BHARTI AIRTEL LANKA (PRIVATE) LIMITED

FINANCIAL STATEMENTS TOGETHER WITH AUDITOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2021

SJMS Associates
Chartered Accountants
No.11, Castle Lane
Colombo 04
Sri Lanka

Tel: +94 11 2580409, 5444400
Fax: +94 11 2582452
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BHARTI AIRTEL LANKA (PRIVATE) LIMITED

Opinion

We have audited the financial statements of Bharti Airtel Lanka (Private) Limited ("the Company") which comprise the statement of financial position as at 31 March 2021, and the statement of comprehensive and other related income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 are independent of the Company in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the annual report and we will not, express any form of assurance conclusion the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Deloitte.

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 Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

SJMS ASSOCIATES
Chartered Accountants
Colombo
19 July 2021

SJMS ASSOCIATES
11, Castle Lane,
Colombo - 04.
Tel:0115 444 400
CHARTERED ACCOUNTANTS

Bharti Airtel Lanka (Private) Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	Mar-21 Rs. '000	Mar-20 Rs. '000
ASSETS			
Non-Current Assets			
Property, plant and equipment	6.	18,210,478	11,713,097
Intangible assets	7.	3,843,745	3,211,312
Right of use assets	9.	2,456,627	2,916,002
Advances and prepayments	8.	150,395	157,859
		24,661,245	17,998,270
Current Assets			
Inventories	10.	9,218	12,957
Advances and prepayments	8.	850,949	757,895
Trade and other receivables	11.	1,454,438	1,278,004
Cash and cash equivalents	12.	1,249,989	244,469
		3,564,594	2,293,326
Total Assets		**28,225,839**	**20,291,595**
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Stated capital	13.	54,802,587	54,802,587
Accumulated losses		(66,931,382)	(61,150,267)
Total Equity		(12,128,795)	(6,347,680)
Non-Current Liabilities			
Lease liability	9.1	1,992,507	2,235,949
Retirement benefit obligation	14.	113,547	98,398
Asset retirement obligation	15.	394,565	287,118
Interest bearing loans and borrowings	16.	15,268,088	5,219,054
		17,768,707	7,840,519
Current Liabilities			
Interest bearing loans and borrowings	16.	1,306,297	1,115,000
Trade and other payables	17.	8,527,973	5,236,074
Deferred revenue	18.	828,810	885,047
Lease liability	9.1	733,060	989,065
Bank overdrafts	12.	11,189,787	10,573,569
		22,585,927	18,798,754
Total Equity and Liabilities		**28,225,839**	**20,291,595**

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

....

Chief Finance Officer

The board of directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the board by on 19 July 2021.

....

Director Director

The accounting policies and notes on pages 7 through 30 form an integral part of these financial statements.

S J M S ASSOCIATES # 11, Castle Lane, Colombo - 04. Tel:0115 444 400 CHARTERED ACCOUNTANTS

Bharti Airtel Lanka (Private) Limited

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 March 2021

	Note	2021 Rs. '000	2020 Rs. '000
Income			
Revenue	19.	10,731,868	11,563,217
Other income	20.	4,900	7,515
Finance income	21.	1,588	1,638
Expenditure			
Access charges		(1,224,373)	(1,430,929)
Personnel costs		(1,009,283)	(1,006,604)
Networking expenses		(5,702,179)	(6,208,776)
Marketing expenses		(2,312,563)	(2,233,846)
Administrative expenses		(252,937)	(318,323)
Depreciation, amortisation and impairment of property, plant and equipment		(3,673,183)	(3,763,518)
Finance cost	22.	(1,266,542)	(1,454,583)
Exchange gains / losses		(1,079,797)	(600,861)
Loss Before Tax	23.	**(5,782,501)**	**(5,445,071)**
Income tax expense	24.	-	(42,708)
Loss for the Year		**(5,782,501)**	**(5,487,779)**
Other Comprehensive Loss			
Items that will not be reclassified subsequently to comprehensive income:			
Actuarial gain on defined benefit obligations	14.	1,386	(5,672)
		1,386	(5,672)
Income tax effect			
Total Comprehensive Loss, net of tax		**(5,781,114)**	**(5,493,451)**

The accounting policies and notes on page 7 to 30 form an integral part of these financial statements.

SJMS ASSOCIATES # 11, Castle Lane, Colombo - 04. Tel:0115 444 400 CHARTERED ACCOUNTANTS

Bharti Airtel Lanka (Private) Limited

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 March 2021

	Stated Capital Rs. '000	Accumulated Losses Rs. '000	Total Rs. '000
As at 31 Mar 2019	54,802,587	(55,613,145)	(810,558)
Loss for the year	-	(5,487,779)	(5,487,779)
Other comprehensive income	-	(5,672)	(5,672)
Impact due to the adoption of SLFRS 16	-	(43,672)	(43,672)
As at 31 Mar 2020	54,802,587	(61,150,267)	(6,347,680)
Loss for the year	-	(5,782,501)	(5,782,501)
Other comprehensive income	-	1,386	1,386
As at 31 Mar 2021	54,802,587	(66,931,382)	(12,128,795)

The accounting policies and notes on page 7 to 30 form an integral part of these financial statements.

S J M S ASSOCIATES # 11, Castle Lane, Colombo - 04. Tel:0115 444 400 CHARTERED ACCOUNTANTS

Bharti Airtel Lanka (Private) Limited
CASH FLOW STATEMENT
Year Ended 31 March 2021

	Note	2021 Rs. '000	2020 Rs. '000
Cash Flows From / (Used in) Operating Activities			
Loss before tax from continuing operations		(5,782,501)	(5,445,071)
Adjustments for			
Deferred revenue		(7,346,210)	(9,461,075)
Depreciation	6.	2,356,458	2,489,188
Amortisation	7.	504,205	462,349
Depreciation ROU assets		820,540	804,431
Impairment of property, plant and equipment and CWIP		(8,920)	2,752
Amortisation of prepaid lease rental		(1,652)	(1,667)
Income from investments	21.	(1,588)	(1,638)
Finance costs	22.	1,266,542	1,454,583
Other income		(3,161)	(4,635)
(Profit) / loss on disposal of property, plant and equipment		(1,739)	(2,880)
(Profit) / loss on retirement of property, plant and equipment		1,611	-
Foreign currency gains / (losses)		1,079,797	600,861
Provision for defined benefit plans	14.	23,969	21,147
Provision for / (reversal of) property, plant and equipment CWIP	6.2	47,635	32,315
Provision for doubtful debts		1,676	67,480
Operating loss before working capital changes		(7,043,340)	(8,981,858)
(Increase) / decrease in inventories		3,740	(8,506)
(Increase) in trade and other receivables		(262,047)	434,461
Increase / (decrease) in trade and other payables		3,380,322	(59,120)
Cash used in operations		(3,921,326)	(8,615,023)
Income tax paid		-	(42,708)
Gratuity paid	14.	(7,434)	(8,954)
Receipts from recharge cards and reload sales		7,289,972	9,625,164
Net cash from operations		3,361,213	958,479
Cash Flows from / (Used in) Investing Activities			
Acquisition of property, plant and equipment		(9,280,801)	(2,648,671)
Proceeds from disposal of property. plant and equipment		1,739	4,100
Renewal of mobile license fee		(750,002)	(1,224,494)
Interest received	21.	1,588	1,638
Money received from sundry balances written off		3,161	4,635
Net cash flows used in investing activities		(10,024,315)	(3,862,792)
Cash Flows from / (Used in) Financing Activities			
Net Proceeds from interest bearing loans and borrowings	16.1	9,179,500	2,777,250
Interest payment on loans and borrowing		(999,719)	(1,425,525)
Increase / (decrease) in short term loans		191,297	1,115,000
Repayments on lease liability		(1,108,413)	(539,092)
Net cash flows from financing activities		7,262,665	1,927,633
Net Increase / (Decrease) in Cash and Cash Equivalents		599,564	(976,680)
Effect of each rate difference on cash and cash equivalents		(210,262)	(396,627)
Cash and Cash Equivalents at the beginning of the year	12.	(10,329,100)	(8,955,794)
Cash and Cash Equivalents at the end of the year	12.	(9,939,799)	(10,329,100)

The accounting policies and notes on page 7 to 30 form an integral part of these financial statements.

1. CORPORATE INFORMATION

1.1 General

Bharti Airtel Lanka (Private) Limited ("Company") is a limited liability Company incorporated on 29 March 2007 and domiciled in Sri Lanka. The registered office of the Company is situated at 11th Floor, West Tower, World Trade Centre, Echelon Square, Colombo 01.

1.2 Principle Activities and Nature of Operations

The Company is engaged in its principle activity of providing mobile telecommunication services with the launch of its services on 12 January 2009. There were no significant changes in the nature of the principle activities of the Company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity and ultimate parent undertaking and controlling party is Bharti Airtel Ltd, which is incorporated in India.

1.4 Date of Authorization for Issue

The financial statements of Bharti Airtel Lanka (Private) Limited for the year ended 31 March 2021 were authorized for issue in accordance with a resolution of the board of directors on 19 July 2021.

2. GENERAL ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis except for Retirement benefit liability, Lease liability, Right of use Asset and asset Retirement obligation, which are reflected in the financial statements at present value of the defined benefit obligation and present value of the asset retirement obligation respectively. The financial statements are presented in Sri Lankan Rupees and rounded to the nearest thousand unless otherwise stated.

2.2 Statement of Compliance - Basis of preparation

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (LKAS, SLFRS), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC"). and as per the requirements of the Companies Act No. 7 of 2007.

2.3 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate, merge or to cease trading. However the Company has incurred a loss of Rs. 5,783 Mn for the financial year ended 31 March 2021 (2020 – Rs. 5,488 Mn). As at the reporting date, the Company's accumulated loss amounted to Rs. 66,931 Mn (2020 – Rs. 61,150 Mn).

Management has evaluated these events and conditions and to overcome the current situation and make profits in future years, the company have come-up with below plans;

- To complete 4G launch in FY 2021/22 for which, Management has taken active steps by paying TRCSL spectrum fees and taken related approvals. And accordingly, 4G commercial launch is being successfully underway starting from Feb 2021.
- Forecasted positive EBITDA and operational cash flows through steady annual revenue growth for next five years.

S J M S ASSOCIATES
11, Castle Lane, Colombo - 04. Tel:0115 444 400
CHARTERED ACCOUNTANTS

In addition to above the company have below support from the related companies

- Financial and technical support from the parent entity to provide additional funding as required by the Company for the purpose of meeting the Company's future liabilities to enable the Company to continue as a going concern over the ensuing period of 12 months.
- Signed contract with a related party company, Bharti Airtel Lanka (Pvt) Ltd. has a facility of USD 125 Mn. Current usage is only 76.72 Mn. Availability of this unused credit facilities are available for future expansions.

These factors will not raise substantial doubts that the Company will not be able to continue as a going concern. Accordingly, these financial statements have been prepared on a going concern basis.

2.4 Significant Accounting Estimates and Assumptions

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the statement of financial position and amounts charged to the statement of profit or loss and other comprehensive income. These could result in a significant risk of causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant notes to the financial statements.

a) Useful Life of Property Plant and Equipment and Intangible Assets

Management has assigned useful Life to Property Plant and Equipment and Intangible Assets based on the intended use of the assets. However, subsequent changes in circumstances such as technical advances, prospective utilization of the assets concerned and the Company's ability to renew the license for operation as a telecommunication service provider in Sri Lanka could result in the actual useful life differing from the estimate. Management reviews annually the useful Life of Property Plant and Equipment and Intangible Assets. Refer details given in Note 4.6 and 4.10.4 respectively.

b) Impairment Losses on Capital Work in Progress

Management reviews capital work in progress at each month end to identify any constructions which are unlikely to be completed. An impairment loss is recognized for uncompleted sites and computer hardware & integral software based on the period lapsed since commencement of the construction and development. Refer details given in Note 6.2.

c) Asset Retirement Obligation (ARO)

The Company has recognized a provision for Asset Retirement Obligation associated with each base station constructed in leasehold assets. The determination of the obligation is based on estimates relating to discount rates, expected cost to dismantle the site and the expected timing of these costs. Refer details given in Note 15.

d) Defined Benefit Plans

The Defined Benefit Obligations and the related charges for the year are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainties. Further details are provided in Note 14.2.

e) Impairment of Trade Receivables

Impairment of trade receivables is based on the Company's past loss experience and is determined on management's best estimate. Refer details given in Note 11.1 and 11.2 relating to impairment of financial assets.

f) Impairment of Non-Financial Assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment and concluded when there are indicators that the carrying amounts may not be recoverable. The impairment analysis is principally based upon discounted estimated cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates could lead to impairment.

3. AMMENDMENTS TO THE ACCOUNTING STANDARDS

The following amendments and improvements do not expect to have a significant impact on the Company's financial statements.

- Amendments to SLFRS 3: Definition of a Business
- Amendments to SLFRS 7 and SLFRS 9 Interest Rate Benchmark Reform
- Amendments to LKAS 1 and LKAS 8 Definition of Material
- Conceptual Framework for Financial Reporting
- Amendments to SLFRS 16 Covid-19 Related Rent Concessions

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes.

- **Standards amended but not yet effective,**

  Amendments to LKAS 1 – Classification of Liabilities as Current or Non-current The amendments to LKAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

  Amendments to LKAS 37 – Onerous Contracts—Cost of Fulfilling a Contract The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Foreign Currency Translation

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

4.2 Current/ Non-Current Classification

The Company presents assets and liabilities in the statement of financial position as current and non-current.

An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period, or
- The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

4.3 Fair Value Measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

4.3 Fair Value Measurement – *(contd..)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1- Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 -Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.4 Taxation

Current Taxes

Pursuant to agreement dated 20 September 2007 entered into with Board of Investment under section 17 of the Board of Investment Law, for the business to construct, operate and maintain a digital cellular mobile communication system to provide mobile communication service, the Inland Revenue Act No. 10 of 2006 relating to the imposition, payment and recovery of income tax in respect of the profits and income of the enterprise shall not apply for a period of 15 years from the year in which the enterprise commences to make profits or any year of assessment not later than two (02) years from the date of commencement of commercial operation whichever is earlier.

This exemption is continued to be applied under Inland Revenue Act, No.24 of 2017.

After the expiration of the aforesaid tax exemption period, the profits and income of the enterprise shall be charged at the rate of fifteen percent (15%).

The company's other income from sale of products are liable for income tax at the rate of 24%

Deferred Taxation

Deferred tax is recognized on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities generally are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carry-forward of unused tax credits or unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the year when the liability is settled or asset is realized, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date.

Since, the company is enjoying a tax holiday period of 15 years as stated above under current taxation. Deferred tax asset/liability are not recognized for the temporary differences, which are to be reversed during the tax holiday period.

SJMS ASSOCIATES
11, Castle Lane,
Colombo - 04.
Tel:0115 444 400
CHARTERED ACCOUNTANTS

4.5 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of that assets.

4.6 Intangible Assets

An Intangible Assets is recognised if it is probable that benefits attributable to the assets will flow to the entity and cost of the assets can be measured reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite Life are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite Life is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Licenses

License fees paid by the Company have been recognised as an intangible asset and the same is being amortised equally over period of license of 10 years from the date of commencement of commercial operations or renewal date.

Software

Software represents the operational, networking and other software used by the Company. Such software is amortised on a straight-line basis over a period of 1-3 years.

4.7 Inventories

Inventory is valued at the lower of cost and net realizable value. Cost includes the packing cost of SIM stock. The inventory cost is determined on first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary cause of business, less estimated costs of completion and the estimated costs necessary to make the sale.

4.8 Financial Instruments

Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets - Initial recognition and measurement

Financial assets are classified at fair value minus the transaction cost as the initial recognition, and as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under SLFRS 15 (Refer to the accounting policies in section (e) Revenue from contracts with customers.)