

STATE STREET HCL SERVICES (PHILIPPINES), INC.

FINANCIAL STATEMENTS
March 31, 2020
(With Comparative Figures for 2019)

With Independent Auditors' Report



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REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
State Street HCL Services (Philippines), Inc.
Science Hub Tower 3
Campus Avenue corner Milano St.
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Taguig City, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of State Street HCL Services (Philippines), Inc. (the "Company"), which comprise the statement of financial position as at March 31, 2020, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, including 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 March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs) under the liquidation basis of accounting.

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter

Close of the Company's Business Operations

We draw attention to Note 1 to the financial statements, which indicates that on August 10, 2018, the Board of Directors approved the resolution to close the business operations effective December 31, 2018 due to the expiration of the Master Service Agreement (MSA) with State Street Bank and Trust Company, an entity under common control, and HCL Investments (UK) Limited. The MSA appointed the Company to perform business process services to State Street and its affiliates and this is the only business activity of the Company. As a result, the Company has determined that the going concern basis of preparation is no longer appropriate. Hence, the Company changed its basis of accounting for periods subsequent to August 10, 2018 from the going concern basis to liquidation basis. Our opinion is not modified in respect of this matter.

Comparative Information

We draw attention to Note 17 to the financial statements which indicates that the comparative information presented as at and for the year ended March 31, 2019 has been restated. Our opinion is not modified in respect of this matter

Other Matters relating to comparative information

The financial statements of the Company as at and for the year ended March 31, 2019, excluding the adjustments described in Note 17 to the financial statements, were audited by another auditor who expressed an unqualified opinion on those financial statements on July 10, 2019.

As part of our audit of the financial statements as at and for the year ended March 31, 2020, we audited the adjustments described in Note 17 that were applied to restate the comparative information presented as at and for the year ended March 31, 2019. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended March 31, 2019 other than with respect to the adjustments described in Note 17 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 17 are appropriate and have been properly applied.

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

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

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

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



Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Report on the Supplementary Information Required Under Revenue Regulations
No. 15-2010 of the Bureau of Internal Revenue**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

A handwritten signature in black ink, appearing to read 'A. Columbres', written over the printed name.

ALICIA S. COLUMBRES

Partner

CPA License No. 069679

SEC Accreditation No. 1590-AR-1, Group A, valid until August 7, 2022

Tax Identification No. 120-964-156

BIR Accreditation No. 08-001987-27-2020

Issued July 20, 2020; valid until July 19, 2023

PTR No. MKT 8116760

Issued January 2, 2020 at Makati City

August 31, 2020

Makati City, Metro Mani

STATE STREET HCL SERVICES (PHILIPPINES), INC.

STATEMENT OF FINANCIAL POSITION

(Under Liquidation)

MARCH 31, 2020

(With Comparative Figures for 2019)

	<i>Note</i>	2020	2019 (As restated - Note 17)
ASSETS			
Current Assets			
Cash and cash equivalents	4, 15	P202,825,390	P239,760,104
Trade and other receivables	5, 10, 15	11,367,701	7,319,607
Prepayments and other current assets	6, 15	5,628,414	28,157,756
Property and equipment	7	577,440	1,007,445
		P220,398,945	P276,244,912
LIABILITIES AND EQUITY			
Current Liabilities			
Account payables and other current liabilities	8, 10, 15	P9,332,324	P25,224,860
Income tax payable	14	-	31,369,540
Provision	16	-	31,612,474
Total Liabilities		9,332,324	88,206,874
Equity			
Capital stock	9	85,791,578	85,791,578
Retained earnings	17	125,275,043	102,246,460
Total Equity		211,066,621	188,038,038
		P220,398,945	P276,244,912

See Notes to the Financial Statements.

STATE STREET HCL SERVICES (PHILIPPINES), INC.**STATEMENT OF COMPREHENSIVE INCOME****(Under Liquidation)****FOR THE YEAR ENDED MARCH 31, 2020****(With Comparative Figures for 2019)**

		2020	2019 (As restated - Note 17)
REVENUE	<i>10</i>	(P1,814,073)	P195,137,771
COST OF SERVICES	<i>11</i>	-	226,579,591
GROSS LOSS		(1,814,073)	(31,441,820)
EXPENSES			
Rent	<i>12</i>	15,836,378	-
Impairment loss on input VAT	<i>6</i>	11,046,135	-
Legal and professional expenses		2,327,384	4,188,350
Utilities		1,200,447	-
Travel		132,832	588,236
Office supplies		-	1,021,713
Retirement income	<i>13</i>	-	(546,413)
Others		1,038,934	819,923
		31,582,110	6,071,809
		(33,396,183)	(37,513,629)
OTHER INCOME (EXPENSES)			
Reversals of various provisions and payable	<i>14, 16</i>	63,938,637	-
Interest income	<i>4</i>	103,979	245,681
Bank charges		(74,713)	(194,070)
Foreign exchange gain (loss) - net		(7,543,137)	1,690,724
		56,424,766	1,742,335
INCOME (LOSS) BEFORE INCOME TAX		23,028,583	(35,771,294)
PROVISION FOR INCOME TAXES	<i>14</i>		
Current		-	-
Deferred		-	2,489,886
		-	2,489,886
NET INCOME (LOSS)/TOTAL COMPREHENSIVE INCOME (LOSS)		P23,028,583	(P38,261,180)

See Notes to the Financial Statements.

STATE STREET HCL SERVICES (PHILIPPINES), INC.

STATEMENT OF CHANGES IN EQUITY

(Under Liquidation)

FOR THE YEAR ENDED MARCH 31, 2020

(With Comparative Figures for 2019)

	Capital Stock (Note 9)	Retained Earnings (As restated - Note 17)	Total
Balance, March 31, 2018	P85,791,578	P140,507,640	P226,299,218
Total comprehensive loss for the year, as restated	-	(38,261,180)	(38,261,180)
Balance, March 31, 2019, as restated	85,791,578	102,246,460	188,038,038
Total comprehensive income for the year	-	23,028,583	23,028,583
Balance, March 31, 2020	P85,791,578	P125,275,043	P211,066,621

See Notes to the Financial Statements.

STATE STREET HCL SERVICES (PHILIPPINES), INC.

STATEMENT OF CASH FLOWS
(Under Liquidation)
FOR THE YEAR ENDED MARCH 31, 2020
(With Comparative Figures for 2019)

	<i>Note</i>	2020	2019 (As restated - Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax		P23,028,583	(P35,771,294)
Adjustment to reconcile income (loss) before income tax to net cash flows:			
Depreciation	7, 11	430,005	3,680,911
Unrealized foreign exchange gain - net		(798,521)	(4,667,429)
Retirement benefit income	13	-	(546,413)
Interest income	4	(103,979)	(245,681)
Reversal of provisions and payables	14, 16	(63,938,636)	-
Loss before working capital changes:		(41,382,548)	(37,549,906)
Decrease (increase) in:			
Trade and other receivables	10c	5,660,244	66,026,987
Prepayments and other current assets	10c	12,878,682	(6,420,869)
Increase (decrease) in:			
Accounts payable and other current liabilities		(15,147,832)	5,120,055
Provisions		-	(1,117,398)
Net cash generated from (used in) operations		(37,991,454)	26,058,869
Interest received	4	103,979	245,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(37,887,475)	26,304,550
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		952,761	4,561,100
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		239,760,104	208,894,454
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4	P202,825,390	P239,760,104

See Notes to the Financial Statements.

STATE STREET HCL SERVICES (PHILIPPINES), INC.

NOTES TO THE FINANCIAL STATEMENTS

(Under Liquidation)

(With Comparative Figures for 2019)

1. Reporting Entity

State Street HCL Services (Philippines), Inc. (the "Company") was registered with the Philippine Securities and Exchange Commission (SEC) on June 20, 2013 to engage primarily in back office operations, business process outsourcing operations, processing and support facilities for rendering data processing and customer support services and information technology help desk services, cloud computing, remote infrastructure management, network or data center management, and to render consultancy services in the field of software and information technology, including but not limited to e-commerce, customized or readymade software solutions.

The Company's registered office address is Science Hub Tower 3, Campus Avenue corner Milano St., McKinley Hill Cyber park, Fort Bonifacio, Taguig City, Philippines. The Company is 100% owned by State Street HCL Holdings (UK) Limited, a company incorporated in the United Kingdom. The Company's ultimate parent is HCL Technologies Limited, a company incorporated in India.

Registration with the Philippine Economic Zone Authority (PEZA)

The Company was registered with PEZA on August 28, 2013 and is entitled to the incentives under the amended Republic Act No. 7916, *the Special Economic Zone Act of 1995, as amended*, and Book VI of Executive Order No. 226. As a registered enterprise, the Company is entitled to certain tax and non-tax incentives. The incentives of the Company include, among others, a four-year income tax holiday (ITH) for the original project effective on the committed date of start of commercial operations (SCO) or actual date of SCO, whichever is earlier; VAT zero-rating of local purchases subject to compliance with BIR and PEZA requirements; and exemption from payment of any and all local government imposts, fees, licenses and taxes except real estate tax.

On June 20, 2019, the Board of Directors (BOD) of PEZA, approved the cancellation of the PEZA registration of the Company effective on the 30th day from the Company's receipt of the approval, subject to the submission of requirements mandated by PEZA. As of March 31, 2020, there are few final requirements which the Company is overseeing to comply in order to be cleared from its accountabilities to PEZA.

On September 5, 2019, PEZA confirmed the entitlement of the Company to the four-year ITH commencing on October 2013 which is the PEZA approved SCO.

Status of Operations

On August 26, 2013, the Company entered into a Master Service Agreement (MSA) with State Street Bank and Trust Company (State Street), an entity under common control, and HCL Investments (UK) Limited which appointed the Company to perform business process services to State Street and its affiliates. This is the only business activity of the Company. The initial term of the MSA expired on February 10, 2017 but was further extended until December 31, 2018. The MSA continued with full force and effect until December 31, 2018 but was not renewed. There being no other business to transact, the Board of Directors (BOD) approved the resolution to close the Company's business operations on August 10, 2018 effective December 31, 2018. As a result, the Company has determined that the going concern basis of preparation is no longer appropriate. Hence, the Company changed its basis of accounting for periods subsequent to August 10, 2018 from the going concern basis to liquidation basis. Accordingly, the carrying values of the remaining assets as of March 31, 2020 and 2019 are presented at estimated realizable values and liabilities are presented at estimated settlement amounts.

2. Basis of Preparation

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

The financial statements of the Company were authorized for issue by the BOD on August 31, 2020.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is also the Company's functional currency. All financial information presented in Philippine peso have been rounded to the nearest peso unless otherwise indicated.

Basis of Measurement

As discussed in Note 1 to the financial statements, the BOD approved the resolution to close the Company's business operations on August 10, 2018 effective from December 31, 2018. Accordingly, the Company changed its basis of accounting from going concern basis to liquidation basis of accounting effective the fiscal year ended March 31, 2019.

The carrying values of the remaining assets are presented at estimated realizable values and liabilities are presented at estimated settlement amounts as at March 31, 2020 and 2019. The estimated amounts may be different from the proceeds that will ultimately be received or payments that will ultimately be made. All amounts are rounded off to the nearest peso, except when otherwise indicated.

The accounting policies set out below have been applied consistently to all the years presented in the financial statements.

Cash and Cash Equivalents

Cash includes cash in banks and cash equivalents. Cash in banks are stated at face amount. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of acquisitions and that are subject to an insignificant risk of change in value.

Trade and Other Receivables

Trade and other receivables are recognized initially at the transaction price. These are subsequently measured at amortized cost using the effective interest method, less impairment losses. An allowance for impairment of receivables is established when there is objective evidence that the impairment loss has been incurred such as when the Company will not be able to collect all or a portion of amounts due according to the original terms of the receivables. The related impairment loss is recognized immediately in profit or loss.

Trade and other receivables are derecognized when the contractual rights to receive cash flows for the financial instruments expire, or when the financial assets and all substantial risk and rewards of ownership have been transferred.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statements of financial position as current asset when the cost of services related to the prepayments and other current assets are expected to be incurred within one year or the Company's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

<u>Asset</u>	<u>Number of Years</u>
Office equipment	5
Computers	4 - 5
Leasehold improvements - office equipment	Over the period of the lease or 5 years, whichever is shorter
Leasehold improvements - furniture and fixtures	Over the period of the lease or 7 years, whichever is shorter

Leasehold improvement - office equipment and leasehold improvement - furniture and fixtures are non-detachable from the leased office facility.

Amortization of leasehold improvements is calculated over the period of the lease or 5 or 7 years for office equipment and furniture & fixtures, respectively, whichever is shorter.

The useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

When assets are sold or retired, their cost and accumulated depreciation and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is included in statements of comprehensive income.

The assets residual values and amortization of useful life are reviewed and adjusted, if appropriate, at each reporting period. An assets' carrying amount is written immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. As the financial statements have been prepared on liquidation basis, assets are measured at fair value less cost to dispose.

Impairment of Property and Equipment

The carrying value of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss, if any, is recognized in statements of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in statements of comprehensive loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities are recognized initially at the transaction price including transaction costs, if any. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Capital Stock

Capital stock represents the total par value of the shares that have been paid up.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declaration. Retained earnings also includes prior year adjustments.

Revenue (Reversal)

The Company derives revenues primarily from business process outsourcing services. Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee is determinable, and collectability is reasonably assured. Revenue for service rendered is reversed upon the business unit head's approval of actual claims received from the customers.

Business Process Outsourcing

Revenues from business process outsourcing services are derived from both time-based and unit-priced contracts. Revenue is recognized as the related services are performed in accordance with the specific terms of the contracts with the customer.

Cost of Services and Expenses

Cost of services and expenses are recognized in statements of comprehensive loss upon utilization of the materials or completion of the services provided or at the date they are incurred.

Leases

Operating lease expenses are recognized in the statements of comprehensive income on a straight-line basis over the lease term.

Retirement Benefits Cost

Under Republic Act (R.A.) No. 7641, where there is no retirement plan or agreement providing for retirement benefits of employees in a company, an employee who has reached the age of 60 or more, but not beyond 65 years, which is the compulsory retirement age, and who has rendered at least five years of service in the said company, may retire and shall be entitled to retirement benefits equivalent to at least one-half of one month salary for every year of service, wherein a fraction of at least six months is considered one year.

The Company recognizes its retirement benefits under R.A. No. 7641, using the projected unit credit method. The method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries, discount rate and expected rate of return on plan assets.

Retirement benefits cost includes current service cost plus past service cost, interest cost, experience adjustments and changes in actuarial assumptions and expected return on plan assets. Actuarial gains and losses and past service costs are recognized in full in profit or loss.

The present value of the defined benefits obligation (DBO) is the actuarial present value of expected future payments required to settle the obligation resulting from employee service in current and prior periods. The calculation of the DBO assumes that the plan continues to be in effect and that estimated future events (including compensation increases, turnover and mortality) occur.

Taxes

Current Income Tax

Current income tax assets and liabilities for the 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 have been enacted or substantively enacted at the end of reporting period.

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences that are expected to reduce taxable profit in the future.

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

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

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

Value-added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on purchase of assets or services are not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of prepayments and other current assets or accounts payable and other current liabilities in the statements of financial position.

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities under common control with the reporting enterprises and their key management personnel, directors, or its stockholders. Related parties may be individuals or corporate entities. In considering each possible related party relationships, attention is directed to the substance of the relationship, and not merely the legal form.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgements and Estimates

The preparation of the Company's financial statements in conformity with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of the relevant facts and circumstances that are believed to be reasonable as of the date of the financial statements. Actual results could differ from these estimates. The effect of any change in estimates is reflected in the financial statements as it becomes reasonably determinable.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Determination of Functional Currency: The Company, based on relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine Peso. It is the currency of the primary economic environment in which the Company operates.

Classification of Leases - Company as Lessee. The Company has operating lease agreements for the space and equipment used in the business process outsourcing operations and for office spaces. The Company has determined that the risks and rewards of ownership of the underlying properties have been retained by the lessors. Accordingly, the leases are accounted for as operating leases (see Note 12).

Adequacy of Tax Liabilities

In determining the amount of current income tax and deferred income tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accrual for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating Impairment of Nonfinancial Assets

The Company assesses impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of fair value less cost of disposal and value-in-use. The fair value less cost of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model which requires use of estimates of a suitable discount rate and expected future cash inflows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the assets belong. The Company did not provide for any impairment allowances on the nonfinancial assets as management expects that these will be fully recovered.

Estimating Provisions

The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. Management exercises judgment in assessing the probability of the Company becoming liable. An estimate of the provision is based on known information at the end of reporting date. Provisions recognized amounted to nil and P31,612,474 as of March 31, 2020 and 2019, respectively (see Note 16).

4. Cash and Cash Equivalents

This account consists of:

	Note	2020	2019
Cash in banks		P202,825,390	P24,983,004
Cash equivalents		-	214,777,100
	15	P202,825,390	P239,760,104

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing investment rates.

Interest income earned from cash and cash equivalents amounted to P103,979 and P245,681 for the years ended March 31, 2020 and 2019, respectively.

5. Trade and Other Receivables

This account consists of:

	Note	2020	2019 (As restated - Note 17)
Trade receivables - related parties	10	P -	P6,537,724
Other receivables			
Related party	10	10,331,466	-
Third parties		1,036,235	781,883
	15	P11,367,701	P7,319,607

Other receivables from third parties consist of advances to employees and travel advances which are usually settled or liquidated within one year.

6. Prepayments and Other Current Assets

Details of this accounts are as follows:

	Note	2020	2019
Input VAT - net		P15,014,233	P11,469,619
Less: allowance of impairment loss		11,046,135	-
		3,968,098	11,469,619
Prepaid tax		1,474,284	3,849,728
Refundable deposit	12, 15	-	9,650,660
Prepaid expense		-	3,167,273
Other current assets		186,032	20,476
		P5,628,414	P28,157,756

Input VAT pertains to VAT paid when an entity purchases goods or services from a VAT-registered supplier or vendor. This account is offset against any output tax previously recognized.

As at March 31, 2020, management determined that input VAT accumulated from prior years amounting P11,046,135 is not recoverable. The Company provided an impairment loss amounting to P11,046,135 for the fiscal year ended March 31, 2020.

7. Property and Equipment

The movements and balances of this account are as follows:

	2020			Total
	Computers	Office Equipment	Leasehold Improvements	
Cost				
As at April 1, 2019	P24,334,059	P176,664	P1,657,706	P26,168,429
Retirement	(1,149,706)	-	-	(1,149,706)
	23,184,353	176,664	1,657,706	25,018,723
Accumulated Depreciation				
As at April 1, 2019	24,158,553	158,980	843,451	25,160,984
Depreciation	175,506	17,684	236,815	430,005
Retirement	(1,149,706)	-	-	(1,149,706)
	23,184,353	176,664	1,080,266	24,441,283
Net Book Value as at March 31, 2020	P -	P -	P577,440	P577,440

	Note	2019			Total
		Computers	Office Equipment	Lease Improvements	
Cost		P24,334,059	P176,664	P1,657,706	P26,168,429
Accumulated Depreciation					
As at April 1, 2018		20,732,190	141,247	606,636	21,480,073
Depreciation	11	3,426,363	17,733	236,815	3,680,911
		24,158,553	158,980	843,451	25,160,984
Net Book Value as at March 31, 2019		P175,506	P17,684	P814,255	P1,007,445

Due to the liquidation of the Company, the BOD approved the transfer of all remaining assets to HCL Technologies Philippines, Inc. (HTPI), a related party, effective December 31, 2019. The actual transfer of the assets from the Company to HTPI will happen upon approval of the transfer by PEZA.

8. Accounts Payable and Other Current Liabilities

	Note	2020	2019 (As restated - Note 17)
Accounts payable		P399,750	P1,225,540
Due to related parties	10	6,227,374	18,623,756
Accrued expenses:			
Employee benefits		1,879,607	1,884,827
Utilities		540,968	1,020,000
Professional fees		284,625	2,470,737
	15	P9,332,324	P25,224,860

Employee benefits pertain to the estimated outstanding amount payable by the Company to its resigned and retired employees.

9. Capital Stock

As of March 31, 2020 and 2019, the Company's capital stock consists of the following:

	Number of Shares	Amount
Authorized at P100 par value	1,290,000	P129,000,000
Subscribed	860,000	86,000,000
Subscription receivable	-	(208,422)
Paid up capital		P85,791,578

10. Related Party Transactions

The Company has the following significant transactions and outstanding account balances with its related parties:

Related Party	Note	Amount of Transaction (As Restated - See Note 17)		Outstanding Balance Receivable (Payables) (As Restated - See Note 17)		Terms and Conditions
		2020	2019	2020	2019	
Ultimate Parent Company						
Revenue	a	P -	P -	P -	P120,143	On demand; non-interest bearing; no impairment; unsecured
Consultancy	b, 11	-	14,737,011	(37,634)	(375,854)	On demand; non-interest bearing; unsecured
Other expenses	d	120,143	60,072	-	-	On demand; non-interest bearing; unsecured
Under Common Control						
<i>HTPI</i>						
Consultancy	b, 11	198,107	9,083,862	(283,814)	(168,122)	On demand; non-interest bearing; unsecured
Other receivable (payables)	d	(6,314,015)	6,230,903	(5,905,926)	6,230,903	On demand; non-interest bearing; no impairment; unsecured
Security deposit	c	9,650,660	-	9,650,660	-	On demand; non-interest bearing; no impairment; unsecured
<i>HCL Technologies Denmark</i>						
Revenue	a	-	-	-	17	On demand; non-interest bearing; no impairment; unsecured
<i>State Street HCL Services (India) Private Ltd.</i>						
Revenue	a	(522,343)	522,343	-	186,661	On demand; non-interest bearing; no impairment; unsecured
Consultancy	b, 11	-	-	-	(22,136)	On demand; non-interest bearing; unsecured
<i>State Street</i>						
Revenue	a	(1,291,730)	194,615,428	-	(18,057,644)	Within 45 days of the receipt of the original final invoice; non-interest bearing; unsecured
Other receivables	e	680,806	-	680,806	-	On demand; non-interest bearing; no impairment; unsecured
Receivables - related parties	5			P10,331,466	P6,537,724	
Due to related parties	8			(P6,227,374)	(P18,623,756)	

- a. The Company entered into a Master Service Agreement with State Street, an entity under common control and HCL Investments UK Limited whereby the Company will provide: (a) Business Line Services (BLS) and Center of Excellence (COE) Services, and (b) controls, functions, processes and tasks which are generally considered in the financial services industry to be part of the services referred to in (a), and which are reasonably necessary for, or incidental to, the proper performance of those services, including any inherent sub-tasks, to State Street and its affiliates. Under the agreement, the Company and State Street agreed on the detailed service level agreement (SLA) and have established quantitative and qualitative performance standards in respect of the services (Service Level). If the Company fails to meet any SLA, the Company is required to promptly perform a root-cause analysis to identify the cause of the failure and provide State Street with a report describing the cause of, and the remedial efforts necessary to correct the failure. State Street and the Company have agreed on a service credit mechanism under each Business Line or COE Addendum (or related SLA) which will apply in the event the Company fails to meet designated Service Levels.

The fee revenue at risk each month with respect to each COE and Business Line Addendum in the event of the Company's failure to meet applicable Service Levels shall range between a minimum of 5% and a maximum of 15% of the fees paid or payable by State Street and its affiliates. The initial term of the MSA expired on February 10, 2017 but was further extended until December 31, 2018. The agreement continued with full force and effect until December 31, 2018 but services agreement was terminated effective December 31, 2018.

- b. Related parties rendered consulting services to the Company under the normal course of business. In 2019, all consulting charges are recorded as part of "Cost of services" account in the statements of comprehensive income. In 2020, the consulting charges related to administrative function of the Company is classified as part of others under the "Expenses" account in the statements of comprehensive income since the business had already stop operation effective December 31, 2018.
- c. The Company terminated the lease of its office facility in line with the Management's plan to liquidate the Company. On January 8, 2019, the lessor, the Company and HTPI entered into an addendum to the Facility Utilization and Service Agreement, wherein the Company assigned all its rights and obligations on the office facility to HTPI. Security deposit amounting to P9,650,660 was not refunded by the Company but was transferred to the account of HTPI and recognized under "Trade and other receivables" account in the statements of financial position as HTPI decided to continue occupying the office premise (see Notes 5, 6 and 12).

The reclassification of P9,650,660 from "Prepayments and other current assets" account to "Trade and other receivables" account, as a result of the above transaction, is not included in the movements of such accounts in the statements of cash flows.

- d. In the normal course of business, the Company incur various expenses which is initially paid by the Ultimate Parent Company on behalf of the Company. Outstanding balance related to this transaction is included as part of due to related parties under "Accounts payable and other current liabilities" account in the statements of financial position. Expenses which are initially paid by the Company on behalf of a related party are included as part of other receivables under the "Trade and other receivables" account in the statements of financial position.

e. Key Management Personnel

There is no key management compensation as at March 31, 2020 and 2019.

All related party balances are to be settled in cash.

11. Cost of Services

This account consists of:

	Note	2020	2019
Personnel costs		P -	P132,006,137
Rental	12	-	37,957,066
Consulting charges	10	-	23,820,873
Travel		-	14,833,983
Recruitment and training		-	6,327,107
Utilities		-	5,448,916
Depreciation	7	-	3,680,911
Communication		-	2,251,545
Repairs and maintenance		-	253,053
		P -	P226,579,591

Details of personnel costs follow:

	Note	2020	2019
Salaries and wages		P -	P42,967,419
Benefits		-	34,063,111
Retirement benefits cost	13	-	(546,413)
Other personnel costs		-	55,522,020
		P -	P132,006,137

Effective December 31, 2018, the Company closed its business operations. All expenses incurred were classified as part of "Expenses" account in the statements of comprehensive income (see Note 1).

12. Leases

The Company entered into a facility utilization services agreement in September 2013 with a third party for the leased of its office facility. The lease of facility is for a period of six (6) years renewable on mutually agreed terms. Upon signing of the agreement, the Company paid P9,650,660 as a refundable deposit equivalent to three (3) months of rental. The monthly rental rate indicated in the agreement is payable every month in advance.

In July 2018, the Company renewed its facility utilization services agreement for a period of one (1) year. The monthly rental rate of P3,167,273 monthly is payable every month in advance.

In 2020, the Company terminated the facility utilization services agreement for its office facility. The security deposit related to such agreement was transferred to HTPI who subsequently occupied the office facility. The security deposit amounting to P9,650,660 is recorded as part of "Trade and other receivables" account in the statements of financial position (see Notes 5 and 10).

Rent expense incurred under the lease agreement amounted to P15,836,378 and P37,957,066 in 2020 and 2019, respectively. Rent expense incurred in 2019 was included as part of "Cost of services" account in the statements of comprehensive income while rent expenses incurred in 2020 was included as part of "Expenses" account in the statements of comprehensive income as a result of the Company's decision to close the business operations (see Note 1).

13. Retirement

The Company provides for estimated retirement benefits to be paid under R.A. No. 7641 to all its regular employees.

Due to the approval of the BOD to close the Company's business operations effective December 31, 2018, all employees were terminated effective on the same date (see Note 1). There is no actuarial valuation in 2019 as there are no employees as at March 31, 2019.

The movement in the defined benefit obligation (DBO) is as follow:

	2020	2019
DBO at the beginning of year	P -	P546,413
Current service cost	-	(546,413)
DBO at the end of year	P -	P -

14. Income Tax

The reconciliation of provision for income tax computed at statutory income tax rates to provision for income tax as shown in the statements of comprehensive income follows:

	2020	2019
Income (loss) before income tax	P23,028,583	(P35,771,294)
Income tax provision (benefit from income tax) at statutory income tax rate	P6,908,575	(P5,101,693)
Change in unrecognized deferred tax assets	8,962,814	7,664,874
Interest income subjected to final tax	(31,194)	(73,295)
Nondeductible expense	3,341,396	-
Nontaxable income	(19,181,591)	-
Total income tax expenses	P -	P2,489,886

In 2020, the change in unrecognized deferred tax assets are comprised of the change in Net Operating Loss Carryover (NOLCO), unrealized foreign currency and accruals amounting to P10,736,328, (P1,771,917) and (P1,595). NOLCO incurred in 2020 will expire in 2023.

In 2019, the change in unrecognized deferred tax assets are comprised of the change in Net Operating Loss Carryover (NOLCO), unrealized foreign currency and accruals amounting to P5,997,841, P1,532,361 and P134,672. NOLCO incurred in 2019 will expire in 2022.

In 2019, the Company derecognized deferred taxes amounting to P2,489,886. Management believes that there will be no future taxable income where these can be utilized since the BOD approved the resolution to close the Company's business operations effective December 31, 2018.

During the fiscal year ended March 31, 2020, the Company reversed the income tax payable as at March 31, 2019 amounting to P31,369,540 as a result of PEZA's confirmation of ITH entitlement of the Company as discussed in Note 1. The reversal of the income tax payable is recognized as part of other income under "Other income (expenses) - net" account in the statements of comprehensive income.

15. Categories of Financial Assets and Liabilities

The Company's financial assets and financial liabilities measured at amortized costs are as follows:

	<i>Note</i>	2020	2019
Financial Assets			
Cash and cash equivalents	4	P202,825,390	P239,760,104
Trade and other receivables	5, 10	11,367,701	7,319,607
Refundable deposits	6	-	9,650,660
		P214,193,091	P256,730,371
<hr/>			
	<i>Note</i>	2020	2019
Financial Liabilities			
Accounts payable and other current liabilities	8, 10	P9,332,324	P25,224,860

16. Provision

Provision amounting to P31,612,474 as at March 31, 2019 pertains to probable claims against the Company, arising from previous years' taxable years.

During the fiscal year ended March 31, 2020, in addition to the income tax payable as at March 31, 2019 amounting to P31,369,540 as discussed in Note 14, the Company also reversed the above provision, as a result of PEZA's confirmation of ITH entitlement of the Company as discussed in Note 1. The reversal of provision is recognized as part of other income under "Other income (expenses) - net" account in the statements of comprehensive income.

17. Prior Period Restatement

In 2020, the Company restated its financial statements for the year ended March 31, 2019 to recognize a credit note from a bank amounting to P18,765,652. Said claim against the Company was approved by the Business Unit Head of the Company on March 28, 2019 however, the Company was not able to recognize it as a payable in the March 31, 2019 financial statements of the Company.

The following table summarizes the impact of restatement in the Company's statement of financial position as at March 31, 2019 and statement of comprehensive income for the year ended March 31, 2019 for each of the line item affected. There was no material impact on the Company's statement of cash flows for the year ended March 31, 2019.

	March 31, 2019		
	As Previously Stated	Restatement Adjustment Increase (Decrease)	As Restated
Statement of Financial Position			
Accounts receivable*	P8,027,615	(P708,008)	P7,319,607
Accounts payable*	7,167,216	18,057,644	25,224,860
Statement of Comprehensive Income			
Revenue	P213,903,423	(P18,765,652)	P195,137,771

**Upon the reversal of the revenue due to the credit note issued by the Company, the excess of the amount of the credit note amounting to P18,765,652 against the accounts receivable of the Company from State Street amounting to P708,008 was recognized as adjustment to the "Accounts payable" account in the statement of financial position.*

18. Supplementary Information Required Under Revenue Regulations 15-2010

In addition to the disclosures mandated under PFRS for SMEs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRS for SMEs. Following are the tax information required for the taxable period ended March 31, 2020:

- a. The Company being a PEZA registered entity has no Output VAT in 2020.
- b. Movements in input VAT follows:

	Amount
Balance at April 1	P2,519,076
Current year payments for domestic purchases of service	1,449,022
Balance, March 31	P3,968,098

- c. Withholding taxes paid and accrued by the Company are as follows:

	Paid	Accrued	Total
Final withholding taxes	P68,816	P -	P68,816

- d. As of March 31, 2020, the Company does not have any final deficiency tax assessments with BIR or tax cases pending in courts or bodies outside of BIR.

Information on amounts of custom duties, tariff fees and excise taxes are not applicable since there are no transactions that the Company would be subjected to these taxes.

