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HCL

HCL Technologies
Annual Report 2006

HCL TECHNOLOGIES LIMITED

US GAAP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related disclosure notes. Investors are cautioned that this discussion contains statements that involve risks and uncertainties. When used in this discussion, 'anticipate', 'believe', 'estimate', 'intend', 'will', and 'expect' and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligations to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results could differ materially from those discussed in the forward-looking statements due to changes in the market or general economic conditions and other factors. Readers are cautioned not to place undue reliance on the forward-looking statements as they speak only as of their dates.

Introduction and Business Overview

HCL Technologies Ltd ('HCL' or the 'Company') is one of India's largest IT services exporter with services spanning IT services as well as IT-enabled services. The key service areas in which the Company provides its services are as indicated below.

Software Services: HCL offers its software services in enterprises software services as well as product engineering services. The enterprise software services cover custom and package application lifecycles - design, develop, test, implement, maintain, migrate, integrate, upgrade, roll-out and support. HCL has partnerships with leading software product companies and Centers of Excellence to develop capabilities which are harnessed to help clients. In product engineering, HCL offers full lifecycle services, from requirements definition to prototype architecture, development, testing, technical help desk from L0 onwards, field support, maintenance as well as upgradation. With select software product companies, the service portfolio extends beyond engineering to implementation services.

BPO Services: HCL BPO delivers multi-channel contact management and back office services for select, complex processes in banking, insurance, manufacturing, retail and telecom. The accent is on advanced customer handling and communication skills, a sensitized approach for managing client-side process stakeholders, integration with process experts and certifications such as COPC and BS: 7799. HCL's BPO Services are highly regarded for significant, sustained value delivery, bolstered by an incident-free track record and renewal of all major contracts.

Infrastructure Management Services: HCL's Infrastructure Services enable customers to operate and manage their IT environment making it available, secure and reliable - always. The services are delivered through ISO 9002, BS: 7799 certified Operations and Management Centers in India. Unique in-house tools provide enhanced visibility into the customer's IT infrastructure to optimize performance, increase availability and reduce costs.

These service lines are delivered to customers in key verticals such as Aerospace, Automotive, Banking and other Financial Services, Insurance, Life Sciences, Media, Publishing and Entertainment, Retail, Semiconductors and Telecom.

The company's technological prowess lies in the dedicated Offshore Development Centers it operates for some of the world's leading organizations. These centers are located in Bangalore, Chennai, Gurgaon and Noida in India. HCL is the preferred partner to 490 prestigious organizations in the world, including 66 Global 500 companies. Its presence across 14 countries gives the Company global reach and a vast rollout support capability. Currently, it serves global markets through offices in America, Asia Pacific, Europe and Japan.

The Current Operating Environment and Outlook

The Indian IT services and IT-enabled services industries continue to grow at a rapid pace driven by the increasing penetration of Indian vendors in the global IT market. The move towards outsourcing of IT services with India being the most preferred location for this, is aiding this growth. The Company enjoys a position of pre-eminence in this environment and is poised strongly to capture an increased market-share by leveraging its wide service mix and strong client relationships.

The Company's total revenues grew from $55.8 million in fiscal 1996 to $ $976.0 million in fiscal 2006, representing a CAGR (Compound Annual Growth Rate) of 33.13%, while net income grew from $3.2 million in fiscal 1996 to $ 144.1 million in fiscal 2006, representing a CAGR of 46.3%.

Operational Review

A snapshot of the Company's financial performance for the last five years has been provided in the table given below.

Consolidated Statement of Income:

	($ million, except number of shares and per share data) Fiscal year ended June 30,				
	2006	**2005**	**2004**	**2003**	**2002**
Revenues	976.0	762.0	567.7	415.5	330.9
Cost of revenues	622.9	479.6	362.7	255.7	188.0
Selling, general and administrative expenses	151.8	109.1	90.2	81.5	74.5
Depreciation and amortization	42.6	33.6	25.1	18.9	12.0
Income from operations	**158.7**	**139.7**	**89.7**	**59.4**	**56.4**
Other income, net	(0.7)	24.1	106.5	10.7	18.8
Income before income taxes, share of income of equity investees and minority interest	158.0	163.8	196.2	70.1	75.2
Income tax expense	13.4	15.2	8.8	6.7	8.3
Equity in earnings / (losses) of affiliates	(0.1)	(0.6)	(2.1)	1.3	7.0
Minority interest	(0.4)	(9.9)	(13.4)	(6.7)	(2.5)
Net income (loss)	**144.1**	**138.1**	**171.9**	**58.0**	**71.4**
Earnings per equity share					
Basic	$0.45	$0.45	$0.59	$0.20	$0.25
Diluted	$0.42	$0.44	$0.58	$0.20	$0.24
Weighted average number of equity shares used in computing earnings per equity share:					
Basic	321,394,480	307,406,759	292,323,540	287,201,728	283,276,203
Diluted	342,155,857	316,008,887	297,532,978	293,639,246	292,161,015

Supplemental Information:

Net Income for the year 2006 included non-cash employee stock-based compensation expense under Statement of Financial Accounting Standard ("SFAS") 123(R), Share-Based Payments, of $14.6 Million (net of tax benefit of USD 0.7 Million). During the year 2005 and 2004, the stock-based compensation expense was $0.6 Million and $Nil, as the Company did not apply the recognition provision of SFAS 123 and opted to give proforma disclosure.

If the effect of pro forma stock based compensation expense as disclosed in the notes to Consolidated Financial statement were included for the year 2005and 2004, the income from operations and net income and related earning per share will be as given below:

	2006	2005	2004
Income from Operation , as reported	**$158.7**	**$139.7**	**$89.7**
Add: Stock-based employee compensation expense included in reported net income.	-	0.6	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards.	-	12.5	7.4
Pro forma Income from Operations	**$158.7**	**$127.8**	**$82.3**
Net income, as reported	**$144.1**	**$138.0**	**$171.9**
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-	0.6	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	12.5	7.4
Pro forma net income	**$144.1**	**$126.1**	**$164.5**
Earnings per share			
Basic	$0.45	$0.41	$0.56
Diluted	$0.42	$0.41	$0.55

Fiscal 2006 compare to Fiscal 2005

Revenues

Total revenues were $976.0 million in fiscal 2006 representing an increase of 28.1% from $762.0 million in fiscal 2005.

Revenue composition from Service lines

The major share of the Company's revenues is derived from outsourced software development services in technology/application/ practice-led, with the rest of the revenues coming in from networking services and business process outsourcing services. The breakup of revenue among the various business segments is:

($ million, except percentages)

	Fiscal year ended June 30,					
	2006		2005		2004	
Software services	733.6	75.2%	597.4	78.4%	449.6	79.2%
Infrastructure Management services	112.1	11.5%	64.2	8.4%	52.6	9.3%
Business Process Outsourcing services	130.8	13.4%	101.5	13.3%	66.7	11.7%

Inter-segment transactions	(0.5)	(0.1%)	(1.1)	(0.1%)	(1.0)	(0.2)%
Total	**976.0**	**100%**	**762.0**	**100%**	**567.9**	**100%**

The software services parts of the business portfolio increased by 22.8% during the year under review while the BPO business increased by 28.9%. The Company's infrastructure management services business showed a strong growth of 74.6%. Infrastructure management services has been the fastest growing segment for the Company and its share in the total revenues has gone up to 11.5% in the fiscal under review from 8.4% in the fiscal 2005.

Geographic Breakdown of Revenues

The Company also reviews its business on a geographic basis. The following table classifies total revenue by geographic areas:

($ million, except percentages)

	Fiscal year ended June 30,					
	2006		2005		2004	
America	564.8	57.9%	452.4	59.4%	346.8	61.0%
Europe	258.7	26.5%	192.0	25.2%	125.5	22.1%
India	67.3	6.9%	53.9	7.1%	46.4	8.2%
Others	85.2	8.7%	63.7	8.3%	49.2	8.7%
Total	**976.0**	**100%**	**762.0**	**100%**	**567.9**	**100%**

In the near term, the Company expects to continue to derive significant revenues from its customers in United States. Revenue contribution from Europe has been rapidly increasing due to increased focus in that region. Revenues in India are generated primarily from infrastructure management services provided to customers in India.

Cost of Revenues

Cost of revenues consists primarily of cost of personnel directly engaged in provision of services, third party consultants, network usage charges, cost of network products, project travel expenses, cost of technical subcontractors, rent, repairs and maintenance and electricity charges and all other costs directly identifiable with the provision of services. This cost excludes allocation of depreciation and amortization.

Costs of revenues were $622.9 million in fiscal 2006, representing an increase of 29.9% from $479.7 million in fiscal 2005. The constituents of the various elements of the cost of revenues have been indicated below.

($ million)

	Fiscal year ended June 30,		
	2006	**2005**	**2004**
Personnel costs	363.9	280.0	197.4
Establishment maintenance and communication costs	58.2	40.6	29.4
Travel costs	75.7	47.3	33.1
Others direct costs	125.1	111.8	102.7
Total	**622.9**	**479.7**	**362.6**

Personnel costs increased from $280.0 million in fiscal 2005 to $363.9 million in fiscal 2006. Fiscal 2006 costs include non-cash employee stock compensation charge of $9.8 million as compared to $0.6 million in fiscal 2005. Remaining increase is personnel cost is due to sharp increase in number of billable employees from 21,829 to 29,218.

Establishment maintenance and communication costs also increased with the setting up of new facilities during the year. In the fiscal 2006, the Company substantially added capacity at its various development facilities. The Company continues to heavily focus on doing most of its projects from off-shore locations which necessitates the use of long-

distance communication links. The Company has also substantially increased the capacity of long – distance communication links to provide for redundancy. These costs were at $58.2 million for the fiscal 2006 as compared to $40.6 million in fiscal 2005.

Project related travel includes costs related to foreign travel on software development activities. This increased by 60.0% from $47.3 million in fiscal 2005 to $75.7 million in fiscal 2006. The primary reason for increase is increase is on account of increase in onsite manmonths by around 58% which resulted in increase in corresponding onsite project related travel expenses.

Cost of revenues as a percentage of revenues increased to 63.8% in fiscal 2006 from 62.9% in fiscal 2005.

Selling, general and administrative expenses

Sales and marketing expenses consist primarily of cost of sales personnel and expenses relating to travelling, business promotion activities and provision for doubtful debts.

General and administrative expenses consist primarily of management and support personnel costs, rent expenses relating to marketing offices, communication expenses including expenses incurred in connection with co-ordination between marketing offices and offshore development centres, travel expenditure other than project and sales related travel and legal and administrative costs.

These expenses were $151.8 million in fiscal 2006, representing an increase of 39.2% from $109.1 million in fiscal 2005. The Company has achieved growth in revenues by investing in sales and marketing and intends to continue investing in the same to strengthen its sales and marketing team. As a percentage of revenues, these expenses have increased to 15.6% as compared to 14.3% in the previous fiscal.

Depreciation and Amortization

Depreciation and amortization was $42.6 million in fiscal 2006 as compared to $33.6 million in 2005. This increase was primarily because of increased depreciation charges due to substantial infrastructure additions to fixed assets in fiscal 2006.

Income from Operations

As a result of the foregoing factors, income from operations was $158.7 million in fiscal 2006, representing an increase of 13.6% from $139.7 million in fiscal 2005. Income from operations as a percentage of net revenues decreased to 16.3% in fiscal 2006 from 18.3% in fiscal 2005.

However current year costs include employee stock-based compensation of $15.3 million as compared to $0.6 million in 2005. If the effect of pro forma stock based compensation expense as disclosed in notes to financial statement for the year 2005 is considered, then income from operation will represent an increase of 24.2% over 2005.

Other Income/ (loss), net

Other income for the fiscal under review comprises primarily of interest and dividend income as also profit on sale of investment securities made as a part of deployment of surplus funds and exchange gain/loss. The Company's investments were primarily in debt-based Indian mutual funds, fixed income securities of development financial institutions, public sector units and banks, rated AAA/P1+/A1+, or equivalent. The yields on the Company's liquid assets have been progressively coming down primarily due to a drop in the interest rates in the Indian economic environment.

Other income/ (loss), net was $(0.6) million in fiscal 2006 as compared to the $24.1 million in fiscal 2005. This variation is primarily on account of foreign exchange loss of $21.1 million during fiscal 2006 as compared to foreign exchange gain of $1.2 million during fiscal 2005.
This is primarily the loss incurred on forward covers booked by the company weakening of rupee.

Income Tax Expense

Income tax expense was $13.4 million in 2006 as compared to $15.2 million in fiscal 2005. The individual entities within the Company file individual tax returns as per regulations existing in their respective countries of domicile.

A substantial portion of the profits of the Company's India operations are exempt from Indian income taxes being profits attributable to export operations and profits from undertakings situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from financial year when the unit started operations. The tax holiday in all facilities under STPs expire in stages by 2009. The STP period for certain undertakings have expired on April 1, 2005.

Share of Income of Equity Investees

Share of loss of equity investees was $0.1 million in fiscal 2006 as compared to loss of $0.6 million in fiscal 2005. This pertains to the losses incurred in the Company's affiliate companies NEC HCL System Technologies Limited, Diamondhead Ventures LLP and HCL Answerthink Inc.

Minority interest

Share of interest of minority holders for the year was $0.4 million in fiscal 2006 as compared to $9.9 million in fiscal 2005. This pertains to the interests of the minority shareholders in the companies where HCL has a majority stake namely DSL Software Ltd. (100% stake acquired by HCL during the previous year) as also HCL Jones and HCL EAI Services Inc.

Net Income

As a result of the foregoing factors, net income was $144.1 million in fiscal 2006 as compared to $138.1 million in fiscal 2005. If the effect of pro forma stock based compensation expense as disclosed in notes to financial statement for the year 2005 is considered, then the net income represent an increase of 14.3% over 2005.

Fiscal 2005 compared to Fiscal 2004

Revenues

Total revenues were $762.0 million in fiscal 2005 representing an increase of 34.2% from $567.9 million in fiscal 2004.

Cost of Revenues

Costs of revenues were $479.7 million in fiscal 2005, representing an increase of 32.3% from $362.6 million in fiscal 2004. The constituents of the various elements of the cost of revenues have been indicated below.

	($ million) Fiscal year ended June 30,	
	2005	**2004**
Personnel costs	280.0	197.4
Establishment maintenance and communication costs	40.6	29.4
Travel costs	47.3	33.1
Others direct costs	111.8	102.7
Total	**479.7**	**362.6**

Personnel costs increased from $197.4 million in fiscal 2004 to $280.0 million in fiscal 2005 due to a sharp increase in number of billable employees.

Establishment maintenance cost and communication costs also increased with the setting up of new facilities during the year. In the fiscal 2005, the Company substantially added capacity at its various development facilities. The Company continues to heavily focus on doing most of its projects from off-shore locations which necessitates the use of long-distance communication links. These costs were at $40.6 million for the fiscal 2005 as compared to $29.4 million in fiscal 2004.

Project related travel includes costs related to foreign travel on software development activities. This increased by 42.9% from $33.1 million in fiscal 2004 to $47.3 million in fiscal 2005.

Selling, general and administrative expenses

These expenses were $109.1 million in fiscal 2005, representing an increase of 21% from $90.2 million in fiscal 2004. The Company has achieved growth in revenues by

leveraging existing sales and marketing infrastructure. The efforts to control selling, general and administrative expenses have had a very healthy impact on the profitability of the Company. As a percentage of revenues, these expenses have fallen to 14.3% as compared to 15.9% in the previous fiscal.

Depreciation and Amortization

Depreciation and amortization was $33.6 million in fiscal 2005 as compared to $25.1 million in 2004. This increase was primarily because of increased depreciation charges due to substantial infrastructure additions to fixed assets in fiscal 2005.

Income from Operations

As a result of the foregoing factors, income from operations was $139.7 million in fiscal 2005, representing an increase of 55.7% from $89.7 million in fiscal 2004. Income from operations as a percentage of net revenues increased to 18.3% in fiscal 2005 from 15.8% in fiscal 2004.

Other Income, net

Other income, net was $24.1 million in fiscal 2005 as compared to the $106.5 million in fiscal 2004. A substantial part of the other income in fiscal 2004, to the tune of $ 67.1 million came from profit on the divestment of stake in HCL Perot Systems B.V.(HPS), a joint venture entity to Perot System Corporation (PSC). Other income for the fiscal under review comprises primarily of interest and dividend income as also profit on sale of investment securities made as a part of deployment of surplus funds. The Company's investments were primarily in debt-based Indian mutual funds, fixed income securities of development financial institutions, public sector units and banks, rated AAA/P1+/A1+, or equivalent. The yields on the Company's liquid assets have been progressively coming down primarily due to a drop in the interest rates in the Indian economic environment.

Income Tax Expense

Income tax expense was $15.2 million in 2005 as compared to $8.8 million in fiscal 2004. The individual entities within the Company file individual tax returns as per regulations existing in their respective countries of domicile.

Share of Income of Equity Investees

Share of loss of equity investees was $0.6 million in fiscal 2005 as compared to loss of $2.1 million in fiscal 2004. This pertains to the losses incurred in the Company's affiliate companies HCL Answerthink Inc and Diamondhead Ventures LLP.

Minority interest

Share of interest of minority holders for the year was $9.9 million in fiscal 2005 as compared to $13.4 million in fiscal 2004. This pertains to the interests of the minority shareholders in the companies where HCL has a majority stake namely DSL Software Ltd. (100% stake acquired by HCL during the fiscal year under review) as also HCL Jones, a joint venture.

Net Income

As a result of the foregoing factors, net income was $138.1 million in fiscal 2005 as compared to $171.9 million in fiscal 2004.

Review of Financial Condition

Cash and cash equivalents

As of June 30, 2006, the Company had $52.4 million in cash and cash equivalents.

Investment Securities

Investment securities consist of available-for-sale debt and equity securities. Available-for-sale securities are carried at fair value based on quoted market prices, where quoted market prices are not available, fair value is determined using pricing techniques such as discounted cash flow analysis.

The funds deployed by the Company in investment securities were at $340.1 million as of June 30, 2006 as compared to $404.4 million as of June 30, 2005. The objective of the Company's corporate treasury is primarily governed by the cash flow requirements and need for liquidity at various maturity buckets. The instruments are selected accordingly for various maturity profiles to strike the optimum balance between risk and return. The thrust of the Company's treasury policy is to reduce the credit risk concentration in a bid to achieve the maximum possible safety, while earning moderate returns from the investment of surplus funds.

The portfolio is monitored on a day-to-day basis and reviewed by the treasury management group on a weekly basis. The recommendations of treasury management group are placed before the investment committee, consisting of senior officials, for decision-making and investment decisions are taken accordingly. The investment committee also reviews the broad guidelines and broad parameters on a regular basis. The Company has a strong back office support to maintain internal controls and financial discipline over the investment process and its implementation.

The Company believes that its cash balances and liquid assets, cash generated from future operations and its existing credit facilities will be adequate to satisfy anticipated working capital requirements, capital expenditures and investment commitments for the next twelve months.

Accounts receivables

Accounts receivables (net of provision for uncollectible receivables) including unbilled receivables as of June 30, 2006 stood at $209.2 million as compared to $147.0 million as of June 30, 2005.

The Company maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors utilized by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the aging of the trade receivables. Allowance for uncollectible receivables aggregated $5.6 million and $4.9 million as of June 30, 2005 and 2006 respectively. The charge to the statement of income with respect to uncollectible receivables was $1.8 million for the year ended June 30, 2006.

Investment in affiliates

The Company accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the affiliate. The excess of the cost over the underlying net equity of investments in affiliates is allocated

to identifiable assets based on the fair value at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill. The Company's equity in the profits/losses of affiliates is included in the consolidated statements of income, unless the carrying amount of an investment is reduced to zero and the Company is under no guaranteed obligation or otherwise committed to provide further financial support. The Company's share of net assets of affiliates is included in the consolidated balance sheets.

The Company has equity investments in the following companies / partnership firms, which are accounted for under the equity method:

HCL Answerthink Inc (HCLA)

The Company holds a 50% interest in this joint venture entity with Answerthink Inc., USA. The carrying value of the investment in this joint venture was $0.1 million as of June 30, 2006. The Company's equity in the loss of HCLA was $0.04 million for the year ended June 30, 2006.

NEC HCL Technologies Ltd.

The Company holds a 49% interest in this joint venture entity with NEC Corporation Inc., Japan. During the year the the Company has invested $2.3 million in the share capital of company for its 49% interest and the carrying value of the investment $2.2 million as of June 30, 2006.

Diamondhead Ventures LLP (DV)

During the year ended on June 30, 2006, the company has sold ITS Investments in Diamondhead for a gross consideration of $11.3 million resulting a gain of $2.2 million.

Property and Equipment

As of June 30, 2006, the property and equipment of the Company consisted of the following:

	($ million)	
	Fiscal year ended June 30,	
	2006	**2005**
Land	34.2	36.1
Buildings	30.1	22.5
Computer and networking equipment	143.1	110.0
Software	35.0	28.4
Mainframe computer system	1.1	1.2
Office furniture and equipment	57.1	43.9
Vehicles	5.9	5.7
Capital work in progress	39.7	23.0
	346.2	**270.8**
Accumulated depreciation and amortisation	(156.3)	(119.2)

Property and equipment, net	**189.9**	**151.6**

During the year, the Company added a sum of $75.4 million to its gross block. This was necessitated with the Company rapidly increasing its delivery infrastructure.

Goodwill

The Company's goodwill is allocated across the following operating segments. Goodwill has been allocated to thew following operating segments.

	($ million)	
	Fiscal year ended June 30,	
	2006	**2005**
Software services	162.3	168.8
Networking services	1.3	2.5
Business process outsourcing services	8.4	8.1
Total	**172.0**	**179.4**

Long-term debt

In the fiscal year 2003, the Company's BPO subsidiary company in India obtained a term loan of $10.0 million to finance its capital expenditure requirements. This loan bears interest at the rate of LIBOR plus 135 basis points and is secured by a charge on the current and non-current assets both present and future. In the fiscal 2004, the Company obtained a term loan of $20 million to finance its capital expenditure and working capital requirements. The term loan bears interest at the rate of LIBOR plus 50 points and is secured by the pledge of investment in mutual funds. These term loan has been repaid in full during the year under review.

Share Capital

The Company has equity shares with a face value of Rs.2 each. The authorised capital of the Company is divided into 627.25 million equity shares.

During the year, the issued, subscribed and outstanding shares of the Company increased by 4.2 million. This was consequent to the exercise by employees under the stock option plans.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities increased to $165.8 million in 2006 from $140.8 million in fiscal 2005. The Company has been financing its working capital needs primarily through internally generated funds. The increase in cash generated from operations was primarily because of a sharp increase in profitability (before non cash charges) in the current fiscal. The accounts receivable at the end of fiscal 2006 increased

by $67.7 million as compared to that at the end of fiscal 2005. The increase in accounts receivable is due to an increase in the size of operations of the Company and increase in DSO.

Cash Flows from Investing Activities

Net cash used in investing activities was $3.0 million and $34.0 million in fiscal 2006 and 2005 respectively. Cash used in investing activities in fiscal 2006 consisted primarily of $85.2 million used to purchase property and equipment and a sum of $2.3 million used for investment in business affiliates and payment for business acquisitions. A net sum of $84.9 million was generated from sale of investments and sale of stake in equity affiliates

Cash Flows from Financing Activities

Net cash used by financing activities was $152.1 million in 2006 as compared to $114.3 million in 2005.

In view of the improved strength of the balance sheet supported by a better visibility of revenues and cash flow streams, the Board of the Company initiated in April 2003, a practice of considering of quarterly dividends, subject to adequacy of profits and compliance with all applicable legal requirements.

Following this policy, during the current fiscal, the Company has paid quarterly dividend aggregating to Rs. 16 per share, resulting in an outflow of $131.4 million.

During the current fiscal, the Company has repaid its long term debts of $28.9 million and a short term loan of $11.6 million.

A sum of $19.9 million was received by the Company as proceeds from issuance of equity shares to its employees under Employee Stock Option Schemes.

Risk factors

The Software industry thrives on a dynamic and highly competitive business environment, characterized by rapid technological change and innovations that constantly challenge conventional business models. Your company too faces several business risks, of which some prominent ones are discussed hereunder.

Internal Risks

- Business concentration risks
- Mergers and Acquisitions (M & A) execution risks
- Investment portfolio-related risks

External risks

- Competition-related risk
- Employee-related risks
- Technology-related risks
- Exchange rate risks
- Geo-political risks

Internal Risks

Business concentration risks

Your Company has taken steps to ensure that it does not become too dependent on a few clients, specific service lines or any particular geography. Your company's business is predominantly export oriented with over 93% of revenues earned overseas. The US and European region contributed 57.9% and 26.5% revenues respectively in the year under review, while the rest of world including India constituted the balance of 16.6%. Your Company's business growth is partly dependent on the IT budgets of its clients, most of whom are foreign corporations, which in turn depend on the global economic environment. Your Company generates revenues from a total of around 500 clients to ensure a well diversified spread. Given the pre-eminence of the North American continent as the largest IT spender in the world, a large share of the Company's revenues comes from the US. However, conscious efforts are being made to reduce this dependence. Non-US revenues as a percentage of the total revenues of the Company have been steadily increasing over the years. During the year under review, your Company concluded a significantly large IT services contract with the UK based retailer. Your Company is also increasing its focus on the Asia Pacific region besides Japanese market. Recently, your company has signed a Joint Venture with NEC Corp of Japan to exploit the potential for more business in Japan.

A very high dependence on certain segments of the IT services market may also pose certain risks in the event of a slowdown impacting such segments. The Company had recognised this factor and had undertaken multiple initiatives during the past few years

to rebalance its business portfolio. As a result of these initiatives, the Company has managed to reduce its dependence on its traditional stronghold of product engineering and now has substantial revenues now coming in from end user applications, enterprise consulting, business process outsourcing and infrastructure management services.

M & A execution risks

Your Company has been growing on the back of a strategy which leverages both the organic as well as the inorganic route and has undertaken a series of acquisitions in the previous four fiscal periods. The Company naturally faces a risk with respect to its merger and acquisition related transactions. The risk exposures in this area are as follows:

a) increase in cost on account of staffing/advisory fees to consultants
b) lapses in due diligence
c) difficulties in integration of acquired entities within the operational fabric

The Company follows a very structured approach in pursuance of its M & A strategy. Many of the risks are mitigated by restricting the choice of target companies by applying certain rigorous selection criteria as also by proper resourcing of the integration effort.

Investment portfolio related risks

Your Company has consistently carried a high level of surplus cash and accordingly has an active treasury department. As a policy, no part of the surplus cash is allowed to be invested in high risk assets such as equities and low liquidity assets like real estate. There are clearly laid down policies that govern treasury operations, and the activities are periodically audited by internal audit. The primary area of risk for the Company's market exposures are related to the interest rate risk on its investment securities. To mitigate interest rate risk, all surplus funds are invested in avenues upon a review by the investment committee. However, the guiding principles of all investment decision are safety of investments, followed by liquidity and returns.

External Risks

Competition-related risk

The Indian IT services market remains a very competitive space. The Company is facing competition not only from other large Indian IT vendors but also global vendors who are increasing their India presence given the popularity of the Indian offshore model.
To maintain its competitive edge in this landscape, the Company has been making significant investment in software engineering processes and offshore methodologies. All of the Company's software development centres are ISO 9001 certified. Most of the Company's centers have also obtained Capability Maturity Model (CMM) Level 4 or Level 5 accreditation. The Company has also built a world class sales and marketing infrastructure to service its global clientele. To achieve maximum penetration within the various target markets with a high degree of sensitivity to the culture and needs of the local market, the Company has established locally incorporated companies in several countries, which are also managed by locally recruited professionals.

Your Company also maintains constant touch with various specialist analyst firms worldwide through participation in IT conferences and industry specific events attended

by CIO's of major corporations. Your Company believes that its rigorous, research oriented approach to identify, qualify and develop relationship has been a key differentiator in the market place.

Employee-related risks

Attrition: The Software industry is highly dependent on skilled human resources. With the increasing presence of global IT services corporations in India and major multinational banks and corporations scaling up their India based offshore operations through captive units, your Company faces the risk of losing its talented employees, which in turn can impact the execution of its current and future projects.

Your Company had launched an innovative "employee first" campaign last year along with several other initiatives aimed at making your company an employer of choice. In addition, your Company continues its focus on in-house training and development plans to ensure that its global talent pool is kept abreast of the latest developments in information technology and constantly upgraded with other soft skills and leadership training.

Availability of Skilled manpower: Your Company is also affected by the supply side constrains in a very competitive environment where the demand for quality skilled resources outstrips supply.

Company has invested considerable time and other resources towards developing Brand HCL in the past few quarters. With a competitive salary constantly benchmarked to the market, world class infrastructure, excellent work culture, investment in training and development and opportunity for growth, your Company is committed to building a reputation as an employer of choice. Further, your Company works in close association with over 50 colleges including the 7 prestigious Indian Institutes of Technologies (IITs). It also works in association with the top 10 business schools including the Indian Institutes of Managements (IIMs). The location of the Company's development centres are also in cities which have good availability of skilled manpower.

Exchange rate risk

The functional currencies for the Company's operations are the respective currencies of the countries in which it operates. Substantially all of its revenues are generated in U.S. dollars and to a lesser extent, certain European and Asian currencies, while most of its expenses are incurred in Indian rupees and to a lesser extent, U.S. dollars. As described above, a substantial amount of its investments is held in Indian rupees. It also holds investments in certain countries, consisting primarily of investments by its subsidiaries, which are denominated in the local currency. It is therefore subject to the effects of exchange rate fluctuations between these currencies.

Your Company actively books foreign exchange forward covers to hedge completely against foreign currency fluctuations related to its billed receivables and anticipated realizations from projected revenues. The Company does not speculate in foreign currency.

Foreign exchange forward and options contracts as of June 30, 2005 and June 30, 2006 are summarized as follows:

	2005	2006
United States Dollars	$257,130 (sell)	$465,303 (sell)
Great Britain Pounds	£13,659 (sell)	£40,378(sell)
Euros	€60,254 (sell)	€ 36,316(sell)
Australian Dollars	$450 (sell)	$2,000(sell)
Japanese Yen	¥452,002 (buy)	¥-
Swiss Francs	-	CHF 2,034,828(Buy)

There is some foreign exchange risk which arises from accounts payable to overseas vendors. This risk is partially mitigated as the Company has receipts in foreign currency from overseas customers and holds some of its cash in foreign currency bank accounts.

Technology-related risks

The Company does not depend on any specific technology and has competencies in a wide variety of software operating environments. This ensures that it diversifies its technology-related risks as also offer the customers the choice of any technology or platform they are comfortable with.

Geo-political risks

The Indian subcontinent has seen recurrences of some forms of hostilities between India and Pakistan. There has also been a lot of civil unrest in other countries of the Asian continent with proximity to India. These can have negative implications for the operations of the Company. To mitigate these risks and to ensure continued delivery of services to clients irrespective of any geo-political disturbances, the Company has made adequate investments in disaster recovery and business continuity systems.

INDEPENDENT AUDITORS' REPORT

To,
The Board of Directors of HCL Technologies Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of HCL Technologies Limited and its subsidiaries at June 30, 2006 and June 30, 2005, and the results of their operations and their cash flows for each of the years in three year period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICE WATERHOUSE

New Delhi, India
August 19, 2006

HCL TECHNOLOGIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2005 AND 2006
AND FOR THE THREE YEARS ENDED JUNE 30, 2006
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(Thousands of US Dollars except per share data and as stated otherwise)

	As of June 30,	
	2005	**2006**
ASSETS		
Current assets		
Cash and cash equivalents	$41,003	$52,378
Short term deposit with banks	11,355	12,685
Restricted cash	598	585
Accounts receivables, net of allowances	137,260	186,358
Unbilled revenue	9,727	22,810
Investment securities, available for sale	404,390	340,137
Due from related parties	1,554	1,354
Inventories	9,932	5,844
Employee receivables	5,715	7,772
Deferred income taxes	6,626	8,671
Other current assets	53,477	58,161
Total current assets	**681,637**	**696,755**
Employee receivables	317	367
Deferred income taxes	4,082	4,445
Investment securities, held to maturity	-	2,607
Investments in affiliates	7,526	2,437
Other investments	12,558	-
Property and equipment, net	151,587	189,928
Intangible assets, net	14,197	10,422
Goodwill	179,386	171,944
Other assets	11,491	17,020
Total assets	**$1,062,781**	**$1,095,925**

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(Thousands of US Dollars except per share data and as stated otherwise)

	As of June 30,	
	2005	**2006**
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$969	$993
Accounts payable	18,577	21,279
Due to related parties	406	2,853
Short term loans	21,115	7,953
Accrued employee costs	27,365	22,498
Deferred revenue	14,678	16,947
Deferred income taxes	3,400	3,806
Taxes payable	24,308	31,984
Other current liabilities	44,257	86,178
Total current liabilities	**155,075**	**194,491**
Long term debts	18,224	1,813
Capital lease obligations, excluding current portion	2,312	2,029
Deferred income taxes	1,023	519
Other liabilities	13,208	13,644
Total liabilities	**189,842**	**212,496**
Commitments and Contingencies (refer note 27)		
Minority interest	**2,542**	**2,328**
Stockholders' equity		
Equity shares, 400,000,000 and 627,250,000 shares authorized		
Issued and outstanding 319,214,784 and 323,442,350 shares as of June 30, 2005 and 2006 respectively	17,215	17,402
Additional paid-in capital	418,034	453,680
Share application money pending allotment	377	290
Deferred Stock compensation	(1,150)	-
Retained earnings	409,782	422,517
Accumulated other comprehensive income / (loss)	26,139	(12,788)
Total stockholders' equity	**870,397**	**881,101**
Total liabilities, minority interest and stockholders' equity	**$1,062,781**	**$1,095,925**

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of US Dollars except per share data and as stated otherwise)

	Year ended June 30,		
	2004	**2005**	**2006**
Revenues	$567,709	$762,038	$976,030
Cost of revenues (exclusive of depreciation and amortization shown separately below)	362,640	479,676	622,915
Selling, general and administrative expenses	90,224	109,098	151,837
Depreciation and amortization	25,138	33,586	42,624
Income from operations	**89,707**	**139,678**	**158,654**
Other income, net	106,511	24,082	(645)
Income before income taxes, share of equity in earnings of affiliates and minority interest	**196,218**	**163,760**	**158,009**
Income taxes	8,845	15,205	13,403
Income before share of equity in earnings of affiliates and minority interest	**187,373**	**148,555**	**144,606**
Equity in earnings/(losses) of affiliates	(2,073)	(577)	(139)
Minority interest	(13,351)	(9,921)	(352)
Net income	**$171,949**	**$138,057**	**$144,115**
Earnings per equity share			
Basic	$0.59	$0.45	$0.45
Diluted	$0.58	$0.44	$0.42
Weighted average number of equity shares used in computing earnings per equity share			
Basic	292,323,540	307,406,759	321,394,480
Diluted	297,532,978	316,008,887	342,155,857

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Thousands of US Dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in	Shares application money pending	Retained	Comprehensive	Accumulated other Comprehensive	Treasury stock		Total stockholders'
	Shares	Amount	capital	allotment	earnings	Income /(Loss)	Income / (Loss)	Shares	Amount	equity
Balances as of June 30, 2003	**288,436,638**	**$15,825**	**$224,218**	**$143**	**$287,488**	**$-**	**$5,568**	**(4,250,261)**	**$(15,330)**	**$517,912**
Issuance of equity shares on exercise of options	552,810	24	1,631	(143)						1,512
Issuance of shares by trust					(783)			3,104,442	10,089	9,306
Share application money pending allotment				616						616
Contribution from principal shareholder in the form of stock based sales incentive			151							151
Issuances of shares on common control transaction	7,090,990	309	14,132							14,441
Capital transactions of affiliate			(1,163)		(99)			151,374	973	(289)
Distribution to principal shareholder			(646)							(646)
Income tax benefit on exercise of stock options			331							331
Other capital transactions			(75)							(75)
Cash dividend					(58,607)					(58,607)
Comprehensive income										
Net income					171,949	171,949				171,949
Other comprehensive income										
• Unrealized gain (loss) on available for sale securities, net						(13,665)				-
• Unrealized gain (loss) on cash flow hedges, net						(5,689)				-
• Gain/(loss) on foreign currency translation						3,511				-
Total other comprehensive income						(15,843)	(15,843)			(15,843)
Total comprehensive income						156,106				-
Balances as of June 30, 2004	**296,080,438**	**$16,158**	**$238,579**	**$616**	**$399,948**	**$-**	**$(10,275)**	**(994,445)**	**$(4,268)**	**$640,758**

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Thousands of US Dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in	Shares application money pending	Deferred Stock	Retained	Comprehensive	Accumulated other Comprehensive	Treasury stock		Total stockholders'
	Shares	Amount	Capital	allotment	Compensation	Earnings	Income / (Loss)	Income / (Loss)	Shares	Amount	equity
Balances as of June 30, 2004	**296,080,438**	**$16,158**	**$238,579**	**$616**	**$-**	**$399,948**	**$-**	**$(10,275)**	**(994,445)**	**$(4,268)**	**$640,758**
Issuance of equity shares on exercise of options	3,775,357	166	13,741	(8)							13,899
Issuance of shares by trust				(608)		(1,551)			994,445	4,268	2,109
Share application money pending allotment				377							377
Compensation relating to stock options			1,722		(1,722)						-
Amortization of employee stock compensation cost					572						572
Contribution from principal shareholder in the form of stock based sales incentive			(34)								(34)
Issuance of shares for acquiring 49% stake in a subsidiary	19,358,989	891	162,607								163,498
Income tax benefit on exercise of stock options			1,419								1,419
Cash dividend						(126,672)					(126,672)
Comprehensive income											
Net income						138,057	138,057				138,057
Other comprehensive income											
• Unrealized gain (loss) on available for sale securities, net							(2,459)				
• Unrealized gain (loss) on cash flow hedges, net							10,761				
• Gain/(loss) on foreign currency translation							28,112				
Total other comprehensive income							36,414	36,414			36,414
Total comprehensive income							**174,471**				-
Balances as of June 30, 2005	**319,214,784**	**$17,215**	**$418,034**	**$ 377**	**($ 1,150)**	**$409,782**	**$-**	**$26,139**	**$-**	**$-**	**$870,397**

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Thousands of US Dollars except per share data and as stated otherwise)

	Equity shares		Additional paid-in	Shares application money pending	Deferred Stock	Retained	Comprehensive	Accumulated other Comprehensive	Total stockholders'
	Shares	Amount	Capital	allotment	Compensation	Earnings	Income / (Loss)	Income / (Loss)	Equity
Balances as of June 30, 2005	**319,214,784**	**$17,215**	**$418,034**	**$377**	**$(1,150)**	**$409,782**	**$-**	**$26,139**	**$870,397**
Issuance of equity shares on exercise of options	4,227,566	187	19,710	(377)					19,520
Issuance of shares by trust									-
Share application money pending allotment				290					290
Compensation relating to stock options			(1,150)		1,150				-
Amortization of employee stock compensation cost			15,236						15236
Income tax benefit on exercise of stock options			1,850						1,850
Cash dividend						(131,380)			(131,380)
Comprehensive income									
Net income						144,115	144,115		144,115
Other comprehensive income									
• Unrealized gain (loss) on available for sale securities, net							943		
• Unrealized gain (loss) on cash flow hedges, net							(5,072)		
• Gain/(loss) on foreign currency translation							(34,798)		
Total other comprehensive income							(38,927)	(38,927)	(38,927)
Total comprehensive income							**105,188**		
Balances as of June 30, 2006	**323,442,350**	**$17,402**	**$453,680**	**$290**	**$-**	**$422,517**	**$-**	**$(12,788)**	**$881,101**

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of US Dollars except per share data and as stated otherwise)

	Year ended June 30,		
	2004	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$171,949**	**$138,057**	**$144,115**
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	25,138	33,586	42,624
Deferred income taxes	(525)	125	(3,204)
Loss/(gain) on sale of property and equipment	(17)	(249)	(320)
Stock based sales incentive	151	(34)	-
Amortization of deferred stock compensation	-	572	15,236
Excess tax benefits from employee stock based compensation	-	-	(1,850)
Other non cash charges	349	2,361	(571)
Loss/ (profit) on sale of investment securities	(20,930)	(12,313)	(15,746)
Unrealized foreign exchange gain on Long term debts	-	(1,699)	-
Profit on divestment of stake in HPS and other affiliates	(67,092)	-	(2,186)
Share of income from affiliates	2,073	577	178
Effective interest yield adjustment	61	31	-
Minority interest	13,351	9,921	352
Changes in assets and liabilities, net			
Accounts receivable	(40,086)	(29,612)	(67,720)
Other assets	(4,406)	(21,658)	(2,529)
Accounts payable	(988)	5,341	2,827
Accrued employee costs	13,514	6,919	(4,517)
Other liabilities	12,186	8,910	59,111
Net cash provided by operating activities	**104,728**	**140,835**	**165,800**
CASH FLOWS FROM INVESTING ACTIVITIES			
Movement in restricted cash	878	(321)	(13)
Short term deposit with banks	(5,746)	(5,609)	(1,330)
Purchase of property and equipment	(62,622)	(69,866)	(85,152)
Proceeds from sale of property and equipment	1,079	688	875
Purchase of investments	(318,489)	(454,695)	(698,810)
Proceeds from sale of investments	216,685	507,417	772,744
Proceeds from sale of stake in equity affiliates (net of expense)	100,228	-	10,980
Investments in affiliates	(3,869)	(2,250)	(2,342)
Net payments for business acquisitions	(1,290)	(9,341)	-
Net cash used in investing activities	**(73,146)**	**(33,977)**	**(3,048)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment under principal capital lease obligations	(508)	(1,156)	(1,323)
Proceeds (repayment) from short term borrowings	7,457	-	(11,605)
Repayment of long term debt	-	(2,830)	(28,868)
Proceeds from issuance of long term debt	19,800	-	-
Proceeds from issuance of equity shares, net of expenses	10,818	16,008	19,897
Proceeds from subscription of shares pending allotment, net	616	377	(87)
Settlement of customer options	(75)	-	-
Capital distribution to principal shareholder	(646)	-	-
Other capital transaction	151	-	-
Dividends paid	(58,607)	(126,672)	(131,380)

Dividends paid to minority shareholder of consolidated subsidiaries	(2,030)	-	(1,252)
Proceeds from issuance of equity shares to Minority	-	-	686
Excess tax benefits from employee stock based compensation	-	-	1,850
Net cash provided by (used in) financing activities	**(23,024)**	**(114,273)**	**(152,082)**
Effect of exchange rate on cash and cash equivalents	2,077	5,421	705
Net increase/ (decrease) in cash and cash equivalents	10,635	(1,994)	11,375
Cash and Cash Equivalent at the Beginning of the year	32,362	42,997	41,003
Cash and Cash Equivalent at the End of the year	**$42,997**	**$41,003**	**$52,378**

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of US Dollars except per share data and as stated otherwise)

	Year ended June 30,		
	2004	**2005**	**2006**
SUPPLEMENTARY INFORMATION			
Cash paid for interest	$536	$1,602	$2,482
Cash paid for income taxes (net)	$7,529	$10,938	$8,286
Non-cash investing activities			
Property and equipment acquired under capital lease obligation	$737	$932	$297
Details of business acquisition to the extent accounted under purchase method			
Value of intangible assets acquired	$12,809	$15,483	$-
Value of tangible assets (net of cash) acquired	$-	$11,396	$-
Value of liability assumed	$-	$7,205	$-

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS

Company Overview

HCL Technologies Limited and its consolidated subsidiaries and associates, (hereinafter collectively referred to as 'HCL' or 'the Company') are primarily engaged in providing a range of information technology, business process outsourcing and infrastructure product and management services. The Company was incorporated in India in November 1991 and focuses on technology and R&D outsourcing, working with clients in areas at the core of their business. The Company leverages an extensive offshore infrastructure and its global network of offices in various countries and professionals to deliver solutions across select verticals including Banking, Insurance, Retail & Consumer, Aerospace, Automotive, Semiconductors, Telecom and Life Sciences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and Principles of consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") to reflect the financial position and results of operations of the Company along with its subsidiaries.

The consolidated financial statements present the accounts of the Company and all of its subsidiaries, which are more than 50% owned and controlled. All material inter-company accounts and transactions are eliminated on consolidation. Minority interest represents the minority shareholders' proportionate share of the net assets and the results of operations of the Company's majority owned subsidiaries.

The Company accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the affiliate. In the case of investments in Limited Liability Partnerships (LLPs), significant influence is presumed to exist where the Company has more than a 5% partnership interest. The excess of the cost over the underlying net equity of investments in affiliates is allocated to identifiable assets based on the fair value at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill.

The Company's equity in the profits/(losses) of affiliates is included in the consolidated statements of income unless the carrying amount of an investment is reduced to zero and the Company is under no guaranteed obligation or otherwise committed to provide further financial support. The Company's share of net assets of affiliates is included in the carrying amount of the investment in the consolidated balance sheets. A transaction of an affiliate of a capital nature, which affects the investor's share of stockholders' equity of the affiliate, is accounted for as if the affiliate was a consolidated subsidiary.

An issuance of shares by a subsidiary to third parties reduces the proportionate ownership interest of the Company in the subsidiary. A change in the carrying value of the investment in such subsidiary due to a direct sale of un-issued equity shares is accounted for as a capital transaction and is recognized in the stockholders' equity when the transaction occurs.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to accounting for

costs expected to be incurred to complete performance under software development arrangements, allowance for uncollectible accounts receivable, accrual of warranty costs, future obligations under employee benefit plans, the useful lives of property, equipment and intangible assets and valuation allowances for deferred tax assets. Actual results could differ from those estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made.

(c) Functional currency and translation

The consolidated financial statements are reported in United States Dollars (US Dollars). The functional currency of each entity in the Company is its respective local currency except the subsidiary in Austria where the functional currency is US Dollar. The translation of the functional currency into US Dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue, expense and cash flow items using an appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a component of other comprehensive income/(loss), within stockholders' equity.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. The resultant exchange gains or losses are included in the consolidated statements of income.

(d) Revenue recognition

Revenues from software development services comprise income from time-and-material, fixed price contracts and fixed time frame contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed price contracts and fixed time frame contracts is recognized in accordance with the percentage of completion method. Guidance has been drawn from the Accounting Standards Executive Committee's conclusion in paragraph 95 of Statement of Position (SOP) 97-2, *Software Revenue Recognition*, to account for revenue from fixed price arrangements for software development and related services in conformity with SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. The input (cost expended) method has been used to measure progress towards completion, as there is a direct relationship between input and productivity. Provisions for estimated losses on contracts-in-progress are recorded in the period in which such losses become probable based on the current contract estimates. In arrangement involving sharing of customer revenues, revenue is recognized when right to receive is established. Incremental revenue from existing contracts arising on future sales of customers' products will be recognized when it is earned.

Revenue from sale of products is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the sales price is fixed or determinable and collectibility is reasonably assured. Revenue from product sales are shown net of sales tax and applicable discounts and allowances. Revenue from bandwidth and other services is recognized upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both and excludes service tax. Revenue from installation services is recognized when installation of networking equipment at customer site is completed and accepted by the customer. Revenue from maintenance services is recognized ratably over the period of the contract.

Revenue from infrastructure management services comprise income from time-and-material, fixed price contracts and fixed time frame contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed price contracts and fixed time frame contracts is recognized in accordance with the percentage of completion method.

Revenues from Business Process Outsourcing Services are derived from both time-based and unit-priced contracts. Revenue is recognized as the related services are performed, in accordance with the specific terms of the contracts with the customer.

The Company follows the guidance in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, for all revenue arrangements with multiple deliverables, according to which, the arrangement consideration is allocated to the units of accounting based on their fair values. The revenue recognized for the delivered items is limited to the amount that is not contingent upon the delivery or performance of the undelivered items.

After the arrangement consideration has been allocated to each separate unit of accounting, the revenue is recognized for each unit of accounting based on the nature of services included in each unit of accounting. The revenue allocable to a delivered item(s) that does not qualify as a separate unit of accounting within the arrangement is combined with the revenue allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue is then determined for those combined deliverables as a single unit of accounting.

In certain cases, the application of the contingent revenue provisions of EITF Issue No. 00-21 could result in recognizing a loss on the delivered element. In such cases, the cost recognized is limited to the amount of non-contingent revenues recognized and the balance costs are recorded as an asset and are reviewed for impairment based on the estimated net cash flows to be received for future deliverables under the contract. These costs are subsequently recognized on recognition of the revenue allocable to the balance deliverables.

In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the statement of operations.

Cost and earnings in excess of billings are classified as unbilled revenue, while billing in excess of cost and earnings are classified as deferred revenue.

When the Company receives advance payments from customers for sale of products or provision of services, such payments are reported as advances from customers until all conditions for revenue recognition are met.

Warranty costs on sale of goods and services are accrued based on management estimates and historical data at the time those related revenues are recognized.

(e) Shipping and handling costs

Shipping and handling costs are included in selling, general and administrative expenses.

(f) Inventory

Inventory consists of goods that are held for sale in the normal course of business and are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method and comprises the purchase price and attributable direct costs.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Assets under capital leases are stated at the present value of minimum lease payments. The Company depreciates property and

equipment over the estimated useful life using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the primary lease period or estimated useful life of the asset. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful lives of assets are as follows:

Buildings	20 years
Computer and Networking Equipment	3 to 4 years
Software	3 to 3.5 years
Office Furniture and Equipment	4 years
Vehicles	5 years

The cost and related accumulated depreciation are removed from the consolidated financial statements upon sale or disposition of an asset and resulting gain or losses recognized in the income statements.

Advances paid towards the acquisition of property and equipment outstanding at each balance sheet date and the cost of property and equipment not put to use before such date are disclosed under capital work-in-progress.

Assets given under finance lease are recognized as receivables at an amount equal to the net investment in the leased assets. The finance income is recognized based on the periodic rate of return on the net investment of the lessor, outstanding in respect of the finance lease.

(h) Impairment of long-lived assets and long-lived assets to be disposed of

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Long-lived assets to be disposed are reported at the lower of the carrying value or fair value less cost to sell.

(i) Start-up-costs

Cost of start-up activities including organization costs are expensed as incurred.

(j) Investment securities

Investment securities consist of available-for-sale debt and equity securities and held-to-maturity debt securities.

Available-for-sale securities are carried at fair value based on quoted market prices. Temporary unrealized gains and losses, net of the related tax effect are excluded from income and are reported as a separate component of other comprehensive income, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in-first-out method and are included in earnings. A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value and the resultant impairment loss is recorded in the consolidated statements of income. Held-to-maturity securities are carried at amortized cost. Dividend and interest income are recognized when earned.

(k) Other investments

Equity and preferred securities, which do not have a readily determinable fair value, are reported at cost, subject to

an impairment charge for any other than temporary decline in value. The impairment is charged to income. In order to determine whether a decline in value is other than temporary, the Company evaluates, among other factors, the duration and extent to which the value has been less than the carrying value, the financial condition of and business outlook for the investee, including key operational and cash flow indicators, current market conditions and future trends in the industry and the intent and ability of the Company to retain the investment for a period of time sufficient to allow for any anticipated recovery in value.

(l) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property and equipment.

Research and development expenses for the year ended June 30, 2004, June 30, 2005 and June 30, 2006 were $609, $1,717 and $918 respectively.

(m) Software product development

In accordance with the requirements of SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, software product development costs are expensed as incurred until technological feasibility is achieved. Software product development costs incurred subsequent to the achievement of technological feasibility are capitalized and amortized on a product-by-product basis over the remaining estimated useful lives at the higher of straight-line or the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for the product.

(n) Cash equivalents and restricted cash

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less to be cash equivalents. Restricted cash represents margin money deposits against guarantees, letters of credit and bank balance earmarked towards unclaimed dividend. Restrictions on margin money deposits are released on the expiry of the terms of guarantees and letters of credit.

(o) Income taxes

Income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

(p) Earnings per share

In accordance with SFAS No. 128, *Earnings Per Share* (EPS), basic earnings per share is computed using the weighted average number of equity shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where results would be anti-dilutive.

(q) Stock based compensation (Refer note 23)

Effective July 1, 2005, the Company has adopted the fair value recognition provisions of SFAS 123(R), which is a revision of FAS 123. The Company has adopted the modified prospective transition method, and therefore has not restated prior periods' results. Under this method the Company recognizes compensation expense only for the unvested options outstanding as at July 1, 2005 and for all share-based payments granted after July 1, 2005, in accordance with SFAS 123(R).

In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. HCL has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock based compensation to expense from the accelerated multiple options approach to the straight line single option approach. Compensation expense for all share based payment awards granted on or prior to June 30, 2005 will continue to be recognized using the accelerated multiple option approach while compensation expense all share based payment award granted subsequent to June 30, 2005 is recognized using straight line single option method.

For earlier years, the Company accounted for forfeiture as they occurred. Upon adoption of SFAS 123(R), the Company recognizes stock-based compensation cost based on options ultimately expected to vest and accordingly cost has been reduced for estimated forfeitures. SFAS 123(R) requires forfeiture to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeiture differs from those estimates. Deferred stock based compensation on the adoption has been eliminated against Additional paid in capital.

Determining the appropriate fair value model and calculating the fair value of stock options require the input of highly subjective assumptions, including but not limited to the expected life of the stock options and stock price volatility. Management determined that trend based historical volatility based on actively traded stock of the Company represents a better indicator of expected volatility than implied volatility. All stock options have been accounted as a fixed stock option plan.

The Company has elected to adopt the alternative transition method provided in the FASB Staff position No.FAS123(R)-3 ' *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*', to establish the beginning balance of additional paid in capital ("APIC Pool") relating to tax effects of employee stock based compensation, and to determine the impact on APIC pool and Consolidated Statements of Cash Flows of the tax effects of options outstanding upon adoption of SFAS123(R).

Prior to SFAS 123(R) adoption, the Company has accounted for stock compensation expense under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25*, issued in March 2000, and accordingly, generally recognized compensation expense only when the Company granted options at an exercise price less than fair market value. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company had elected to apply the intrinsic value-based method of accounting and adopted the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123*.

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee

compensation in the years ended June 30, 2004 and 2005 respectively.

	Year ended June 30,	
	2004	2005
Net income, as reported	$171,949	$138,057
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	-	572
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	7,455	12,515
Proforma net income	$164,494	$126,114
Earnings per share		
Basic - As reported	$0.59	$0.45
- Proforma	$0.56	$0.41
Diluted – As reported	$0.58	$0.44
- Proforma	$0.55	$0.41

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	2004	2005	2006
Dividend yield %	3.20%	4.64%	3.08%
Expected term	up to 110 months	up to 110 months	up to 90 months
Risk free interest rates	6.00%	6.50%	6.50%
Volatility	69.0%	39.98%	36.35%

(r) Stock based sales incentive (Also refer note 25)

The Company accounts for stock based sales incentive in accordance with the EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Pursuant to EITF 96-18, the Company has valued the rights using the Black-Scholes option-pricing model. The cost is being amortized ratably over the applicable period of benefit and recorded as a reduction of revenue.

(s) Employee benefits

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. The liability in respect of defined benefit plans is calculated annually by independent actuaries using the projected unit credit method in accordance with SFAS No. 87, *Employers' accounting for pensions*. Actuarial gains and losses arising from experience, adjustments, change in actuarial assumptions and amendments to defined benefit plans are charged or credited to statements of income over the average remaining service lives of the employees.

(t) Dividend

Final dividends proposed by board of directors are recognized upon approval by the shareholders who have the right to decrease but not increase the amount of dividend recommended by the Board of Directors. Interim dividends are recognized on declaration by board of directors.

(u) Derivative and hedge accounting

The Company purchases foreign exchange forward contracts and options to mitigate the risk of changes in foreign exchange rates associated with certain payables, receivables and forecasted transactions denominated in certain foreign currencies.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, an amendment of SFAS No. 133, the Company recognizes all derivatives as assets or liabilities measured at their fair value, regardless of the purpose or intent of holding them. Changes in fair value for derivatives not designated in hedge accounting relationship are marked to market at each reporting date and the related gains/losses are recognized in consolidated statements of income as foreign exchange gain/ (losses). The foreign exchange forward contracts are effective as hedges from economic perspective and do not qualify for hedge accounting under SFAS No. 133.

(v) Business combinations, goodwill and intangibles

In accordance with the requirements of SFAS No. 141, *Business Combinations,* purchase method of accounting has been used for all business combinations. Intangible assets acquired in a purchase method business combination are recognized and reported apart from goodwill in accordance with SFAS No. 141. Any purchase price allocated to an assembled workforce is not accounted separately.

Goodwill and Other Intangible Assets have been accounted as per SFAS No. 142*, Goodwill and Other Intangible Assets*. The Company does not amortize goodwill but instead tests goodwill for impairment at least on an annual basis.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. The intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. The estimated useful lives of the intangible assets are as follows:

Employee workforce, in an asset acquisition	5 years
Customer relationships	1 to 10 years
Existing customer contracts	0.5 to 2.5 years
Non-compete agreements	3 to 5 years
Intellectual property rights	4 years

(w) Recent accounting pronouncements

In May 2005, FASB Issued FAS No. 154, "*Accounting Changes and Error Corrections* - a replacement of APB No. 20 and FAS No. 3". FAS 154 provide guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. FAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by FAS 154. FAS 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have a material impact on Company's consolidated financial statements.

In November 2005, the FASB issued FASB Staff Position Nos. FAS 115-1 and FAS 124-1 ("FSP Nos. 115-1 and 124-1"), *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which provide guidance on determining when investments in certain debt and equity securities are considered impaired and whether that impairment is other-than-temporary, and on the measurement of such impairment loss. FSP Nos. 115-1 and 124-1 also include accounting considerations subsequent to the recognition of other-than-temporary impairments and require certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP Nos. 115-1 and 124-1 shall be effective for fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have a material impact on Company's consolidated financial statements.

(x) *Reclassifications*

The Company has reclassified Short term deposit with banks from Cash and Cash equivalents to confirm to current presentation. Certain other reclassifications have been made to confirm prior period data to current presentation. The reclassifications had no impact on the reported net income or stockholders' equity.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, trade receivables, investment securities, short-term loans and derivative instruments. The cash resources of the Company are invested with mutual funds, banks, financial institutions and corporations after an evaluation of the credit risk. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. In management's opinion, as of June 30, 2005 and 2006, there was no significant risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Company are primarily corporations based in the United States and United Kingdom and accordingly, trade receivables are concentrated in the respective countries. To reduce the risk, the Company performs ongoing credit evaluation of customers.

Further a single customer accounted for 22.6% and 16% and top five customers accounted for 37% and 29% of the receivable balance of the Company as of June 30, 2005 and 2006 respectively.

4. CASH AND CASH EQUIVALENTS

The cash and cash equivalents as of June 30, 2005 and 2006 are as follows:

	2005	2006
Deposits with banks	$715	$1,537
Other cash and bank balances	40,288	50,841
Cash and cash equivalents	**$41,003**	**$52,378**

5. PROPERTY AND EQUIPMENT

As of June 30, 2005 and 2006, property and equipment comprise the following:

	2005	2006
Freehold Land	$12,170	$11,658
Lease hold Land	23,843	22,538
Buildings	22,537	30,092
Computer and networking equipment	111,198	144,295
Software	28,359	35,003
Office furniture and equipment	43,875	57,080
Vehicles	5,784	5,853
Capital work-in-progress	23,008	39,727
	270,774	346,246
Accumulated depreciation and amortization	(119,187)	(156,318)
Property and equipment, net	**$151,587**	**$189,928**

Depreciation expense was $21,254, $29,106 and $37,715 for the years ended June 30, 2004, 2005 and 2006 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $20,745 and $25,597 as of June 30, 2005 and 2006 respectively. Amortization expense for software for the years ended June 30, 2004, 2005 and 2006 was $3,518, $4,051 and $4,542 respectively.

Computer and networking equipment as of June 30, 2005 and 2006 includes certain equipment given on operating lease costing $725 and $692 respectively. The accumulated depreciation on these equipment as of June 30, 2005 and 2006 amounts to $514 and $593 respectively.

As of June 30, 2005 and 2006 property and equipment includes assets, held under capital leases, which comprise:

	2005	2006
Computer and networking equipment	$121	$115
Vehicles	4,604	4,802
Office furniture and equipment	489	-
	5,214	4,917
Accumulated depreciation	(1,941)	(1,853)
	$3,273	**$3,064**

6. LEASES

The Company leases computer equipment, vehicles and office furniture and equipment under capital leases. Future minimum lease payments under capital leases as of June 30, 2006 are as follows:

Year ending June 30,	
2007	$1,224
2008	1,160
2009	817
2010	270
2011	-
Total minimum payments	$3,471
Less: Amount representing future interest	449
Present value of minimum payments	$3,022
Less: Current portion	993
Long term capital lease obligation	**$2,029**

The Company leases office facilities under non-cancelable operating lease agreements that are renewable on a periodic basis at the option of the lessee. Future minimum lease payments as of June 30, 2006 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2007	$18,873
2008	17,266
2009	14,174
2010	11,382
2011	9,464
Thereafter	14,512
Total minimum payments	**$85,671**

Additionally, the Company leases office facilities under cancelable operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee.

Rental expenses under operating leases are amortized on straight line method. The expense for the year ended June 30, 2004, 2005 and 2006 amounts to $12,022, $17,998 and $20,222 respectively.

The Company has given networking equipment to its customers on finance lease basis. The future lease receivables in respect of assets given on finance lease are as follows:

	Total minimum lease payments receivables as on 30 June 2006	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Not later than one year	$430	$172	$258
Later than one year but not later than five years	510	165	345
	$940	**$337**	**$603**

The Company has given networking equipment to its customers on non-cancellable operating lease for a maximum period of three years. The lease rental income recognized in the profit and loss account for the year ended June 30, 2005 and 2006 are $218 and $186 respectively. The future minimum lease receivables and maturity profile of non-cancellable operating leases are as follows:

	2005	**2006**
Not later than one year	$121	$184
Later than one year but not later than five years	134	186
	$255	**$370**

7. GOODWILL

The following table presents the changes in goodwill during the year ended June 30, 2005 and 2006:

	2005	**2006**
Opening Balance	$58,826	$179,386
Goodwill relating to business combinations consummated during the year	119,330	-
Effect of exchange rate changes	1,230	(7,442)
Closing Balance	**$179,386**	**$171,944**

Goodwill has been allocated to the following operating segments:

	2005	**2006**
Software services	$168,784	$162,268
Networking services	2,454	1,317
Business process outsourcing services	8,148	8,359
	$179,386	**$171,944**

8. INTANGIBLE ASSETS

Information regarding the Company's other intangible assets acquired either individually or with a group of other assets or in a business combination is as follows:

	June 30, 2005			June 30, 2006		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	$350	$(350)	$-	$350	($350)	$-
Amortizable employee workforce	235	(235)	-	235	(235)	-
Customer related intangibles	17,819	(3,695)	14,124	16,926	(6,555)	10,371
Non-compete agreements	167	(94)	73	165	(114)	51
	$18,571	**$(4,374)**	**$14,197**	**$17,676**	**($7,254)**	**$10,422**

Amortization expense for other intangible assets for the year ended June 30, 2004, 2005 and 2006 is $501, $2,288 and $3,078 respectively. Amortization expense is included in depreciation and amortization other than $135, $1,859 and $2,711, which is reported as a reduction of revenue during the year ended June 30, 2004, 2005 and 2006 respectively, in accordance with the EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).* As of June 30, 2006 the Company has unamortized Customer related intangibles of $5,843 which would be amortized in future periods and reported as a reduction of revenue. The estimated amortization schedule for the intangible assets on a straight-line basis is set out below:

Year ending June 30,	
2007	$2,405
2008	2,168
2009	1,453
2010	1,071
2011	983
Thereafter	2,342
	$10,422

9. BUSINESS COMBINATIONS

During the previous years, the Company has consummated several business combinations. The consolidated financial statements include the operating results of each business from the dates of the respective acquisitions.

Enterprise resource planning business of Computech Corporation and Systech Inc.

In July 2001, the Company had acquired 51% equity interest in the Enterprise Resource Planning business of Computech Corporation and Systech for cash. The Company acquired remaining 49% stake in three equal tranches during September 2002, October 2003 and February 2005, for a cash consideration of $1,190, $1,290 and $1,996 respectively. All step up acquisitions, accounted for by following the purchase method, resulted in intangibles assets and goodwill aggregating $39 and $1,021 in first tranche, $39 and $1,104 in second tranche and $39 and $1,614 in the third tranche respectively.

DSI Financials Solutions Pte Limited, Singapore ("Deutsche Software")

In October 2001, the Company acquired a 51% equity interest in Deutsche Software and accounted the transaction by following the purchase method. As per the shareholder agreement, the Company acquired the balance 49% equity interest in Deutsche Software, by way of issue of 19,358,989 equity shares of the Company in December 2004 to Deutsche Bank AG, for a purchase consideration amounting to $164,373. This transaction has been accounted for by following the purchase method and has resulted in intangible assets and goodwill aggregating $15,444 and $113,563 respectively. The intangible assets comprises of customer contracts and customer relationships of $2,182 and $13,262 respectively. Customer contracts are being amortized over a period of two and half years. Customer relationship attributable to an exclusivity contract is being amortized over the period of such contract and balance of customer relationship is being amortized over the period of ten years based on management estimates. The goodwill has been allocated to the software services reporting segment.

HCL BPO Services (NI) Limited ("HCL NI")

In December 2001, the Company acquired a 90% equity interest in the Business Process Outsourcing (BPO) division of British Telecommunications plc (Apollo BT call centre), for a cash consideration of $11,600. The balance 10% equity interest in the business was held by British Telecommunications plc (BT).

Additionally, the Company had the call option and minority had the put option on the balance 10% equity interest. The options were exercisable within a period of 30 days from the expiry of December 1, 2004. The call/put option exercise price comprised of a fixed portion of $1,612 and a variable component, which was to be determined on the basis of revenue from BT in excess of the firmly committed revenues.

Due to existence of fixed call/put option to acquire the remaining 10% equity interest at a future date, the Company had consolidated the results of operations of the acquired business as a wholly owned subsidiary in the previous years. The derivative instrument has been combined with the minority interest and accounted for as a financing of the Company's purchase of the minority interest.

In December 2004, the Company acquired the balance 10% equity interest in HCL NI from BT and discharged the total consideration of $3,480 in cash, comprising $1,612 for the fixed portion and $1,868 towards the variable component. The variable portion of the consideration was concluded to be in the nature of a sales incentive and was progressively recognized as a reduction of revenue.

HCL Technologies Mass Inc.

In May 2002, the Company acquired all of the outstanding capital stock of Gulf Computers Inc., US (GCI). The terms of the purchase also provided for payment of contingent consideration to the existing shareholders of GCI in two tranches, payable on June 30, 2004 and June 30, 2005, calculated based on the achievement of specified earnings and margin targets. The contingent consideration is no longer payable as specified earning and margin targets have not been achieved.

Shipara Technologies Limited ("Shipara")

The Company held 77% stake in Shipara as of June 30, 2004. During October 2004, the Company acquired the remaining 23% stake from the minority shareholders for a cash consideration of $1,761. This acquisition has been accounted for by the purchase method and has resulted in goodwill of $1,417. Accordingly, the financial results of Shipara for the year ended June 30, 2005 have been included in the consolidated financial statements of the Company.

As of June 30, 2004 Shipara was not consolidated with the Company, as the minority shareholder, Rao Insulating Company Limited had certain significant participating rights, which provided for its effective involvement in significant decisions in the ordinary course of business. The Company's equity in the income/ (loss) of Shipara for the year ended 2004 was $166 respectively.

Aquila Technologies Limited ("Aquila")

As of June 30, 2004, a joint venture of the Company, Shipara held 37% stake in Aquila. During the previous year, Shipara acquired the remaining 63% stake in two tranches in July 2004 and February 2005 for a cash consideration of $269 and $575 respectively. These acquisitions have been accounted for by the purchase method which has resulted in total goodwill of $1,012. Accordingly, the financial results of Aquila from the year ended June 30, 2005 have been included in the consolidated financial statements of the Company.

HCL EAI Services Inc. ("HCL EAI") **[***formerly "Aalayance Inc."***]**

In January 2003, the Company acquired a 19.03% equity interest in HCL EAI for a cash consideration of $450. During January 2005, the Company acquired an additional stake by way of subscription of 9,081,268 equity shares of HCL EAI for a cash consideration of $1,976. Consequent to the acquisition, the Company's stake has increased to 58.09% (51% on fully diluted basis) which made HCL EAI, and its subsidiaries, HCL EAI Services Private Limited, India and Aalayance UK Limited, UK the subsidiaries of the Company. This has resulted in goodwill aggregating $827.

Till the acquisition of additional equity stake, the voting equity interest in HCL EAI had given the Company, ability to exercise significant influence over the operating and financial policies of the HCL EAI; as such the investment was being accounted for by the equity method. The Company's equity in the loss of HCL EAI for the year ended June 30, 2004 and 2005 is $19 and $109.

As per the shareholders' agreement, the company is required to acquire and the minority shareholders are required to sell the balance equity interest, falling due on January 31, 2008. The consideration for the acquisition is payable in cash, based on earnings and revenue of the acquired business.

HCL EAI had granted options for 2,616,127 equity shares to its employees and employees of its subsidiaries, prior to HCL EAI becoming subsidiary of the Company. These Options are required to be acquired by the Company in stages by October 1, 2009 as per the terms of the shareholders agreement.

The weighted average grant date fair values of the options outstanding were not significant.

Answer Call Direct Limited ("Answer Call")

In December 2004, one of the subsidiaries of the Company acquired business and assets of an existing call centre, Answer Call for a cash consideration of $1,737. This resulted in goodwill aggregating $897.

Asset acquisition

Jones Apparel Group Inc.

In June 2002, the Company entered into an agreement with Jones Apparel Group Inc. ("Jones"), under which two new companies were established in Bermuda and Delaware. The Company contributed $1,006 towards a 51% equity interest in the new companies. Jones contributed cash amounting to $256 and other intangible assets. As a part of this transaction, the Company has obtained binding commitments for the provision of IT enabled services to Jones, with an aggregate contract value of $21,000 up to June 30, 2005 and $5,250 in each of the two succeeding years. During the current year, the Company and Jones have made additional equity contribution of $714 and $686 respectively.

Additionally, Jones has a put option to sell a portion of its interest in these subsidiaries to the Company within certain specified periods and subject to the occurrences of certain events as specified in the agreement. Further, the Company has entered into a forward purchase agreement for acquiring a portion of the interest of Jones in these subsidiaries within certain specified periods and subject to the occurrences of certain events as specified in the agreement. The put option/forward purchase prices will be determined based on the earnings of these subsidiaries and the then prevailing earning multiples. The consideration will be paid through the Company's stock.

10. INVESTMENTS IN AFFILIATES

The following interests have been accounted for under the equity method:

- *49% interest in NEC HCL System Technologies Limited*

In June 2005, the Company entered into a Joint Venture Agreement with NEC Corporation, Japan ("NEC") and NEC System Technologies Limited ("NECST"), Japan, a subsidiary of NEC, whereby the Company holds 49% stake in newly established joint venture entity, NEC HCL System Technologies Limited ("NECH") and NEC and NECST jointly hold 51% stake. The Company has contributed $2,342 to the share capital of the NECH during the current year.

The Company accounts for its interest in NECH by equity method and for the year ended June 30, 2006 the equity in the gain/ (loss) of NECH is ($60). The carrying value of investment as of June 30, 2006 is $2,282.

- *11.1% interest in Diamondhead Ventures LLP*

The Company held 11.1% interest in Diamondhead Ventures LLP, a technology venture fund till February 2006 which was accounted for using equity method. Subsequently, the Company sold its entire holding at a gross consideration of $11,319. The carrying value of investment as on the date of sale amounted to $8,793. The difference between the sales proceeds and carrying value of the investment amounting to $2,186, net of related expense has been accounted for as a gain in the income statement.

An analysis of the carrying amount of investment, the earnings included in net income is as follows.

	As of June 30,		
	2004	2005	2006
Carrying value	$5,731	$7,410	$-
Share of Income/(loss) from affiliate included in net income	$118	($468)	($118)

- *50% interest in HCL Answerthink Inc.*

In February 2002, the Company formed a joint venture with Answerthink Inc., USA to provide offshore implementation and maintenance services and invested $810. The Company holds a 50% interest in this joint venture as of June 30, 2006 and accounts for its interest in this joint venture by the equity method.

The Company's equity in the (gain)/loss of HCL Answerthink Inc. for the years ended June 30, 2004, 2005 and 2006 is $(25), $Nil and $39 respectively. The carrying value of the investment in HCL Answerthink Inc. as of June 30, 2005 and 2006 is $116 and $155 respectively.

- *50% interest in HPS*

In 1996, the Company entered into a Joint Venture with Perot Systems Corporation (PSC) whereby each owned 50% of HCL Perot Systems B.V. (HPS), an information technology company. On December 19, 2003, the Company sold its 50% holding to PSC at gross consideration of $105,300. Upon sale the Company has also paid $4,641 as its share of stock option settlement. Prior to the sale, the Company accounted for its investment in HPS using the equity method.

The results of operation of HPS for the intervening period from December 1, 2003 to December 19, 2003, were not material to the Company's consolidated statement of income for the year ended June 30, 2004 and therefore, the Company discontinued equity accounting for its investment in HPS from November 30, 2003. However, adjustment for stock option compensation expense resulting from arrangements agreed, as a part of sale transaction has been included in the Company's share in the net loss of HPS. The carrying amount of the investment immediately prior to the sale was $33,567. The Company equity in loss of HPS for the year ended June 30, 2004 was $2,363.The loss in 2004 was primarily related to expenses associated with stock option compensation of HPS aggregating to $5,910, which negatively impacted the Company's equity in HPS earnings.

Consequent to the sale of its holding in HPS to PSC, as stated above, the Company has recorded a gain of $67,092, net of related expenses in the year ended June 30, 2004.

- *46.7 % interest in Net India Private Limited*

In February 2001, the Company invested $216 in Net India Private Limited (NIPL) for a 46.7% equity interest. The Company's equity in the loss of Net India Private Limited is $47 for the years ended June 30, 2003.

In December 2003, the Company sold its stake in the NIPL. The difference between the carrying value of the investment in NIPL as on the date of the sale and sales proceeds amounting to $48 has been accounted for as a gain in the income statement during the year ended June 30, 2004.

11. INVESTMENT SECURITIES

Investment securities, available for sale consist of the following:

As of June 30, 2005:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	$7,488	$155	$-	$7,643
Equity securities	166	-	(85)	81
Mutual fund units	386,608	10,088	(30)	396,666
Total	**$394,262**	**$10,243**	**($115)**	**$404,390**

As of June 30, 2006:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	$2,172	$23	$-	$2,195
Equity securities	57	12	-	69
Mutual fund units	326,439	11,437	(3)	337,873
Total	**$328,668**	**$11,472**	**($3)**	**$340,137**

The maturity profile of the available-for-sale debt securities as of June 30, 2006 is set out below:

	Carrying value	Fair value
Less than one year	$2,172	$2,195
Total	**$2,172**	**$2,195**

Proceeds from the sale of securities, available for sale, during the years ended June 30, 2004, June 30, 2005 and June 30, 2006 were $316,913, $507,417 and $772,744. Interest and dividend income earned from these investments during the years ended June 30, 2004, 2005 and 2006 was $12,632, $6,509 and $1,820 respectively.

In connection with the strategic alliance agreement with Zamba Corporation Inc ("Zamba") to jointly pursue, facilitate and maintain business opportunities in the area of provision of CRM services, HCL for a composite cash consideration of $1,000 acquired 2,460,025 shares of Zamba's common stock in a private transaction and warrants to purchase 615,006 shares of Zamba's common stock. During the year ended June 30, 2003 and 2004, the Company had sold 100,000 and 1,337,886 shares of Zamba realizing $0.19 and $0.26 per share.

On December 31, 2004, as per the agreement between Zamba and Technology Solution Company Inc. ("TSC"), Zamba was acquired by TSC and 0.15 equity shares of TSC were allotted for every share of Zamba held by HCL. Accordingly, TSC issued 149,571 equity shares and warrants to purchase 92,250 equity shares of TSC at $4.07 to the Company. The warrants are exercisable at any time till February 21, 2007. As quoted market prices are available for the common stock of TSC, the common stock is classified as available-for-sale. The warrants are carried at fair value with changes in fair values being recognized in earnings. During the year TSC went for reverse stock split and issued 7478 equity shares and equivalent warrants to purchase 4,613 equity shares.

The current voting equity interest of HCL does not give it the ability to exercise significant influence over the operating and financial policies of TSC.

Investments held-to-maturity as on June 30, 2005 and June 30, 2006 are $Nil and $2,607.The maturity profile of the investments held-to-maturity as of June 30, 2006 is set out below:

	Carrying value	Fair value
Less than one year	$-	$-
One to five years	2,607	2,607
Total	**$2,607**	**$2,607**

12. OTHER INVESTMENTS

The Company had investments in LLP Technology Venture Funds and its interest in these funds ranged from 0.6% to 4.7%. During February 2006, the Company sold entire holdings in LLP technology venture funds for a gross consideration of $9,058 The carrying value of investment aggregated $9,547 and $12,258 immediately prior to the sale of investments and as on June 30, 2005 respectively. Consequent to the sale of the investments, the Company has recorded a loss of $761 including other related expenses.

Distribution recorded as dividend income from these investments during the year ended June 30, 2004, 2005 and 2006 were $1,950, $2,508 and $Nil respectively.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into forward and options foreign exchange contracts, where the counterparty is a bank. The Company considers the risks of non-performance by the counterparty as non-material. The forward foreign exchange contracts mature between one to fifteen months.

The following table presents the aggregate notional principal amounts of the Company's outstanding derivative financial instruments together with the related balance sheet exposure:

	Notional principal amounts (Note 1)		Balance sheet exposure Asset/ (Liability) (Note 2)	
As of June 30,	2005	2006	2005	2006
Foreign exchange forward and options contracts denominated in:				
United States Dollars	$257,130 (sell)	$465,303 (sell)	$5,052	($11,828)
Great Britain Pounds	£13,659 (sell)	£40,378(sell)	374	(3,094)
Euros	€60,254 (sell)	€ 36,316(sell)	1,527	(683)
Australian Dollars	$450 (sell)	$2,000(sell)	2	(4)
Japanese Yen	¥452,002 (buy)	¥-	(32)	-
Swiss Francs	-	CHF 2,034,828(Buy)	-	(64)
			$6,923	**($15,673)**

1. Notional amount is a key element of derivative financial instrument agreements. However, notional amounts do not represent the amount exchanged by counter parties and do not measure the Company's exposure to credit risk as these contracts are settled at its fair value at the maturity date.
2. Balance sheet exposure denotes the fair value of foreign exchange forward and option contracts at the reporting date and is presented in United States Dollars.

14. OTHER CURRENT ASSETS

As of June 30, 2005 and 2006, other current assets comprise the following:

	2005	2006
Prepaid expenses	$8,848	$10,687
Interest receivable	299	249
Prepaid/advance taxes	29,062	31,415
Deposits	1,935	5,440
Fair value of derivative financial instruments	6,923	-
Others	6,410	10,370
Other current assets	**$53,477**	**$58,161**

15. ALLOWANCES FOR ACCOUNTS RECEIVABLE

The Company maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors considered by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the ageing of the trade receivables.

The movement in allowance for accounts receivable is given below:

	2005	2006
Balance at the beginning of the year	$11,717	$5,620
Additional provision during the year	1,886	1,844
Deductions on account of write off	(7,983)	(2,561)
Balance at the end of the year	**$5,620**	**$4,903**

16. SHORT TERM LOANS

The Company has line of credit facilities in India from its bankers aggregating $18,249 for financing its fund based and non-fund based working capital requirements. These facilities bear interest which averaged 0.4% to 12.75% per annum. As of June 30, 2005 and June 30, 2006, there were no outstanding balances against fund-based facilities and an outstanding of $3541 and $8303 against non-fund based facilities respectively. These facilities to the extent of $5,431 are secured by certain current and non current assets of the Company.

COMNET, a subsidiary based in India, has fund-based facility of $2,824 and non-fund based facilities of $32,913. These facilities bear interest which averaged 10.9% to 13% per annum. As of June 30, 2005 and 2006, outstanding balances against the fund-based facilities were $4,071 and $3,353 and outstanding balances against the non fund-based facilities were $Nil and $16,391 respectively. These facilities are secured by certain current and non current assets of the subsidiary.

HCL America, a subsidiary based in the US, has obtained revolving line of credit facilities from a bank subject to an overall ceiling of $2,750 for financing its fund and non-fund based working capital requirements. The interest rate charged is determined and negotiated at the time of utilization of the facilities. As of June 30, 2005 and 2006, there were no outstanding balances against this line of credit. The facilities are issued against a corporate guarantee furnished by the Company.

HCL Great Britain, a subsidiary based in the UK has obtained revolving line of credit facilities from a bank subject to an overall ceiling of $8,543. As of June 30, 2005 and 2006, outstanding balances against the fund-based facilities were $Nil and $2,078 respectively. The facilities are issued against corporate guarantee furnished by the Company and contain financial covenants and restrictions on indebtedness.

HCL Technologies (Mass) Inc., a subsidiary based in US, has non- fund based credit facility of $5,000. As of June 30, 2005 and June 30, 2006, there were no outstanding balances against fund-based facilities and an outstanding of $Nil and $1,686 against non-fund based facilities respectively. The facilities are issued against corporate guarantee furnished by the Company and contain financial covenants and restrictions on indebtedness.

Non fund based facilities include guarantees and letters of credit.

17. LONG TERM DEBTS

In June 2003, one of the subsidiaries of the Company obtained a term loan of $10,000 to finance its capital expenditure requirements. The interest on the term loan was at the rate of LIBOR plus 135 basis points and is secured by a charge on the current and non current assets both present and future. The loan has been fully repaid during the current year.

In July 2003, the Company obtained a term loan of $20,000 to finance its expansion and working capital requirement. The interest on the term loan was at the rate of LIBOR plus 50 basis points and was secured by pledge of investment in mutual fund units. The loan has been fully repaid during the current year.

HCL BPO Services (NI) Limited, a subsidiary based in Northern Ireland has an outstanding interest free secured loan of $4,335 secured by charge over certain assets and against corporate guarantee furnished by the Company.

As of June 30, 2005 and 2006, long term debt comprises of:

	2005	2006
Secured foreign currency debts	$29,891	$-
Other Secured loan	-	4,335
Less : Current portion of long term debts	11,667	2,522
	$18,224	**$1,813**

Other Secured loan will be adjusted against the revenue grant payable to the subsidiary within five years.

18. OTHER CURRENT LIABILITIES

As of June 30, 2005 and 2006, other current liabilities comprise the following:

	2005	2006
Advances from customers	$1,259	$810
Sales tax and withholding taxes payable	7,119	16,412
Unclaimed dividend	264	295
Accrued liabilities and expenses	26,034	41,498
Consideration payable in connection with an acquisition transaction	209	-
Warranty obligations / provision	450	659
Fair value of derivative financial instrument	-	15,673
Others	8,922	10,831
Other current liabilities	**$44,257**	**$86,178**

The movement in warranty obligations is given below:

	2005	2006
Balance at the beginning of the year	$427	$450
Additional provision during the year	400	722
Reduction due to utilizations	(377)	(513)
Balance at the end of the year	**$450**	**$659**

19. EQUITY SHARES

The Company has only one class of capital stock referred to herein as equity shares. Par value of each equity share outstanding as of June 30, 2006 is $0.04.

Voting

Each holder of equity shares is entitled to one vote per share.

Dividends

Dividends declared and paid by the Company will be in Indian Rupees. Dividends payable to equity stockholders are based on the net income available for distribution as reported in HCL Technologies Limited unconsolidated financial statements prepared in accordance with Indian GAAP. Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of up to 10% of net income computed in accordance with current regulations, to a general reserve. Further, Indian law on foreign exchange governs the remittance of dividends outside India. Such dividend payments are also subject to applicable taxes. The Company declared a cash dividend (including dividend tax, if any) of $58,607, $126,672 and $131,380 during the years ended June 30, 2004, 2005 and 2006 respectively. The dividend per share was $0.17, $0.37 and $0.35 during the years ended June 30, 2004, 2005 and 2006 respectively.

Liquidation

In the event of liquidation of the Company, the holders of equity shares shall be entitled to receive all of the remaining assets of the Company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of equity shares held by the stockholders.

Stock options

There are no voting, dividends or liquidation rights to the option holders, under the Company's stock option plan.

20. OTHER INCOME, NET

For the years ended June 30, 2004, 2005 and 2006, interest and other income comprises the following:

	2004	2005	2006
Interest income	$3,911	$2,122	$785
Dividend income from investments	10,668	7,210	1,208
Profit/ (loss) on sale of investment securities and other investments, net	20,930	12,313	15,746
Profit on divestment of stake in HPS and other affiliates	67,092	-	2,186
Foreign exchange gains/(losses), net	2,998	1,185	(21,086)
Miscellaneous income	2,462	3,082	1,748
Interest and other finance costs	(1,550)	(1,830)	(1,232)
Other income, net	**$106,511**	**$24,082**	**($645)**

21. INCOME TAXES

The individual entities within the Company file individual tax returns as per regulations existing in their respective countries of domicile.

Total income taxes for the years ended June 30, 2004, 2005 and 2006 were allocated as follows:

	2004	2005	2006
Income from continuing operations	$8,845	$15,205	$13,403
Stockholders' equity for-			
▪ tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(331)	(1,419)	(1,850)
▪ unrealized holding gains/(losses) on available for sale investment securities	(1,537)	2,731	401
Unrealized gain/(loss) on cash flow hedge	166	(166)	-
Effect of exchange rate fluctuations	31	166	(179)
Total taxes	**$7,174**	**$16,517**	**$11,775**

Income tax expense attributable to income from continuing operations consists of:

	2004	2005	2006
Current -			
Indian taxes	$6,584	$7,111	$9,584
Others	2,786	7,969	7,023
Total	**$9,370**	**$15,080**	**$16,607**
Deferred -			
Indian taxes	$(1,890)	$1,415	($1,975)
Others	1365	(1,290)	(1229)
Total	**$(525)**	**$125**	**($3204)**
Total taxes	**$8,845**	**$15,205**	**$13,403**

The reconciliation between the income tax expense of the Company and amounts computed by applying the Indian statutory income tax rate is as follows:

	2004	2005	2006
Income before taxes, share of income from affiliates and minority interest	$196,218	$163,760	$158,009
Average enacted tax rate in India	35.88%	33.66%	33.66%
Expected tax expense	70,403	55,123	53,200
Non-taxable export income	(32,186)	(39,453)	(41,941)
Non-taxable other income	(19,838)	(2,073)	(6,060)
Income taxed at a lower / higher rate	(3,921)	408	(252)
Differences between Indian and Foreign tax rates	(492)	(745)	(74)

Employee stock compensation cost	-	-	4,472
Increase (decrease) in valuation allowance including losses of subsidiaries	(1,150)	630	386
Others	(3,971)	1,315	3,672
Total taxes	**$8,845**	**$15,205**	**$13,403**

A substantial portion of the profits of the Company's India operations is exempt from income tax being profits attributable to export operations of undertakings situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from the financial year when the unit started operations. The tax holiday on all facilities under STPs expire in stages by 2009. The STP period for certain undertakings have expired on 2005 and 2006. The aggregate dollar and per share effects of the tax holiday are $32,186 and $0.11 per share for the year ended June 30, 2004, $39,453 and $0.13 for the year ended June 30, 2005 and $45,444 and $0.14 for the year ended June 30, 2006.

The components of the deferred tax balances as of June 30, 2005 and 2006 are as follows:

	2005	2006
Deferred tax assets:		
Business losses	$1,556	$1,424
Allowance for accounts receivable	647	590
Accrued employee costs	4,035	3,697
Property and equipment	4,082	4,445
Other temporary differences	1,207	2,960
	11,527	**13,116**
Less: Valuation allowance	(819)	-
Total deferred tax assets	**$10,708**	**$13,116**
Deferred tax liabilities:		
Unrealized gains on investment securities	$3,400	$3,806
Others	1,023	519
Total deferred tax liabilities	**$4,423**	**$4,325**
Net deferred tax assets	**$6,285**	**$8,791**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not, that some portion, or all, of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not, the Company will realize the benefits of those deductible differences, net of existing valuation allowances. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

As of June 30, 2006, one of the US based subsidiary of the Company has brought forward business losses amounting to $3,006 and is available as an offset against future taxable income of such entity. US tax laws impose substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change" of a corporation. Accordingly, the ability of the Company to utilize business losses and credit carry forward may be limited as a result of such an "ownership change" as defined in the Internal Revenue Code.

During the years ended June 30, 2004, 2005 and 2006, the US based subsidiary of the Company has received tax benefit aggregating $210, $1,419 and $1,850 respectively upon exercise of employee stock options which have been credited to stockholders equity. As of June 30, 2006 the Company has created deferred tax asset amounting to $656 on the stock compensation expense expected to be realized on exercise of stock options in future periods.

Management does not believe that it is more likely than not that certain subsidiaries of the company would be in a position to realize the tax benefits associated with business loss carry forward and capital loss carry forward. Given the uncertainties, the recognition of these tax benefits has been postponed.

As of June 30, 2005 valuation allowance on account of business losses is $819.

Undistributed earnings of the domestic subsidiaries amounted to approximately $103,804 and $32,233 as of June 30, 2005 and 2006 respectively. Due to the intent and the ability of the Company to receive dividends and/or to liquidate investments in a tax-free manner, the Company has not recorded a deferred tax liability on the undistributed earnings.

Due to the intent and the ability of the Company to liquidate investments in a tax-free manner, the Company has not recorded deferred tax on the difference between the tax basis and the financial reporting basis of investments in overseas subsidiaries.

22. EARNINGS PER EQUITY SHARE

The following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted EPS for the years ended June 30, 2004, 2005 and 2006:

	2004	2005	2006
Weighted average number of equity shares outstanding used in computing basic EPS	292,323,540	307,406,759	321,394,480
Dilutive effect of stock options and other contingently issuable shares	5,209,438	8,602,128	20,761,377
Weighted average number of equity and equity equivalent shares outstanding used in computing diluted EPS	297,532,978	316,008,887	342,155,857

Options to purchase 16,403,500, 9,346,907 and 3,889,457 equity shares during the years ended June 30, 2004, 2005 and 2006 respectively were not included in the computation of diluted EPS as these options were anti-dilutive.

23. STOCK BASED COMPENSATION AND PLANS

STOCK OPTION PLANS

ESOP 1999 (1999 Plan): In September 1999, the Company instituted the 1999 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 1999 Plan is administered by Committee consisting of majority of independent directors of the Company (Compensation Committee) and provides for the issuance of a maximum of 40,000,000 underlying shares at the option price determined by the Compensation Committee on the date the option is granted.

ESOP 2000 (2000 Plan): In October 2000, the Company instituted the 2000 Stock Option Plan to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 2000 Plan is also administered by the Compensation Committee consisting of a majority of independent directors of the Company. The 2000 Plan provides for the issuance of a maximum of 30,000,000 underlying shares at the option price determined by the Compensation Committee on the date the option is granted.

ESOP 2004 (2004 Plan): In December 2004, the Company instituted 2004 Stock Option Plan (2004 Plan) to provide equity-based incentives to all eligible employees and directors of the Company and its subsidiaries. The Board of Directors and Stockholders approved the 2004 Plan in October 2004 and December 2004 respectively. The 2004 plan is administered by the Compensation Committee consisting of a majority of independent directors of the Company. The 2004 Plan provides for the issuance of a maximum of 40,000,000 underlying shares.

Each option granted under the 1999, 2000 and 2004 Plan, entitles the holder to two equity shares of the Company. The equity shares covered by these 1999, 2000 and 2004 stock option plan vest over a maximum period of 110 months, 104 months and 84 months respectively. The options are to be exercised within a maximum period of five years from their date of vesting or expiry of plan whichever is earlier.

The movements in the options granted to employees during the years ended June 30, 2004, 2005 and 2006 are given below:

1999 Plan	**Shares arising out of option**			**Weighted average exercise price**		
	Year ended June 30,			**Year ended June 30,**		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
Outstanding at beginning of the year	19,873,680	14,007,118	16,649,594	$5.89	$6.58	$7.58
Granted	-	8,280,672	-	-	$7.34	-
Forfeited	(1,280,314)	(2,204,728)	(1,643,232)	$8.13	$8.14	$7.89
Expired	(1,163,438)	(598,428)	(721,150)	$5.09	$8.97	$7.54
Exercised	(3,422,810)	(2,835,040)	(2,456,490)	$2.77	$3.09	$4.10
Outstanding at the end of the year	14,007,118	16,649,594	11,828,722	$6.58	$7.58	$7.74
Exercisable at the end of the year	8,475,950	6,340,874	4,048,668	$5.10	$6.63	$8.02
Weighted-average grant date fair value of grants during the year				-	$1.93	-
Estimated fair value of option vested during the year	$3,205	$2,072	$1,302			

2000 Plan	**Shares arising out of option**	**Weighted average exercise price**

	Year ended June 30,			Year ended June 30,		
	2004	2005	2006	2004	2005	2006
Outstanding at beginning of the year	16,158,118	12,833,768	21,733,818	$6.61	$6.69	$7.37
Granted	218,550	14,390,890	-	$6.73	$7.33	-
Forfeited	(1,995,784)	(2,821,200)	(2,579,210)	$5.93	$7.12	$6.99
Expired	(1,176,164)	(822,136)	(521,460)	$6.76	$8.09	$8.64
Exercised	(370,952)	(1,847,504)	(1,726,096)	$4.95	$5.38	$5.53
Outstanding at the end of the year	12,833,768	21,733,818	16,907,052	$6.69	$7.37	$7.10
Exercisable at the end of the year	7,538,768	5,823,226	4,302,652	$6.89	$7.72	$7.84
Weighted-average grant date fair value of grants during the year				$2.84	$1.91	-
Estimated fair value of option vested during the year	$11,581	$2,366	$1,726			

2004 Plan	**Shares arising out of option**	**Weighted average exercise price**
	Year ended June 30,	**Year ended June 30,**

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	2004	2005	2006	2004	2005	2006
Outstanding at beginning of the year	-	-	746,944	-	-	$5.93
Granted	-	746,944	4,765,000	-	$5.93	$0.04
Forfeited	-	-	(173,144)	-	-	$5.58
Outstanding at the end of the year	-	746,944	5,338,800	-	$5.93	$0.64
Weighted-average grant date fair value of grants during the year	-	-	-	-	$1.94	$9.66
Weighted-average grant date fair value of grants during the year, at less than market price	-	-	-	-	$7.40	$9.66
Estimated fair value of option vested during the year	-	-	-			

As of June 30, 2005 and 2006, out of the total options exercised, option for 74,258 shares & 33,228 shares under Plan 1999 and option for 26,890 shares and 21,290 shares under Plan 2000 were pending allotment.

Intrinsic value of options exercised, being the difference between market price at exercise date and exercise price for the year ended June 30, 2004, 2005 and 2006 are $12,502,$19,134 and $29,746 respectively.

Options outstanding include certain adjustments relating to forfeiture of employee stock options pertaining to earlier years.

The following table summarizes information about stock options outstanding as of June 30, 2005:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
1999 Plan					
$2.76 - $8.62	12,473,290	5.78 years	$6.15	4,341,540	$4.15
$11.32 - $28.08	4,176,304	5.20 years	$11.87	1,999,334	$12.03
2000 Plan					
$2.99 - $5.40	3,853,884	4.03 years	$5.21	2,760,838	$5.30
$5.40 - $10.02	15,387,102	7.62 years	$7.11	1,150,422	$6.08
$10.34 - $15.61	2,492,832	3.40 years	$12.43	1,911,966	$12.22
2004 Plan					
$0.05	180,000	7 years	$0.05	-	-
$2.93 - $3.45	3,904	8 years	$2.93	-	-
$7.38 - $8.52	563,040	9 years	$7.83	-	-

The following table summarizes information about stock options outstanding as of June 30, 2006:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
1999 Plan					
$2.61 - $8.15	8,404,264	5.64 years	$6.32	1,962,598	$4.48
$10.70 - $26.55	3,424,458	4.28 years	$11.23	2,086,070	$11.35
2000 Plan					
$2.82 - $5.10	2,320,254	3.37 years	$4.77	1,652,428	$4.93
$5.11 - $9.47	12,507,790	7.01 years	$6.76	898,710	$5.78
$9.78 - $14.75	2,079,008	2.38 years	$11.82	1,751,514	$11.65
2004 Plan					
$0.04	4,905,000	7.65 years	$0.04	-	-
$6.97 - $8.05	433,800	7.00 years	$7.44	-	-

During the year ended June 30, 2005 and 2006 options having 183,904 and 4,765,000 underlying shares respectively have been granted at prices less than the market price as at the date of grant of options under 2004 Plan.

The following table summarizes information concerning stock options issued that are vested or are expected to vest and stock options exercisable as of June 30, 2006:

	Option vested or expected to vest		
Range of exercise price	**Number of shares arising out of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**
1999 Plan			
$2.61 - $8.15	7,131,012	5.64 years	$6.21
$10.70 - $26.55	3,064,278	4.28 years	$11.26
2000 Plan			
$2.82 - $5.10	2,139,994	3.37 Years	$4.85
$5.11 - $9.47	10,062,347	7.01 Years	$6.61
$9.78 - $14.75	2,020,784	2.38 Years	$11.94
2004 Plan			
$0.04	4,816,124	7.64 years	$0.04
$6.97 - $8.05	346,134	6.87 years	$7.44

The aggregate intrinsic value for 1999, 2000 and 2004 plans are $34,396, $55,608 and $53,811 respectively. These values represent the total pre-tax intrinsic value calculated as the difference between the Company's closing stock price on the last trading day of the year ended June 30, 2006 and the exercise price.

	1999 Plan		2000 Plan		2004 Plan	
	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2005	10,308,720	$2.93	15,910,592	$2.07	746,944	$2.48
Granted	-	-	-	-	4,765,000	$9.66
Vested	(885,434)	$4.67	(726,982)	$3.17	-	-
Forfeited	(1,643,232)	$2.78	(2,579,210)	$2.04	(173,144)	$3.29
Non-vested at June 30, 2006	7,780,054	$2.69	12,604,400	$1.99	5,338,800	$8.94

As of June 30, 2006, $55,726 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.78 years.

Cash received from option exercises under the stock option plan for the years ended June 30, 2004, June 30, 2005 and June 30, 2006 was $10,818, $16,008 and $19,897 respectively.

The actual tax benefit realized for the tax deduction in respect of stock options exercised in United States of America totaled $210, $1,419 and $1,850 for the years ended June 30, 2004, 2005 and 2006 respectively.

In the year ended June 30, 2006 the Company recorded $6,410 of stock-based compensation expense, net of tax, relating to options granted at less than fair market value.

For the year ended June 30, 2006, stock-based compensation expense related to the stock option plans under SFAS 123(R) was allocated as follows:

	Year ended June 30, 2006
Cost of sales	$9,794
Selling, general and administrative	5,442
Stock compensation cost before income tax benefit	**15,236**
Tax benefit	(656)
Stock compensation cost (net)	**$14,580**

Also re*fer note 9 on "Business Combinations" relating to 'HCL EAI Services Inc acquisition'.*

HCL Technologies Limited Employees Trust

During the year ended June 30, 2002, the Company established a controlled trust called the HCL Technologies Limited Employees Trust (Trust). In accordance with the trust deed, the Trust acquires shares from the stock exchanges out of funds borrowed from the Company and would issue these shares to employees eligible to exercise stock options under the Stock Option Plans discussed above. The shares held by the Trust are reported as a reduction from stockholders equity under treasury stock.

The movement in the shares held by the Trust is given below:

	Year ended June 30,	
	2005	2006
Shares held at the beginning of the year	994,445	-
Shares received during the year*	-	1,650
Shares issued to employees	(994,445)	(1,650)
Shares held at the end of the year	-	-

*In terms of the Order of Chief Judicial Magistrate, Noida (U.P), the Company has received 1,650 shares for utilization for the welfare of the employees during the year.

24. EMPLOYEE BENEFIT PLANS

India operations

The Company has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees.

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment at an amount based on the respective employee's salary and the years of employment with the Company.

The following table sets forth the funded status of the plan and the amounts recognized in the Company's balance sheet as of June 30, 2005 and 2006: The measurement date used is June 30 of the relevant fiscal year.

	2005	2006
Change in benefit obligation		
Projected Benefit Obligation (PBO) at the beginning of the year	$3,198	$4,417
Service cost	904	1,366
Interest cost	241	304
Benefits paid	(385)	(361)
Actuarial (gain) loss	253	524
Effect of exchange rates changes	206	(328)
PBO at the end of the year	**$4,417**	**$5,922**
Changes in plan assets		
Fair value of plan assets at the beginning of the year	$122	$169
Actual return on plan assets	10	14
Employer contributions	415	417
Benefits paid	(385)	(361)
Effect of exchange rates changes	7	(8)
Plan assets at the end of the year	**$169**	**$231**

	2005	2006
Funded status	$(4,247)	$(5,691)
Unrecognized actuarial loss	1,009	1,398
Unrecognized transitional obligation	12	3
Net amount recognized	$(3,226)	$(4,290)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	**$(3,226)**	**$(4,290)**

Plan assets represent fund value maintained with the Insurance Company.

Net gratuity cost for the years ended June 30, 2004, 2005 and 2006 comprise of the following components:

	2004	2005	2006
Service cost	$691	$904	$1,366
Interest cost	137	241	304
Expected return on assets	(4)	(10)	(14)
Amortization of unrecognized transition obligation	3	8	8
Amortization of unrecognized actuarial loss	20	23	75
Net gratuity cost	**$847**	**$1,166**	**$1,739**

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2004, 2005 and 2006 are given below:

	2004	2005	2006
Discount rate	7.5%	7.5%	7.5%
Expected rate of increase in salaries			
-for the next five years	7.2%	7.5%	7.5%
-thereafter	6.0%	6.0%	5.0%

The Company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The mortality rates used are as published by one of the leading life insurance companies in India.

Accumulated benefits obligation as of June 30, 2005 and 2006 was $2,637 and $3,704 respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during:

Year ending June 30,	
- 2007	$595
- 2008	737
- 2009	944
- 2010	1,392
- 2011	1,771
- 2011-2016	9,084
Total	$14,523

The expected benefits are based on the same assumptions used to measure the company's benefit obligations as of June 30, 2006. The Company expects to contribute $33 approximately, to the gratuity trust during fiscal 2007.

Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Company. The Company contributes to an employees' superannuation fund established with a government owned insurance corporation at 15% of the employee's base compensation The Company has no further obligations to the superannuation plan beyond its monthly contributions The contributions made are recorded in the statement of income on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 2004, 2005 and 2006 are $348, $469 and $656 respectively.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Company ("Trust"). The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. The Company contributes two-third of the contribution to the Trust. The remaining portion is contributed to the Government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the Trust is being administered by the government. The Company has an obligation to fund any shortfall on the yield of the Trust's investments over the administered interest rates.

The funds contributed to the Trust are invested in specific securities as mandated by law and generally consist of federal and state government bonds, debt instruments of government-owned corporations and other approved market securities.

Total contributions made by the Company in respect of this plan for the years ended June 30, 2004, 2005 and 2006 are $3,166, $5,145 and $7,713 respectively.

Subsidiaries in the US

The Company has a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 100% of their compensation or $12 (or $14 for employees above the age of 50 years) whichever is lower. The Company makes a contribution equal to 50% of the employee's contribution, up to a maximum of 5% of the employee's annual compensation. Total contributions made to the plan by the Company, for the years ended June 30, 2004, 2005 and 2006 are $829, $699 and $1,030 respectively.

Subsidiary in Australia

As per local laws of Australia, employers must provide either minimum level of superannuation for most employees or incur a non-tax deductible superannuation guarantee charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Company contributes to a fund approved by the Government of Australia. Total contributions made to the plan by the Company, for the years ended June 30, 2004, 2005 and 2006 are $270, $371 and $424 respectively.

Subsidiaries in Europe

The Company has pension plans for its employees of the subsidiaries in Europe. The plans operating in Europe provide for contributions upto 5% of the basic salary by the employer and the employee. Total contributions made to the plan by the Company for the years ended June 30, 2004, 2005 and 2006 are $404, $491 and $1,415 respectively.

Subsidiaries in Singapore and Malaysia

As per local laws of Malaysia and Singapore, employers are required to contribute up to 13% of the basic salary of the employee of the Company. The Company contributed to a fund approved by the Government of the Country. Total contributions made to the plan by the Company, for the years ended June 30, 2004, 2005 and 2006 are $97, $116 and $114 respectively.

25. STOCK BASED SALES INCENTIVE

During the year ended June 30, 2000, the Company entered into various software consulting and engineering service agreements with its customers pursuant to which stock options are issued in exchange for customer commitments. Shares for the option plan are provided through the principal shareholder.

The rights to acquire shares are normally exercisable in increments at a price either being agreed in advance or to be determined at a future date, after a specified minimum volume of services have been availed by the customer. These rights vest over a period ranging from 1 to 5 years and are exercisable within 10 years from the date of vesting.

Cost associated with stock based sales incentive is being amortized ratably over the applicable period of benefit in accordance with the requirements of EITF 96-18. These costs are estimated based on forecast of sales attributable from such customers. Costs aggregating $151, Nil and Nil for the year ended June 30, 2004, 2005 and 2006 respectively have been recorded as a contribution from the principal shareholder. Consequent to conclusion of these agreements in December 2004, based on actual sales, the Company has recognized a benefit of $34 in the consolidated statements of income on account of reversal of stock based sales incentive recognized in earlier years.

During the year ended June 30, 2003, the Company entered into an agreement with one of the customers to settle in cash the outstanding stock options granted under this arrangement. During the year ended June 30, 2003 and 2004, the excess of consideration over the fair value of the outstanding options aggregating $107 and $58 has been recognized as a reduction of revenues and to the extent of the fair value of the stock options aggregating $285 and $75, the consideration has been accounted for as a capital transaction. There has been no settlement during the previous and current year.

26. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with the following related parties:

a. Companies in which Mr. Shiv Nadar, the principal shareholder, has a significant ownership interest, controlling interest or over which he exercises significant influence (significant interest entities);
b. Affiliates of the Company, and their subsidiaries (affiliates); and
c. Employees of the Company.

The related party transactions are categorized as follows:

Revenues

The Company provides software development and other services to related parties. The related parties to whom these services were provided and the corresponding amounts of revenue earned are as follows:

	Year ended June 30,		
	2004	2005	2006
Significant interest entities	$1,269	$2,543	$1,042
Affiliates	418	-	206
Total	**$1,687**	**$2,543**	**$1,248**

Cost of revenues

The Company outsources certain contracts to related parties and also procures personnel from them for software development. These costs are recorded as consulting charges and included as part of cost of revenues.

The Company also procures other services from related parties. These costs are recorded as direct cost and included as part of cost of revenues.

The related parties to whom such charges were paid and the corresponding amounts are as follows:

	Year ended June 30,		
	2004	2005	2006
Significant interest entities	$1,897	$4,661	$5,645
Affiliates	6,354	-	-
Total	**$8,251**	**$4,661**	**$5,645**

Computer equipment, software purchases and others

The Company purchases computer equipment, software and other items from certain significant interest entities. These purchases during the years ended June 30, 2004, 2005 and 2006 amount to $4,717, $8,268 and $11,111 respectively.

Subleasing of facilities

Significant interest entity has subleased a portion of their facilities to the Company. Total amount charged for the year ended June 30, 2004, 2005 and 2006 were $39, $245 and $300 respectively.

Loans to employees

The Company has advanced general purpose and housing loans to its employees at rates ranging from 2% to 16% per annum. The repayment periods for these loans are fixed with the tenure of these loans extending up to six years. Employee loan balances outstanding as of June 30, 2005 and 2006 are $708 and $1,131 respectively.

The balances receivable from and payable to related parties other than employees are summarized as follows:

As of June 30, 2005	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$671	$-	$671
Unbilled receivable	289	-	289
Other receivables	594	-	594
	$1,554	**$-**	**$1,554**
Dues to related parties			
Accounts payable	$331	$-	$331
Deferred revenue	35	-	35
Other payables	40	-	40
	$406	**$-**	**$406**

As of June 30, 2006	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$605	$212	$817
Unbilled receivable	388	-	388
Other receivables	149	-	149
	$1,142	**$212**	**$1,354**
Dues to related parties			
Accounts payable	$302	$-	$302
Deferred revenue	30	-	30
Other payables	2,521	-	2,521
	$2853	**$-**	**$2,853**

27. COMMITMENTS AND CONTIGENCIES

Capital commitments

As of June 30, 2006, the Company had committed to spend $36,014 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Other commitments

The Company's software development centers in India are 100% Export Oriented Unit (EOU)/STP unit under the STP guidelines issued by the Government of India. These units are exempted from customs and central excise duties and levies on imported and indigenous capital goods and stores and spares. The Company has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

Guarantees

The Company generally provides guarantees to the Excise and Custom authorities as security for compliance with local regulation and to various parties on behalf of its subsidiaries. The aggregate amount of these guarantees as of June 30, 2006 is $7,587.

Letter of Credit

As of June 30, 2006, unused letters of credit is $3,008.

Other Contingencies

As of June 30, 2006, contingencies relating to income tax and sales tax amounts to $1,949.

28. SEGMENT REPORTING

The Company's operations predominantly relate to providing a range of information technology services targeted at technology vendors, software product companies and medium to large end user organizations. The Company is also engaged in the business of providing networking services and business process outsourcing services.

Networking services involve the sale of networking equipment and software, installations and provision of access and maintenance services. Business process outsourcing services involve the provision of customer contact center and technical help desk services.

The Chairman of the Company has been identified as the Chief Operating Decision Maker (CODM) as defined by SFAS No. 131.The CODM evaluates the Company's performance by business segment, comprising IT services, Networking services and Business process outsourcing services. Accordingly, the Company provides segment information by the operating performance of each business segment. Corporate activities such as treasury, legal and accounting, which do not qualify as operating segments under SFAS No. 131, have been considered as reconciling items. Stock Option charge under SFAS 123(R) and deferred taxes has also been included as reconciling item. Segment information for prior periods is provided on a comparative basis.

Information on reportable segments for year ended June 30, 2004 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$449,477	$51,563	$66,669	$-	$-	$567,709
Internal revenue	-	1,081	-	(1,081)	-	-
Total	**$449,477**	**$52,644**	**$66,669**	**($1081)**	**-**	**$567,709**
Identifiable operating expenses (net)	342,401	47,394	56,796	(1081)	7,354	452,864
Depreciation and amortization	15,242	2,823	6,596	-	477	25,138
Segment income from operations	**$91,834**	**$2,427**	**$3,277**	**$-**	**$(7,831)**	**$89,707**
Total assets of segment	$352,714	$49,862	$40,417	$(7,758)	$389,380	$824,615
Total liabilities of segment	130,445	24,742	35,277	(7,758)	1,151	183,857
Capital employed	**$222,269**	**$25,120**	**$5,140**	**$-**	**$388,229**	**$640,758**
Equity in earnings/(losses) of affiliates	**($2,191)**	**$-**	**$-**	**$-**	**$118**	**($2,073)**
Capital expenditure during the year	**$48,012**	**$8,186**	**$5,806**	**$-**	**$618**	**$62,622**

Information on reportable segments for year ended June 30, 2005 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$597,418	$63,084	$101,536	$-	$-	$762,038
Internal revenue	-	1078	-	(1,078)	-	-
Total	**$597,418**	**$64,162**	**$101,536**	**($1,078)**	**-**	**$762,038**
Identifiable operating expenses (net)	452,616	55,211	75,856	(1,078)	6,169	588,774
Depreciation and amortization	20,459	3,948	8,469	-	710	33,586
Segment income from operations	**$124,343**	**$5,003**	**$17,211**	**-**	**$(6,879)**	**$139,678**
Total assets of segment	$578,780	$64,563	$55,884	$(2,704)	$366,258	$1,062,781
Total liabilities of segment	122,315	29,043	36,525	(2,704)	4,663	189,842
Capital employed	**$456,465**	**$35,520**	**$19,359**	**$-**	**$361,595**	**$872,939**
Equity in earnings/(losses) of affiliates	**($109)**	**$-**	**$-**	**$-**	**($468)**	**($577)**
Capital expenditure during the year	**$46,417**	**$9,701**	**$12,714**	**$-**	**$1,034**	**$69,866**

Information on reportable segments for year ended June 30, 2006 is as follows:

	IT services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$733,595	$111,589	$130,846	$-	$-	$976,030
Internal revenue	-	474	-	(474)	-	-
Total	**$733,595**	**$112,063**	**$130,846**	**($474)**	**-**	**$976,030**
Identifiable operating expenses (net)	558,295	94,729	98,870	(474)	23,332	774,752
Depreciation and amortization	22,540	7,898	11,122	-	1,064	42,624
Segment income from operations	**$152,760**	**$9,436**	**$20,854**	**-**	**$(24,396)**	**$158,654**
Total assets of segment	$508,605	$98,145	$95,538	($4,649)	$398,286	$1,095,925
Total liabilities of segment	72,152	39,760	47,599	(4,649)	57,634	212,496
Capital employed	**$436,453**	**$58,385**	**$47,939**	**$-**	**$340,652**	**$883,429**
Equity in earnings/(losses) of affiliates	**($60)**	**$-**	**$-**	**$-**	**($79)**	**($139)**
Capital expenditure during the year	**$49,254**	**$17,505**	**$14,719**	**$-**	**$3,674**	**$85,152**

The Company operates from four geographies: America, Europe, India and Others. Europe comprises business operations conducted by the Company in United Kingdom, Sweden, Germany, Italy, Belgium, Netherlands, Northern Ireland and Switzerland. All other customers, mainly in Japan, Australia, New Zealand, Hong Kong, Singapore and Malaysia are included in others. Substantial portion of the total assets of the Company are in the Indian geography. Assets used in the business of the Company have not been identified to any of the geographic segments, as the assets are used interchangeably between the segments. Hence, the Company believes it is not practicable to provide segments disclosure relating to assets for geographic segments.

Revenues from the geographic segments, based on domicile of the customers, are as follows:

	2004	2005	2006
America	$346,607	$452,392	$564,767
Europe	125,502	192,041	258,737
India	46,372	53,929	67,279
Others	49,228	63,676	85,247
	$567,709	**$762,038**	**$976,030**

During the year ended June 30, 2004, 2005 and 2006, a single customer accounted for approximately 12%, 13% and 11% and top five customers accounted for 27%, 33% and 30% of the revenue of the Company respectively.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months