To : Board of Directors of HCL

Subject : Effect on the consolidated financial statements on transactions

1. **Purchase of 35% in HCD on 1.12.2019**

   On this date when HCL Acquires 35% it will have **significant influence** and thus it should account for HCD as an Associate.

   In accounting for an associate on the date of acquisition, HCL should compare its investment with the proportion of net assets it acquires. In this case as the investment of Rs.984.5mn is less than the attributable net assets of Rs.1,185.8mn, a gain on a bargain purchase of Rs. 201.3mn arises and it should be debited to the investment in Associate and should be recognized in the consolidated P&L.

   Until 30.9.2020, when the change in shareholding takes place the investment in associate should be equity accounted by accounting for the change in net assets.

	Rs'mn
Investment	984.5
GBP	201.3
FCTR	42.7
Retained earnings	96.95
Carrying amount on 30.9.2020	1,325.45

2. **Further investment in HCD on 30.9.2020**

   With HCL making two additional investments in HCD, by acquiring 10% from Edward at a cost of (250mn+105mn+78.88mn) 443.88mn and by investing in convertible bonds, HCL establishes control over HCD.

   Control is the power over relevant activities, exposure to variable returns and ability to use the power to affect those returns. Power can be obtained by acquiring majority voting rights which can either be existing voting right or potential voting rights. Potential voting rights are considered only when the rights are substantive. Since the convertible instruments are in the money it can be considered as substantive and as a result, HCL has a total of 51.47% in HCD's voting rights. Thus, having voting rights gives it control over HCD and HCD should be accounted for as a subsidiary.

Since HCD is currently accounted as an associate, the carrying amount should be derecognized and taken to the goodwill calculation at its fair value. The difference between the carrying amount and the FV should be recognized in the Group P&L. Further, the FCTR component should be transferred to P&L as well.

The goodwill calculation on HCD will be as follows.

	Rs'mn
FV of existing investment	1,391.25
New investment	
- Cash	250
- Share issue	105
- Contingent payment	78.88
NCI at FV	2,186.25
NA at FV	(3,865)
Goodwill on acquisition of HCD	146.38

3. Acquisition of HIL

In this case HCL acquires 24% directly in HIL and owns 60% through subsidiary HCD and therefore has control over HIL and has an effective ownership of 51%. On the acquisition date goodwill should be calculated as follows.

	Rs'mn
Investment by HCL	30
Investment by HCD	18.56
NCI at FV	61.25
NA	(123)
GW / (Gain on a bargain purchase)	(13.19)

The GBP will be recognized as a profit in the Group P&L.

4. Investment in the Convertible Bonds

The investment in convertible bonds by HCL is eliminated against the equity and debt value reflected by HCD in preparing the consolidated financial statements. Further, the interest income shown by HCL is eliminated against the interest expense reflected by HCD.