

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019  
AND INDEPENDENT AUDITOR'S REPORT

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**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2019**

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## *Independent auditor's report to the shareholders of Welspun Middle East Pipes Coating Company*

### **Report on the audit of the financial statements**

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Welspun Middle East Pipes Coating Company (the "Company") as at 31 March 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

#### **What we have audited**

The company's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 March 2019;
- the statement of financial position as at 31 March 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### *Responsibilities of management for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, 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.



## *Independent auditor's report to the shareholders of Welspun Middle East Pipes Coating Company (continued)*

### *Auditor's 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 auditor's 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia 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 auditor's 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 auditor's 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 management 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.

**PricewaterhouseCoopers**

Sahar M. Hashem  
License Number 439



**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**Statement of profit or loss and other comprehensive income**  
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended 31 March</u>	
	Note	2019	2018
Revenue	5	<b>46,856,678</b>	34,425,040
Cost of revenue	6	<b>(56,198,151)</b>	(44,958,222)
<b>Gross loss</b>		<b>(9,341,473)</b>	(10,533,182)
General and administrative expenses	7	<b>(4,749,735)</b>	(3,595,760)
Other operating income - net	8	<b>724,976</b>	107,768
<b>Operating loss</b>		<b>(13,366,232)</b>	(14,021,174)
Financial costs	9	<b>(4,773,782)</b>	(5,226,693)
<b>Loss for the year</b>		<b>(18,140,014)</b>	(19,247,867)
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	17	<b>(263,810)</b>	(22,150)
<b>Total comprehensive loss for the year</b>		<b>(18,403,824)</b>	(19,270,017)

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

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**Statement of financial position**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 March 2019	As at 31 March 2018	As at 1 April 2017
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	87,639,042	96,003,939	104,520,764
Trade and other receivables	12	-	285,165	665,385
<b>Total non-current assets</b>		<b>87,639,042</b>	<b>96,289,104</b>	<b>105,186,149</b>
<b>Current assets</b>				
Inventories	11	10,848,395	6,119,806	4,134,005
Trade and other receivables	12	4,535,858	15,816,752	2,870,427
Cash and cash equivalents	13	249,124	1,842,826	379,105
<b>Total current assets</b>	1	<b>15,633,377</b>	<b>23,779,384</b>	<b>7,383,537</b>
<b>Total assets</b>		<b>103,272,419</b>	<b>120,068,488</b>	<b>112,569,686</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	14	33,765,625	33,765,625	33,765,625
Accumulated deficit	1	(90,619,182)	(72,215,358)	(52,945,341)
<b>Total equity</b>	1	<b>(56,853,557)</b>	<b>(38,449,733)</b>	<b>(19,179,716)</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long-term borrowings	16	-	11,486,378	7,640,464
Long-term loans from shareholders	20	79,036,162	79,036,162	79,036,162
Employee benefit obligations	17	2,214,920	1,642,430	1,266,930
<b>Total non-current liabilities</b>		<b>81,251,082</b>	<b>92,164,970</b>	<b>87,943,556</b>
<b>Current liabilities</b>				
Trade and other payables	18	75,611,516	66,353,251	36,922,190
Current portion of long-term borrowings	16	3,263,378	-	6,883,656
<b>Total current liabilities</b>	1	<b>78,874,894</b>	<b>66,353,251</b>	<b>43,805,846</b>
<b>Total liabilities</b>		<b>160,125,976</b>	<b>158,518,221</b>	<b>131,749,402</b>
<b>Total equity and liabilities</b>		<b>103,272,419</b>	<b>120,068,488</b>	<b>112,569,686</b>

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

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**Statement of changes in equity**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Welspun Mauritius Holdings Company Ltd.	Arabian Pipe Line Project Company	Mohawareen Industrial Services	Total
<b>Share capital</b>					
1 April 2017, 31 March 2018 and 2019	14	<b>16,886,189</b>	<b>15,194,531</b>	<b>1,684,905</b>	<b>33,765,625</b>
<b>Accumulated deficit</b>					
1 April 2017	4	(26,480,702)	(23,822,940)	(2,641,699)	(52,945,341)
Loss for the year		(9,625,858)	(8,661,540)	(960,469)	(19,247,867)
Other comprehensive loss for the year		(11,077)	(9,968)	(1,105)	(22,150)
Total comprehensive loss for the year		(9,636,935)	(8,671,508)	(961,574)	(19,270,017)
31 March 2018		(36,117,637)	(32,494,448)	(3,603,273)	(72,215,358)
Loss for the year		(9,071,821)	(8,163,006)	(905,187)	(18,140,014)
Other comprehensive loss for the year		(131,931)	(118,715)	(13,164)	(263,810)
Total comprehensive loss for the year		(9,203,752)	(8,281,721)	(918,351)	(18,403,824)
31 March 2019		<b>(45,321,389)</b>	<b>(40,776,169)</b>	<b>(4,521,624)</b>	<b>(90,619,182)</b>
<b>Total equity</b>					
31 March 2019		<b>(28,435,200)</b>	<b>(25,581,638)</b>	<b>(2,836,719)</b>	<b>(56,853,557)</b>
31 March 2018		<b>(19,231,448)</b>	<b>(17,299,917)</b>	<b>(1,918,368)</b>	<b>(38,449,733)</b>

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**Statement of cash flows**  
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended March 31,</u>	
	Note	2019	2018
<b>Cash flows from operating activities</b>			
Loss for the year		(18,140,014)	(19,247,867)
<u>Adjustments for:</u>			
Depreciation	10	8,455,635	8,521,904
(Gain) loss from disposal of property, plant and equipment	10	(38,228)	4,321
Provision (reversal) for inventory obsolescence	11	73,817	(65,516)
Expected credit loss ("ECL") allowance on trade receivables	12	243,251	-
Financial costs		4,773,782	4,957,166
Employee benefit obligations		381,120	353,351
<u>Changes in operating assets and liabilities:</u>			
Increase in inventories		(4,802,406)	(1,920,285)
Decrease (increase) in trade and other receivables		11,322,808	(12,566,105)
Increase in trade and other payables		5,108,866	25,551,188
Cash generated from operations		7,378,631	5,588,157
Employee benefit obligations paid		(72,440)	-
Financial costs paid		(624,383)	(615,036)
<b>Net cash inflow from operating activities</b>		<b>6,681,808</b>	<b>4,973,121</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(90,738)	(9,400)
Proceeds from disposal of property, plant and equipment		38,228	-
<b>Net cash outflow from investing activities</b>		<b>(52,510)</b>	<b>(9,400)</b>
<b>Cash flows from financing activity</b>			
Repayments of long-term borrowings		(8,223,000)	(3,500,000)
<b>Net change in cash and cash equivalents</b>		<b>(1,593,702)</b>	<b>1,463,721</b>
Cash and cash equivalents at beginning of year		1,842,826	379,105
<b>Cash and cash equivalents at end of year</b>		<b>249,124</b>	<b>1,842,826</b>

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



**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
**(A limited liability company)**  
**Notes to the financial statements for the year ended 31 March 2019**  
(All amounts in Saudi Riyals unless otherwise stated)

**1 General information**

Welspun Middle East Pipes Coating Company (the "Company") is engaged in providing spiral pipes coating services.

The Company is a limited liability company licensed under foreign investment license number 121031119001 issued by Saudi Arabian General Investment Authority on 22 Rajab 1431 H (July 4, 2010) operating under commercial registration number 2050071524 issued in Dammam on 22 Rajab 1431 H (July 4, 2010). The registered address of the Company is P.O Box 12943, Dammam 31483, Kingdom of Saudi Arabia.

The Company has incurred a net loss of Saudi Riyals 18.4 million for the year ended 31 March 2019 and has accumulated losses of Saudi Riyals 90.6 million which exceeded 50% of its share capital. Also, the Company's current liabilities exceeded its current assets by Saudi Riyals 63.2 million as of 31 March 2019. These conditions indicate that the Company's ability to meet its obligation as they become due and to continue as a going concern depends upon its ability to generate positive operating cash flows and to obtain adequate financial support from the shareholders.

The two years' business plan prepared by management of the Company, shows improvement in the financial performance of the Company over the coming years resulting from increase in production and increase in revenues. The two years' business plan has also factored in sales backlog of Saudi Riyals 114.3 million as at 31 March 2019 which is expected to be delivered during the years from 2020 through 2021.

Further, in accordance with the requirements of the Regulations for Companies, the shareholders of the Company have resolved to provide adequate financial support to the Company to meet its obligations as they become due and to continue as a going concern. Accordingly, the accompanying financial statements have been prepared under the going concern basis.

The accompanying financial statements were approved by the Company's management on 27 May 2019.

**2 Summary of significant accounting policies**

The principal accounting policies applied for the preparation of financial statements of the Company are set out below.

**2.1 Basis of preparation**

**(a) Statement of compliance**

These financial statements of the Company have been prepared in compliance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia ("IFRS"), and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

For all periods up to and including the year ended 31 March 2018, the Company prepared its financial statements in accordance with local generally accepted accounting principles as issued by SOCPA ("previous GAAP"). These are the first annual financial statements for the year ended 31 March 2019 in accordance with IFRS and other standards and pronouncements issued by SOCPA. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 April 2017 which is the Company's date of transition to IFRS, in compliance with IFRS 1 "First time adoption of International Financial Reporting Standards" ("IFRS 1") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

Explanations of how the transition to IFRS has affected the reported amounts of statement of financial position, statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company are provided in Note 4.

**(b) Historical cost convention**

These financial statements are prepared under the historical cost convention except for the measurement of employee benefit obligations as explained in the relevant accounting policies.

**(c) Standards issued but not yet effective**

Certain new standards and amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning 1 January 2019 or later period, but have not been early adopted by the Company. The Company is currently evaluating the impact that these new accounting standards, amendments and interpretations may have on its financial statements.

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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**2 Summary of significant accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**(c) Standards issued but not yet effective (continued)**

**IFRS 16 - "Leases"**

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The Company will recognise new assets and liabilities for its operating leases of various types of contracts including office rent, vehicles etc. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

In accordance with the transitional provisions in IFRS 16, the Company plans to apply IFRS 16 initially on 1 April 2019, using the modified retrospective transitional method, taking into consideration the exemption allowing it not to restate comparative information or prior periods. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. As at the reporting date, the Company has operating lease commitments of Saudi Riyals 3.4 million, see note 23.

The Company is required to adopt IFRS 16, 'Leases' from 1 April 2019 and currently is in the process of finalizing the impact assessment from the adoption of IFRS 16.

There are no other relevant IFRS or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

**2.2 Revenue**

Revenue is measured at the fair value of the consideration received or receivable net of returns, allowances and trade discounts for the rendering of the services in the ordinary course of the Company's activities.

The Company provides coating services on pipes provided by the customers. The Company recognizes revenue at a point in time when control of such coated pipes is transferred back to the customer i.e. when the coated pipes are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the services.

The costs of coating services related to such pipes is added to the carrying amount of asset recognised from cost to fulfil a contract. Such asset is amortised in accordance with the terms of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue.

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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(All amounts in Saudi Riyals unless otherwise stated)

**2 Summary of significant accounting policies (continued)**

**2.3 Foreign currencies**

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in "Saudi Riyals", which is the Company's presentation as well as functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

**2.4 Operating leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

**2.5 Zakat and taxes**

In accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"), the Company is subject to zakat attributable to the Saudi shareholding and to income tax attributable to the foreign shareholding in the Company. Provisions for zakat and income tax are charged to profit or loss for the year. Additional amounts, if any, are accounted for when determined to be required for payment. Further, the amounts for zakat and income tax expense for the year are presented in the statement of changes in equity in accordance with the guidance issued by SOCPA for companies with mixed ownership in line with the terms of the agreement between the shareholders of the Company.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company withholds tax on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, including dividends payment to the foreign shareholder, as required under the Saudi Arabian Income Tax Law.

**2.6 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

**WELSPUN MIDDLE EAST PIPES COATING COMPANY**  
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(All amounts in Saudi Riyals unless otherwise stated)

**2 Summary of significant accounting policies (continued)**

**2.6 Property, plant and equipment (continued)**

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight-line basis over the estimated useful lives of the assets. The depreciation expense is recognised in profit or loss in the expense category consistent with the function of the property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. Major spare parts qualify for recognition as property, plant and equipment when the Company expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

**2.7 Financial instruments**

**2.7.1 Financial assets**

a) Classification

The Company classifies its financial assets depending on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

b) Recognition and derecognition

At initial recognition, the Company measure financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

c) Measurement

Subsequent measurement of financial assets depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measure at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

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(All amounts in Saudi Riyals unless otherwise stated)

**2.7 Financial instruments (continued)**

**2.7.2 Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit or loss.

**2.8 Impairment of financial assets**

The Company assesses on a forward looking basis the ECL associated with its financial assets carried at amortized cost. Refer note 12, which details how the Company determines whether there has been a change in credit risk.

For trade receivables and other financial assets, the Company applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. The amount of the loss is charged to profit or loss.

The loss rates are based on probability of default based on historical trends relating to collections of Company's trade receivables. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 720 days past due.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

**2.9 Impairment of non-financial assets excluding inventories**

The Company assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

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**2 Summary of significant accounting policies (continued)**

**2.10 Impairment of non-financial assets excluding inventories (continued)**

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.11 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories comprise all costs of purchase plus other charges incurred thereon. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and supplies, not held for sale are carried at cost less any provision for inventory obsolescence. Provision for inventory obsolescence is made considering various factors including age of the inventory items, historic sale trends and expected turnover in future.

**2.12 Trade receivables**

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for ECL. Subsequent recoveries of amount previously written-off are credited to profit or loss against "General and administrative expenses".

**2.13 Cash and cash equivalents**

For the purpose of statement of financial position and presentation in the statement of cash flows, cash and cash equivalents include cash in hand, cash at banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**2.14 Share capital**

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**2.15 Trade payables**

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

**2.16 Borrowings**

Borrowings are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, long-term borrowings are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as "other income" or "financial costs".

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**2 Summary of significant accounting policies (continued)**

**2.16 Borrowings (continued)**

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

**2.17 Employee benefit obligations**

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the labour laws and workman laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income and transferred to retained earnings in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labour law of Kingdom of Saudi Arabia.

**3 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period are discussed below:

(a) Useful lives of property, plant and equipment

The management determines the estimated useful lives of property, plant and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates. At year-end, if the useful life increased / decreased by 10% against the current useful life with all other variables held constant, loss for the year would have been Saudi Riyals 0.4 million lower or Saudi Riyals 0.5 million higher.

(b) Impairment of non-financial assets

Management assess the impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include evidence from internal and external sources related to the changes in technological, market, economic or legal environment in which the entity operates, changes in market interest rates and economic performance of the assets. Also see Note 10.

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**4 First time adoption of IFRS**

As stated in Note 2.1, the accompanying financial statements have been prepared in compliance with IFRS and IFRS 1 and other standards and pronouncements as endorsed by SOCPA in the Kingdom of Saudi Arabia. The last financial statements under the previous GAAP were for the year ended 31 March 2018 and the date of transition to IFRS is 1 April 2017. In preparing the Company's first IFRS financial statements, the Company's opening statement of financial position was prepared as at 1 April 2017. Note 4.5, further explains the principal adjustments made by the Company, as a result of the transition to IFRS, in statements of financial position as at 1 April 2017 and 31 March 2018 and the related statement profit or loss and other comprehensive income for the year ended 31 March 2018. The Company has not availed any voluntary exemptions given in IFRS 1. Mandatory exemptions given in IFRS 1 were not applicable.

**4.1 Impact of IFRS transition on the statement of financial position as at 1 April 2017 (date of transition)**

Note	Balances as per previous GAAP as at 1 April 2017	Impact of transition to IFRS	Balances as per IFRS as at 1 April 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	104,520,764	-	104,520,764
Trade and other receivables	665,385	-	665,385
<b>Total non-current assets</b>	<b>105,186,149</b>	<b>-</b>	<b>105,186,149</b>
<b>Current assets</b>			
Inventories	4,134,005	-	4,134,005
Trade and other receivables	2,870,427	-	2,870,427
Cash and cash equivalents	379,105	-	379,105
<b>Total current assets</b>	<b>7,383,537</b>	<b>-</b>	<b>7,383,537</b>
<b>Total assets</b>	<b>112,569,686</b>	<b>-</b>	<b>112,569,686</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	33,765,625	-	33,765,625
Accumulated deficit	4.5.1 (53,033,865)	88,524	(52,945,341)
<b>Total equity</b>	<b>(19,268,240)</b>	<b>88,524</b>	<b>(19,179,716)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	7,640,464	-	7,640,464
Long-term loans from shareholders	79,036,162	-	79,036,162
Employee benefit obligations	4.5.1 1,355,454	(88,524)	1,266,930
<b>Total non-current liabilities</b>	<b>88,032,080</b>	<b>(88,524)</b>	<b>87,943,556</b>
<b>Current liabilities</b>			
Trade and other payables	36,922,190	-	36,922,190
Current portion of long-term borrowings	6,883,656	-	6,883,656
<b>Total current liabilities</b>	<b>43,805,846</b>	<b>-</b>	<b>43,805,846</b>
<b>Total liabilities</b>	<b>131,837,926</b>	<b>(88,524)</b>	<b>131,749,402</b>
<b>Total equity and liabilities</b>	<b>112,569,686</b>	<b>-</b>	<b>112,569,686</b>



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**4 Impact of transition to IFRS (continued)**

**4.2 Impact of IFRS transition on the statement of profit or loss and other comprehensive income for the year ended 31 March 2018**

	Note	Amounts as per previous GAAP for the year ended 31 March 2018	Impact of transition to IFRS	Amounts as per IFRS for the year ended 31 March 2018
Revenue		34,425,040	-	34,425,040
Cost of revenue		<u>(44,958,222)</u>	-	<u>(44,958,222)</u>
<b>Gross loss</b>		(10,533,182)	-	(10,533,182)
General and administrative expenses	4.5.1	(3,507,899)	(87,861)	(3,595,760)
Other operating income - net		107,768	-	107,768
<b>Operating loss</b>		<u>(13,933,313)</u>	(87,861)	<u>(14,021,174)</u>
Financial costs	4.5.1	(5,148,143)	(78,550)	(5,226,693)
<b>Loss for the year</b>		<u>(19,081,456)</u>	(166,411)	<u>(19,247,867)</u>
<b>Other comprehensive loss</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of employee benefit obligations	4.5.1	-	(22,150)	(22,150)
<b>Total comprehensive loss for the year</b>		<u>(19,081,456)</u>	(188,561)	<u>(19,270,017)</u>

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**4 Impact of transition to IFRS (continued)**

**4.3 Impact of IFRS transition on the statement of financial position as at 31 March 2018**

	Note	Balances as per previous GAAP as at 31 March 2018	Impact of transition to IFRS	Balances as per IFRS as at 31 March 2018
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		96,003,939	-	96,003,939
Trade and other receivables		285,165	-	285,165
<b>Total non-current assets</b>		<b>96,289,104</b>	<b>-</b>	<b>96,289,104</b>
<b>Current assets</b>				
Inventories		6,119,806	-	6,119,806
Trade and other receivables		15,816,752	-	15,816,752
Cash and cash equivalents		1,842,826	-	1,842,826
<b>Total current assets</b>		<b>23,779,384</b>	<b>-</b>	<b>23,779,384</b>
<b>Total assets</b>		<b>120,068,488</b>	<b>-</b>	<b>120,068,488</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital		33,765,625	-	33,765,625
Accumulated deficit	4.5.1	(72,115,321)	(100,037)	(72,215,358)
<b>Total equity</b>		<b>(38,349,696)</b>	<b>(100,037)</b>	<b>(38,449,733)</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long-term borrowings		11,486,378	-	11,486,378
Long-term loans from shareholders		79,036,162	-	79,036,162
Employee benefit obligations	4.5.1	1,542,393	100,037	1,642,430
<b>Total non-current liabilities</b>		<b>92,064,933</b>	<b>100,037</b>	<b>92,164,970</b>
<b>Current liabilities</b>				
Trade and other payables		66,353,251	-	66,353,251
<b>Total liabilities</b>		<b>158,418,184</b>	<b>100,037</b>	<b>158,518,221</b>
<b>Total equity and liabilities</b>		<b>120,068,488</b>	<b>-</b>	<b>120,068,488</b>

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**4 Impact of transition to IFRS (continued)**

**4.4 Impact of IFRS transition on the statement of cash flows for the year ended 31 March 2019**

The transition from SOCPA to IFRS has not had a material impact on the statement of cash flows.

**4.5 Explanations of IFRS adjustments**

**4.5.1 Employee benefit obligations**

In accordance with the previous GAAP, the Company recognized liability related to its employee benefit obligations as current value of vested benefits to which the employee is entitled. However, as at the date of transition to IFRS, the Company has re-measured the defined benefit liability in accordance with the projected unit credit method, as required by IAS -19 "Employee benefits".

As at 1 April 2017, the above mentioned adjustment has resulted in a decrease of employee benefit obligations (liability) by Saudi Riyals 0.08 million with corresponding decrease in accumulated deficit of the Company by Saudi Riyals 0.08 million.

As at 31 March 2018, the above mentioned adjustment has resulted in an increase of employee benefit obligations (liability) by Saudi Riyals 0.1 million with corresponding increase in accumulated deficit of the Company by Saudi Riyals 0.1 million. The above mentioned adjustment has resulted in an increase in general and administrative expenses by Saudi Riyals 0.08 million, increase in finance cost by Saudi Riyals 0.08 million with a corresponding increase in loss for the year ended 31 March 2018 and increase in other comprehensive loss of Saudi Riyals 0.2 million for the year ended 31 March 2018.

**5 Revenue**

	<b>2019</b>	<b>2018</b>
Revenue - point in time	<u><b>46,856,678</b></u>	<u><b>34,425,040</b></u>

**6 Cost of revenue**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Cost of materials		<b>27,473,043</b>	17,863,737
Sub-contractors costs		<b>4,081,167</b>	4,686,642
Salaries and benefits		<b>8,510,625</b>	7,141,589
Depreciation	10	<b>8,252,366</b>	8,292,015
Equipment rental		<b>2,939,580</b>	2,326,240
Utilities		<b>1,855,776</b>	2,001,590
Provision (reversal) for inventory obsolescence	11	<b>73,817</b>	(65,516)
Other		<b>3,011,777</b>	2,711,925
		<u><b>56,198,151</b></u>	<u><b>44,958,222</b></u>

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**7 General and administrative expenses**

	Note	2019	2018
Salaries and benefits		2,439,155	2,240,521
Depreciation	10	203,269	229,889
Professional fee		247,678	53,175
Repair		134,745	68,843
Rent and utilities		452,964	453,661
License fee		114,471	138,550
Cleaning charges		267,200	104,800
Utilities		66,027	78,804
Allowance for ECL	12	243,251	-
Other		580,975	227,517
		<b>4,749,735</b>	<b>3,595,760</b>

**8 Other operating income - net**

	2019	2018
Scrap sales	174,730	94,985
Other	550,246	12,783
	<b>724,976</b>	<b>107,768</b>

**9 Financial costs**

	Note	2019	2018
Interest expense on long-term borrowings		468,290	520,753
Interest expense on loan from shareholders		4,149,399	4,149,399
Unwinding of commitment fees of SIDF	16	-	462,258
Other		156,093	94,283
		<b>4,773,782</b>	<b>5,226,693</b>

**10 Property, plant and equipment**

	1 April 2018	Additions	Disposals/ Transfer	31 March 2019
<b>2019</b>				
<b>Cost</b>				
Buildings and land improvements	24,290,605	-	-	24,290,605
Plant and machinery	127,984,677	59,018	-	128,043,695
Furniture, fixtures and office equipment	509,361	31,720	-	541,081
Vehicles	125,495	-	(125,495)	-
	<b>152,910,138</b>	<b>90,738</b>	<b>(125,495)</b>	<b>152,875,381</b>
<b>Accumulated depreciation</b>				
Buildings and land improvements	(8,309,069)	(1,214,530)	-	(9,523,599)
Plant and machinery	(47,992,749)	(7,209,920)	-	(55,202,669)
Furniture, fixtures and office equipment	(484,589)	(25,482)	-	(510,071)
Vehicles	(119,792)	(5,703)	125,495	-
	<b>(56,906,199)</b>	<b>(8,455,635)</b>	<b>125,495</b>	<b>(65,236,339)</b>
	<b>96,003,939</b>			<b>87,639,042</b>

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**10 Property, plant and equipment (continued)**

	1 April 2017	Additions	Disposals/ Transfer	31 March 2018
<b>2018</b>				
<b>Cost</b>				
Buildings and land improvements	24,290,605	-	-	24,290,605
Plant and machinery	127,990,508	-	(5,831)	127,984,677
Furniture, fixtures and office equipment	541,803	9,400	(41,842)	509,361
Vehicles	125,495	-	-	125,495
	<u>152,948,411</u>	<u>9,400</u>	<u>(47,673)</u>	<u>152,910,138</u>
<b>Accumulated depreciation</b>				
Buildings and land improvements	(7,094,539)	(1,214,530)	-	(8,309,069)
Plant and machinery	(40,746,993)	(7,251,587)	5,831	(47,992,749)
Furniture, fixtures and office equipment	(484,576)	(37,534)	37,521	(484,589)
Vehicles	(101,539)	(18,253)	-	(119,792)
	<u>(48,427,647)</u>	<u>(8,521,904)</u>	<u>43,352</u>	<u>(56,906,199)</u>
	<u>104,520,764</u>			<u>96,003,939</u>

(a) Buildings and plant and machinery of the Company have been constructed on land parcels leased under various renewable operating lease agreements at annual rent of Saudi Riyals 0.3 million (2018: Saudi Riyals 0.3 million) with terms ranging from one to twelve years.

(b) Depreciation is calculated on straight line basis over the following estimated useful lives of the assets:

	<b>Number of years</b>
• Buildings and land improvements	10 - 20
• Plant and machinery	2 - 20
• Furniture, fixtures and office equipment	2 - 5
• Vehicles	3 - 5

(c) Impairment test for CGU

The Company considers plant and machinery and buildings and land improvements as separate CGU for the purpose of impairment assessment. The recoverable amount of this CGU was based on value in use of CGU. The cash flow projections included specific estimates for 5 years and a terminal growth rate thereafter.

The key estimates used in the estimation of the recoverable amounts are set out below.

<b>Assumption</b>	<b>Method of determination</b>
Revenue growth rate	The revenue growth rate was projected taking into account the volume of sales and plant utilization and growth level for these inputs for the next five years, in line with the forecasted inflation, demand forecast and target plant utilization.
Long-term growth rate	Terminal growth rate of 2% was used which was based on management's estimate of long-term compound annual growth rate for the industry, consistent with the assumptions that a market participant would make.
Discount rate	Discount rate of 10.2% was used which was based on pre-tax risk adjusted weighted average cost of capital.

The estimated recoverable amount of the CGU exceeded its carrying value. Management has identified that a reasonably possible change in the above key assumptions would not result in impairment.

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**11 Inventories**

	31 March 2019	31 March 2018	1 April 2017
Consumables	7,841,451	3,094,060	1,080,797
Spare parts and supplies, not held for sale	4,125,597	4,070,582	4,163,560
	<b>11,967,048</b>	<b>7,164,642</b>	<b>5,244,357</b>
Less: provision for inventory obsolescence	<b>(1,118,653)</b>	<b>(1,044,836)</b>	<b>(1,110,352)</b>
	<b>10,848,395</b>	<b>6,119,806</b>	<b>4,134,005</b>

Movement in provision for inventory obsolescence is as follows:

	31 March 2019	31 March 2018
1 April	1,044,836	1,110,352
Provision (reversal)	73,817	(65,516)
31 March	<b>1,118,653</b>	<b>1,044,836</b>

**12 Trade and other receivables**

	Note	31 March 2019	31 March 2018	1 April 2017
Trade receivable:				
Trade		1,091,113	7,160,683	1,246,267
ECL Allowance		<b>(243,251)</b>	-	-
		<b>847,862</b>	7,160,683	1,246,267
Assets recognised from costs to fulfil a contract		1,509,614	6,104,064	248,650
Related parties	20	53,474	53,474	297,760
Prepaid expenses		622,301	883,581	1,278,897
Advances to suppliers		999,916	1,585,069	139,207
Advances to employees		155,744	136,145	132,621
Other		346,947	178,901	192,410
		<b>4,535,858</b>	16,101,917	3,535,812
Less: non-current portion of prepaid expenses		-	(285,165)	(665,385)
		<b>4,535,858</b>	<b>15,816,752</b>	<b>2,870,427</b>

(a) Movement in ECL allowance is as follows:

	2019	2018
1 April	-	-
ECL allowance	243,251	-
31 March	<b>243,251</b>	-

(b) The other classes within trade and other receivable do not contain impaired assets. The maximum exposure to the credit risk at the reporting date is immaterial as per the ECL model based on payment profile.

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**12 Trade and other receivables (continued)**

(c) The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been computed based on shared credit risk characteristics and the days past due.

(d) The expected loss rates are based on the collection profiles of sales over a period of 48 month before 31 March 2019, 31 March 2018 and 1 April 2017 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(e) The carrying amounts of the Company's trade and other receivables are denominated in Saudi Riyals.

(f) Due to the short-term nature of the trade receivables, their carrying amount is considered to be the same as their fair value.

(g) The Company does not hold any collateral as security.

(h) Prepaid expenses include non-refundable amount paid for obtaining electricity connection and is amortized over a period of five years from the date of obtaining such electricity connection.

**13 Cash and cash equivalents**

	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>1 April 2017</b>
Cash in hand	49,916	8,567	12,974
Cash at bank	199,208	1,834,259	366,131
	<u>249,124</u>	<u>1,842,826</u>	<u>379,105</u>

**14 Share capital**

The share capital of the Company as of 31 March 2019 and 2018 comprised of 33,765,625 shares stated at Saudi Riyals 1 per share owned as follows:

	<b>Country of incorporation</b>	<b>Shareholding percentage</b>	
		<b>2019</b>	<b>2018</b>
Welspun Mauritius Holdings Ltd.	Mauritius	50.01	50.01
Arabian Pipeline Projects Company	Saudi Arabia	45.00	45.00
Mohawareen Industrial Services	Saudi Arabia	4.99	4.99
		<u>100.00</u>	<u>100.00</u>

**15 Statutory reserve**

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer 10% of the profit for the year to a statutory reserve until such reserve equals at least 30% of its share capital.

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**16 Long-term borrowings**

	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>1 April 2017</b>
Principal amount	<b>3,777,000</b>	12,000,000	15,500,000
Less: unamortized transaction costs	<b>(513,622)</b>	(513,622)	(975,880)
	<b><u>3,263,378</u></b>	<u>11,486,378</u>	<u>14,524,120</u>
Long-term borrowings are presented as follows:			
Current maturity under current liabilities	<b>3,263,378</b>	-	6,883,656
Long-term borrowings	-	11,486,378	7,640,464
	<b><u>3,263,378</u></b>	<u>11,486,378</u>	<u>14,524,120</u>

Movements in unamortized transaction costs are as follows:

	<b>2019</b>	<b>2018</b>
1 April	<b>513,622</b>	975,880
Less: amortization	-	(462,258)
31 March	<b><u>513,622</u></b>	<u>513,622</u>

This represents loan obtained by the Company from Saudi Industrial and Development Fund ('SIDF') of Saudi Riyals 40.0 million to finance the construction of the Company's plant facilities. The loan is denominated in Saudi Riyals.

During 2018, the Company rescheduled the loan and as per the rescheduling agreement, the loan is payable in two un-equal semi-annual installments which are due in 2020. Such rescheduling did not result in extinguishment of the loan. The covenants of the loan agreement require the Company to maintain certain level of financial conditions, place limitations on dividend distributions and on annual capital and rental expenditures and certain other matters. As at 31 March 2019, the Company was not in compliance with loan covenant related to rental expenditures and other covenants related to maintenance of other financial ratios as per the agreement with SIDF. However, the Company has obtained a waiver from SIDF in respect of such non-compliance before the year-end. The loan is secured by corporate guarantees provided by the shareholders.

**17 Employee benefit obligations**

**17.1 General description of the plan**

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plans are unfunded plans and the benefit payment obligation are met when they fall due upon termination of employment.

	<b>2019</b>	<b>2018</b>
1 April	<b>1,642,430</b>	1,266,930
Current service cost	<b>300,810</b>	274,800
Interest expense	<b>80,310</b>	78,550
Payments	<b>(72,440)</b>	-
Remeasurements	<b>263,810</b>	22,150
31 March	<b><u>2,214,920</u></b>	<u>1,642,430</u>



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**17 Employee benefit obligations (continued)**

**17.2 Amounts recognised in the statement of comprehensive income**

The amounts recognised in the statement of comprehensive income related to employee benefit obligations are as follows:

	2019	2018
Current service cost	300,810	274,800
Interest expense	80,310	78,550
<b>Total amount recognised in profit or loss</b>	<b>381,120</b>	<b>353,350</b>
<u>Remeasurements</u>		
Gain from change in financial assumptions	209,390	243,200
Experience gains (losses)	54,420	(221,050)
<b>Total amount recognised in other comprehensive income</b>	<b>263,810</b>	<b>22,150</b>

**17.3 Key actuarial assumptions**

	2019	2018
Discount rate	4.25%	5.0%
Salary growth rate	3.0%	3.0%

**17.4 Sensitivity analysis for actuarial assumptions**

	<u>Change in assumption</u>		<u>Impact on employee benefit obligations</u>	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(272,990)	329,710
Salary growth rate	1%	1%	330,630	(278,500)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

**18 Trade and other payables**

	Note	31 March 2019	31 March 2018	1 April 2017
Trade payables		7,415,175	6,469,922	3,962,610
Related parties	20	29,880,592	23,962,061	3,191,944
Accrued expenses		1,115,915	2,549,043	736,065
Accrued financial charges		36,506,923	32,357,524	28,477,651
Salaries and benefits		647,224	618,532	523,164
Advances from customers		45,687	396,169	30,756
		<b>75,611,516</b>	<b>66,353,251</b>	<b>36,922,190</b>

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**19 Income tax and zakat matters**

**19.1 Components of zakat base attributable to saudi shareholders**

	<b>2019</b>	<b>2018</b>
Total equity at beginning of year	<b>(19,221,021)</b>	(9,632,193)
Provisions at beginning of year	<b>1,203,472</b>	1,232,656
Adjusted net loss for the year	<b>(6,824,056)</b>	(8,611,279)
Borrowings	<b>51,631,366</b>	45,252,217
Property, plant and equipment, as adjusted	<b>(45,681,969)</b>	(48,826,460)
Other	<b>(2,062,386)</b>	16,944,833
Approximate zakat base	<b>(20,954,594)</b>	(3,640,226)

Zakat is payable at 2.5% of the higher of the approximate zakat base and adjusted net income attributable to the Saudi shareholders. No provision for zakat has been recorded for years ended 31 March 2019 and 2018 due to negative zakat base and adjusted net loss for such years.

**19.2 Temporary differences**

	<b>2019</b>	<b>2018</b>
Loss before zakat and income tax	<b>(18,140,014)</b>	(19,247,867)
- Depreciation	<b>3,458,006</b>	1,602,008
- Employee termination benefits	<b>1,069,392</b>	298,885
- Other	<b>(38,228)</b>	-
Adjusted net loss for the year	<b>(13,650,844)</b>	(17,346,974)

**19.3 Status of certificates and final assessments**

The Company has obtained final assessments from the GAZT for the years through 2010. The assessments for the years from 2011 through 2018 are currently under review by the GAZT. The Company has obtained zakat and income tax certificates for the years through 2018.

**19.4 Deferred tax assets**

As at 31 March 2019 and 2018, the Company has not recognized deferred tax assets arising out of temporary differences and carry forward losses considering the uncertainty surrounding the realization of such assets in near future.

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**20 Related party transactions and balances**

The Company is controlled by Welspun Corp Limited (the "Ultimate Parent Company") which indirectly owns 50.01% of the Company's shares.

Related parties comprise the shareholders, the Ultimate Parent Company, affiliated companies in the group which are directly or indirectly controlled by the Ultimate Parent Company ("Associated Companies"), directors and key management personnel. Related parties also include business entities in which shareholders other than the Ultimate Parent Company have an interest ("other related parties").

(a) Following are the significant transactions entered into by the Company:

<b>Nature of transactions and relationship</b>	<b>2019</b>	<b>2018</b>
Cost charged by other related parties	43,775	90,000
Cost charged by the shareholders	9,980	9,980
Financial charges charged by the shareholders	4,149,399	4,149,399
Purchases and other related services from the Ultimate Parent Company	466,951	118,029
Sales to the Ultimate Parent Company	600,759	-
Purchases and other related services from the associated companies	6,490,633	6,677,147
Cost charged to associated companies	253,249	-
Sales to associated company	14,317,268	25,762,927

(b) Key management personnel compensation:

	<b>2019</b>	<b>2018</b>
Salaries and other short-term employee benefits	85,881	267,107
Post employment benefits	3,301	-
	<b>89,182</b>	<b>267,107</b>

(c) Loans from shareholders

These represent funding obtained from shareholders which carry financial charges at prevailing market rates. These loans are due for repayment in 2020.

(d) Outstanding balances arising from sales / purchases of goods and services :

(i) Due from related parties

	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>1 April 2017</b>
Aziz European Pipe Factory	53,474	53,474	53,474
Arabian Pipeline projects Company	-	-	237,708
Mohawareen Industrial Services	-	-	6,578
	<b>53,474</b>	<b>53,474</b>	<b>297,760</b>

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**20 Related party transactions and balances (continued)**

(ii) Due to related parties

	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>1 April 2017</b>
Welspun Middle East Pipes Company	<b>27,492,305</b>	22,089,521	1,540,861
Welspun Corp. Ltd.	<b>1,035,632</b>	573,643	477,405
Aziz Company for Contracting and Industrial Investment	<b>278,528</b>	278,528	229,728
Vision International Investment Company	<b>278,925</b>	235,150	193,950
Arabian Pipeline Projects Company	<b>531,817</b>	531,817	500,000
Welspun Mauritius Holding Ltd	<b>250,000</b>	250,000	250,000
Mohawareen Industrial Services	<b>13,385</b>	3,402	-
	<b>29,880,592</b>	23,962,061	3,191,944

**21 Financial risk management**

**21.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the management under policies approved by the board of directors.

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. Further quantitative disclosures are included throughout these financial statements.

Senior management has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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**21 Financial risk management (continued)**

**21.1 Financial risk factors (continued)**

The Company's senior management oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

**(a) Market risk**

**(i) Foreign exchange risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are primarily in Saudi Riyals and United States dollars. Since Saudi Riyal is pegged to United States dollars, management of the Company believes that the currency risk for the financial instruments is not significant.

**(ii) Fair value and cash flow interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company borrows at interest rates on commercial terms.

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. During 2019 and 2018, the Company's borrowings were denominated in Saudi Riyals.

The Company's receivables and fixed rate borrowings (long-term loans from shareholders) carried at amortised cost are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Company is not exposed to fair value interest rate risk.

The long-term borrowings from commercial banks carry variable rates of interest. At 31 March 2019, if the interest rate were to shift by 1%, there would be a maximum increase or decrease in the interest expense by Saudi Riyals 0.03 million (2018: Saudi Riyals 0.11 million).

**(iii) Price risk**

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial assets and liabilities are not exposed to price risk.

**(b) Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in respect of:

- Payment of trade receivables; and
- Contractual cash flows related to other financial assets carried at amortised costs.

Trade receivables:

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. At 31 March 2019, 99% of trade receivables were due from a single customer (2018: 99% of trade receivables was due from a customer). Management believes that this concentration of credit risk is mitigated as such receivable is from a quasi-government customer having an established track record of timely payments.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivable. The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

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**21 Financial risk management (continued)**

**21.1 Financial risk factors (continued)**

The Company establishes ECL allowance that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for similar assets in respect of any potential losses that may have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk.

Credit risk on related parties is considered minimal as management monitors and reconciles amounts due from related parties on a regular basis and recoverability is not considered to be doubtful. Management does not expect any losses from non-performance by such related parties.

Other financial assets carried at amortised costs:

Other financial assets at amortised cost include other receivables. The instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Management consider 'low credit risk' for other receivables. Accordingly, no ECL allowance was made against other receivables.

Cash at banks:

For banks, parties generally with a minimum rating of P-1 are accepted. The stated rating is as per the global bank ratings by Moody's Investors Service. Management does not expect any losses from non-performance by these counterparties.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters. In addition, the Company has access to credit facilities. Also see note 1.

Cash flow forecasting is performed by the management which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance and compliance with internal ratio targets.

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**21 Financial risk management (continued)**

**21.1 Financial risk factors (continued)**

The table below analyses the Company's financial liabilities into the relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

	Less than one year	1 to 2 Years	Total
<b>2019</b>			
Long-term borrowings	3,777,000	-	3,777,000
Long-term loans from shareholders	-	79,036,162	79,036,162
Future interest on long-term loans from shareholders	4,160,767	3,118,680	7,279,447
Trade and other payables	75,565,829	-	75,565,829
	<u>83,503,596</u>	<u>82,154,842</u>	<u>165,658,438</u>
	Less than one year	1 to 2 Years	Total
<b>2018</b>			
Long-term borrowings	12,000,000	-	12,000,000
Long-term loans from shareholders	-	79,036,162	79,036,162
Future interest on long-term loans from shareholders	4,149,399	7,279,447	11,428,846
Trade and other payables	65,957,082	-	65,957,082
	<u>82,106,481</u>	<u>86,315,609</u>	<u>168,422,090</u>

**21.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**21.3 Net debt reconciliation**

The net debt of the Company is as follows:

	2019	2018
Cash and cash equivalents	249,124	1,842,826
Long-term loans from shareholders	(79,036,162)	(79,036,162)
Long-term borrowings - payable within one year	(3,263,378)	-
Long-term borrowings - payables after one year	-	(11,486,378)
<b>Net debt</b>	<u>(82,050,416)</u>	<u>(88,679,714)</u>

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**21 Financial risk management (continued)**

The Company's net debt reconciliation is as follows

	Cash and cash equivalents	Long-term loans from shareholders	Long-term borrowings - repayable within one year	Long-term borrowings - repayable after one year	Total
1 April 2017	379,105	(79,036,162)	(6,883,656)	(7,640,464)	(93,181,177)
Cash flows	1,463,721	-	3,500,000	-	4,963,721
Transfer	-	-	3,383,656	(3,383,656)	-
Other	-	-	-	(462,258)	(462,258)
31 March 2018	1,842,826	(79,036,162)	-	(11,486,378)	(88,679,714)
Cash flows	(1,593,702)	-	8,223,000	-	6,629,298
Transfer	-	-	(11,486,378)	11,486,378	-
31 March 2019	<b>249,124</b>	<b>(79,036,162)</b>	<b>(3,263,378)</b>	<b>-</b>	<b>(82,050,416)</b>

**22 Categories of financial instruments**

The accounting policies for financial instruments have been applied to the line items below:

	Financial assets carried at amortised cost	
<b>31 March</b>	<b>2019</b>	<b>2018</b>
<b>Assets as per statement of financial position</b>		
Trade and other receivables	1,362,027	7,350,302
Cash and cash equivalents	249,124	1,842,826
<b>Total</b>	<b>1,611,151</b>	<b>9,193,128</b>
	Financial liabilities carried at amortised cost	
<b>31 March</b>	<b>2019</b>	<b>2018</b>
<b>Liabilities as per statement of financial position</b>		
Long-term borrowings	-	11,486,378
Long-term loans from shareholders	79,036,162	79,036,162
Current portion of long-term borrowings	3,263,378	-
Trade and other payables	75,565,829	65,957,082
<b>Total</b>	<b>157,865,369</b>	<b>156,479,622</b>

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 3.1 million and Saudi Riyals 0.04 million respectively (2018: Saudi Riyals 8.4 million Saudi Riyals 0.4 million respectively) have been excluded from trade and other receivables and trade and other payables, respectively.



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**23 Operating leases**

The Company has operating leases for land, office premises and employees' housing which generally have terms ranging from one to twelve years. Rental expense under such leases amounted to Saudi Riyals 0.9 million (2018: Saudi Riyals 0.9 million). Also see note 10.

Commitments for minimum lease payments under non-cancelable operating leases as of March 31 are as follows:

	2019	2018
Years ending March 31:		
Within one year	162,885	163,099
Within two to five years	1,500,000	1,500,000
After five years	1,800,000	2,100,000
	<b>3,462,885</b>	<b>3,763,099</b>

**24 Fair value of financial assets and liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements. Management regularly reviews significant unobservable inputs and valuation adjustments.

As at 31 March 2019 and 2018, the fair values of the Company's financial instruments are estimated to approximate their carrying values since the financial instruments which do not bear interest are short term in nature and are expected to be realized at their current carrying values within twelve months from the date of statement of financial position, while the financial instruments which bear interest are at variable interest rates, adjusted in line with prevailing market rates.