

HCL Arabia Limited
(A Limited Liability Company)

FINANCIAL STATEMENT TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

HCL ARABIA LIMITED
(A Limited Liability Company)

FINANCIAL STATEMENTS

31 December 2021

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KPMG Professional Services

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Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Shareholders of HCL Arabia Limited

Opinion

We have audited the financial statements of **HCL Arabia Limited** ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

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

Responsibilities of Management 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 the IFRS for SMEs that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies, Company's Articles of Association 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, Board of Directors is responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report

To the Shareholders of HCL Arabia Limited (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

KPMG Professional Services

Hani Hamzah A. Bedairi
License No: 460



Al Riyadh on: 10 Shawwal 1443H
Corresponding to: 11 May 2022

HCL Arabia Limited
(A Limited Liability Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

	Note	31 Dec'21 SR	31 Dec'20 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	30,275,626	11,305,477
Account receivables and unbilled revenue	6	19,531,253	24,703,153
Inventories		-	16,957
Finance lease receivables		42,952	-
Prepayments and other receivables	7	1,061,635	349,646
Amount due from related parties	8	5,763,775	2,570,673
TOTAL CURRENT ASSETS		56,675,241	38,945,906
NON-CURRENT ASSET			
Property and equipment	10	304,015	678,396
Capital work in progress	10	-	83,821
Finance lease receivables		14,638	-
Goodwill	9	2,563,444	2,563,444
Intangible assets	11	1,487,855	1,980,405
Deferred tax assets	13 b	784,544	674,375
TOTAL NON-CURRENT ASSETS		5,154,496	5,980,441
TOTAL ASSETS		61,829,737	44,926,347
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Account payable and accruals	12	8,110,776	7,381,587
Amount due to related parties	8	36,158,822	25,384,249
Provision for income tax	13 b	1,383,395	1,086,839
Employees defined benefits liabilities	14	51,778	8,070
TOTAL CURRENT LIABILITIES		45,704,771	33,860,745
NON-CURRENT LIABILITY			
Employees defined benefits liabilities	14	691,279	403,523
Other payables and accruals		114,125	94,114
TOTAL NON-CURRENT LIABILITIES		805,404	497,637
TOTAL LIABILITIES		46,510,175	34,358,382
EQUITY			
Capital	15	6,100,000	6,100,000
Statutory reserve		966,576	491,416
Retained earnings		8,252,986	3,976,549
TOTAL EQUITY		15,319,562	10,567,965
TOTAL LIABILITIES AND EQUITY		61,829,737	44,926,347

These financial statements as shown on pages from 3 to 25 were approved by the shareholders on 11 May 2022 and signed on their behalf by:

Umakant Sharma



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

HCL Arabia Limited
(A Limited Liability Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	31 Dec'21 SR	31 Dec'20 SR
Revenue	16	62,171,269	47,160,351
Cost of revenue	17	(49,707,680)	(38,355,014)
GROSS PROFIT		12,463,589	8,805,337
EXPENSES			
Selling and distribution expenses	18	(3,713,525)	(1,762,429)
General and administrative expenses	19	(3,044,452)	(1,975,574)
OPERATING PROFIT		5,705,612	5,067,334
Other expenses-net	20	(179,577)	(299,766)
Financial charges		(73,368)	(67,737)
PROFIT BEFORE INCOME TAX		5,452,667	4,699,831
Income tax	13 a	(899,748)	(793,734)
PROFIT FOR THE YEAR		4,552,919	3,906,097
Other comprehensive income:			
Items that will not be subsequently reclassified to profit and loss			
Re-measurement gain/(loss) of defined benefit liabilities	14	248,348	(16,258)
Deferred tax (charge)/credit related to re-measurement gain/(loss) of defined liabilities	13b	(49,670)	3,252
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		198,678	(13,006)
TOTAL COMPREHENSIVE INCOME		4,751,597	3,893,091

These financial statements as shown on pages from 3 to 25 were approved by the shareholders on 11 May 2022 and signed on their behalf by:

Umakant Shetty



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

HCL Arabia Limited
(A Limited Liability Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

	<i>Capital</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
As at 1 Jan'20	6,100,000	102,107	472,767	6,674,874
Profit for the year	-	-	3,906,097	3,906,097
Other comprehensive loss for the year	-	-	(13,006)	(13,006)
Total comprehensive income for the year	-	-	3,893,091	3,893,091
Transferred to statutory reserve	-	389,309	(389,309)	-
Total profit and OCI for the year	-	389,309	3,503,782	3,893,091
As at 31 Dec'20	6,100,000	491,416	3,976,549	10,567,965
As at 1 Jan'21	6,100,000	491,416	3,976,549	10,567,965
Profit for the year	-	-	4,552,919	4,552,919
Other comprehensive income for the year	-	-	198,678	198,678
Total comprehensive income	-	-	4,751,597	4,751,597
Transferred to statutory reserve	-	475,160	(475,160)	-
Total profit and OCI for the year	-	475,160	4,276,437	4,751,597
As at 31 Dec'21	6,100,000	966,576	8,252,986	15,319,562

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

HCL Arabia Limited
(A Limited Liability Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	31 Dec'21 SR	31 Dec'20 SR
Cash flows from operating activities			
Profit before income tax		5,452,667	4,699,831
<i>Adjustments for :</i>			
Depreciation and amortisation	10,11	1,029,676	671,732
Employees defined benefit expenses	14	594,901	220,160
Bad Debts written off	18	192,742	-
Asset written off		76,450	(19,202)
Provision for doubtful advances	6	54,784	-
Interest income on finance lease receivable	20	(54)	-
		7,401,166	5,572,521
<i>Changes in working capital:</i>			
Account receivables, unbilled revenue, prepayments and other receivables		4,229,342	(9,625,515)
Finance lease receivables		(57,590)	-
Amount due from related parties		(3,193,102)	(1,755,103)
Account payables and accruals		749,200	3,059,668
Amount due to related parties		10,774,573	9,041,533
Cash from operations		19,903,589	6,293,104
Income tax paid	13b	(763,031)	(311,788)
Interest received	20	54	-
Employees defined benefits paid	14	(15,089)	(4,004)
Net cash flows from operating activities		19,125,523	5,977,312
Cash flows from investing activities			
Purchase of property and equipment	10	(155,374)	(187,809)
Addition to capital work in progress	10	-	(83,821)
Addition to intangibles	11	-	(307,972)
Net cash flows used in investing activities		(155,374)	(579,602)
Net increase in cash and cash equivalents		18,970,149	5,397,710
Bank balances at beginning of the year		11,305,477	5,907,767
Bank balances at end of the year	5	30,275,626	11,305,477

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 COMPANY INFORMATION AND ACTIVITIES

HCL Arabia Limited (the "Company") is a limited liability company formed under the Regulations for Companies in the Kingdom of Saudi Arabia under Commercial Registration Number 1010308344 on 4/6/1432H (corresponding to 7 May 2011) and SAGIA License Number 112031098754-01 valid up to 18/7/1444 (corresponding to 9 February 2023). The registered office of the Company is located at AL Olaya Street, Al Aqariya Plaza, Office NO.203, Riyadh-12244, Kingdom of Saudi Arabia ("KSA").

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

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Judgements and estimates

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

2.3 Basis of measurement

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

2.4 Presentation and functional currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Accounts receivable

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unbilled revenue

Revenue recognized but not billed to customers is classified as unbilled receivable in statement of financial position. Unbilled receivables represent contracts where right to consideration is unconditional (i.e. only the passage of time is required before the payment is due).

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

Financial assets and liabilities

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

Impairment and collectability of financial assets

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

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

Offsetting a financial asset and a financial liability

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

Property and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment(continued)

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

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

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

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

Capital work in progress

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

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

Intangible assets

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

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

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

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

Asset description	Asset life (in years)
Software	3
Customer relationships	1 to 10

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

Business combinations and goodwill

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Value added tax

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

Impairment of non-financial assets

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

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

Goodwill

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

Intangible assets

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

Account payable and accruals

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

Provisions

Provisions are recognised when the Company has:

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

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

Income tax

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

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

The carrying amount of deferred tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset/liability to be utilised. Unrecognised deferred tax assets/liabilities are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered and deferred tax liability to be settled.

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

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

Employees defined benefits liabilities

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

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

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

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

Statutory reserve

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

Revenue recognition

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

(i) Revenue from services

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

(ii) Revenue from sale of goods

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

Interest income is recognized on accrual basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

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

Foreign currency transactions

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

New standards and amendments to the existing standards

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

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Key sources of estimation uncertainty

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

Impairment of non-financial assets

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

Non-financial asset	Carrying amounts (in SR)
Property and equipment	304,015
Goodwill	2,563,444
Intangible assets	1,487,855

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Provisions

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

Long-term assumptions for employees benefits

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

Use of estimates

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

Impairment of trade receivables

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

Fair value measurement of financial instruments

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

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5 CASH AND CASH EQUIVALENTS

	31 Dec'21	31 Dec'20
	SR	SR
Cash at bank	30,275,626	11,305,477
	30,275,626	11,305,477

6 ACCOUNT RECEIVABLES AND UNBILLED REVENUE

	31 Dec'21	31 Dec'20
	SR	SR
Trade receivables	12,032,928	18,084,507
Unbilled revenue	10,322,135	9,387,672
Allowance for doubtful accounts	(2,823,810)	(2,769,026)
	19,531,253	24,703,153

Movements in the allowance for doubtful accounts were as follows:

	31 Dec'21	31 Dec'20
	SR	SR
At beginning of the year	2,769,026	2,999,357
Charge/(reversal) for the year	54,784	(230,331)
At end of the year	2,823,810	2,769,026

The ageing of unimpaired trade receivables is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			<i>Total</i>
		<i>30 – 60 days</i>	<i>61 – 90 days</i>	<i>>90 days</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
31 Dec'21	3,656,155	500,955	930,193	4,121,815	9,209,118
31 Dec'20	13,456,550	834,785	787,000	237,146	15,315,481

7 PREPAYMENTS AND OTHER RECEIVABLES

	31 Dec'21	31 Dec'20
	SR	SR
Prepaid expense	482,108	209,839
Deferred cost	377,803	81,823
Others	201,724	57,984
	1,061,635	349,646

HCL Arabia Limited
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For the year ended 31 December 2021

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8 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of ultimate holding company, shareholders, fellow subsidiaries and key management personnel of the Company where ultimate holding company, shareholders or key management personnel have control, joint control or significant influence over the Company.

a) Related parties where control exists

Ultimate Holding Company

HCL Technologies Limited

Immediate Holding Company

HCL Bermuda Ltd

b) Key Management Personnel

Mr. Uma Kant Sharma

c) Related parties with whom transactions have taken place during the year

Ultimate Holding Company

HCL Technologies Limited

Key Management Personnel

Mr. Uma Kant Sharma

Fellow Subsidiaries

Fellow subsidiaries are subsidiaries of shareholders or ultimate holding company of the Company.

HCL Technologies Limited- UAE Branch

HCL America Inc.

HCL Technologies Norway AS

HCL Great Britain Limited

HCL Technologies Middle East FZ-LLC- Dubai Branch

HCL Canada Inc - SD

HCL Technologies Limited- Ireland Branch

HCL Technologies Limited - Abu Dhabi

HCL (Brazil) Technologia da informacao EIRELI

HCL Technologies B.V.

HCL GmbH

HCL Technologies Limited - Israel Branch

HCL Sweden AB

HCL Technologies Beijing Co. Ltd.

HCL Technologies Middle East FZ-LLC

PT HCL Technologies Indonesia Limited

Butler America Aerospace LLC

HCL Technologies Chile Spa

HCL Axon Solutions (Shanghai) Co. Limited

HCL (Ireland) Information Systems Limited

HCL Technologies Columbia S.A.S.

HCL Technologies Belgium BVBA

HCL Technologies Finland Oy

HCL HCL Latin America Holding, LLC, Costa Rica Branch

HCL Axon Solutions (Shanghai) Co., Ltd. Guangzhou Branch

Geometric China Inc.

HCL Canada Inc.

HCL Singapore Pte. Limited

HCL Technologies (Shanghai) Limited

HCL Technologies Denmark Aps

HCL Technologies Germany GmbH

HCL Technologies Mexico

HCL Technologies Egypt Limited

HCL Technologies Ltd. Ogranizacni slozka(Czech Branch)

HCL Hungary Kft

HCL Poland Sp.z.o.o.

HCL Guatemala, Sociedad Anonima

HCL Technologies Lanka (Private) Limited

HCL Hong Kong SAR Limited

HCL Technologies Philippines Inc

HCL Technologies Limited - Russia Branch

HCL Technologies Greece Single Member P.C.

HCL Technologies Lithuania UAB

HCL Technologies UK Limited

HCL Technologies Limited- Swiss Branch

HCL Arabia Limited

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For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

c) Related parties with whom transactions have taken place during the year (continued)

Fellow Subsidiaries (continued)

HCL Australia Services Pty. Limited

HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.)

HCL Technologies Solutions Gmbh (Formerly Axon Solutions Schweiz GmbH)

HCL Technologies Limited - Portugal Branch

HCL Technologies Romania s.r.l.

HCL (Netherlands) BV

HCL Technologies Limited - Russia Branch

HCL Technologies France

HCL Technologies Malaysia Sdn Bhd

HCL Argentina s.a.

HCL Belgium NV

HCL Japan Limited

HCL Technologies Austria GmbH

HCL Technologies South Africa (Proprietary) Limited

HCL Technologies Sweden AB

HCL Technologies Mexico S. DE R. L. DE C. V.

HCL Technologies Corporate Services Limited

HCL Latin America Holding LLC

HCL Technologies (Taiwan) Limited.

HCL (New Zealand) Limited

HCL Technologies Italy S.p.A.

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

	<i>31 Dec'21</i>	<i>31 Dec'20</i>
Ultimate Holding Company:	SR	SR
a) Consulting charges accrued to ultimate holding company	19,458,173	19,296,353
b) Sales made/Services rendered to ultimate holding company	742,927	552,659
c) Payments made to ultimate holding company	20,475,345	10,798,778
Key Management Personnel:		
a) Salary Payments made during the year to Mr. Uma Kant Sharma	130,876	123,793
Fellow Subsidiaries:		
	SR	SR
a) Consultation services rendered by fellow subsidiaries	31 Dec'21	31 Dec'20
HCL America Inc.	1,563,740	1,270,762
HCL Technologies Middle East FZ-LLC- Dubai Branch	403,351	358,400
HCL Great Britain Limited	255,741	569,792
HCL Technologies Norway AS	203,659	929,265
HCL Singapore Pte. Limited	115,900	-
HCL Technologies Egypt Ltd.	55,070	-
HCL Canada Inc - SD	43,850	341,826
HCL Axon Solutions (Shanghai) Co. Limited	36,283	9,460
HCL (Ireland) Information Systems Limited	14,382	5,667
HCL Technologies Finland Oy	12,623	3,610
HCL Technologies Middle East FZ-LLC	11,270	14,348
HCL Sweden AB	8,654	21,189
HCL Canada Inc.	6,979	-
HCL TECHNOLOGIES MÉXICO, S. DE R. L. DE C. V.	5,163	-
HCL Technologies Beijing Co. Ltd.	3,343	15,922
PT HCL Technologies Indonesia Limited	3,300	13,827
HCL Technologies Limited- Ireland Branch	-	152,492
HCL (Brazil) Tecnologia da informacao EIRELI	-	60,340
HCL Technologies B.V.	-	43,845
HCL GmbH	-	40,830
Butler America Aerospace LLC	-	11,582
HCL Technologies Chile Spa	-	9,650
HCL Technologies Columbia S.A.S.	-	4,102
HCL Technologies Belgium BVBA	-	4,099

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For the year ended 31 December 2021
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8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Fellow Subsidiaries (continued):

	31 Dec'21	31 Dec'20
	SR	SR
HCL Technologies (Shanghai) Limited	163,742	-
HCL Technologies France	68,534	-
HCL Guatemala, Sociedad Anónima	65,857	-
HCL Technologies Romania s.r.l.	29,992	-
HCL AXON Malaysia Sdn Bhd (fy Axon Solutions Sdn Bhd)	14,311	-
H C L Technologies Lanka (Private) Limited	5,853	-
HCL Poland sp. z o.o	4,195	-
HCL Technologies Philippines, Inc.	4,164	-
HCL Argentina s.a.	3,717	-
HCL Hong Kong SAR Limited	3,506	-
HCL Hungary KFT.	2,476	-
	3,109,655	3,881,008

b) Marketing Services rendered by fellow subsidiaries

	31 Dec'21	31 Dec'20
	SR	SR
HCL Technologies Limited- UAE Branch	2,907,196	1,294,727
	2,907,196	1,294,727

c) Sales made/Services rendered to fellow subsidiaries

	31 Dec'21	31 Dec'20
	SR	SR
HCL Technologies Middle East FZ-LLC- Dubai Branch	750,084	-
HCL (New Zealand) Limited	233,846	-
HCL Technologies UK Limited	134,463	116,704
HCL Japan Limited	117,762	-
HCL Latin America Holding LLC, Panama Branch	89,038	-
HCL Technologies Finland Oy	74,175	-
HCL Technologies Norway AS	53,876	-
HCL Technologies Italy S.P.A	51,184	-
HCL Australia Services Pty. Limited	50,737	72,323
HCL Canada Inc - SD	37,479	18,856
HCL Technologies Sweden AB	34,605	-
HCL HCL Latin America Holding, LLC, Costa Rica Branch	32,946	-
HCL Singapore Pte. Limited	31,296	32,640
HCL (Ireland) Information Systems Limited	15,444	-
HCL Argentina s.a.	13,411	-
HCL America Inc.	8,859	3,333
HCL Hong Kong SAR Limited	5,238	-
HCL Technologies South Africa (Proprietary) Limited	2,627	-
HCL Technologies (Taiwan) Limited	2,359	-
HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.)	-	61,720
HCL Axon Solutions (Shanghai) Co. Limited	-	22,508
HCL Technologies Chile Spa	-	18,597
HCL Technologies Philippines, Inc	-	13,930
HCL Technologies Solutions Gmbh (Formerly Axon Solutions Schweiz GmbH)	-	6,984
HCL Technologies Limited - Portugal Branch	-	6,423
HCL Technologies Romania s.r.l.	-	6,314
HCL (Netherlands) BV	-	4,734
HCL Technologies Limited - Russia Branch	-	2,887
HCL Technologies France	-	2,765
HCL Technologies Malaysia Sdn Bhd	-	520
	1,739,429	391,238

HCL Arabia Limited

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

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8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Fellow Subsidiaries (continued):

d) Payments made to fellow subsidiaries

	SR	SR
	31 Dec'21	31 Dec'20
HCL America Inc.	2,724,775	1,792,598
HCL Technologies Norway AS	520,848	531,095
HCL Technologies (Shanghai) Limited	428,230	-
HCL Great Britain Limited	280,164	494,364
HCL Technologies Middle East FZ-LLC- Dubai Branch	193,384	321,515
Geometric China, Inc.	169,679	-
HCL (Brazil) Technologia Da Informacao EIRELI	55,285	-
HCL Technologies Germany GmbH	37,462	-
HCL Technologies Sweden AB	20,265	-
HCL Technologies Beijing Co., Ltd	14,820	-
HCL Technologies Chile SpA	8,902	-
HCL Axon Solutions (Shanghai) Co., Limited	8,806	-
HCL (Ireland) Information Systems Limited	5,200	-
HCL Technologies Colombia SAS	4,358	-
HCL Axon Solutions (Shanghai) Co., Ltd, Guangzhou Branch	2,804	-
HCL Technologies Middle East FZ-LLC	977	121,414
HCL Technologies Mexico S. DE R. L. DE C. V.	-	1,950
HCL Canada Inc.	-	9,403
HCL Canada Inc. – SD	-	245,498
HCL Technologies Limited- Ireland Branch	-	147,884
HCL Technologies Germany GmbH	-	6,449
HCL Technologies UK Limited	-	206,196
HCL Technologies Belgium BVBA	-	41,454
HCL Technologies Finland Oy	-	8,850
HCL Technologies Lithuania UAB	-	15,216
HCL Technologies Greece Single Member P.C.	-	264,784
HCL Technologies Denmark Aps	-	7,434
HCL Technologies Corporate Services Limited	-	285,794
HCL Singapore Pte. Limited	-	1,463,886
HCL Technologies Philippines, Inc	-	-
	4,475,961	5,965,784

The breakdown of amounts due from and to related parties as at end of the year are as follows:

a) Amounts due from related parties

	31 Dec'21	31 Dec'20
	SR	SR
Ultimate Holding Company	4,519,906	1,567,780
Fellow subsidiaries:		
HCL Singapore Pte. Limited	346,291	451,407
HCL Technologies Middle East FZ-LLC- Dubai Branch	189,466	-
HCL Japan Limited	117,762	-
HCL America Inc.	95,231	91,118
HCL Argentina s.a.	41,126	27,688
HCL HCL Latin America Holding, LLC, Costa Rica Branch	32,946	-
HCL (Ireland) Information Systems Limited	15,444	-
HCL (Brazil) Technologia da informacao EIRELI	14,405	14,407
HCL Technologies Romania s.r.l.	6,314	6,314
HCL Technologies Chile Spa	5,681	37,913
HCL Technologies (Taiwan) Limited	2,359	-
HCL Technologies Limited- Swiss Branch	-	236,123
HCL Australia Services Pty. Limited	-	57,236
HCL Axon Solutions (Shanghai) Co. Limited	-	48,898
HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.	-	31,789

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2021
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8 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from and to related parties as at end of the year are as follows (continued):

a) Amounts due from related parties (continued)	31 Dec'21	31 Dec'20
Fellow subsidiaries (continued):	SR	SR
HCL Technologies UK Ltd.	134,463	-
HCL Technologies Norway AS	53,876	-
HCL Technologies Italy S.P.A.	51,184	-
HCL Axon Solutions (Shanghai) Co. Limited.	48,898	-
HCL Technologies Sweden AB	34,605	-
HCL Latin America Holding LLC, Panama Branch	26,247	-
HCL Technologies Finland Oy	24,944	-
HCL Technologies South Africa (Proprietary) Limited	2,627	-
	5,763,775	2,570,673
b) Amounts due to related parties	31 Dec'21	31 Dec'20
	SR	SR
Ultimate Holding Company	32,408,195	19,846,349
Fellow subsidiaries:		
HCL America Inc.	1,741,872	2,997,402
HCL Technologies Middle East FZ-LLC- Dubai Branch	432,651	256,345
HCL Canada Inc. – SD	386,384	341,826
HCL Technologies UK Limited	249,099	-
HCL Technologies Norway AS	233,512	647,817
HCL Technologies (Shanghai) Limited	167,180	422,938
HCL Latin America Holding, LLC, Costa Rica branch	112,363	112,255
HCL Technologies France	66,260	-
HCL Guatemala, Sociedad Anónima	65,871	-
HCL Technologies Egypt Ltd.	55,051	-
HCL Technologies B.V.	40,468	43,845
HCL Technologies Romania s.r.l.	29,397	-
HCL Axon Solutions (Shanghai) Co. Limited	24,896	10,232
PT HCL Technologies Indonesia Limited	18,552	15,210
HCL Axon Malaysia Sdn Bhd-Software Division	14,400	-
HCL (Ireland) Information Systems Limited	14,382	6,214
HCL Axon Solutions (Shanghai) Co.Ltd.,Guanzhou Branch	13,034	2,770
HCL Technologies Finland Oy	12,376	-
HCL Technologies Middle East FZ-LLC	11,285	1,150
HCL Asia Pacific Pte. Ltd. – Korea Branch(Formerly Geometric Asia Pacific Pte. Ltd., Korea Branch)	10,107	11,582
HCL Technologies Sweden AB	8,654	24,336
HCL Canada Inc.	6,993	-
H C L Technologies Lanka (Private) Limited	5,544	-
HCL Technologies Mexico S. DE R. L. DE C. V.	5,197	-
HCL Argentina s.a.	4,214	-
HCL Technologies Philippines, Inc	3,992	-
HCL Poland sp. z o.o	3,912	-
HCL Technologies Belgium BVBA	3,783	4,099
HCL Hong Kong SAR Limited	3,497	-
HCL Technologies Beijing Co. Ltd.	3,455	17,220
HCL Hungary KFT.	2,246	-
HCL Great Britain Limited	-	326,836
Geometric China Inc.	-	167,582
HCL (Brazil) Tecnologia da informacao EIRELI	-	67,439
HCL GmbH	-	44,764
HCL Technologies Chile Spa	-	10,706
HCL Technologies Columbia S.A.S.	-	5,332
	36,158,822	25,384,249

9 Goodwill

	31 Dec'21	<i>31 Dec'20</i>
	SR	<i>SR</i>
Goodwill arising from business combinations	2,563,444	<i>2,563,444</i>
	2,563,444	<i>2,563,444</i>

The recoverable amount of the unit was based on its value in use, determined by discounting the future cash flows that generated from the business acquired. Value in use was computed based on the following key assumptions:

IBM business

- Cash flows were projected based on the financial year ended 31 December 2021 actual operating results and the unit's 5-years business plan, with average net margin applied of 9% (2020: 10%) per annum for the years 2022 to 2026.
- The terminal value was estimated using the perpetuity growth model, with a weighted average growth rate to perpetuity of 2% (2020: 2%).
- A pre-tax discount rate of 4.96% (2020: 2.86%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on an industry average weighted average cost of capital

10 Property and equipment

	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Capital work in progress</i>	<i>Computers and software</i>	Total
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	SR
Cost :					
At 1 Jan'21	11,965	470,900	83,821	1,119,214	1,685,900
Additions	-	-	-	155,374	155,374
Reclassification	-	-	(83,821)	83,821	-
Disposals	-	-	-	(911,283)	(911,283)
At 31 Dec'21	11,965	470,900	-	363,305	929,991
Accumulated depreciation:					
At 1 Jan'21	11,965	470,900	-	440,818	923,683
Charge for the year	-	-	-	537,126	537,126
Retirement	-	-	-	(834,833)	(834,833)
At 31 Dec'21	11,965	470,900	-	143,111	625,976
Net Book Value:					
At 31 Dec'21	-	-	-	220,194	304,015

	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Capital work in progress</i>	<i>Computers and software</i>	Total
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	SR
Cost:					
At 1 Jan'20	11,965	470,900	334,661	596,744	1,414,270
Additions	-	-	83,821	522,470	606,291
Reclassification	-	-	(334,661)	334,661	-
Disposals	-	-	-	(334,661)	(334,661)
At 31 Dec'20	11,965	470,900	83,821	1,119,214	1,685,900
Accumulated depreciation:					
At 1 Jan'20	11,965	470,900	-	259,487	742,352
Charge for the year	-	-	-	200,533	200,533
Retirement	-	-	-	(19,202)	(19,202)
At 31 Dec'20	11,965	470,900	-	440,818	923,683
Net Book Value:					
At 31 Dec'20	-	-	83,821	678,396	762,217

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

11 INTANGIBLE ASSETS

	<i>Customer Relationship</i>	<i>Software Application</i>	<i>Total</i>
	SR	SR	SR
Cost :			
At 1 Jan'21	2,203,778	337,453	2,541,231
Additions	-	-	-
At 31 Dec'21	2,203,778	337,453	2,541,231
Accumulated amortization:			
At 1 Jan'21	452,536	108,290	560,826
Charge for the year	380,064	112,486	492,550
At 31 Dec'21	832,600	220,776	1,053,376
Net Book Value:			
At 31 Dec'21	1,371,178	116,677	1,487,855

	<i>Customer Relationship</i>	<i>Software Application</i>	<i>Total</i>
	SR	SR	SR
Cost :			
At 1 Jan'20	2,203,778	29,481	2,233,259
Additions	-	307,972	307,972
At 31 Dec'20	2,203,778	337,453	2,541,231
Accumulated amortization:			
At 1 Jan'20	85,921	3,706	89,627
Charge for the year	366,615	104,584	471,199
At 31 Dec'20	452,536	108,290	560,826
Net Book Value:			
At 31 Dec'20	1,751,242	229,163	1,980,405

12 ACCOUNT PAYABLES AND ACCRUALS

	31 Dec'21	31 Dec'20
	SR	SR
Contract liabilities	2,723,463	670,383
Accrued expenses	1,941,607	1,890,922
Other payables	1,585,243	3,796,002
Employee payables	1,463,470	694,357
Trade account payables	396,993	329,923
	8,110,776	7,381,587

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in Saudi Riyals unless otherwise stated)

13 INCOME TAX AND DEFERRED TAX

a) Income tax

Charge for the year

The income tax charge consists of:

	31 Dec'21	31 Dec'20
	SR	SR
<u>Current tax*</u>		
Current income tax	1,059,587	1,047,056
<u>Deferred tax credit</u>		
Relating to origination and reversal of temporary differences**	(159,839)	(253,322)
Income tax reported in the statement of comprehensive income	899,748	793,734

* Current income tax has been provided for based on the estimated taxable profit at 20% (2020: 20%).

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

	31 Dec'21	31 Dec'20
	SR	SR
<u>Deferred tax assets</u>		
Provision for doubtful debt	564,763	553,807
Differences in depreciation	73,140	31,627
Provision for employees defined benefits liabilities	148,611	62,165
Unrealised forex loss	-	26,776
Total deferred tax assets	786,514	674,375
<u>Deferred tax liability</u>		
Unrealised forex gain	1,970	-
Net deferred tax assets	784,544	674,375

b) Movement in income tax provision and deferred tax asset:

	31 Dec'21		31 Dec'20	
	Income tax	Deferred tax	Income tax	Deferred tax
	SR	SR	SR	SR
At beginning of the year	1,086,839	674,375	351,571	417,801
Provided and expensed during the current year	1,379,942	159,839	1,083,535	253,322
Provided and expensed during the previous year	(320,355)	-	(36,479)	-
DTA created against OCI	-	(49,670)	-	3,252
Payments during the year	(763,031)	-	(311,788)	-
At end of the year	1,383,395	784,544	1,086,839	674,375

c) Status of assessments

The Company has submitted income tax declarations for all years upto 31 Dec'20 to the Zakat, Tax and Customs Authority (the 'ZATCA'). However, assessments are in process for year ending 31 Dec 2016 and 31 Dec 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

14 EMPLOYEES DEFINED BENEFITS LIABILITIES

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 Dec'21 and 31 Dec'20 in respect of employees end-of-service benefits payable under relevant local regulations and contractual arrangements. The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:

	31 Dec'21	31 Dec'20
	SR	SR
Present value of employees defined benefits liabilities		
Current Liabilities	51,778	8,070
Non current Liabilities	691,279	403,523
	743,057	411,593

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

Current service costs	583,938	215,341
Interest costs on liability	10,963	4,819
	594,901	220,160

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

Employees defined benefits liabilities at beginning of the year	411,593	179,179
Current service costs	583,938	215,341
Interest costs on liability	10,963	4,819
End of service benefits paid	(15,089)	(4,004)
Actuarial (gain)/ loss	(248,348)	16,258
Employees defined benefits liabilities at end of the year	743,057	411,593

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

	31 Dec'21	31 Dec'20
Discount rate	2.69%	2.69%
Future salary increment rate	3.33%	2.00%
Retirement age (female)	55	55
Retirement age (male)	60	60

Sensitivity Analysis:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

14 EMPLOYEES DEFINED BENEFITS LIABILITIES (continued)

	Year ended Dec'21	
	Discount Rate	Salary Escalation Rate
Defined benefit obligation on increase in 50 bps	709,002	779,483
Impact of increase in 50 bps on DBO	-4.58%	4.90%
Defined benefit obligation on decrease in 50 bps	779,904	709,046
Impact of decrease in 50 bps on DBO	4.96%	-4.58%

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

15 CAPITAL

The Company's capital consists of 12,200 shares (2020: 12,200 shares) of SR 500 each. The Company is owned 90% by HCL Bermuda Limited, and 10% by HCL Latin America Holding LLC.

	31 Dec'21	31 Dec'20
	SR	SR
Authorized		
12,200 equity shares of SAR 500 each	6,100,000	6,100,000

Terms/ rights attached to equity shares

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

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

	31 Dec'21	31 Dec'20
Number of shares at beginning	12,200	12,200
Add: Shares issued during the year	-	-
Number of shares at end	12,200	12,200

16 REVENUE

	31 Dec'21	31 Dec'20
	SR	SR
Application and support services	62,113,746	47,159,989
Product revenue	57,523	362
	62,171,269	47,160,351

17 COST OF REVENUE

	31 Dec'21	31 Dec'20
	SR	SR
Consulting charges-Group	22,567,829	23,177,361
Employee benefit expenses	20,665,230	10,919,555
Outsourced services	3,728,785	3,717,622
Others	2,668,196	276,552
Software license	77,640	263,924
	49,707,680	38,355,014

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2021

(All amounts in Saudi Riyals unless otherwise stated)

18 SELLING AND DISTRIBUTION EXPENSES

	31 Dec'21	31 Dec'20
	SR	SR
Marketing expenses	2,910,546	1,350,985
Outsourcing costs	454,949	169,430
Bad Debts	192,742	-
Travel	100,504	472,345
Charge/(reversal) of provision of allowance for doubtful accounts (Note 6)	54,784	(230,331)
	3,713,525	1,762,429

19 GENERAL AND ADMINISTRATIVE EXPENSES

	31 Dec'21	31 Dec'20
	SR	SR
Professional fees	1,350,975	1,101,799
Depreciation and amortisation(Note 10 & 11)	1,029,676	671,732
Establishment and maintenance costs	302,106	18,525
Rent	196,447	139,918
Penalty on direct tax	83,948	-
Audit fees	81,300	43,600
	3,044,452	1,975,574

20 OTHER EXPENSES-NET

	31 Dec'21	31 Dec'20
	SR	SR
Foreign exchange loss - net	179,631	295,688
Interest income on customer receivables	(54)	-
Miscellaneous Income	-	4,078
	179,577	299,766

21 IMPACT OF COVID-19

In view of pandemic relating to COVID-19, the Company has considered and taken into account internal and external information on current estimates in assessing the recoverability of receivables, unbilled receivables, goodwill, intangible assets, other financial assets, impact on revenues and costs and impact on leases. However, the actual impact of COVID-19 on the financial statements may differ from that estimated and the company will continue to closely monitor any material changes to future economic conditions.

22 EVENTS AFTER THE REPORTING PERIOD

There have been no significant subsequent events since the year ended 31 Dec'21 that would have material impact on the statement of financial position of the Company as shown in these financial statements.

23 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 Dec'21 were authorised for issuance by the shareholders on 11 May 2022

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P. O. Box 92876
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Date: 11th May 2022

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of HCL Arabia Limited (“the Company”), for the year ended 31 December 2021, comprising the following: the statement of financial position as at 31 December 2021, the related statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information, for the purpose of expressing an opinion as to whether these financial statements are presented fairly, in all material respects in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

We confirm that the representations we make in this letter are in accordance with the definitions set out in the Appendix to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 7 December 2021, for the preparation and fair presentation of the financial statements in accordance with IFRSs.
2. Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, if any, are reasonable.
3. All events subsequent to the date of the financial statements and for which IFRSs require adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Information Provided

5. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

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- unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We confirm the following:
- i) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) We have disclosed to you all information in relation to:
- a) Fraud or suspected fraud that we are aware of and that affects the Company and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- b) Allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, we acknowledge our responsibility for such internal control as we determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, we acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, we have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements in accordance with IFRSs all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IFRS for SMEs.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IFRS for SMEs.

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- 10.** We have made an assessment of the Company's ability to continue as a going concern taking into account all available information about the future, including the analysis of the potential impact in relation to the outbreak of COVID19, which under IFRS for SMEs Presentation of Financial Statements is at least, but is not limited to, twelve months from the end of the reporting period. We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.
- 11.** The Company has complied with all the provisions of applicable KSA laws.
- a. We have informed you of all the documents that we expect to issue that may comprise other information.
 - b. The financial statements and any other information provided to you prior to the date of the auditors' report are consistent with one another and the other information does not contain any material misstatements.
- 12.** Additional representations to address Value added Tax (VAT):
- a. The Company is regular in depositing the Value Added Tax ("VAT") with the appropriate authorities on a timely basis.
 - b. The VAT returns have been filed with the regulatory authorities within the stipulated timelines.
 - c. The Company has evaluated the status of recovery/ availability for future utilization of VAT input credit and has carried forward these balances as these are considered to be good and recoverable.
 - d. We confirm that there are no undisputed amounts payable in respect of Value added tax were in arrears as at 31 December 2021 from the date they became due other than those disclosed to you during the audit.

Except as disclosed to you already in writing, there have been no communications from regulatory agencies, governmental representatives, tax authorities employees or others concerning investigations or allegations of noncompliance with VAT laws and regulations, that could have a material adverse effect on the financial statements.

- 13.** Additional representations to address specific circumstances of the client:
- a. Deferred tax assets are recognized on all deductible temporary differences, carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which these assets can be utilized.
 - b. We confirm that Company is in compliance with all the requirements related to transfer pricing and we take responsibility for appropriateness of records relating to transfer pricing documentation as required by local laws and regulations.
 - c. There is no Management intent, e.g. plans or intentions that may affect the carrying value or classification of assets and liabilities.

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- d. Information that is known only to management, e.g. liabilities, both actual and contingent; title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral; and aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.
- e. Whether matters, such as liabilities, both actual and contingent, where relevant under the applicable financial reporting framework, have been recognized, measured, presented or disclosed in accordance with that framework.

We hereby confirm that the above representations are made by us on the basis of enquiries with various stakeholders (including but not limited to shareholders, key management personnel including directors and employees) having relevant knowledge, skillset and experience (and, where appropriate, by inspection of supporting documentation) sufficient to satisfy ourselves that we can authoritatively, properly and appropriately make each of the above representations to you.

Yours truly,

Umar Kant Shauk



General Manager

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Appendix to the Management Representation Letter of HCL Arabia Limited

Definitions

The following definitions assume that IFRS for SMEs are the applicable financial reporting framework. When IFRS for SMEs have not been used to prepare the financial statements, an appropriate equivalent definition from the applicable financial reporting framework should be used, if available. If the financial reporting framework does not contain a relevant definition, then the definition from the ISA or IFAC Glossary of Terms should be used.

Financial Statements

Section 3.17 of IFRS for SMEs states that "a complete set of financial statements comprises:

- a) a statement of financial position as at the end of the period;
- b) a statement of comprehensive income for the period;
- c) a statement of changes in equity for the period;
- d) a statement of cash flows for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information;
- f) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'."

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Appendix B (Glossary of terms) of IFRS for SMEs state the following:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

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Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.”

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Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure. (IFAC Glossary of Terms).

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorized for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in Section 33 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i) has control or joint control over the reporting entity;
 - ii) has significant influence over the reporting entity; or
 - iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities 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 entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- 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 of a parent of the entity).
- viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of or significant influence over, both the reporting entity and the other entity.

Related party transaction - A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.