ELECTROSTEEL BAHRAIN HOLDING SPC

CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2020

Shareholder	:	Electrosteel Castings Limited
Office	:	Flat 1, Building 966, Road 5217, Block 952 Ras Zuwayed, Kingdom of Bahrain Telefax: 77322288
Banker	:	Standard Chartered Bank
Auditors	:	KPMG Fakhro

Electrosteel Bahrain Holding SPC

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2020

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REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 March 2020

Bahraini Dinars

On behalf of the board of directors, I have pleasure in presenting the audited consolidated financial statements of Electrosteel Bahrain Holding SPC (the "Company") and its subsidiary (together the "Group") for the year ended 31 March 2020 as set out on pages 4 to 27.

Financial highlights	2020	2019
Revenue	**5,339,628**	3,133,456
Profit for the year	**162,033**	186,935
Total assets	**3,116,039**	1,365,762
Total equity	**1,003,308**	841,275

Representations and audit

The Group's activities for the year ended 31 March 2020 have been conducted in accordance with the Commercial Companies Law and other relevant statutes of the Kingdom of Bahrain.

There have been no events subsequent to 31 March 2020, except as discussed in note 19 which would in any way, invalidate the consolidated financial statements as set out on pages 4 to 27.

The Group has maintained proper and complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, KPMG Fakhro.

On behalf of the board of directors,

Awadh Shukla

Awadh Prakash Shukla
Director
8 June 2020

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER

Electrosteel Bahrain Holding SPC
Ras Zuwayed, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Electrosteel Bahrain Holding SPC (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter – Impact of Covid-19
As discussed in note 19, the Group's business and operations have been disrupted by the Coronavirus outbreak (COVID-19) due to restrictions and measures taken by the government to combat the outbreak. As the outbreak continues to evolve, it is difficult at this juncture, to predict the full extent and duration of its business and economic impact. Our opinion is not modified in respect of this matter.

Other information
The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the *report of the board of directors* set out on page 1.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the board of directors for the consolidated financial statements
The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group'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 the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER (continued)

Electrosteel Bahrain Holding SPC
Ras Zuwayed, Kingdom of Bahrain

Auditors' responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors 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.

Report on other regulatory requirements

As required by the Commercial Companies Law, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the report of the board of directors is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law or the terms of the Company's article of association that would have had a material adverse effect on the business of the Company or on its consolidated financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 136
8 June 2020

Electrosteel Bahrain Holding SPC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2020

Bahraini Dinars

ASSETS	Note	2020	2019
Non-current assets			
Property, plant and equipment	5	688,686	108,823
Total non-current assets		**688,686**	108,823
Current assets			
Inventories	6	951,179	845,866
Trade and other receivables	7	1,325,227	321,432
Cash and cash equivalents	8	150,947	89,641
Total current assets		**2,427,363**	1,256,939
Total assets		**3,116,039**	1,365,762
EQUITY AND LIABILITIES			
Equity			
Share capital	1	250,000	250,000
Statutory reserve		77,057	60,854
Retained earnings		676,251	530,421
Total equity (page 6)		**1,003,308**	841,275
Liabilities			
Non-current liabilities			
Provision for employees' leaving indemnities	9	2,328	1,431
Non-current portion of lease liability	10	552,743	-
Total non-current liabilities		**555,071**	1,431
Current liabilities			
Current portion of lease liability	10	46,334	-
Due to related parties	11 b)	1,011,459	345,641
Loan from related parties	11 c)	384,689	75,622
Trade and other payables	12	115,178	101,793
Total current liabilities		**1,557,660**	523,056
Total liabilities		**2,112,731**	524,487
Total equity and liabilities		**3,116,039**	1,365,762

The consolidated financial statements were approved by the board of directors on 8 June 2020 and signed on its behalf by:

Awadh Shukla

Awadh Prakash Shukla
Director

Shivendra Agarwal

Shivendra Nath Agarwal
Director

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

Electrosteel Bahrain Holding SPC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 March 2020

Bahraini Dinars

	Note	2020	2019
REVENUE	13	**5,339,628**	3,133,456
Cost of sales	14	(4,531,985)	(2,505,739)
Gross profit		**807,643**	627,717
Other income		28,995	553
General and administrative expenses	15	(49,263)	(88,363)
Staff costs	16	(74,153)	(62,954)
Selling and distribution expenses	17	(421,375)	(249,927)
Finance cost on lease liabilities		(22,809)	-
Bank charges		(42,349)	(24,438)
Depreciation	5	(64,656)	(15,653)
Profit for the year		**162,033**	186,935
Other comprehensive income		-	-
Total comprehensive income for the year		**162,033**	186,935

Awadh Shukla

Awadh Prakash Shukla
Director

Shivendra Agarwal

Shivendra Nath Agarwal
Director

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2020

Bahraini Dinars

2020	**Share capital**	**Statutory reserve**	**Retained earnings**	**Total**
At 1 April 2019	250,000	60,854	530,421	841,275
Total comprehensive income for the year (page 5)	-	-	162,033	162,033
Transfer to statutory reserve	-	16,203	(16,203)	-
At 31 March 2020	**250,000**	**77,057**	**676,251**	**1,003,308**

2019	Share capital	Statutory reserve	Retained earnings	Total
At 1 April 2018	250,000	42,160	362,180	654,340
Total comprehensive income for the year (page 5)	-	-	186,935	186,935
Transfer to statutory reserve	-	18,694	(18,694)	-
At 31 March 2019	250,000	60,854	530,421	841,275

The accompanying notes 1 to 20 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2020

Bahraini Dinars

	Note	2020	2019
OPERATING ACTIVITIES			
Receipts from customers		4,318,667	2,927,181
Payments to suppliers		(3,945,441)	(2,610,194)
Payments for operating expenses		(581,731)	(420,464)
Other receipts		28,995	553
Net cash used in operating activities		**(179,510)**	(102,924)
INVESTING ACTIVITIES			
Payment for acquisition of property, plant and equipment	5	(14,173)	-
Net cash used in investing activities		**(14,173)**	-
FINANCING ACTIVITIES			
Principal payments of lease liabilities	10	(31,269)	-
Finance cost paid		(22,809)	-
Loan availed from a related party during the year	11 c)	309,067	376,422
Loan repayments to a related party	11 c)	-	(300,800)
Net cash from financing activities		**254,989**	75,622
Net increase / (decrease) in cash and cash equivalents during the year		**61,306**	(27,302)
Cash and cash equivalents at the beginning of the year		89,641	116,943
Cash and cash equivalents at the end of the year	8	**150,947**	89,641

1 STATUS AND OPERATIONS

Electrosteel Bahrain Holding SPC (the "Company") is a single person company registered with the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain under commercial registration number 92991-1 on 17 March 2015.

The consolidated financial statements comprise the Company and its subsidiary (together referred to as the "Group" and individually as the "Company").

The Company's authorised, issued and fully paid up share capital of BD 250,000 comprising of 2,500 shares of BD 100 each and is held by Electrosteel Casting Limited, India (the "Parent company").

The Company is engaged in activities of holding companies.

Subsidiary

Electrosteel Bahrain Trading WLL
Electrosteel Bahrain Trading WLL is a limited liability company registered with the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain under commercial registration number 95221-1 on 12 October 2015. The Electrosteel Bahrain Trading WLL is engaged in import, export and sales of ductile iron pipes, fittings and accessories for water transmission.

The financial statements of Electrosteel Bahrain Holding SPC and Electrosteel Bahrain Trading WLL as at the reporting date are consolidated as per IFRS 10. Under IFRS 10, an entity must consolidate an entity, where in substance it controls the entity. Electrosteel Bahrain Trading WLL became the subsidiary of the Company by way of an agreement dated 1 May 2015.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Commercial Companies Law.

This is the first set of the Group's consolidated financial statements in which IFRS 16 *Leases* have been applied. Changes to significant accounting policies are described in Note 2 (f).

b) Basis of measurement

The consolidated financial statements have been drawn up from the accounting records of the Group maintained under the historical cost convention.

c) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Bahraini Dinars ("BD"), which is the Group's functional and presentation currency. All financial information presented in the consolidated financial statements has been rounded-off to the nearest Bahraini Dinars.

d) Principles of consolidation

(i) Subsidiary
The consolidated financial statements include subsidiaries that are controlled by the Group. Control is presumed to exist where more than one half of the subsidiary's voting power is controlled by the Group, or the Group is able to govern the financial and operating policies of subsidiary, or control the removal or appointment of a majority of a subsidiary's board of directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2 *BASIS OF PREPARATION (continued)*

(ii) Transactions eliminated on consolidation
Intra-Group balances and transactions, and any recognised gains and losses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with subsidiary are eliminated against the investment in subsidiary. Unrealised losses are eliminated in the same way as recognised gains, but only to the extent that there is no evidence of impairment.

e) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS's require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.

f) New standards, amendments and interpretations effective from 1 January 2019

The new / revised standards, amendments and interpretations, which became effective on or after 1 January 2019 are relevant to the Group:

nuary 2019.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises 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 optional 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.

IFRS 16 replaces existing leases guidance including 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.

The Group initially applied IFRS 16 Leases from 1 January 2019. The Group applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a) Definition of a lease
Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRI C 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

2 BASIS OF PREPARATION (continued)

b) As a lessee

i. Leases classified as operating leases under IAS 17

Previously, classification under IAS 17 was based on assessment of risk and rewards. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Group does not have leases classified as finance leases under IAS 17.

c) As a lessor

The adoption of IFRS 16 did not have a significant impact on the Group's financial statements as regards to leases in which the Group is a lessor.

d) Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 April 2019
Right-of-use assets – property, plant and equipment	444,878
	444,878

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 5%

	1 April 2019
Operating lease commitments at 31 March 2019 under IAS 17	567,274
Discounted using the incremental borrowing rate at 1 April 2019	444,878
Lease liabilities recognised at 1 April 2019	**444,878**

(ii) Annual Improvements to IFRS Standards 2015–2018 Cycle – various standards

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2015–2018 Cycle.

2 BASIS OF PREPARATION (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2020 with earlier application permitted.

The Group does not expect these improvements to have a significant impact on its consolidated financial statements upon adoption.

g) New standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) Amendments to References to Conceptual Framework in IFRS Standards

The main changes to the Framework's principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements.

Some of the concepts in the revised Framework are entirely new - such as the 'practical ability' approach to liabilities. As they have not been tested as part of any recent standard-setting process, it is unclear what challenges the Board will encounter when using them to develop standards in the future. It is also unclear what challenges preparers of financial statements will face after those future standards become effective.

The amendment applies for annual periods beginning on or after 1 January 2020.

The amendment is not expected to have a significant impact on the Group's consolidated financial statements upon application.

(ii) Definition of Material - Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The IASB has made amendments to IAS 1 and IAS 8 which use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendment applies for annual periods beginning on or after 1 January 2020.

The amendment is not expected to have a significant impact on the Group's consolidated financial statements upon application.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group and consistent with those used in the previous year except for the changes related to the adoption of IFRS 16 *Leases*.

a) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost of the assets includes the cost of bringing the asset to its present location and condition and the consideration paid for acquiring the assets.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

When an asset is sold or otherwise retired, the cost and related accumulated depreciation are removed from the accounts and any resultant gain or loss of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the consolidated statement of profit or loss and other comprehensive income.

(ii) Subsequent measurement

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is expensed in the consolidated statement of profit or loss and other comprehensive income as incurred.

(iii) Depreciation

Depreciation is provided on cost or revalued amounts by the straight-line method at annual rates which are intended to write off the cost or revalued amounts of the assets over their estimated useful lives:

Asset categories	Estimated useful life in years
Leasehold improvements	15
Plant and machinery	3 - 7
Computer	5
Motor vehicles	5
Electrical equipment	4
Furniture, fittings and tools	3 - 10
Right-of-use assets	10 - 15

The residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(iv) Work in progress

Capital work in progress represents expenditure incurred in construction which includes payments to contractors incurred in connection with the construction of new buildings. These assets will be capitalised and depreciated when they are put into intended use.

b) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Extension option

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand- alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight- line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 April 2019

For contracts entered into before 1 April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

c) Impairment of non-financial asset

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognised in the statement of profit or loss.

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

d) Inventories

Inventories are carried at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. The cost of inventories is determined on weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments

Non-derivative financial instruments

The Group's non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, lease liabilities, due to related parties, loan from related parties and trade and other payables.

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost; FVOCI or FVTPL

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

Financial assets at amortised cost

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

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities

Liabilities are recognised on an accrual basis for the amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

(iii) Derecognition

Financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

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

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

(iv) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, mainly trade receivables and bank balances.

The Group measures loss allowances on trade receivables at an amount equal to lifetime ECLs ("Simplified approach")

Loss allowances on bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition are measured at 12- month ECLs ("General approach")

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

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the trade receivables is more than 60 days past due from the invoice date.

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

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

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

Measurement of ECLs

Trade receivables - (Simplified approach)
The Group uses the expected future cash flows based on historical loss rates to measure the ECLs of trade receivables from individual customers. Loss rates are calculated using the discounted cash flow method based on the probability of a receivable being collected over a period of two years or written off.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Discounted cash flows are calculated separately using expected cash flows after adjustment for historical performance. The expected cash flows includes forward looking adjustments. The Group uses the Group's average borrowing rate to discount the expected future cash flows. The model uses probability weighted scenarios when calculating expected credit losses.

Bank balances- (General approach)
Impairment on bank balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its bank balances have low credit risk based on the external credit ratings of the counterparties.

The Group assumes that the credit risk on bank balances has been increased significantly if it is more than 30 days past due.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 60 days past due from the invoicing date;
- the restructuring of a trade receivables by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks.

g) Statutory reserve

The Commercial Companies Law requires 10% of the profit for the year to be transferred to a statutory reserve, which is not normally distributable except in the circumstances stipulated in the Commercial Companies Law. Such transfers may cease once the reserve reaches 50% of share capital.

h) Employee benefits

Short-term employee benefits are recognised in the consolidated statement of profit or loss and other comprehensive income on an accrual basis.

Pensions and other social benefits for *Bahraini employees* are covered by the Social Insurance Organisation's scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector - Law no. (36) of 2012, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

j) Revenue

Revenue from sale of products is recognised at a point in time when customer obtains control over goods. Customer obtains control when the goods are delivered and have been accepted by customers at their premises.

k) Foreign currency transactions and balances

Transactions in foreign currencies are translated to Bahraini Dinars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the financial statement date are translated into Bahraini Dinars at the foreign exchange rate ruling at that date. All foreign exchange differences arising on conversion and translation are recognized in the consolidated statement of profit or loss and other comprehensive income.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES

The areas involving higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements includes:

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

a) Useful life and residual value of property, plant and equipment

The Group reviews the useful life and residual value of the property, plant and equipment at each reporting date to determine whether an adjustment to the useful life and residual value is required. The useful life and residual value is estimated based on the similar assets of the industry, and future economic benefit expectations of the management.

b) Inputs and assumptions used in the measurement of right of use and lease liability

Refer note 3 (b) (i).

c) Write down of inventories to net realisable value

The Group reviews the carrying amounts of inventories at each reporting date to determine whether the inventories need to be written down to net realisable value. The Group identifies the inventories which have to be written down based on the evaluation of age of the inventory and their estimate of their future consumption. If inventories are assessed for write down, they are charged to the consolidated profit or loss and other comprehensive income.

d) Provision for expected credit losses on trade receivables

Please refer to note 3 e (v).

Bahraini Dinars

5 PROPERTY, PLANT AND EQUIPMENT

	Right-use-of assets	Leasehold improvements	Plant and machinery	Computer	Motor vehicle	Electrical equipment	Furniture, fittings and tools	Work-in-progress	2020 Total
Cost									
At 1 April 2019	-	106,891	27,902	11,496	2,750	1,946	5,395	-	156,380
Recognition of right-of-use assets on initial application of IFRS 16 (note 2 f) (i))	444,878	-	-	-	-	-	-	-	444,878
Addition	185,468	-	343	155	-	-	3,571	10,104	199,641
At 31 March 2020	**630,346**	**106,891**	**28,245**	**11,651**	**2,750**	**1,946**	**8,966**	**10,104**	**800,899**
Depreciation									
At 1 April 2019	-	22,123	13,198	7,667	597	1,392	2,580	-	47,557
Charge for the year	49,112	7,141	4,224	2,238	554	417	970	-	64,656
At 31 March 2020	**49,112**	**29,264**	**17,422**	**9,905**	**1,151**	**1,809**	**3,550**	**-**	**112,213**
Net book value at the end of the year	**581,234**	**77,627**	**10,823**	**1,746**	**1,599**	**137**	**5,416**	**10,104**	**688,686**

	Leasehold improvements	Plant and machinery	Computer	Motor vehicle	Electrical equipment	Furniture, fittings and tools	2020 Total
Cost							
At 1 April 2018 and 31 March 2019	106,891	27,902	11,496	2,750	1,946	5,395	156,380
Depreciation							
At 1 April 2018	15,002	9,073	5,315	46	919	1,549	31,904
Charge for the year	7,121	4,125	2,352	551	473	1,031	15,653
At 31 March 2019	22,123	13,198	7,667	597	1,392	2,580	47,557
Net book value at the end of the year	**84,768**	**14,704**	**3,829**	**2,153**	**554**	**2,815**	**108,823**

Capital work in progress pertains to the new factory building which is still under construction. The capital commitment relating to this project at the reporting date amounted to BD 223,000 (2019: BD Nil).

6 INVENTORIES

	2020	2019
Pipes	512,268	584,885
Fittings and accessories	98,775	68,326
Packing material	1,385	3,376
	612,428	656,587
Goods in transit	338,751	189,279
	951,179	845,866

7 TRADE AND OTHER RECEIVABLES

	2020	2019
Trade receivables	1,241,251	296,323
Value added tax asset - net	55,284	16,275
Advances paid to suppliers	26,697	-
Prepayments	1,345	8,181
Others	650	653
	1,325,227	321,432

8 CASH AND CASH EQUIVALENTS

	2020	2019
Cash on hand	1,379	270
Bank balances	149,568	89,371
Cash and cash equivalents as per the consolidated statement of cash flows	**150,947**	89,641

9 PROVISION FOR EMPLOYEES' LEAVING INDEMNITIES

	2020	2019
At the beginning of year	1,431	1,079
Charge for the year (note 16)	1,013	768
Paid during the year	(116)	(416)
At the end of year	**2,328**	1,431

10 LEASE LIABILITES

	2020	2019
At initial adoption of IFRS 16	444,878	-
Additions during the year	185,468	-
Payments during the year	(31,269)	-
At the end of year	**599,077**	-

	2020	2019
Current portion of lease liabilities	46,334	-
Non-current portion of lease liabilities	552,743	-
At the end of year	**599,077**	-

11 RELATED PARTIES

The Group enters into transaction with entities that within the definition of a related party as contained in International Accounting Standard 24. The management considers such transactions to be in the normal course of business at agreed terms. Related parties comprise the parent, ultimate parent Group, companies under common ownership and shareholders.

a) Significant transactions with related parties	2020	2019
Purchases from related parties	**4,075,456**	2,648,901
Loan availed from related party	**309,067**	376,422
Sponsorship fee (note 15)	**11,400**	11,400
Sales to related parties	**2,611**	-
Expenses incurred by the Group on behalf of the related party	**1,808**	-
Loan repaid to related party	-	(300,800)

b) Due to related parties	*Relationship*	2020	2019
Electrosteel Castings Limited, India	*Parent company*	1,010,440	345,641
Electrosteel Castings Gulf FZE,UAE	*Under common control*	1,019	-
		1,011,459	345,641

Related party balances are interest free and payable on demand.

c) Loan from related parties	2020	2019
At the beginning of year	75,622	-
Availed during the year	309,067	376,422
Paid during the year	-	(300,800)
At the end of year	**384,689**	75,622

The above loans are unsecured loans obtained by the Group from Electrosteel Castings Gulf FZE, UAE, a related party under common control, amounting to BD 309,067 (2019: BD 376,422). The loans bear interests of 5% per annum.

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel are the directors of the Group and the compensation paid to them during the year was BD 20,040 (2019: 19,680).

12 TRADE AND OTHER PAYABLES

	2020	2019
Trade payables	91,744	65,705
Advances received from customers	12,329	29,495
Accrued expenses and other payables	11,105	6,593
	115,178	101,793

13 REVENUE

	2020	2019
Pipes	4,845,504	2,756,124
Fittings and accessories	494,124	377,332
	5,339,628	3,133,456

14 COST OF SALES

	2020	2019
Pipes	4,168,433	2,293,070
Fittings and accessories	363,552	212,669
	4,531,985	2,505,739

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Sponsorship fee (note 11 (a))	11,400	11,400
Travelling expenses	10,260	9,211
Legal and professional fees	7,005	3,000
Electricity and water charges	5,639	5,855
Rent	2,800	45,244
Forklift expenses	2,413	3,608
Repairs and maintenance	2,339	2,215
Communication charges	1,836	1,610
Others	5,571	6,220
	49,263	88,363

16 STAFF COSTS

	2020	2019
Salaries and related costs	39,855	39,808
Labour wages	13,307	7,212
Accommodation	9,442	6,187
Transportation	4,296	3,859
Leave salary	2,605	2,835
Social insurance	1,796	2,285
End-of-service benefits (note 9)	1,013	768
Others	1,839	-
	74,153	62,954

17 SELLING AND DISTRIBUTION EXPENSES

	2020	2019
Transportation and border charges	279,616	176,182
Retainers fee	57,668	33,411
Packing materials	46,000	27,000
Others	38,091	13,334
	421,375	249,927

18 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The table below sets out the Group's classification of each class of financial assets and financial liabilities:

2020	**At amortised cost**	**Total carrying amount**
Assets		
Trade and other receivables (excluding prepayments and advances paid to the suppliers)	1,241,901	1,241,901
Cash and cash equivalents	150,947	150,947
	1,392,848	**1,392,848**
Liabilities		
Lease liabilities	599,077	599,077
Due to related parties	1,011,459	1,011,459
Loan from related parties	384,689	384,689
Trade and other payables (excluding advances received from customers)	102,849	102,849
	2,098,074	**2,098,074**

2019	At amortised cost	Total carrying amount
Assets		
Trade and other receivables (excluding prepayments)	296,976	296,976
Cash and cash equivalents	89,641	89,641
	386,617	386,617
Liabilities		
Due to related parties	345,641	345,641
Loan from related parties	75,622	75,622
Trade and other payables (excluding advances received from customers)	72,298	72,298
	493,561	493,561

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, practices and processes for measuring and managing risk. The note also presents certain quantitative disclosures in addition to the disclosures throughout the consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management practices are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The accounting policies for financial assets and liabilities are described in note 3.

The accounting policies for financial assets and liabilities are described in note 3.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's bank balances and receivables from customers.

(i) The Group limits its exposure to credit risk on bank balances by maintaining balances with banks where the external credit ratings are high. The Group considers that its cash and bank balances have low credit risk based on the external credit ratings of the counterparties. The Group has assessed impairment on cash and cash equivalents based on the 12-month expected loss and has concluded that there is no significant impact due to impairment of cash and bank balances.

(ii) The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However the management also considers the factors that may influence the credit risk of its customers base, including the default risk associated with the industry and country in which customers operate.

The creditworthiness of each customer is evaluated prior to sanctioning of credit facilities. Appropriate procedures for follow-up and recovery are in place to monitor credit risk.

The maximum exposure to credit risk at the reporting date was:

	2020	2019
Trade and other receivables (excluding prepayments and advances paid to the suppliers)	1,241,901	296,976
Bank balances	149,568	89,371
	1,391,469	386,347

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

2020	**Carrying amount**	**Contractual undiscounted cash flows**	**6 months or less**	**6 - 12 months**	**More than 12 months**
Lease liabilities	599,077	760,962	37,618	37,618	685,726
Due to related parties	1,011,459	1,011,459	1,011,459	-	-
Loan from related parties	384,689	403,923	-	403,923	-
Trade and other payables (excluding advances received from customers)	102,849	102,849	102,849	-	-
	2,098,074	**2,279,193**	**1,151,926**	**441,541**	**685,726**

18 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2019	Carrying amount	Contractual undiscounted cash flows	6 months or less	6 - 12 months
Due to related parties	345,641	345,641	345,641	-
Loan from related parties	75,622	79,403	-	79,403
Trade and other payables (excluding advances received from customers)	72,298	72,298	72,298	-
	493,561	497,342	417,939	79,403

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

(i) Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Group does not have any significant currency risk with respect to transactions in Saudi Riyal, Qatari Riyal, UAE Dirham and US Dollar as the Bahraini Dinar is effectively pegged to Saudi Riyal, Qatari Riyal, UAE Dirham and US Dollar.

(ii) Interest rate risk
Interest rate risk is the risk that the Group's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates.

The Group's exposure to interest rate risk is limited to the loans from a related party and lease liabilities.

Effective interest rates are as follows:	**2020**	2019
Lease liabilities	**5%**	-
Loans from a related party	**5%**	**5%**

At the reporting date, the interest rate profiles of the Group's interest bearing financial instruments are as follows:

	2020	2019
Lease liabilities	**599,077**	-
Loans from a related party	**384,689**	75,622

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial liabilities at fair value through the statement of profit or loss and other comprehensive income. Therefore a change in interest rates at the reporting date would not affect the statement of profit or loss and other comprehensive income. Increase or decrease in equity resulting from variation in interest rates is not expected to be significant.

Cash flow sensitivity analysis for variable rate financial instruments
The Group does not account for any financial asset or financial liabilities at fair value through statement of income. Therefore, a change in interest rates at the reporting date would not affect profit or loss. A change in 100 basis points in interest rate in the interest bearing financial instruments would have increased / (decreased) equity by BD 9,838 (2019: BD 756). This analysis assumes that all other variables remain constant.

The Group is not exposed to significant interest rate risk on the loan from a shareholder as the interest rate is fixed for the period for which this loan is taken.

(iii) Other market price risk
Other market rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instruments or its issuers, or factors affecting all similar financial instrument traded in the market.

The Group is not exposed to any significant other market risk as at reporting date.

d) Capital Management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits to the other stakeholders. The directors monitor the return on capital.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

e) Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Differences can therefore arise between book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair values of financial assets and financial liabilities of the Group are not materially different from their carrying values.

19 SUBSEQUENT EVENTS

Subsequent to the year end the outbreak of the Coronavirus (COVID-19) has rapidly evolved across the region and globally. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. These measures and policies have disrupted the activities of many entities, including the Group. Also anticipated indirect and knock on effects are yet to be determined fully. To counter these impacts, many governments are announcing various form of financial packages to assist corporates and individuals in these challenging times. As the outbreak continues to evolve, it is challenging at this juncture, to predict the full extent and duration of its business and economic impact. The board of directors continue to monitor the situation and its impact on the Group's operation and financial position. As at the reporting date, the board and management has assessed that the Group will continue to operate as a going concern in the near future.

20 COMPARATIVES

The previous year's figures have been regrouped wherever necessary in order to confirm to the current year is presentation. Such regrouping does not affect the previously reported consolidated total assets, consolidated total equity or consolidated profit or loss and other comprehensive income.