

HCL HONG KONG SAR LIMITED

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

31 MARCH 2018

HCL HONG KONG SAR LIMITED

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HCL HONG KONG SAR LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of HCL Hong Kong SAR Limited (the "Company") for the year ended 31 March 2018.

Principal activity

The principal activity of the Company is the provision of consulting services related to computer software. There were no significant changes in the nature of the Company's principal activities during the year.

Recommended dividend

The directors do not recommend the payment of any final dividend in respect of the year.

Directors

The directors during the year and up to the date of this report were:

Mr. Anil Kumar Chanana
Mr. R. Srinivasan
Mr. Subramanian Gopalakrishnan
Mr. Sundaram Sridharan

In accordance with Article 106 of the Company's articles of association, any two directors retire and, being eligible, offer themselves for re-election.

Directors' interests

At no time during the period was the Company or any of its fellow subsidiaries or holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of the Company or its associated corporations.

Directors' interests in transactions, arrangements or contracts

Except as detailed in note 7 to the financial statements, no director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company or any of its fellow subsidiaries or holding companies was a party during the year.

HCL HONG KONG SAR LIMITED

REPORT OF THE DIRECTORS (continued)

Auditor

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Subramanian Gopalakrishnan
Director

HCL Hong Kong SAR Limited

03rd August 2018



Independent auditor's report
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HCL Hong Kong SAR Limited (the "Company") set out on pages 6 to 28, which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine 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, the directors are 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 the directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Independent auditor's report (continued)
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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 the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report (continued)
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)

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



Certified Public Accountants
Hong Kong
3 August 2018

HCL HONG KONG SAR LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2018

	Notes	2018 HK\$	2017 HK\$
REVENUE	4	116,121,419	127,692,211
Cost of revenue		<u>(94,258,951)</u>	<u>(103,227,057)</u>
GROSS PROFIT		21,862,468	24,465,154
Other income	5	4,600	1,990,331
Selling and distribution expenses		(2,402,982)	(3,013,329)
Administrative expenses		(6,136,139)	(10,688,004)
Other expenses		<u>(4,761,900)</u>	<u>(2,013,233)</u>
PROFIT BEFORE TAX	6	8,566,047	10,740,919
Income tax expense	8	<u>(1,805,956)</u>	<u>(1,764,640)</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>6,760,091</u>	<u>8,976,279</u>

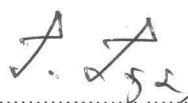
The notes on pages 10 to 28 are an integral part of these financial statements.

HCL HONG KONG SAR LIMITED
STATEMENT OF FINANCIAL POSITION
31 March 2018

	Notes	2018 HK\$	2017 HK\$
NON- CURRENT ASSETS			
Property, plant and equipment	9	16,897,029	8,667,880
Prepayments and deposits	10	2,460,755	518,686
Total non-current assets		19,357,784	9,186,566
CURRENT ASSETS			
Inventories	11	228,091	97,443
Trade receivables	12	30,110,549	35,099,836
Prepayments, deposits and other receivables	10	10,463,908	2,392,224
Due from the ultimate holding company	20 (b)	4,064,631	752,266
Due from fellow subsidiaries	20 (b)	8,045,245	3,660,237
Tax recoverable		44,132	455,054
Cash and bank balances	13	-	13,405,890
Total current assets		52,956,556	55,862,950
CURRENT LIABILITIES			
Trade and bills payables	14	4,898,777	466,089
Other payables and accruals	15	5,627,464	6,060,076
Due to the ultimate holding company	20 (b)	9,601,404	7,845,915
Due to fellow subsidiaries	20 (b)	14,808,428	28,550,320
Bank overdraft	16	7,128,133	-
Total current liabilities		42,064,206	42,922,400
NET CURRENT ASSETS		10,892,350	12,940,550
TOTAL ASSETS LESS CURRENT LIABILITIES		30,250,134	22,127,116
NON-CURRENT LIABILITY			
Deferred tax liabilities	17	2,781,887	1,418,960
Net assets		27,468,247	20,708,156
EQUITY			
Share Capital	18	193,167	193,167
Reserves		27,275,080	20,514,989
Total equity		27,468,247	20,708,156



.....
Subramanian Gopalakrishnan
Director



.....
Sundaram Sridharan
Director

The notes on pages 10 to 28 are an integral part of these financial statements.



HCL HONG KONG SAR LIMITED
 STATEMENT OF CHANGES IN EQUITY
 YEAR ENDED 31 MARCH 2018

	Share capital HK\$	Retained profits HK\$	Total equity HK\$
At 1 April 2016	193,167	11,538,710	11,731,877
Profit for the year and total comprehensive income for the year	-	8,976,279	8,976,279
At 31 March 2017	<u>193,167</u>	<u>20,514,989</u>	<u>20,708,156</u>
At 1 April 2017	193,167	20,514,989	20,708,156
Profit for the year and total comprehensive income for the year	-	6,760,091	6,760,091
At 31 March 2018	<u>193,167</u>	<u>27,275,080</u>	<u>27,468,247</u>

The notes on pages 10 to 28 are an integral part of these financial statements.

HCL HONG KONG SAR LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2018

	Notes	2018 HK\$	2017 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		8,566,047	10,740,919
Adjustments for:			
- Interest income	5	(2,091)	(105)
- Depreciation	6	3,116,247	1,261,928
- Bad debts written back	6	(2,509)	(1,766,174)
- Impairment of/(reversal of impairment of) trade receivables	6	918,723	(224,052)
		12,596,417	10,012,516
- Increase in inventories		(130,648)	(69,334)
- Decrease/(increase) in trade receivables		4,073,073	(11,397,848)
- Increase in prepayments, deposits and other receivables		(10,013,753)	(218,243)
- Movement in balances with the ultimate holding company		(1,556,876)	5,100,354
- Movement in balances with fellow subsidiaries		(18,126,900)	20,297,594
- Increase in trade and bills payables		4,432,688	110,245
- Decrease in other payables and accruals		(432,612)	(720,081)
Cash generated from/(used in) operations		(9,158,611)	23,115,203
Tax Paid		(32,106)	(1,522,397)
Net cash flows from/(used in) operating activities		(9,190,717)	21,592,806
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,091	105
Purchase of items of property, plant and equipment	9	(11,345,397)	(9,533,665)
Net cash flows used in investing activities		(11,343,306)	(9,533,560)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(20,534,023)	12,059,246
Cash and cash equivalents at beginning of the year		13,405,890	1,346,644
CASH AND CASH EQUIVALENTS AT END OF YEAR		(7,128,133)	13,405,890
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		-	13,405,890
Bank overdraft		(7,128,133)	-
TOTAL		(7,128,133)	13,405,890

The notes on pages 10 to 28 are an integral part of these financial statements.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2018

1 Corporate information

HCL Hong Kong SAR Limited (the "Company") is engaged in the provision of consulting services related to computer software.

The Company is a limited company incorporated in Hong Kong. The address of its registered office is Room 4203A, 42nd Floor, China Resources Building, 26 Harbour Road, Hong Kong.

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 National Stock Exchange of India and Bombay Stock Exchange of India.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and are presented in Hong Kong dollars ("HK\$"), which is also the Company's functional currency.

2.2 Changes in accounting policies and disclosures

The Company has adopted the following revised HKFRSs for the current year's financial statements, which are applicable to the Company.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
included in <i>Annual Improvements 2014-2016 Cycle</i>	

The adoption of the revised standards has had no significant financial effect on these financial statements and there has been no significant changes to the accounting policies applied in these financial statements.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Company has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 March 2018, in these financial statements.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS ⁴ Insurance Contracts ¹
HKFRS 9	Financial Instruments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Annual Improvements 2014-2016 Cycle	Amendments to HKFRSs issued in March 2017 ¹
Annual Improvements 2015-2017 Cycle	Amendments to HKFRSs issued in February 2018 ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

In September 2014, the HKICPA issued the final version of HKFRS 9, which reflects all phases of the financial instruments project and replaces HKAS 39 and all previous versions of HKFRS 9. Under HKFRS 9, a debt instrument is measured at amortised cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. In addition, the standard requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Company will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Company will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

The Company does not expect that the adoption of HKFRS 9 will have a significant impact on the Company's overall financial performance and financial position upon initial application. Moreover, the Company will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

HKFRS 15 was issued in July 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and reduce the cost and complexity of applying the standard. However, the Company has chosen not to early adopt the HKFRS 15, which have been published and are mandatory for the company's future accounting periods. The Company is currently evaluating the impact of the adoption of this new standard will have on its financial statement.

HKFRS 16 was issued in May 2016 and replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees that they can elect as practical expedients – leases of low-value assets and short-term leases (i.e., where the lease term is 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 Investment Property. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. HKFRS 16 also requires lessees to make more extensive disclosures than under HKAS 17. The Company expects to adopt HKFRS 16 on 1 January 2019.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

The application of the new requirements under HKFRS 16 is expected to result in changes in the measurement, presentation and disclosures of a lease as indicated above. The Company does not expect that the adoption of HKFRS 16 will have a significant impact on the Company's overall financial performance and financial position upon initial application, except that certain portions of operating lease commitments outstanding as at 1 January 2019 will be required to be recognised as lease liabilities after taking into account the effects of discounting, together with the corresponding right-of-use assets, and other corresponding changes in presentation and disclosures, once HKFRS 16 is adopted.

2.4 Foreign currency translations

Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.5 Related Parties

A party is considered to be related to the Company if:

- (a) The party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) The party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity), and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category of asset	Useful lives (Years)
Office equipment and plant & machineries	5-17
Computer and software equipment	3-5
Furniture and fixtures	7
Leasehold improvements	Over the shorter of the lease terms and 4 years

2.7 Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such indication exists, the Company makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

An impairment loss is recognised in the statement of profit or loss and other comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to profit or loss in the year in which it arises.

2.8 Financial instruments

The Company classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. Regular way purchases and sales of the financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the assets.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

(a) Financial assets

The Company's financial assets include trade and other receivables, deposits, amounts due from group companies and cash and bank balances and are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(b) Financial liabilities

The Company's financial liabilities include trade and bills and other payables, bank overdraft, accruals and amounts due to group companies. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.10 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

For the purpose of the statement of the financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.11 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12 Employee benefits

(a) Employee leaves entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) Pension obligations

The Company contributes towards a defined contribution Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

2 Summary of significant accounting policies (continued)

2.13 Revenue recognition

Revenue from software developed on time and material basis is recognised as the related services are rendered by the Company.

Revenue from fixed price contracts is recognised on the basis of percentage of completion method under which the sales value of performance including earnings thereon are recognised on the basis of effort incurred in respect of each contract as a proportion of total effort expected to be incurred. Anticipated losses, if any, upon completion of contract are recognised immediately. Earnings in excess of billing are classified as unbilled receivables, while billing in excess of earnings are classified as deferred income.

Revenue from sales of hardware and licenses for the use of software applications are recognised on the transfer of title in the hardware or user licenses.

Interest income is recognised on a time proportion basis using the effective interest method.

Miscellaneous income is recognised on an accruals basis.

2.14 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

HCL HONG KONG SAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 MARCH 2018

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

(a) Estimated impairment of receivables

The Company makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and impairment of receivables is recognised in the year in which such estimates are changed.

(b) Revenue recognition

The Company recognises revenue from fixed price contracts on the basis of percentage of completion method. The percentage of completion is measured by reference to the effort incurred to date compared to the estimated total effort for the contract.

Significant judgment is required in determining the percentage of completion, the extent of the effort incurred, and the estimated total effort.

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

4 Revenue

Revenue represents the net sale of hardware and software licenses and consultancy income. An analysis of revenue is as follows:

	2018	2017
	HK\$	HK\$
Consultancy income	108,080,005	126,102,074
Sales of hardware	8,041,414	1,590,137
	<u>116,121,419</u>	<u>127,692,211</u>

5 Other income

An analysis of other income is as follows:

	2018	2017
	HK\$	HK\$
Interest income	2,091	105
Bad debts written back	2,509	1,766,174
Reversal of impairment of trade receivables	-	224,052
	<u>4,600</u>	<u>1,990,331</u>

6 Profit before tax

The Company's profit before tax is arrived at after charging/(crediting):

	2018	2017
	HK\$	HK\$
Consultancy fees*	54,051,474	76,741,883
Cost of goods sold*	7,053,984	1,354,574
Other project expenses*	10,144,488	6,000,981
Depreciation expenses (Note 9)	3,116,247	1,261,928
Recruitment, training and development costs	195,259	284,266
Minimum lease payments under operating lease of office premises	727,548	370,177
Legal and professional fee	236,714	575,817
Auditor's remuneration	85,000	93,500
Travel and conveyance	663,300	1,180,187
Communication charges	1,287,079	939,368
Other expenses	1,615,261	627,387
Bank charges	256,644	83,743
Other marketing costs	133,719	84,254
AMC and tool costs	728,579	5,651,527
Staff costs (excluding directors' remuneration)**		
-Wages and salaries	25,186,168	22,362,128
-Pension scheme contributions	773,565	750,880
	<u>25,959,733</u>	<u>23,113,008</u>
Foreign exchange difference, net	385,286	574,062
Provision for bad debts (Note 12)	918,723	-
Reversal of impairment of trade receivables (Note 12)	-	(224,052)
Bad debts written back	(2,509)	(1,766,174)

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

6 Profit before tax (continued)

* These items are included in "cost of revenue" in the statement of profit or loss and other comprehensive income.

** Staff costs of HK\$2,269,263 (2017: HK\$2,929,075), HK\$681,466 (2017: HK\$1,054,314) and HK\$23,009,005 (2017: HK\$19,129,619) are included in "Selling and distribution expenses", "Administration expenses" and "Cost of revenue" respectively in the statement of profit or loss and other comprehensive income.

7 Directors' emoluments (equivalents to key management compensation)

None of the directors received or will receive any fees or other emoluments for the services rendered to the Company during the year ended 31 March 2018 (2017: Nil).

The directors did not render any significant services to the Company during the year and the prior year and accordingly, the cost of equity settled transactions on the share options granted to the directors was borne by the ultimate holding company of the Company.

8 Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2018 HK\$	2017 HK\$
Charge for the year	443,241	382,409
Under provision in prior years	(212)	16,141
Deferred tax (Note 17)	1,362,927	1,366,090
Tax charge for the year	<u>1,805,956</u>	<u>1,764,640</u>

A reconciliation of the tax expenses applicable to profit before tax at the statutory rate to the tax expenses at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective rate are as follows:

	2018 HK\$	%	2017 HK\$	%
Profit before tax	<u>8,566,047</u>		<u>10,740,919</u>	
Tax at the statutory tax rate	1,413,397	16.5	1,772,251	16.5
Adjustment in respect of current tax of previous periods	(212)	(0.1)	10,941	0.1
Income not subject to tax	(345)	(0.1)	1,448	-
Expenses not deductible for tax	413,116	5.0	-	-
Others	(20,000)	(0.2)	(20,000)	(0.2)
Tax charge at effective rate	<u>1,805,956</u>	<u>21.1</u>	<u>1,764,640</u>	<u>16.4</u>

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

9 Property, plant and equipment

	Office equipment and plant & machineries	Computer equipment and software	Furniture and fixtures	Leasehold improvements	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
31 March 2018					
At 1 April 2017:					
Cost	43,726	10,672,998	206,988	526,850	11,450,562
Accumulated depreciation	(43,726)	(2,084,756)	(206,988)	(447,212)	(2,782,682)
Net carrying amount	-	8,588,242	-	79,638	8,667,880
At 1 April 2017, net of accumulated depreciation	-	8,588,242	-	79,638	8,667,880
Additions	-	11,345,397	-	-	11,345,397
Depreciation provided during the year	-	(3,074,062)	-	(42,185)	(3,116,247)
At 31 March 2018, net of accumulated depreciation	-	16,859,577	-	37,453	16,897,030
At 31 March 2018					
Cost	43,726	21,674,686	206,988	526,850	22,452,250
Accumulated depreciation	(43,726)	(4,815,109)	(206,988)	(489,398)	(5,555,221)
Net carrying amount	-	16,859,577	-	37,452	16,897,029
31 March 2017					
At 1 April 2016:					
Cost	43,726	1,139,333	206,988	526,850	1,916,897
Accumulated depreciation	(43,726)	(865,321)	(206,988)	(404,719)	(1,520,754)
Net carrying amount	-	274,012	-	122,131	396,143
At 1 April 2016, net of accumulated depreciation	-	274,012	-	122,131	396,143
Additions	-	9,533,665	-	-	9,533,665
Depreciation provided during the year	-	(1,219,435)	-	(42,493)	(1,261,928)
At 31 March 2017, net of accumulated depreciation	-	8,588,242	-	79,638	8,667,880
At 31 March 2017					
Cost	43,726	10,672,998	206,988	526,850	11,450,562
Accumulated depreciation	(43,726)	(2,084,756)	(206,988)	(447,212)	(2,782,682)
Net carrying amount	-	8,588,242	-	79,638	8,667,880

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

10 Prepayments, deposits and other receivables

	2018	2017
	HK\$	HK\$
Prepayments	5,490,409	2,814,486
Deposits and other receivables	7,434,254	96,424
	<u>12,924,663</u>	<u>2,910,910</u>
Less: Non-current portion	(2,460,755)	(518,686)
Amount disclosed as current portion	<u>10,463,908</u>	<u>2,392,224</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

11 Inventories

	2018	2017
	HK\$	HK\$
Finished goods	228,091	97,443

12 Trade receivables

	2018	2017
	HK\$	HK\$
Trade debtors	23,886,517	26,029,287
Unbilled receivables	7,201,807	9,129,601
Provision for impairment	(977,775)	(59,052)
	<u>30,110,549</u>	<u>35,099,836</u>

The movements in the provision for impairment of trade receivables are as follows:

	2018	2017
	HK\$	HK\$
At the beginning of the reporting period	59,052	283,104
Impairment of / (reversal of impairment of) trade receivables (Note 6)	918,723	(224,052)
At the end of the reporting period	<u>977,775</u>	<u>59,052</u>

At 31 March 2018, included in the above provision for impairment of trade receivables was a provision for individually impaired trade receivables of HK\$977,775 (2017: HK\$59,052) with a carrying amount before provision of HK\$977,775 (2017: HK\$59,052).

The individually impaired trade receivables related to customers that were in financial difficulties and were not expected to be recovered. The company did not hold any collateral or other credit enhancements over these balances.

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

12 Trade receivables (continued)

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2018 HK\$	2017 HK\$
Neither past due nor impaired	3,607,120	18,177,601
Past due by :		
1 - 30 days	4,800,768	-
31 - 90 days	12,146,348	5,146,185
Over 90 days	2,354,506	2,646,449
	<u>22,908,742</u>	<u>25,970,235</u>

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there is no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Unbilled receivables

	2018 HK\$	2017 HK\$
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	7,201,807	9,129,601

13 Cash and bank balances

	2018 HK\$	2017 HK\$
Cash and bank balances	-	<u>13,405,890</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

14 Trade and bills payables

	2018 HK\$	2017 HK\$
Trade payables	4,898,777	466,089

The trade and bills payable are non-interest bearing and are normally settled on 60 days terms.

15 Other payables and accruals

	2018 HK\$	2017 HK\$
Accrued expenses	1,590,548	752,296
Receipts in advance	177,215	174,786
Deferred revenue	95,888	370,046
Others payables	3,763,813	4,762,948
	<u>5,627,464</u>	<u>6,060,076</u>

Other payables are non-interest bearing and have an average term of three months.

16 Bank overdrafts

	2018 HK\$	2017 HK\$
Unsecured bank overdrafts repayable on demand	7,128,133	-

All bank overdrafts are denominated in Hong Kong dollars.

17 Deferred tax liabilities

	Deaccelerated tax depreciation HK\$
At 1 April 2016	(52,870)
Deferred tax charged to profit or loss during the year (Note 8)	<u>(1,366,090)</u>
At 31 March 2017 and 1 April 2017	(1,418,960)
Deferred tax charged to profit or loss during the year (Note 8)	<u>(1,362,927)</u>
At 31 March 2018	<u>(2,781,887)</u>

18 Share capital

	2018 HK\$	2017 HK\$
Issued and fully paid: 193,167 (2017: 193,167) ordinary shares	193,167	193,167

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

19 Operating lease commitments

The Company leases its office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 March 2018, the Company had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 HK\$	2017 HK\$
Within one year	928,986	471,504
In the second to fifth years, inclusive	-	294,690
	928,986	766,194

20 Related party transactions

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Company had following material transactions with related parties during the year:

	2018 HK\$	2017 HK\$
Consultancy fees charged to fellow subsidiaries (Note (I))	17,787,877	6,383,549
Consultancy fees paid to fellow subsidiaries (Note (I))	53,671,124	75,050,120

Note:

- (I) The consultancy fees charged/paid to fellow subsidiaries were based on agreement between the parties.
- (b) Balances with the ultimate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

21 Financial instruments by category

The Company's financial instruments include the following:

	2018 HK\$	2017 HK\$
Financial assets - loans and receivables		
Trade receivables	30,110,549	35,099,836
Financial assets included in prepayments, deposits and other receivables (Note 10)	7,434,254	96,424
Due from the ultimate holding company	4,064,631	752,266
Due from fellow subsidiaries	8,045,245	3,660,237
Cash and bank balances	-	13,405,890
	49,654,679	53,014,653
	2018 HK\$	2017 HK\$
Financial liabilities - At amortised cost		
Trade and bills payables	4,898,777	466,089
Financial liabilities included in other payables and accruals (Note 15)	4,159,363	5,155,151
Due to the ultimate holding company	9,601,404	7,845,915
Due to fellow subsidiaries	14,808,428	28,550,320
Bank overdrafts (Note 16)	7,128,133	-
	40,596,105	42,017,475

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 MARCH 2018

22 Fair value of financial assets and liabilities

Management has assessed that the fair value of cash and bank balances, financial assets included in deposits and other receivables, trade receivables and balances with group companies, financial liabilities included in other payables and accruals, bank overdraft, trade and bills payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Company did not have any financial assets or liabilities measured at fair value as at 31 March 2018 and 2017.

23 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Credit risk

Credit risk mainly arises from trade receivables and cash at banks, with a maximum exposure equal to the carrying amounts of these instruments, further details of which are disclosed in notes 12 and 13, respectively, to the financial statements.

The Company has a concentration of credit risk due to its dependence on major customers, however the directors consider that the credit risk is managed as the Company has policies in place to ensure that the provision of services and sales of hardware and software licenses are made to customers with appropriate credit history and to limit the amount of credit exposure to customers to minimise credit risk resulting from counterparties default. The Company reviews the recoverable amount of each individual customer at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors are of the opinion that the relevant credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are creditworthy banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 31 MARCH 2018

23 Financial risk management objectives and policies (continued)

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Company's liquidity risk is further mitigated through the availability of financing from the ultimate holding company and fellow subsidiaries so as to enable the Company to meet its liabilities when they fall due and to continue operating for the foreseeable future

The table below summarises the maturity profile of the Company's non-derivative financial liabilities as at 31 March 2018 based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	On demand HK\$	Less than 1 year HK\$	Total HK\$
2018			
Trade and bills payables	-	4,898,777	4,898,777
Financial liabilities included in other payables and accruals	-	3,288,125	3,288,125
Due to the ultimate holding company	9,601,404	-	9,601,404
Due to fellow subsidiaries	14,808,428	-	14,808,428
	<u>24,409,832</u>	<u>8,186,902</u>	<u>32,596,734</u>
2017			
Trade and bills payables	-	466,089	466,089
Financial liabilities included in other payables and accruals	-	4,174,097	4,174,097
Due to the ultimate holding company	7,845,915	-	7,845,915
Due to fellow subsidiaries	28,550,320	-	28,550,320
	<u>36,396,235</u>	<u>4,640,186</u>	<u>41,036,421</u>

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 31 MARCH 2018

24 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the shareholder and to maintain an optimal capital structure to realise the cost of capital. The Company's overall strategy remains unchanged from prior year.

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade and bills payables, amounts due to fellow subsidiaries and a subsidiary and other payables and accruals, less cash and bank balances. Capital represents total equity.

The gearing ratios as at the end of the reporting periods were as follows:

	2018	2017
	HK\$	HK\$
Trade and bills payables	4,898,777	466,089
Other payables and accruals	5,627,464	6,060,076
Due to fellow subsidiaries	14,808,428	28,550,320
Due to the ultimate holding company	9,601,404	7,845,915
Bank overdraft	7,128,133	-
Less: Cash and bank balances	-	(13,405,890)
	<hr/>	<hr/>
Net debt	42,064,206	29,516,510
Total capital	27,468,247	20,708,156
	<hr/>	<hr/>
Capital and net debt	69,532,453	50,224,666
	<hr/>	<hr/>
Gearing ratio	60%	59%

25 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 3rd August 2018.