HCL Arabia Limited
(A Limited Liability Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

HCL ARABIA LIMITED
(A Limited Liability Company)

FINANCIAL STATEMENTS
For the year ended 31 December 2018

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Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF HCL ARABIA LIMITED (A LIMITED LIABILITY COMPANY)

Opinion

We have audited the Financial Statements of HCL Arabia Limited (A Limited Liability Company) (the "Company"), which comprise the, Statement of Financial Position as at 31 December 2018, and the Statement of Comprehensive Income, changes in equity and cash flows and for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium-sized Entities that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants.

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 professional code of conduct and ethics 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 for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards for Small and Medium-sized Entities that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the 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.

The management is responsible for overseeing the Company's financial reporting process.

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 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF
HCL ARABIA LIMITED
(A LIMITED LIABILITY COMPANY) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the management 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.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License no. 427

Riyadh: 20 Sha'aban 1440H
(25 April 2019)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	2018 SR	2017 SR
ASSETS			
CURRENT ASSETS			
Bank balances		**3,496,069**	1,382,539
Accounts receivable and unbilled revenue	6	**3,245,732**	2,028,770
Prepayments and other receivables	7	**2,747,003**	2,900,840
Amounts due from affiliates	8	**1,596,750**	2,265,003
TOTAL CURRENT ASSETS		**11,085,554**	8,577,152
NON-CURRENT ASSET			
Property and equipment	9	**203,739**	243,093
Deferred tax assets	11	**426,932**	371,632
TOTAL NON-CURRENT ASSETS		**630,671**	614,725
TOTAL ASSETS		**11,716,225**	9,191,877
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accruals	10	**1,139,839**	292,193
Amounts due to affiliates	8	**3,265,422**	1,759,846
Provision for income tax	11	**138,984**	299,277
TOTAL CURRENT LIABILITIES		**4,544,245**	2,351,316
NON-CURRENT LIABILITY			
Employees' terminal benefits	12	**50,909**	52,735
TOTAL LIABILITIES		**4,595,154**	2,404,051
EQUITY			
Capital	13	**6,100,000**	6,100,000
Statutory reserve		**102,107**	68,782
Retained earnings		**918,964**	619,044
TOTAL EQUITY		**7,121,071**	6,787,826
TOTAL LIABILITIES AND EQUITY		**11,716,225**	9,191,877

The attached notes 1 to 18 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 SR	2017 SR
Revenue		**8,107,938**	9,116,544
Cost of sales		**(5,585,773)**	(5,362,262)
GROSS PROFIT		**2,522,165**	3,754,282
EXPENSES			
Selling and distribution	14	**(941,548)**	(592,980)
General and administrative	15	**(1,089,181)**	(1,097,585)
OPERATING PROFIT		**491,436**	2,063,717
Other income (expenses)	16	**(41,958)**	(44,396)
Financial charges		**(25,051)**	(12,403)
PROFIT BEFORE INCOME TAX		**424,427**	2,006,918
Income tax	11	**(91,182)**	(421,892)
PROFIT FOR THE YEAR		**333,245**	1,585,026
Other comprehensive income:			
Other comprehensive loss not to be reclassified to income in subsequent periods:			
Actuarial loss on employee benefit obligations		**-**	-
TOTAL OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**333,245**	1,585,026

The attached notes 1 to 18 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Capital SR	Statutory reserve SR	Retained earnings SR	Total SR
As at 1 January 2018	6,100,000	68,782	619,044	6,787,826
Profit for the year	-	-	333,245	333,245
Transferred to statutory reserve	-	33,325	(33,325)	-
Other comprehensive loss	-	-	-	-
Total comprehensive income	6,100,000	102,107	918,964	7,121,071
As at 31 December 2018	**6,100,000**	**102,107**	**918,964**	**7,121,071**
As at 1 January 2017	6,100,000	-	(897,200)	5,202,800
Profit for the year	-		1,585,026	1,585,026
Transferred to statutory reserve	-	68,782	(68,782)	-
As at 31 December 2017	6,100,000	68,782	619,044	6,787,826

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 SR	2017 SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**424,427**	2,006,918
Adjustments for		
Depreciation	**106,643**	94,701
Employees' terminal benefits	**52,780**	(7,876)
Interest income	**(45,213)**	(85,349)
	538,637	2,008,394
Changes in working capital:		
Accounts receivable, prepayments and other receivables	**(1,063,125)**	(460,572)
Amounts due from affiliates	**668,253**	1,122,999
Accounts payable and accruals	**847,646**	(1,722,182)
Amounts due to affiliates	**1,505,576**	254,675
Cash from operations	**2,496,987**	1,203,314
Income tax paid	**(306,775)**	(343,072)
Interest received	**45,213**	85,349
Employees' terminal benefits paid	**(54,606)**	-
Net cash flows from operating activities	**2,180,819**	945,591
Cash flows from investing activities		
Purchase of property, plant and equipment	**(67,289)**	(57,205)
Net cash flows used in investing activities	**(67,289)**	(57,205)
Net increase in bank balances	**2,113,530**	888,386
Bank balances at the beginning of the year	**1,382,539**	494,153
Bank balances at the end of the year	**3,496,069**	1,382,539

The attached notes 1 to 18 form an integral part of these financial statements.

1 COMPANY INFORMATION AND ACTIVITIES

HCL Arabia Limited ("the Company") is a Limited Liability Company registered in Kingdom of Saudi Arabia ("KSA") under commercial registration number 1010308344 dated 4 Jumad Al Thani 1432H (corresponding to 7 May 2011). 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.

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 endorsed by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS for SMEs as endorsed in KSA"). These are the Company's first financial statements prepared in accordance with IFRS for SMEs as endorsed in KSA. Refer to Note 5 for further information.

2.2 Judgments 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.

2.4 Presentation and functional currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 recognised 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 recognised immediately in profit or loss in the statement of comprehensive income.

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 realise 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 realise 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

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, trade and other receivables. Financial liabilities include trade payables, accruals and other payables.

Impairment and uncollectibility 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:

Category of property and equipment	*Years*
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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

<u>Income tax</u>

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.

<u>Deferred tax</u>

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or in the profir or loss in the statement of 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 one half of the capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from the sales of services are recognized when rendered and acknowledged by the customer.

Interest income: As it accrues unless collectability is in doubt.

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.

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments, 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 DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The carrying amount of the property and equipment at the reporting date was SAR 203,739.

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 judgment 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.

Estimated useful lives of property and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation on a straight-line basis over their estimated useful lives. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives and residual value of the assets at each annual reporting period and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

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 DCF 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.

5 TRANSITION TO THE IFRS FOR SMES AS ENDORSED IN KSA

Basis of transition to the IFRS for SMEs as endorsed in KSA

These financial statements for the year ended 31 December 2018 are the Company's first financial statements prepared in accordance with IFRS for SMEs as endorsed in KSA. For periods up to and including the year ended 31 December 2017, the Company prepared its financial statements in accordance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Accordingly, the Company has prepared financial statements that comply with IFRS for SMEs as endorsed in KSA applicable as at 31 December 2018 as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2017, the Company's date of transition to IFRS for SMEs as endorsed in KSA. This note explains the principal adjustments made by the Company in restating its financial statements prepared under SOCPA Standards. However, there were no material impact on first time adoption of IFRS for SMEs.

Reconciliation

The following reconciliations show the effect on the Company's equity of the transition from the Company's accounting standards generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP") to the IFRS for SMEs as endorsed in KSA at 1 January 2017 and 31 December 2017, and the Company's comprehensive income for the year ended 31 December 2017.

Reconciliation of the statement of changes in equity

	31 Decemebr 2018 SR	*1 January 2017 SR*
Total equity under SOCPA standards	**6,787,826**	5,202,800
Restatement of employees' defined benefits liabilities	**-**	-
Total equity under IFRS for SMEs as endorsed in KSA	**6,787,826**	5,202,800

5 TRANSITION TO THE IFRS FOR SMES AS ENDORSED IN KSA (continued)

Reconciliation of the statement of income

	31 Decemebr 2017 SR
Results for the year under SOCPA standards	1,585,026
Restatement of employees' defined benefits liabilities	-
Results for the year under IFRS for SMEs as endorsed in KSA	1,585,026

Explanation of transition to the IFRS for SMEs as endorsed in KSA

Restatement of employees' defined benefits liabilities
Under SOCPA standards, the Company's recorded its employees' defined benefits liability based on the labor laws regulatory requirements. In order to determine the liability under IFRS for SMEs as endorsed in KSA, the Company used the projected unit method in calculating the liability. Consequently, a decrease in the liability for the prior year has been recorded in the opening retained earnings and statement of comprehensive income for the year ended 31 December 2017.

6. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

	2018 SR	*2017 SR*
Trade receivables	**3,447,337**	1,923,017
Unbilled revenue	**303,165**	113,730
Allowance for doubtful accounts	**(504,770)**	(7,977)
	3,245,732	2,028,770

The Company determined that customers' balances amounted to SAR 504,770 (2017: SR 7,977) are impaired. Movements in the allowance for doubtful accounts were as follows:

	2018 SR	2017 SR
At the beginning of the year	**7,977**	127,736
Provision for the year	**496,793**	-
Written-off during the year	-	-
Recovery of allowance for doubtful accounts	-	(119,759)
At the end of the year	**504,770**	7,977

6. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE (continued)

As at 31 December, the ageing of unimpaired trade receivables is as follows:

	Neither past due nor impaired SR	Past due but not impaired 30 – 60 days SR	61 – 90 days SR	>90 days SR	Total SR
2018	**1,138,111**	**581,276**	**161,573**	**1,061,607**	**2,942,567**
2017	664,502	523,381	476,967	250,190	1,915,040

7. PREPAYMENTS AND OTHER RECEIVABLES

	2018 SR	2017 SR
Prepaid taxes	**2,448,863**	1,026,205
Tax deducted at source (TDS) receivables	**207,395**	1,330,218
Prepaid rent	**1,354**	191,740
Retention receivable	**-**	191,583
Others	**89,391**	161,094
	2,747,003	2,900,840

8. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year.

Related party	Nature of transactions	2018 SR	2017 SR
Affiliates	Payments made on behalf of the Company	**(2,924,935)**	(2,592,211)
	Sales made to affiliate	**2,005,744**	1,276,350
	Consultation services rendered by affiliates	**(1,271,213)**	(1,061,562)
	Services rendered by the Company	**2,005,744**	1,276,350
Parent	Consulting charges	**(2,625,865)**	(2,470,094)

The Company granted short term loans to one of its affiliates to finance its operations year and interest is charged on these loans at a rate of LIBOR + 100 bps. The loan has been repaid during the year.

8. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from and to related parties is as follows:

a) Amounts due from related parties

	2018 SR	2017 SR
HCL America, Inc.	**659,553**	2,009,369
HCL Technologies Limited	**368,292**	-
HCL Technologies Limited - UAE Branch	**226,710**	99,193
HCL Axon Technologies Inc.-SD	**70,629**	-
HCL Technologies South Africa (Proprietary) Limited	**64,535**	150,680
HCL Technologies Limited- Swiss Branch	**64,106**	-
HCL Technologies Limited - Russia Branch	**45,010**	-
HCL (New Zealand) Limited	**44,102**	-
HCL Hungry	**24,806**	-
HCL Great Britain Limited	**11,631**	-
HCL Technologies Limited - Portugal Branch	**10,748**	-
HCL (Brazil) Tecnologia Da Informacao Ltda.	**5,761**	5,761
HCL Technologies Middle East FZ- LLC	**867**	-
	1,596,750	2,265,003

b) Amounts due to related parties

	2018 SR	2017 SR
HCL Technologies Limited	**1,657,944**	1,327,525
HCL Singapore Pte. Limited	**717,870**	-
HCL Technologies Corporate Services	**336,265**	-
HCL Technologies Limited- UAE Branch	**319,565**	-
HCL Technologies Ltd. – Abu Dhabi	**129,268**	91,001
HCL Technologies UK Limited	**50,343**	270,650
HCL Technologies Limited - Russia Branch	**19,905**	10,738
HCL Technologies Philippines Inc	**14,883**	-
HCL Mexico	**7,469**	-
HCL Technologies Finland Oy	**6,345**	-
HCL Technologies Limited- Ireland Branch	**3,698**	-
HCL Technologies Middle East FZ LLC Mainland Dubai Branch	**1,868**	43,945
HCL Technologies B.V.	**-**	11,937
HCL Technologies Limited (Middle East) FZ LLC.	**-**	4,050
	3,265,422	1,759,846

9. PROPERTY AND EQUIPMENT

	Office equipment SR	Furniture and fixtures SR	Computers and software SR	Total SR
Cost:				
At 1 January 2018	11,965	470,900	277,431	**760,296**
Additions	-	-	67,289	**67,289**
At 31 December 2018	11,965	470,900	344,720	**827,585**
Accumulated depreciation and impairment:				
At 1 January 2018	11,965	415,209	90,029	517,203
Charge for the year	-	43,813	62,830	**106,643**
At 31 December 2018	11,965	459,022	152,859	**623,846**
Net Book Value:				
As at 31 December 2018	**-**	**11,878**	**191,861**	**203,739**

	Office equipment SR	Furniture and fixtures SR	Computers and software SR	Total SR
Cost:				
At 1 January 2017	11,965	470,900	220,226	703,091
Additions	-	-	57,205	57,205
At 31 December 2017	11,965	470,900	277,431	760,296
Accumulated depreciation and impairment:				
At 1 January 2017	10,970	371,415	40,117	422,502
Charge for the year	995	43,794	49,912	94,701
At 31 December 2017	11,965	415,209	90,029	517,203
Net Book Value:				
As at 31 December 2017	-	55,691	187,402	243,093

10. ACCOUNTS PAYABLE AND ACCRUALS

	2018 SR	2017 SR
Accrued expenses	**577,697**	257,680
Withholding tax payable	**509,456**	20,703
Trade accounts payable	**52,686**	13,810
	1,139,839	292,193

11. INCOME TAX

a) Income tax

Charge for the year

The income tax charge consists of:

	2018 SR	2017 SR
Current income tax*	**146,482**	299,279
<u>*Deferred tax*</u>		
Relating to origination and reversal of temporary differences**	**(55,300)**	122,613
Income tax reported in the statement of comprehensive income	**91,182**	421,892

* Current income tax has been provided for based on the estimated taxable profit at 20% (2017: 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:

	2018 SR	2017 SR
<u>*Deferred tax assets*</u>		
Accumulated losses	**269,532**	318,361
Differences in depreciation	**46,263**	41,128
Provision for doubtful debt	**100,954**	1,595
Provision for employees' terminal benefits	**10,183**	10,548
Total deferred tax assets	**426,932**	371,632
Net Deferred tax assets	**426,932**	371,632

11. INCOME TAX (continued)

b) Movement in zakat and income tax provision:

	31 December 2018 SR			
	Zakat	Income tax	Total	Net deferred tax
At the beginning of the year	**-**	**299,277**	**299,277**	**(371,632)**
Provided and expensed during the year	**-**	**146,482**	**146,482**	**(55,300)**
Payment during the year	**-**	**(306,775)**	**(306,775)**	**-**
At the end of the year	**-**	**138,984**	**138,984**	**426,932**

c) Status of assessments

The Company has finalized its zakat and income tax status with the General Authority of Zakat and Tax (the "GAZT") up to 31 December 2002. The zakat and income tax declarations for the years 2003 to 2017 have been filed with GAZT and are still under their review.

12. EMPLOYEES' DEFINED BENEFITS LIABILITIES

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2018 and 31 December 2017 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:

	2018 SR	2017 SR
Present value of employees' defined benefits liabilities	**50,909**	**52,735**

	2018 SR	2017 SR
Comprehensive statement of income charge		
Current service costs	**52,780**	(7,876)
Interest costs on liability	**-**	-

12. EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

	2018 SR	2017 SR
Reconciliation of present value of liability		
Employees' defined benefits liabilities at the beginning of the year	**52,735**	60,611
Current service costs	**52,780**	(7,876)
End of service benefits paid	**(54,606)**	-
Actuarial loss	**-**	-
Employees' defined benefits liabilities at the end of the year	**50,909**	52,735

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

	2018	2017
Discount rate	**4.06%**	-
Future salary increment rate	**2.00%**	-
Retirement age	**60**	-

13. CAPITAL

The Company's capital consists of 12,200 shares (2017: 12,200 shares) of SR 500 each. The Company is owned 90% by HCL Bermuda Limited, and 10% by HCL Latin America Holding LLC.

14. SELLING AND DISTRIBUTION EXPENSES

	2018 SR	2017 SR
Provision /(Recovery) of allowance for doubtful accounts (Note 7)	**496,793**	(119,759)
Marketing expenses	**289,160**	2,250
Outsourcing costs	**125,995**	365,629
Travel	**29,600**	331,240
Bad Debts	**-**	13,620
	941,548	592,980

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 SR	2017 SR
Professional fees	**569,996**	658,180
Rent	**192,756**	184,521
Audit fees	**130,000**	85,000
Depreciation (Note 10)	**106,643**	94,701
Establishment and maintenance costs	**89,786**	75,183
	1,089,181	1,097,585

16. OTHER INCOME (EXPENSES)

	2018 SR	2017 SR
Interest income on loans given to affiliates	**45,213**	85,349
Foreign exchange gain/(loss)	**(87,171)**	(129,745)
	(41,958)	(44,396)

17. EVENTS AFTER THE REPORTING PERIOD

There have been no significant subsequent events since the year ended 31 December 2018 that would have material impact on the statement of financial position of the Company as shown in these financial statements.

18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2018 were authorised for issuance by the Board of Directors on 20 Sha'aban 1440H (corresponding to 25 April 2019).