WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A LIMITED LIABILITY COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020
AND INDEPENDENT AUDITOR'S REPORT

WELSPUN MIDDLE EAST PIPES COATING COMPANY
(A limited liability company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

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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

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 2020, 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 2020;
- the statement of financial position as at 31 March 2020;
- 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.

Emphasis of matter

We draw attention to Notes 1 and 2.1.2 to the accompanying financial statements. Subsequent to 31 March 2020, the Company's shareholders have signed an agreement to merge the Company with another Saudi Arabian entity owned by the Company's shareholders in the same shareholding proportion. Accordingly, the accompanying financial statements are prepared on a non-going concern basis. Our opinion is not modified in respect of this matter.

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 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.

Those charged with governance, i.e. Board of Directors, are responsible for overseeing the Company's financial reporting process.

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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.
- 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.

PricewaterhouseCoopers

Ali H. Al Basri
License Number 409

17 June 2020

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)

	Note	For the year ended 31 March 2020	2019
Revenue	4	**122,117,651**	47,031,408
Cost of revenue	5	**(99,403,440)**	(56,198,151)
Gross profit (loss)		**22,714,211**	(9,166,743)
General and administrative expenses	6	**(4,160,608)**	(4,506,484)
Expected credit loss allowance	10	**-**	(243,251)
Other operating income - net	7	**115,937**	550,246
Operating profit (loss)		**18,669,540**	(13,366,232)
Financial costs	8	**(4,704,872)**	(4,773,782)
Profit (loss) before zakat and income tax		**13,964,668**	(18,140,014)
Zakat expense	20	**(179,546)**	-
Income tax expense	20	**(1,387,890)**	-
Profit (loss) for the year		**12,397,232**	(18,140,014)
Other comprehensive loss			
Item that will not be reclassified to profit or loss			
Remeasurements of employee benefit obligations	19	**(315,790)**	(263,810)
Total comprehensive profit (loss) for the year		**12,081,442**	(18,403,824)

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	
		2020	**2019**
Assets			
Non-current assets			
Property, plant and equipment	12	-	87,639,042
Current assets			
Cash and cash equivalents	9	**1,660,640**	249,124
Trade and other receivables	10	**23,776,670**	4,535,858
Inventories	11	**17,033,696**	10,848,395
Property, plant and equipment	12	**79,735,163**	-
Right-of-use assets	13	**2,545,696**	-
Total current assets	1	**124,751,865**	15,633,377
Total assets	1	**124,751,865**	103,272,419
Equity and liabilities			
Equity			
Share capital	14	**33,765,625**	33,765,625
Accumulated losses		**(78,537,740)**	(90,619,182)
Total equity	1	**(44,772,115)**	(56,853,557)
Liabilities			
Non-current liabilities			
Long-term loans from shareholders	21	-	79,036,162
Employee benefit obligations	19	-	2,214,920
Total non-current liabilities		-	81,251,082
Current liabilities			
Long-term borrowings	16	-	3,263,378
Long-term loans from shareholders	21	**49,036,163**	-
Trade and other payables	17	**113,517,393**	75,611,516
Employee benefit obligations	19	**2,804,250**	-
Zakat and income tax payable	20	**1,567,436**	-
Lease liabilities	18	**2,598,738**	-
Total current liabilities	1	**169,523,980**	78,874,894
Total liabilities	1	**169,523,980**	160,125,976
Total equity and liabilities		**124,751,865**	103,272,419

These financial statements including accompanying notes were authorized for issue by the Company's Board of Directors on 17 June 2020 and signed on their behalf by:

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 Ltd.	Mohawareen Industrial Services	Arabian Pipeline Projects Company	Aziz Company for Contracting & Industrial Investment	Vision International Investment Co.	Total
Share capital							
1 April 2018 and 31 March 2019		16,886,189	1,684,905	15,194,531	-	-	33,765,625
Change in shareholding	14	-	-	(15,194,531)	9,572,555	5,621,976	-
31 March 2020		**16,886,189**	**1,684,905**	-	**9,572,555**	**5,621,976**	**33,765,625**
Accumulated losses							
1 April 2018		(36,117,637)	(3,603,273)	(32,494,448)	-	-	(72,215,358)
Loss for the year		(9,071,821)	(905,187)	(8,163,006)	-	-	(18,140,014)
Other comprehensive loss for the year		(131,931)	(13,164)	(118,715)	-	-	(263,810)
31 March 2019		(45,321,389)	(4,521,624)	(40,776,169)	-	-	(90,619,182)
Profit before zakat and income tax for the period from 1 April 2019 to 31 October 2019		2,974,118	296,758	2,676,171	-	-	**5,947,047**
Zakat and income tax expense for the period from 1 April 2019 to 31 October 2019	20	(594,824)	(7,432)	(66,891)	-	-	**(669,147)**
Other comprehensive income for the period from 1 April 2019 to 31 October 2019		-	-	-	-	-	-
31 October 2019		(42,942,095)	(4,232,298)	(38,166,889)	-	-	**(85,341,282)**
Change in shareholding	14	-	-	38,166,889	(24,045,140)	(14,121,749)	-

(continued)

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

	Note	Welspun Mauritius Holdings Ltd.	Mohawareen Industrial Services	Arabian Pipeline Projects Company	Aziz Company for Contracting & Industrial Investment	Vision International Investment Co.	Total
Accumulated losses (continued)							
Profit before zakat and income tax for the period from 1 November 2019 to 31 March 2020		4,009,612	400,079	-	2,285,022	1,322,908	**8,017,621**
Zakat and income tax expense for the period from 1 November 2019 to 31 March 2020	20	(793,066)	(10,522)	-	(59,977)	(34,724)	**(898,289)**
Other comprehensive income for the period from 1 November 2019 to 31 March 2020		(157,927)	(15,758)	-	(90,000)	(52,105)	**(315,790)**
31 March 2020		(39,883,476)	(3,858,499)	-	(21,910,095)	(12,885,670)	**(78,537,740)**
Total equity							
31 March 2020		**(22,997,287)**	**(2,173,594)**	**-**	**(12,337,540)**	**(7,263,694)**	**(44,772,115)**
31 March 2019		(28,435,200)	(2,836,719)	(25,581,638)	-	-	(56,853,557)

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

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

	Note	For the year ended 31 March 2020	2019
Cash flows from operating activities			
Profit (loss) before zakat and income tax		**13,964,668**	(18,140,014)
Adjustments for:			
Depreciation	12, 13	**8,522,654**	8,455,635
Gain from disposal of property and equipment		-	(38,228)
(Reversal) provision for inventory obsolescence	11	**(39,307)**	73,817
Expected credit loss allowance	10	-	243,251
Financial costs	8	**4,704,872**	4,773,782
Employee benefit obligations	19	**441,200**	381,120
Changes in operating assets and liabilities:			
Increase in inventories		**(6,145,994)**	(4,802,406)
(Increase) decrease in trade and other receivables		**(19,240,812)**	11,322,808
Increase in trade and other payables		**73,770,964**	5,108,866
Cash generated from operations		**75,978,245**	7,378,631
Employee benefit obligations paid	19	**(167,660)**	(72,440)
Financial costs paid		**(40,569,959)**	(624,383)
Net cash inflow from operating activities		**35,240,626**	6,681,808
Cash flows from investing activities			
Payments for purchase of property and equipment	12	**(387,348)**	(90,738)
Proceeds from disposal of property and equipment		-	38,228
Net cash outflow from investing activities		**(387,348)**	(52,510)
Cash flows from financing activities			
Repayment of long-term borrowings	16	**(3,263,378)**	(8,223,000)
Repayment of long-term loans from shareholders		**(29,999,999)**	-
Repayment of lease liabilities	18	**(178,385)**	-
Net cash outflow from financing activities		**(33,441,762)**	(8,223,000)
Net change in cash and cash equivalents		**1,411,516**	(1,593,702)
Cash and cash equivalents at beginning of year		**249,124**	1,842,826
Cash and cash equivalents at end of year	9	**1,660,640**	249,124
Non-cash investing and financing activities:			
Recognition of right-of-use asset and corresponding lease liabilities (See Notes 2.1.3, 13 and 18)			

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

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 the Ministry of Investment (previously the 'Saudi Arabian General Investment Authority') on 22 Rajab 1431 H (4 July 2010) operating under commercial registration number 2050071524 issued in Dammam on 22 Rajab 1431 H (4 July 2010). The registered address of the Company is P.O. Box 12943, Dammam 31483, Kingdom of Saudi Arabia.

The Company's Board of Directors ("BoDs") in their meeting held on 24 November 2019 resolved to merge the Company with Welspun Middle East Pipes Company ("WMEP"), a limited liability company registered in the Kingdom of Saudi Arabia owned by the Company's shareholders in the same shareholding proportion ("common control").

Subsequent to 31 March 2020 and based on the BoDs recommendation, the Company's shareholders signed an agreement on 14 May 2020, whereby it was agreed to merge the Company's operations and all its assets, rights, liabilities and obligations with WMEP. Under the terms of the above-mentioned agreements and as both the Company and WMEP are under common control, there is no consideration to be paid and the carrying values of assets and liabilities of the Company will be transferred to WMEP on the effective date of merger. The legal formalities relating to the merger activities were in process as of the date of the approval of these financial statements.

Also as at 31 March 2020, the Company has shareholders' deficiency of Saudi Riyals 44.8 million and its current liabilities exceeded its current assets by Saudi Riyals 44.8 million as of that date. The Company's shareholders have resolved to provide adequate financial support to the Company to meet its obligations as they become due and to continue the Company's operations till the finalization of its merger with WMEP as explained in the preceding paragraphs.

2 Summary of significant accounting policies

The principal accounting policies applied for the preparation of financial statements of the Company are set out below. The accounting policies have been consistently applied to all the years presented, except for the policy on leases which was changed due to the adoption of new accounting standard IFRS 16 'Leases' ("IFRS 16") as explained in Note 2.1.3.

2.1 Basis of preparation

2.1.1 Statement of compliance

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

2.1.2 Historical cost convention

These financial statements are prepared on a non-going concern basis (see Note 1) using the historical cost convention except where IFRS requires other measurement basis as disclosed in the relevant accounting policies.

2 Summary of significant accounting policies (continued)

2.1.3 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their reporting periods commencing on or after 1 April 2019.

Amendment to IFRS 9, 'Financial instruments', on modification of financial liabilities

This amendment applies when a financial liability, measured at amortised cost, is modified without this resulting in a de-recognition, a gain or loss should be recognised immediately in the profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. No material impact was identified.

Amendments to IAS 19 - Employee benefits on plan amendment, curtailment or settlement

These amendments require an entity to:

- use updated assumptions to determine the current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement and
- recognise in profit or loss as part of past service cost, a gain or a loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

No material impact was identified.

International Financial Reporting Interpretations Committee ("IFRIC") 23 – Uncertainty over income tax treatments

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 – Income taxes, are to apply where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not "IAS 37 – Provisions, contingent liabilities and contingent assets", applies to accounting for uncertain income tax treatments.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. No material impact was identified.

(All amounts in Saudi Riyals unless otherwise stated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 16

a) Transition approach and impact

The Company has adopted IFRS 16 from 1 April 2019, using the simplified transition approach, and has not restated comparatives for 31 March 2019 reporting period, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the statement of financial position on 1 April 2019.

On adoption of IFRS 16, the Company recognized lease liability in relation to leases which had previously been classified as operating lease under the principles of IAS 17 'Leases'. This liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 April 2019. The equal and opposite side of the lease liability calculated, including prepaid lease rentals as of 1 April 2019, are the right-of-use asset. Therefore, there is no adjustment against opening retained earnings as at the transition date i.e. 1 April 2019. The weighted average incremental borrowing rate applied to the lease liability on 1 April 2019 was 4.50%.

The adoption of IFRS 16 has resulted in recognition of right-of-use assets and lease liabilities of Saudi Riyals 2.7 million as of 1 April 2019. In applying IFRS 16 for the first time, the Company has not used any practical expedient permitted by the standard.

b) Reconciliation of operating lease commitments disclosed as at 31 March 2019 and lease liabilities recognized as at 1 April 2019:

	Saudi Riyals
Operating lease commitments disclosed as at 31 March 2019	**3,162,885**
Impact of discounting using the Company's incremental borrowing rate at the date of initial application	**(822,877)**
Add: Adjustment as a result of assessment of lease contract under IFRS	**437,115**
Lease liabilities recognized as at 1 April 2019	**2,777,123**
Of which are:	
Current portion of lease liabilities	**178,385**
Non-current portion of lease liabilities	**2,598,738**
	2,777,123

2 Summary of significant accounting policies (continued)

2.1.4 Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact in the current or future reporting periods and on foreseeable future transactions.

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.

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 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 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.

2 Summary of significant accounting policies (continued)

2.4 Zakat and taxes (continued)

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.

2.5 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.

2.6 Financial instruments

2.6.1 Financial assets

a) Classification

The Company classifies its financial assets as measured at amortised cost. See Note 22 for details of each type of financial asset. The classification depends 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.

2 Summary of significant accounting policies (continued)

2.6 Financial instruments

2.6.1 Financial assets

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.

2.6.2 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.

2.7 Impairment of financial assets

The Company assesses on a forward looking basis the Expected Credit Loss ("ECL") associated with its financial assets carried at amortized cost. Refer Note 22, 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.

2.8 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.

2 Summary of significant accounting policies (continued)

2.9 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.

2.10 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.

Depreciation is calculated on property, plant and equipment 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.

2.11 Leases

2.11.1 Accounting policy applied from 1 April 2019

At the inception of the contract the Company assesses whether a contract is or contains a lease. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2 Summary of significant accounting policies (continued)

2.11 Leases (continued)

2.11.1 Accounting policy applied from 1 April 2019 (continued)

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due); and
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

2 Summary of significant accounting policies (continued)

2.11 Leases (continued)

2.11.1 Accounting policy applied from 1 April 2019 (continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 “Provisions, contingent liabilities and contingent assets”. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 “Impairment of Assets” to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

2.11.2 Accounting policy applied until 31 March 2019

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.

2.12 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.

2.13 Share capital

Ordinary shares are classified as equity.

2 Summary of significant accounting policies (continued)

2.14 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.

2.15 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".

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.

2.16 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.

In response to the spread of the Covid-19 pandemic in the GCC and other territories where the Company operates and its consequential disruption to the social and economic activities in those markets, Company's management has proactively assessed its impacts on its operations and has taken a series of proactive and preventative measures, including activation of the crisis management team and associated processes to:

- ensure the health and safety of its employees and contractors as well as the wider community where it is operating.
- minimizing the impact of the pandemic on its operations and product supply to the market.

Notwithstanding these challenges, the Company was successful in maintaining stable operations while maneuvering limited demand interruptions to maintain product flow to the market. The Company's management believes that the Covid-19 pandemic, by itself, has had limited direct material effects on Company's reported results for the year ended 31 March 2020. The Company's management continues to monitor the situation closely. Management, through the crisis management team, has proactively assessed the potential of the Covid-19 pandemic for any further regulatory and government restrictions both locally and in the market in which the Company operates that could adversely affect our supply chain and our production capabilities, demand of our products, as well as our sales distribution network that could cause a negative impact on our financial performance. Management has concluded that our critical accounting judgements, estimates and assumptions remain appropriate under the current circumstances.

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, profit for the year would have been Saudi Riyals 0.8 million lower or Saudi Riyals 0.9 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 12.

c) Right-of-use assets and lease liabilities

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(All amounts in Saudi Riyals unless otherwise stated)

4 Revenue

	2020	2019
Revenue - point in time	**122,117,651**	47,031,408

5 Cost of revenue

	Note	2020	2019
Cost of materials		**63,235,435**	27,473,043
Salaries and benefits		**10,015,560**	8,510,625
Depreciation	12, 13	**8,331,329**	8,252,366
Equipment rent		**6,180,449**	2,939,580
Utilities		**4,580,308**	1,855,776
Sub-contractors costs		**2,902,152**	4,081,167
(Reversal) provision for inventory obsolescence	11	**(39,308)**	73,817
Other		**4,197,515**	3,011,777
		99,403,440	56,198,151

6 General and administrative expenses

	Note	2020	2019
Salaries and benefits		**2,731,860**	2,439,155
Rent and utilities		**469,936**	518,991
Professional fee		**277,858**	247,678
Repair		**222,579**	134,745
Depreciation	12, 13	**191,325**	203,269
License fee		**85,597**	114,471
Cleaning charges		**70,313**	267,200
Other		**111,140**	580,975
		4,160,608	4,506,484

7 Other operating income - net

	2020	2019
Other operating income - net	**115,937**	550,246
	115,937	550,246

8 Financial costs

	Note	2020	2019
Financial costs on loan from shareholders	21	**3,768,096**	4,149,399
Amortization of deferred charges	16	**513,622**	-
Financial costs on lease liabilities	18	**121,615**	-
Financial costs on long-term borrowings	16	**-**	468,290
Other		**301,539**	156,093
		4,704,872	4,773,782

9 Cash and cash equivalents

	31 March 2020	31 March 2019
Cash in hand	**26,714**	49,916
Cash at bank	**1,633,926**	199,208
	1,660,640	249,124

10 Trade and other receivables

	Note	31 March 2020	31 March 2019
Trade receivables:			
Trade		**4,486,769**	1,091,113
ECL allowance		**(243,251)**	(243,251)
		4,243,518	847,862
Assets recognised from costs to fulfil a contract		**15,279,943**	1,509,614
Advances to suppliers		**3,483,725**	999,916
Prepaid expenses		**523,666**	622,301
Advances to employees		**192,344**	155,744
Related party	21	**53,474**	53,474
Other		**-**	346,947
		23,776,670	4,535,858

(a) Movement in ECL allowance is as follows:

	2020	2019
At 1 April	**243,251**	-
ECL allowance	**-**	243,251
At 31 March	**243,251**	243,251

The Company applies the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other financial assets. To measure the ECL allowance, trade receivables have been computed based on shared credit risk characteristics and the days past due. The ECL allowance based on the loss rates for the age brackets was not material.

(b) The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to the credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

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

(All amounts in Saudi Riyals unless otherwise stated)

10 Trade and other receivables (continued)

(d) The ageing analysis of these trade receivable is as follows:

	2020	2019
Up to 90 days	**3,005,438**	125,419
91 to 180 days	**152,432**	722,443
181 days to 365 days	**1,052,206**	-
366 days to 730 days	**276,693**	-
More than 730 days	**-**	243,251
	4,486,769	1,091,113

The expected loss rates are based on the collection profiles of sales over a period of 48 month before 31 March 2020 and 31 March 2019 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 country 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 Company does not hold any collateral as security.

11 Inventories

	31 March 2020	31 March 2019
Consumables	**13,489,242**	7,841,451
Spare parts and supplies, not held for sale	**4,623,800**	4,125,597
	18,113,042	11,967,048
Less: provision for inventory obsolescence	**(1,079,346)**	(1,118,653)
	17,033,696	10,848,395

Movement in provision for inventory obsolescence is as follows:

	2020	2019
At 1 April	**1,118,653**	1,044,836
(Reversal) provision	**(39,307)**	73,817
At 31 March	**1,079,346**	1,118,653

(All amounts in Saudi Riyals unless otherwise stated)

12 Property, plant and equipment

	1 April 2019	Additions	Disposals	31 March 2020
2020				
Cost				
Buildings and leasehold improvements	24,290,605	-	-	**24,290,605**
Plant and machinery	128,043,695	199,120	-	**128,242,815**
Furniture, fixtures and office equipment	541,081	8,228	-	**549,309**
Capital work in progress	-	180,000	-	**180,000**
	152,875,381	387,348	-	**153,262,729**
Accumulated depreciation				
Buildings and leasehold improvements	(9,523,599)	(1,214,530)	-	**(10,738,129)**
Plant and machinery	(55,202,669)	(7,058,004)	-	**(62,260,673)**
Furniture, fixtures and office equipment	(510,071)	(18,693)	-	**(528,764)**
	(65,236,339)	(8,291,227)	-	**(73,527,566)**
	87,639,042			**79,735,163**

	1 April 2018	Additions	Disposals	31 March 2019
2019				
Cost				
Buildings and leasehold 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)	-
	152,910,138	90,738	(125,495)	152,875,381
Accumulated depreciation				
Buildings and leasehold 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	-
	(56,906,199)	(8,455,635)	125,495	(65,236,339)
	96,003,939			87,639,042

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

	Number of years
• Buildings and leasehold improvements	10 - 20
• Plant and machinery	2 - 20
• Furniture, fixtures and office equipment	2 - 5
• Vehicles	3 - 5

(All amounts in Saudi Riyals unless otherwise stated)

12 Property, plant and equipment (continued)

b) Impairment test for property, plant and equipment

As at 31 March 2020, management of the Company performed an impairment assessment of property, plant and equipment (the "assets") due to the weak market conditions. The impairment assessment resulted in no impairment. The value-in-use of the assets, was based on a discounted cash flow analysis which utilized the most recent five-year business plan prepared by management.

Key assumptions used in this analysis included:

· a pre-tax discount rate of 10.2% per annum which was calculated using a Capital Asset Pricing Model (CAPM) methodology;

· for the calculation of the terminal value, the Gordon Growth Method was adopted which included a growth rate of 2.0% which has been estimated based on management's forecast for the industry.

Management concluded that the recoverable amount for the assets of the Company is higher than the carrying value of the assets by Saudi Riyals 89 million. This estimated recoverable amount was based on approved five years business plan. The calculation involved an in-depth review of each key element of the Company's income and costs (including sales volume and prices, operating costs and capital expenditure) and included a review of historical results.

Management of the Company has considered and assessed reasonably possible changes for all key assumptions and have not identified any instances that could cause the carrying amount of the assets to exceed its recoverable amount.

13 Right-of-use assets

The Company has recorded right-of-use asset related to a land lease. The movement during the year is as follows:

	Land
Cost	
IFRS 16 adjustment:	
Initial recognition of right-of-use asset upon adoption of IFRS 16	2,777,123
Additions during the year	-
At 31 March 2020	**2,777,123**
Accumulated depreciation	
Depreciation for the year	(231,427)
Net book value	
At 31 March 2020	**2,545,696**

The Company has lease in respect of a land. Rental contracts are typically made for fixed period and an extension option is considered where the Company's management is reasonably certain to exercise.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets are not be used as security for borrowing purposes

During 2020 and 2019, the Company does not have any short-term or low value leases.

14 Share capital

The share capital of the Company as of 31 March 2020 and 2019 comprised of 33,765,625 shares stated at Saudi Riyals 1 per share owned as follows:

	Country of incorporation	Shareholding percentage 2020	Shareholding percentage 2019
Welspun Mauritius Holdings Ltd.	Mauritius	**50.01**	50.01
Aziz Company for Contracting & Industrial Investment	Saudi Arabia	**28.50**	-
Vision International Investment Co.	Saudi Arabia	**16.50**	-
Mohawareen Industrial Services	Saudi Arabia	**4.99**	4.99
Arabian Pipeline Projects Company	Saudi Arabia	**-**	45.00
		100.00	100.00

On 1 November 2019, the shareholding of the Company was changed and, accordingly, the Company amended its Articles of Association and foreign investment license issued by The Ministry of Investment to reflect the change in its shareholders.

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, after adjusting its accumulated losses, to a statutory reserve until such reserve equals 30% of share capital. This reserve currently is not available for distribution to the shareholders of the Company. No transfer was made for the years 2020 and 2019 due to accumulated losses for such years.

16 Long-term borrowings

	31 March 2020	31 March 2019
Principal amount	**-**	3,777,000
Less: unamortized transaction costs	**-**	(513,622)
	-	3,263,378

Movements in unamortized transaction costs are as follows:

	2020	2019
At 1 April	**513,622**	513,622
Less: amortization	**(513,622)**	-
At 31 March	**-**	513,622

This loan was obtained by the Company from the Saudi Industrial and Development Fund ("SIDF"). The loan was obtained to finance the construction of the Company's plant facilities amounted to Saudi Riyals 40.0 million, and was fully repaid during the year ended 31 March 2020. The loan was denominated in Saudi Riyals.

Up-front charges and administrative fee were charged by SIDF under the loan agreement. The loan was secured by corporate guarantees provided by the shareholders.

(All amounts in Saudi Riyals unless otherwise stated)

17 Trade and other payables

	Note	31 March 2020	31 March 2019
Related parties	21	**89,857,068**	29,880,592
Trade payables		**17,827,211**	7,415,175
Accrued expenses		**2,230,952**	1,115,915
Value added tax		**2,072,630**	-
Salaries and benefits		**817,658**	647,224
Accrued financial costs related to shareholder loan		**641,836**	36,506,923
Advances from customers		**70,038**	45,687
		113,517,393	75,611,516

18 Lease liabilities

	31 March 2020	1 April 2019
Future minimum lease payments	**3,600,000**	3,600,000
Less: repayment of minimum lease payments	**(300,000)**	-
	3,300,000	3,600,000
Less: future financial costs not yet due	**(701,262)**	(822,877)
Net present value of minimum lease payment	**2,598,738**	2,777,123
Less: current portion presented under current liabilities	**2,598,738**	178,385
Non-current portion of lease liabilities	**-**	2,598,738
	2,598,738	2,777,123

Movement in lease liabilities is as follows:

	31 March 2020	1 April 2019
IFRS 16 adjustment:		
Initial recognition of lease liabilities upon adoption of IFRS 16	**2,777,123**	2,777,123
Accretion of financial costs during the year	**121,615**	-
Payments made during the year	**(300,000)**	-
	2,598,738	2,777,123

(All amounts in Saudi Riyals unless otherwise stated)

19 Employee benefit obligations

19.1 General description of the plan

The Company operates a defined benefit plan in line with the Labor Laws requirements 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 labor 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. An independent actuary carried out latest valuation of employee benefit obligations under the projected unit credit method as at 31 March 2020.

	2020	**2019**
1 April	**2,214,920**	1,642,430
Current service cost	**350,630**	300,810
Interest expense	**90,570**	80,310
Payments	**(167,660)**	(72,440)
Remeasurements	**315,790**	263,810
31 March	**2,804,250**	2,214,920

19.2 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:

	2020	**2019**
Current service cost	**350,630**	300,810
Interest expense	**90,570**	80,310
Total amount recognised in profit or loss	**441,200**	381,120
Remeasurements		
Loss from change in financial assumptions	**272,200**	209,390
Experience gains	**43,590**	54,420
Total amount recognised in other comprehensive income	**315,790**	263,810

19.3 Key actuarial assumptions

	2020	**2019**
Discount rate	**3.5%**	4.3%
Salary growth rate	**3.0%**	3.0%

19.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(354,850)	428,820
Salary growth rate	1%	1%	426,630	(359,630)

(All amounts in Saudi Riyals unless otherwise stated)

19 Employee benefit obligations (continued)

19.4 Sensitivity analysis for actuarial assumptions (continued)

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.

20 Zakat and income tax matters

20.1 Components of approximate zakat base attributable to Saudi shareholders

	2020	2019
Equity at beginning of year	**(28,418,357)**	(19,221,021)
Provisions at beginning of year	**1,704,241**	1,203,472
Adjusted profit (loss) for the year	**7,181,843**	(6,824,056)
Borrowings	**38,295,326**	51,631,366
Lease liabilities	**2,598,738**	-
Property, plant and equipment, as adjusted	**(39,859,608)**	(45,681,969)
Right-of-use assets, as adjusted	**(1,272,593)**	-
Other	**(2,311,437)**	(2,062,386)
Approximate zakat base	**(22,081,847)**	(20,954,594)

Zakat is payable at 2.578% of the zakat base, excluding adjusted profit (loss) for the year, attributable to the Saudi shareholder. Zakat on adjusted profit for the year is payable at 2.5%.

20.2 Zakat and income tax payable

	Zakat	Income tax	Total
At 1 April 2019	-	-	**-**
Provision for the year	179,546	1,387,890	**1,567,436**
At 31 March 2020	179,546	1,387,890	**1,567,436**

20.3 Temporary differences

	2020	2019
Profit (loss) before zakat and income tax	**13,964,668**	(18,140,014)
- Depreciation	**-**	3,458,006
- Employee obligation benefits	**441,200**	1,069,392
- Other	**(39,308)**	(38,228)
Adjusted net profit (loss) for the year	**14,366,560**	(13,650,844)

(All amounts in Saudi Riyals unless otherwise stated)

20 Zakat and income tax matters (continued)

20.4 Numerical reconciliation of income tax expense to prima facie tax payable

	2020	**2019**
Profit (loss) before zakat and income tax	**13,964,668**	(18,140,014)
Income tax rate applicable to the Company	**20%**	20%
Effective shareholding subject to income tax	**50.01%**	50.01%
Income tax on effective shareholding	**1,396,746**	(1,814,364)
Reconciliation:		
Deferred tax not recorded	**(8,856)**	1,575,465
Add: tax effect of permanent differences	**-**	238,899
	1,387,890	-

20.5 Status of certificates and final assessments

The Company has obtained final assessments from GAZT for the years through 2010. The assessments for the years from 2011 through 2019 are currently under review by GAZT. The Company has obtained zakat and income tax certificates for the years through 2019.

20.6 Deferred tax assets

As at 31 March 2020, the Company's unused tax losses of Saudi Riyals 51.2 million (2019: Saudi Riyals 53.5 million) and deductible temporary differences of Saudi Riyals 6.7 million (2019: Saudi Riyals 3.6 million) were not used for the recognition of net deferred tax assets. The net deferred tax assets was not recognised due to the Company's potential merger with a related party subsequent to the reporting date.

21 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which shareholders have an interest ("other related parties").

The shareholders' agreement requires qualified majority voting for all key decisions. Accordingly, the Company is jointly-controlled by the major shareholders i.e. Welspun Mauritius Holdings Company Ltd. (50.01%), Aziz Company for Contracting & Industrial Investment (28.5%) and Vision International Investment Co (16.5%). Welspun Mauritius Holdings Company Ltd. is ultimately controlled by Welspun Corp Limited.

All related transactions were made on normal commercial terms and conditions and at market rates.

(All amounts in Saudi Riyals unless otherwise stated)

21 Related party transactions and balances (continued)

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

Nature of transactions and relationship	2020	2019
Sales to an associated company	**20,433,477**	14,317,268
Sales to the Ultimate Parent Company	**-**	600,759
Purchases and other related services from the shareholder	**436,984**	466,951
Purchases and other related services from the associated companies	**2,918,956**	6,490,633
Cost charged to associated companies	**1,167,896**	253,249
Cost charged by the shareholders	**124,610**	9,980
Cost charged by other related parties	**-**	43,775
Financial costs charged by the shareholders	**3,768,096**	4,149,399

(b) Key management personnel compensation:

	2020	2019
Salaries and other short-term employee benefits	**354,806**	85,881
Post-employment benefits	**18,064**	3,301
	372,870	89,182

(c) Loans from shareholders

	31 March 2020	31 March 2019
Welspun Mauritius Holdings Company Ltd.	**24,023,443**	39,023,442
Aziz Company for Contracting & Industrial Investment	**13,756,996**	-
Vision International Investment Co.	**11,255,724**	-
Arabian Pipeline Projects Company	**-**	40,012,720
	49,036,163	79,036,162

These represent funding obtained from shareholders which carry financial charges at prevailing market rates. These loans are due for repayment in 2022. During the year, Arabian Pipelines Projects Company transferred such loan to the new shareholders of the Company.

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

(i) Due from a related party

Due from a related party at 31 March 2020 and 2019 represent amounts due from Aziz European Pipe Factory.

21 Related party transactions and balances (continued)

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

(ii) Due to related parties

	31 March 2020	31 March 2019
Welspun Middle East Pipes Company	**89,825,250**	27,492,305
Arabian Pipeline Projects Company	**31,818**	531,817
Welspun Corp Limited	**-**	1,035,632
Aziz Company for Contracting and Industrial Investment	**-**	278,528
Vision International Investment Company	**-**	278,925
Welspun Mauritius Holding Ltd	**-**	250,000
Mohawareen Industrial Services	**-**	13,385
	89,857,068	29,880,592

22 Financial risk management

22.1 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 program 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.

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.

22 Financial risk management (continued)

22.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 2020 and 2019, 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 carried variable rates of interest. During the year, the long-term borrowings were repaid fully, hence, the Company is not exposed to cash flow interest rate risk at 31 March 2020.

(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 several 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 an industry or geographical location. At 31 March 2020, 99.9% of trade receivables were due from three customer (2019: 99% of trade receivables was due from a single customer). Management believes that this concentration of credit risk is mitigated as the customers have established track record of regular and 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.

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.

22 Financial risk management (continued)

22.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables: (continued)

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. At 31 March 2020, the ECL allowance on related party receivables was immaterial.

Other financial assets carried at amortised costs:

Other financial assets at amortised cost include other receivables. The instruments are 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. At 31 March 2020, the ECL allowance on other financial assets was immaterial.

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.

(c) 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.

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.

(All amounts in Saudi Riyals unless otherwise stated)

22 Financial risk management (continued)

22.1 Financial risk factors (continued)

(c) Liquidity risk

	Less than one year	1 to 2 years	2 to 5 years	Over 5 years	Total
2020					
Lease liabilities	300,000	300,000	900,000	1,800,000	**3,300,000**
Long-term loans from shareholders	2,574,399	51,610,562	-	-	**54,184,961**
Trade and other payables	111,374,725	-	-	-	**111,374,725**
	114,249,124	51,910,562	900,000	1,800,000	**168,859,686**

	Less than one year	1 to 2 years	Total
2019			
Long-term borrowings	3,777,000	-	3,777,000
Long-term loans from shareholders	4,160,767	82,154,842	86,315,609
Trade and other payables	75,565,829	-	75,565,829
	83,503,596	82,154,842	165,658,438

22.2 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.

22.3 Net debt reconciliation

The net debt of the Company is as follows:

	2020	2019
Cash and cash equivalents	**1,660,640**	249,124
Long-term loans from shareholders	**(49,036,163)**	(79,036,162)
Lease liabilities	**(2,598,738)**	
Long-term borrowings	-	(3,263,378)
Net debt	**(49,974,261)**	(82,050,416)

The Company's net debt reconciliation is as follows

	Cash and cash equivalents	Long-term loans from shareholders	Long-term borrowings	Lease liabilities	Total
At 1 April 2018	1,842,826	(79,036,162)	(11,486,378)	-	(88,679,714)
Cash flows	(1,593,702)	-	8,223,000	-	6,629,298
At 31 March 2019	249,124	(79,036,162)	(3,263,378)	-	(82,050,416)
Recognition on adoption of IFRS 16	-	-	-	(2,777,123)	**(2,777,123)**
Cash flows	1,411,516	29,999,999	3,263,378	178,385	**34,853,278**
At 31 March 2020	1,660,640	(49,036,163)	-	(2,598,738)	**(49,974,261)**

(All amounts in Saudi Riyals unless otherwise stated)

23 Categories of financial instruments

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

	Financial assets carried at amortised cost	
31 March	**2020**	**2019**
Assets as per statement of financial position		
Trade and other receivables	**4,296,992**	1,362,027
Cash and cash equivalents	**1,660,640**	249,124
Total	**5,957,632**	1,611,151

	Financial liabilities carried at amortised cost	
31 March	**2020**	**2019**
Liabilities as per statement of financial position		
Long-term loans from shareholders	**49,036,163**	79,036,162
Bank borrowings	**-**	3,263,378
Trade and other payables	**111,374,725**	75,565,829
Total	**160,410,888**	157,865,369

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to Saudi Riyals 19.5 million and Saudi Riyals 2.1 million respectively (2019: Saudi Riyals 3.2 million Saudi Riyals 0.04 million respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

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 2020 and 2019, 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.

25 Events after the reporting date

Subsequent to the reporting date, the shareholders of the Company and WMEP entered into a binding agreement to merge the operations (see Note 1). No other events have arisen subsequent to 31 March 2020 and before the date of signing the independent auditor’s audit report, that could have a significant effect on the financial statements as at 31 March 2020.