

**HCL Arabia Limited**  
**(A Limited Liability Company)**

**FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 TOGETHER  
WITH INDEPENDENT AUDITOR'S REPORT**

HCL ARABIA LIMITED  
(A Limited Liability Company)

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FINANCIAL STATEMENTS

For the year ended 31 December 2019

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Licence No. 46/11/323 issued 11/3/1992

## Independent Auditor's Report

To the Shareholders of HCL Arabia Limited

### Opinion

We have audited the financial statements of HCL Arabia Limited ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS for SMEs that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies 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.

The Management is responsible for overseeing the Company's financial reporting process.



## Independent Auditor's Report

To the Shareholders of HCL Arabia Limited (continued)

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 of **HCL Arabia Limited** ("the Company").

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

  
**Hani Hamzah A. Bedairi**  
**Partner**



License No: 460  
Riyadh on: 12th Muharram, 1442h  
Corresponding to: 31 August 2020

HCL Arabia Limited  
(A Limited Liability Company)

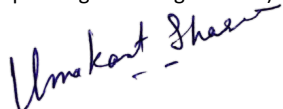
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

|                                          | Note | 31 Dec'19<br>SR   | 31 Dec'18<br>(As restated Note 21)<br>SR | 1 Jan'18<br>(As restated Note 21)<br>SR |
|------------------------------------------|------|-------------------|------------------------------------------|-----------------------------------------|
| <b>ASSETS</b>                            |      |                   |                                          |                                         |
| <b>CURRENT ASSETS</b>                    |      |                   |                                          |                                         |
| Cash and cash equivalents                | 5    | 5,907,767         | 3,496,069                                | 1,382,539                               |
| Accounts receivable and unbilled revenue | 6    | 15,034,203        | 5,901,990                                | 4,385,193                               |
| Prepayments and other receivables        | 7    | 410,038           | 90,745                                   | 544,417                                 |
| Amounts due from related parties         | 8    | 815,570           | 1,596,750                                | 2,265,003                               |
| <b>TOTAL CURRENT ASSETS</b>              |      | <b>22,167,578</b> | <b>11,085,554</b>                        | <b>8,577,152</b>                        |
| <b>NON-CURRENT ASSET</b>                 |      |                   |                                          |                                         |
| Property, plant and equipment            | 10   | 337,257           | 203,739                                  | 243,093                                 |
| Capital work in progress                 |      | 334,661           | -                                        | -                                       |
| Goodwill                                 | 9    | 2,563,444         | -                                        | -                                       |
| Other intangible assets                  | 11   | 2,143,632         | -                                        | -                                       |
| Deferred tax assets                      | 13   | 417,801           | 426,932                                  | 371,632                                 |
| <b>TOTAL NON-CURRENT ASSETS</b>          |      | <b>5,796,795</b>  | <b>630,671</b>                           | <b>614,725</b>                          |
| <b>TOTAL ASSETS</b>                      |      | <b>27,964,373</b> | <b>11,716,225</b>                        | <b>9,191,877</b>                        |
| <b>LIABILITIES AND EQUITY</b>            |      |                   |                                          |                                         |
| <b>CURRENT LIABILITIES</b>               |      |                   |                                          |                                         |
| Accounts payable and accruals            | 12   | 4,416,033         | 1,139,839                                | 292,193                                 |
| Amounts due to related parties           | 8    | 16,342,716        | 3,265,422                                | 1,759,846                               |
| Provision for income tax                 | 13   | 351,571           | 138,984                                  | 299,277                                 |
| Employees' defined benefits liabilities  | 14   | 81                | -                                        | -                                       |
| <b>TOTAL CURRENT LIABILITIES</b>         |      | <b>21,110,401</b> | <b>4,544,245</b>                         | <b>2,351,316</b>                        |
| <b>NON-CURRENT LIABILITY</b>             |      |                   |                                          |                                         |
| Employees' defined benefits liabilities  | 14   | 179,098           | 50,909                                   | 52,735                                  |
| <b>TOTAL NON-CURRENT LIABILITIES</b>     |      | <b>179,098</b>    | <b>50,909</b>                            | <b>52,735</b>                           |
| <b>TOTAL LIABILITIES</b>                 |      | <b>21,289,499</b> | <b>4,595,154</b>                         | <b>2,404,051</b>                        |
| <b>EQUITY</b>                            |      |                   |                                          |                                         |
| Capital                                  | 15   | 6,100,000         | 6,100,000                                | 6,100,000                               |
| Statutory reserve                        |      | 102,107           | 102,107                                  | 68,782                                  |
| Retained earnings                        |      | 472,767           | 918,964                                  | 619,044                                 |
| <b>TOTAL EQUITY</b>                      |      | <b>6,674,874</b>  | <b>7,121,071</b>                         | <b>6,787,826</b>                        |
| <b>TOTAL LIABILITIES AND EQUITY</b>      |      | <b>27,964,373</b> | <b>11,716,225</b>                        | <b>9,191,877</b>                        |

These financial statements as shown on pages from 3 to 26 were approved by the Board of Directors/ Shareholders on 12th Muharram, 1442h (corresponding to 31 August 2020) and signed on their behalf by:



The attached notes 1 to 23 form an integral part of these financial statements.

HCL Arabia Limited  
(A Limited Liability Company)

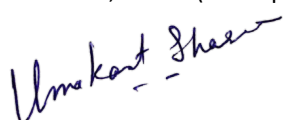
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

|                                                                            | Notes | 31 Dec'19<br>SR  | 31 Dec'18<br>SR  |
|----------------------------------------------------------------------------|-------|------------------|------------------|
| Revenue                                                                    | 16    | 19,074,733       | 8,107,938        |
| Cost of Sales                                                              | 17    | (14,714,243)     | (5,585,798)      |
| <b>GROSS PROFIT</b>                                                        |       | <b>4,360,490</b> | <b>2,522,140</b> |
| <b>EXPENSES</b>                                                            |       |                  |                  |
| Selling and distribution                                                   | 18    | (3,658,506)      | (941,523)        |
| General and administrative                                                 | 19    | (1,046,211)      | (1,089,181)      |
| <b>OPERATING (LOSS)/PROFIT</b>                                             |       | <b>(344,227)</b> | <b>491,436</b>   |
| Other expenses                                                             | 20    | (33,970)         | (41,958)         |
| Financial charges                                                          |       | (63,509)         | (25,051)         |
| <b>(LOSS)/PROFIT BEFORE INCOME TAX</b>                                     |       | <b>(441,706)</b> | <b>424,427</b>   |
| Income tax                                                                 | 13    | 63,118           | (91,182)         |
| <b>(LOSS)/PROFIT FOR THE YEAR</b>                                          |       | <b>(378,588)</b> | <b>333,245</b>   |
| <b>Other comprehensive (Loss)/Income:</b>                                  |       |                  |                  |
| <b>Items that will not be subsequently reclassified to profit and loss</b> |       |                  |                  |
| Re-measurement of defined benefit plan                                     |       | (84,511)         | -                |
| Deferred tax credit related to re-measurement loss of employee benefits    |       | 16,902           | -                |
| <b>TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME</b>                             |       | <b>(67,609)</b>  | <b>-</b>         |
| <b>TOTAL COMPREHENSIVE (LOSS)/INCOME</b>                                   |       | <b>(446,197)</b> | <b>333,245</b>   |

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The attached notes 1 to 23 form an integral part of these financial statements.

HCL Arabia Limited  
(A Limited Liability Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

|                                                   | <i>Capital</i>   | <i>Statutory<br/>reserve</i> | <i>Retained<br/>earnings</i> | <i>Total</i>     |
|---------------------------------------------------|------------------|------------------------------|------------------------------|------------------|
|                                                   | <i>SR</i>        | <i>SR</i>                    | <i>SR</i>                    | <i>SR</i>        |
| As at 1 Jan'18                                    | 6,100,000        | 68,782                       | 619,044                      | 6,787,826        |
| Profit for the year                               | -                | -                            | 333,245                      | 333,245          |
| Transferred to statutory reserve                  | -                | 33,325                       | (33,325)                     | -                |
| <b>As at 31 Dec'18</b>                            | <b>6,100,000</b> | <b>102,107</b>               | <b>918,964</b>               | <b>7,121,071</b> |
| As at 1 Jan'19                                    | 6,100,000        | 102,107                      | 918,964                      | 7,121,071        |
| Loss for the year                                 | -                | -                            | (378,588)                    | (378,588)        |
| Other comprehensive loss for the year, net of tax | -                | -                            | (67,609)                     | (67,609)         |
| Transferred to statutory reserve                  | -                | -                            | -                            | -                |
| Total comprehensive loss                          | -                | -                            | (446,197)                    | (446,197)        |
| <b>As at 31 Dec'19</b>                            | <b>6,100,000</b> | <b>102,107</b>               | <b>472,767</b>               | <b>6,674,874</b> |

The attached notes 1 to 23 form an integral part of these financial statements.

HCL Arabia Limited  
(A Limited Liability Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

|                                                         | 31 Dec'19<br>SR    | 31 Dec'18<br>SR |
|---------------------------------------------------------|--------------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                    |                 |
| (Loss)/Profit before income tax                         | (441,706)          | 424,427         |
| <i>Adjustments for</i>                                  |                    |                 |
| Depreciation and amortisation                           | 217,430            | 106,643         |
| Employees' defined benefits liabilities                 | 50,896             | 52,780          |
| Loss on sale of asset                                   | 397                | -               |
| Interest income                                         | -                  | (45,213)        |
|                                                         | (172,983)          | 538,637         |
| <i>Changes in working capital:</i>                      |                    |                 |
| Accounts receivable , prepayments and other receivables | (9,451,506)        | (1,063,125)     |
| Amounts due from related parties                        | 781,180            | 668,253         |
| Accounts payable and accruals                           | 3,276,194          | 847,646         |
| Amounts due to related parties                          | 13,077,294         | 1,505,576       |
| Cash from operations                                    | 7,510,179          | 2,496,987       |
| Income tax paid                                         | (139,018)          | (306,775)       |
| Interest received                                       | -                  | 45,213          |
| Employees' defined benefits paid                        | (7,137)            | (54,606)        |
| <i>Net cash flows from operating activities</i>         | <b>7,364,024</b>   | 2,180,819       |
| <i>Cash flows from investing activities</i>             |                    |                 |
| Purchase of property, plant and equipment               | (261,719)          | (67,289)        |
| Addition to capital work in progress                    | (334,661)          | -               |
| Addition to intangibles                                 | (4,355,947)        | -               |
| <i>Net cash flows used in investing activities</i>      | <b>(4,952,327)</b> | (67,289)        |
| Net increase in bank balances                           | 2,411,697          | 2,113,530       |
| Bank balances at the beginning of the year              | 3,496,069          | 1,382,539       |
| <b>Bank balances at the end of the year</b>             | <b>5,907,767</b>   | 3,496,069       |

The attached notes 1 to 23 form an integral part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

### 1 COMPANY INFORMATION AND ACTIVITIES

HCL Arabia (the "Company") is a limited liability company formed under the Regulations for Companies in the Kingdom of Saudi Arabia under Commercial Registration Number 1010308344 on 4/6/1432H (corresponding to 7 May 2011) and SAGIA License Number 1120311099754-01 valid up to 18/7/1444, corresponding to 9 February 2023. The registered address of the Company is located at AL Olaya Street, Al Aqariya Plaza, Office NO.203, Riyadh-12244, Kingdom of Saudi Arabia ("KSA").

The Company is engaged in business of execution, management and analysis of technological systems and information, computer servicing, execution and procession of software.

The Company's immediate holding company is HCL Bermuda Ltd, a company incorporated in Bermuda, and the ultimate holding company is HCL Technologies Limited, a company incorporated and listed in India.

### 2 BASIS OF PREPARATION

#### 2.1 *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs") issued by the International Accounting Standards Board ("IASB"), that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS for SMEs as endorsed in KSA").

#### 2.2 *Judgements and estimates*

The preparation of financial statements in conformity with the IFRS for SMEs as endorsed in KSA requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Disclosed in Note 4.

#### 2.3 *Basis of measurement*

These financial statements have been prepared under the historical cost convention except for the defined benefit plan which is measured at present value of future obligations using Projected Unit Credit Method. Further, the financial statements are prepared using the accrual basis of accounting and going concern.

#### 2.4 *Presentation and functional currency*

The presentation and functional currency of the Company is Saudi Riyal (SR).

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied in the preparation of these financial statements:

#### *Cash and cash equivalents*

Cash and cash equivalents in the balance sheet comprise of cash in banks which are subject to an insignificant risk of changes in value.

#### *Accounts receivable*

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. For goods sold to a customer on short-term credit, a receivable is initially recognized at the undiscounted amount of cash receivable from that entity, which is normally the invoice price. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed by management to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Unbilled revenue***

Revenue recognized but not billed to customers is classified either as contract assets or unbilled receivable in statement of financial position. Contract assets primarily relate to unbilled amounts on those contracts utilizing the cost to cost method of revenue recognition and right to consideration is not unconditional. Unbilled receivables represent contracts where right to consideration is unconditional (i.e. only the passage of time is required before the payment is due).

***Current versus non-current classification***

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:

- (1) it expects to realize the asset, or intends to sell or consume it, in the entity's normal operating cycle
- (2) it holds the asset primarily for the purpose of trading;
- (3) it expects to realize the asset within twelve months after the reporting date; or
- (4) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

- (1) it expects to settle the liability in the entity's normal operating cycle;
- (2) it holds the liability primarily for the purpose of trading;
- (3) the liability is due to be settled within twelve months after the reporting date; or
- (4) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

The Company classifies all other liabilities as non-current.

The Company classifies all deferred tax assets and liabilities as non-current.

***Financial assets and liabilities***

Financial assets carried in the statement of financial position principally include cash and cash equivalents, account receivable, unbilled revenue, prepayments and other receivables, amounts due from related parties. Financial liabilities include account payables, accruals and amounts due to related parties.

***Impairment and collectability of financial assets***

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the profit or loss in the statement of comprehensive income. Impairment is determined as follows:

- For assets carried at amortised cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the original effective interest rate.
- The impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Company would receive for the asset if it were to be sold at the reporting date.

***Offsetting a financial asset and a financial liability***

A financial asset and liability is offset and the net amount reported in the financial statements, when the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis, or to realise the asset and liability simultaneously.

***Property, plant and equipment***

Property, plant and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

| <u>Category of property and equipment</u> | <u>Years</u> |
|-------------------------------------------|--------------|
| Office Equipment                          | 5 years      |
| Furniture and Fixtures                    | 7 years      |
| Computers and software                    | 3-5 years    |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income in the statement of comprehensive income.

***Capital work in progress***

Property, plant and equipment under construction and cost of assets not ready for use at the year-end are disclosed as capital work in progress.

Capital work in progress is stated at cost until the assets is ready for use. Upon the completion, the cost of such assets includes also the cost directly attributable to the construction, if any are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

***Intangible assets***

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is measured at their fair value at the date of acquisition. Subsequently, following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit and loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is derecognized.

The intangible assets are amortized over the estimated useful life of the assets as mentioned below except certain Licensed IPRs which include the right to modify, enhance or exploit are amortized in proportion to the expected benefits over the useful life which could range up to 10 years:

| <b>Asset description</b> | <b>Asset life (in years)</b> |
|--------------------------|------------------------------|
| Software                 | 3                            |
| Customer relationships   | 1 to 10                      |

Customer related intangibles recognized on acquisition is amortized in the proportion of estimated revenue.

***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is the aggregate of the consideration transferred measured at fair value at the acquisition date. Acquisition related costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Business combinations and goodwill(continued)***

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as financial liability is measured at fair value with changes in fair value recognized in the statement of profit and loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the excess is recognized as capital reserve after reassessing the fair values of the net assets.

***VAT***

The Company is subject to Value Added Tax ('VAT') which is to be filed on a monthly basis. It is paid and settled through submission of monthly returns statements submitted to the General Authority of Zakat and Tax.

***Impairment of non-financial assets***

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or cash generating units to which the asset has been allocated) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in statement of comprehensive income.

The following criteria are also applied in assessing impairment of assets:

***Goodwill***

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

***Intangible assets***

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

***Trade payables, accruals and other payables***

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not.

***Provisions***

Provisions are recognised when the Company has:

- A present legal or constructive obligation as a result of a past event
- It is probable that an outflow of economic resources will be required to settle the obligation in the future, and
- The amount can be reliably estimated.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax and zakat rate reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognised as part of the finance costs in the profit or loss in the statement of comprehensive income.

***Income tax***

Income tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax is recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Deferred tax(continued)***

Deferred tax is provided using the liability method on temporary differences between the tax bases and liabilities and their carrying amounts for the financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary differences, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilised.

The carrying amount of deferred tax assets/liabilities 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/liability to be utilised. Unrecognised deferred tax assets/liabilities are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered and deferred tax liability to be settled.

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

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

***Employees' defined benefits liabilities***

The Company operates a defined benefit scheme for its employees in accordance with labor regulations applicable in the Kingdom of Saudi Arabia. The liabilities are recognised in the statement of financial position at the reporting date. Defined benefits liabilities are the present value of the defined benefits obligations at the reporting date. The cost of providing the benefits under the defined benefits plan is determined using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in the other comprehensive income.

Interest expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administrative expenses' and 'distribution costs' in the statement of comprehensive income (by function).

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service costs and less the fair value of plan assets out of which the obligations are to be settled. However, currently the plan is unfunded and has no assets.

***Statutory reserve***

As required by Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income in each year until it has built up a reserve equal to 30% of the capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

***Leases***

***Company as a lessee***

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense in the statement of profit and loss on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Revenue recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured.

(i) Revenue from services

Revenue from services provided is recognized net of service tax and discount, where applicable, as and when the services are performed.

(ii) Revenue from sale of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and provisions, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated, and there is no continuing measurement involvement with the goods. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on accrual basis.

***Expenses***

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately. General and administrative expenses include expenses not specifically part of the cost of revenue. Allocations between general and administration expenses and cost of revenues, when required, are made on a consistent basis.

***Foreign currency transactions***

Transactions in foreign currencies are recorded in Saudi Riyals at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income.

***New standards and amendments to the existing standards***

The IFRS for SME as endorsed by SOCPA in the Kingdom of Saudi Arabia do not have new standards which are not yet effective or forthcoming requirements.

**4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Company used these assumptions and estimates on the basis available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

**4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)**

***Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing off the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount is sensitive to the discount rate used for the Discounted Cash Flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The carrying amount of the non-financial assets at the reporting date are given below:

| <b>Non-financial asset</b>     | <b>Carrying amounts (in SR)</b> |
|--------------------------------|---------------------------------|
| Property, plant, and equipment | 337,257                         |
| Goodwill                       | 2,563,444                       |
| Other intangible assets        | 2,143,632                       |
| Capital work in progress       | 334,661                         |

***Provisions***

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for severance payments and site closures or other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

***Long-term assumptions for employees' benefits***

End-of-service benefits represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets, if any. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase and return on assets, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

***Use of estimates***

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and other comprehensive income (OCI) that are reported and disclosed in the financial statements and accompanying notes. These estimates are based on the management's best knowledge of current events, historical experience, actions that company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates and assumptions are used for, but not limited to, accounting for costs expected to be incurred to complete performance under fixed price projects, allowance for uncollectible accounts receivables, income taxes, future obligations under employee benefit plans, the useful lives of property, plant and equipment, intangible assets, impairment of goodwill and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the year in which the changes are made. Actual results could differ from those estimates.

***Impairment of trade receivables***

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of the past due.

***Fair value measurement of financial instruments***

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the Discounted Cash Flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

HCL Arabia Limited

(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**5 CASH AND CASH EQUIVALENTS**

|              | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|--------------|------------------|------------------|
|              | <b>SR</b>        | <b>SR</b>        |
| Cash at bank | <b>5,907,767</b> | 3,496,069        |
|              | <b>5,907,767</b> | 3,496,069        |

**6 ACCOUNTS RECEIVABLE AND UNBILLED REVENUE**

|                                 | <b>31 Dec'19</b>   | <b>31 Dec'18</b> |
|---------------------------------|--------------------|------------------|
|                                 | <b>SR</b>          | <b>SR</b>        |
| Trade receivables (Note 21)     | <b>13,527,508</b>  | 6,103,595        |
| Unbilled revenue                | <b>4,506,052</b>   | 303,165          |
| Allowance for doubtful accounts | <b>(2,999,357)</b> | (504,770)        |
|                                 | <b>15,034,203</b>  | 5,901,990        |

The company has restated SR 2,356,423 from Prepaid taxes to Trade receivables as at 1 Jan'18 and SR 2,656,258 as at 31 Dec'18. Refer Note 21 for further details.

Movement of Accounts Receivable and Unbilled Revenue is as follows:

|                                                  |                   |
|--------------------------------------------------|-------------------|
| As at 1 Jan' 18 before restatement               | 2,028,770         |
| Restatement (Note 21)                            | 2,356,423         |
| <b>Amount as at 1 Jan '18 after restatement</b>  | <b>4,385,193</b>  |
| Movement during the year                         | 1,216,962         |
| <b>Amount as at 31 Dec'18 before restatement</b> | <b>3,245,732</b>  |
| Restatement (Note 21)                            | 2,656,258         |
| <b>Amount as at 31 Dec'18 after restatement</b>  | <b>5,901,990</b>  |
| Movement during the year                         | 9,132,213         |
| <b>As at 31 Dec '19</b>                          | <b>15,034,203</b> |

In 2019, the management assesses the recoverability of the amount restated in the previous years and, prudentially, recognized a bad debt provision for an amount of SR 1,328,129.

Movements in the allowance for doubtful accounts were as follows:

|                                             | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|---------------------------------------------|------------------|------------------|
|                                             | <b>SR</b>        | <b>SR</b>        |
| At the beginning of the year                | <b>504,770</b>   | 7,977            |
| Provision for the year                      | <b>2,494,587</b> | 496,793          |
| Written-off during the year                 | -                | -                |
| Recovery of allowance for doubtful accounts | -                | -                |
| At the end of the year                      | <b>2,999,357</b> | 504,770          |



## 6 ACCOUNTS RECEIVABLE AND UNBILLED REVENUE (continued)

The ageing of unimpaired trade receivables is as follows:

|                  | <i>Neither past<br/>due nor<br/>impaired</i> | <i>Past due but not impaired</i> |                     |                    | <i>Total</i>      |
|------------------|----------------------------------------------|----------------------------------|---------------------|--------------------|-------------------|
|                  |                                              | <i>30 – 60 days</i>              | <i>61 – 90 days</i> | <i>&gt;90 days</i> |                   |
|                  | <i>SR</i>                                    | <i>SR</i>                        | <i>SR</i>           | <i>SR</i>          | <i>SR</i>         |
| <b>31 Dec'19</b> | <b>5,185,000</b>                             | <b>1,167,604</b>                 | <b>660,004</b>      | <b>3,515,543</b>   | <b>10,528,151</b> |
| 31 Dec'18        | 1,138,111                                    | 581,276                          | 161,573             | 3,717,865          | 5,598,825         |

## 7 PREPAYMENTS AND OTHER RECEIVABLES

|                 | <i>31 Dec'19</i> | <i>31 Dec'18</i><br><i>(As restated Note21)</i> |
|-----------------|------------------|-------------------------------------------------|
|                 | <i>SR</i>        | <i>SR</i>                                       |
| Prepaid expense | <b>240,471</b>   | 1,354                                           |
| Others          | <b>169,567</b>   | 89,391                                          |
|                 | <b>410,038</b>   | <b>90,745</b>                                   |

The company has restated SR 2,356,423 from Prepaid taxes to Trade receivables as at 1 Jan'18 and SR 2,656,258 as at 31 Dec'18. Refer Note 21 for further details.

Movement of Prepaid Taxes and TDS Receivable is as follows:

|                                                  |                  |
|--------------------------------------------------|------------------|
| As at 1 Jan' 18 before restatement               | 2,900,840        |
| Restatement (Note 21)                            | (2,356,423)      |
| <b>Amount as at 1 Jan '18 after restatement</b>  | <b>544,417</b>   |
| Movement during the year                         | (153,837)        |
| <b>Amount as at 31 Dec'18 before restatement</b> | <b>2,747,003</b> |
| Restatement (Note 21)                            | (2,656,258)      |
| <b>Amount as at 31 Dec'18 after restatement</b>  | <b>90,745</b>    |
| Movement during the year                         | 319,293          |
| <b>As at 31 Dec '19</b>                          | <b>410,038</b>   |

## 8 RELATED PARTY TRANSACTIONS AND BALANCES

The breakdown of amounts transacted with related parties during the year in ordinary course of business are as follows:

|                                                             | <i>31 Dec'19</i> | <i>31 Dec'18</i> |
|-------------------------------------------------------------|------------------|------------------|
|                                                             | <i>SR</i>        | <i>SR</i>        |
| <b>ULTIMATE HOLDING COMPANY:</b> HCL Technologies Limited   |                  |                  |
| a) Consulting charges accrued to ultimate holding company   | <b>7,522,015</b> | 2,625,865        |
| b) Sales made/Services rendered to ultimate holding company | <b>334,209</b>   | -                |
| c) Payments made on behalf of the Company                   | -                | 2,314,108        |
| <b>KEY MANAGERIAL PERSON:</b>                               |                  |                  |
| a) Salary Payments made during the year                     | <b>138,029</b>   | 120,466          |

## 8 RELATED PARTY TRANSACTIONS AND BALANCES(continued)

### OTHER RELATED PARTIES:

#### a) Consultation services rendered by related parties

|                                                                | 31 Dec'19        | 31 Dec'18        |
|----------------------------------------------------------------|------------------|------------------|
|                                                                | SR               | SR               |
| HCL Singapore Pte. Limited                                     | 559,314          | 730,897          |
| HCL Technologies (Shanghai) Limited                            | 474,464          | -                |
| HCL Technologies Greece Single Member P.C.                     | 296,639          | -                |
| HCL Canada Inc.                                                | 290,289          | -                |
| HCL Great Britain Limited                                      | 279,907          | -                |
| HCL Technologies Middle East FZ- LLC - Mainland Dubai Branch   | 274,173          | -                |
| HCL Technologies Norway AS                                     | 255,880          | -                |
| HCL Technologies UK Limited                                    | 243,995          | -                |
| Geometric China Inc.                                           | 187,697          | -                |
| HCL Technologies Limited- UAE Branch                           | 169,965          | 30,273           |
| HCL Technologies Middle East FZ-LLC                            | 129,695          | -                |
| HCL Latin America Holding, LLC, Costa Rica Branch              | 114,541          | -                |
| HCL America Inc.                                               | 112,528          | -                |
| HCL Technologies Belgium BVBA                                  | 46,513           | -                |
| HCL Technologies Lithuania UAB                                 | 17,047           | -                |
| HCL Technologies Limited Abu Dhabi Branch                      | 12,696           | 129,245          |
| HCL Canada Inc. (Formally known as HCL Axon Technologies Inc.) | 10,946           | -                |
| HCL Technologies Denmark Aps                                   | 8,069            | -                |
| HCL Technologies Germany GmbH                                  | 7,320            | -                |
| HCL Technologies Limited- Ireland Branch                       | 5,791            | 3,698            |
| HCL Axon Solutions (Shanghai) Co., Ltd                         | 2,985            | -                |
| HCL Technologies Finland Oy                                    | -                | 6,414            |
| HCL Technologies Limited - Russia Branch                       | -                | 12,030           |
| HCL Technologies Philippines, Inc                              | -                | 14,922           |
| HCL Mexico S. de R.L.                                          | -                | 7,469            |
| HCL Technologies Corporate Services Limited                    | -                | 336,265          |
|                                                                | <b>3,500,455</b> | <b>1,271,213</b> |

#### b) Marketing Services rendered by related parties

|                                      | 31 Dec'19      | 31 Dec'18 |
|--------------------------------------|----------------|-----------|
|                                      | SR             | SR        |
| HCL Technologies Limited- UAE Branch | 875,250        | -         |
|                                      | <b>875,250</b> | <b>-</b>  |

## 8 RELATED PARTY TRANSACTIONS AND BALANCES(continued)

### OTHER RELATED PARTIES(continued):

#### c) Sales made/Services rendered by the Company

|                                                                | 31 Dec'19        | 31 Dec'18        |
|----------------------------------------------------------------|------------------|------------------|
|                                                                | SR               | SR               |
| HCL America Inc.                                               | 492,279          | 694,021          |
| HCL Technologies France SAS                                    | 410,204          | -                |
| HCL Technologies UK Limited                                    | 325,189          | 45,258           |
| HCL Canada Inc. (Formally known as HCL Axon Technologies Inc.) | 257,900          | -                |
| HCL Technologies Philippines, Inc                              | 167,423          | -                |
| HCL Technologies Limited- Swiss Branch                         | 89,328           | 64,106           |
| HCL Japan Limited                                              | 62,874           | -                |
| HCL Technologies South Africa (Proprietary) Limited            | 60,671           | 171,092          |
| HCL Brazil Tecnologia da Informação EIRELI                     | 57,640           | -                |
| HCL Technologies Finland Oy                                    | 29,058           | -                |
| HCL Argentina s.a.                                             | 27,688           | -                |
| HCL Axon Solutions (Shanghai) Co. Ltd.                         | 26,390           | -                |
| HCL Technologies Chile Spa                                     | 19,314           | -                |
| HCL Belgium NV                                                 | 15,928           | -                |
| HCL Canada Inc.                                                | 14,700           | 70,629           |
| HCL Technologies Limited - Russia Branch                       | 12,903           | 45,010           |
| HCL Technologies Limited- UAE Branch                           | 10,315           | 824,340          |
| HCL Technologies Sweden AB                                     | 7,219            | -                |
| HCL Technologies Austria GmbH                                  | 6,558            | -                |
| HCL (Netherlands) BV                                           | 5,203            | -                |
| HCL Mexico S. de R.L.                                          | 4,947            | -                |
| HCL Great Britain Limited                                      | -                | 11,631           |
| HCL Hungary Kft                                                | -                | 24,806           |
| HCL (New Zealand) Limited                                      | -                | 44,102           |
| HCL Technologies Limited - Portugal Branch                     | -                | 10,748           |
|                                                                | <b>2,103,732</b> | <b>2,005,744</b> |

#### d) Payments made on behalf of the Company

|                                                              | 31 Dec'19 | 31 Dec'18      |
|--------------------------------------------------------------|-----------|----------------|
|                                                              | SR        | SR             |
| HCL Technologies B.V.                                        | -         | 10,449         |
| HCL Technologies Limited- UAE Branch                         | -         | 151,982        |
| HCL Technologies Middle East FZ-LLC                          | -         | 4,916          |
| HCL Technologies UK Limited                                  | -         | 322,189        |
| HCL Technologies Middle East FZ- LLC - Mainland Dubai Branch | -         | 43,945         |
| HCL Technologies Limited Abu Dhabi Branch                    | -         | 77,347         |
|                                                              | <b>-</b>  | <b>610,827</b> |

## 8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from and to related parties is as follows:

### a) Amounts due from related parties

|                                                     | 31 Dec'19      | 31 Dec'18        |
|-----------------------------------------------------|----------------|------------------|
|                                                     | SR             | SR               |
| HCL Technologies Limited                            | 352,501        | 368,292          |
| HCL America, Inc.                                   | 118,625        | 659,553          |
| HCL Brazil Tecnologia da Informação EIRELI          | 63,400         | 5,761            |
| HCL Japan Limited                                   | 62,874         | -                |
| HCL Technologies South Africa (Proprietary) Limited | 60,671         | 64,535           |
| HCL Technologies Limited - Russia Branch            | 57,928         | 45,010           |
| HCL Argentina S.A.                                  | 27,687         | -                |
| HCL Axon Solutions (Shanghai) Co. Limited           | 26,390         | -                |
| HCL Technologies Chile SPA                          | 19,315         | -                |
| HCL Technologies Limited - UAE Branch               | 10,315         | 226,710          |
| HCL Canada Inc.                                     | 8,652          | -                |
| HCL (Netherlands) B.V.                              | 5,203          | -                |
| HCL Technologies Finland Oy                         | 2,009          | -                |
| HCL Hungary Kft                                     | -              | 24,806           |
| HCL Technologies Limited- Swiss Branch              | -              | 64,106           |
| HCL Axon Technologies Inc.                          | -              | 70,629           |
| HCL (New Zealand) Limited                           | -              | 44,102           |
| HCL Technologies Limited - Portugal Branch          | -              | 10,748           |
| HCL Technologies Middle East FZ- LLC                | -              | 867              |
| HCL Great Britain Limited                           | -              | 11,631           |
|                                                     | <b>815,570</b> | <b>1,596,750</b> |

### b) Amounts due to related parties

|                                                           | 31 Dec'19 | 31 Dec'18 |
|-----------------------------------------------------------|-----------|-----------|
|                                                           | SR        | SR        |
| HCL Technologies Limited                                  | 8,829,960 | 1,657,944 |
| HCL America Inc.                                          | 1,646,141 | -         |
| HCL Technologies Limited UAE Branch                       | 1,390,117 | 319,565   |
| HCL Singapore Pte. Limited                                | 1,289,064 | 717,870   |
| HCL Technologies (Shanghai) Limited                       | 467,397   | -         |
| HCL Technologies Corporate Services Limited               | 336,265   | 336,265   |
| HCL Technologies Greece Single Member                     | 296,390   | -         |
| HCL Great Britain Limited                                 | 294,865   | -         |
| HCL Canada Inc.                                           | 290,629   | -         |
| HCL Technologies Middle East FZ LLC Mainland Dubai Branch | 276,080   | 1,868     |
| HCL Technologies Norway AS                                | 260,279   | -         |
| HCL Technologies UK Limited                               | 245,553   | 50,343    |
| Geometric China, Inc.                                     | 185,198   | -         |

## 8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### b) Amounts due to related parties (continued)

|                                                   | 31 Dec'19         | 31 Dec'18        |
|---------------------------------------------------|-------------------|------------------|
|                                                   | SR                | SR               |
| HCL Technologies Limited Abu Dhabi Branch         | 141,951           | 129,268          |
| HCL Technologies Middle East FZ LLC               | 128,832           | -                |
| HCL Latin America Holding, LLC, Costa Rica Branch | 114,537           | -                |
| HCL Technologies Belgium BVBA                     | 46,402            | -                |
| HCL Technologies Limited - Russia Branch          | 22,529            | 19,905           |
| HCL Technologies Lithuania UAB                    | 17,032            | -                |
| HCL Technologies Philippines Inc.                 | 15,427            | 14,883           |
| HCL Axon Technologies Inc.                        | 11,131            | -                |
| HCL Technologies Limited Ireland Branch           | 9,579             | 3,698            |
| HCL Technologies Denmark ApS                      | 8,290             | -                |
| HCL Technologies Germany GmbH                     | 7,219             | -                |
| HCL Technologies Finland Oy                       | 6,214             | 6,345            |
| HCL Axon Solutions (Shanghai) Co., Limited        | 3,061             | -                |
| HCL Technologies Mexico, S. DE R.L. DE C          | 2,574             | -                |
| HCL Mexico                                        | -                 | 7,469            |
|                                                   | <b>16,342,716</b> | <b>3,265,422</b> |

## 9 Goodwill

|                                             | 31 Dec'19        | 31 Dec'18 |
|---------------------------------------------|------------------|-----------|
|                                             | SR               | SR        |
| Goodwill arising from business combinations | 2,563,444        | -         |
|                                             | <b>2,563,444</b> | <b>-</b>  |

On 7 Dec'18, HCL Group had signed a definitive agreement to acquire business relating to select IBM software products, the acquisition though has been consummated effective 30 Jun '19.

The HCL Group has acquired these products for security, marketing, commerce, and digital solutions along with certain assumed liabilities and in scope employees. With this HCL Group gets 100% control on the assets being acquired and has also taken full ownership of the research and development, sales, marketing, delivery and support for these products. Through this acquisition, the HCL Group intends to enhance its products and platforms offering to customers across a wide range of industries and markets. IBM will pay the Company for the assumed liabilities as related services are rendered, based on an agreed basis.

The Company recorded a total liability of SR 3,669,342 net of withholding taxes amounting to SR 6,57,087. SR 1,533,170 has been paid by HCL America Inc. on behalf of the Company which is now payable by the Company to HCL America Inc.

Rest remains a liability of SR 2,136,172 is payable after one-year end as per the agreement. These payables have been fair valued at initial recognition. At the year end the amount is again fair valued at SR 2,163,232 and the difference of SR 27,060 is booked as interest expense.

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**10 PROPERTY, PLANT AND EQUIPMENT**

|                                                 | <i>Office<br/>equipment</i> | <i>Furniture and<br/>fixtures</i> | <i>Computers and<br/>software</i> | <b><i>Total</i></b> |
|-------------------------------------------------|-----------------------------|-----------------------------------|-----------------------------------|---------------------|
|                                                 | <i>SR</i>                   | <i>SR</i>                         | <i>SR</i>                         | <b><i>SR</i></b>    |
| <b>Cost :</b>                                   |                             |                                   |                                   |                     |
| At 1 Jan'19                                     | 11,965                      | 470,900                           | 344,720                           | 827,585             |
| Additions                                       | -                           | -                                 | 261,719                           | 261,719             |
| Disposals                                       | -                           | -                                 | 9,695                             | 9,695               |
| <b>At 31 Dec'19</b>                             | <b>11,965</b>               | <b>470,900</b>                    | <b>596,744</b>                    | <b>1,079,609</b>    |
| <b>Accumulated depreciation and impairment:</b> |                             |                                   |                                   |                     |
| At 1 Jan'19                                     | 11,965                      | 459,022                           | 152,859                           | 623,846             |
| Charge for the year                             | -                           | 11878                             | 115,926                           | 127,804             |
| Retirement                                      | -                           | -                                 | (9,298)                           | (9,298)             |
| <b>At 31 Dec'19</b>                             | <b>11,965</b>               | <b>470,900</b>                    | <b>259,487</b>                    | <b>742,352</b>      |
| <b>Net Book Value:</b>                          |                             |                                   |                                   |                     |
| <b>At 31 Dec'19</b>                             | <b>-</b>                    | <b>-</b>                          | <b>337,257</b>                    | <b>337,257</b>      |

|                                                 | <i>Office<br/>equipment</i> | <i>Furniture and<br/>fixtures</i> | <i>Computers and<br/>software</i> | <b><i>Total</i></b> |
|-------------------------------------------------|-----------------------------|-----------------------------------|-----------------------------------|---------------------|
|                                                 | <i>SR</i>                   | <i>SR</i>                         | <i>SR</i>                         | <b><i>SR</i></b>    |
| <b>Cost:</b>                                    |                             |                                   |                                   |                     |
| At 1 Jan'18                                     | 11,965                      | 470,900                           | 277,431                           | 760,296             |
| Additions                                       | -                           | -                                 | 67,289                            | 67,289              |
| <b>At 31 Dec'18</b>                             | <b>11,965</b>               | <b>470,900</b>                    | <b>344,720</b>                    | <b>827,585</b>      |
| <b>Accumulated depreciation and impairment:</b> |                             |                                   |                                   |                     |
| At 1 Jan'18                                     | 11,965                      | 415,209                           | 90,029                            | 517,203             |
| Charge for the year                             | -                           | 43,813                            | 62,830                            | 106,643             |
| <b>At 31 Dec'18</b>                             | <b>11,965</b>               | <b>459,022</b>                    | <b>152,859</b>                    | <b>623,846</b>      |
| <b>Net Book Value:</b>                          |                             |                                   |                                   |                     |
| <b>At 31 Dec'18</b>                             | <b>-</b>                    | <b>11,878</b>                     | <b>191,861</b>                    | <b>203,739</b>      |

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**11 INTANGIBLE ASSETS**

|                                                 | <i>Customer<br/>Relationship</i> | <i>Software Application</i> | <i>Total</i>     |
|-------------------------------------------------|----------------------------------|-----------------------------|------------------|
|                                                 | <i>SR</i>                        | <i>SR</i>                   | <i>SR</i>        |
| <b>Cost :</b>                                   |                                  |                             |                  |
| At 1 Jan'19                                     | -                                | -                           | -                |
| Additions                                       | 2,203,778                        | 29,481                      | 2,233,259        |
| <b>At 31 Dec'19</b>                             | <b>2,203,778</b>                 | <b>29,481</b>               | <b>2,233,259</b> |
| <b>Accumulated depreciation and impairment:</b> |                                  |                             |                  |
| At 1 Jan'19                                     | -                                | -                           | -                |
| Charge for the year                             | 85,921                           | 3,706                       | 89,627           |
| <b>At 31 Dec'19</b>                             | <b>85,921</b>                    | <b>3,706</b>                | <b>89,627</b>    |
| <b>Net Book Value:</b>                          |                                  |                             |                  |
| <b>At 31 Dec'19</b>                             | <b>2,117,857</b>                 | <b>25,775</b>               | <b>2,143,632</b> |

**12 ACCOUNTS PAYABLE AND ACCRUALS**

|                        | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|------------------------|------------------|------------------|
|                        | <b>SR</b>        | <b>SR</b>        |
| Deferred consideration | <b>2,163,233</b> | -                |
| Other payables         | <b>1,519,138</b> | 509,456          |
| Accrued expenses       | <b>712,459</b>   | 577,697          |
| Trade accounts payable | <b>21,203</b>    | 52,686           |
|                        | <b>4,416,033</b> | <b>1,139,839</b> |

**13 INCOME TAX**

**a) Income tax**

**Charge for the year**

The income tax charge consists of:

|                                                                     | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|---------------------------------------------------------------------|------------------|------------------|
|                                                                     | <b>SR</b>        | <b>SR</b>        |
| <u>Current tax*</u>                                                 |                  |                  |
| Current income tax                                                  | <b>351,605</b>   | 146,482          |
| <u>Deferred tax</u>                                                 |                  |                  |
| Relating to origination and reversal of temporary differences**     | <b>(414,723)</b> | (55,300)         |
| <b>Income tax reported in the statement of comprehensive income</b> | <b>(63,118)</b>  | <b>91,182</b>    |

\* Current income tax has been provided for based on the estimated taxable profit at 20% (2018: 20%).

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**13 INCOME TAX (continued)**

\*\* Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Major components of deferred tax liability and asset at the year-end were:

|                                                       | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|-------------------------------------------------------|------------------|------------------|
|                                                       | <b>SR</b>        | <b>SR</b>        |
| <u>Deferred tax assets</u>                            |                  |                  |
| Provision for doubtful debt                           | <b>599,871</b>   | 100,954          |
| Accumulated losses                                    | <b>152,330</b>   | 269,532          |
| Differences in depreciation                           | <b>50,907</b>    | 46,263           |
| Provision for employees' defined benefits liabilities | <b>35,838</b>    | 10,183           |
| Unrealised forex                                      | <b>2,426</b>     | -                |
| Total deferred tax assets                             | <b>841,372</b>   | 426,932          |
| <u>Deferred tax liability</u>                         |                  |                  |
| Intangibles on Acquisition                            | <b>423,571</b>   | -                |
| <b>Net Deferred tax assets</b>                        | <b>417,801</b>   | 426,932          |

**b) Movement in zakat and income tax provision:**

|                                       | <b>31 Dec'19</b>  |                         |
|---------------------------------------|-------------------|-------------------------|
|                                       | <b>Income tax</b> | <b>Net deferred tax</b> |
|                                       | <b>SR</b>         | <b>SR</b>               |
| At the beginning of the year          | <b>138,984</b>    | <b>426,932</b>          |
| Provided and expensed during the year | <b>351,605</b>    | <b>414,723</b>          |
| DTL created against OCI               | -                 | <b>16,902</b>           |
| DTL created against Goodwill          | -                 | <b>(440,756)</b>        |
| Payment during the year               | <b>(139,018)</b>  | -                       |
| <b>At the end of the year</b>         | <b>351,571</b>    | <b>417,801</b>          |

**c) Status of assessments**

The Company has submitted income tax declarations for all years upto 31 Dec'18 to the General Authority of Zakat and Tax (the "GAZT"). However, no assessments have been raised by GAZT yet.

**14 EMPLOYEES' DEFINED BENEFITS LIABILITIES**

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 Dec'19 and 31 Dec'18 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:



NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**14 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)**

|                                                                 | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|-----------------------------------------------------------------|------------------|------------------|
|                                                                 | <b>SR</b>        | <b>SR</b>        |
| <b>Present value of employees' defined benefits liabilities</b> |                  |                  |
| Current Liabilities                                             | <b>81</b>        | -                |
| Non current Liabilities                                         | <b>179,098</b>   | 50,909           |
|                                                                 | <b>179,179</b>   | 50,909           |

Amount recognised in the statement of comprehensive income in respect of post employment benefits are as follows:

|                             |               |        |
|-----------------------------|---------------|--------|
| Current service costs       | <b>48,601</b> | 52,780 |
| Interest costs on liability | <b>2,295</b>  | -      |
|                             | <b>50,896</b> | 52,780 |

Movement in the net liability recognised in the statement of financial position are as follows:

|                                                                       |                |          |
|-----------------------------------------------------------------------|----------------|----------|
| Employees' defined benefits liabilities at the beginning of the year  | <b>50,909</b>  | 52,735   |
| Current service costs                                                 | <b>48,601</b>  | 52,780   |
| Interest costs on liability                                           | <b>2,295</b>   | -        |
| End of service benefits paid                                          | <b>(7,137)</b> | (54,606) |
| Actuarial loss                                                        | <b>84,511</b>  | -        |
| <b>Employees' defined benefits liabilities at the end of the year</b> | <b>179,179</b> | 50,909   |

The significant assumptions used in determining employees' defined benefits liability are shown below:

|                              | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|------------------------------|------------------|------------------|
| Discount rate                | <b>2.69%</b>     | 4.06%            |
| Future salary increment rate | <b>2.00%</b>     | 2.00%            |
| Retirement age               | <b>60</b>        | 60               |

**Sensitivity Analysis:**

End of service benefit is a lump sum plan and the cost of providing these benefits is typically less sensitive to small changes in demographic assumptions. The key actuarial assumptions to which the benefit obligation results are particularly sensitive to are discount rate and future salary escalation rate. The following table summarizes the change in defined benefit obligation and impact in percentage terms compared with the reported defined benefit obligation at the end of the reporting period arising on account of an increase or decrease in the reported assumption by 50 basis points.

HCL Arabia Limited  
(A Limited Liability Company)

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**14 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)**

|                                                  | Year ended Dec'19 |                        |
|--------------------------------------------------|-------------------|------------------------|
|                                                  | Discount Rate     | Salary Escalation Rate |
| Defined benefit obligation on increase in 50 bps | 159,152           | 201,502                |
| Impact of increase in 50 bps on DBO              | -10.93%           | 12.46%                 |
| Defined benefit obligation on decrease in 50 bps | 201,458           | 159,377                |
| Impact of decrease in 50 bps on DBO              | 12.43%            | -11.05%                |

These sensitivities have been calculated to show the movement in defined benefit obligation in isolation and assuming there are no other changes in market conditions at the accounting date. There have been no changes from the previous periods in the methods and assumptions used in preparing the sensitivity analysis.

**15 CAPITAL**

The Company's capital consists of 12,200 shares (2018: 12,200 shares) of SR 500 each. The Company is owned 90% by HCL Bermuda Limited, and 10% by HCL Latin America Holding LLC.

|                                      | 31 Dec'19 | 31 Dec'18 |
|--------------------------------------|-----------|-----------|
|                                      | SR        | SR        |
| Authorized                           |           |           |
| 12,200 equity shares of SAR 500 each | 6,100,000 | 6,100,000 |

**Terms/ rights attached to equity shares**

The Company has only one class of shares referred to as equity shares having a par value of SAR 500/-. Each holder of equity shares is entitled to one vote per share.

**Reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period:**

|                                    | 31 Dec'19 | 31 Dec'18 |
|------------------------------------|-----------|-----------|
| Number of shares at the beginning  | 12,200    | 12,200    |
| Add: Shares issued during the year | -         | -         |
| Number of shares at the end        | 12,200    | 12,200    |

**16 REVENUE**

|                                  | 31 Dec'19  | 31 Dec'18 |
|----------------------------------|------------|-----------|
|                                  | SR         | SR        |
| Application and support services | 19,030,415 | 8,107,938 |
| Product Revenue                  | 44,318     | -         |
|                                  | 19,074,733 | 8,107,938 |

**17 COST OF SALES**

|                           | 31 Dec'19  | 31 Dec'18 |
|---------------------------|------------|-----------|
|                           | SR         | SR        |
| Consulting charges-Group  | 11,017,523 | 3,897,078 |
| Employee Benefit expenses | 1,886,658  | 1,281,490 |
| Outsourced Services       | 1,168,532  | 407,230   |
| Software License          | 411,377    | -         |
| Others                    | 230,153    | -         |
|                           | 14,714,243 | 5,585,798 |

NOTES TO THE FINANCIAL STATEMENTS(continued)  
AT 31 DECEMBER 2019  
(All amounts in Saudi Riyals unless otherwise stated)

**18 SELLING AND DISTRIBUTION EXPENSES**

|                                                       | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|-------------------------------------------------------|------------------|------------------|
|                                                       | <b>SR</b>        | <b>SR</b>        |
| Provision of allowance for doubtful accounts (Note 6) | <b>2,494,587</b> | 496,793          |
| Marketing expenses                                    | <b>875,250</b>   | 289,160          |
| Outsourcing costs                                     | <b>106,521</b>   | 125,970          |
| Travel                                                | <b>174,171</b>   | 29,600           |
| Others                                                | <b>7,977</b>     | -                |
|                                                       | <b>3,658,506</b> | <b>941,523</b>   |

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

|                                            | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|--------------------------------------------|------------------|------------------|
|                                            | <b>SR</b>        | <b>SR</b>        |
| Professional fees                          | <b>571,458</b>   | 569,996          |
| Depreciation and amortisation(Note 9 & 10) | <b>217,430</b>   | 106,643          |
| Rent                                       | <b>121,332</b>   | 192,756          |
| Establishment and maintenance costs        | <b>120,991</b>   | 89,786           |
| Audit fees                                 | <b>15,000</b>    | 130,000          |
|                                            | <b>1,046,211</b> | <b>1,089,181</b> |

**20 OTHER INCOME (EXPENSES)**

|                                                   | <b>31 Dec'19</b> | <b>31 Dec'18</b> |
|---------------------------------------------------|------------------|------------------|
|                                                   | <b>SR</b>        | <b>SR</b>        |
| Interest income on loans given to related parties | -                | 45,213           |
| Foreign exchange loss                             | <b>(37,651)</b>  | (87,171)         |
| Miscellaneous Expense                             | <b>(397)</b>     | -                |
| Miscellaneous Income                              | <b>4,078</b>     | -                |
|                                                   | <b>(33,970)</b>  | <b>(41,958)</b>  |

**21 PRIOR YEAR ERROR**

There were certain erroneous deductions made by one of the customer on account of Withholding Tax (WHT) in the previous year's ended 31 December 2018 and based on WHT certificates issued by the customer, it was assessed by Management to be recoverable from the General Authority of Zakat and Tax (the "GAZT"). Based on the further analysis in the current financial year, the Company concluded that the receivables were erroneously recognized against GAZT and should have been shown as receivable from the customer.

As the misstatement is material to the Company, the above error has been corrected by restating each of the effected financial statement line items for the prior years as follows:

NOTES TO THE FINANCIAL STATEMENTS(continued)

AT 31 DECEMBER 2019

(All amounts in Saudi Riyals unless otherwise stated)

**21 PRIOR YEAR ERROR (continued)**

**Statement of Financial Position:**

**As at 31 Dec'18**

|                                          | <b>As previously reported</b> | <b>Adjustment</b> | <b>Restated Balance</b> |
|------------------------------------------|-------------------------------|-------------------|-------------------------|
| Prepayments and Other Receivables        | 2,747,003                     | (2,656,258)       | 90,745                  |
| Accounts Receivable and Unbilled Revenue | 3,245,732                     | 2,656,258         | 5,901,990               |

**As at 1 Jan'18**

|                                          | <b>As previously reported</b> | <b>Adjustment</b> | <b>Restated Balance</b> |
|------------------------------------------|-------------------------------|-------------------|-------------------------|
| Prepayments and Other Receivables        | 2,900,840                     | (2,356,423)       | 544,417                 |
| Accounts Receivable and Unbilled Revenue | 2,028,770                     | 2,356,423         | 4,385,193               |

**Impact on Statement of comprehensive income and cash flows:**

There is no impact on the Company's statement of comprehensive income and on total operating, investing or financing cash flows of the Company for the year ended 31 Dec'18.

**22 EVENTS AFTER THE REPORTING PERIOD**

Other than the matter mentioned below, there have been no significant subsequent events since the year ended 31 Dec'19 that would have material impact on the statement of financial position of the Company as shown in these financial statements.

The recent outbreak of COVID19 (Coronavirus) continues to impact the global economy and markets. At this time, the impact of the outbreak on our business has been limited as delivery of our services is uninterrupted, and we have currently not witnessed significant changes in demand, whereas our service delivery is intact and our liquidity remains healthy. However, going forward the COVID19 outbreak may negatively impact amongst others our, workforce, operations, and market demand and liquidity. We will take all necessary actions to keep our operations running and, most importantly, protect our employees, suppliers, customers and all other stakeholders.

Based on our current knowledge and available information, we do not expect COVID19 to have an impact on our ability to continue as a going concern in the future.

**23 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements of the Company for the year ended 31 Dec'19 were authorised for issuance by the Board of Directors/Shareholders on 12th Muharram, 1442h (corresponding to 31 August 2020).