

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 2020

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KPMG Professional Services

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Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

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 2020, 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 2020, 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 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 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, the Shareholders, are responsible for overseeing the Company's financial reporting process.

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كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأس مالها (١٥,٠٠٠,٠٠٠) ريال سعودي مدفوع بالكامل، الصممة سابقاً "شركة كي بي إم جي للوزان وشركاء محاسبين ومراجعون قانونيون". و هي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لكي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.



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

Date: 3 June 2021
Corresponding to: 22 Shawwal 1442H



HCL Arabia Limited
(A Limited Liability Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

	Note	31 Dec'20 SR	31 Dec'19 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	11,305,477	5,907,767
Accounts receivable and unbilled revenue	6	24,703,153	15,034,203
Inventories		16,957	-
Prepayments and other receivables	7	349,646	410,038
Amounts due from related parties	8	2,570,673	815,570
TOTAL CURRENT ASSETS		38,945,906	22,167,578
NON-CURRENT ASSET			
Property, plant and equipment	10	678,396	337,257
Capital work in progress		83,821	334,661
Goodwill	9	2,563,444	2,563,444
Other intangible assets	11	1,980,405	2,143,632
Deferred tax assets	13	674,375	417,801
TOTAL NON-CURRENT ASSETS		5,980,441	5,796,795
TOTAL ASSETS		44,926,347	27,964,373
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	12	7,381,587	4,416,033
Amounts due to related parties	8	25,384,249	16,342,716
Provision for income tax	13	1,086,839	351,571
Employees' defined benefits liabilities	14	8,070	81
TOTAL CURRENT LIABILITIES		33,860,745	21,110,401
NON-CURRENT LIABILITY			
Employees' defined benefits liabilities	14	403,523	179,098
Other payables and accruals		94,114	-
TOTAL NON-CURRENT LIABILITIES		497,637	179,098
TOTAL LIABILITIES		34,358,382	21,289,499
EQUITY			
Capital	15	6,100,000	6,100,000
Statutory reserve		491,416	102,107
Retained earnings		3,976,549	472,767
TOTAL EQUITY		10,567,965	6,674,874
TOTAL LIABILITIES AND EQUITY		44,926,347	27,964,373

These financial statements as shown on pages from 3 to 25 were approved by the Board of Directors/ Shareholders on 3 June 2021 and signed on their behalf by:

Umar Kant Shauw

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 2020

(All amounts in Saudi Riyals unless otherwise stated)

	<i>Notes</i>	31 Dec'20	31 Dec'19
		SR	SR
Revenue	16	47,160,351	19,074,733
Cost of Sales	17	(38,355,014)	(14,714,243)
GROSS PROFIT		8,805,337	4,360,490
EXPENSES			
Selling and distribution	18	(1,762,429)	(3,658,506)
General and administrative	19	(1,975,574)	(1,046,211)
OPERATING PROFIT/(LOSS)		5,067,334	(344,227)
Other expenses	20	(299,766)	(33,970)
Financial charges		(67,737)	(63,509)
PROFIT/(LOSS) BEFORE INCOME TAX		4,699,831	(441,706)
Income tax	13	(793,734)	63,118
PROFIT/(LOSS) FOR THE YEAR		3,906,097	(378,588)
Other comprehensive income/(loss):			
Items that will not be subsequently reclassified to profit and loss			
Re-measurement of defined benefit plan	14	(16,258)	(84,511)
Deferred tax credit related to re-measurement loss of employee benefits	13b	3,252	16,902
TOTAL OTHER COMPREHENSIVE LOSS		(13,006)	(67,609)
TOTAL COMPREHENSIVE INCOME/(LOSS)		3,893,091	(446,197)

These financial statements as shown on pages from 3 to 25 were approved by the Board of Directors/ Shareholders on 3 June 2021 and signed on their behalf by:

Umakant Shree

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 2020

(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'19	6,100,000	102,107	918,964	7,121,071
Loss for the year	-	-	(378,588)	(378,588)
Other comprehensive loss for the year, net of tax	-	-	(67,609)	(67,609)
Total comprehensive loss	-	-	(446,197)	(446,197)
As at 31 Dec'19	6,100,000	102,107	472,767	6,674,874
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, net of tax	-	-	(13,006)	(13,006)
Transferred to statutory reserve	-	389,309	(389,309)	-
Total comprehensive income	-	389,309	3,503,782	3,893,091
As at 31 Dec'20	6,100,000	491,416	3,976,549	10,567,965

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 2020

(All amounts in Saudi Riyals unless otherwise stated)

	<i>Notes</i>	31 Dec'20	31 Dec'19
		SR	SR
<i>Cash flows from operating activities</i>			
Profit/(Loss) before income tax		4,699,831	(441,706)
<i>Adjustments for</i>			
Depreciation and amortisation	10,11	671,732	217,430
Employees' defined benefit expenses	14	220,160	50,896
Loss on sale of asset		-	397
Asset written off		(19,202)	-
		5,572,521	(172,983)
<i>Changes in working capital:</i>			
Accounts receivable , prepayments and other receivables		(9,625,515)	(9,451,505)
Amounts due from related parties		(1,755,103)	781,180
Accounts payable and accruals		3,059,668	3,276,194
Amounts due to related parties		9,041,533	13,077,294
		6,293,104	7,510,180
Cash from operations		6,293,104	7,510,180
Income tax paid	13b	(311,788)	(139,018)
Employees' defined benefits paid	14	(4,004)	(7,137)
		5,977,312	7,364,025
<i>Net cash flows from operating activities</i>			
<i>Cash flows from investing activities</i>			
Purchase of property, plant and equipment	10	(187,809)	(261,719)
Addition to capital work in progress		(83,821)	(334,661)
Addition to intangibles	9,11	(307,972)	(4,355,947)
		(579,602)	(4,952,327)
<i>Net cash flows used in investing activities</i>			
Net increase in bank balances		5,397,710	2,411,698
Bank balances at the beginning of the year		5,907,767	3,496,069
		11,305,477	5,907,767
Bank balances at the end of the year		11,305,477	5,907,767

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 2020

(All amounts in Saudi Riyals unless otherwise stated)

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 address of the Company is located at AL Olaya Street, Al Aqariya Plaza, Office NO.203, Riyadh-12244, Kingdom of Saudi Arabia ("KSA").

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

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

2 BASIS OF PREPARATION

2.1 *Statement of compliance*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unbilled revenue

Revenue recognized but not billed to customers is classified 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 receivable, unbilled revenue, prepayments and other receivables, amounts due from related parties. Financial liabilities include account payables, accruals and amounts due to related parties.

Impairment and collectability of financial assets

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

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

Offsetting a financial asset and a financial liability

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

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment(continued)

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

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

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

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

Capital work in progress

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

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

Intangible assets

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

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

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

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

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.

VAT

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

Impairment of non-financial assets

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

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

Goodwill

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

Intangible assets

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

Trade payables, accruals and other payables

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

Provisions

Provisions are recognised when the Company has:

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

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

Income tax

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

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 sales', 'administrative expenses' and 'distribution costs' in the statement of comprehensive income (by function).

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

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

Statutory reserve

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

Leases

Company as a lessee

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated, and there is no continuing measurement involvement with the goods. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on accrual basis.

Expenses

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

Foreign currency transactions

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

New standards and amendments to the existing standards

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

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Key sources of estimation uncertainty

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

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, plant, and equipment	678,396
Goodwill	2,563,444
Other intangible assets	1,980,405
Capital work in progress	83,821

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

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, plant and equipment, intangible assets, impairment of goodwill and other contingencies and commitments. Changes in estimates are reflected in the financial statements in the year in which the changes are made. Actual results could differ from those estimates.

Impairment of trade receivables

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

Fair value measurement of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

5 CASH AND CASH EQUIVALENTS

	31 Dec'20	31 Dec'19
	SR	SR
Cash at bank	11,305,477	5,907,767
	11,305,477	5,907,767

6 ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

	31 Dec'20	31 Dec'19
	SR	SR
Trade receivables	18,084,507	13,527,508
Unbilled revenue	9,387,672	4,506,052
Allowance for doubtful accounts	(2,769,026)	(2,999,357)
	24,703,153	15,034,203

Movements in the allowance for doubtful accounts were as follows:

	31 Dec'20	31 Dec'19
	SR	SR
At the beginning of the year	2,999,357	504,770
(Reversal)/ charge for the year	(230,331)	2,494,587
At the end of the year	2,769,026	2,999,357

The ageing of unimpaired trade receivables is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			Total
		<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>	SR
31 Dec'20	13,456,550	834,785	787,000	237,146	15,315,481
31 Dec'19	5,185,000	1,167,604	660,004	3,515,543	10,528,151

7 PREPAYMENTS AND OTHER RECEIVABLES

	31 Dec'20	31 Dec'19
	SR	SR
Prepaid expense	209,839	240,471
Others	139,807	169,567
	349,646	410,038

HCL Arabia Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

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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 (Formerly known as HCL (Brazil) Technologia da informacao Ltda.)

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. (Formerly known as HCL Axon Technologies Inc.)

HCL Singapore Pte. Limited

HCL Technologies (Shanghai) Limited

HCL Technologies Denmark Aps

HCL Technologies Germany GmbH

HCL Arabia Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(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 Technologies Greece Single Member P.C.
HCL Technologies Lithuania UAB
HCL Technologies UK Limited
HCL Technologies Limited- Swiss Branch
HCL Australia Services Pty. Limited
HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.)
HCL Technologies Philippines, Inc
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 (formerly Axon Solutions Sdn Bhd)
HCL (Brazil) Tecnologia da informacao EIRELI
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 Mexico S. de R.L.
HCL Technologies Mexico S. DE R. L. DE C. V.
HCL Canada Inc. – SD
HCL Technologies Corporate Services Limited

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

	31 Dec'20	31 Dec'19
Ultimate Holding Company:	SR	SR
a) Consulting charges accrued to ultimate holding company	17,493,113	7,522,015
b) Sales made/Services rendered to ultimate holding company	266,681	334,209
c) Payments made by ultimate holding company on behalf of the Company	9,416,908	-
Key Management Personnel:		
a) Salary Payments made during the year to Mr. Uma Kant Sharma	123,793	138,029
Fellow Subsidiaries:		
a) Consultation services rendered by fellow subsidiaries	31 Dec'20	31 Dec'19
	SR	SR
HCL Technologies Limited- UAE Branch	1,662,485	169,965
HCL America Inc.	1,270,762	112,528
HCL Technologies Norway AS	929,265	255,880
HCL Great Britain Limited	569,792	279,907
HCL Technologies Middle East FZ-LLC- Dubai Branch	358,400	274,173
HCL Canada Inc - SD	341,826	290,289
HCL Technologies Limited- Ireland Branch	152,492	5,791
HCL Technologies Limited - Abu Dhabi	105,443	12,696
HCL (Brazil) Tecnologia da informacao EIRELI (Formerly known as HCL (Brazil) Tecnologia da informacao Ltda.)	60,340	-
HCL Technologies B.V.	43,845	-
HCL GmbH	40,830	-
HCL Technologies Limited - Israel Branch	35,312	-
HCL Sweden AB	21,189	-
HCL Technologies Beijing Co. Ltd.	15,922	-
HCL Technologies Middle East FZ-LLC	14,348	129,695

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020
(All amounts in Saudi Riyals unless otherwise stated)

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):

a) Consultation services rendered by fellow subsidiaries (continued)

	31 Dec'20	31 Dec'19
	SR	SR
PT HCL Technologies Indonesia Limited	13,827	-
Butler America Aerospace LLC	11,582	-
HCL Technologies Chile Spa	9,650	-
HCL Axon Solutions (Shanghai) Co. Limited	9,460	-
HCL (Ireland) Information Systems Limited	5,667	-
HCL Technologies Columbia S.A.S.	4,102	-
HCL Technologies Belgium BVBA	4,099	46,513
HCL Technologies Finland Oy	3,610	-
HCL HCL Latin America Holding, LLC, Costa Rica Branch	-	114,542
HCL Axon Solutions (Shanghai) Co., Ltd. Guangzhou Branch	-	2,985
Geometric China Inc.	-	187,697
HCL Canada Inc. (Formerly known as HCL Axon Technologies Inc.)	-	10,946
HCL Singapore Pte. Limited	-	559,314
HCL Technologies (Shanghai) Limited	-	474,464
HCL Technologies Denmark Aps	-	8,069
HCL Technologies Germany Gmbh	-	7,320
HCL Technologies Greece Single Member P.C.	-	296,639
HCL Technologies Lithuania UAB	-	17,047
HCL Technologies UK Limited	-	243,995
	5,684,248	3,500,455

b) Marketing Services rendered by fellow subsidiaries

	31 Dec'20	31 Dec'19
	SR	SR
HCL Technologies Limited- UAE Branch	1,294,727	875,250
	1,294,727	875,250

c) Sales made/Services rendered to fellow subsidiaries

	31 Dec'20	31 Dec'19
	SR	SR
HCL Technologies Limited- Swiss Branch	264,686	89,328
HCL Technologies UK Limited	116,704	325,190
HCL Australia Services Pty. Limited	72,323	-
HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.)	61,720	-
HCL Singapore Pte. Limited	32,640	-
HCL Axon Solutions (Shanghai) Co. Limited	22,508	26,390
HCL Technologies Limited- UAE Branch	21,292	10,315
HCL Canada Inc - SD	18,856	14,700
HCL Technologies Chile Spa	18,597	19,314
HCL Technologies Philippines, Inc	13,930	167,423
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	5,203
HCL America Inc.	3,333	492,279
HCL Technologies Limited - Russia Branch	2,887	12,903
HCL Technologies France	2,765	410,204
HCL Technologies Malaysia Sdn Bhd (formerly Axon Solutions Sdn Bhd)	520	-
HCL (Brazil) Tecnologia da informacao EIRELI	-	57,640
HCL Argentina s.a.	-	27,688
HCL Belgium NV	-	15,928

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

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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):

c) Sales made/Services rendered to fellow subsidiaries (continued)

	31 Dec'20	31 Dec'19
	SR	SR
HCL Canada Inc. (Formerly known as HCL Axon Technologies Inc.)	-	257,900
HCL Japan Limited	-	62,874
HCL Technologies Austria GmbH	-	6,558
HCL Technologies Finland Oy	-	29,058
HCL Technologies South Africa (Proprietary) Limited	-	60,671
HCL Technologies Sweden AB	-	7,219
HCL Mexico S. de R.L.	-	4,947
	677,216	2,103,732

d) Payments made by fellow subsidiaries on behalf of the Company

	31 Dec'20	31 Dec'19
	SR	SR
HCL America Inc.	1,792,598	-
HCL Technologies Mexico S. DE R. L. DE C. V.	1,950	-
HCL Canada Inc. (Formerly known as HCL Axon Technologies Inc.)	9,403	-
HCL Canada Inc. – SD	245,498	-
HCL Great Britain Limited	494,364	-
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 Norway AS	531,095	-
HCL Technologies Corporate Services Limited	285,794	-
HCL Technologies Limited- UAE Branch	1,261,228	-
HCL Singapore Pte. Limited	1,463,886	-
HCL Technologies Middle East FZ-LLC	121,414	-
HCL Technologies Limited - Abu Dhabi	120,642	-
HCL Technologies Middle East FZ-LLC- Dubai Branch	321,515	-
HCL Technologies Philippines, Inc	13,683	-
	7,361,337	-

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'20	31 Dec'19
	SR	SR
Ultimate Holding Company	1,567,780	352,501
Fellow subsidiaries:		
HCL Singapore Pte. Limited	451,407	-
HCL Technologies Limited- Swiss Branch	236,123	-
HCL America Inc.	91,118	118,626
HCL Australia Services Pty. Limited	57,236	-
HCL Axon Solutions (Shanghai) Co. Limited	48,898	26,390
HCL Technologies Chile Spa	37,913	19,315
HCL Technologies (PTY) Limited (Formerly known as HCL Axon (Proprietary) Ltd.	31,789	-
HCL Argentina s.a.	27,688	27,686
HCL (Brazil) Tecnologia da informacao EIRELI (Formerly known as HCL (Brazil) Tecnologia da informacao Ltda.)	14,407	63,400
HCL Technologies Romania s.r.l.	6,314	-

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'20	31 Dec'19
Fellow subsidiaries (continued):	SR	SR
HCL Technologies Limited - Russia Branch	-	57,928
HCL Technologies Limited- UAE Branch	-	10,315
HCL Technologies South Africa (Proprietary) Limited	-	60,671
HCL (Netherlands) BV	-	5,203
HCL Canada Inc. – SD	-	8,652
HCL Japan Limited	-	62,874
HCL Technologies Finland Oy	-	2,009
	2,570,673	815,570
b) Amounts due to related parties	31 Dec'20	31 Dec'19
	SR	SR
Ultimate Holding Company	16,818,599	8,829,959
Fellow subsidiaries:		
HCL America Inc.	2,997,402	1,646,141
HCL Technologies Limited- UAE Branch	2,866,470	1,390,120
HCL Technologies Norway AS	647,817	260,279
HCL Technologies (Shanghai) Limited	422,938	467,397
HCL Canada Inc. – SD	341,826	290,629
HCL Great Britain Limited	326,836	294,865
HCL Technologies Middle East FZ-LLC- Dubai Branch	256,345	276,080
Geometric China Inc.	167,582	185,198
HCL Latin America Holding, LLC, Costa Rica branch	112,255	114,537
HCL Technologies Limited - Abu Dhabi	105,464	141,951
HCL (Brazil) Tecnologia da informacao EIRELI (Formerly known as HCL (Brazil) Tecnologia da informacao Ltda.)	67,439	-
HCL GmbH	44,764	-
HCL Technologies B.V.	43,845	-
HCL Technologies Limited - Israel Branch	35,312	-
HCL Technologies Sweden AB	24,336	-
HCL Technologies Limited - Russia Branch	20,504	22,529
HCL Technologies Beijing Co. Ltd.	17,220	-
PT HCL Technologies Indonesia Limited	15,210	-
HCL Asia Pacific Pte. Ltd. – Korea Branch(Formerly Geometric Asia Pacific Pte. Ltd., Korea Branch)	11,582	-
HCL Technologies Chile Spa	10,706	-
HCL Axon Solutions (Shanghai) Co. Limited	10,232	-
HCL (Ireland) Information Systems Limited	6,214	-
HCL Technologies Columbia S.A.S.	5,332	-
HCL Technologies Belgium BVBA	4,099	46,402
HCL Axon Solutions (Shanghai) Co.Ltd.,Guangzhou Branch	2,770	3,061
HCL Technologies Middle East FZ-LLC	1,150	128,832
HCL Technologies Germany GmbH	-	7,219
HCL Technologies Corporate Services Limited	-	336,265
HCL Technologies Philippines, Inc	-	15,427
HCL Technologies Denmark Aps	-	8,290
HCL Canada Inc. (Formerly known as HCL Axon Technologies Inc.)	-	11,131
HCL Technologies Mexico S. DE R. L. DE C. V.	-	2,572
HCL Technologies Finland Oy	-	6,214
HCL Technologies Lithuania UAB	-	17,032
HCL Technologies Greece Single Member P.C.	-	296,390
HCL Technologies UK Limited	-	245,553
HCL Technologies Limited- Ireland Branch	-	9,579
HCL Singapore Pte. Limited	-	1,289,064
	25,384,249	16,342,716

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(All amounts in Saudi Riyals unless otherwise stated)

9 Goodwill

	31 Dec'20	<i>31 Dec'19</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>

10 PROPERTY, PLANT AND EQUIPMENT

	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Computers and software</i>	Total
	<i>SR</i>	<i>SR</i>	<i>SR</i>	SR
Cost :				
At 1 Jan'20	11,965	470,900	596,744	1,079,609
Additions	-	-	857,131	857,131
Disposals	-	-	(334,661)	(334,661)
At 31 Dec'20	11,965	470,900	1,119,214	1,602,079
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	-	-	678,396	678,396

	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Computers and software</i>	Total
	<i>SR</i>	<i>SR</i>	<i>SR</i>	SR
Cost:				
At 1 Jan'19	11,965	470,900	344,720	827,585
Additions	-	-	261,719	261,719
Disposals	-	-	(9,695)	(9,695)
At 31 Dec'19	11,965	470,900	596,744	1,079,609
Accumulated depreciation:				
At 1 Jan'19	11,965	459,022	152,859	623,846
Charge for the year	-	11,878	115,926	127,804
Retirement	-	-	(9,298)	(9,298)
At 31 Dec'19	11,965	470,900	259,487	742,352
Net Book Value:				
At 31 Dec'19	-	-	337,257	337,257

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

11 INTANGIBLE ASSETS

	<i>Customer Relationship</i>	<i>Software Application</i>	Total
	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

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

12 ACCOUNTS PAYABLE AND ACCRUALS

	31 Dec'20	31 Dec'19
	SR	SR
Other payables	5,160,742	1,804,631
Accrued expenses	1,890,922	426,966
Trade accounts payable	329,923	21,203
Deferred consideration	-	2,163,233
	7,381,587	4,416,033

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

13 INCOME TAX

a) Income tax

Charge for the year

The income tax charge consists of:

	31 Dec'20	31 Dec'19
	SR	SR
<u>Current tax*</u>		
Current income tax	1,047,056	351,605
<u>Deferred tax</u>		
Relating to origination and reversal of temporary differences**	(253,322)	(414,723)
Income tax reported in the statement of comprehensive income	793,734	(63,118)

* Current income tax has been provided for based on the estimated taxable profit at 20% (2019: 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 the year-end were:

	31 Dec'20	31 Dec'19
	SR	SR
<u>Deferred tax assets</u>		
Provision for doubtful debt	553,807	599,871
Accumulated losses	-	152,330
Differences in depreciation	31,627	50,907
Provision for employees' defined benefits liabilities	62,165	35,838
Unrealised forex	26,776	2,426
Total deferred tax assets	674,375	841,372
<u>Deferred tax liability</u>		
Intangibles on Acquisition	-	423,571
Net Deferred tax assets	674,375	417,801

b) Movement in income tax provision:

	31 Dec'20		31 Dec'19	
	Income tax	Net deferred tax	Income tax	Net deferred tax
	SR	SR	SR	SR
At the beginning of the year	351,571	417,801	138,984	426,932
Provided and expensed during the year	1,047,056	253,322	351,605	414,723
DTA created against OCI	-	3,252	-	16,902
DTL created against Goodwill	-	-	-	(440,756)
Payment during the year	(311,788)	-	(139,018)	-
At the end of the year	1,086,839	674,375	351,571	417,801

c) Status of assessments

The Company has submitted income tax declarations for all years upto 31 Dec'19 to the General Authority of Zakat and Tax (the "GAZT"). However, no assessments have been raised by GAZT yet.

14 EMPLOYEES' DEFINED BENEFITS LIABILITIES

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 Dec'20 and 31 Dec'19 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'20	31 Dec'19
	SR	SR
Present value of employees' defined benefits liabilities		
Current Liabilities	8,070	81
Non current Liabilities	403,523	179,098
	411,593	179,179

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

Current service costs	215,341	48,601
Interest costs on liability	4,819	2,295
	220,160	50,896

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

Employees' defined benefits liabilities at the beginning of the year	179,179	50,909
Current service costs	215,341	48,601
Interest costs on liability	4,819	2,295
End of service benefits paid	(4,004)	(7,137)
Actuarial loss	16,258	84,511
Employees' defined benefits liabilities at the end of the year	411,593	179,179

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

	31 Dec'20	31 Dec'19
Discount rate	2.69%	2.69%
Future salary increment rate	2.00%	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.

14 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

	Year ended Dec'20	
	Discount Rate	Salary Escalation Rate
Defined benefit obligation on increase in 50 bps	371,536	457,050
Impact of increase in 50 bps on DBO	-9.73%	11.04%
Defined benefit obligation on decrease in 50 bps	456,961	371,095
Impact of decrease in 50 bps on DBO	11.02%	-9.84%

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 (2019: 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'20	31 Dec'19
	SR	SR
Authorized		
12,200 equity shares of SAR 500 each	6,100,000	6,100,000

Terms/ rights attached to equity shares

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

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

	31 Dec'20	31 Dec'19
Number of shares at the beginning	12,200	12,200
Add: Shares issued during the year	-	-
Number of shares at the end	<u>12,200</u>	<u>12,200</u>

16 REVENUE

	31 Dec'20	31 Dec'19
	SR	SR
Application and support services	47,159,989	19,030,415
Product Revenue	362	44,318
	<u>47,160,351</u>	<u>19,074,733</u>

17 COST OF SALES

	31 Dec'20	31 Dec'19
	SR	SR
Consulting charges-Group	23,177,361	11,017,523
Employee Benefit expenses	10,919,555	1,886,658
Outsourced Services	3,717,622	1,168,532
Software License	263,924	411,377
Others	276,552	230,153
	<u>38,355,014</u>	<u>14,714,243</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

(All amounts in Saudi Riyals unless otherwise stated)

18 SELLING AND DISTRIBUTION EXPENSES

	31 Dec'20	31 Dec'19
	SR	SR
Marketing expenses	1,350,985	875,250
Travel	467,082	174,171
Outsourcing costs	174,693	106,521
Provision (reversal)/ charge of allowance for doubtful accounts (Note 6)	(230,331)	2,494,587
Others	-	7,977
	1,762,429	3,658,506

19 GENERAL AND ADMINISTRATIVE EXPENSES

	31 Dec'20	31 Dec'19
	SR	SR
Professional fees	1,101,799	571,458
Depreciation and amortisation(Note 10 & 11)	671,732	217,430
Rent	139,918	121,332
Establishment and maintenance costs	18,525	120,991
Audit fees	43,600	15,000
	1,975,574	1,046,211

20 OTHER EXPENSES

	31 Dec'20	31 Dec'19
	SR	SR
Foreign exchange loss	295,688	37,651
Miscellaneous Expense	-	397
Miscellaneous Income	4,078	(4,078)
	299,766	33,970

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'20 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'20 were authorised for issuance by the Board of Directors/Shareholders on 3 June 2021.