

ROYAL RAILWAY PLC.

**Financial Statements
for the year ended 31 December 2023
and
Report of the Independent Auditors**

Corporate information

Company	Royal Railway Plc.	
Registration No.	00018504	
Registered office	Central Railway Station, Russian Federation Boulevard Sangkat Sras Chork, Khan Daun Penh, Phnom Penh Kingdom of Cambodia	
Shareholders	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 Director Director Independent Director
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 Director Director
Nomination and Remuneration Committee	Mr. William Mark Hanna Mr. Paul Clements Mr. Raymond Thornton Yager	Chairman Director Director
Principal banker	Wing Bank (Cambodia) Plc	
Auditors	KPMG Cambodia Ltd	

Royal Railway Plc.

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Report of the Board of Directors

The Board of Directors (“Directors”) of Royal Railway Plc. (“the Company”) hereby submit their report together with the audited financial statements for the year ended 31 December 2023.

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 2023 were as follows:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loss before income tax	(5,392,678)	(22,163,906)	(4,118,571)	(16,832,600)
Income tax expense	-	-	-	-
Net loss for the year	<u>(5,392,678)</u>	<u>(22,163,906)</u>	<u>(4,118,571)</u>	<u>(16,832,600)</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

As at 31 December 2023, the registered, issued and fully paid up share capital was US\$13,020,930 for 2,003,220 ordinary shares at par value of US\$6.5 per share. There was no change in share capital nor shareholding structure changes during the year ended.

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.

Royal Railway Plc.

Expected credit loss 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 are 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 30 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 those in the ordinary course of business.

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.

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Change of circumstances (continued)

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.

Event during and since the reporting period

Since 30 June 2023 and to present, the Company has not been able to comply with 3 covenants including Debt Service Coverage Ratio, Operating ratio and Debt to EBITDA ratio under the bond guarantee agreement.

The Company communicated the compliance status to the Guarantor on 13 July 2023 and updates its financial forecast model as per requirement from the Guarantor. On 15 August 2023, the Company submitted their request for a waiver to the Guarantor and on 12 December 2023, the Guarantor waived the non-compliance of the covenants as of 30 June 2023. Furthermore, the Company is in the process of updating its financial forecast model along with the requested waiver letter to the Guarantor which has not been finalised as of 31 December 2023 and as at the date of this report.

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:

<i>Name</i>	<i>Position</i>
Neak Oknha Kith Meng	Chairman
Mr. Raymond Thornton Yager	Director
Mr. William Mark Hanna	Director
Mr. Paul Clements	Director
Mr. Lun Yeng	Independent Director

Directors' interests

Except for Neak Oknha Kith Meng, the Chairman, who directly and indirectly holds 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.

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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 are responsible for ascertaining that the financial statements as set out on pages 10 to 57 present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended. In preparing the financial statements, the Directors are 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.

Approval of the financial statements

I, on behalf of the Board of Directors of Royal Railway Plc., hereby state that, in my opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2023, 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

26 March 2024



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Report of the Independent Auditors

To the shareholders of Royal Railway Plc.

Opinion

We have audited the financial statements of Royal Railway Plc. (“the Company”), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory information as set out on pages 10 to 57.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with 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 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\$10,348,051 (2022: US\$10,229,707). 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 30.1 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, then 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 CIFRSs, 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 scepticism 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

26 March 2024

Royal Railway Plc.

Statement of financial position as at 31 December 2023

	Note	31 December 2023		31 December 2022	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
ASSETS					
Current assets					
Cash and bank balances	6	17,485,828	71,429,608	23,981,297	98,731,000
Trade and other receivables	7	2,913,750	11,902,669	2,370,718	9,760,246
Inventories	8	154,602	631,549	214,835	884,476
		<u>20,554,180</u>	<u>83,963,826</u>	<u>26,566,850</u>	<u>109,375,722</u>
Non-current assets					
Bank balances	6	3,958,850	16,171,902	3,773,687	15,536,269
Property and equipment	9	8,872,818	36,245,462	7,007,931	28,851,652
Intangible assets	10	243,763	995,772	259,621	1,068,860
Investment property	11	43,111	176,108	-	-
		<u>13,118,542</u>	<u>53,589,244</u>	<u>11,041,239</u>	<u>45,456,781</u>
TOTAL ASSETS		<u>33,672,722</u>	<u>137,553,070</u>	<u>37,608,089</u>	<u>154,832,503</u>
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	12	2,702,507	11,039,741	3,741,073	15,401,998
Borrowings	13	3,432,784	14,022,923	1,782,400	7,338,141
Debt securities	14	24,094,813	98,427,311	233,763	962,402
Employee benefit liabilities	15	94,759	387,091	86,391	355,672
Minimum tax liability	22(b)	9,163	37,431	66,007	271,751
		<u>30,334,026</u>	<u>123,914,497</u>	<u>5,909,634</u>	<u>24,329,964</u>
Non-current liabilities					
Debt securities	14	9,809,327	40,071,101	33,051,243	136,071,967
Borrowings	13	1,087,317	4,441,690	855,227	3,520,970
Provision on onerous contract		52,308	213,678	-	-
Employee benefit liabilities	15	52,130	212,951	61,693	253,990
		<u>11,001,082</u>	<u>44,939,420</u>	<u>33,968,163</u>	<u>139,846,927</u>
TOTAL LIABILITIES		<u>41,335,108</u>	<u>168,853,917</u>	<u>39,877,797</u>	<u>164,176,891</u>
Equity					
Share capital	16	13,020,930	52,083,720	13,020,930	52,083,720
Accumulated losses		(20,683,316)	(84,381,567)	(15,290,638)	(62,217,661)
Currency translation reserves		-	997,000	-	789,553
		<u>(7,662,386)</u>	<u>(31,300,847)</u>	<u>(2,269,708)</u>	<u>(9,344,388)</u>
TOTAL LIABILITIES AND EQUITY		<u>33,672,722</u>	<u>137,553,070</u>	<u>37,608,089</u>	<u>154,832,503</u>

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

Royal Railway Plc.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Note	2023		2022	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Revenue	17	10,348,051	42,530,490	10,229,707	41,808,813
Cost of services	18	<u>(12,349,244)</u>	<u>(50,755,393)</u>	<u>(12,260,650)</u>	<u>(50,109,277)</u>
Gross loss		(2,001,193)	(8,224,903)	(2,030,943)	(8,300,464)
Other operating income	19	1,199,283	4,929,053	763,871	3,121,941
Operating and administrative expenses	20	(675,268)	(2,775,351)	(2,142,711)	(8,757,260)
Provision for onerous contract expense		(52,308)	(214,986)	-	-
Allowance for of impairment losses	6,7	(18,356)	(75,443)	(229,686)	(938,727)
Minimum tax expense	22(c)	<u>(116,271)</u>	<u>(477,874)</u>	<u>(108,474)</u>	<u>(443,333)</u>
Operating loss		(1,664,113)	(6,839,504)	(3,747,943)	(15,317,843)
Finance costs – net	23	<u>(3,728,565)</u>	<u>(15,324,402)</u>	<u>(370,628)</u>	<u>(1,514,757)</u>
Loss before income tax		(5,392,678)	(22,163,906)	(4,118,571)	(16,832,600)
Income tax expense	22(c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loss for the year		(5,392,678)	(22,163,906)	(4,118,571)	(16,832,600)
<i>Other comprehensive loss</i>					
Items that will not be reclassified to profit or loss					
Currency translation differences		<u>-</u>	<u>207,447</u>	<u>-</u>	<u>(44,056)</u>
Total comprehensive loss for the year		<u>(5,392,678)</u>	<u>(21,956,459)</u>	<u>(4,118,571)</u>	<u>(16,876,656)</u>

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

Royal Railway Plc.

Statement of changes in equity for the year ended 31 December 2023

	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 2023	13,020,930	52,083,720	(15,290,638)	(62,217,661)	-	789,553	(2,269,708)	(9,344,388)
Total comprehensive loss								
Net loss for the year	-	-	(5,392,678)	(22,163,906)	-	-	(5,392,678)	(22,163,906)
Currency translation differences	-	-	-	-	-	207,447	-	207,447
	-	-	(5,392,678)	(22,163,906)	-	207,447	(5,392,678)	(21,956,459)
At 31 December 2023	13,020,930	52,083,720	(20,683,316)	(84,381,567)	-	997,000	(7,662,386)	(31,300,847)
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)

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

Royal Railway Plc.

Statement of cash flows for the year ended 31 December 2023

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Cash flows from operating activities				
Net loss for the year	(5,392,678)	(22,163,906)	(4,118,571)	(16,832,600)
<i>Adjustments for:</i>				
Depreciation and amortisation	1,312,922	5,396,109	970,152	3,965,011
Finance costs	4,137,125	17,003,584	393,870	1,609,747
Employee benefit	198,771	816,949	226,809	926,968
Property and equipment written off	17,887	73,516	1,109	4,532
Minimum tax expense	116,271	477,874	108,474	443,333
Finance incomes	(408,560)	(1,679,182)	-	-
Provision for onerous contract expense	52,308	214,986	-	-
Allowance impairment loss	18,356	75,443	229,686	938,727
	<u>52,402</u>	<u>215,373</u>	<u>(2,188,471)</u>	<u>(8,944,282)</u>
<i>Changes in:</i>				
Trade and other receivables	(607,920)	(2,498,551)	(1,457,331)	(5,956,112)
Inventories	(72,262)	(296,997)	(85,259)	(348,454)
Trade and other payables	<u>(1,038,566)</u>	<u>(4,268,506)</u>	<u>(797,781)</u>	<u>(3,260,531)</u>
Cash used in operation	(1,666,346)	(6,848,681)	(4,528,842)	(18,509,379)
Interest paid	(3,501,896)	(14,392,793)	(997,533)	(4,076,917)
Payment of employee benefits	(199,966)	(821,860)	(163,718)	(669,115)
Income tax paid	<u>(173,115)</u>	<u>(711,503)</u>	<u>(110,191)</u>	<u>(450,351)</u>
Net cash used in operating activities	<u>(5,541,323)</u>	<u>(22,774,837)</u>	<u>(5,800,284)</u>	<u>(23,705,762)</u>
Cash flows from investing activities				
Interest received	223,397	918,162	-	-
Acquisition of property and equipment	(3,087,877)	(12,691,174)	(1,717,292)	(7,018,572)
Acquisition of investment property	(1,377)	(5,659)	-	-
Acquisition of intangible asset	<u>(1,200)</u>	<u>(4,932)</u>	<u>(499)</u>	<u>(2,039)</u>
Net cash used in investing activities	<u>(2,867,057)</u>	<u>(11,783,603)</u>	<u>(1,717,791)</u>	<u>(7,020,611)</u>
Cash flows from financing activities				
Proceeds from borrowings	2,000,000	8,220,000	4,664,319	19,063,072
Repayment of borrowings	(133,621)	(549,182)	(3,191,168)	(13,042,304)
Bank balance of reserve accounts	-	-	(3,773,687)	(15,423,059)
Proceeds from issuance of debt securities	-	-	33,888,669	138,502,990
Net cash generated from financing activities	<u>1,866,379</u>	<u>7,670,818</u>	<u>31,588,133</u>	<u>129,100,699</u>

Royal Railway Plc.

Statement of cash flows (continued) for the year ended 31 December 2023

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Net (decrease)/increase in cash and cash equivalents	(6,542,001)	(26,887,622)	24,070,058	98,374,326
Cash and cash equivalents at beginning of the year	24,191,824	99,597,739	121,766	496,075
Currency translation differences	-	(610,590)	-	727,338
Cash and cash equivalents at end of the year (Note 6)	<u>17,649,823</u>	<u>72,099,527</u>	<u>24,191,824</u>	<u>99,597,739</u>

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

Royal Railway Plc.

Notes to the financial statements for the year ended 31 December 2023

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

1. Background information

Royal Railway Plc. (“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 these financial statements, 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 2023, the Company had 804 employees (31 December 2022: 788 employees).

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 material accounting policies are included in Note 28.

The financial statements of the Company were authorised for issue by the Board of Directors on 26 March 2024.

(b) Basis of measurement

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

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

2. Basis of preparation (continued)

(c) Going concern assumption

During the year ended 31 December 2023, the Company generated a net loss of US\$5,392,678 (2022: net loss US\$4,118,571) and generated net negative cash flows from operating activities amounting to US\$5,541,323 (2022: US\$5,800,284) and as at 31 December 2023, the Company had incurred accumulated losses amounting to US\$20,683,316 (2022: US\$15,290,638), and net current liabilities of US\$9,779,846 (2022: net current asset of US\$20,657,216).

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 including debt securities 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.

Based on these factors, management has a reasonable expectation that the Company will have adequate resources to continue in operational existence the foreseeable future.

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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

4. Use of judgments and estimates (continued)

Measurement of fair values (continued)

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 26 – 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*.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

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

The Company uses the following exchange rates:

Financial year end		Closing rate	Average rate
31 December 2023	US\$1=	KHR4,085	KHR4,110
31 December 2022	US\$1=	<u>KHR4,117</u>	<u>KHR4,087</u>

These convenience translations 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 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
<i>Current</i>				
Cash on hand	2,229	9,106	5,538	22,800
Cash at banks (*)	<u>17,647,594</u>	<u>72,090,421</u>	<u>24,186,286</u>	<u>99,574,939</u>
Total cash and bank balances	<u>17,649,823</u>	<u>72,099,527</u>	<u>24,191,824</u>	<u>99,597,739</u>
Less: Allowance for expected credit loss	<u>(163,995)</u>	<u>(669,919)</u>	<u>(210,527)</u>	<u>(866,739)</u>
	<u>17,485,828</u>	<u>71,429,608</u>	<u>23,981,297</u>	<u>98,731,000</u>
<i>Non-current</i>				
Cash at banks:				
Debt Service Reserve Account ("DSRA") (**)	3,591,585	14,671,624	3,423,595	14,094,940
Guarantee Fee Reserve Account ("GFRA") (**)	<u>367,265</u>	<u>1,500,278</u>	<u>350,092</u>	<u>1,441,329</u>
Total bank balances	<u>3,958,850</u>	<u>16,171,902</u>	<u>3,773,687</u>	<u>15,536,269</u>

(*) Included in the cash at banks balance is the Bond Proceeds Account for which the Company will be able to withdraw amounts from the Bond Proceeds Account, following submission of written requests for specific capital expenditure and to be validated by the GuarantCo Ltd ("the Guarantor"). As at 31 December 2023, the remaining amount in the account is US\$14,454,865 (31 December 2022: US\$19,802,402).

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

6. Cash and bank balances (continued)

(**) Debt Service Reserve Account and Guarantee Fee Reserve Account are reserve accounts specifically set aside to make debt payments and guarantee fee payments in the event of a disruption of cash flows (i.e default event) for the bonds payable and is held at Acleda Bank which earns annual interest rate of 5.00% (31 December 2022: 5.00%) and must be kept as minimum balance for the rest of the bonds' terms.

For purpose of preparing the statement of cash flows, cash and cash equivalents comprise the following:

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Cash on hand	2,229	9,106	5,538	22,800
Cash at banks (current portion)	<u>17,647,594</u>	<u>72,090,421</u>	<u>24,186,286</u>	<u>99,574,939</u>
Cash and cash equivalents	<u>17,649,823</u>	<u>72,099,527</u>	<u>24,191,824</u>	<u>99,597,739</u>

The movement of allowance for expected credit loss for bank balances during the year were as follows:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	(210,527)	(866,739)	-	-
Recognised in profit or loss	46,532	191,247	(210,527)	(860,424)
Currency translation differences	<u>-</u>	<u>5,573</u>	<u>-</u>	<u>(6,315)</u>
At 31 December	<u>(163,995)</u>	<u>(669,919)</u>	<u>(210,527)</u>	<u>(866,739)</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

7. Trade and other receivables

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Trade receivables	575,983	2,352,891	545,610	2,246,276
Less: Allowance for expected credit loss	<u>(166,060)</u>	<u>(678,355)</u>	<u>(101,172)</u>	<u>(416,525)</u>
Advance to suppliers	409,923	1,674,536	444,438	1,829,751
Amount due from related parties (Note 24)	<u>2,057,634</u>	<u>8,405,435</u>	<u>1,696,781</u>	<u>6,985,647</u>
	<u>48,933</u>	<u>199,891</u>	<u>53,094</u>	<u>218,588</u>
Financial assets measured at amortised cost	2,516,490	10,279,862	2,194,313	9,033,986
Deposits	79,810	326,024	71,498	294,357
Prepayments	17,982	73,456	32,207	132,596
Others	<u>299,468</u>	<u>1,223,327</u>	<u>72,700</u>	<u>299,307</u>
	<u>2,913,750</u>	<u>11,902,669</u>	<u>2,370,718</u>	<u>9,760,246</u>

The movement of allowance for expected credit loss for trade receivables during the year were as follows:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	(101,172)	(416,525)	(82,013)	(334,121)
Recognised in profit or loss	(64,888)	(266,690)	(19,159)	(78,303)
Currency translation differences	<u>-</u>	<u>4,860</u>	<u>-</u>	<u>(4,101)</u>
At 31 December	<u>(166,060)</u>	<u>(678,355)</u>	<u>(101,172)</u>	<u>(416,525)</u>

8. Inventories

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Locomotive parts	60,306	246,350	62,812	258,597
Tools	27,390	111,888	62,641	257,893
Fuel oil	13,902	56,790	12,292	50,606
Diesel	42,352	173,008	51,257	211,025
Wagon parts	<u>10,652</u>	<u>43,513</u>	<u>25,833</u>	<u>106,355</u>
	<u>154,602</u>	<u>631,549</u>	<u>214,835</u>	<u>884,476</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

9. Property and equipment

2023	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	656,825	7,806,896	1,211,498	580,845	32,163	736,078	9,134	8,794	97,661	15,057	160,672	11,315,623	46,586,419
Addition	22,855	548,876	897,344	25,445	16,230	70,248	-	-	5,807	26,660	1,474,412	3,087,877	12,691,174
Transfers	199,104	140,428	864,847	258,041	-	1,849	-	-	-	22	(1,464,291)	-	-
Transfers to investment property	-	-	-	-	-	-	-	-	-	-	(46,926)	(46,926)	(192,866)
Transfers from inventory	-	-	119,286	2,915	-	-	-	-	-	-	10,294	132,495	544,554
Written off	(62,449)	(7,068)	(12,693)	(6,689)	-	(16,342)	-	-	(920)	-	(348)	(106,509)	(437,752)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	(438,771)
At 31 December	816,335	8,489,132	3,080,282	860,557	48,393	791,833	9,134	8,794	102,548	41,739	133,813	14,382,560	58,752,758
Less: Accumulated depreciation													
At 1 January	493,849	2,058,562	717,830	281,832	32,163	625,441	8,135	8,794	72,868	8,218	-	4,307,692	17,734,767
Depreciation for the year	74,341	759,171	247,565	119,236	1,396	69,948	667	-	13,364	4,984	-	1,290,672	5,304,662
Written off	(48,620)	(6,855)	(12,693)	(3,836)	-	(15,698)	-	-	(920)	-	-	(88,622)	(364,236)
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	(167,897)
At 31 December	519,570	2,810,878	952,702	397,232	33,559	679,691	8,802	8,794	85,312	13,202	-	5,509,742	22,507,296
Carrying amounts													
At 1 January	162,976	5,748,334	493,668	299,013	-	110,637	999	-	24,793	6,839	160,672	7,007,931	28,851,652
At 31 December	296,765	5,678,254	2,127,580	463,325	14,834	112,142	332	-	17,236	28,537	133,813	8,872,818	36,245,462

As at 31 December 2023, fully depreciated property and equipment with an original cost of US\$1,248,068 (31 December 2022: US\$1,185,572) were still in use.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

9. Property and equipment (continued)

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	656,825	7,806,896	1,211,498	580,845	32,163	736,078	9,134	8,794	97,661	15,057	160,672	11,315,623	46,586,419
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	493,849	2,058,562	717,830	281,832	32,163	625,441	8,135	8,794	72,868	8,218	-	4,307,692	17,734,767
Carrying amounts													
At 1 January	153,223	5,244,025	367,471	251,135	-	111,299	1,773	54	14,677	9,262	92,085	6,245,004	25,442,146
At 31 December	162,976	5,748,334	493,668	299,013	-	110,637	999	-	24,793	6,839	160,672	7,007,931	28,851,652

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

10. Intangible assets

2023	Computer software US\$	Sign-on fee US\$	US\$	Total KHR'000 (Note 5)
Cost				
At 1 January	19,090	450,000	469,090	1,931,244
Addition	1,200	-	1,200	4,932
Currency translation differences	-	-	-	(15,041)
At 31 December	<u>20,290</u>	<u>450,000</u>	<u>470,290</u>	<u>1,921,135</u>
Less: Accumulated amortisation				
At 1 January	17,349	192,120	209,469	862,384
Amortisation for the year	1,586	15,472	17,058	70,108
Currency translation differences	-	-	-	(7,129)
At 31 December	<u>18,935</u>	<u>207,592</u>	<u>226,527</u>	<u>925,363</u>
Carrying amounts				
At 1 January	<u>1,741</u>	<u>257,880</u>	<u>-</u>	<u>259,621</u>
At 31 December	<u>1,355</u>	<u>242,408</u>	<u>243,763</u>	<u>995,772</u>

Fully amortised computer software as at 31 December 2023 with original cost of US\$17,193 (31 December 2022: US\$14,444) were still in use.

2022	Computer software US\$	Sign-on fee US\$	US\$	Total KHR'000 (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 1 January	<u>2,666</u>	<u>273,352</u>	<u>276,018</u>	<u>1,130,082</u>
At 31 December	<u>1,741</u>	<u>257,880</u>	<u>259,621</u>	<u>1,068,860</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

11. Investment property

	2023	
	US\$	KHR'000 (Note 5)
Cost		
At 1 January	-	-
Addition	1,377	5,659
Transfers from property and equipment	46,926	192,866
Currency translation differences	-	(1,207)
At 31 December	<u>48,303</u>	<u>197,318</u>
Less: Accumulated depreciation		
At 1 January	-	-
Depreciation for the year	5,192	21,339
Currency translation differences	-	(129)
At 31 December	<u>5,192</u>	<u>21,210</u>
Carrying amounts		
At 31 December	<u><u>43,111</u></u>	<u><u>176,108</u></u>

Investment property pertains to a warehouse located on a conceded land in Battambang province that is leased to a third party. The estimated fair value of the warehouse as determined by the Management is approximate to its carrying amounts as at 31 December 2023.

12. Trade and other payables

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Trade payables:				
Trade payables to third parties	1,368,619	5,590,809	1,230,952	5,067,829
Amounts due to related parties (Note 24)	258,677	1,056,696	142,633	587,220
Tax payables:				
Value added tax (*)	63,239	258,331	1,059,105	4,360,335
Salary and fringe benefit tax (*)	22,221	90,773	182,530	751,476
Withholding tax (*)	31,967	130,585	175,500	722,534
Tax interest and penalties (*)	-	-	485,680	1,999,545
Payroll payable	275,521	1,125,503	60,503	249,091
Accruals	301,950	1,233,466	224,897	925,901
Other payables	380,313	1,553,578	179,273	738,067
	<u><u>2,702,507</u></u>	<u><u>11,039,741</u></u>	<u><u>3,741,073</u></u>	<u><u>15,401,998</u></u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

12. Trade and other payables (continued)

- (*) As part of the listing incentives, the Company submitted a letter to Securities and Exchange Regulator of Cambodia (“SERC”) on 16 December 2022 requesting to waive all tax liabilities above from the General Department of Taxation (“GDT”). On 8 February 2023, the Company received a notification from SERC that the request was submitted to the GDT. On 29 March 2023, GDT responded its approval to waive the tax liabilities amounting to US\$1,842,973 (Note 20) to the Company.

13. Borrowings

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	2,637,627	10,859,111	1,164,476	4,744,075
Addition	2,000,000	8,220,000	4,664,319	19,063,072
Accrued interest payable	16,095	66,150	-	-
Repayments	(133,621)	(549,182)	(3,191,168)	(13,042,304)
Currency translation differences	-	(131,466)	-	94,268
At 31 December	<u>4,520,101</u>	<u>18,464,613</u>	<u>2,637,627</u>	<u>10,859,111</u>

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

		31 December 2023		31 December 2022	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Current portion					
Neak Oknha Kith Meng	(i)	1,207,700	4,933,455	1,207,700	4,972,101
SKTM Investment Co., Ltd	(i)	2,000,000	8,170,000	-	-
Cambodian Public Bank Plc.	(ii)	124,270	507,643	74,700	307,540
Wing Bank (Cambodia) Plc	(iii)	84,719	346,077	500,000	2,058,500
		<u>3,416,689</u>	<u>13,957,175</u>	<u>1,782,400</u>	<u>7,338,141</u>
Accrued interest payable		16,095	65,748	-	-
		<u>3,432,784</u>	<u>14,022,923</u>	<u>1,782,400</u>	<u>7,338,141</u>
Non-current portion					
Cambodian Public Bank Plc.	(ii)	691,991	2,826,783	855,227	3,520,970
Wing Bank (Cambodia) Plc	(iii)	395,326	1,614,907	-	-
		<u>1,087,317</u>	<u>4,441,690</u>	<u>855,227</u>	<u>3,520,970</u>
		<u>4,520,101</u>	<u>18,464,613</u>	<u>2,637,627</u>	<u>10,859,111</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

13. Borrowings (continued)

- (i) Borrowing from a shareholder, Neak Oknha KITH MENG is unsecured, interest free and repayable on demand (Note 24).

On 8 December 2023, the company entered into 12 months fixed loan with SKTM Investment Co.,LTD represented by, Neak Oknha KITH MENG. The loan is unsecured, bears interest rate at 7% per annum for tenor with monthly interest payment of US\$11,890 starting from 8 January 2024 to 8 December 2024.

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

- (iii) On 1 September 2022, the Company entered into a fixed loan with Wing Bank (Cambodia) Plc. The loan is unsecured bears interest rate at 7% per annum for tenor of 12 months with monthly interest payment of US\$2,877 starting from 1 September 2022 to 1 September 2023 and principal repayment by the end of the loan term.

However, on 31 August 2023 the Company renewed the fixed loan with the Wing Bank with revised interest rate of 9% per annum and is repayable in 60 monthly installments of US\$10,383 starting from 01 October 2023 to 01 September 2028 (Note 24).

14. 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. (per annum). 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 KHR49.2 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 KHR49.2 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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

14. Debt securities (continued)

Second Corporate Bonds: (continued)

The bond was approved by SERC and CSX on 19 December 2022 and 26 December 2022 respectively and was issued officially on 29 December 2022.

Debt securities were classified into current and non-current portions as follows:

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Current				
Guaranteed bond	23,929,961	97,753,891	36,402	149,867
Plain bond	164,852	673,420	197,361	812,535
	<u>24,094,813</u>	<u>98,427,311</u>	<u>233,763</u>	<u>962,402</u>
Non-current				
Plain bond	9,809,327	40,071,101	9,809,327	40,384,999
Guaranteed bond	-	-	23,241,916	95,686,968
	<u>9,809,327</u>	<u>40,071,101</u>	<u>33,051,243</u>	<u>136,071,967</u>
	<u>33,904,140</u>	<u>138,498,412</u>	<u>33,285,006</u>	<u>137,034,369</u>

As at 31 December 2023, the Company was unable to comply with 3 covenants required for 2nd Corporate bond as follows:

Ratio Name	Formula	Financial requirement ratio		The Company's ratio		
				30 June 2023	30 September 2023	31 December 2023
Debt Service Coverage Ratio	= Cash Flow Available for Debt Service / Total debt service	≥	1.2x	0.84	1.1	0.26
Operating ratio	= Net operating income / Total operating revenue	≥	95.14%, ≤100%	12.29%	15%	102.27%
Debt to EBITDA	= Total debt / EBITDA	≤	9.5x	43.83	25	149.77

* *EBITDA=Earnings before interest, taxes, depreciation and amortisation*

The Company communicated the compliance status to the Guarantor on 13 July 2023 and updates its financial forecast model as per requirement from the Guarantor. On 15 August 2023, the Company submitted their request for a waiver to the Guarantor and on 12 December 2023, the Guarantor waived the non-compliance of the covenants as of 30 June 2023. Furthermore, the Company is in the process of updating its financial forecast model along with the requested waiver letter to the Guarantor which has not been finalised as of 31 December 2023 and as at the date of these financial statements.

Accordingly, the carrying amount of US\$ 23,929,961 of the guaranteed bond was reclassified to current liabilities.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

15. Employee benefit liabilities

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Seniority indemnity				
Current	94,759	387,091	86,391	355,672
Non-current	52,130	212,951	61,693	253,990
	<u>146,889</u>	<u>600,042</u>	<u>148,084</u>	<u>609,662</u>

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

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	148,084	609,662	84,993	346,261
Recognised in profit or loss	198,771	816,949	226,809	926,968
Paid during the year	(199,966)	(821,860)	(163,718)	(669,115)
Currency translation differences	-	(4,709)	-	5,548
At 31 December	<u>146,889</u>	<u>600,042</u>	<u>148,084</u>	<u>609,662</u>

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

16. Share capital

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
<i>Registered, issued and fully paid:</i>				
2,003,220 ordinary shares of US\$6.50 each	<u>13,020,930</u>	<u>52,083,720</u>	<u>13,020,930</u>	<u>52,083,720</u>

The details of the share holding structure were as follows:

	31 December 2023/31 December 2022			
	Number of shares	Par value per share US\$	Amount US\$	% ownership
Inter Logistics (Cambodia) Co.,Ltd	1,983,187	6.50	12,890,715	98.9999%
Neak Oknha Kith Meng	<u>20,033</u>	6.50	<u>130,215</u>	<u>1.0001%</u>
	<u>2,003,220</u>		<u>13,020,930</u>	<u>100%</u>

17. Revenue

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Southern line:				
Rail freight	5,720,009	23,509,237	5,874,759	24,010,141
Train related value-added services	625,123	2,569,256	591,565	2,417,726
Passengers' fare	537,759	2,210,189	416,865	1,703,727
Transportation	56,879	233,773	59,864	244,664
Other revenue	<u>16,735</u>	<u>68,781</u>	<u>23,377</u>	<u>95,542</u>
	<u>6,956,505</u>	<u>28,591,236</u>	<u>6,966,430</u>	<u>28,471,800</u>
Northern line:				
Rail freight	3,142,146	12,914,220	3,020,183	12,343,488
Passengers' fare	216,521	889,901	195,861	800,484
Train related value-added services	21,149	86,922	15,343	62,707
Transportation	5,750	23,633	1,000	4,087
Other revenue	<u>5,980</u>	<u>24,578</u>	<u>30,890</u>	<u>126,247</u>
	<u>3,391,546</u>	<u>13,939,254</u>	<u>3,263,277</u>	<u>13,337,013</u>
	<u>10,348,051</u>	<u>42,530,490</u>	<u>10,229,707</u>	<u>41,808,813</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

17. Revenue (continued)

The majority of the Company's freight business is affected by seasonality as a result of natural disasters or adverse weather conditions with rainy season being the low months for fuel transport services via train.

18. Cost of services

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Staff costs and wages	3,635,709	14,942,764	3,253,849	13,298,480
Cost of diesel	4,985,075	20,488,658	5,532,648	22,611,932
Depreciation and amortisation (Note 21)	1,225,898	5,038,441	900,960	3,682,224
Repairs and maintenance	732,698	3,011,389	687,840	2,811,202
Transportation	510,656	2,098,796	425,766	1,740,106
Container access charge	273,068	1,122,309	331,095	1,353,185
Equipment rental	315,933	1,298,485	318,687	1,302,474
Employee benefit obligations	166,972	686,255	198,110	809,676
Warehouse rental	86,364	354,956	95,455	390,125
Others	416,871	1,713,340	516,240	2,109,873
	<u>12,349,244</u>	<u>50,755,393</u>	<u>12,260,650</u>	<u>50,109,277</u>

19. Other operating income

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Warehouse rental	879,887	3,616,336	557,502	2,278,511
Sale of scrap metal (*)	124,617	512,176	-	-
Claim from Insurance	-	-	180,000	735,660
Others	194,779	800,541	26,369	107,770
	<u>1,199,283</u>	<u>4,929,053</u>	<u>763,871</u>	<u>3,121,941</u>

(*) On 26 January 2023, The Ministry of Public Works and Transport ("MPWT") issued an approval letter on written off of conceded old rails amounting to 2,000 tons. These rails were beyond repaired and located across the railway stations on the Northern Line which were collected and placed at Phnom Penh Yard by Royal Railway. MPWT was in charge of the sale process tendering out to the highest offered buyer. The proceed from the sale was KHR 656 million equivalent to US\$124,617 were granted to the Company by MPWT.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

20. Operating and administrative expenses

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Salaries and wages	610,291	2,508,296	518,259	2,118,125
Directors' fee	300,000	1,233,000	-	-
Insurance	265,521	1,091,291	270,584	1,105,877
Fuel and utilities	125,194	514,547	129,093	527,603
Equipment rental	101,230	416,055	108,623	443,941
Professional fees	65,817	270,508	364,554	1,489,932
Communication	76,399	314,000	72,361	295,739
Repairs and maintenance	60,850	250,094	52,411	214,204
Depreciation and amortisation (Note 21)	87,024	357,668	69,192	282,787
Provision for employee benefits	31,798	130,690	28,699	117,293
Staff uniform	12,782	52,534	12,640	51,660
Training and development	5,861	24,089	5,742	23,468
Travelling and accommodation	45,102	185,369	22,087	90,270
Bonus	44,253	181,880	34,776	142,130
Land survey	-	-	400	1,635
Other tax expenses	315,419	1,296,372	89,221	364,646
Interest and penalty on tax (*)	(1,842,973)	(7,574,619)	101,015	412,848
Licensing, registration and permit fee	25,321	104,069	31,253	127,731
Small value of assets	26,562	109,170	31,253	127,731
Other expenses	318,817	1,310,338	200,548	819,640
	<u>675,268</u>	<u>2,775,351</u>	<u>2,142,711</u>	<u>8,757,260</u>

(*) On 29 March 2023, the Company obtained approval from the GDT for waiving the tax liabilities amounting to US\$1,842,973 (see Note 12).

21. Depreciation and amortisation

Depreciation and amortisation charges were allocated as follows:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Depreciation of property and equipment (Note 9)	1,290,672	5,304,662	953,256	3,895,957
Depreciation of investment property (Note 11)	5,192	21,339	-	-
Amortisation of intangible assets (Note 10)	17,058	70,108	16,896	69,054
	<u>1,312,922</u>	<u>5,396,109</u>	<u>970,152</u>	<u>3,965,011</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

21. Depreciation and amortisation (continued)

Depreciation and amortisation charges were allocated as follows:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Allocated to:				
Cost of services (Note 18)	1,225,898	5,038,441	900,960	3,682,224
Administrative expenses (Note 20)	87,024	357,668	69,192	282,787
	<u>1,312,922</u>	<u>5,396,109</u>	<u>970,152</u>	<u>3,965,011</u>

22. 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

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January	66,007	271,751	67,724	275,908
Minimum tax expense	116,271	477,874	108,474	443,333
Minimum tax paid	(173,115)	(711,503)	(110,191)	(450,351)
Currency translation differences	-	(691)	-	2,861
At 31 December	<u>9,163</u>	<u>37,431</u>	<u>66,007</u>	<u>271,751</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

22. Income tax (continued)

(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:

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loss before income tax	<u>(5,392,678)</u>	<u>(22,163,906)</u>	<u>(4,118,571)</u>	<u>(16,832,600)</u>
Income tax using statutory income tax rate	(1,078,536)	(4,432,781)	(823,714)	(3,366,519)
Non-deductible expenses	63,084	259,273	85,389	348,985
Tax loss not recognised as deferred tax assets	276,115	1,134,833	606,698	2,479,575
Deductible temporary difference not recognised as deferred tax assets	<u>739,337</u>	<u>3,038,675</u>	<u>131,627</u>	<u>537,959</u>
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Minimum tax at 1% of turnover	<u>116,271</u>	<u>477,874</u>	<u>108,474</u>	<u>443,333</u>

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

(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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

22. Income tax (continued)

(e) Tax contingencies (continued)

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.

23. Finance costs – net

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Interest income from cash at bank	408,560	1,679,182	23,242	94,990
Interest expense on:				
Debt securities (*)	(4,006,460)	(16,466,551)	(238,467)	(974,615)
Borrowings	<u>(130,665)</u>	<u>(537,033)</u>	<u>(155,403)</u>	<u>(635,132)</u>
	<u><u>(3,728,565)</u></u>	<u><u>(15,324,402)</u></u>	<u><u>(370,628)</u></u>	<u><u>(1,514,757)</u></u>

(*) As a result of reclassifying the guaranteed bonds to current liability as disclosed in Note 14 to the financial statements, the remaining unamortised transaction fees of US\$499,621 was recognised into interest expense.

24. 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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

24. Related party transactions and balances (continued)

(a) Identity of related party (continued)

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

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

	2023		2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
<i>Property rental</i>				
GSS Global Security Solutions Co., Ltd.	33,009	135,667	34,349	140,384
J Trust Royal Bank Plc.	<u>360,873</u>	<u>1,483,188</u>	<u>86,279</u>	<u>352,622</u>
<i>Insurance</i>				
Infinity General Insurance Plc.	<u>281,881</u>	<u>1,158,531</u>	<u>307,591</u>	<u>1,257,124</u>
<i>Telephone expense</i>				
CamGSM Co., Ltd.	<u>20,642</u>	<u>84,839</u>	<u>9,935</u>	<u>40,604</u>
<i>Security fee</i>				
GSS Global Security Solutions Co., Ltd.	<u>27,720</u>	<u>113,929</u>	<u>16,219</u>	<u>66,287</u>
<i>Cleaning service</i>				
GSS Global Security Solutions Co., Ltd.	<u>1,023</u>	<u>4,205</u>	<u>-</u>	<u>-</u>
<i>Internet service fee</i>				
EZECOM Co.,Ltd	<u>63,139</u>	<u>259,501</u>	<u>47,872</u>	<u>195,653</u>
<i>Interest expense</i>				
Wing Bank (Cambodia) Plc	<u>34,400</u>	<u>141,384</u>	<u>-</u>	<u>-</u>
<i>Underwriting fee</i>				
SBI Royal Securities Plc.	<u>-</u>	<u>-</u>	<u>559,163</u>	<u>2,285,299</u>

The total remuneration of key managements for the year ended 31 December 2023 including salaries and benefits was US\$548,766 (2022: US\$605,571).

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

24. Related party transactions and balances (continued)

(c) Balances with related parties

	31 December 2023		31 December 2022	
	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.	10,995	44,915	75	309
<i>Non-trade related:</i>				
Royal Coffee	<u>37,938</u>	<u>154,976</u>	<u>53,019</u>	<u>218,279</u>
	<u>48,933</u>	<u>199,891</u>	<u>53,094</u>	<u>218,588</u>
Amounts due to related parties (Note 12)				
<i>Trade related:</i>				
Infinity General Insurance Plc.	257,055	1,050,070	88,809	365,626
CamGSM Co., Ltd	1,622	6,626	17,929	73,814
<i>Non-trade related:</i>				
SBI Royal Securities Plc.	<u>-</u>	<u>-</u>	<u>35,895</u>	<u>147,780</u>
	<u>258,677</u>	<u>1,056,696</u>	<u>142,633</u>	<u>587,220</u>
Borrowings (Note 13)				
Neak Oknha Kith Meng	3,207,700	13,103,455	1,207,700	4,972,101
Wing Bank (Cambodia) Plc.	<u>480,045</u>	<u>1,960,984</u>	<u>-</u>	<u>-</u>

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

25. Operating lease commitments

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

	31 December 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Within one year	157,061	641,594	137,997	568,134
Between two to five years	<u>8,994</u>	<u>36,740</u>	<u>20,778</u>	<u>85,543</u>
	<u>166,055</u>	<u>678,334</u>	<u>158,775</u>	<u>653,677</u>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

26. 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 2023		31 December 2022	
	Carrying amounts US\$	Fair value US\$	Carrying amounts US\$	Fair value US\$
Financial assets				
Cash at banks	21,442,449	21,442,449	27,749,446	27,749,446
Trade and other receivables				
Trade receivables - net	409,923	409,923	444,438	444,438
Amount due from related party	48,933	48,933	53,094	53,094
Deposit	79,810	79,810	71,498	71,498
Other receivables	299,468	299,468	72,700	72,700
	<u>22,280,583</u>	<u>22,280,583</u>	<u>28,391,176</u>	<u>28,391,176</u>
KHR'000 equivalent (Note 5)	<u>91,016,182</u>	<u>91,016,182</u>	<u>116,886,472</u>	<u>116,886,472</u>
Financial liabilities				
Trade payables	1,368,619	1,368,619	1,230,952	1,230,952
Amount due to related parties	258,677	258,677	142,633	142,633
Accruals	301,950	301,950	224,897	224,897
Debt securities	33,904,140	33,904,140	33,285,006	33,285,006
Other payables	380,313	380,313	239,776	239,776
Borrowings	4,520,101	4,520,101	2,637,627	2,637,627
	<u>40,733,800</u>	<u>40,733,800</u>	<u>37,760,891</u>	<u>37,760,891</u>
KHR'000 equivalent (Note 5)	<u>166,397,574</u>	<u>166,397,574</u>	<u>155,461,588</u>	<u>155,461,588</u>

(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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

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

(b) Financial risk management (continued)

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.

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 Kampuchea Tela Co., Ltd accounted for approximately 26% (2022: Sok Kong Import Export Co., Ltd. accounted for approximately 22%) of the Company's total revenue for the year ended 31 December 2023. 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 Kampuchea Tela Co., Ltd could have a material adverse effect on the Company's business, financial position and results of operations.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

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

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade and other receivables (continued)

Customer concentration (continued)

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.

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 US\$	Loss allowance US\$	Credit- impaired
31 December 2023				
Current (not past due)	3.82%	80,931	3,094	No
1 – 30 days past due	6.72%	288,886	19,418	No
31 – 60 days past due	22.71%	64,889	14,739	No
61 – 90 days past due	36.08%	19,466	7,024	No
More than 90 days	99.98%	121,811	121,785	Yes
		<u>575,983</u>	<u>166,060</u>	

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

26. 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)

31 December 2022	Weighted average loss rate %	Gross carrying amount US\$	Loss allowance US\$	Credit- impaired
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%	69,049	69,050	Yes
		<u>545,610</u>	<u>101,172</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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

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

(b) Financial risk management (continued)

(ii) *Liquidity risk (continued)*

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.

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\$
2023						
Trade payables	1,368,619	5,590,809	1,368,619	980,365	304,996	83,258
Amount due to related parties	258,677	1,056,696	258,677	6,236	57,463	194,978
Accruals	301,950	1,233,466	301,950	301,950	-	-
	<u>1,929,246</u>	<u>7,880,971</u>	<u>1,929,246</u>	<u>1,288,551</u>	<u>362,459</u>	<u>278,236</u>
Debt securities issued	33,904,140	138,498,412	33,888,669	24,079,342	-	9,809,327
Other payables	380,313	1,553,578	380,313	380,313	-	-
Borrowings	4,520,101	18,464,613	4,520,101	3,325,922	106,862	1,087,317
	<u>40,733,800</u>	<u>166,397,574</u>	<u>40,718,329</u>	<u>29,074,128</u>	<u>469,321</u>	<u>11,174,880</u>
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>

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

26. 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 2023		31 December 2022	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Fixed rate instruments				
Financial liabilities	<u>14,329,428</u>	<u>18,464,613</u>	<u>12,677,104</u>	<u>10,859,111</u>
Variable-rate instruments				
Financial liabilities	<u>24,094,813</u>	<u>98,427,311</u>	<u>23,245,529</u>	<u>95,701,843</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.

Notes to the financial statements (continued) for the year ended 31 December 2023

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

(b) Financial risk management (continued)

(iii) Market 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 2023				
Variable-rate instruments	<u>240,948</u>	<u>(240,948)</u>	<u>240,948</u>	<u>(240,948)</u>
31 December 2022				
Variable-rate instruments	<u>330,512</u>	<u>(330,512)</u>	<u>330,512</u>	<u>(330,512)</u>

27. Change in material accounting policies

Material accounting policy information

The Company also adopted Disclosure of Accounting Policies (Amendments to CIAS 1 and CIFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

28. Material accounting policies

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

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(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.

(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 terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company classifies other receivables, term deposits and cash and cash equivalents as "financial assets measured at amortised cost".

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(b) Financial instruments (continued)

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

Non-derivative financial assets – Classification (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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(b) Financial instruments (continued)

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

Non-derivative financial assets – Business model assessment (continued)

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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(b) Financial instruments (continued)

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

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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(b) Financial instruments (continued)

(iii) *Derecognition (continued)*

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.

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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(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.

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
Signage and Boom gate	5 years

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

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(e) Property and equipment (continued)

(iii) *Depreciation (continued)*

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.

(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) Investment property

(i) *Recognition and measurement*

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of investment property comprises construction expenditure and any directly attributable costs of bringing the asset to its working condition for its intended use. Construction expenditure consists of contracted construction price, non-refundable taxes and any directly attributable costs. Expenditure incurred after investment property has been put into operation, such as repairs and maintenance, is recognised in the period in which the expenditure is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in future economic benefits in excess of the originally assessed standard of performance of the existing investment property, the expenditure is capitalised as an additional cost of investment property.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) *Depreciation*

Depreciation is computed on a straight-line basis over the estimated useful lives of investment property. The estimated useful lives of the land improvement is 5 years.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(h) 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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(h) Impairment (continued)

(i) *Financial assets (continued)*

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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(h) Impairment (continued)

(ii) *Non-financial assets (continued)*

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.

(i) 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.

(j) 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.

(k) 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.

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Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(k) Employee benefits (continued)

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.

(l) 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.

(m) 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.

(n) 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.

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Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(n) Income tax (continued)

(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.

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

28. Material accounting policies (continued)

(o) 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 2023 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.

- *Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to CIAS 1);*
- *Lease Liability in a Sale and Leaseback (Amendments to CIFRS 16);*
- *Supplier Finance Arrangements (Amendments to CIAS 7 and CIFRS 7);*
- *Lack of Exchangeability (Amendments to CIAS 21) and*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to CIFRS 10 and CIAS 28).*

29. 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% and 87% 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.

30. Contingent liabilities

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.

Royal Railway Plc.

Notes to the financial statements (continued) for the year ended 31 December 2023

30. Contingent liabilities (continued)

1. Concession agreement with the RGC (continued)

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. On 30 September 2023, the Company terminated the sublease agreement with TRAIN SQUARE CO., LTD.

3. Diesel damage claims with Kampuchea Tela Limited and Sok Kong Import Export Co., Ltd

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. On 2 February 2024, the insurance company has communicated a preliminary assessment to the Company but has not issued an official decision yet.

On 14 July 2023, there was an incident that took place at Sihanoukville province which caused the leak to diesel with minimal damage to one fuel tanks approximately US\$66,635 and US\$61,560 for Kampuchea Tela Limited and Sok Kong Import Export, respectively. The claims had been submitted to the reinsurance company and is in the process of finalisation but has not been concluded by the reinsurer as at the date of these financial statements yet.

The above transactions had been made provision in the financial statements.