

ROYAL RAILWAY PLC.
(Previously known as Royal Railway Co., Ltd)

Financial Statements
for the year ended 31 December 2022
and
Report of the Independent Auditors

Corporate information

Company	Royal Railway Plc. (previously known as Royal Railway Co., Ltd.)	
Registration No.	00018504	
Registered office	Central Railway Station, Russian Federation Boulevard Sangkat Sras Chork, Khan Daun Penh, Phnom Penh Kingdom of Cambodia	
Shareholder	<i>Prior to 2 June 2022</i> Inter Logistics (Cambodia) Co., Ltd. <i>After 2 June 2022:</i> Inter Logistics (Cambodia) Co., Ltd. Neak Oknha Kith Meng	
Board of Directors	Neak Oknha Kith Meng Mr. Raymond Thornton Yager Mr. William Mark Hanna Mr. Paul Clements Mr. Lun Yeng	Chairman Director (appointed on 2 June 2022) Director (appointed on 2 June 2022) Director (appointed on 2 June 2022) Independent Director (appointed on 2 June 2022)
Management team	Mr. John Guiry Ms. Tauch Sothyda	Chief Executive Officer Chief Financial Officer
Audit and Risk Committee	Mr. Lun Yeng Mr. Paul Clements Mr. William Mark Hanna	Chairman (appointed on 2 June 2022) Director (appointed on 2 June 2022) Director (appointed on 2 June 2022)
Nomination and Remuneration Committee	Mr. William Mark Hanna Mr. Paul Clements	Chairman (appointed on 2 June 2022) Director (appointed on 2 June 2022)
Principal banker	Wing Bank (Cambodia) Plc.	
Auditors	KPMG Cambodia Ltd	

Royal Railway Plc.
(previously known as Royal Railway Co., Ltd.)

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ROYAL RAILWAY PLC.
Central Railway Station, Sangkat Sras
Chork, Daun Penh, Phnom Penh, Cambodia
T +885 23 992 379
F +885 23 992 353
www.royal-railway.com

Report of the Board of Directors

The Board of Directors (“Directors”) of Royal Railway Plc. (previously known as Royal Railway Co., Ltd.) (“the Company”) have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2022.

Principal activities

The Company is principally engaged in operating railway services including, inter alia, railway freight and passenger services, the provision of substitute transportation by other modes in the event transport by rail is impractical, and the maintenance of railway infrastructure and equipment.

Financial results

The financial results of the Company for the year ended 31 December 2022 were as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loss before income tax	(4,118,571)	(16,832,600)	(748,978)	(3,046,717)
Income tax expense	-	-	-	-
Net loss for the year	<u>(4,118,571)</u>	<u>(16,832,600)</u>	<u>(748,978)</u>	<u>(3,046,717)</u>

Dividends

No dividend was declared nor paid during the year and the Directors do not recommend any dividends to be paid as at the reporting date.

Share capital

The Company is owned by Inter Logistics (Cambodia) Co.,Ltd and Neak Oknha Kith Meng. On 2 June 2022, the shareholders have reached an agreement and resolved to change Company’s name from Royal Railway Co.,Ltd. to Royal Railway Plc. and transferred the 1.0001% of the Company’s ordinary share, collectively from Inter Logistics (Cambodia) Co.,Ltd to Neak Oknha Kith Meng. On 2 June 2022, the Company updated the Memorandum and Articles of Association to reflect those changes which was endorsed by the CDC and MOC on 2 May 2022 and 2 June 2022, respectively (Refer to Note 15).

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Reserves and provisions

There were no other movements to or from reserves and provisions during the financial year other than those disclosed in the financial statements.

Expected credit losses on trade and other receivables

Before the financial statements of the Company were drawn up, the Directors took reasonable steps to ascertain that action had been taken and satisfied themselves that all known bad trade and other receivables had been written off and that adequate provision for expected credit losses on trade and other receivables had been made.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad trade and other receivables or the amount of allowance for impairment losses of trade and other receivables in the financial statements of the Company inadequate to any material extent.

Assets

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ensure that any assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company had been written down to an amount which they are expected to be realised.

At the date of this report, the Directors is not aware of any circumstances, which would render the values attributed to the assets in the financial statements of the Company misleading.

Valuation methods

At the date of this report, the Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Company as misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there is:

- No change on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
- Except as disclosed in Note 27 to the financial statements, no other contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Contingent and other liabilities (continued)

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period after the end of the reporting period which, in the opinion of the Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become due.

Change of circumstances

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

The results of the operations of the Company for the reporting year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

Nothing has arisen during the interval between the end of the reporting year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the current reporting period in which this report is made.

Items of unusual nature

The results of the operations of the Company for the financial year was not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

The Board of Directors

The members of Board of the Directors who served as of the date of this report are as follow:

<i>Name</i>	<i>Position</i>
Neak Oknha Kith Meng	Chairman
Mr. Raymond Thornton Yager	Director
Mr. William Mark Hanna	Director (appointed on 2 June 2022)
Mr. Paul Clements	Director (appointed on 2 June 2022)
Mr. Lun Yeng	Independent Director (appointed on 2 June 2022)

Directors' interests

Except Neak Oknha Kith Meng; the Chairman, directly and indirectly hold the Company through Inter Logistics (Cambodia) Co., Ltd., none of the other Directors held or dealt directly in the shares of the Company during the financial year.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Directors' benefit

During and at the end of the financial year, no arrangements existed to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate body.

During the financial year, no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

Directors' responsibility in respect of the financial statements

The Directors is responsible for ascertaining that the financial statements as set out on pages 10 to 58 present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended. In preparing the financial statements, the Board of Directors required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Company's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and to ensure that the accounting records comply with the registered accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the management has complied with the above requirements in preparing the financial statements.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Approval of the financial statements

I, on behalf of the Board of Directors of Royal Railway Plc. (previously known as Royal Railway Co., Ltd), hereby state that, in my opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2022, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors.,



Neak Oknha Kith Meng
Chairman

Phnom Penh, Kingdom of Cambodia

29 March 2023



KPMG Cambodia Ltd
GIA Tower, Sopheak Mongkul Street, Phum 14
Sangkat Tonle Bassac, Khan Chamkar Mon
Phnom Penh, Cambodia
+855 (17) 666 537 / +855 (81) 533 999 | kpmg.com.kh

Report of the Independent Auditors

To the shareholders of

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Opinion

We have audited the financial statements of Royal Railway Plc. (“the Company”), which comprise the statements of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 10 to 58.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Revenue Recognition

The key audit matter	How the matter was addressed in our audit
<p>Total revenue for the financial year amounted to US\$10,229,707 (2021: US\$9,372,639). The Company's revenue is mainly related to rail freight services.</p> <p>The risk of misstatement related to revenue recognition at a point in time is considered a key audit matter because it has the potential to materially affect the accuracy of the financial statements. CIFRS 15 requires management to make judgments and estimates about when revenue should be recognised, whereas management may override controls to intentionally misstate revenue transactions to achieve financial targets by recording fictitious transactions in records.</p> <p>As a result, it is essential for the audit team to focus significant attention on this area and perform appropriate audit procedures to obtain sufficient evidence to support the existence and accuracy of revenue recognised at a point in time.</p>	<p>Our audit procedures in this area included among others:</p> <ul style="list-style-type: none"> - Walkthroughs were performed to gain an understanding of processes and internal controls, including management reviews, with respect to revenue recognition. - Assessed the design and implementation, and tested the operating effectiveness of the Company's controls over the recognition of revenue. - Tested journal entries posted to the revenue accounts in the general ledger that may seem irregular or unusual in nature. - Assessed whether the revenue recognition criteria under the CIFRS 15 have been met, including examining the timing of the revenue recognition, and whether revenue recognition is in accordance with the standard. - On a sample basis, reconciled revenue to the supporting documents, such as sales contract, sales order, price lists, invoices, official receipts, and bank cheques to gain evidence about its existence and accuracy. - On a sample basis, traced new customer contracts and existence to their official website, and checked to their business registered information online. - Performed cut off procedures to obtain evidence that revenue has been recognised in the correct accounting period. - Evaluated whether the disclosure requirements have been met in the financial statements.

Emphasis of matter

We draw attention to Note 27.1 to the financial statements which describes that there are provisions in the existing Concession Agreement specifying concession fees to be paid by the Company to the RGC for the use of the conceded assets from the effective date of the Concession Agreement. The Company's management has performed an assessment of its obligations under the existing Concession Agreement and believe that the obligation to pay the concession fee under the agreement has not yet become effective. The Company's management is continuing its negotiation with the RGC on the new amended Concession Agreement. The Company's management believe the amounts and timing of any economic benefit outflows could not be estimated reliably due to the Effective Date of the agreement has not been determined as of the reporting date. The ultimate outcome of this matter is uncertain and, accordingly, no provision for any liability has been made in the financial statements. Our opinion is not modified in respect of this matter.



Other Information

Management is responsible for the other information. The other information comprises the Report of the Board of Directors on pages 1 to 5, but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with CIFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Cambodia Ltd



Taing YoukFong
Engagement Partner

Phnom Penh, Kingdom of Cambodia

29 March 2023

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of financial position as at 31 December 2022

	Note	31 December 2022		31 December 2021	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
ASSETS					
Current assets					
Cash and bank balances	6	23,981,297	98,731,000	121,766	496,075
Trade and other receivables	7	2,370,718	9,760,246	932,546	3,799,192
Inventories	8	214,835	884,476	129,576	527,893
		<u>26,566,850</u>	<u>109,375,722</u>	<u>1,183,888</u>	<u>4,823,160</u>
Non-current assets					
Bank balances	6	3,773,687	15,536,269	-	-
Property and equipment	9	7,007,931	28,851,652	6,245,004	25,442,146
Intangible assets	10	259,621	1,068,860	276,018	1,124,497
		<u>11,041,239</u>	<u>45,456,781</u>	<u>6,521,022</u>	<u>26,566,643</u>
TOTAL ASSETS		<u>37,608,089</u>	<u>154,832,503</u>	<u>7,704,910</u>	<u>31,389,803</u>
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	11	3,741,073	15,401,998	4,538,854	18,491,291
Borrowings	12	1,782,400	7,338,141	835,114	3,402,254
Debt securities	13	233,763	962,402	-	-
Employee benefit liabilities	14	86,391	355,672	23,192	94,484
Minimum tax liability	21(b)	66,007	271,751	67,724	275,908
		<u>5,909,634</u>	<u>24,329,964</u>	<u>5,464,884</u>	<u>22,263,937</u>
Non-current liabilities					
Debt securities	13	33,051,243	136,071,967	-	-
Borrowings	12	855,227	3,520,970	329,362	1,341,821
Employee benefit liabilities	14	61,693	253,990	61,801	251,777
		<u>33,968,163</u>	<u>139,846,927</u>	<u>391,163</u>	<u>1,593,598</u>
TOTAL LIABILITIES		<u>39,877,797</u>	<u>164,176,891</u>	<u>5,856,047</u>	<u>23,857,535</u>
Equity					
Share capital	15	13,020,930	52,083,720	13,020,930	52,083,720
Accumulated losses		(15,290,638)	(62,217,661)	(11,172,067)	(45,385,061)
Currency translation reserves		-	789,553	-	833,609
		<u>(2,269,708)</u>	<u>(9,344,388)</u>	<u>1,848,863</u>	<u>7,532,268</u>
TOTAL LIABILITIES AND EQUITY		<u>37,608,089</u>	<u>154,832,503</u>	<u>7,704,910</u>	<u>31,389,803</u>

The accompanying notes form an integral part of these financial statements.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2022

	Note	2022		2021	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Revenue	16	10,229,707	41,808,813	9,372,639	38,126,333
Cost of services	17	<u>(12,260,650)</u>	<u>(50,109,277)</u>	<u>(8,941,509)</u>	<u>(36,372,568)</u>
Gross loss		(2,030,943)	(8,300,464)	431,130	1,753,765
Other operating income	18	787,113	3,216,931	700,980	2,851,470
Operating and administrative expenses	19	(2,142,711)	(8,757,260)	(1,648,266)	(6,704,871)
(Allowance for)/reversal of impairment losses	6,7	(229,686)	(938,727)	26,187	106,524
Minimum tax expense	21(c)	<u>(108,474)</u>	<u>(443,333)</u>	<u>(100,636)</u>	<u>(409,370)</u>
Operating loss		(3,724,701)	(15,222,853)	(590,605)	(2,402,482)
Finance costs		<u>(393,870)</u>	<u>(1,609,747)</u>	<u>(158,373)</u>	<u>(644,235)</u>
Loss before income tax		(4,118,571)	(16,832,600)	(748,978)	(3,046,717)
Income tax expense	21(c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss for the year		(4,118,571)	(16,832,600)	(748,978)	(3,046,717)
<i>Other comprehensive loss</i>					
Items that will not be reclassified to profit or loss					
Currency translation differences		<u>-</u>	<u>(44,056)</u>	<u>-</u>	<u>(195,558)</u>
Total comprehensive loss for the year		<u>(4,118,571)</u>	<u>(16,876,656)</u>	<u>(748,978)</u>	<u>(3,242,275)</u>

The accompanying notes form an integral part of these financial statements.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of changes in equity for the year ended 31 December 2022

2022	Share capital		Accumulated losses		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2022	13,020,930	52,083,720	(11,172,067)	(45,385,061)	-	833,609	1,848,863	7,532,268
Total comprehensive loss								
Net loss for the year	-	-	(4,118,571)	(16,832,600)	-	-	(4,118,571)	(16,832,600)
Currency translation differences	-	-	-	-	-	(44,056)	-	(44,056)
	-	-	(4,118,571)	(16,832,600)	-	(44,056)	(4,118,571)	(16,876,656)
At 31 December 2022	13,020,930	52,083,720	(15,290,638)	(62,217,661)	-	789,553	(2,269,708)	(9,344,388)

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of changes in equity (continued) for the year ended 31 December 2022

2021	Share capital		Additional capital contribution from the shareholder		Accumulated losses		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2021	2,600,000	10,400,000	2,813,031	11,412,467	(10,423,089)	(42,338,344)	-	260,192	(5,010,058)	(20,265,685)
Transactions recognised directly in equity										
Transfer from										
additional contribution	2,813,031	11,412,467	(2,813,031)	(11,412,467)	-	-	-	-	-	-
Conversion from borrowing	2,102,464	8,578,053	-	-	-	-	-	-	2,102,464	8,578,053
Conversion from amount due to shareholder	5,505,435	22,462,175	-	-	-	-	-	-	5,505,435	22,462,175
	10,420,930	42,452,695	(2,813,031)	(11,412,467)	-	-	-	-	7,607,899	31,040,228
Total comprehensive loss										
Net loss for the year	-	-	-	-	(748,978)	(3,046,717)	-	-	(748,978)	(3,046,717)
Currency translation differences	-	(768,975)	-	-	-	-	-	573,417	-	(195,558)
	-	(768,975)	-	-	(748,978)	(3,046,717)	-	573,417	(748,978)	(3,242,275)
At 31 December 2021	13,020,930	52,083,720	-	-	(11,172,067)	(45,385,061)	-	833,609	1,848,863	7,532,268

The accompanying notes form an integral part of these financial statements.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of cash flows for the year ended 31 December 2022

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Cash flows from operating activities				
Net loss for the year	(4,118,571)	(16,832,600)	(748,978)	(3,046,717)
Adjustments for:				
Depreciation and amortisation	970,152	3,965,011	933,617	3,797,798
Finance costs	393,870	1,609,747	158,373	644,235
Employee benefit	226,809	926,968	138,268	562,451
Property and equipment written off	1,109	4,532		
Minimum tax expense	108,474	443,333	100,636	409,370
Allowance/ (reversal of) impairment loss	229,686	938,727	(26,187)	(106,524)
	(2,188,471)	(8,944,282)	555,729	2,260,613
Changes in:				
Trade and other receivables	(1,457,331)	(5,956,112)	(9,644)	(39,230)
Inventories	(85,259)	(348,454)	(7,753)	(31,538)
Trade and other payables	(797,781)	(3,260,531)	1,040,239	4,231,519
Cash (used in)/generated from operation	(4,528,842)	(18,509,379)	1,578,571	6,421,364
Interest paid	(997,533)	(4,076,917)	(158,373)	(644,235)
Payment of employee benefits	(163,718)	(669,115)	(141,203)	(574,390)
Income tax paid	(110,191)	(450,351)	(98,653)	(401,304)
Net cash (used in)/generated from operating activities	(5,800,284)	(23,705,762)	1,180,342	4,801,435
Cash flows from investing activities				
Acquisition of property and equipment	(1,717,292)	(7,018,572)	(347,263)	(1,412,608)
Acquisition of intangible assets	(499)	(2,039)	(1,398)	(5,687)
Net cash used in investing activities	(1,717,791)	(7,020,611)	(348,661)	(1,418,295)
Cash flows from financing activities				
Proceeds of borrowings	4,664,319	19,063,072	-	-
Repayment of borrowings	(3,191,168)	(13,042,304)	(825,375)	(3,357,488)
Deposit into reserve accounts for bond guarantee	(3,773,687)	(15,423,059)	-	-
Proceeds from issuance of debt securities	33,888,669	138,502,990	-	-
Net cash generated from/(used in) financing activities	31,588,133	129,100,699	(825,375)	(3,357,488)

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Statement of cash flows (continued) for the year ended 31 December 2022

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Net increase in cash and cash equivalents	24,070,058	98,374,326	6,306	25,652
Cash and cash equivalents at beginning of the year	121,766	496,075	115,460	467,036
Currency translation differences	-	727,338	-	3,387
Cash and cash equivalents at end of the year (Note 6)	<u>24,191,824</u>	<u>99,597,739</u>	<u>121,766</u>	<u>496,075</u>

Significant non-cash transactions

During the year, there were significant non-cash transactions as follow:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Financing activities:				
Transfer from additional capital contribution from the shareholder to share capital	-	-	2,813,031	11,412,467
Conversion from borrowing to share capital	-	-	2,102,464	8,552,473
Conversion from amounts due to shareholder to share capital	-	-	5,505,435	21,718,780
	<u>-</u>	<u>-</u>	<u>10,420,930</u>	<u>41,683,720</u>

The accompanying notes form an integral part of these financial statements.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements for the year ended 31 December 2022

These notes form an integral part and should be read conjunction with the accompanying financial statements.

1. Background information

Royal Railway Plc. (previously known as Royal Railway Co., Ltd) (“the Company”) is a public limited liability company incorporated in the Kingdom of Cambodia. The Company was originally established under the Registration No. Co. 2874/06E dated 6 April 2006 issued by the Ministry of Commerce (“MOC”). Subsequently, the Company has received the approval from the Council for the Development of Cambodia (“CDC”) to be a Qualified Investment Project (“QIP”) with a new Registration No. Inv. 0643KH/2014 dated 6 October 2015. On 25 August 2016, the Company obtained a new registration No. 00018504 from the MOC.

The Company operates in railway services under a Railway Concession Agreement (“the Concession Agreement”) signed with the Royal Government of Cambodia (“RGC”), represented by the Ministry of Public Works and Transport (“MPWT”) in the Kingdom of Cambodia for a period of 30 years over the specific concession assets as stipulated in the agreement. However, the effective date of the Concession Agreement has yet officially determined due to the condition precedent to the effective date has yet to be fully met. As of the date of this report, the Company is still working with the RGC for a new amended Railway Concession Agreement.

The Company’s shares of 98.9999% are owned by Inter Logistics (Cambodia) Co.,Ltd, and the remaining 1.0001% owned by Neak Oknha Kith Meng.

The address of its registered office is at Central Railway Station, Russian Federation Boulevard, Sangkat Sras Chork, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2022 and 2021, the Company had 788 employees and 704 employees, respectively.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with the Cambodian International Financial Reporting Standards (“CIFRSs”).

The accounting policies have been applied consistently to all periods presented in these financial statements unless otherwise stated. Details of the Company’s accounting policies are included in Note 25.

The financial statements of the Company were authorised for issue by the Board of Directors on 29 March 2023.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

2. Basis of preparation (continued)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Going concern assumption

During the year ended 31 December 2022, the Company incurred a net loss of US\$4,118,571 (2021: US\$748,978) and generated net negative cash flows from operating activities amounting to US\$5,800,284 (2021: US\$ 1,180,342) and as at 31 December 2022, the Company had incurred accumulated losses amounting to US\$ 15,290,638 (31 December 2021: US\$11,172,067), and current assets exceed current liability of US\$ 20,657,216 (31 December 2021: net current liabilities of US\$4,280,996).

The validity of the going concern assumption fundamentally depends on the ultimate shareholder's continuing to provide financial assistance that is necessary to meet its liabilities as and when they fall due and to maintain the Company in existence as a going concern for the foreseeable future. At the date of these financial statements, the ultimate shareholder has confirmed that he will continue to provide sufficient financial support to the Company and there is no reason for the Company's management to believe that the ultimate shareholder will not continue his support.

3. Functional and presentation currency

The national currency of Cambodia is the Khmer Riel ("KHR"). However, as the Company transacts and maintains its accounting records primarily in United States Dollars ("US\$"), management have determined the US\$ to be the Company's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

These financial statements are presented in US\$, which is the Company's functional currency. All amounts have been rounded to the nearest dollars, unless otherwise indicated.

4. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

4. Use of judgments and estimates (continued)

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The finance team regularly reviews the significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of CIFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 24 – financial instruments.

5. Translation of United States Dollars into Khmer Riel

The financial statements have been presented in the United States Dollars ("US\$"). The translations of the financial statements are expressed in United States Dollars which is the Company's functional currency. The translations of United States Dollars amount into Khmer Riel meets the presentation requirements pursuant to Law on Accounting and Auditing and has been done in compliance with CIAS 21 - The Effects of Changes in Foreign Exchange Rates.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Translation of United States Dollars into Khmer Riel (continued)

Assets and liabilities are translated at the closing rate as at the reporting date and share capital and other equity accounts are translated at the historical rate. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR using the average rate for the year, which have been deemed to approximate the exchange rates at the date of transaction as exchange rates have not fluctuated significantly during the year. Exchange differences arising from the translation are recognised as “Currency Translation Reserves” in the other comprehensive income.

The Company uses the following exchange rates:

Financial year end		Closing rate	Average rate
31 December 2022	US\$1=	KHR4,117	KHR4,087
31 December 2021	US\$1=	KHR4,074	KHR4,068

The translations to Khmer Riel should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

6. Cash and bank balances

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
<i>Current</i>				
Cash on hand	5,538	22,800	1,099	4,478
Cash at banks	<u>24,186,286</u>	<u>99,574,939</u>	<u>120,667</u>	<u>491,597</u>
Total cash and bank balances	<u>24,191,824</u>	<u>99,597,739</u>	<u>121,766</u>	<u>496,075</u>
Less: Allowance for impairment loss	<u>(210,527)</u>	<u>(866,739)</u>	-	-
	<u>23,981,297</u>	<u>98,731,000</u>	<u>121,766</u>	<u>496,075</u>
Cash and cash equivalents in the statement of cash flows	<u>24,191,824</u>	<u>99,597,739</u>	<u>121,766</u>	<u>496,075</u>
<i>Non-current</i>				
Cash at banks:				
Debt Service Reserve Account (“DSRA”) *	3,423,595	14,094,940	-	-
Guarantee Fee Reserve Account (“GFRA”) *	<u>350,092</u>	<u>1,441,329</u>	-	-
Total bank balances	<u>3,773,687</u>	<u>15,536,269</u>	-	-

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

6. Cash and bank balances (continued)

- * Debt Service Reserve Account and Guarantee Fee Reserve Account are reserve accounts specifically set aside held at Acleda Bank to make debt payments and guarantee fee payments in the event of a disruption of cashflows for the bonds payable and earning annual interest at rate of 5.00% (2021: NIL).

The movement of allowance for impairment losses for bank balances during the year were as follows:

	2022	
	US\$	KHR'000 (Note 5)
At 1 January	-	-
Recognised in profit or loss	(210,527)	(860,424)
Currency translation differences	-	(6,315)
At 31 December	<u>(210,527)</u>	<u>(866,739)</u>

7. Trade and other receivables

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Trade receivables	545,610	2,246,276	681,118	2,774,875
Less: Allowance for impairment losses	<u>(101,172)</u>	<u>(416,525)</u>	<u>(82,013)</u>	<u>(334,121)</u>
	444,438	1,829,751	599,105	2,440,754
Advance to suppliers	1,696,781	6,985,647	89,576	364,933
Amount due from related parties (Note 22)	<u>53,094</u>	<u>218,588</u>	<u>88,291</u>	<u>359,698</u>
Financial assets measured at amortised cost	2,194,313	9,033,986	776,972	3,165,385
Deposits	71,498	294,357	75,143	306,133
Prepayments	32,207	132,596	33,422	136,159
Others	<u>72,700</u>	<u>299,307</u>	<u>47,009</u>	<u>191,515</u>
	<u>2,370,718</u>	<u>9,760,246</u>	<u>932,546</u>	<u>3,799,192</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

7. Trade and other receivables (continued)

The movement of allowance for impairment losses for trade receivables during the year were as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	(82,013)	(334,121)	(108,200)	(437,669)
Recognised in profit or loss	(19,159)	(78,303)	26,187	106,524
Currency translation differences	-	(4,101)	-	(2,976)
At 31 December	<u>(101,172)</u>	<u>(416,525)</u>	<u>(82,013)</u>	<u>(334,121)</u>

8. Inventories

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Locomotive parts	62,812	258,597	69,037	281,257
Tools	62,641	257,893	9,204	37,497
Fuel oil	12,292	50,606	16,494	67,197
Diesel	51,257	211,025	24,452	99,617
Wagon parts	25,833	106,355	10,389	42,325
	<u>214,835</u>	<u>884,476</u>	<u>129,576</u>	<u>527,893</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

9. Property and equipment

2022	Railroad and station improvements US\$	Locomotive US\$	Wagon US\$	Train track US\$	Trolley US\$	Equipment and machinery US\$	Office equipment US\$	Furniture and fittings US\$	IT hardware US\$	Signage and Boom gate US\$	Construction in progress US\$	US\$	Total KHR'000 (Note 5)
Cost													
At 1 January	608,191	6,807,161	963,271	430,319	32,163	686,008	8,591	8,794	77,673	14,496	92,085	9,728,752	39,634,935
Addition	47,337	126,337	173,283	37,417	-	67,797	543	-	17,906	561	1,246,111	1,717,292	7,018,572
Transfers	40,603	901,978	103,526	113,109	-	12,674	-	-	5,634	-	(1,177,524)	-	-
Written off	(39,306)	(28,580)	(28,582)	-	-	(30,401)	-	-	(3,552)	-	-	(130,421)	(533,031)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	465,943
At 31 December	<u>656,825</u>	<u>7,806,896</u>	<u>1,211,498</u>	<u>580,845</u>	<u>32,163</u>	<u>736,078</u>	<u>9,134</u>	<u>8,794</u>	<u>97,661</u>	<u>15,057</u>	<u>160,672</u>	<u>11,315,623</u>	<u>46,586,419</u>
Less: Accumulated depreciation													
At 1 January	454,968	1,563,136	595,800	179,184	32,163	574,709	6,818	8,740	62,996	5,234	-	3,483,748	14,192,789
Depreciation for the year	78,187	522,897	150,612	102,648	-	81,133	1,317	54	13,424	2,984	-	953,256	3,895,957
Written off	(39,306)	(27,471)	(28,582)	-	-	(30,401)	-	-	(3,552)	-	-	(129,312)	(528,498)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	174,519
At 31 December	<u>493,849</u>	<u>2,058,562</u>	<u>717,830</u>	<u>281,832</u>	<u>32,163</u>	<u>625,441</u>	<u>8,135</u>	<u>8,794</u>	<u>72,868</u>	<u>8,218</u>	<u>-</u>	<u>4,307,692</u>	<u>17,734,767</u>
Carrying amounts													
At 31 December	<u>162,976</u>	<u>5,748,334</u>	<u>493,668</u>	<u>299,013</u>	<u>-</u>	<u>110,637</u>	<u>999</u>	<u>-</u>	<u>24,793</u>	<u>6,839</u>	<u>160,672</u>	<u>7,007,931</u>	<u>28,851,652</u>

As at 31 December 2022, fully depreciated property and equipment with an original cost of US\$1,185,572 (31 December 2021: US\$1,059,873) were still in use.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

9. Property and equipment (continued)

2021	Railroad and station improvements US\$	Locomotive US\$	Wagon US\$	Train track US\$	Trolley US\$	Equipment and machinery US\$	Office equipment US\$	Furniture and fittings US\$	IT hardware US\$	Signage and Boom gate US\$	Construction in progress US\$	US\$	Total KHR'000 (Note 5)
Cost													
At 1 January	578,420	6,711,615	910,293	367,888	32,163	650,188	8,591	8,970	70,318	12,237	47,188	9,397,871	38,014,388
Addition	3,973	26,758	28,675	28,355	-	42,030	-	-	11,530	2,259	203,683	347,263	1,412,608
Transfers	27,199	68,788	28,723	34,076	-	-	-	-	-	-	(158,786)	-	-
Written off	(1,401)	-	(4,420)	-	-	(6,210)	-	(176)	(4,175)	-	-	(16,382)	(66,639)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	274,578
At 31 December	<u>608,191</u>	<u>6,807,161</u>	<u>963,271</u>	<u>430,319</u>	<u>32,163</u>	<u>686,008</u>	<u>8,591</u>	<u>8,794</u>	<u>77,673</u>	<u>14,496</u>	<u>92,085</u>	<u>9,728,752</u>	<u>39,634,935</u>
Less: Accumulated depreciation													
At 1 January	387,331	1,022,888	475,199	96,486	32,163	496,637	4,983	8,436	57,884	2,600	-	2,584,607	10,454,735
Depreciation for the year	69,038	540,248	125,021	82,698	-	84,282	1,835	480	9,287	2,634	-	915,523	3,724,195
Written off	(1,401)	-	(4,420)	-	-	(6,210)	-	(176)	(4,175)	-	-	(16,382)	(66,639)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	80,498
At 31 December	<u>454,968</u>	<u>1,563,136</u>	<u>595,800</u>	<u>179,184</u>	<u>32,163</u>	<u>574,709</u>	<u>6,818</u>	<u>8,740</u>	<u>62,996</u>	<u>5,234</u>	<u>-</u>	<u>3,483,748</u>	<u>14,192,789</u>
Carrying amounts													
At 31 December	<u>153,223</u>	<u>5,244,025</u>	<u>367,471</u>	<u>251,135</u>	<u>-</u>	<u>111,299</u>	<u>1,773</u>	<u>54</u>	<u>14,677</u>	<u>9,262</u>	<u>92,085</u>	<u>6,245,004</u>	<u>25,442,146</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

10. Intangible assets

2022	Computer software US\$	Sign-on fee US\$	US\$	Total KHR'000 equivalent (Note 5)
Cost				
At 1 January	18,591	450,000	468,591	1,909,040
Addition	499	-	499	2,039
Currency translation differences	-	-	-	20,165
At 31 December	<u>19,090</u>	<u>450,000</u>	<u>469,090</u>	<u>1,931,244</u>
Less: Accumulated amortisation				
At 1 January	15,925	176,648	192,573	784,543
Amortisation for the year	1,424	15,472	16,896	69,054
Currency translation differences	-	-	-	8,787
At 31 December	<u>17,349</u>	<u>192,120</u>	<u>209,469</u>	<u>862,384</u>
Carrying amounts				
At 31 December	<u><u>1,741</u></u>	<u><u>257,880</u></u>	<u><u>259,621</u></u>	<u><u>1,068,860</u></u>

Fully amortised intangible assets as at 31 December 2022 with original cost of US\$14,444 (31 December 2021: US\$14,444) were still in use.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

10. Intangible assets (continued)

2021	Computer software US\$	Sign-on fee US\$	US\$	Total KHR'000 equivalent (Note 5)
Cost				
At 1 January	17,193	450,000	467,193	1,889,796
Addition	1,398	-	1,398	5,687
Currency translation differences	-	-	-	13,557
At 31 December	<u>18,591</u>	<u>450,000</u>	<u>468,591</u>	<u>1,909,040</u>
Less: Accumulated amortisation				
At 1 January	14,593	159,886	174,479	705,768
Amortisation for the year	1,332	16,762	18,094	73,603
Currency translation differences	-	-	-	5,172
At 31 December	<u>15,925</u>	<u>176,648</u>	<u>192,573</u>	<u>784,543</u>
Carrying amounts				
At 31 December	<u><u>2,666</u></u>	<u><u>273,352</u></u>	<u><u>276,018</u></u>	<u><u>1,124,497</u></u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

11. Trade and other payables

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Trade payables:				
Trade payables	1,230,952	5,067,829	1,831,558	7,461,768
Amounts due to related parties (Note 22)	142,633	587,220	256,263	1,044,015
Tax payables (*):				
Value added tax	1,059,105	4,360,335	1,115,065	4,542,775
Salary and fringe benefit tax	182,530	751,476	176,639	719,627
Withholding tax	175,500	722,534	148,980	606,945
Tax interest and penalties	485,680	1,999,545	422,391	1,720,821
Accruals	224,897	925,901	292,304	1,190,846
Other payables	239,776	987,158	295,654	1,204,494
	<u>3,741,073</u>	<u>15,401,998</u>	<u>4,538,854</u>	<u>18,491,291</u>

(*) The General Department of Taxation ("GDT") issued 2 letters dated 30 December 2019 and 29 June 2020 to the Company in respect of the unpaid monthly tax liabilities for the period from July 2019 to August 2019, from July 2018 to November 2018 and January 2019 to June 2019, respectively alleged the total tax liabilities of US\$934,854. In addition, the Company also has unpaid monthly tax liabilities from September 2019 to February 2020 approximately US\$876,873.

As part of the listing incentives, the Company submitted a letter to SERC on 16 December 2022 requesting to waive all tax liabilities above from the GDT. On 8 February 2023, the Company received a notification from SERC that the request was submitted to the GDT. There has been no response from the GDT as at the date of these financial statements yet.

12. Borrowings

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	1,164,476	4,744,075	4,092,315	16,553,415
Conversion to share capital (Note15)	-	-	(2,102,464)	(8,552,473)
Additions	4,664,319	19,063,072	-	-
Repayments	(3,191,168)	(13,042,304)	(825,375)	(3,357,488)
Currency translation differences	-	94,268	-	100,621
At 31 December	<u>2,637,627</u>	<u>10,859,111</u>	<u>1,164,476</u>	<u>4,744,075</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

12. Borrowings (continued)

Borrowings were classified into current and non-current portions as follows:

		31 December 2022		31 December 2021	
		US\$	KHR'000	US\$	KHR'000
			(Note 5)		(Note 5)
Current portion					
Neak Oknha Kith Meng	(i)	1,207,700	4,972,101	-	-
Cambodian Public Bank	(ii)	74,700	307,540	41,915	170,761
Wing Bank (Cambodia) Plc.	(iii)	500,000	2,058,500	-	-
Foreign Trade Bank of Cambodia		-	-	793,199	3,231,493
		<u>1,782,400</u>	<u>7,338,141</u>	<u>835,114</u>	<u>3,402,254</u>
Non-current portion					
Cambodian Public Bank	(ii)	855,227	3,520,970	-	-
Foreign Trade Bank of Cambodia		-	-	329,362	1,341,821
		<u>855,227</u>	<u>3,520,970</u>	<u>329,362</u>	<u>1,341,821</u>
		<u>2,637,627</u>	<u>10,859,111</u>	<u>1,164,476</u>	<u>4,744,075</u>

(i) Borrowing from a shareholder, Neak Oknha Kith Meng is unsecured, interest free and repayable on demand (Note 22).

(ii) On 6 April 2022, the Company entered into a fixed loan with Cambodian Public Bank. The loan is secured with a land from the shareholder, bears interest at 9% per annum and is repayable by 84 monthly installments of US\$16,153 each from 13 April 2022 to 13 April 2029.

(iii) The Company entered into 3 different fixed loans with Wing Bank (Cambodia) Plc.

- On 23 December 2021, amounting to US\$500,000, bore interest at 7% per annum and repayable by 12 monthly installments of US\$3,557.53 each from 16 January 2022 to 16 January 2023 and principal repayment by the end of the loan term. The Company paid off the loan on 7 December 2022.
- On 11 May 2022, the Company entered into a second loan for US\$500,000 with interest at 7% per annum and 12 months term with monthly installment of US\$2,973 each from 11 May 2022 to 11 May 2023 and principal repayment by the end of the loan term. The Company paid off the loan on 7 December 2022.
- On 1 September 2022, the Company entered into a third loan for US\$500,000 with interest at 7% per annum and 12 months term with monthly installment of US\$2,877 each from 1 September 2022 to 1 September 2023 and principal repayment by the end of the loan term.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

13. Debt securities

In 2022, the Company requested to the Securities and Exchange Regulator of Cambodia (SERC) and Cambodia Securities Exchange (CSX) to list its corporate bonds.

First Corporate Bond:

The Company's 1st Corporate bond is a plain bond issued to qualified investors with the principal amount of KHR 41 billion (US\$9,958,708), a tenor of 10 years with a coupon rate of 7% p.a.

The bond was approved by SERC and CSX on 19 September 2022 and 24 October 2022 respectively and was issued officially on 31 October 2022.

Second Corporate Bonds:

The Company's 2nd Corporate bond is guaranteed by GuarantCo Ltd as a private placement bond to the qualified investors with two series of bonds;

- Bond 1 with the principal amount of KHR 49.2 billion (US\$11,964,981), a tenor of 5 years with a coupon rate of Term Secured Overnight Financing Rate ("SOFR") plus 3.5% or 5% p.a, whichever is higher; and
- Bond 2 with the principal amount of KHR 49.2 billion (US\$11,964,981), a tenor of 10 years with a coupon rate of Term SOFR plus 3.5% or 5% p.a, whichever is higher for Year 1 to Year 5 and Term SOFR plus 3.75% or 5% p.a, whichever is higher for Year 6 to Year 10.

These series of two bonds were approved by SERC on 19 December 2022 and CSX on 26 December 2022 and were officially issued on 29 December 2022.

As at 31 December 2022, the carrying value of the two bonds payable are US\$33,285,006 (31 December 2021: Nil). During the period, the Company had accrued interest payable amounting to US\$233,763 (31 December 2021: Nil).

The allocation of the bond maturity is as follows:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Current	233,763	962,402	-	-
Non-current	33,051,243	136,071,967	-	-
	<u>33,285,006</u>	<u>137,034,369</u>	<u>-</u>	<u>-</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

13. Debt securities (continued)

The movements of bonds payable during the year were as follows:

	2022		2021	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	-	-	-	-
Additions				
- Bond 1 principal	9,809,327	40,090,719	-	-
- Bond 2 principal	23,241,916	94,989,711	-	-
	<u>33,051,243</u>	<u>135,080,430</u>	<u>-</u>	<u>-</u>
Accrued interest payable	233,763	962,402	-	-
Currency translation differences	-	991,537	-	-
At 31 December	<u>33,285,006</u>	<u>137,034,369</u>	<u>-</u>	<u>-</u>

14. Employee benefit liabilities

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Seniority indemnity				
Current	86,391	355,672	23,192	94,484
Non-current	61,693	253,990	61,801	251,777
	<u>148,084</u>	<u>609,662</u>	<u>84,993</u>	<u>346,261</u>

The movements employee benefit obligations during the year were as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	84,993	346,261	87,928	355,669
Recognised in profit or loss	226,809	926,968	138,268	562,451
Paid during the year	(163,718)	(669,115)	(141,203)	(574,390)
Currency translation differences	-	5,548	-	2,531
At 31 December	<u>148,084</u>	<u>609,662</u>	<u>84,993</u>	<u>346,261</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

14. Employee benefit liabilities (continued)

This represents liabilities for seniority indemnity payments required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training (“MoLVT”) on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019. It requires all employers to settle the seniority indemnity to their employee as follows:

- Current pay: starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- Retrospective (back-pay): starting from end of 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

Payments will be made twice a year, in June and December respectively. Employees are not entitled to the remaining seniority indemnity back-pay, which is not yet due, if he/she resigns from the Company.

15. Share capital

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Registered, issued and fully paid:				
At 1 January (400,000 ordinary shares)	13,020,930	52,083,720	2,600,000	10,400,000
Additional 1,603,220 ordinary shares (*)	-	-	10,420,930	41,683,720
At 31 December (2,003,220 ordinary shares)	<u>13,020,930</u>	<u>52,083,720</u>	<u>13,020,930</u>	<u>52,083,720</u>

- (*) Included in this was the conversion of borrowing from a shareholder and amounts due to a shareholder amounting to US\$2,102,464 (Note 12) and US\$5,505,435, respectively which was approved for the transfer to share capital on 23 August 2021.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

15. Share capital (continued)

The details of the share holding structure were as follows:

	31 December 2022			31 December 2021		
	Number of shares	Amount US\$ (**)	% of ownership	Number of shares	Amount US\$ (**)	% of ownership
Inter Logistics (Cambodia) Co.,Ltd	1,983,187	12,890,715	98.9999%	2,003,220	13,020,930	100.00%
Neak Oknha Kith Meng	20,033	130,215	1.0001%	-	-	-
	<u>2,003,220</u>	<u>13,020,930</u>	<u>100%</u>	<u>2,003,220</u>	<u>13,020,930</u>	<u>100%</u>

(**) Parvalue of the ordinary share is KHR26,000 which is equivalent to US\$6.50 each.

On 2 June 2022, the shareholders have reached an agreement and resolved to change company's name from Royal Railway Co.,Ltd. to Royal Railway Plc. and transferred the 1.0001% of the Company's ordinary share, collectively from Inter Logistics (Cambodia) Co.,Ltd to Neak Oknha Kith Meng. On 2 June 2022, the Company updated the Memorandum and Articles of Association to reflect those changes and was endorsed by the CDC and MOC on 2 May 2022 and 2 June 2022, respectively.

16. Revenue

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Southern line:				
Rail freight	5,874,759	24,010,141	8,477,770	34,486,155
Train related value-added services	591,565	2,417,726	502,588	2,044,444
Passengers' fare	416,865	1,703,727	67,650	275,189
Transportation	59,864	244,664	32,873	133,722
Other revenue	23,377	95,542	59,992	244,037
	<u>6,966,430</u>	<u>28,471,800</u>	<u>9,140,873</u>	<u>37,183,547</u>
Northern line:				
Rail freight	3,020,183	12,343,488	231,316	940,955
Passengers' fare	195,861	800,484	-	-
Train related value-added services	15,343	62,707	450	1,831
Transportation	1,000	4,087	-	-
Other revenue	30,890	126,247	-	-
	<u>3,263,277</u>	<u>13,337,013</u>	<u>231,766</u>	<u>942,786</u>
	<u>10,229,707</u>	<u>41,808,813</u>	<u>9,372,639</u>	<u>38,126,333</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

17. Cost of services

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Staff costs and wages	3,253,849	13,298,480	2,790,735	11,352,245
Cost of diesel	5,532,648	22,611,932	3,233,004	13,151,321
Depreciation and amortisation (Note 20)	900,960	3,682,224	875,933	3,563,149
Repairs and maintenance	687,840	2,811,202	602,210	2,449,690
Transportation	425,766	1,740,106	334,417	1,360,353
Container access charge	331,095	1,353,185	311,402	1,266,731
Equipment rental	318,687	1,302,474	307,678	1,251,583
Employee benefit obligations	198,110	809,676	117,351	477,364
Warehouse rental	95,455	390,125	77,274	314,338
Others	516,240	2,109,873	291,505	1,185,794
	<u>12,260,650</u>	<u>50,109,277</u>	<u>8,941,509</u>	<u>36,372,568</u>

18. Other operating income

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Warehouse rental	557,502	2,278,511	697,918	2,839,014
Finance income	23,242	94,990	294	1,196
Others	206,369	843,430	2,768	11,260
	<u>787,113</u>	<u>3,216,931</u>	<u>700,980</u>	<u>2,851,470</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

19. Operating and administrative expenses

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Salaries and wages	518,259	2,118,125	423,303	1,721,924
Insurance	270,584	1,105,877	240,126	976,793
Fuel and utilities	129,093	527,603	123,916	504,070
Equipment rental	108,623	443,941	119,040	484,235
Professional fees	364,554	1,489,932	59,595	242,423
Communication	72,361	295,739	74,740	304,030
Repairs and maintenance	52,411	214,204	40,977	166,688
Depreciation and amortisation (Note 20)	69,192	282,787	57,684	234,649
Provision for employee benefits	28,699	117,293	20,917	85,087
Staff uniform	12,640	51,660	5,719	23,264
Training and development	5,742	23,468	-	-
Travelling and accommodation	22,087	90,270	26,110	106,211
Bonus	34,776	142,130	24,759	100,715
Land survey	400	1,635	650	2,644
Other tax expenses	89,221	364,646	103,048	419,182
Interest and penalty on tax	101,015	412,848	142,725	580,582
Licensing, registration and permit fee	31,253	127,731	18,547	75,446
Small value of assets	31,253	127,731	46,639	189,720
Other expenses	200,548	819,640	119,771	487,208
	<u>2,142,711</u>	<u>8,757,260</u>	<u>1,648,266</u>	<u>6,704,871</u>

20. Depreciation and amortisation

Depreciation and amortisation charges were allocated as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Depreciation of property and equipment (Note 9)	953,256	3,895,957	915,523	3,724,195
Amortisation of intangible assets (Note 10)	<u>16,896</u>	<u>69,054</u>	<u>18,094</u>	<u>73,603</u>
	<u>970,152</u>	<u>3,965,011</u>	<u>933,617</u>	<u>3,797,798</u>
Allocated to:				
Cost of services (Note 17)	900,960	3,682,224	875,933	3,563,149
Administrative expenses (Note 19)	<u>69,192</u>	<u>282,787</u>	<u>57,684</u>	<u>234,649</u>
	<u>970,152</u>	<u>3,965,011</u>	<u>933,617</u>	<u>3,797,798</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

21. Income tax

(a) Applicable tax rates

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of annual turnover, whichever is higher.

Pursuant to Sub-Decree No. 42 dated 24 February 2022 on Tax Incentives in the Securities Sector issued by the Royal Government of Cambodia, the Company is entitled to reduce half amount of its tax on revenue within the duration of tax incentive period. In order to get the incentives, the Company needs to submit the request to the General Department of Taxation (“GDT”) through the Securities and Exchange Regulator of Cambodia (“SERC”).

On 16 December 2022, the Company submitted a letter to SERC for 50% reduction of Tax on Income for the year 2023 onwards. On 8 February 2023, the Company received a notification from SERC that the request was submitted to the GDT. There has been no response from the GDT as at the date of the financial statements yet.

(b) Minimum tax liability

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	67,724	275,908	65,741	265,922
Minimum tax expense	108,474	443,333	100,636	409,370
Minimum tax paid	(110,191)	(450,351)	(98,653)	(401,304)
Currency translation differences	-	2,861	-	1,920
At 31 December	<u>66,007</u>	<u>271,751</u>	<u>67,724</u>	<u>275,908</u>

(c) Minimum tax expense

The reconciliation of income tax computed at the statutory tax rate to the income tax expense as shown in the profit or loss is as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loss before income tax	<u>(4,118,571)</u>	<u>(16,832,600)</u>	<u>(748,978)</u>	<u>(3,046,717)</u>
Income tax using statutory income tax rate	(823,714)	(3,366,519)	(149,796)	(609,343)
Non-deductible expenses	85,389	348,985	87,826	357,262
Tax loss not recognised as deferred tax assets	606,698	2,479,575	51,371	208,970
Deductible temporary difference not recognised as deferred tax assets	<u>131,627</u>	<u>537,959</u>	<u>10,599</u>	<u>43,111</u>
Income tax expense	-	-	-	-
Minimum tax at 1% of turnover	<u>108,474</u>	<u>443,333</u>	<u>100,636</u>	<u>409,370</u>

The calculation of income tax is subject to the review and assessment of the tax authorities.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

21. Income tax (continued)

(d) Unrecognised deferred tax

Tax losses incurred in any tax year can be carried forward to offset against profit realised in the following five tax years subject to the following conditions:

- The loss must be recorded in the Annual Tax on Income return and submitted to the General Department of Taxation on time;
- The business objective of the Company must not have changed; and
- The Company must not have received an unilateral tax re-assessment.

Deferred tax assets in respect of the tax losses are not recognised in the financial statements because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

(e) Tax contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

22. Related party transactions and balances

(a) Identity of related party

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company have related party relationships with its substantial shareholders and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

The key management personnel include all the Directors of the Company, and certain senior management members of the Company.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

22. Related party transactions and balances (continued)

(a) Identity of related party (continued)

Key management have relationships with the Company which are entered into in the normal course of business and on substantially the same terms, including warehouse rental, purchase of goods and services, insurance, telephone expense and other expense, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

(b) Transactions with related parties

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
<i>Security fee</i>				
GSS Global Security Solutions Co., Ltd.	<u>34,349</u>	<u>140,384</u>	<u>32,847</u>	<u>133,819</u>
<i>Insurance premium</i>				
Infinity General Insurance Plc.	<u>307,591</u>	<u>1,257,124</u>	<u>44,484</u>	<u>181,228</u>
<i>Telephone expense</i>				
CamGSM Co., Ltd.	<u>9,935</u>	<u>40,604</u>	<u>7,781</u>	<u>31,700</u>
<i>Security Fee</i>				
GSS Global Security Solutions Co., Ltd.	<u>16,219</u>	<u>66,287</u>	<u>15</u>	<u>61</u>
<i>Internet service fee</i>				
EZECOM Co.,Ltd	<u>47,872</u>	<u>195,653</u>	<u>-</u>	<u>-</u>
<i>Underwriting fee</i>				
SBI Royal Securities Plc.	<u>559,163</u>	<u>2,285,299</u>	<u>-</u>	<u>-</u>
<i>Property rental</i>				
J Trust Royal Bank Plc.	<u>86,279</u>	<u>352,622</u>	<u>-</u>	<u>-</u>

The total remuneration of key managements for the year ended 31 December 2022 including salaries and benefits was US\$605,571 (2021: US\$341,412).

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

22. Related party transactions and balances (continued)

(c) Balances with related parties

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Amount due from related parties (Note 7)				
<i>Trade related:</i>				
GSS Global Security Solutions Co., Ltd.	75	309	5,457	22,232
<i>Non-trade related:</i>				
Royal Coffee	53,019	218,279	82,834	337,466
	<u>53,094</u>	<u>218,588</u>	<u>88,291</u>	<u>359,698</u>

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Amounts due to related parties (Note 11)				
<i>Trade related:</i>				
Infinity General Insurance Plc.	88,809	365,626	88,858	362,007
Wing Bank (Cambodia) Plc	-	-	150,180	611,833
CamGSM Co., Ltd	17,929	73,814	17,225	70,175
<i>Non-trade related:</i>				
SBI Royal Securities Plc.	35,895	147,780	-	-
	<u>142,633</u>	<u>587,220</u>	<u>256,263</u>	<u>1,044,015</u>
Borrowings (Note 12)				
Neak Oknha Kith Meng	<u>1,207,700</u>	<u>4,972,101</u>	<u>-</u>	<u>-</u>

Amounts due from/to related parties and borrowings are unsecured, interest free and repayable on demand.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

23. Operating lease commitments

The future minimum lease payments related to low-value items leases are as follows:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Within one year	137,997	568,134	88,739	361,523
Between two to five years	<u>20,778</u>	<u>85,543</u>	<u>77,273</u>	<u>314,810</u>
	<u>158,775</u>	<u>653,677</u>	<u>166,012</u>	<u>676,333</u>

24. Financial instruments – fair values and risk management

(a) Accounting classifications and fair values

All the financial assets and financial liabilities of the Company are categorised as Level 3 under the fair value hierarchy.

	31 December 2022		31 December 2021	
	Carrying amounts	Fair value	Carrying amounts	Fair value
	US\$	US\$	US\$	US\$
Financial assets				
Cash at banks	27,749,446	27,749,446	120,667	120,667
Trade and other receivables				
Trade receivables - net	444,438	444,438	599,105	599,105
Amount due from related party	53,094	53,094	88,291	88,291
Deposit	71,498	71,498	75,143	75,143
Other receivables	<u>72,700</u>	<u>72,700</u>	<u>47,009</u>	<u>47,009</u>
	<u>28,391,176</u>	<u>28,391,176</u>	<u>930,215</u>	<u>930,215</u>
KHR'000 equivalent (Note 5)	<u>116,886,472</u>	<u>116,886,472</u>	<u>3,789,696</u>	<u>3,789,696</u>
Financial liabilities				
Trade payables	1,230,952	1,230,952	1,831,558	1,831,558
Amount due to related parties	142,633	142,633	256,263	256,263
Accruals	224,897	224,897	292,304	292,304
Debt securities	33,285,006	33,285,006	-	-
Other payables	239,776	239,776	295,654	295,654
Borrowings	<u>2,637,627</u>	<u>2,637,627</u>	<u>1,164,476</u>	<u>1,164,476</u>
	<u>37,760,891</u>	<u>37,760,891</u>	<u>3,840,255</u>	<u>3,840,255</u>
KHR'000 equivalent (Note 5)	<u>155,461,588</u>	<u>155,461,588</u>	<u>15,645,197</u>	<u>15,645,197</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

Risk management is integral to the whole business of the Company. The Company has a system of controls in place to create reasonable and acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's activities expose it to credit risk, market risk (specifically foreign currency risks) and liquidity risk. The Company's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Company's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Company. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

There have been no changes to the Company's exposure to these financial risks or the manner in which it manages and measures the risk.

(i) ***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and financial assets. The Company's major classes of financial assets are cash and cash equivalent and trade receivables. The Company does not have any significant credit exposure to any single counterparty or any group of counterparties having similar characteristics.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade and other receivables

Credit risks mainly relate to current trade receivables from a broad base of customers, mainly corporates.

Customer concentration

A substantial portion of the Company's revenues are derived from sales made to Sok Kong Import Export Co., Ltd. accounted for approximately 22% (2021: 20%) of the Company's total revenue for the year ended 31 December 2022. As the management expects revenue derived from this customer continued to constitute a significant portion of the Company's revenues, any factors adversely affecting the operation of Sok Kong Import Export Co., Ltd. could have a material adverse effect on the Company's business, financial position and results of operations.

The Company monitors the credit and manages it actively by making any necessary credit checks and optimising the payment process.

The Company does not require collateral in respect of trade receivables.

Expected credit loss assessment for corporate customers

The Company uses an allowance matrix to measure ECLs of trade receivables from corporate customers which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics-geographic region, age of customer relationship and type of services purchased.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Expected credit loss assessment for corporate customers

The following table provides information about the exposure to credit risk and ECLs for trade receivables for corporate and individual customers:

	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit- impaired
	%	US\$	US\$	
31 December 2022				
Current (not past due)	4.75%	57,779	2,747	No
1 – 30 days past due	5.42%	327,839	17,762	No
31 – 60 days past due	8.38%	78,006	6,534	No
61 – 90 days past due	39.26%	12,937	5,079	No
More than 90 days	100.00%	<u>69,049</u>	<u>69,050</u>	Yes
		<u>545,610</u>	<u>101,172</u>	
31 December 2021				
Current (not past due)	2.82%	473,325	13,348	No
1 – 30 days past due	4.64%	135,578	6,294	No
31 – 60 days past due	30.42%	14,144	4,300	No
61 – 90 days past due	100.00%	9,964	9,964	Yes
More than 90 days	100.00%	<u>48,107</u>	<u>48,107</u>	Yes
		<u>681,118</u>	<u>82,013</u>	

Loss rates are based on actual credit loss experience over the past financial year. With limited historical data available, management has not identified any developments in the economic environment that provide observable data that loss rates derived from the reference period may not be the best reasonable and supportable information available for the purpose of estimating ECL on trade receivables outstanding as at reporting date.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Expected credit loss assessment for corporate customers (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2022		2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	(82,013)	(334,121)	(108,200)	(437,669)
Recognised in profit or loss	(19,159)	(78,303)	26,187	106,524
Currency translation differences	-	(4,101)	-	(2,976)
At 31 December	<u>(101,172)</u>	<u>(416,525)</u>	<u>(82,013)</u>	<u>(334,121)</u>

Cash at banks

Cash at banks are current accounts with ACLEDA Bank Plc., J Trust Royal Bank, Cambodian Public Bank Plc., Foreign Trade Bank of Cambodia and Wing (Cambodia) Plc.

The Company considers that these amounts have low credit risk based on the external credit ratings of the counterparties. Management does not foresee any significant credit risk from cash at banks and does not expect that those banks may default and cause losses to the Company.

Impairment losses on cash at banks are disclosed in Note 6.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) *Liquidity risk (continued)*

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are grossed and undiscounted and include estimated interest payments and exclude the impact of netting arrangements.

	Carrying amounts		Undiscounted contractual cash flow	6 months or less	6 to 12 months	After 1 year
	US\$	KHR'000 (Note 5)	US\$	US\$	US\$	US\$
2022						
Trade payables	1,230,952	5,067,829	1,230,952	1,107,992	37,032	85,928
Amount due to related parties	142,633	587,220	142,633	125,898	-	16,735
Accruals	224,897	925,901	224,897	224,897	-	-
Debt securities issued	33,285,006	137,034,369	33,888,669	233,763	-	33,654,906
Other payables	239,776	987,158	239,776	239,776	-	-
Borrowings	2,637,627	10,859,111	2,637,627	1,263,352	558,014	816,261
	<u>37,760,891</u>	<u>155,461,588</u>	<u>38,364,554</u>	<u>3,195,678</u>	<u>595,046</u>	<u>34,573,830</u>
2021						
Trade payables	1,831,558	7,461,767	1,831,558	778,828	263,313	789,417
Amount due to related parties	256,263	1,044,015	256,263	183,719	55,809	16,735
Accruals	292,304	1,190,846	292,304	292,304	-	-
Other payables	295,654	1,204,494	295,654	295,654	-	-
Borrowings	1,164,476	4,744,075	1,241,521	466,878	445,281	329,362
	<u>3,840,255</u>	<u>15,645,197</u>	<u>3,917,300</u>	<u>2,017,383</u>	<u>764,403</u>	<u>1,135,514</u>

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates – that will 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 returns.

Currency risk

The Company is exposed to foreign exchange risk arising from purchases and transactions that are denominated in a currency other than the Company's functional currency which is Khmer Riel.

The currency that gives rise to the foreign exchange risk to the Company is primarily United States of Dollar (USD) from borrowings and transactions with related parties and payment of operating expenses. The Company does not hedge its foreign currency exposure. To manage its foreign currency exposure, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary.

Interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Fixed rate instruments				
Financial liabilities	<u>12,677,104</u>	<u>10,859,111</u>	<u>1,164,476</u>	<u>4,744,075</u>
Variable-rate instruments				
Financial liabilities	<u>23,245,529</u>	<u>95,701,843</u>	<u>-</u>	<u>-</u>

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed-rate financial assets at fair value through profit or loss, and the Company does not have derivatives at the reporting date. Therefore, a change in interest rates at the end of reporting period would not affect profit or loss.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit or loss		Equity, net of tax	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2022				
Variable-rate instruments	<u>330,512</u>	<u>(330,512)</u>	<u>330,512</u>	<u>(330,512)</u>
31 December 2021				
Variable-rate instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

25. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

(a) Foreign currency transactions

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than US\$ at the reporting date are translated into US\$ at the rates of exchange ruling at that date. Non-monetary items that are measured in terms of historical cost in other currency are translated using the exchange rates as at the respective dates of the initial transactions. Foreign currency differences are generally recognised in profit or loss.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(b) Financial instruments

(i) *Recognition and initial measurement*

The Company initially recognises trade and receivables on the date that they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) *Classification and subsequent measurement*

Non-derivative financial assets – Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (“FVOCI”); debt investment or fair value through profit or loss (“FVTPL”).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual term give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company classify other receivables, term deposits and cash and cash equivalents as “financial assets measured at amortised cost”.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) *Classification and subsequent measurement (continued)*

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, as at FVTPL, if doing so, eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Non-derivative financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) *Classification and subsequent measurement (continued)*

Non-derivative financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual rate, including variable-rate features;
- prepayment and extension features;
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Non-derivative financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) *Classification and subsequent measurement (continued)*

Non-derivative financial assets – Subsequent measurement and gains and losses (continued)

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Non-derivative financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) *Derecognition*

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) *Derecognition (continued)*

Financial liabilities (continued)

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the enforceable asset and settle the liability simultaneously.

(v) *Share capital – ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and deposits with banks with original maturities of three months or less and other highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(d) Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. The cost is calculated using the first-in first-out method, and includes the original purchase cost, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(e) Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(e) Property and equipment (continued)

(i) *Recognition and measurement (continued)*

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income in profit or loss.

(ii) *Subsequent costs*

The costs of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over their estimated useful lives as follows:

Railroad and station improvements	3 to 5 years
Locomotive	5 to 25 years
Wagon	5 to 20 years
Train track	5 years
Trolley	5 years
Equipment and machinery	3 to 5 years
Office equipment	5 years
Furniture and fittings	5 years
IT hardware	3 years

Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(f) Intangible assets

Intangible assets comprise computer software and the sign-on fees under the Railway Concession Agreement which are stated at cost less accumulated amortisation and any accumulated impairment losses. The computer software is amortised over its estimated life of 3 years and the sign-on fees is amortised over 29 years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

(g) Impairment

(i) *Financial assets*

The Company recognises loss allowances for expected credit loss (“ECLs”) on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for cash and cash equivalents for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which is measured at 12-month ECLs. Loss allowance for trade and other receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(g) Impairment (continued)

(i) *Financial assets (continued)*

12-month ECLs are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract such as default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(g) Impairment (continued)

(i) *Financial assets (continued)*

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subjected to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(ii) *Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

For the impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses are allocated to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation and amortisation, if no impairment loss had been recognised.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(h) Borrowings

Borrowings are recognised initially at the transaction price (that is, the present value of cash payable to the lenders, including transaction costs). Borrowings are subsequently stated at amortised cost. All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(i) Provisions

Provisions are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(j) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Company's net obligation in respect of other long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Measurements are recognised in profit or loss in the period in which they arise.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

(i) *Service revenue*

Revenue from rail freight, train-related value-added services and passenger's fare are recognised when the services are provided to the customers. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes.

(ii) *Warehouse income*

Warehouse rental income is recognised on a straight-line basis over the term of the relevant rental contracts.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(l) Finance costs

Finance costs comprise interest expense on borrowings and debt securities.

Interest expense is recognised using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the amortised cost of the financial liability.

(m) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent it relates to the items recognised directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under CIAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i). Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii). Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered based on the business plan of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Significant accounting policies (continued)

(ii). Deferred tax (continued)

Deferred tax assets and liabilities are offset only if certain criteria are met.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(n) New standards, amendments and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2022 however, the Company has not early adopted the new or amended standards in preparing these financial statements and the application of the amendments does not have a material financial impact on the Company's financial statements.

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);*
- *Definition of Accounting Estimates (Amendment to IAS 18);*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*

26. Operating segment information

Management has determined operating segments with reference to the reports reviewed by the Chief Executive Officer of the Company that are used to assess the performance and allocate resources. The CEO of the Company assesses the performance and allocates the resources of the Company as a whole, as all of the Company's activities are considered to be primarily dependent on the provision of rail freight services to external customers and its related services representing 86.95% and 5.93% of total revenue. Therefore, the Company's management considers that there is only one operating segment. In this regard, no segment information is presented for the year.

No geographic information is shown as the Company's operating results are entirely derived from its business activities in Cambodia only.

Royal Railway Plc. (previously known as Royal Railway Co., Ltd)

Notes to the financial statements (continued) for the year ended 31 December 2022

27. Contingent liability

1. Concession agreement with the RGC

On 12 June 2009, Royal Railway Cambodia., Ltd. (formally known as Toll (Cambodia) Co LTD) entered into the Concession Agreement (Known as Existing Concession Agreement) with the RGC. There are provisions in the existing Concession Agreement specifying concession fees to be paid by the Company to the RGC for the use of the conceded assets from the effective date of the Concession Agreement. The Company's management has performed an assessment of its obligation under the existing Concession Agreement with the advice by its legal counsel and concluded that the conditions precedent specified in the concession agreement have not been fully satisfied and both the RGC and the Company have not concluded on the agreed date for the effective date, and therefore, the obligation to pay the concession fee has not yet become effective.

The Company management is continuing its negotiation with the RGC represented by MPWT on the new amended Railway Concession Agreement which has not been finalised as at the date of these financial statements yet.

The estimated concession fees payable is contingent to the ultimate outcome of the matters described above and accordingly no provision for any liability has been made in financial statements.

2. Sub lease agreement with the TRAIN SQUARE CO., LTD.

On 5 May 2019, the Company sublease the available space approximately 2,705sqm to the TRAIN SQUARE CO., LTD for the duration of 8 years.

Based on this sub lease agreement, in the event the Company terminate the sublease agreement, the Company shall refund to the TRAIN SQUARE CO., LTD the deposits and other costs incurred for the construction.

The continuity of this sublease agreement is contingent to the favorable outcome of the negotiation on the new amended Railway Concession Agreement as described in note 27.1 above.

28. Subsequent events

On 17 January 2023, there was an incident that took place at Battambang province which caused damage to one locomotive and minimal damage to several fuel tanks. The management is working with the insurance company to evaluate the cost of damage for insurance claim which has not been concluded as at the date of the financial statements yet.

On 21 March 2023, there was another incident that took place at Kampot province which caused damage to the ASU passenger train. The damage has been evaluated by management and repair costs to restore the train to its current condition is not significant to the financial statements.