

**HCL Infosystems MEA FZCO**

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**Consolidated financial statements for the year ended  
30 June 2012**

**HCL Infosystems MEA FZCO**

**Consolidated financial statements  
for the year ended 30 June 2012**

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## **Independent auditor's report to the shareholders of HCL Infosystems MEA FZCO**

We have audited the accompanying consolidated financial statements of HCL Infosystems MEA FZCO and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 30 June 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Independent auditors' report to the shareholders of  
HCL Infosystems MEA FZCO (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers  
22 November 2012

A handwritten signature in black ink that reads 'Paul Suddaby'.

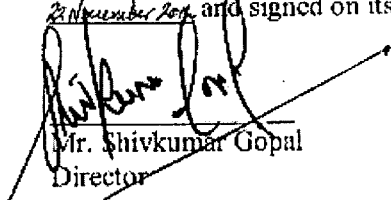
Paul Suddaby  
Registered Auditor Number 309  
Dubai, United Arab Emirates

# IICL Infosystems MEA FZCO

## Consolidated statement of financial position

		As at 30 June	
	Note	2012 AED	2011 AED Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	11,188,891	10,537,311
<b>Current assets</b>			
Inventories	6	3,254,101	2,188,531
Trade and other receivables	7	46,587,524	47,074,394
Due from related parties	8	2,415,813	3,042,425
Cash and bank balances	9	1,624,085	944,577
		<u>53,881,523</u>	<u>53,249,927</u>
<b>Total assets</b>		<u>65,070,414</u>	<u>63,787,238</u>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	10	1,000,000	1,000,000
Retained earnings		6,549,263	7,265,260
		<u>7,549,263</u>	<u>8,265,260</u>
<b>Total shareholders' equity</b>		<u>7,549,263</u>	<u>8,265,260</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for employees' end of service benefits	11	1,849,066	1,465,537
Borrowings	12	3,649,281	3,548,339
		<u>5,498,347</u>	<u>5,013,876</u>
<b>Current liabilities</b>			
Trade and other payables	13	33,464,364	27,595,545
Due to a related party	8	15,247,308	1,321,450
Borrowings	12	3,311,132	21,591,107
		<u>52,022,804</u>	<u>50,508,102</u>
<b>Total liabilities</b>		<u>57,521,151</u>	<u>55,521,978</u>
<b>Total equity and liabilities</b>		<u>65,070,414</u>	<u>63,787,238</u>

These consolidated financial statements were approved by the Board of Directors on ~~23 November 2011~~ and signed on its behalf by:

  
Mr. Shivkumar Gopal  
Director

The notes on pages 7 to 28 form an integral part of these consolidated financial statements.

## HCL Infosystems MEA FZCO

### Consolidated statement of comprehensive income

	Note	<u>For the year ended 30 June</u>	
		2012 AED	2011 AED
Revenue		92,177,913	114,294,560
Cost of sales		(69,266,106)	(91,590,202)
<b>Gross profit</b>		<u>22,911,807</u>	<u>22,704,358</u>
Selling, general and administrative expenses	14	(21,268,256)	(18,708,197)
Other income		-	70,000
<b>Operating profit</b>		<u>1,643,551</u>	<u>4,066,161</u>
Finance income	16	23,951	2,027,812
Finance cost	16	(2,383,499)	(3,751,619)
Finance costs – net		<u>(2,359,548)</u>	<u>(1,723,807)</u>
<b>(Loss) / profit for the year</b>		<u>(715,997)</u>	<u>2,342,354</u>
Other comprehensive income		-	-
<b>Total comprehensive (loss) / income for the year</b>		<u><u>(715,997)</u></u>	<u><u>2,342,354</u></u>

## HCL Infosystems MEA FZCO

### Consolidated statement of changes in equity

	Share capital AED	Retained earnings AED	Total AED
At 1 July 2010	1,000,000	9,058,373	10,058,373
Total comprehensive income for the year	-	2,342,354	2,342,354
<i>Transaction with owners</i>			
Dividend paid (Note 19)		(4,135,467)	(4,135,467)
At 30 June 2011	1,000,000	7,265,260	8,265,260
Total comprehensive loss for the year	-	(715,997)	(715,997)
At 30 June 2012	1,000,000	6,549,263	7,549,263

## HCL Infosystems MEA FZCO

### Consolidated statement of cash flows

	Note	For the year ended 30 June	
		2012 AED	2011 AED Restated
<b>Cash flows from operating activities</b>			
(Loss) / profit for the year		(715,997)	2,342,354
Adjustments for:			
Depreciation on property and equipment	5	442,921	212,692
Provision for staff terminal benefits	11	716,954	498,990
Provision for impairment of trade receivables	7	139,016	-
Profit on sale of property and equipment		-	(70,000)
Finance costs	16	2,383,499	3,751,619
Finance income	16	(23,951)	(2,027,812)
		<hr/>	<hr/>
Operating profit before payment of employees' end of service benefits and changes in working capital		2,942,442	4,707,843
Payment of employees' end of service benefits	11	(333,425)	(128,112)
Changes in:			
Inventories		(1,065,570)	(1,273,899)
Trade and other receivables		347,854	43,376
Due from related parties		626,612	(894,359)
Trade and other payables		5,868,819	4,076,843
Due to a related party		13,925,858	1,321,450
		<hr/>	<hr/>
Net cash generated from operating activities		22,312,590	7,853,142
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	5	(1,094,501)	(383,135)
Additions to capital work-in-progress		-	(2,786,454)
Proceeds from disposal of property and equipment		-	70,000
Interest received		23,951	2,027,812
		<hr/>	<hr/>
Net cash used in investing activities		(1,070,550)	(1,071,777)
<b>Cash flows from financing activities</b>			
Receipt from / (repayment of) bank loans		201,005	(5,442,066)
Net (repayment of) / proceeds from vehicle loans		(90,407)	143,858
Interest paid		(2,383,499)	(3,751,619)
		<hr/>	<hr/>
Net cash used in financing activities		(2,272,901)	(9,049,827)
<b>Net increase / (decrease) in cash and cash equivalents</b>		18,969,139	(2,268,462)
Cash and cash equivalents at beginning of year		(20,555,969)	(18,287,507)
		<hr/>	<hr/>
<b>Cash and cash equivalents, end of the year</b>	9	(1,586,830)	(20,555,969)



## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012

#### 1 Legal status and activities

HCL Infosystems MEA FZCO ("the Company") was formed and registered on 31 July 2004 with the Dubai Airport Free Zone Authority, Dubai as a free zone company with limited liability. The registered address of the Company is P.O. Box 54590, Dubai Airport Free Zone, Dubai, UAE.

The Company is 60% owned by HCL Insys Pte. Limited., Singapore ("the parent company"), a wholly owned subsidiary of HCL Infosystems Limited, India ("the ultimate parent company"); and 40% owned by NTS Holdings Limited, a limited liability company registered in British Virgin Islands.

The Company has a branch in Qatar, engaged in the field of IT products and solutions. The branch was converted into a company on 26 January 2012 and registered with the Qatar Chamber of Commerce and Industry. Consequently, HCL Infosystems Qatar WLL was incorporated as the subsidiary of the Company. The results of operations of the branch upto the date of conversion are incorporated in the financial statements of the Company.

The Company is mainly engaged in the business of developing and trading of software and hardware systems and IT solutions.

These consolidated financial statements include the assets, liabilities and results of operations of the subsidiaries registered and operating in United Arab Emirates ("UAE") and Qatar (collectively referred to as "the Group"). The Group comprises of the following subsidiaries:

Name	Legal status	Country of incorporation	Percentage of effective ownership	
			2012	2011
HCL Infosystems MEA LLC	Limited liability company	UAE	100%	100%
HCL Infosystems LLC	Limited liability company	UAE	100%	100%
HCL Infosystems Qatar WLL	Limited liability company	Qatar	100%	Nil*

Percentage of ownership includes shares held directly by the Group and those held by others for the beneficial interest of the Group.

\*The entity was converted from a branch to a limited liability Company on 26 January 2012.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 2 Summary of significant accounting policies

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

##### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

##### (a) *New and amended standards adopted by the Group*

- IAS 1 'Presentation of financial statements' (effective 1 January 2011) - Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements; and
- IFRS 7 (amendments), 'Financial instruments' (effective 1 January 2011) - Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

##### (b) *New standards, amendments and interpretations issued but not effective for the periods beginning on or after 1 January 2011 and are relevant to the Group but not early adopted*

- IAS 1 (amendment), 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012);
- IAS 19 (amendment), 'Employee benefits' (effective 1 July 2013);
- IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2013);
- IFRS 9 'Financial instruments' (effective 1 January 2015);
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013);
- IFRS 11, 'Joint arrangements'(effective 1 January 2013);
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013); and
- IFRS 13, 'Fair value measurement' (effective 1 January 2013).

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012** (continued)

#### **2 Summary of significant accounting policies (continued)**

##### **2.2 Basis of consolidation**

###### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the purchase of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable net assets acquired and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

###### *(b) Elimination on consolidation*

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Uniform accounting policies are used for like transactions and events. Therefore, if a subsidiary uses different accounting policies from those applied in the consolidated financial statements, appropriate consolidation adjustments to align accounting policies are made when preparing these consolidated financial statements.

##### **2.3 Foreign currency translation**

###### *(a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is United Arab Emirates Dirham ("AED"). The financial statements are presented in AED, which is the Group's presentation currency.

###### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income the within 'finance costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'selling, general and administrative expenses'.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 2 Summary of significant accounting policies (continued)

##### 2.4 Property and equipment

###### (a) Recognition and measurement

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

###### (b) Subsequent costs

The cost of replacing an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in the profit or loss as incurred.

###### (c) Depreciation

Depreciation on other assets is calculated on the straight-line method, at rates calculated to allocate their cost to their estimated residual value over their expected useful lives, as follows:

	Years
Office building	20
Furniture and fixtures	4
Office equipment	4
Motor vehicles	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

###### (d) Gains and losses on disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income within 'selling, general and administrative expenses'.

###### (e) Capital work-in-progress

Capital work-in-progress is stated at cost and includes property that is being developed for future use. When commissioned, capital work-in-progress is transferred to the appropriate asset category and depreciated in accordance with the Group's policy.

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012** (continued)

#### **2 Summary of significant accounting policies (continued)**

##### **2.4 Property and equipment (continued)**

###### *f) Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

##### **2.5 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation / amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units"). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each subsequent reporting date.

##### **2.6 Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventory items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned by using specific identification of their individual costs. The cost of all other inventories is determined under the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and variable selling expenses.

##### **2.7 Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012** (continued)

#### **2 Summary of significant accounting policies (continued)**

##### **2.8 Financial assets**

###### **2.8.1 Classification**

The Group currently classifies its financial assets as 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables comprise of 'trade and other receivables (excluding prepayments)', 'due from related parties' and 'cash and bank balances' in the statement of financial position.

###### **2.8.2 Recognition and measurement**

Regular purchases and sales of financial assets are recognised on trade-date, being the date on which the group commits to purchase or sell the asset.

Loans and receivables are initially measured at fair value and subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

##### **2.9 Cash and cash equivalents**

Cash and cash equivalents for the purpose of statement of cash flows include balances in current accounts, term deposits or other short-term highly liquid investments with original maturity of less than or equal to three months, net of bank overdrafts. Bank overdrafts are included in borrowings within current liabilities in the statement of financial position.

##### **2.10 Share capital**

Ordinary shares are classified as equity.

##### **2.11 Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **HCL Infosystems MEA FZCO**

**Notes to the consolidated financial statements for the year ended 30 June 2012**  
(continued)

### **2 Summary of significant accounting policies (continued)**

#### **2.12 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### **2.13 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group has capitalised borrowing costs with respect to properties under construction which will be used for business purposes.

Other borrowing costs are expensed as incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **2.14 Provision for employees' benefits**

A provision is made for employees employed in the UAE for the estimated liability for their entitlement to annual leave and leave passage as a result of services rendered up to the statement of financial position date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the reporting date. The provision relating to annual leave and leave passage is disclosed as a current liability, while that relating to end of service benefits is disclosed as a non-current liability.

#### **2.15 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services rendered, stated net of discounts and returns. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)**

#### **2 Summary of significant accounting policies (continued)**

##### **2.15 Revenue recognition (continued)**

###### *(a) Sales of goods*

The Group is engaged in the sale of computer hardware, software and related accessories. Sales of goods are recognised when the Group has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been transported to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

###### *(b) Sales of services*

The Group provides IT solutions, installation and maintenance services to its customer. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

##### **2.16 Leases**

###### *Operating leases when the Group acts as a lessee*

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

#### **3 Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Group reviews and agrees policies for managing each of these risks and these policies are summarised below:

##### **3.1 Financial risk factors**

###### *(a) Market risk*

###### *(i) Foreign currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has no significant exposure to foreign currency risk as the transactions are mainly made in AED and US Dollar which is currently pegged to AED.



## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 3 Financial risk management (continued)

##### 3.1 Financial risk factors (continued)

###### (a) Market risk (continued)

###### (ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group has exposure to interest rate risk from bank borrowings issued at variable interest rates.

At 30 June 2012, if interest rates on variable rate borrowing had been 1% higher/lower with all other variables held constant, profit for the year would have been AED 69,604 (2011: AED 251,394) lower / higher, mainly as a result of higher / lower interest expense.

###### (iii) Price risk

The Group is not exposed to price risk as it has no price sensitive financial instruments.

###### (b) Credit risk

Credit risk is the risk that the counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk mainly arises from trade and other receivables (net of prepayments), balances due from related parties and cash and bank balances (Notes 7, 8 and 9 respectively).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Group's customers are based mainly in the Middle East. At 30 June 2012, five debtors accounted for 45% (2011: 63%) of the trade receivables. Management is of the opinion that this concentration of credit risk will not result in a loss to the Group since the customers have sound financial position and there are no disputes regarding the outstanding amounts.

###### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. Due to the dynamic nature of the underlying business, the business maintains flexibility in funding by keeping credit lines available.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 3 Financial risk management (continued)

##### 3.1 Financial risk factors (continued)

###### (c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012	Total AED	Less than 1 year AED	Between 2 to 5 years AED
Trade and other payables	33,464,364	33,464,364	-
Due to related parties	15,247,308	15,247,308	-
Borrowings	6,960,413	3,311,132	3,649,281
	<u>55,672,085</u>	<u>52,022,804</u>	<u>3,649,281</u>
At 30 June 2011			
Trade and other payables	27,595,545	27,595,545	-
Due to related parties	1,321,450	1,321,450	-
Borrowings	25,139,446	21,591,107	3,548,339
	<u>54,056,441</u>	<u>50,508,102</u>	<u>3,548,339</u>

##### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as 'borrowings' less 'cash and bank balances' as shown in the statement of financial position. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 3 Financial risk management (continued)

##### 3.2 Capital risk management (continued)

As of 30 June 2012 and 2011, the gearing ratios of the Group were as follows:

	2012 AED	2011 AED
Borrowings (Note 12)	6,960,413	25,139,446
Less: cash and bank balances (Note 9)	(1,624,085)	(944,577)
Net debt	5,336,328	24,194,869
Total equity	7,549,263	8,265,260
Total capital	12,885,591	32,460,129
Gearing ratio	41%	75%

##### 3.3 Fair value estimation

At 30 June 2012 and 2011 the Group did not have financial assets or liabilities that are measured at fair value.

#### 4 Critical accounting estimates and judgments

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.

##### 4.1 Critical accounting estimates and assumptions

The Group 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 discussed as follows:

###### (a) Depreciation on property and equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Where management determines that the useful life of an asset Group or residual value of the asset requires amendment, the net book amount in excess of the residual value is depreciated over the revised remaining useful life

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012** (continued)

#### **4 Critical accounting estimates and judgments (continued)**

##### **4.1 Critical accounting estimates and assumptions (continued)**

###### **(b) Impairment of trade and other receivables**

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the customers' accounts, customer defaults, the customers' credit worthiness and the historical write off experience. Changes to the estimated impairment charge may be required if the financial condition of the customers was to improve or deteriorate.

###### **(c) Percentage of completion in revenue recognition**

The Group uses the percentage of completion method in accounting for its contracts. Use of the percentage of completion method requires the Group to estimate the services performed to date as a proportion of total services to be performed.

## HCL Infosystems MEA FZCO

Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

### 5 Property and equipment

	Office building	Furniture and fixtures	Office equipment	Motor vehicles	Capital work in progress (Restated)*	Total
	AED	AED	AED	AED	AED	AED
<b>Cost</b>						
At 1 July 2010	-	593,205	342,461	458,350	7,164,081	8,558,097
Additions	-	17,500	125,635	240,000	2,786,454	3,169,589
Disposals	-	-	-	(186,350)	-	(186,350)
At 30 June 2011	-	610,705	468,096	512,000	9,950,535	11,541,336
Additions	60,756	889,333	144,412	-	-	1,094,501
Transfers	4,450,329	-	-	-	(4,450,329)	-
Disposals	-	(69,127)	-	-	-	(69,127)
At 30 June 2012	4,511,085	1,430,911	612,508	512,000	5,500,206	12,566,710
<b>Depreciation</b>						
At 1 July 2010	-	490,280	247,358	240,045	-	977,683
Charge for the year (Note 14)	-	70,605	54,112	87,975	-	212,692
Disposals	-	-	-	(186,350)	-	(186,350)
At 30 June 2011	-	560,885	301,470	141,670	-	1,004,025
Charge for the year (Note 14)	103,159	141,120	74,577	124,065	-	442,921
Disposals	-	(69,127)	-	-	-	(69,127)
At 30 June 2012	103,159	632,878	376,047	265,735	-	1,377,819
<b>Net book amount</b>						
At 30 June 2012	4,407,926	798,033	236,461	246,265	5,500,206	11,188,891
At 30 June 2011	-	49,820	166,626	370,330	9,950,535	10,537,311

\*Refer note 21 for restatement.

## **HCL Infosystems MEA FZCO**

### **Notes to the consolidated financial statements for the year ended 30 June 2012** (continued)

#### **5 Property and equipment (continued)**

- 5.1 The vehicles purchased are secured against the loans obtained from the bank (refer note 12).
- 5.2 On 19 July 2007, the Group entered into a purchase agreement with Stars Dome Real Estate for the purchase of commercial spaces in Summit Tower. The total cost of properties acquired amounted to AED 10,712,013, of which 50% advance payment had been paid to the developer, against which the Group has taken a property loan from First Gulf Bank. Total loan advanced by the bank amounts to AED 3,509,808 (Note 12). The title for the properties has been collateralised to the bank. Loan repayment is scheduled to commence upon the completion of the construction and handover of properties by the developer to the Group. Following the economic downturn, the construction of the properties had been ceased by the developer and the advance payment has been frozen. At the time of acquisition of the group (previously known as NTS) by HCL group, an agreement was reached that the previous shareholders would retain the ETA properties, and thus would carry the credit risk in respect of the advance payment issued. Consequently as at 30 June 2011, the total advance payment was reclassified from Capital work in progress (CWIP) to amounts due from previous shareholders. However, as bank's consent for the transfer of the above property had not been obtained the amount of AED 5,500,206 (Note 21) has been reclassified to CWIP in the current year.

#### **6 Inventories**

Inventory comprises of non-identical items held for re-sale based on specific requirements of the customers.

At year end the Group had goods in transit amounting to AED 342,207 (2011: Nil).

#### **7 Trade and other receivables**

	2012 AED	2011 AED
Trade receivables	42,592,635	40,841,937
Less : Provision for impairment	(139,016)	-
	<u>42,453,619</u>	<u>40,841,937</u>
Prepayments	995,982	745,731
Deposits	188,944	137,000
Other receivables	2,948,979	5,349,726
	<u><u>46,587,524</u></u>	<u><u>47,074,394</u></u>

As at 30 June 2012 trade receivables of AED 19,293,071 (2011: AED 15,561,793) were fully performing.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 7 Trade and other receivables (continued)

As at 30 June 2012, trade receivables of AED 23,160,548 (2011: AED 25,280,144) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	2012 AED	2011 AED
Up to 1 month	5,387,759	2,057,151
1 month to 3 months	5,240,600	11,049,188
More than 3 months	12,532,189	12,173,805
	<u>23,160,548</u>	<u>25,280,144</u>

As of 30 June 2012, trade receivables of AED 139,016 (2011: AED Nil) were impaired and fully provided for. All these receivables are more than twelve months past due.

Movements in the Group's provision for impairment of trade receivables are as follows:

	2012 AED	2011 AED
At the beginning of the year	-	-
Charge for the year (Note 14)	139,016	-
At 30 June	<u>139,016</u>	<u>-</u>

The Group has a long outstanding amount of AED 2,496,922 due from iCapital ("iCapital dues") recorded in the consolidated financial statements as at 30 June 2012. iCapital dues are jointly guaranteed by Mr. Abdulla Qassem, Mr. Mohammed Fouz and Mr. Gopal Shivkumar, the Group's shareholders (together, "the guarantors") in accordance with the agreement, relating to the sale and purchase of 40% of the issued share capital of HCL MEA Infosystems FZCO in Dubai Airport Free Zone. Subsequent to the year end, the sale / purchase agreement has been executed. Consequently, no provision has been made for the iCapital dues in the consolidated financial statements as at 30 June 2012 as these are secured by way of guarantee from the guarantors.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is represented by the carrying amounts of each class of receivable mentioned above. The carrying amount of the Group's trade and other receivables are denominated in AED. The Group does not hold any collateral as security.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 8 Related party transactions and balances

Related parties comprise the Group's shareholders, ultimate parent company and parent company and its associated companies and key management personnel.

##### Related party transactions

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out at rates and on terms agreed between the related parties:

	2012 AED	2011 AED
Purchases from ultimate parent company	16,716,307	5,358,364
Expenses recharged to ultimate parent company	575,079	-
Salaries and benefits to key management personnel	1,022,611	1,231,000

##### Key management compensation comprises

Salaries and other short term employee benefits	949,992	1,186,000
End of service benefits	72,619	45,000
	<u>1,022,611</u>	<u>1,231,000</u>

##### Related party balances

	2012 AED	2011 AED Restated*
<b>Due from related parties</b>		
Mr Abdulla Abdul Rahman Abdulla Qassem	1,033,483	985,931
HCL Infosystems Limited	575,079	-
Mr Gopal Shiv Kumar for Ms Anita Shiv Kumar	495,071	479,719
Ms Elaine M. Fouz	312,180	266,128
Mr Mohammed Amin Salem	-	1,310,647
	<u>2,415,813</u>	<u>3,042,425</u>

\* Refer Note 21 for restatement

	2012 AED	2011 AED
<b>Due to a related party</b>		
HCL Infosystems Limited	<u>15,247,308</u>	<u>1,321,450</u>



## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 9 Cash and bank balances

Cash at bank	1,624,085	944,577
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Cash and cash equivalents include bank overdrafts for the purposes of the statement of cash flows.

	2012 AED	2011 AED
Cash and bank balances	1,624,085	944,577
Bank overdrafts (Note 12)	(3,210,915)	(21,500,546)
Cash and cash equivalents	<u>(1,586,830)</u>	<u>(20,555,969)</u>

#### 10 Share capital

Share capital comprises 10 (2011: 10) authorised, issued and fully paid up shares of AED 100,000 each (2011: AED 100,000 each).

#### 11 Provision for employees' end of service benefits

	2012 AED	2011 AED
At the beginning of the year	1,465,537	1,094,659
Charge for the year (Note 15)	716,954	498,990
Payments during the year	(333,425)	(128,112)
As at 30 June	<u>1,849,066</u>	<u>1,465,537</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 30 June 2012 and 2011, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method an assessment has been made of an employees' expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 5% (2010: 5%). The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.25 % (2011: 5%).

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 12 Borrowings

	2012 AED	2011 AED
<b>Non-current</b>		
Bank loans (Note 12.1)	3,509,808	3,308,803
Vehicle loans (Note 12.2)	139,473	239,536
	<u>3,649,281</u>	<u>3,548,339</u>
<b>Current</b>		
Bank overdrafts (Note 9)	3,210,915	21,500,546
Vehicle loans (current portion of long term debt) (Note 12.2)	100,217	90,561
	<u>3,311,132</u>	<u>21,591,107</u>
Total borrowings	<u><u>6,960,413</u></u>	<u><u>25,139,446</u></u>

Bank loans are term loan facilities which carry an interest rate of 3% plus 6 months EIBOR (2011: 3% plus 6 months EIBOR).

##### 12.1 Mortgage

Bank loan relates to liability for the loan mortgaged with First Gulf Bank. Refer note 5.2 and 20.

##### 12.2 Vehicle loans

	2012 AED	2011 AED
At the beginning of the year	330,097	186,239
Loan obtained during the year	-	216,000
Payments during the year	(90,407)	(72,142)
	<u>239,690</u>	<u>330,097</u>
At 30 June	239,690	330,097
Less: long-term portion of vehicle loans	(139,473)	(239,536)
	<u><u>100,217</u></u>	<u><u>90,561</u></u>

Vehicle loans carry an interest rate of 11.4% (2011: 11.4%). Deferred interest on the vehicle loans at 30 June 2012 amounted to AED 29,382 (2011: AED 58,292). The vehicles purchased are secured against the loans obtained from the bank (refer note 5).

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 13 Trade and other payables

	2012 AED	2011 AED
Trade payables	23,544,065	20,983,245
Liability on bills discounting	4,324,250	3,133,920
Accrued expenses and other payables	4,015,401	1,670,238
Employee benefits accruals	1,580,648	1,808,142
	<u>33,464,364</u>	<u>27,595,545</u>

The Group has entered into a bills discounting agreement with a bank with recourse for a period of 120 days at an interest rate of 7.49% per annum (2011: 7.49% per annum).

	2012 AED	2011 AED
Staff costs (Note 15)	15,153,741	13,467,406
Depreciation (Note 5)	442,921	212,692
Legal, professional and other charges	1,143,536	992,570
Rent	917,545	778,600
Insurance	765,180	395,906
Communication	712,020	574,947
Travel expenses	486,344	458,830
Selling expenses	376,729	363,311
Advertisement and business promotion	283,246	812,417
Office expenses	275,769	193,473
Provision for impairment of trade receivables (Note 7)	139,016	-
Others	572,209	458,045
	<u>21,268,256</u>	<u>18,708,197</u>

#### 15 Staff costs

Salaries	13,074,603	11,418,158
Other staff costs and benefits	1,362,184	1,550,258
Employees' end of service benefits (Note 11)	716,954	498,990
	<u>15,153,741</u>	<u>13,467,406</u>

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 16 Finance costs – net

	2012 AED	2011 AED
Interest income	(23,951)	(2,027,812)
	<u>(23,951)</u>	<u>(2,027,812)</u>
<b>Finance costs</b>		
Bank charges on overdrafts	918,579	462,967
Interest on borrowings	1,237,290	2,777,554
Interest on bill discounting	217,249	396,106
Foreign exchange loss	10,381	114,992
	<u>2,383,499</u>	<u>3,751,619</u>
<b>Finance costs – net</b>	<u><u>2,359,548</u></u>	<u><u>1,723,807</u></u>

#### 17 Financial instruments by category

The accounting policies for the financial instruments have been applied to the line items below:

	<u>Loans and receivables</u>	
	2012 AED	2011 AED Restated
<b>Assets as per statement of financial position</b>		
Trade and other receivables*	45,591,542	46,328,663
Due from related parties	2,415,813	3,042,425
Cash and bank balances	1,624,085	944,577
	<u>49,631,440</u>	<u>50,315,665</u>

\*Trade and other receivables excludes prepayments amounting to AED 995,982 (2011: AED 745,731)

	<u>Other financial liabilities</u>	
	2012 AED	2011 AED
<b>Liabilities as per statement of financial position</b>		
Trade and other payables	33,464,364	27,595,545
Due to related parties	15,247,308	1,321,450
Borrowings	6,960,413	25,139,446
	<u>55,672,085</u>	<u>54,056,441</u>

## HCL Infosystems MEA FZCO

Notes to the consolidated financial statements for the year ended 30 June 2012  
(continued)

### 18 Contingent liabilities and capital commitments

	2012 AED	2011 AED
Bank guarantees	18,913,042	8,982,468
Letter of credit	8,082,630	11,236,306

In 2011 the Group had a capital commitment in respect to the purchase of commercial properties amounting to AED 850,000.

### 19 Dividend

Dividend paid in 2012 and 2011 amounted to AED Nil (AED Nil per share) and AED 4,135,467 (AED 413,547 per share) respectively.

### 20 Subsequent events

#### Transfer of shares

Subsequent to the year ended 30 June 2012, NTS Holding Ltd transferred four shares of AED 100,000 each held in HCL Infosystems MEA FZCO to HCL Insys Pte. Ltd. Following the transfer of the shares, the HCL Infosystems MEA FZCO is converted into a Free Zone Establishment (FZE) owned solely by the HCL Insys Pte. Ltd. with one share of AED 1,000,000 and the name of HCL Infosystems MEA FZCO has been changed to HCL Infosystems MEA FZE effective 7 August 2012.

Following the share transfer and the conversion of the Company into a FZE, the composition of the Board has been changed. The new composition of the Board is as follows:

Manager  
Mr. Shivkumar Gopal

Secretary  
Mr. G Viswanathan

Directors  
Mr. Neeraj Jaitley,  
Mr. Sandeep Kanwar,  
Mr. Sundaram Sridharan and  
Mr. Shivkumar Gopal

#### Settlement of First Gulf Bank (FGB) mortgage loan liability

On 13 August 2012 the Group settled its liability for the loan mortgaged with First Gulf Bank amounting to AED 3,573,688 including settlement charges of AED 40,201.

## HCL Infosystems MEA FZCO

### Notes to the consolidated financial statements for the year ended 30 June 2012 (continued)

#### 21 Restatement

The Group reclassified amounts paid for the acquisition of ETA properties from 'due from related parties' to CWIP, in accordance with the property pledge agreement. The adjustment was made retrospectively in accordance with IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

	Effect on 2011 AED	Effect on 2010 AED
<b>Statement of financial position</b>		
Increase in 'property and equipment'	5,500,206	5,500,206
Decrease in 'due from related parties'	(5,500,206)	(5,500,206)
<b>Statement of cash flows</b>		
Increase in cash flows from operating activities	5,500,206	5,500,206
Decrease in cash flows from investing activities	(5,500,206)	(5,500,206)

#### 22 Comparatives

Prior year figures have been regrouped and reclassified wherever applicable to conform to the current year presentation.