

HCL HONG KONG SAR LIMITED
DIRECTORS REPORT AND AUDITED FINANCIAL STATEMENTS
31 MARCH 2021

HCL HONG KONG SAR LIMITED

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HCL HONG KONG SAR LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of HCL Hong Kong SAR Limited (the "Company") for the year ended 31 March 2021.

Principal activity

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

Recommended dividend

An interim dividend of HK\$196 per ordinary share was paid on 17 February 2021 (2020: Nil). The directors do not recommend final dividend for both years.

Share capital

Details of share capital of the Company are set out in note 20(c) to the financial statements. There was no movement for the year.

Directors

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

Mr. Prateek Aggarwal
Mr. R. Srinivasan
Mr. Subramanian Gopalakrishnan
Mr. Sundaram Sridharan

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

Directors' interests

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

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the year.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company or any of its fellow subsidiaries or holding companies was a party during the year.

Auditor

KPMG retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the company.

ON BEHALF OF THE BOARD



Subramanian Gopalakrishnan
Director

HCL Hong Kong SAR Limited
05 AUG 2021



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

Opinion

We have audited the financial statements of HCL Hong Kong SAR Limited ("the Company") set out on pages 5 to 29, which comprise the statement of financial position as at 31 March 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2021 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.



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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

05 August 2021

HCL HONG KONG SAR LIMITED
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 YEAR ENDED 31 MARCH 2021

	Notes	2021 HK\$	2020 HK\$
REVENUE	4	117,724,571	119,181,267
Cost of revenue		(80,748,768)	(91,680,265)
GROSS PROFIT		36,975,803	27,501,002
Other income	5	3,448,688	32,009
Selling and distribution expenses		(14,867,343)	(1,743,970)
Administrative expenses		(4,230,277)	(6,339,119)
Other expenses		(5,596,362)	(10,197,075)
Finance costs		(47,633)	(70,102)
PROFIT BEFORE TAX	6	15,682,876	9,182,745
Income tax expense	8	(2,007,026)	(558,492)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,675,850	8,624,253

The notes on pages 9 to 29 are an integral part of these financial statements.

HCL HONG KONG SAR LIMITED
STATEMENT OF FINANCIAL POSITION
31 MARCH 2021

	Notes	2021 HK\$	2020 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	9	7,975,275	9,315,157
Right-of-use assets	10	911,319	1,732,421
Goodwill	11	640,363	640,363
Prepayments and deposits	12	3,111,630	5,593,628
Total non-current assets		12,638,587	17,281,569
CURRENT ASSETS			
Inventories	13	82,834	756,936
Trade receivables	14	23,596,713	35,316,907
Prepayments, deposits and other receivables	12	4,977,346	4,979,286
Due from the ultimate holding company	22	6,563,033	4,505,733
Due from fellow subsidiaries	22	6,416,769	5,098,187
Cash and bank balances	17	2,955,812	6,716,263
Tax recoverable	18(a)	-	711,537
Total current assets		44,592,509	58,084,849
CURRENT LIABILITIES			
Trade and bills payables	15	2,996,223	2,544,547
Other payables and accruals	16	11,673,715	10,773,683
Lease Liability	19	884,038	777,972
Due to the ultimate holding company	22	8,923,806	4,359,187
Due to fellow subsidiaries	22	6,494,584	6,495,891
Tax payable	18(a)	832,961	-
Total current liabilities		31,805,327	24,951,280
NET CURRENT ASSETS		12,787,182	33,133,569
TOTAL ASSETS LESS CURRENT LIABILITIES		25,425,769	50,415,138
NON-CURRENT LIABILITIES			
Other payables and accruals	16	191,059	-
Lease Liability	19	75,074	959,112
Deferred tax liabilities	18(b)	1,167,114	1,278,622
Total non-current liabilities		1,433,247	2,237,734
Net assets		23,992,522	48,177,404
EQUITY			
Share Capital	20 (a)	193,167	193,167
Retained profits	20 (a)	23,799,355	47,984,237
Total equity		23,992,522	48,177,404


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Subramanian Gopalakrishnan
Director

05 AUG 2021


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Sundaram Sridharan
Director

05 AUG 2021

HCL HONG KONG SAR LIMITED
 STATEMENT OF CHANGES IN EQUITY
 YEAR ENDED 31 MARCH 2021

	Share capital	Retained profits	Total equity
At 1 April 2019	193,167	39,359,984	39,553,151
Profit for the year and total comprehensive income for the year	-	8,624,253	8,624,253
At 31 March 2020	193,167	47,984,237	48,177,404
At 1 April 2020	193,167	47,984,237	48,177,404
Profit for the year and total comprehensive income for the year	-	13,675,850	13,675,850
Dividend paid	-	(37,860,732)	(37,860,732)
At 31 March 2021	193,167	23,799,355	23,992,522

HCL HONG KONG SAR LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2021

	Notes	2021 HK\$	2020 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		15,682,876	9,182,745
Adjustments for:			
Interest income	5	(135,243)	(32,009)
Depreciation expenses on property, plant and equipment	6	3,954,796	3,675,132
Depreciation expenses on right-of-use assets	6	844,085	762,267
Finance cost	6	47,633	70,102
(Reversal of)/ impairment losses on trade receivables	5, 6	(3,313,445)	5,174,548
		<u>17,080,702</u>	<u>16,832,785</u>
Decrease/(Increase) in inventories		674,102	(234,034)
Decrease/(Increase) in trade receivables		15,033,639	(15,804,390)
Decrease in prepayments, deposits and other receivables		2,460,952	433,554
Movement in balances with the ultimate holding company		2,507,319	(1,025,896)
Movement in balances with fellow subsidiaries		(1,319,889)	27,065,144
Increase/(Decrease) in trade and bills payables		451,676	(3,090,604)
Increase in other payables and accruals		1,411,693	5,691,895
Cash from operations		<u>38,300,194</u>	<u>31,891,454</u>
Tax paid	18 (a)	(574,036)	(5,418,565)
Net cash flows generated from operating activities		<u>37,726,158</u>	<u>26,472,889</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	135,243	32,009
Purchase of items of property, plant and equipment	9	(2,614,914)	(4,496,903)
Payment for business combination	11	(321,022)	(321,022)
Net cash flows used in investing activities		<u>(2,800,693)</u>	<u>(4,785,916)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid to shareholders	20 (b)	(37,860,732)	
Capital element of lease rentals paid	17 (b)	(777,972)	(757,604)
Interest element of lease rentals paid	17 (b)	(47,212)	(68,841)
Net cash used in financing activities		<u>(38,685,916)</u>	<u>(826,445)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(3,760,451)</u>	<u>20,860,528</u>
Cash and cash equivalents at beginning of the year		<u>6,716,263</u>	<u>(14,144,265)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,955,812</u>	<u>6,716,263</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17 (a)	2,955,812	6,716,263
TOTAL		<u>2,955,812</u>	<u>6,716,263</u>

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31 MARCH 2021

1 Corporate information

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

The Company is a limited company incorporated in Hong Kong. The address of its registered office is 20/E, Tai Yip Building, 141 Thomson Road, Wanchai.

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

2 Summary of significant accounting policies

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

2.1 Statement of compliance

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the company. The adoption of these amendments has no significant impact on the company's result and financial position for the current accounting period.

2.2 Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.3 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 March 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 April 2022
Amendments to HKAS 37, Onerous Contracts - Cost of Fulfilling a Contract	1 April 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 April 2022
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current	1 April 2023

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.3 Possible impact of amendments, new standards and interpretations issued, but not yet effective for the year ended 31 March 2021 (continued)

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

2.4 Foreign currency translations

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

2.5 Related Parties

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

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

2.6 Property, plant and equipment and depreciation

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

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

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.6 Property, plant and equipment and depreciation (continued)

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

2.7 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.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as financial liability is measured at fair value with changes in fair value recognised 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 recognised as capital reserve after reassessing the fair values of the net assets.

2.8 Impairment of non-financial assets

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

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

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

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.

2.9 Leased assets

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.9 Leased assets (continued)

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Company, are primarily laptops and office furniture. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2.8)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the company took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the statement of financial position, the current portion of long-term lease liabilities is determined as the principal portion of contractual payments that are due to be settled within twelve months after the reporting period.

2.10 Financial instruments

Financial assets

Trade receivables that do not contain a significant financial component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financial component are measured at the transaction price determined under HKFRS 15. All the other financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Company commits to purchase or sell the assets.

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.10 Financial instruments (continued)

Financial assets (continued)

(a) Classification and measurement

Debt instruments are measured at amortised cost using the effective interest rate method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

Debt instruments are measured at fair value through other comprehensive income if the assets' contractual cash flows represent solely payments of principal and interest and the assets are held for collection of contractual cash flows and for selling the financial assets. Such financial assets are subsequently measured at fair value with any gains or losses from changes in fair value recognised in other comprehensive income, except for impairment losses and reversal, foreign exchange gains and losses and interest calculated using the effective interest rate method which are recognised in the statement of profit or loss. The cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to the statement of profit or loss when the financial asset is derecognised.

Debt instruments that do not meet the criteria for amortised cost or as financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Interest income for these financial assets is included in finance income.

(b) Impairment

The Company applies the expected credit loss model on all the financial assets that are subject to impairment, financial guarantee contracts, contract assets under HKFRS 15 and lease receivables under HKAS 17. For trade receivables and contract assets without a significant financial component, the Company applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

The Company considers a default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership, or where control is not retained.

Financial liabilities

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

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

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.11 Inventories

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

2.12 Cash and cash equivalents

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

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

2.13 Income tax

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

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

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax. Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.14 Employee benefits

(a) Employee leaves entitlements

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

(b) Pension obligations

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

2.15 Provisions and contingent liabilities

Provisions are recognised when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

2 Summary of significant accounting policies (continued)

2.15 Provisions and contingent liabilities (continued)

or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.16 Revenue recognition

Revenue from contracts with customers is recognised when the control of goods or services is transferred to the customer, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to be that which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. When the contract contains a financing component which provides the Company a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of goods is recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time of delivery of goods.

Revenue from sale of services is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.17 Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the company will comply with the conditions attaching to them. Grants that compensate the company for expenses incurred are offsetting with such expenses in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

3 Critical accounting estimates and judgements

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

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

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

3 Critical accounting estimates and judgements (continued)

(a) Impairment of trade receivables and other receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about expected credit losses. The Company uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Company's historical experience and forward-looking information at the end of each reporting period. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss.

(b) Revenue recognition

The Company recognises revenue from fixed price contracts on the basis of percentage of completion method. The percentage of completion is measured by reference to the effort incurred to date compared to the estimated total effort for the contract. Significant judgment is required in determining the percentage of completion, the extent of the effort incurred, and the estimated total effort.

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

4. Revenue

Revenue represents the net sale of hardware and software licenses and consultancy income that are from contracts with customers within the scope of HKFRS 15. An analysis of revenue is as follows:

	2021	2020
	HK\$	HK\$
Consultancy income	116,888,907	115,236,012
Sales of hardware	1,335,664	3,945,255
	<u>117,724,571</u>	<u>119,181,267</u>

5 Other income

An analysis of other income is as follows:

	2021	2020
	HK\$	HK\$
Interest income	135,243	32,009
Reversal of impairment losses on trade receivables (Note 14)	3,313,445	
	<u>3,448,688</u>	<u>32,009</u>

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

6 Profit before tax

The Company's profit before tax is arrived at after charging:

	2021	2020
	HK\$	HK\$
Consultancy fees*	47,730,354	35,959,467
Cost of goods sold*	1,261,313	3,211,912
Other project expenses*	12,437,831	17,364,344
Depreciation expenses on property, plant and equipment (Note 9)	3,954,796	3,675,132
Depreciation expenses on right-of-use assets (Note 10)	844,085	762,267
Short term lease expense (Note 10)	76,964	380,370
Auditor's remuneration	85,200	87,980
Bank charges	89,304	172,116
Interest on lease liabilities (Note 10)	47,212	68,841
Interest on deferred consideration for business combination (Note 11)	421	1,261
Staff costs (excluding directors' remuneration)**		
-Wages and salaries	35,720,890	39,499,818
-Pension scheme contributions	1,081,067	1,234,996
	<u>36,801,957</u>	<u>40,734,814</u>
Foreign exchange difference, net	622,978	325,033
(Reversal of)/ impairment losses on trade receivables (Note 14)	(3,313,445)	5,174,548

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

** Staff costs of HK\$ 14,871,149 (2020: HK\$ 1,679,714), HK\$ 2,611,538 (2020: HK\$ 3,910,558) and HK\$ 19,319,270 (2020: HK\$ 35,144,542) are included in "Selling and distribution expenses", "Administration expenses" and "Cost of revenue" respectively in the statement of profit or loss and other comprehensive income.

During the year, the Company successfully applied for funding support of HK\$3,110,918 from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Company is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. The respective amount was offset with the staff costs incurred during the year.

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

7 Directors' emoluments (equivalents to key management compensation)

Director's emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

None of the directors received or will receive any fees or other emoluments for the services rendered to the Company during the year ended 31 March 2021. (2020: Nil).

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

8 Income tax

Taxation charged/ (credited) to profit or loss:

	2021 HK\$	2020 HK\$
Charge for the year	2,128,364	1,253,133
Over-provision in prior years	(9,830)	(585,843)
Deferred tax (Note 18)	(111,508)	(108,798)
Tax charge for the year	<u>2,007,026</u>	<u>558,492</u>

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

	2021 HK\$	2020 HK\$
Profit before tax	15,682,876	9,182,745
Tax at the statutory tax rate	2,443,665	1,350,152
Over provisioning in prior years	(9,830)	(585,843)
Income not subject to tax	(513,301)	
Statutory Tax Concession	(10,000)	(20,000)
Others	96,492	(185,817)
Tax charge at effective rate	<u>2,007,026</u>	<u>558,492</u>

The first HK\$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The provision for Hong Kong Profits Tax for the year ended 31 March 2021 is calculated in accordance with the two-tiered profits tax rate regime (2020: calculated at two-tiered profits tax rate regime).

The provision for Hong Kong Profits Tax for the year ended 31 March 2021 has also taken into account a reduction granted by the Hong Kong SAR Government. The company is eligible for the maximum reduction of \$10,000

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

9 Property, plant and equipment

	Office equipment and plant & machineries HK\$	Computer equipment and software HK\$	Furniture and fixtures HK\$	Leasehold improvements HK\$	Total HK\$
31 March 2021					
At 1 April 2020 :					
Cost	270,958	22,248,908	236,848	1,519,660	24,276,374
Accumulated depreciation	(113,013)	(14,035,387)	(210,964)	(601,853)	(14,961,217)
Net carrying amount	157,945	8,213,521	25,884	917,807	9,315,157
At 1 April 2020, net of accumulated depreciation					
Additions		2,614,914			2,614,914
Depreciation provided during the year	(42,146)	(3,737,384)	(4,266)	(171,000)	(3,954,796)
At 31 March 2021, net of accumulated depreciation	115,799	7,091,051	21,618	746,807	7,975,275
At 31 March 2021					
Cost	270,958	24,863,822	236,848	1,519,660	26,891,288
Accumulated depreciation	(155,159)	(17,772,771)	(215,230)	(772,853)	(18,916,013)
Net carrying amount	115,799	7,091,051	21,618	746,807	7,975,275
31 March 2020					
At 1 April 2019 :					
Cost	225,708	18,813,065	213,848	526,850	19,779,471
Accumulated depreciation	(72,878)	(10,496,065)	(207,847)	(509,294)	(11,286,084)
Net carrying amount	152,830	8,317,000	6,001	17,556	8,493,387
At 1 April 2019, net of accumulated depreciation					
Additions	45,250	3,435,843	23,000	992,810	4,496,903
Depreciation provided during the year	(40,135)	(3,539,322)	(3,117)	(92,559)	(3,675,133)
At 31 March 2020, net of accumulated depreciation	157,945	8,213,521	25,884	917,807	9,315,157
At 31 March 2020					
Cost	270,958	22,248,908	236,848	1,519,660	24,276,374
Accumulated depreciation	(113,013)	(14,035,387)	(210,964)	(601,853)	(14,961,217)
Net carrying amount	157,945	8,213,521	25,884	917,807	9,315,157

HCL HONG KONG SAR LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
31 MARCH 2021

10 Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Property leased for own use	
	2021 HK\$	2020 HK\$
Balance as at 1 April	1,732,421	2,494,688
Addition	22,983	-
Depreciation charge for the year	(844,085)	(762,267)
Balance as at 31 March	911,319	1,732,421

The Company has obtained the right to use a property as its offices through tenancy agreements. The lease typically runs for an initial period of 3 years. The lease does not include an option to renew for an additional period after the end of the contract term.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021 HK\$	2020 HK\$
Depreciation on right-of-use assets	844,085	762,267
Interest on lease liabilities (note 6)	47,212	68,841
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020	76,964	380,370

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 17 (c) and 19, respectively.

11 Goodwill

	2021 HK\$	2020 HK\$
Goodwill arising from business combinations	640,363	640,363

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

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

Out of total consideration of HK\$ 642,044 (including total interest of HK\$1,682) the Company had paid HK\$ 321,022 in FY-19-20 and balance in June 2020 as per the agreement. At the beginning of the year this liability stood at HK\$ 320,602 and the balance of HK\$ 420 has been recorded as interest expense in FY20-21.

12 Prepayments, deposits and other receivables

	2021 HK\$	2020 HK\$
Prepayments	1,862,744	2,659,454
Deposits and other receivables	6,026,300	7,311,253
Deposits and other receivables-related parties	199,934	602,207
	8,088,978	10,572,914
Less: Non-current portion	(3,111,630)	(5,593,626)
Amount disclosed as current portion	4,977,348	4,979,288

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

13 Inventories

	2021	2020
	HK\$	HK\$
Finished goods	82,834	756,936

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021	2020
	HK\$	HK\$
Carrying amount of inventories sold	1,261,313	3,211,912

14 Trade receivables

	2021	2020
	HK\$	HK\$
Trade debtors	21,384,613	34,316,638
Unbilled receivables	4,608,258	7,983,166
Less: Loss allowance	(2,396,158)	(6,982,897)
	23,596,713	35,316,907

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. They are stated net of loss allowance.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance is as follows:

	2021	2020
	HK\$	HK\$
Within 1 month	22,343,288	18,302,787
1 to 3 months	568,254	8,506,660
Over 3 months	685,171	8,407,460
	23,596,713	35,316,907

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

14 Trade receivables (continued)

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

	2021 HK\$	2020 HK\$
At the beginning of the year:	6,982,897	2,135,937
Amounts written off	(1,273,294)	(327,588)
Loss allowance (reversed)/recognised (note 6)	(3,313,445)	5,174,548
At the end of the year	<u>2,396,158</u>	<u>6,982,897</u>

Impairment of trade receivables under HKFRS 9

The Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses have also incorporated forward looking information. The loss allowance as at 31 March 2021 and 31 March 2020 is determined as follows:

As at 31 March 2021

	Current	Upto 6 months past due	Over 6 months past due	Total
Expected loss rate (%)	-	-	96.30	9.22
Gross carrying amount (HK\$)	20,764,625	2,740,047	2,488,199	25,992,871
Expected credit losses (HK\$)	-	-	2,396,158	2,396,158

As at 31 March 2020

	Current	Upto 6 months past due	Over 6 months past due	Total
Expected loss rate (%)	-	-	73.60	16.51
Gross carrying amount (HK\$)	20,459,828	12,352,724	9,487,252	42,299,804
Expected credit losses (HK\$)	-	-	6,982,897	6,982,897

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

15 Trade and bills payables

	2021	2020
	HK\$	HK\$
Trade payables	2,996,223	2,544,547

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

16 Other payables and accruals

	2021	2020
	HK\$	HK\$
Accrued expenses	3,110,609	2,167,001
Contract liabilities-current portion	2,977,763	2,506,774
Others payables*	5,585,343	6,099,908
	<u>11,673,715</u>	<u>10,773,683</u>

Movement in contract liabilities

	2021	2020
	HK\$	HK\$
Balance at 1 April	2,506,774	442,177
Decrease in contract liabilities as a result of recognising revenue during the year	(1,177,272)	(509)
Increase in contract liabilities as a result of receiving new contracts	1,839,325	2,065,106
Balance at 31 March	<u>3,168,827</u>	<u>2,506,774</u>
Contract liabilities-non current portion	(191,064)	
Balance at 31 March- current portion	<u>2,977,763</u>	<u>2,506,774</u>

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

17 Cash and bank balances

(a) Cash and bank balances comprise:

	2021	2020
	HK\$	HK\$
Cash and bank balances	2,955,812	6,716,263

(b) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Lease liabilities	
	2021	2020
	HK\$	HK\$
At 1 April	1,737,084	2,494,688
Changes from financing cash flows:		
Capital element of lease rentals paid	(777,972)	(757,604)
Interest element of lease rentals paid	(47,212)	(68,841)
Total changes from financing cash flows	<u>(825,184)</u>	<u>(826,445)</u>
Other change:		
Interest on lease liabilities (note 6)	47,212	68,841
At 31 March	<u>959,112</u>	<u>1,737,084</u>

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

17 Cash and bank balances (continued)

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2021 HK\$	2020 HK\$
Within operating cash flows (Note 10)	76,964	380,370
Within financing cash flows	825,184	825,445
	<u>902,148</u>	<u>1,205,815</u>

18 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

	2021 HK\$	2020 HK\$
Tax (recoverable)/payable as at 1 April	(711,537)	4,039,738
Provision for Hong Kong profits tax for the year (note 8)	2,128,364	1,253,133
Over-provision (note 8)	(9,830)	(585,843)
Tax paid (net of refund)	(574,036)	(5,418,565)
	<u>832,961</u>	<u>(711,537)</u>

(b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Depreciation charge of right-of-use assets	Total
At 31 March 2019 and 1 April 2019	1,387,420	-	1,387,420
Credited to profit or loss	(104,740)	(4,058)	(108,798)
At 31 March 2020 and 1 April 2020	<u>1,282,680</u>	<u>(4,058)</u>	<u>1,278,622</u>
(Credited)/charged to profit or loss	(113,566)	4,058	(111,508)
At 31 March 2021	<u>1,167,114</u>	<u>-</u>	<u>1,167,114</u>

	2021 HK\$	2020 HK\$
Net deferred tax liability recognised in the statement of financial position	<u>1,167,114</u>	<u>1,278,622</u>

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

19 Lease liabilities

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 March 2021		31 March 2020	
	Present value of the lease payments	Total lease payments	Present value of the lease payments	Total lease payments
	HK\$	HK\$	HK\$	HK\$
Within 1 year	884,038	900,868	777,972	825,183
After 1 year but within 2 years	75,074	75,074	884,038	900,868
After 2 years but within 5 years	-	-	75,074	75,074
Total	959,112	975,962	1,737,084	1,801,145
Less: total future interest expenses		16,850		64,061
Present value of lease liabilities		959,112		1,737,084

20 Share capital and reserve

(a) Components of the company's capital and reserves

The opening and closing balances of each component of the company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Dividends

Dividends payable to equity shareholders of the company attributable to the year:

	2021 HK\$	2020 HK\$
Interim dividend declared and paid of HK\$196 per ordinary share (2020: HK\$ Nil)	37,860,732	

(c) Issued share capital

	No. of shares	HK\$	No. of shares	HK\$
Ordinary shares, issued and fully paid:				
At 1 April 2019, 31 March 2020, 1 April 2020 and 31 March 2021	193,167	193,167	193,167	193,167

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

21 Related party transactions

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

	2021 HK\$	2020 HK\$
Consultancy fees received/receivable from fellow subsidiaries (Note (I))	32,550,026	34,201,888
Consultancy fees paid/payable to fellow subsidiaries (Note (I))	44,469,877	33,646,352

HCL HONG KONG SAR LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 31 MARCH 2021

21. Related party transactions (continued)

Note (f) - The consultancy fees from/to fellow subsidiaries were based on agreement between the parties.

(b) Balances with the ultimate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

22. Financial instruments by category

The Company's financial instruments include the following:

	Financial assets at amortised cost	
	2021 HK\$	2020 HK\$
Financial assets		
Trade receivables	23,596,713	35,316,907
Financial assets included in prepayments, deposits and other receivables (Note 12)	6,226,234	7,913,160
Due from the ultimate holding company	6,563,033	4,505,733
Due from fellow subsidiaries	6,416,769	5,098,187
Cash and bank balances	2,955,812	6,716,263
	45,758,561	59,550,550
Financial liabilities - at amortised cost		
Trade and bills payables	2,996,223	2,544,517
Financial liabilities included in other payables and accruals	8,695,952	8,266,909
Due to the ultimate holding company	8,923,806	4,359,187
Due to fellow subsidiaries	6,494,584	6,495,891
Lease liabilities	959,112	1,737,084
	28,069,677	23,403,618

23. Fair value of financial assets and liabilities

The carrying amounts of the company's financial instruments carried at amortised cost were not materially different from their fair value as at 31 March 2021 and 2020.

The Company did not have any financial assets or liabilities measured at fair value as at 31 March 2021 and 2020.

24. Financial risk management objectives and policies

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

(a) Credit risk

Maximum exposure and year-end staging as at 31 March 2021 and 31 March 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort as at 31 March 2021 and 31 March 2020. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	2021	Lifetime ECL's		Total
		12 month ECL's HK\$	(simplified approach) HK\$	
Trade receivables*		-	23,596,713	23,596,713
Financial assets included in other receivables				
- Normal**		6,226,234	-	6,226,234
Due from the ultimate holding company		6,563,033	-	6,563,033
Due from fellow subsidiaries		6,416,769	-	6,416,769
Cash and cash balances		2,955,812	-	2,955,812
Total		22,161,848	23,596,713	45,758,561

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24. Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging as at 31 March 2021 and 31 March 2020 (continued)

2020	Lifetime ECL's		Total HK\$
	12 month ECL's HK\$	(simplified approach) HK\$	
Trade receivables*	-	35,316,907	35,316,907
Financial assets included in other receivables			
- Normal**	7,913,460	-	7,913,460
Due from the ultimate holding	4,505,733	-	4,505,733
Due from fellow subsidiaries	5,098,187	-	5,098,187
Cash and cash balances	6,716,263	-	6,716,263
Total	24,233,643	35,316,907	59,550,550

* For trade receivables to which the entity applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 14 to the financial statements.

** The credit quality of the financial assets included other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful"

(b) Liquidity risk

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

The table below summarises the maturity profile of the Company's non-derivative financial liabilities as at 31 March 2021 and 31 March 2020, respectively based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	On demand	Less than 1 year	After 1 year but within 2 years	After 2 years but within 5 years	Total undiscounted amount	Total carrying amount
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
2021						
Trade and bills payables	-	2,996,223	-	-	2,996,223	2,996,223
Financial liabilities included in other payables and accruals	-	8,695,952	-	-	8,695,952	8,695,952
Due to the ultimate holding company	8,923,806	-	-	-	8,923,806	8,923,806
Due to fellow subsidiaries	6,494,584	-	-	-	6,494,584	6,494,584
Lease liabilities (Note 19)	-	900,888	75,074	-	975,962	959,112
	15,418,390	12,593,063	75,074	-	28,086,527	28,069,677
2020						
Trade and bills payables	-	2,544,547	-	-	2,544,547	2,544,547
Financial liabilities included in other payables and accruals	-	8,266,909	-	-	8,266,909	8,266,909
Due to the ultimate holding company	4,359,187	-	-	-	4,359,187	4,359,187
Due to fellow subsidiaries	6,495,891	-	-	-	6,495,891	6,495,891
Lease liabilities (Note 19)	-	825,183	900,888	75,074	1,801,145	1,737,084
	10,855,078	11,636,639	900,888	75,074	23,467,679	23,403,618

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25 Capital risk management

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

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

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

	2021	2020
	HK\$	HK\$
Trade and bills payables	2,996,223	2,544,547
Other payables and accruals	11,864,774	10,773,683
Due to fellow subsidiaries	6,494,584	6,495,891
Due to the ultimate holding company	8,923,806	4,359,187
Lease liabilities	959,112	1,737,084
Net debt	31,238,499	25,910,392
Total capital	23,992,522	48,177,404
Capital and net debt	55,231,021	74,087,796
Gearing ratio	57%	35%

26 Events after the reporting period

There have been no significant subsequent events since the year ended 31 March 2021 that would have material impact on the statement of financial position of the Company as shown in these financial statements.

27 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 05 AUG 2021