

# Majan Glass Company SAOG

## Financial statements for the year ended 31 December 2017

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### Notes to the financial statements

#### 1 ACTIVITIES

Majan Glass Company SAOG (the "Company") is an Omani Public Joint Stock Company. It was incorporated in the Sultanate of Oman on 17 May 1995 under commercial registration number 3/19456/6.

The principal activity of the Company is manufacturing and sale of empty glass containers.

#### 2 BASIS OF PREPARATION AND ADOPTION OF NEW AND AMENDED IFRS

##### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended).

These financial statements are presented in Omani Rials.

##### 2.2 New and amended IFRS adopted by the Company

The financial statements have been drawn up based on accounting standards, interpretations and amendments effective at 1 January 2017. The Company has adopted the following new and revised Standards and Interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee, which were effective for the current accounting period:

- Amendments to IAS 7 'Statement of Cash Flows' issued in January 2016 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to IAS 12 'Income Taxes' issued in January 2016 clarify that in order to compute a temporary difference, the carrying amount is compared to its tax base. In doing so, the entity should not consider how the related assets will be recovered (such as through sale), or the probability that any resulting deferred tax asset will be recoverable.

The amendments also clarify that the estimation of taxable profit, against which deferred tax assets can be utilised, is a separate step. If it is considered probable that an asset will be realised at more than its carrying amount, this is reflected in the entity's estimate of future taxable profit. The tax deduction arising from the reversal of deferred tax assets will not be included in the estimated future taxable profit which is used to evaluate whether those assets are recoverable.

- Annual amendments to IFRSs (2014-2016 cycle) issued in December 2016 included an amendment to IFRS 12 'Disclosure of Interests in Other Entities'. The amendment clarifies that, except for the requirements to disclose summarised financial information, the requirements of IFRS 12 apply to interests (or a portion thereof) in a subsidiary, joint venture or associate that is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5 'Non-current Assets held for Sale and Discontinued Operations'.

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

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### Notes to the financial statements

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

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

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

- IFRS 15 'Revenue from Contracts with Customers' issued in May 2014 and related 'Clarifications to IFRS 15' issued in April 2016 establish principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related IFRICs 13, 15 and 18, and SIC-31. IFRS 15 is applicable for annual periods beginning on or after 1 January 2018. The standard is based on a 5 step approach to recognise revenue and also provides specific principles to apply, when there is a contract modification, when accounting for contract costs and when accounting for refunds and warranties. On application of the standard, the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.
- IFRS 9, 'Financial Instruments' issued in July 2014 has an effective date of accounting periods beginning on or after 1 January 2018. IFRS 9 outlines the recognition, measurement and derecognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. Financial assets are to be measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income, with an irrevocable option on initial recognition to recognise some equity financial assets at fair value through other comprehensive income. The impairment model in IFRS 9 moves to one that is based on expected credit losses rather than the IAS 39 incurred loss model. The derecognition principles of IAS 39, 'Financial Instruments: Recognition and Measurement' have been transferred to IFRS 9. The hedge accounting requirements have been liberalised from that allowed previously. The requirements are based on whether an economic hedge is in existence, with less restriction about proving whether a relationship will be effective than current requirements.
- IFRS 16, 'Leases' issued in January 2016 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective from 1 January 2019.

The adoption of IFRS 16 will result in the Company recognizing assets and liabilities in the statement of financial position relating to the operating leases of land for its factory premises in the Sohar Industrial Estate. At the end of the reporting period, the future aggregate minimum lease commitments under non-cancellable operating leases amounted to RO 448,328 (2016 – RO 565,283).

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

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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### Notes to the financial statements

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

- Estimation of useful lives of the assets (property, plant and equipment and intangible assets) which is based on Management's assessment of various factors such as the operating cycles, the maintenance programs and normal wear and tear using its best estimates;
- Allowance for credit losses which is based on the Management's estimates of recoverability of the amounts based on historical experiences;
- Provision for slow and non-moving inventories; and
- Estimation of useful life of moulds.

#### 4 SIGNIFICANT ACCOUNTING POLICIES

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

##### a) Accounting convention

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

##### b) Property, plant and equipment

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

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

Capital work in progress is stated at cost and includes all expenditures incurred on engineering, design work, borrowing costs and costs directly attributable to the project engineering, procurement and construction / installation until such time the assets are put to use, when these will be allocated to property, plant and equipment.

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

	Years
Buildings	40
Plant and machinery	1 to 25
Office equipment, furniture and fittings	6 to 10
Vehicles	4

Moulds are depreciated by applying an average rate based on the number of bottles attempted per mould with the maximum life of 5 years.

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**Notes to the financial statements**

**4 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Intangible assets**

Cost of software are stated at cost and amortised in equal instalments over the estimated period of benefit of 4 years. The Management annually review the software cost and useful life and assess if any impairment is required.

**d) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which is determined on weighted average cost basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business less any incidental selling expenses. Where necessary, provision is made for obsolete, slow-moving and defective inventories. Cost of finished products and work in progress includes cost of direct materials, direct labour and applicable direct overheads.

**e) Accounts and other receivables**

Accounts and other receivables are stated at amortised cost less impairment losses. An allowance for credit losses for accounts or other receivables is established when there is objective evidence that the Company will not be able to collect the amounts due.

When accounts and other receivables are uncollectible, it is written off against the allowance account for credit losses.

**f) Cash and cash equivalents**

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

**g) Foreign currency transactions**

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

**h) Impairment**

*Financial assets*

At the end of each reporting period, the Management assesses if there is any objective evidence indicating impairment of financial assets carried at cost or non-collectability of receivables. An impairment loss, if any, arrived at as a difference between the carrying amount and the recoverable amount, is recognised in the statement of income. The recoverable amount represents the present value of expected future cash flows discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted.

*Non-financial assets*

At the end of each reporting period, the Management assesses if there is any indication of impairment of non-financial assets. If an indication exists, the Management estimates the recoverable amount of the asset and recognizes an impairment loss in the statement of income. The Management also assesses if there is any indication that an impairment loss recognized in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the statement of income.

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### Notes to the financial statements

#### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### i) Provisions

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

##### j) Employee end of service benefits

Payment is made to Omani Government's Social Security Scheme under Royal Decree number 72 / 91 (as amended) for Omani employees. Provision is made for amounts payable under the Sultanate of Oman's Labour Law under Royal Decree number 35 / 2003 applicable to non-Omani employees' accumulated periods of service at the end of the reporting period.

##### k) Accounts payable and accruals

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

##### l) Sales

Sales consist of the invoiced value of goods supplied during the year net of discounts and returns. Revenue from the sale of goods is recognised in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer.

##### m) Operating leases

The operating lease payments are charged to the statement of income on a straight line basis, unless another systematic basis is representative of the time pattern of the benefit.

##### n) Financial liabilities

All financial liabilities are initially measured at cost and are subsequently measured at amortised cost.

##### o) Taxation

Taxation is provided for in accordance with the Sultanate of Oman's fiscal regulations. Deferred taxation is provided using the liability method on all temporary differences at the reporting date. It is calculated at the tax rates that are expected to apply to the period when it is anticipated the liabilities will be settled, and is based on the rates (and laws) that have been enacted at the end of the reporting period. Deferred tax assets in relation to carry forward losses or timing differences are recognized to the extent that it is probable that future taxable profits will be achieved.

##### p) Operating segment

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

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**Notes to the financial statements**

**4 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**q) Dividend**

The Board of Directors recommend to the Shareholders the dividend to be paid out of Company's profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) while recommending the dividend.

Dividend distribution to the Shareholders is recognized as a liability in the Company's financial statements only in the year in which the dividends are approved by the Shareholders.

**r) Directors' remuneration**

The Company follows the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended), and other relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration and meeting attendance fees. Directors' remuneration and meeting attendance fees are charged to the statement of income in the year to which they relate.

**5 PROPERTY, PLANT AND EQUIPMENT**

The balances and movements of property, plant and equipment are set out on pages 26 and 27.

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

	2017 RO	2016 RO
Direct depreciation		
- Normal	1,198,744	1,167,395
- Accelerated [see note b) below]	578,610	780,686
	1,777,354	1,948,081
Expenses	50,358	38,936
	1,827,712	1,987,017

b) The Board of Directors had appointed a technical consultant for evaluating the estimated useful lives of plant and machinery, with a view to determine a suitable depreciation policy in line with the policy generally adopted in the glass industry. Based on the assessment of the technical consultant, the estimated useful lives of plant and machinery were revised to significantly lower periods during 2015.

The revision in the useful lives of plant and machinery as stated above has resulted in accelerated depreciation for the year amounting to RO 578,610 (2016 – RO 780,686), which has been recognised in the statement of income within 'Cost of sales'.

The revision in the useful lives of plant and machinery would also impact on the results for the year 2018 by RO 0.225 million approximately.

c) The factory premises are located on land leased from the Public Establishment for Industrial Estate, Sohar [refer note 24 a)].

d) The cost of building represents the Company's share after adjusting for the Public Establishment for Industrial Estates' contribution of RO 800,000 (2016 – RO 800,000).

e) The amounts incurred towards capital work in progress majorly relates to new plant and machinery awaiting installation. These are expected to be completed in the year 2018.

f) Certain plant and machinery have been mortgaged with the local commercial bank against term loan and other facilities obtained (note 11 and 12).

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**Notes to the financial statements**

**6 INTANGIBLE ASSETS**

The intangible assets pertain to cost of software purchased during the year.

	2017 RO	2016 RO
<b>Cost</b>		
Additions during the year and at the end of the year	22,965	--
<b>Amortisation</b>		
Charge for the year and at the end of the year	3,854	--
<b>Net book value</b>		
At the end of the year	19,111	--

**7 INVENTORIES**

	2017 RO	2016 RO
Raw materials	267,786	170,690
Spares and consumables	1,232,419	1,058,598
Finished goods	3,718,751	3,206,213
Work in progress	13,216	16,175
Packing materials	86,170	72,230
Others	88,780	129,015
	5,407,122	4,652,921
Less: Provision for slow and non-moving inventories [see note b) below]	(144,896)	(939,813)
<b>Total</b>	5,262,226	3,713,108

The following notes apply:

- a) At the end of the reporting period, finished goods represent 204 days average sales based on sales reported for the current year (2016 – 157 days).
- b) The movement in the provision for slow and non-moving inventories is given below:

	2017 RO	2016 RO
At the beginning of the year	939,813	212,177
Written off during the year	(638,758)	--
Written back during the year (note 17)	(156,159)	--
Provided during the year	--	727,636
<b>At the end of the year</b>	144,896	939,813

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**Notes to the financial statements**

**8 ACCOUNTS AND OTHER RECEIVABLES**

	2017 RO	2016 RO
Accounts receivable	863,580	620,667
Amount due from related parties [note 13 c)]	123,259	293,891
Less: allowance for credit losses [see note a) below]	(9,741)	(14,709)
	977,098	899,849
Prepayments	149,238	139,389
Advances to suppliers	26,739	138,869
Advance for capital purchases	184,344	158,595
Other receivables	107,871	90,921
<b>Total</b>	<b>1,445,290</b>	<b>1,427,623</b>

The following further notes apply:

- a) The movement in allowance for credit losses is given below:

	2017 RO	2016 RO
At the beginning of the year	14,709	6,569
Provided during the year (note 18)	1,215	8,140
Written back during the year (note 17)	(6,183)	--
<b>At the end of the year</b>	<b>9,741</b>	<b>14,709</b>

- b) At the end of the reporting period, 5 customers account for 71% of the total accounts receivable and 41% of sales during the year (2016 – 5 customers accounted for 72% of accounts receivable and 33% of sales).

- c) At the end of the reporting period, the ageing analysis of the accounts receivables which are not impaired and estimated as collectible based on historical experience is as follows:

	2017 RO	2016 RO
<i>Neither past due nor impaired</i>	538,610	564,498
<i>Past due but not impaired</i>		
Debts due between 2 – 5 months	203,137	306,183
Debts due between 6 months – 1 year	112,092	29,168
<b>Total</b>	<b>853,839</b>	<b>899,849</b>

- d) At the end of the reporting period, amounts due from related parties are neither past due nor impaired and are estimated as collectible based on historical experience (2016 – similar terms).

- e) At the end of the reporting period, the entire accounts and other receivables and due from related parties are unsecured (2016 – unsecured).

- f) At the end of the reporting period, allowance for credit losses has been established for accounts receivable and due from related parties by the Management, based on the provisioning policy.

**9 BANK BALANCES AND CASH**

	2017 RO	2016 RO
Cash in hand	4,492	1,308
Bank balances	433	433
<b>Total</b>	<b>4,925</b>	<b>1,741</b>



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**10 ACCOUNTS AND OTHER PAYABLES**

	2017 RO	2016 RO
Accounts payable	1,664,596	1,037,061
Creditors for capital purchases	721,703	411,487
Amounts due to related parties [note 13 c)]	61,292	46,169
Accruals	256,159	393,204
Advance from customers	108,447	102,712
Other payables	219,901	168,132
<b>Total</b>	<b>3,032,098</b>	<b>2,158,765</b>

**11 TERM LOAN**

	2017 RO	2016 RO
Term loan	300,370	--
Less: current portion of term loan	(46,335)	--
<b>Non-current portion of term loan</b>	<b>254,035</b>	<b>--</b>

The following further notes apply:

- a) During the year, term loan amounting to RO 1.5 million was sanctioned by a local commercial bank. The loan carries interest at 6% per annum and is repayable in 36 equal monthly instalments commencing from July 2018. Since there was a delay in finalising the formalities relating to the term loan, the bank had advanced the above amount of RO 300,370 on a short term basis which, subsequent to the end of the reporting period, has been converted into a term loan as earlier sanctioned by the Bank. The term loan is secured by the commercial mortgage over machinery, equipment and other assets of the Company (2016 – not applicable).

- b) The maturity profile of the non-current portion of the term loan is as follows:

	2017 RO	2016 RO
Between 1 and 2 years	96,936	--
Between 2 and 5 years	157,099	--
<b>Total</b>	<b>254,035</b>	<b>--</b>

**12 BANK BORROWINGS**

	2017 RO	2016 RO
Loan against trust receipts	879,700	538,214
Bill discounting	1,127,177	--
Bank overdrafts	1,525,367	1,007,556
<b>Total</b>	<b>3,532,244</b>	<b>1,545,770</b>

The following further notes apply:

- a) Bank borrowings are obtained from local commercial banks and carry interest at commercial rates.
- b) Bank borrowings are secured by the following:
- Assignment of certain accounts receivable and amounts due from a related party;
  - Commercial mortgage over machinery and other assets; and
  - Assignment of the insurance policies of the assets financed in favor of the bank.

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**Notes to the financial statements**

**12 BANK BORROWINGS (Continued)**

- c) The facility agreements with banks contain certain covenants pertaining to maintaining current, leverage and debt coverage ratios. Although the actual ratios were not within the covenanted level at 31 December 2017, the Management believes that the bank is unlikely to demand for the immediate settlement of the dues or withdraw facilities.

**13 RELATED PARTY TRANSACTIONS**

- a) The Company has entered into transactions with the Directors, significant shareholders and key management personnel of the Company and entities in which Members / key management personnel have significant influence and control. In the ordinary course of business, the Company sells goods to related parties and procures goods and services from related parties. These transactions are entered into on terms and conditions, which the Board of Directors believe could be obtained on an arms' length basis from independent third parties.

The related party transactions during the year were as follows:

	2017	2016
	RO	RO
Sales	1,046,442	1,011,699
Cost of sales	54,501	50,378
Other income	25,100	25,500

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

	2017	2016
	RO	RO
Short term employment benefits	197,658	215,000
Employees' end of service benefits	6,502	8,566
Directors' remuneration [see note d) below]	26,200	25,100
Directors' meeting attendance fees [see note d) below]	23,800	24,900
	254,160	273,566

- c) The amount due from related parties and amounts due to related parties are on normal terms of credit and are not subject to interest (2016 – similar terms).

- d) The Board of Directors' meeting attendance fees and remuneration are subject to Shareholders' approval at forthcoming Annual General Meeting.

- e) The details of related party balances at the end of the reporting period are as follows:

	2017	2016
	RO	RO
<i>Due from related parties:</i>		
AATCO Food Industries LLC	88,560	240,451
AATCO Food Industries	34,699	53,440
	123,259	293,891

<i>Due to related parties:</i>		
AATCO Food Industries	--	1,608
Towell Auto Centre LLC	35,092	19,461
Directors' remuneration [refer note d) above]	26,200	25,100
	61,292	46,169

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**Notes to the financial statements**

**14 SHARE CAPITAL**

- a) The authorized share capital is RO 5,000,000 comprising 50,000,000 shares of 100 baiza each (2016 – RO 5,000,000 comprising 50,000,000 shares of 100 baiza each). The issued and paid up share capital is RO 4,202,330 (2016 – RO 4,202,330) comprising 42,023,300 shares of 100 baiza each (2016 – 42,023,300 shares of 100 baiza each).
- b) At the end of the reporting period, shareholders of the Company who own 10% or more of the shares, and the number of shares they hold are as follows:

	Number of shares	2017 and 2016 % holding
Ministry of Finance	31,625,000	75.26%

**15 LEGAL RESERVE**

The Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) requires 10% of the net profit for the year to be transferred to the legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals one third of the Company's paid up capital. The reserve is not available for distribution. No transfer to legal reserve has been made during the year, since the Company has incurred a loss for the year.

Legal reserve includes the excess of "share expenses" amounting to RO 9,335 (2016 – RO 9,335) received from public subscription over expenses incurred in accordance with the Company's Articles of Association.

**16 COST OF SALES**

	2017 RO	2016 RO
Materials and spares consumed	1,627,096	1,998,763
Fuel, electricity and water	1,589,341	1,403,880
Salaries and employee related costs [note 19 a)]	1,499,591	1,602,414
Rent	116,955	116,955
Provision for slow and non-moving inventories [note 7 b)]	--	727,636
Repairs and maintenance	127,416	74,637
Hire charges	3,566	25,702
Total	4,963,965	5,949,987

**17 OTHER INCOME**

	2017 RO	2016 RO
Amounts no longer payable reversed to income	91,189	39,290
Provision for slow and non-moving inventories written back [note 7 b)]	156,159	--
Sale of scrap	36,145	22,004
Income from insurance claim	32,563	917
Allowance for credit losses written back [note 8 a)]	6,183	--
Gain on disposal of property, plant and equipment	5,347	2,742
Directors' remuneration no longer payable reversed	25,100	25,500
Miscellaneous income	--	13,272
Total	352,686	103,725

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**18 GENERAL AND ADMINISTRATION**

	2017 RO	2016 RO
Salaries and employee related costs [note 19 a)]	546,378	328,619
Insurance	66,531	65,089
Foreign exchange loss	43,113	--
Directors' meeting attendance fees [note 13 d)]	23,800	24,900
Travelling	23,290	26,981
Professional fees	22,245	27,264
Communication	19,253	18,114
Receivables written off	12,994	18,267
Information technology	8,886	12,458
Vehicle expenses	6,644	11,288
Allowance for credit losses [note 8 a)]	1,215	8,140
Recruitment expenses	516	30,565
Directors' remuneration [note 13 d)]	26,200	25,100
Rent	--	8,302
Miscellaneous expenses	50,775	55,335
<b>Total</b>	<b>851,840</b>	<b>660,422</b>

**19 SALARIES AND EMPLOYEE RELATED COSTS**

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

	2017 RO	2016 RO
Cost of sales (note 16)	1,499,591	1,602,414
General and administration (note 18)	546,378	328,619
	<b>2,045,969</b>	<b>1,931,033</b>

Salaries and employee related costs allocation for the year 2017 is based on cost centres as compared to an estimated allocation for the year 2016.

b) Salaries and employee related costs comprise:

	2017 RO	2016 RO
Salaries and wages	1,654,161	1,642,464
Contributions to defined retirement plan for Omani employees	54,172	45,766
Cost of end of service benefits for expatriate employees	56,255	40,006
Other employee related costs	281,381	202,797
	<b>2,045,969</b>	<b>1,931,033</b>

c) Movement in expatriate employees' end of service benefits during the year is as follows:

	2017 RO	2016 RO
At the beginning of the year	246,756	258,511
Expense for the year	56,255	40,006
Settled during the year	(22,631)	(51,761)
<b>At the end of the year</b>	<b>280,380</b>	<b>246,756</b>

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**Notes to the financial statements**

**20 SELLING AND DISTRIBUTION**

	2017 RO	2016 RO
Freight charges	449,422	461,230
Sales commission	41,528	95,055
Site inspection expenses	714	1,516
Other expenses	37,990	9,580
<b>Total</b>	<b>529,654</b>	<b>567,381</b>

**21 FINANCE COSTS**

	2017 RO	2016 RO
Interest on bank borrowings	135,408	40,866
Interest on term loan	370	--
Letter of credit charges	541	1,159
Bank charges	42,351	14,298
<b>Total</b>	<b>178,670</b>	<b>56,323</b>

**22 TAXATION**

	2017 RO	2016 RO
<b>Statement of income</b>		
Current tax:		
- Current year	--	10,723
- Prior year charge	2,436	3,063
Deferred tax credit	(218,849)	(213,161)
<b>Taxation credit</b>	<b>(216,413)</b>	<b>(199,375)</b>

	2017 RO	2016 RO
<b>Statement of financial position</b>		
<i>Non-current asset</i>		
Deferred taxation	299,218	80,369
<i>Current liability</i>		
Current taxation	--	10,723

The following further notes apply:

- a) Taxation is provided at 15% (2016 – 12% of taxable income in excess of RO 30,000) on the profit for the year adjusted for taxation purposes. During the year, there has been a change in the tax rate from 12% to 15%. The taxable income exemption of RO 30,000 has also been withdrawn.
- b) The taxation assessment for the years 2015 and 2016 are pending to be finalised by the Secretariat General for Taxation. The Management believes that the amount of additional taxes, if any that may arise on finalization of the assessments for the un-assessed tax years, will not be material to the financial position at the end of the reporting period.

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**Notes to the financial statements**

**22 TAXATION (Continued)**

- c) The deferred tax asset and the deferred tax credit in the statement of income are attributable to the following items:

	Carried forward losses RO	Provisions RO	Accelerated capital allowances RO	Total RO
At 31 December 2015	--	(26,250)	159,042	132,792
Credited to the statement of income	--	(88,292)	(124,869)	(213,161)
At 31 December 2016	--	(114,542)	34,173	(80,369)
At 31 December 2016	--	(114,542)	34,173	(80,369)
Credited to the statement of income	(222,481)	91,346	(87,714)	(218,849)
At 31 December 2017	(222,481)	(23,196)	(53,541)	(299,218)

- d) The deferred tax impact in the statement of income for the year attributable to change in tax rate is RO 20,092 (2016 – not applicable).

**23 LOSS PER SHARE AND NET ASSETS PER SHARE**

**a) Loss per share**

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

	2017	2016
Net loss for the year (RO)	(1,142,606)	(1,487,753)
Number of shares outstanding at 31 December	42,023,300	42,023,300
Loss per share (RO)	(0.027)	(0.035)

As there are no dilutive potential shares, the diluted loss per share is identical to the loss per share.

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**Notes to the financial statements**

**23 LOSS PER SHARE AND NET ASSETS PER SHARE (Continued)**

**b) Net assets per share**

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

	2017	2016
Net assets (RO)	7,090,402	8,233,008
Number of shares outstanding at 31 December	42,023,300	42,023,300
Net assets per share (RO)	0.169	0.196

**24 COMMITMENTS**

- a) The Company has leased a plot of land for factory premises at Sohar Industrial Estate from the Public Establishment for Industrial Estates for a period of 25 years until 18 December 2021, which is renewable thereafter for a further period of 25 years. Accordingly, at the end of the reporting period, the lease commitments were as follows:

	2017 RO	2016 RO
Due within one year	116,955	116,955
Due after one year but within five years	331,373	448,328
	448,328	565,283

- b) At the end of the reporting period, the Company had outstanding capital commitments amounting to RO 111,538 (2016 – RO 199,279) majorly towards replacement of certain plant and machinery.

**25 FINANCIAL RISKS AND CAPITAL MANAGEMENT**

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

**a) Market risk**

*Currency risk*

The Company operates in international markets and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollars, AED Dirhams, Saudi Rials, GB Pounds and Euros. As the US Dollar is pegged to the Rial Omani and other GCC currencies, the Management does not believe that the Company is exposed to any material currency risk. The exposure to Euro currency was not material to the Company's financial position at the end of reporting period.

Accounts payable include RO 1,253,076 (2016 – RO 1,062,204) payable in foreign currencies, mainly denominated in US Dollars, AED Dirhams and Saudi Rials.

*Interest rate risk*

The Company is exposed to interest rate risk on its interest bearing liabilities (bank borrowings and term loan). The Management manages the interest rate risk by constantly monitoring the changes in interest rates and ensuring that the term loan is on a fixed rate basis.

For every 0.5% change in interest rate, the impact on the statement of comprehensive income will approximate to RO 19,161 (2016 – RO 7,729) based on the level of financial liabilities at the end of the reporting period.

# Majan Glass Company SAOG

## Financial statements for the year ended 31 December 2017

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### Notes to the financial statements

#### 25 FINANCIAL RISKS AND CAPITAL MANAGEMENT (Continued)

##### b) Credit risk

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The carrying value of accounts receivable approximates their fair values due to the short-term nature of those receivables.

The credit risk is detailed in note 8 b) to the financial statements.

##### c) Liquidity risk

The Company maintains sufficient bank balances and approved bank credit facilities to meet its obligations as they fall due for payment. The table below analyses the Company's financial liabilities as at the end of the reporting period based on the contractual maturity dates.

<b>31 December 2017</b>	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Term loan	--	--	46,335	254,035	300,370
Accounts and other payables	617,278	806,916	1,473,257	--	2,897,451
Bank borrowings	3,532,244	--	--	--	3,532,244
	<u>4,149,522</u>	<u>806,916</u>	<u>1,519,592</u>	<u>254,035</u>	<u>6,730,065</u>
<b>31 December 2016</b>	Less than 3 months RO	3 to 6 months RO	6 months to 1 year RO	More than 1 year RO	Total RO
Accounts and other payables	2,158,765	--	--	--	2,158,765
Bank borrowings	538,214	1,007,556	--	--	1,545,770
	<u>2,696,979</u>	<u>1,007,556</u>	<u>--</u>	<u>--</u>	<u>3,704,535</u>

##### d) Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Company also ensures compliance with externally imposed capital requirements.

In the context of managing capital (equity), the Company has covenanted with banks providing external debt to maintain specified ratios. At the end of the reporting period, certain ratios were not within the covenanted level and the Company intends to comply with the requirements of the banks in the near future.



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**Notes to the financial statements**

**26 OPERATING SEGMENT**

The Company has only one reportable segment that of manufacturing and sale of empty glass containers. The geographical information for the sales and accounts receivable and due from related parties for the reportable segment is as follows:

	2017		2016	
	Sales	Accounts receivable and due from related parties	Sales	Accounts receivable and due from a related parties
	RO	RO	RO	RO
Local	2,262,531	436,884	2,150,665	532,643
Exports	4,381,459	549,955	5,279,612	381,915
	6,643,990	986,839	7,430,277	914,558

**27 COMPARATIVES**

Comparative figures have been reclassified, wherever necessary, to conform to the presentation adopted for the current year.

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**Notes to the financial statements**

**5 PROPERTY, PLANT AND EQUIPMENT (Continued)**

Year 2017	Buildings RO	Plant and machinery RO	Office equipment, furniture and fittings RO	Vehicles RO	Moulds RO	Capital work in progress RO [note 5 e)]	Total RO
<b>Cost</b>							
At 31 December 2016	1,463,337	17,382,228	297,518	87,860	811,751	1,159,411	21,202,105
Additions during the year	--	141,992	18,723	20,834	206,491	1,685,917	2,073,957
Transfers during the year	--	2,470,081	41,925	--	--	(2,512,006)	--
Disposal during the year	--	--	(1,250)	(11,800)	(16,855)	--	(29,905)
At 31 December 2017	1,463,337	19,994,301	356,916	96,894	1,001,387	333,322	23,246,157
<b>Depreciation</b>							
At 31 December 2016	277,019	13,102,045	249,905	73,877	527,078	--	14,229,924
Charge for the year	36,583	1,527,270	36,175	14,183	213,501	--	1,827,712
Relating to disposal	--	--	(1,227)	(11,800)	(3,176)	--	(16,203)
At 31 December 2017	313,602	14,629,315	284,853	76,260	737,403	--	16,041,433
<b>Net book values</b>							
At 31 December 2017	1,149,735	5,364,986	72,063	20,634	263,984	333,322	7,204,724
At 31 December 2016	1,186,318	4,280,183	47,613	13,983	284,673	1,159,411	6,972,181

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**Notes to the financial statements**

**5 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Year 2016</b>	Buildings RO	Plant and machinery RO	Office equipment, furniture and fittings RO	Vehicles RO	Moulds RO	Capital work in progress RO [note 5 e)]	Total RO
<b>Cost</b>							
At 31 December 2015	1,384,723	17,360,293	290,445	93,350	661,642	73,103	19,863,556
Additions during the year	2,129	21,935	7,073	--	150,109	1,162,793	1,344,039
Transfers during the year	76,485	--	--	--	--	(76,485)	--
Disposal during the year	--	--	--	(5,490)	--	--	(5,490)
At 31 December 2016	1,463,337	17,382,228	297,518	87,860	811,751	1,159,411	21,202,105
<b>Depreciation</b>							
At 31 December 2015	240,436	11,432,134	224,994	65,342	285,491	--	12,248,397
Charge for the year	36,583	1,669,911	24,911	14,025	241,587	--	1,987,017
Relating to disposal	--	--	--	(5,490)	--	--	(5,490)
At 31 December 2016	277,019	13,102,045	249,905	73,877	527,078	--	14,229,924
<b>Net book values</b>							
At 31 December 2016	1,186,318	4,280,183	47,613	13,983	284,673	1,159,411	6,972,181
At 31 December 2015	1,144,287	5,928,159	65,451	28,008	376,151	73,103	7,615,159