <u>RO</u>	<u>Plant</u> <u>and</u> <u>machinery</u> <u>RO</u>	<u>Motor</u> <u>vehicles</u> <u>RO</u>	<u>Furniture</u> <u>and</u> <u>fixtures</u> <u>RO</u>	<u>Office</u> <u>equipment</u> <u>RO</u>	<u>Total</u> <u>RO</u>
At 1 January 2018	1,775,000	578,348	1,847,813	1,645,455	16,775	109,046	5,972,437
Additions	-	-	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>
At 1 January 2019	1,775,000	578,348	1,884,460	1,476,313	14,905	92,797	5,821,823
Additions	-	-	17,104	738,536	51,763	30,310	837,713
At 31 December 2019	<u>1,775,000</u>	<u>578,348</u>	<u>1,901,564</u>	<u>2,214,849</u>	<u>66,668</u>	<u>123,107</u>	<u>6,659,536</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 disposals	-	-	-	(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>
At 1 January 2019	-	443,425	1,599,841	1,174,365	12,263	77,547	3,307,441
Charge for the year	-	18,921	45,937	123,310	11,286	14,276	213,730
At 31 December 2019	<u>-</u>	<u>462,346</u>	<u>1,645,778</u>	<u>1,297,675</u>	<u>23,549</u>	<u>91,823</u>	<u>3,521,171</u>
Net book value							
At 31 December 2019	<u>1,775,000</u>	<u>116,002</u>	<u>255,786</u>	<u>917,174</u>	<u>43,119</u>	<u>31,284</u>	<u>3,138,365</u>
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>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

4 Property, plant and equipment (continued)

- a) The plants in Rusayl, Izki and Mussanah are built on right-of-use land leased from various lessors.
- b) 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.
- c) Land 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 17) was RO 1,110,887. The carrying cost of land before revaluation was RO 512,628.
- d) Depreciation on property, plant and equipment amounting to RO 185,480 (2018: RO 214,897) is charged to 'cost of sales' (note 20) and the balance depreciation of RO 28,250 (2018 : RO 13,032) is included in 'general and administrative expenses' (note 22).
- e) The motor vehicles with a cost of RO 1,002,786 (2018: RO 264,250) and net book value of RO 866,188 (2018: RO 202,592) are jointly registered in the name of the Company and an Islamic bank. (note 13).

5 Right-of-use assets

	Land right-of-use RO	Buildings right-of-use RO	Total RO
Cost			
At 1 January 2019 (adjusted)	222,535	74,805	297,340
At 31 December 2019	<u>222,535</u>	<u>74,805</u>	<u>297,340</u>
Accumulated depreciation			
Charge for the year	13,706	14,953	28,659
At 31 December 2019	<u>13,706</u>	<u>14,953</u>	<u>28,659</u>
Net book value			
At 31 December 2019	<u>208,829</u>	<u>59,852</u>	<u>268,681</u>

The Company leases several assets including land and buildings.

- a) The Company has leased four plots of land from various lessors. The lease term for the land is in the range of 5 to 32 years.
- b) The Company has leased a building for its head office. The lease term for the building is 5 years.
- c) During the year, the depreciation on right-of-use assets amounted to RO 28,659 and the finance charges on lease liabilities amounted to RO 17,180.
- d) Depreciation on right-of-use assets amounting to RO 13,706 is charged to 'cost of sales' (note 20) and the balance depreciation of RO 14,953 is included in 'general and administrative expenses' (note 22).

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

6 Investment in an associate

	<u>% holding</u>	<u>Year of incorporation</u>	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
United Industrial Gases Company LLC	30%	2017	<u>1,849,393</u>	<u>1,839,874</u>

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 UIGC.

UIGC have share capital consisting solely of ordinary shares, which is directly held by the Company.

UIGC's financial year is for the period 01 October to 30 September. Equity accounting for the remaining period up to 31 December 2019 is based on management accounts of the underlying investee company. Management believes that had those management accounts been audited, the Company's share of profit/(loss) in associate for the period ended 31 December 2019 would not be materially different to the amount of the investment results, recorded in the financial statements.

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

Share of associate's revenue and profit:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Revenue	<u>800,041</u>	<u>900,173</u>
Profit/(loss)	<u>9,519</u>	<u>(144,422)</u>

Share of associate's balance sheet:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Current assets	<u>521,781</u>	<u>599,215</u>
Non-current assets	<u>1,163,991</u>	<u>1,062,808</u>
Current liabilities	<u>129,170</u>	<u>177,559</u>
Non-current liabilities	<u>321,302</u>	<u>258,683</u>

The investee has recognised a discount on issue of shares amounting to RO 2,046,978 in its first audited financials for the period ending 30th September 2018. These audited financials were approved by the controlling investor on 12th November 2019, even though the Company's representative in the investee board has dissented such recognition, because the share capital registered and subscribed as per the commercial registration certificate remains at RO 6,602,771 and the purchase consideration was fixed as per the share purchase agreement with the controlling investor. Accordingly, the Company has not accounted for its share of such discount recognised in the investee's books, as dissented by its representative to the board of the investee entity.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

7 Inventories

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Gas cylinders	135,262	132,465
Raw-materials and spare parts	47,952	46,554
LPG bulk	40,636	26,088
	<u>223,850</u>	<u>205,107</u>
Less: allowance for slow-moving inventories	(48,000)	(45,000)
	<u>175,850</u>	<u>160,107</u>

Gas cylinders include LPG cylinders amounting to RO 113,471 (2018: 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:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
At 1 January	45,000	42,000
Provision during the year	3,000	3,000
At 31 December	<u>48,000</u>	<u>45,000</u>

8 Trade and other receivables

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Trade receivables	2,026,673	1,209,538
Less: allowances for expected credit losses	(21,933)	(29,080)
Net trade receivables	<u>2,004,740</u>	<u>1,180,458</u>
Amount due from related parties (note 24)	-	498,627
Advances to suppliers	421,907	23,679
Prepaid expenses	45,377	19,346
Other receivables	3,321	4,978
	<u>2,475,345</u>	<u>1,727,088</u>

The average credit period given to customers on sale of goods is 60 to 120 days. It is not the practice of the Company to obtain collateral over receivables.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

8 Trade and other receivables (continued)

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

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
At 1 January	29,080	28,960
Transition adjustment on adoption of IFRS 9	-	(11,935)
At 1 January (adjusted)	<u>29,080</u>	<u>17,025</u>
(Reversal)/charge for the year	<u>(7,147)</u>	<u>12,055</u>
At 31 December	<u>21,933</u>	<u>29,080</u>

As at 31 December 2019, the ageing of trade receivables is as follows :

	Total RO	0-120 Days RO	121-180 Days RO	181-365 Days RO	> 365 Days RO
Weighted loss rate	1.08%	0.74%	2.51%	3.76%	3.76%
Gross carrying amount	2,026,673	1,770,173	62,058	103,611	90,831
Expected credit losses	(21,933)	(13,031)	(1,556)	(3,897)	(3,449)
	<u>2,004,740</u>	<u>1,757,142</u>	<u>60,502</u>	<u>99,714</u>	<u>87,382</u>

As at 31 December 2018, the ageing of trade receivables is as follows :

	Total RO	0-120 Days RO	121-180 Days RO	181-365 Days RO	> 365 Days RO
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)
	<u>1,180,458</u>	<u>735,675</u>	<u>43,605</u>	<u>373,064</u>	<u>28,114</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

9 Cash and bank balances

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Cash at bank (current accounts)	181,700	417,291
Cash in hand	7,640	3,400
Short-term deposit	2,197	2,165
Fixed-term deposit	2,347,401	1,773,910
	<u>2,538,938</u>	<u>2,196,766</u>

Deposits are with commercial banks and finance company in Oman and it carries interest of 4.45% to 4.50% per annum. (2018 : 3.2% to 4.25% per annum)

10 Share capital

- a) The authorised share capital of the Company comprises 60,000,000 ordinary shares of 100 Baizas each (2018: 60,000,000 ordinary shares of 100 Baizas each). The issued and fully paid-up share capital is RO 3,000,000 (2018: RO 3,000,000) comprising 30,000,000 shares of 100 Baizas each (2018: 30,000,000 shares of 100 Baizas each).
- b) The Company has one class of ordinary shares which carries no right to fixed income.
- c) At the end of the reporting period, shareholders who own 10% or more of the Company's share capital, and the number of shares they hold are as follows:

	<u>2019</u>		<u>2018</u>	
	Number of shares	Shareholding percentage %	Number of shares	Shareholding percentage %
Takamul Investment Co. SAOC	9,799,000	32.66	9,799,000	32.66
Civil Service Employees Pension Fund	4,500,000	15.00	4,500,000	15.00
Al Saud Co. Ltd / Ubar Financial Investments	3,027,525	10.09	3,027,525	10.09

11 Statutory reserve

In accordance with the Commercial Companies Law of the Sultanate of Oman, annual appropriations of 10% of the profit for the year are to be made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution. The Company has discontinued such annual appropriation, as the amount in the Company's legal reserve account already reached one-third of the issued share capital.

12 Special reserve

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

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

13 Term loans

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Term loans	1,000,425	199,711
Less: current maturity	(202,707)	(45,329)
Non-current liabilities	<u>797,718</u>	<u>154,382</u>

a) Term loans represent the loan taken from a bank under islamic financing facility with a profit share of 5.5% per annum, reviewed semi annually. These loans are secured by joint registration of the assets purchased under this loan in favour of the islamic bank.

b) The maturity profile of the of term loans, based on the remaining period to maturity from the end of the reporting period is as follows:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Due less than 1 year	202,707	45,329
Due between 1 and 2 years	213,791	47,483
Due between 2 and 5 years	583,927	106,899
	<u>1,000,425</u>	<u>199,711</u>

c) The maturity profile of the undiscounted payments, based on the remaining period to maturity from the end of the reporting period is as follows:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Due less than 1 year	256,133	55,046
Due between 1 and 2 years	252,308	55,046
Due between 2 and 5 years	685,441	110,090
	<u>1,193,882</u>	<u>220,182</u>

d) The Company has credit facilities from a commercial bank and an islamic bank comprising overdrafts, term loans, loan against trust receipts, letters of credit, acceptances and letters of gurantees in the aggregate amount of approximately RO 3.252 million (2018: RO 1.981 million). Overdrafts obtained from commercial banks at interest rate of 4.5% (2018 - 5%) per annum. The interest rates may be re-negotiated by the banks on renewal of the facilities, which generally takes place on an annual basis.

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

14 Lease liabilities

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Lease liabilities	273,245	-
Less: current maturity	(22,909)	-
Non-current liabilities	<u>250,336</u>	<u>-</u>

a) The movement in lease liabilities is as follows :

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
IFRS 16 adjustments, net of prepayments	288,025	-
At the beginning of the year (adjusted)	<u>288,025</u>	<u>-</u>
Finance charges during the year	17,180	-
Payments during the year	(31,960)	-
At 31 December	<u>273,245</u>	<u>-</u>

b) The maturity profile of the lease liabilities, based on the remaining period to maturity from the end of the reporting period is as follows:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Due less than 1 year	22,909	-
Due between 1 and 2 years	24,513	-
Due between 2 and 5 years	47,593	-
Due above 5 years	178,230	-
	<u>273,245</u>	<u>-</u>

c) The maturity profile of the undiscounted lease liabilities, based on the remaining period to maturity from the end of the reporting period is as follows:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Due less than 1 year	40,860	-
Due between 1 and 2 years	40,860	-
Due between 2 and 5 years	87,662	-
Due above 5 years	395,162	-
	<u>564,544</u>	<u>-</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

15 Employees' end of service benefits

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Movement in expatriate employees' end of service benefits:		
At 1 January	53,230	120,644
Recognized during the year	9,142	15,085
Paid during the year	(6,111)	(82,499)
At 31 December	<u>56,261</u>	<u>53,230</u>

16 Trade and other payables

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Trade payables	1,397,455	678,294
Amount due to related parties (note 24)	54,739	192,253
Accruals	207,721	161,273
Other payables	28,078	66,678
	<u>1,687,993</u>	<u>1,098,498</u>

17 Income tax

Statement of comprehensive income

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
The tax charge for the year comprises:		
<i>Current tax</i>		
Current year tax	43,813	87,941
Prior period tax	-	(2,322)
	<u>43,813</u>	<u>85,619</u>
<i>Deferred tax</i>		
Current year	19,336	4,691
Prior period	(22,722)	-
	<u>40,427</u>	<u>90,310</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

17 Income tax (continued)

Statement of financial position	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Non-current liability :		
Deferred tax liability	<u>195,624</u>	<u>199,010</u>
Current liability :		
Current year tax	<u>43,813</u>	<u>87,941</u>

a) The Company is liable to income tax at the rate of 15% on the taxable profit (2018: tax at the rate of 15%).

The total tax charge for the year can be reconciled to the income taxes calculated on the accounting profit as follows :

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Profit for the year before tax	<u>429,811</u>	<u>310,248</u>
Tax @ 15% (2018: 15%)	<u>64,473</u>	<u>46,537</u>
Tax effect of items non-deductible for tax purposes	<u>(1,324)</u>	<u>41,404</u>
Prior year tax	<u>-</u>	<u>(2,322)</u>
Tax effect of deferred tax	<u>(22,722)</u>	<u>4,691</u>
	<u>40,427</u>	<u>90,310</u>

b) The Company's income tax assessments for tax years 2014 to 2018 have not been finalised by the taxation authorities. Management is of the opinion that the additional taxes, if any, that may become payable on finalisation of the pending tax assessments would not be significant to the Company's financial position at 31 December 2019.

c) Deferred tax (assets)/liabilities and deferred tax charge/(credit) in the financial statements consists of:

	<u>01.01.2019</u> <u>RO</u>	Recognized in the Statement of Comprehensive Income	<u>31.12.2019</u> <u>RO</u>
Provisions	(11,112)	<u>623</u>	<u>(10,489)</u>
Revaluation of land	166,635	<u>-</u>	<u>166,635</u>
Tax effect of depreciation	20,765	<u>19,398</u>	<u>40,163</u>
Right to use of asset	-	<u>(685)</u>	<u>(685)</u>
Adjustment of over/under deferred tax	22,722	<u>(22,722)</u>	<u>-</u>
	<u>199,010</u>	<u>(3,386)</u>	<u>195,624</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

18 Earnings, net assets per share

a) Earnings per share

The par value of each share is RO 0.100 (2018 - RO 0.100). The basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Net profit attributable to shareholders (RO)	<u>389,384</u>	219,938
Weighted average number of shares outstanding (No.)	<u>30,000,000</u>	<u>30,000,000</u>
Basic and diluted earnings per share (RO)	<u>0.013</u>	<u>0.007</u>

As the Company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

b) Net assets per share

Net assets per share are calculated by dividing the shareholders equity at the end of the reporting period by the number of shares outstanding at the end of the reporting period, as follows :

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Shareholders' equity (RO)	<u>7,189,211</u>	6,799,827
Number of shares outstanding at year end (No.)	<u>30,000,000</u>	<u>30,000,000</u>
Net assets per share (RO)	<u>0.240</u>	<u>0.227</u>

19 Income from operations

Disaggregation of revenue from contracts with customers :

The Company's income from operations represents the revenue from contracts with customers by transfer of goods and services at a point in time in the following geographical regions and product line.

a) Primary geographical region

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Sultanate of Oman	<u>6,778,945</u>	6,655,472
United Arab Emirates	<u>5,054,503</u>	2,013,773
	<u>11,833,448</u>	<u>8,669,245</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

19 Income from operations (continued)

b) Product line

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
LPG- Refilling	5,626,322	5,585,784
LPG- Bulk	6,101,305	2,965,090
New cylinders	44,946	33,044
Deodorized LPG (MGAP)	60,875	85,327
	<u>11,833,448</u>	<u>8,669,245</u>

c) Timing of revenue recognition

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Products transferred at a point in time	11,833,448	8,669,245

20 Cost of sales

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Raw materials consumed	9,193,550	6,386,600
Salaries and related costs	510,549	434,441
Vehicles expenses	454,884	259,628
Depreciation of property, plant and equipment (note 4)	185,480	214,897
Depreciation of right-of-use assets (note 5)	13,706	-
Cylinder testing charges	29,165	57,564
Sales commission	93,189	43,392
Others	394,791	304,585
	<u>10,875,314</u>	<u>7,701,107</u>

21 Other income

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Interest income on bank deposits	77,625	48,773
Dividend income	-	1,241
TSA income	9,290	43,391
Propane tolling charges	21,752	26,276
Gain on disposal of property, plant and equipment	-	15,237
Scrap sales	1,757	6,680
Gain on foreign currency exchange	20,020	4,967
Miscellaneous income	19,343	25,643
	<u>149,787</u>	<u>172,208</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

22 Administrative and general expenses

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Salaries and related costs	347,150	294,432
Legal and professional	42,929	134,798
Directors' sitting fees (note 24)	54,500	43,800
TSA charges	3,866	34,670
Travelling and marketing expenses	53,765	19,923
Depreciation of property, plant and equipment (note 4)	28,250	13,032
Depreciation of right-of-use assets (note 5)	14,953	-
Insurance	5,563	10,854
Communication expenses	17,577	10,248
Printing and stationery	4,702	4,812
Vehicle expenses	985	3,546
Advertisement expenses	2,990	2,165
Repairs and maintenance	442	1,053
Miscellaneous expenses	54,279	64,181
	<u>631,951</u>	<u>637,514</u>

23 Finance charges

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Interest on lease liabilities	17,180	-
Interest on term loans	20,970	16,942
Interest on overdraft	2,526	6,093
Other bank charges	19,149	10,072
	<u>59,825</u>	<u>33,107</u>

24 Related party transactions

- a) 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.
- b) 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 2019, the Company has not recorded any impairment in respect of amounts owed by related parties (2018: Nil).

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

24 Related party transactions (continued)

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

i) Amount due from related parties:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Air Products Leasing BV (Affiliate)	-	498,627

ii) Amount due to related parties:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Oman Oil Marketing Co. SAOG (Shareholder)	39,488	15,115
United Industrial Gases Co. LLC (Associate)	15,251	177,138
	<u>54,739</u>	<u>192,253</u>

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

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Revenue and other services	40,611	322,463
Purchase of goods and services	949,193	1,516,457

e) Key management personnel compensation for the year comprises:

	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Short-term benefits and post-retirement benefits	200,305	139,194
Directors' meeting attendance fee	54,500	43,800
	<u>254,805</u>	<u>182,994</u>

The Directors' meeting attendance fee and other related party transactions are subject to Shareholders' approval at the forthcoming Annual General Meeting.

25 Dividend

The Board of Directors has proposed a cash dividend of RO 0.020 per share for the year 2019 amounting to RO 600,000 (2018 : RO NIL) to be distributed to the shareholders. This dividend is subject to approval by the shareholders at the Annual General Meeting on 25th March 2020.

During the year, the Company has transferred to the investors trust maintained by the Capital Market Authority unclaimed dividends of RO NIL in 2019 (2018: RO 90,367).

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

26 Contingencies and commitments

Commitments

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Capital commitments	207,905	474,640
Performance bonds/Payment guarantees	1,253,445	402,738
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27 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.

28 Financial instruments and related 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, lease liabilities 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. Management reviews and agrees policies for managing each of these risks which are summarised below:

a) 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.

(i) 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.

(ii) 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. 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 FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

28 Financial instruments and related risk management (continued)

a) Market risk (continued)

(iii) Price risk

Price risk is the risk that financial instruments will fluctuate as a result of changes in market prices, whether these changes are the result of factors specifically related to the individual stock or its issuance, or factors that affect all securities traded in the market. The company is not exposed to market risks in relation to its investments as its investments are not listed in the stock market.

b) 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.

Credit risk on financial assets

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 credit worthy 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:

	<u>2019</u>	<u>2018</u>
	<u>RO</u>	<u>RO</u>
Trade receivable	2,026,673	1,209,538
Amount due from related parties	-	498,627
Advance to suppliers	421,907	23,679
Cash and bank balances	2,538,938	2,196,766
Other receivables	3,321	4,978
	<u>4,990,839</u>	<u>3,933,588</u>

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

	<u>2019</u>		<u>2018</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
	<u>RO</u>	<u>RO</u>	<u>RO</u>	<u>RO</u>
Not past due	1,770,173	13,031	744,336	8,661
Past due 120 days - 1 year	165,669	5,453	435,391	18,722
More than 1 year	90,831	3,449	29,811	1,697
	<u>2,026,673</u>	<u>21,933</u>	<u>1,209,538</u>	<u>29,080</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

28 Financial instruments and related risk management (continued)

c) 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.

The 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 table below analyses the Company's financial liabilities as at the end of the reporting period, based on the contractual maturity dates.

	Less than 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
At 31 December 2019				
Term loans	101,354	101,354	797,718	1,000,426
Lease liabilities	11,455	11,455	250,336	273,246
Trade payables	1,397,455	-	-	1,397,455
Amount due to related parties	54,739	-	-	54,739
Other payables	28,078	-	-	28,078
	<u>1,593,081</u>	<u>112,809</u>	<u>1,048,054</u>	<u>2,753,944</u>
	Less than 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
At 31 December 2018				
Term loans	22,665	22,665	154,381	199,711
Trade payables	678,294	-	-	678,294
Amount due to related parties	192,253	-	-	192,253
Other payables	66,678	-	-	66,678
	<u>959,890</u>	<u>22,665</u>	<u>154,381</u>	<u>1,136,936</u>

MUSCAT GASES COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

29 Operating segments

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, sale of cooking gases. The geographical information in respect of the operating segment is as follows:

The Company's total sales and trade receivables are as follows:

	Trade receivables		Sales	
	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>	<u>2019</u> <u>RO</u>	<u>2018</u> <u>RO</u>
Sultanate of Oman	670,710	696,407	6,778,945	6,655,472
United Arab Emirates	1,355,963	513,131	5,054,503	2,013,773
	<u>2,026,673</u>	<u>1,209,538</u>	<u>11,833,448</u>	<u>8,669,245</u>

30 Fair value of financial instruments

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 2019.

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).

31 Comparative amounts

Certain comparative amounts have been reclassified to conform to the current period presentation. The reclassifications do not affect the reported profit during the year ended 31 December 2018.

The notes on pages 10 to 43 form part of these financial statements.

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