

Management Discussion & Analysis Report

1. Industry Structure and Development

Omani Packaging Co. SAOG, established in 1993, continues to be the market leader in Sultanate of Oman for selling high quality paper corrugated packaging products, and is one of the leading manufacturers of the corrugated cartons in GCC countries.

Corrugated boxes made of packaging board paper and wave type fluting as middle layer are preferred form of packaging, being environment friendly and are frequently used as shipping containers.

All Types of corrugated board consist of at least one layer each of liner boards and fluted corrugating material.

The product range includes regular slotted cartons, telescopic top and bottom box, die cut trays, assembled partitions and single face corrugated rolls for cushioning and protection and wax lined cartons for frozen products. Among the various modes of packaging, paper corrugated packaging is the most versatile, eco friendly, secure, and cost effective, which makes it preferred choice for majority products.

In general, larger flutes offer greater strength to boxes. B & C flutes are the most popular sizes. Presently, after expansion, the new corrugator produces B flute while double wall board of B & C and E & C is manufactured at the old corrugator by adding the twin facer.

Installed Capacity

Company is able to increase the volume and service level to the customers with increase in installed capacity during year 2010-11.

Development efforts are towards manufacturing cartons and paper corrugated products that are custom designed to suit every product requirement and services to the satisfaction of customers.

Corrugated Boxes are printed up to four colours for good visibility of the content products.

2. Opportunities

The Company is utilizing the plant capacity increase by adding volumes from various market segments.

The corrugated cartons being a high volume to weight ratio commodity, it is not very cost effective to export to distant countries due to high cost of freight. Company is always trying to broaden its market base in local and exports to GCC and Asian countries with consistent quality, improved service and concerted marketing efforts with strong focus on customer satisfaction.

Amidst Geo Political Gulf situation new market for Qatar opened up for import of products from Oman.

Company started supplying cartons to Qatar market from July 2017.

3. Threats, Risks and Concerns

Company's main raw material is paper which is mainly imported from GCC, American, European and Far East sources. The international price of paper is highly volatile and increase in paper price affects the

Company's profitability. Due to competition and the market being very price sensitive, it is difficult to increase the selling price in proportion to the increase in paper price which affects the profitability of the Company.

The intense competition from local and neighboring countries especially UAE affects the Company's sales volume, and margins remain under pressure.

Also, as a paper carton manufacturing industry, substitution by alternate packaging materials affects the sales volumes. Some of the Beverage and Mineral Water Industries have partially switched to Plastic Shrink Wrapping, hurting the corrugated box volumes.

The current economic slowdown and fall in Oil prices may affect the overall market growth which in turn adversely affects the sales volume and overall profitability.

In line with market practice in the region, company is constrained to extend credit to customers. Management continuously monitor customer credit with prior appraisals, however impaired trade receivables affect the profitability of company.

4. Analysis of segment and product wise performance

The Company primarily caters to the local market and exports to GCC and Asian countries. The market segments include mainly Food stuff, Detergent, Mineral Water, Beverages, Agriculture, Fisheries, Ceramic and other sectors. The Company has steadily expanded its local market share over the years and exploring the possibilities of broadening its share in local and penetration in export market.

Presently company operates from Factory and Office located in Rusayl Industrial Estate, consisting of 174 employees. Company has established sales office at UAE for export sales.

5. Internal Control systems and their adequacy

Internal control systems are built up commensurate with the size and nature of operations. The company has also laid down 'internal regulations and policies & procedures manual' which has been approved by the Board of Directors.

Company has well structured reporting system to its management and the Board. Monthly, Quarterly performance reports against Budget are prepared and monitored.

Company uses Oracle networking system to strengthen the Computerized Control mechanism.

Discussions on financial and operational performance.

The total assets as at 31 December 2017 amount to RO 10,531,746/-

6. Sales and profitability

Company reported net sales revenue of RO 12,463,798 comparing sales revenue of RO.12,559,820 for year 2016. Net profit before tax provision is RO.1,217,254 comparing RO.1,492,025 for year 2016.

The continuous increase in paper prices coupled with marginal reduction in sales volume resulted in reduction in Gross Profit and overall profitability.

The company was unable to pass on the full raw material price increase to customers because of extremely competitive market.

The following table highlights profitability, dividend and shareholders' equity for the last six years.

YEAR		2011	2012	2013	2014	2015	2016
Profit before Tax		602,502	1,642,765	512,509	302,951	1,086,522	1,492,025
Total shareholders' equity		4,811,420	5,774,007	5,255,450	5,201,258	5,836,608	6,666,652
Dividend	CASH (%)	15	30	10	10	15	20
	STOCK (Bonus) (%)	--	--	--	--	--	--
	TOTAL (%)	15	30	10	10	15	20

7. Resources

Following main Assets added during the year.

- 7.1. Vibrator Conveyer from ISOWA Japan.
- 7.2. Stacker with Side Squaring unit from ISOWA Japan.
- 7.3. Solvent Reclaimer from Europe.
- 7.4. Computer and Furniture & Fixtures for Office and employee accommodation.
- 7.5. Mini Bus for transporting employees.
- 7.6. Replacement / New Dies and Stereos against customer requirements.

8. Corrugated Carton Factory at Qatar

Omani Packaging Company Started supplying cartons to Qatar from July 2017, by sea from Sohar Port to Hamad Port – Doha.

Considering the current increasing demand of good quality corrugated carton boxes, and for Qatar vision of self- reliant on food processing. Omani Packaging Company intend to set up a Corrugated carton factory in Qatar, in Joint Venture equal partnership with Al Muftah Group Services W.L.L. Qatar, subject to detailed feasibility study, regulatory approvals from Oman and Qatar authorities.

The Project Feasibility study is being carried out by professional consultants.

9. Outlook

Company expects to sustain the growth achieved during the past years.

Margins are squeezed and are under pressure as steep increase in paper prices shall impact the performance.

The increasing cost of fuel, natural gas and other reduction in Government subsidies may further affect the future performance and profitability of the company.

The challenges shall be met by increased market share in local and exports markets through customer focus, value engineering, continuous improvement and cost reductions in all spheres of operation.

Company shall strive to increase the product selling prices to mitigate increase in paper prices.

Barring unforeseen circumstances, management shall strive to sustain the good performance.