HCL TECHNOLOGIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS – AS OF JUNE 30, 1998 AND 1999 AND FOR THE THREE YEARS ENDED JUNE 30, 1999 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

Independent auditors' report

To the Board of Directors and Stockholders

HCL Technologies Limited

We have audited the accompanying consolidated balance sheets of HCL Technologies Limited and its subsidiaries as of June 30, 1998 and 1999 and the related statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 1999. 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 did not audit the financial statements of HCL Perot Systems, NV (a 50% owned investee company) as of and for the years ended March 31, 1998 and June 30, 1999. The Company's investment in HCL Perot Systems, NV as of June 30, 1998 and 1999 was $1,946,000 and $7,896,000, respectively, and its equity in earnings of HCL Perot Systems, NV was $1,089,000 and $4,258,000 for the years ended June 30, 1998 and 1999, respectively. The financial statements of HCL Perot Systems, NV as of and for the years ended March 31, 1998 and June 30, 1999 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HCL Perot Systems, NV, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HCL Technologies Limited and subsidiaries as of June 30, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1999, in conformity with accounting principles generally accepted in the United States.

KPMG
Mumbai, India

October 4, 1999

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30,	
	1998	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,038	$ 17,887
Accounts receivable, net	26,335	32,379
Accounts receivable from related parties	4,034	1,614
Inventories	3,394	1,440
Short-term loans	299	1,040
Short-term loans to related parties	3,988	-
Unbilled receivables	439	965
Unbilled receivables from related parties	40	119
Other amounts due from related parties	1,057	328
Marketable securities, available for sale	467	62
Employee receivables	567	994
Deferred income taxes	2,306	1,913
Receivable from principal shareholder	1,004	-
Other current assets	2,976	2,572
Total current assets	**54,944**	**61,313**
Property and equipment, net	12,436	10,892
Intangible assets, net	2,664	10,875
Investments in equity investees	3,860	7,896
Deferred income taxes	1,540	2,973
Employee receivables, net of current portion	539	595
Other assets	662	793
Total assets	**$ 76,645**	**$ 95,337**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30,	
	1998	1999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank line of credit	$ 7,099	$ 7
Accounts payable	2,747	3,927
Accounts payable to related parties	3,660	2,577
Accrued employee costs	6,672	9,826
Current portion of long-term debt	3,178	871
Current portion of capital lease obligations	197	288
Short–term borrowings	5,258	1,558
Short–term borrowings from related parties	-	614
Deferred revenue	1,228	2,876
Deferred revenue from related parties	-	588
Deferred income taxes	142	107
Liability to principal shareholder	-	5,151
Acquisition of minority interest	-	7,000
Other amounts due to related parties	1,331	113
Other current liabilities	8,324	8,756
Taxes payable	1,020	1,387
Total current liabilities	**40,856**	**45,646**
Long-term debt	5,047	1,080
Capital lease obligations	618	389
Other liabilities	309	276
Liability to principal shareholder	2,615	-
Deferred credit, net	-	316
Deferred income taxes	139	15
Total liabilities	**49,584**	**47,722**
Minority interest	**2,484**	**2,093**
Stockholders' equity		
Equity shares, 187,500,000 shares authorized as of 1998 and 1999; Issued and outstanding – 124,480,318 shares as of 1998 and 1999	10,240	10,240
Additional paid-in capital	1,724	408
Retained earnings	16,297	39,350
Accumulated other comprehensive income	(3,684)	(4,476)
Total stockholders' equity	**24,577**	**45,522**
Total liabilities and stockholders' equity	**$ 76,645**	**$ 95,337**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years ended June 30,		
	1997	1998	1999
Revenues	$ 73,267	$ 118,768	$ 166,326
Cost of revenues	45,678	72,723	100,330
Gross profit	**27,589**	**46,045**	**65,996**
Operating expenses			
Sales and marketing	7,205	12,760	13,538
General and administrative	14,786	17,941	26,638
Depreciation and amortization	3,252	4,580	7,023
Total operating expenses	25,243	35,281	47,199
Income from operations	**2,346**	**10,764**	**18,797**
Interest expense	3,703	3,236	2,198
Interest and other income, net	2,054	2,003	2,053
Income before income taxes, share of income of equity investees and minority interest	**697**	**9,531**	**18,652**
Income tax expense (benefit)	(147)	250	647
Income before share of income of equity investees and minority interest	**844**	**9,281**	**18,005**
Share of income (loss) of equity investees	(2,114)	1,516	3,891
Minority interest	416	251	222
Net income (loss)	**$ (854)**	**$ 11,048**	**$ 22,118**
Basic and diluted net income (loss) per share	$ (0.01)	$ 0.09	$ 0.18
Weighted average number of common shares	116,984,428	124,480,318	124,480,318

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except number of shares)

	Equity shares		Additional paid-in capital	Retained earnings	Notes receivable from shareholder	Comprehen -sive income	Accumulated other comprehen- sive income	Total stockholders' equity
	No. of shares	Amount						
Balances as of June 30, 1996	**112,480,318**	**$ 9,344**	**$ -**	**$ 3,728**	**$ (261)**		**$ (883)**	**$ 11,928**
Issuance of equity shares for acquisition of technology division	12,000,000	896	2,781					3,677
Net loss				(854)		$ (854)		(854)
Gain on dilution of interest in a subsidiary				3,179				3,179
Distribution to shareholders			(1,057)	(96)				(1,153)
Cash dividend paid				(315)				(315)
Notes received from shareholder					261			261
Other comprehensive income								
Translation adjustments						(150)		
Other comprehensive income						(150)	(150)	(150)
Comprehensive income						(1,004)		
Balances as of June 30, 1997	**124,480,318**	**$ 10,240**	**$ 1,724**	**$ 5,642**	**$ -**		**$ (1,033)**	**$ 16,573**
Gain on dilution of interest in a subsidiary				77				77
Net income				11,048		11,048		11,048
Distribution to shareholders				(35)				(35)
Cash dividend paid				(435)				(435)
Other comprehensive income								
Unrealized gain on available for sale securities						104		
Translation adjustments						(2,755)		
Other comprehensive income						(2,651)	(2,651)	(2,651)
Comprehensive income						8,397		
Balances as of June 30, 1998	**124,480,318**	**$ 10,240**	**$ 1,724**	**$ 16,297**	**$ -**		**$ (3,684)**	**$ 24,577**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except number of shares)

	Equity Shares No. of shares	Equity Shares Amount	Additional paid-in capital	Retained Earnings	Notes receivable from shareholder	Comprehen -sive income	Accumulated other comprehen- sive income	Total stockholders' Equity
Balances as of June 30, 1998	**124,480,318**	**$ 10,240**	**$ 1,724**	**$ 16,297**	**$ -**		**$ (3,684)**	**$ 24,577**
Equity in net income of equity investee for the three months ended June 30, 1998 due to change in fiscal year end (Note 2)				647				647
Share of net income of a subsidiary for the three months ended June 30, 1998 due to change in fiscal year end (Note 2)				464				464
Gain on dilution of interest in a subsidiary				251				251
Net income				22,118		22,118		22,118
Distribution to shareholders			(1,316)					(1,316)
Cash dividend paid				(427)				(427)
Other comprehensive income								
Unrealized gain (loss) on available for sale securities						(104)		
Translation adjustments						(688)		
Other comprehensive income						(792)	(792)	(792)
Comprehensive income						21,326		
Balances as on June 30, 1999	**124,480,318**	**$ 10,240**	**$ 408**	**$ 39,350**	**$ -**		**$ (4,476)**	**$ 45,522**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended June 30,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (854)	$ 11,048	$ 22,118
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,252	4,580	7,023
Deferred income taxes	(1,126)	(1,037)	(425)
(Gain) loss on sale of property and equipment	(3)	(3)	(3)
Write-down of marketable securities, available for sale			228
Share of (income) loss of equity investees	2,114	(1,516)	(3,891)
Minority interest	(416)	(251)	(222)
Changes in assets and liabilities, net			
Accounts receivable	(7,035)	(11,761)	(1,741)
Other assets	(1,153)	(4,110)	4,437
Accounts payable	1,453	3,037	62
Accrued employee costs	2,829	3,228	2,583
Other liabilities	1,786	4,661	1,801
Net cash provided by operating activities	847	7,876	31,970
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(4,913)	(5,397)	(5,428)
Proceeds from sale of property and equipment	21	1,095	(189)
Purchase of investments	(4,454)	(1,291)	(463)
Payment for business acquisition, net of cash acquired	-	-	(2,754)
Loans extended to related parties	(9,201)	-	(7,060)
Loans repaid by related parties	7,237	-	11,258
Net cash used in investing activities	(11,310)	(5,593)	(4,636)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of capital lease obligations	(219)	(891)	(106)
Net proceeds from bank line of credit	5,183	824	(6,873)
Increase (decrease) in short term borrowings,net	(4,814)	7,346	(3,682)
Proceeds from long term debt	6,575	-	-
Repayment of long term debt	(196)	(2,343)	(5,532)
Proceeds from issuance of common stock	261	-	-
Proceeds from issuance of common stock of subsidiary to minority	6,092	193	352
Liability to principal shareholder	111	551	1,469
Capital distribution to shareholders	(1,151)	(33)	(1,316)
Payment of dividend to minority in subsidiary	(49)	(31)	-
Payment of dividends	(315)	(435)	(428)
Net cash provided from (used by) financing activities	11,478	5,181	(16,116)
Effect of exchange rate on cash and cash equivalents	81	(1,825)	(1,229)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$1, 096	$ 5,639	$ 9,989
CASH AND CASH EQUIVALENTS			
Beginning of the year	$ 1,303	$ 2,399	$ 8,038
Net cash activity of subsidiary for three months ended June 30, 1998 (Note 2)			(140)
End of the year	$ 2,399	$ 8,038	$ 17,887
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 2,206	$ 2,725	$ 1,982
Cash paid during the year for income taxes	$ 785	$ 898	$ 335
Property and equipment acquired under capital lease obligation	$ 1,576	$ 659	$ 335
Details of acquisitions:			
Fair value of assets acquired	$ 3,788	$ -	$ 11,339
Fair value of liabilities assumed	$ 109	$ -	$ 1,339
Common stock issued	$ 3,679	$ -	$ -

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

HCL TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise specified, all amounts are stated in United States Dollars)

1. ORGANIZATION AND NATURE OF OPERATIONS

a) Incorporation and history

HCL Technologies Limited ("HCL" or "the Company", formerly HCL Consulting Limited) was incorporated in India in November 1991. The Company is primarily engaged in providing a range of information technology services targeted at technology vendors, software product companies and medium to large end user organizations.

b) Reorganization and basis of presentation of financial statements

Mr. Nadar, the Company's principal shareholder, had a controlling/significant interest in, inter alia, the following entities during the three years ended June 30, 1999:

(i) HCL, consisting primarily of software development centers, its subsidiaries and its equity investees:

- HCL Technologies America, Inc. ("HCL America"), a wholly owned subsidiary organized under the laws of California, USA in November 1988. HCL acquired HCL America in January 1995 for cash from a company in which Mr. Nadar held less than a controlling interest. This acquisition was accounted for under the purchase method;

- Intelicent, Inc. ("Intelicent"), (formerly known as HCL James Martin Inc.), a 60% owned subsidiary organized under the laws of Virginia, USA in March 1996 and its subsidiary. Intelicent became wholly owned in February 1999; and

- Far East Computers Private Limited ("FEC"), a 43% equity investee organized under the laws of Singapore in January 1980.

(ii) HCL Technologies Limited, Bermuda ("HCL Bermuda"), a wholly owned subsidiary organized in December 1997 under the laws of Bermuda. HCL Bermuda has wholly owned subsidiaries in Europe and Asia Pacific.

(iii) HCL Holdings GmbH, Vienna ("HCLH"), a wholly owned subsidiary, organized in December 1996 under the laws of Austria. HCLH purchased a 44% interest in HCL Perot Systems NV ("HPS") in August 1997 and an additional 6% interest in September 1998. These transactions were accounted for under the purchase method. HPS was organized under the laws of The Netherlands in March 1996.

(iv) HCL Comnet Systems and Services Limited ("COMNET"), a majority owned subsidiary, organized in December 1994 under the laws of India.

A reorganization of the above mentioned controlled entities has been completed through a series of transactions whereby HCL has become the holding company for the share capital of the subsidiaries and the interest in the joint venture described above. The following transactions have occurred:

1. HCL's sale of its investment in FEC to another company controlled by Mr. Nadar, for cash;

2. HCL's acquisition of HCL Bermuda from an investment company owned by Mr. Nadar for cash;

3. The transfer by HCL of its 100% ownership of HCL America and its 60% ownership of Intelicent to HCL Bermuda in exchange for HCL Bermuda shares;

4. HCL Bermuda's acquisition of a 40% interest in Intelicent from the minority shareholder for cash;

5. HCL Bermuda's acquisition of HCLH, a company controlled by Mr. Nadar for cash;

6. Acquisition by Mr. Nadar of a 20% interest in COMNET from a minority shareholder for cash; and

7. HCL's acquisition of a 92% interest in COMNET from Mr. Nadar and other minority shareholders for cash.

Since all of the businesses acquired in the reorganization were under the control of Mr. Nadar, the accompanying consolidated financial statements retroactively reflect the accounts of the merged or acquired businesses at their historical costs. The amounts related to the equity method investment in FEC have been retroactively excluded as this company has been financed and managed separately from the other entities in the Group and will continue to be so subsequent to the reorganization.

Subsequent to June 30, 1999, the Company effected a stock split through a 1-for-2 stock dividend followed by a 2.5-for-1 stock split. All share and per share amounts in the consolidated financial statements have been restated to give effect to these stock splits.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States to reflect the financial position and results of operations of the Company and its subsidiaries (collectively referred to as" the Group").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements present the accounts of the Company and all of its subsidiaries which are more than 50% owned and controlled. The financial statements of COMNET used for consolidation in 1997 and 1998 are as of March 31, 1997 and 1998, respectively. In 1999, COMNET changed it's fiscal year-end to June 30. The results of operations for the period from April 1, 1998 to June 30, 1998 were added to retained earnings in the current year in order to report only 12 months of operating results.

The Group accounts for investments by the equity method where it's investment is between 20% to 50% of the voting stock of the investee. The financial statements of HPS used for equity method accounting in 1998 are as of March 31, 1998. In 1999, HPS changed its fiscal year-end to June 30. The results of operations for the period from April 1, 1998 to June 30, 1998 were added to retained earnings in the current year in order to report only 12 months of operating results.

All significant transactions and balances between the entities included in the consolidated financial statements have been eliminated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates.

(c) Exchange rate translation

The consolidated financial statements are reported in US dollars. The functional currency of each entity in the Group is its respective local currency. 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 and expense accounts using a monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a separate component of stockholders' equity.

Monetary assets and liabilities in foreign currencies of the entities in the Group are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies of the entities in the Group are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. The gains or losses resulting from foreign currency transactions are included in other income.

(d) Revenue recognition

Revenues for time and materials services are recognized as the services are provided. Fixed price contract revenue is recognized using the percentage of completion method of accounting, under which sales value of performance, including earnings thereon is determined by relating the actual man hours of work performed to date to the estimated total man hours for each contract. Any anticipated losses upon contract completion are recognized immediately.

Unbilled receivables represent costs incurred and revenues recognized on contracts, to be billed in subsequent periods as per the terms of the contract. Deferred revenue represents amounts billed in excess of revenues earned.

Revenue from sale of goods is recognized when the sale is completed in accordance with the terms of the contract with the customer.

Installation fees are recognized when the related services have been performed and the installation is complete. The installation services generally span over a very short period of time.

Revenue from providing bandwidth services and maintenance revenue arising from sale of goods is deferred and recognized ratably over the term of the agreement.

Warranty costs on sale of goods and services provided are accrued based on management estimates and historical data.

(e) Inventory

Inventory consists of goods which are held for sale in the normal course of business. Inventory is valued at the lower of cost or net realizable value, where cost is determined by the weighted-average method.

(f) Property and equipment

Property, equipment and leasehold improvements including assets under capital lease agreements are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method and is charged to income over the estimated useful lives of the respective assets. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate.

(g) Intangible assets

Intangible assets represent goodwill and identified intangible assets such as employee workforce and customer relationships, which arise or have been acquired in business combinations.

Values have been assigned to the identified intangible assets based on an evaluation by management. The intangible assets are amortized on a straight-line basis over the periods estimated to be benefited.

(h) Impairment of long-lived assets

The Group reviews long-lived assets for impairment, whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The carrying values of long-lived assets are assessed for recoverability by reference to the estimated future undiscounted cash flows associated with them. Where this assessment indicates a deficit, the assets are written down to the market value. For assets that do not have a readily determinable market value, the assets are written down to their fair value, calculated by reference to their estimated future discounted cash flows.

(i) Investments

The Group's share of profits/losses of equity investees is included in the consolidated statements of operations, and the Group's share of net assets of equity investees is included in the consolidated balance sheets.

(j) Marketable securities

Investments consist of available for sale marketable securities carried at fair value as determined by reference to prevailing market prices. Unrealized gains and losses, net of taxes are reported as a separate component of stockholders' equity. Declines in fair value below original cost are recorded through the statement of operations when they are considered to be other than temporary.

(k) Cash and cash equivalents

Cash equivalents represent highly liquid investments with an original maturity of ninety days or less.

(l) Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity in the Group. 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 carryforwards. 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. Deferred tax assets are recognized in full, subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

(m) Pensions and other post retirement benefits

Contributions to defined contribution plans are charged to income in the period in which they accrue.

Current service costs for defined benefit plans are accrued in the period to which they relate. Prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

(n) Earnings per share

Basic earnings per share is computed using the weighted average number of shares outstanding during the period. The Company did not have any potential common shares outstanding during the period. Certain consolidated subsidiaries and an equity method investee have issued stock options. The aggregate impact of these issuances on the share of earnings of the Company has no impact on basic earnings per share.

(o) Accounting for stock option

The Company uses the intrinsic value based method of Accounting Principles Board ('APB') Opinion No.25 to account for its employee stock-based compensation plan. The Company has therefore adopted the pro forma disclosure provisions of SFAS No.123, 'Accounting for Stock-Based Compensation'.

(p) Issue of shares by subsidiary / equity method investee

A change in the carrying value of an investment in a subsidiary or an equity method investee due to a direct sale of unissued shares by the investee is accounted for as a capital transaction.

(q) Recent accounting pronouncements

In June 1998, SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities' was issued. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet either as an asset or as a liability and be measured at its fair value. The statement requires that changes in a derivative's fair value be recognized in the current period unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Group will adopt SFAS No. 133 in the year ended June 30, 2000. However, as the Group does not use derivative financial instruments and does not engage in significant hedging activities, the statement will not have a significant impact on its consolidated financial statements.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash equivalents and trade receivables. The cash resources of the Group are invested with banks and corporations after an evaluation of the credit risk.

The customers of the Group are primarily corporations based in the United States and accordingly, trade receivables are concentrated in the United States. Trade receivables are not collateralized. To manage its credit risk, the Group performs ongoing credit evaluation of customers.

The Group has significant operations outside India. Approximately 53% and 59% of the net assets as of June 30, 1998 and 1999 are concentrated in the United States.

4. PROPERTY AND EQUIPMENT

As of June 30, 1998 and 1999 property and equipment comprise the following (in thousands):

	Estimated Useful Lives (in years)	1998	1999
Land	-	$ 327	$ 321
Buildings	20	2,708	2,787
Computer equipment	3	11,199	13,711
Software	3 to 3.5	627	4,353
Mainframe computer system	6	1,006	988
Office furniture and equipment	4	1,748	2,994
Vehicles	5	960	1,110
Capital work-in-progress	-	755	470
		19,330	26,734
Accumulated depreciation and amortization		(6,894)	(15,842)
Property and equipment, net		$ 12,436	$ 10,892

Depreciation expense was $2,621,000, $3,881,000 and $5,802,000 for the years ended June 30, 1997, 1998 and 1999, respectively. Accumulated depreciation and amortization includes accumulated amortization expense for software of $312,000 and $3,793,000 as of June 30, 1998 and 1999 respectively. Amortization expense for software for the years ended June 30, 1997, 1998 and 1999 was $123,000, $164,000 and $487,000, respectively.

Land and building includes certain assets costing $500,000 acquired from a related party. The land has not yet been registered in the Group's name as application for regulatory transfer approvals are in the process of being filed. The bankers of the related party have a lien on the land for working capital facilities provided to that entity.

Property and equipment includes assets held under capital leases, which comprise (in thousands):

	1998	1999
Land	$ 90	$ 88
Computer equipment	167	522
Vehicles	778	796
Office furniture and equipment	21	23
	1,056	1,429
Accumulated depreciation	(292)	(799)
	$ 764	$ 630

5. INTANGIBLE ASSETS

As of June 30, 1998 and 1999 intangible assets comprise the following (in thousands):

	Estimated Useful lives (years)	1998	1999
Goodwill	5 to 7 years	$ -	$ 8,496
Employee workforce	4 to 5 years	2,932	3,761
Customer relationships	10	999	992
Intellectual property rights	4	-	350
		3,931	13,599
Accumulated amortization		(1,267)	(2,724)
Intangible assets, net		$ 2,664	$ 10,875

Amortization expense for the year ended June 30, 1997, 1998 and 1999 is $631,000, $699,000 and $1,221,000 respectively, net of $60,000 deferred credit amortization in the year ended June 30, 1999.

In February 1999, the Group acquired a 40% interest in Intelicent from James Martin Inc, the minority shareholder, for a cash consideration of $10,000,000. This acquisition has been accounted for under the purchase method. The acquisition resulted in goodwill of $8,089,000.

6. LEASES

The Group leases certain computer equipment, vehicles and office furniture and equipment under capital leases of five years. Future minimum lease payments under capital leases as of June 30, 1999 are as follows (in thousands):

2000	$ 389
2001	304
2002	148
2003	33
2004	5
Thereafter	-
Total minimum payments	879
Less: Amount representing future interest	202
Present value of minimum payments	677
Less: Current portion	288
Long term capital lease obligation	$ 389

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

Rental expense under those leases is $936,000, $1,236,000 and $2,526,000 for the years ended June 30, 1997, 1998 and 1999 respectively. Future minimum lease payments as of June 30, 1999 for such non-cancelable operating leases are as follows (in thousands):

2000	$ 2,021
2001	1,554
2002	1,278
2003	1,250
2004	256
Thereafter	208
Total minimum payments	$ 6,567

7. LEASE RENTAL RECEIVABLES

A subsidiary has leased out certain equipment. Future minimum lease payment receivables under non-cancelable leasing arrangements as of June 30, 1999 are as follows (in thousands):

2000	$ 182
2001	211
2002	93
2003	25
Thereafter	-
Net minimum future lease receipts	511
Less unearned income	55
Net investment in direct financing leases	456

8. INVESTMENTS IN EQUITY INVESTEES

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

- *60% interest in Intelicent*

  Intelicent has not been consolidated for the period July 1, 1996 to February 28, 1999 as the minority shareholder James Martin Inc. had certain significant participating rights, which provided for its effective involvement in significant decisions in the ordinary course of business. In February 1999, the Group acquired the remaining 40% shareholding from James Martin Inc. Accordingly, the entity has been consolidated from the period March 1, 1999 to June 30, 1999. Subsequent to the acquisition, shares have been issued to certain employees of Intelicent at fair value. This has reduced the interest of the Group in Intelicent to 98.35%.

- *50% interest in HPS*

  The Group acquired a 44% interest in HPS in August 1997. Subsequently, in September 1998, the Group acquired a further 6% interest from a related party.

  The financial statements of HPS used for the equity method accounting for 1998 are as of March 31, 1998. In 1999, HPS changed its fiscal year end to June 30. The Group's share of the net income of HPS for the transitional period of April 1, 1998 to June 30, 1998 has been included in retained earnings.

An analysis of the carrying amount of investments, the earnings of the investee included in net income and summarized financial information are as follows (in thousands):

Intelicent

	June 30, 1997	June 30, 1998	8 months period ended February 28, 1999
Carrying value represented by share of net assets	$ 1,486	$ 1,914	$ -
Share of income/(loss) of equity investee included in net income	$ (2,114)	$ 427	$ (367)

The carrying value of the investment in Intelicent at June 30, 1997 reflected above includes the proportionate share of a $625,000 note receivable from HCL by Intelicent. This note receivable has been classified as a reduction of stockholders' equity in the summarized financial information presented below.

The summarized balance sheet of Intelicent as of June 30, 1997 and 1998 and the summarized income statement for the years then ended and the period ended February 28, 1999 are as follows (in thousands):

	As at	
	June 30, 1997	June 30, 1998
Balance sheet		
Current assets	$ 1,498	$ 4,767
Non-current assets	3,000	2,001
Total assets	$ 4,498	$ 6,768
Current liabilities	$ 1,960	$ 3,579
Non-current liabilities	686	-
Stockholders' equity	1,852	3,189
Total liabilities and stockholders' equity	$ 4,498	$ 6,768

	For the years ended		For the period ended
Income statement	June 30, 1997	June 30, 1998	February 28, 1999
Revenues	$ 3,759	$ 13,016	$ 11,338
Income (loss) from operations	$ (3,929)	$ 419	$ (300)
Income (loss) before income taxes	$ (3,941)	$ 426	$ (300)
Net income (loss)	$ (3,523)	$ 712	$ (612)

HPS

	June 30, 1998	June 30, 1999
Carrying value represented by share of net assets	$ 1,946	$ 7,896
Share of income/(loss) of equity investee included in net income	$ 1,089	$ 4,258

Additionally, as discussed earlier, the Group's share of income of HPS for the transitional period of April 1, 1998 to June 30, 1998 amounting to $647,000 has been included in the retained earnings of the Group.

The summarized balance sheet of HPS as of March 31, 1998 and June 30, 1999 and summarized income statement for the period ended March 31, 1998 and for the year ended June 30, 1999 are as follows (in thousands):

	As at	
Balance sheet	March 31, 1998	June 30, 1999
Current assets	$ 6,671	$ 27,791
Non-current assets	2,169	1,796
Total assets	$ 8,840	$ 29,587
Current liabilities	$ 3,774	$ 11,673
Non-current liabilities	620	2,122
Stockholders' equity	4,446	15,792
Total liabilities and stockholders' equity	$ 8,840	$ 29,587

	For the period from August 18, 1997 to March 31, 1998	For the year ended June 30, 1999
Income statement		
Revenues	$ 14,905	$ 49,860
Income (loss) from operations	$ 2,575	$ 8,482
Income (loss) before income taxes	$ 2,496	$ 8,981
Net income (loss)	$ 2,472	$ 8,679

The Group's share of reported earnings in HPS will change to 45.86% in the event that contingent issuances of common stock arising from stock options granted by HPS are exercised in future. The aggregate impact of these contingent issuances is not material based on the share of earnings for the year ended June 30, 1999.

9. ALLOWANCES FOR ACCOUNTS RECEIVABLE

The Group 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 $2,513,000 and $3,576,000 as of June 30, 1998 and 1999, respectively. The charge to the statement of income with respect to uncollectible receivables was $663,000, $3,072,000 and $743,000 for the years ended June 30, 1997, 1998 and 1999, respectively.

10. TRANSACTIONS WITH PRINCIPAL SHAREHOLDER

Subsequent to June 30, 1999, the Group purchased a majority interest in COMNET and HCLH from companies controlled by Mr. Shiv Nadar, the principal shareholder of HCL. Similarly, in April 1999, the Group purchased the majority interest in HCL Bermuda from a company controlled by Mr. Shiv Nadar. As the acquired companies were controlled by Mr. Shiv Nadar in the three year period ended June 30, 1999, the financial statements of these entities have been retroactively included in the consolidated financial statements based on the shareholding of the principal shareholder. The amounts related to the investment in FEC have been retroactively excluded.

The assets transferred and the related liabilities to / receivables from the principal shareholder have been reflected as capital contributions and capital distributions.

The liability of $200,000 as of June 30, 1998, attributable to the purchase of HCL Bermuda has been adjusted against the receivable attributable to the sale of FEC.

11. ACQUISITION OF MINORITY INTEREST

In February 1999, the Group acquired a 40% interest in Intelicent from James Martin Inc, the minority shareholder, for a cash consideration of $10,000,000. This acquisition has been accounted for under the purchase method. A portion of the purchase consideration was paid to James Martin Inc prior to June 30, 1999. The balance is reflected as a current liability as of June 30, 1999.

12. **BANK LINE OF CREDIT**

The Group has a line of credit in India for discounting accounts receivables of $3,100,000 relating to software exports and a preshipment credit facility of $710,000, with the maximum amount available under both the facilities being $3,100,000. These facilities may be denominated in United States Dollars or Indian Rupees. These facilities are of a revolving nature and can be utilized up to 150 days and 180 days respectively. The credit bears interest at the rate set by the bank, which is presently 9% per annum for loans denominated in Indian Rupees and London Interbank Offered Rate ("LIBOR") plus up to 2% per annum for dollar denominated loans. As of 1June 30, 1998, $1,333,000 had been utilized under these facilities. There were no outstanding balances against the facility as of June 30, 1999. These facilities are secured by a lien on certain business assets of the Group's India operations.

A subsidiary has a cash credit arrangement of $1,890,000 and non-fund based facility up to a maximum of $5,669,000. The credit bears interest at the banks prime lending rate plus 2% and is secured by certain assets of HCL and personal guarantees of the principal shareholders. The effective rate of interest was approximately 17% per annum on June 30, 1999. At June 30, 1998 and 1999, HCL had borrowed $2,232,000 and $7,400 respectively under this line of credit. The credit facilities restrict the payment of dividends and utilization of funds, and require compliance with certain financial covenants.

Another subsidiary has a line of credit agreement with a bank in the US, which allows for a borrowing of 75% of the eligible accounts receivable subject to a ceiling of $5,000,000 ($6,000,000 as of June 30, 1998). The line of credit bears interest at the bank's prime lending rate plus 0.75% per annum and is secured by certain assets of the subsidiary. The effective rate of interest was approximately 9% per annum on June 30, 1999. At June 30, 1998 the subsidiary had borrowed $3,534,000 under this line of credit. There were no outstanding balances against the facility as of June 30, 1999. The line of credit prohibits the payment of dividends and requires the subsidiary to comply with certain financial and other covenants.

13. **SHORT-TERM BORROWINGS**

The Group had short-term loans of $4,959,000 as of June 30, 1998 from financial institutions and companies. These loans carried interest ranging from 9% per annum to 22% per annum. All these loans were repaid in the year ended June 30, 1999. In addition the group has raised a short-term loan of $1,558,000 bearing interest at 1% above LIBOR during the year ended June 30, 1999, which is outstanding at year-end. The effective rate of interest was 8% per annum on June 30, 1999.

At June 30, 1998, the Group had an interest free loan of $299,000 repayable on demand. This loan has been repaid during the year ended June 30, 1999.

The Group further raised interest free inter-corporate deposits of $614,000 during the year ended June 30, 1999 from related parties. The deposits have a maturity profile of three to six months and are outstanding at year-end.

14. LONG-TERM DEBT

Long-term debt as of June 30, 1998 and 1999 is as follows (in thousands):

	1998	1999
USD loans		
Term loans payable with interest payable quarterly at 3.75% per annum over six monthly LIBOR plus additional interest at 1.05% per annum	$ 1,804	$ -
Indian Rupee loans		
Term loan payable with interest payable quarterly at 20.72% per annum plus additional interest at 1.05% per annum	3,096	-
Term loan with interest payable quarterly at 17.5% to 19.56% per annum.	3,325	1,951
	8,225	1,951
Less: Current portion	3,178	871
	$ 5,047	$ 1,080

The loans above are secured by a lien on certain business assets of the Group's India operations.

Principal payments for the years subsequent to June 30, 1999 are as follows (in thousands):

Year ended June 30,	
2000	$ 871
2001	730
2002	350

The terms of the loan agreements restrict, among other things, declaration of dividends by the Group's Indian operations and utilization of loan proceeds.

15. DEFERRED CREDIT

In the year ended June 30, 1999, the Group acquired a 20 % interest in HCLH from the minority shareholders. The acquisition was accounted by the purchase method. The acquisition resulted in a deferred credit, which represents the excess of fair value of assets acquired over the cost of acquisition. Deferred credit is amortized to income over the estimated period of benefit of 5 years. The net deferred credit aggregated $316,000 as of June 30, 1999. Deferred credit of $60,000 has been amortized for the year ended June 30, 1999.

16. DIVIDENDS

Should the Company declare and pay dividends, such dividends will be paid in Indian Rupees and will be pro rata from the date of holding the shares.

Indian law mandates that any dividend be declared out of distributable profits only after the transfer of upto 10% of net income computed in accordance with current regulations, to a general reserve. Further, the remittance of dividends outside India is governed by Indian law on foreign exchange. The Company declared a cash dividend of $315000, $435,000 and $427,000 during the years ended June 30, 1997, 1998 and 1999 respectively.

17. CHANGE IN CAPITAL STRUCTURE

The Company has changed its capital structure subsequent to June 30, 1999, effected through a 1-for-2 stock dividend and a subsequent 2.5-for-1 stock split. The change in capital structure has been given retroactive effect in the financial statements. In line with legal requirements, retained earnings will be capitalized at par value of the shares issued as stock dividend, in the period in which stock dividends are declared.

The revised capital structure is as follows:

Date of issue of shares	No. of shares	Par value ($)	Share capital ($)
March 25, 1992	26	0.095	3
September 6, 1994 – July 20, 1995	77,925,000	0.085	6,657,302
February 20, 1996	4,555,292	0.073	333,996
March 27, 1996	22,500,000	0.079	1,768,347
April 12, 1996	5,625,000	0.078	440,917
June 29, 1996	1,875,000	0.076	143,390
February 14, 1997	12,000,000	0.075	895,855
Total	**124,480,318**		**10,239,810**

18. INTEREST AND OTHER INCOME, NET

For the years ended June 30, 1997, 1998 and 1999, interest and other income comprises the following (in thousands):

	1997	1998	1999
Interest income	$ 1,207	$ 1,164	$ 1,015
Foreign exchange gain, net	95	453	549
Miscellaneous income	752	386	489
Total	$ 2,054	$ 2,003	$ 2,053

19. INCOME TAXES

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

The income tax expense comprises the following (in thousands):

	1997	1998	1999
Current -			
US taxes	$ 435	$ 738	$ 813
Others	544	549	259
Total	$ 979	$ 1,287	$ 1,072
Deferred -			
US taxes	$ (340)	$ (966)	$ 210
Others	(786)	(71)	(635)
Total	$ (1,126)	$ (1,037)	$ (425)
Total taxes	$ (147)	$ 250	$ 647

The reconciliation between the provision for income tax of the Group and amounts computed by applying the Indian statutory income tax rate is as follows (in thousands):

	1997	1998	1999
Net income before taxes	$ 697	$ 9,531	$ 18,652
Enacted tax rate in India	35%	35%	38.5%
Expected tax expense	244	3336	7,181
Differences between Indian and foreign tax rates	75	341	238
Non-taxable Indian export income	(627)	(4,021)	(8,261)
Increase/(decrease) in valuation allowance	-	344	885
Other	161	250	604
Total taxes	$ (147)	$ 250	$ 647

A substantial portion of the profits of the Group's India operations are exempt from Indian income taxes being profits attributable to export operations and profits from undertakings situated in Software Technology Parks. Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years. The Group has opted for this exemption for the years ended March 31, 1997 to March 31, 2006 for the existing undertakings situated in Software Technology Parks. The aggregate dollar and per share effects of the tax holiday are $4,021,000 and $.03 per share for the year ended June 30, 1998 and $8,261,000 and $.07 per share for the year ended June 30, 1999 respectively. The total amount of additional tax benefit on account of the tax holiday is substantially equivalent to the exemption available under the Indian tax laws for export earnings, as the Group's India operation derives substantially all its revenues from exports. Subsequent to March 31, 2006 the Group shall be able to utilize an exemption from Indian income taxes for profits attributable to export operations. As a result, other than tax on interest income, dividend income, rental income and profit on sale of special import licenses, no tax provision is required relating to the income earned by the Group's India operations.

The components of the deferred tax balances are as follows (in thousands):

	1998	1999
Deferred tax assets:		
Business losses	$ 1,164	$ 3,320
Capital losses	700	798
Allowance for accounts receivable	832	555
Accrued employee costs	795	887
Preoperative expenses	784	674
Provision for depreciation	143	829
Other temporary differences	458	271
	4,876	7,334
Less: Valuation allowance	(1,030)	(2,448)
Total deferred tax assets	$ 3,846	$ 4,886
Deferred tax liabilities:		
Unrealized holding gains	$ 73	$ -
Asset given on lease	71	98
Others	137	24
Total deferred tax liabilities	$ 281	$ 122

The net deferred tax asset is presented in the balance sheet as follows (in thousands):

Current deferred tax asset	$ 2,306	$ 1,913
Non current deferred tax asset	1,540	2,973
Total deferred tax assets	$ 3,846	$ 4,886
Current deferred tax liability	$ 142	$ 107
Non current deferred tax liability	139	15
Total deferred tax liability	$ 281	$ 122

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 Group 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 per Indian tax laws, the benefit of the carried forward business losses are not available to a company where there is a change in the ownership of the company by more than a specified percentage. As the ownership of COMNET has changed by more than 80% subsequent to June 30, 1999, the benefit of business losses will not be available in future and accordingly a valuation allowance of $248,000 and $689,000 has been created as of June 30, 1998 and 1999, respectively. Additionally, valuation allowances of $82,000 and $961,000 have been established for business losses of other subsidiaries as of June 30, 1998 and 1999, respectively.

As at June 30, 1999, the Group has a deferred tax asset for business losses of $1,670,000, of which, $734,000, $561,000 and $375,000 will expire on March 31, 2006 and 2007 and December 31, 2012, respectively.

Valuation allowances of $700,000 and $798,000 have been created as of June 30, 1998 and 1999, respectively in respect of investments which were written-off for book purposes in the books of a subsidiary, but would be deductible for tax purposes only when they are sold and if the subsidiary has offsetting capital gains. Given these uncertainties, the tax benefit on the write-off of the investment has been fully reserved.

20. EMPLOYEE STOCK OPTION PLAN

In October 1998, the Group adopted a Stock Option Plan ("the Plan") whereby key employees of the Group were granted options to purchase shares of HCL Bermuda, a consolidated subsidiary. The options were granted at $13.50 per share.

The Group issued 3,643,545 options of which 234,619 options were forfeited during the year ended June 30, 1999 under the Plan. The options were to vest annually between October 1, 1999 and October 1, 2005 and expire ten years from the grant date. At June 30, 1999, 3,408,926 options were outstanding.

As the options were granted at a price estimated to be not less than the fair value on the grant date and the terms of the plan were fixed, no compensation cost has been recorded.

In September 1999, the Group adopted a scheme whereby options granted in HCL Bermuda were surrendered by the employees and such surrendered options were immediately cancelled.

Simultaneously, fresh options were granted to purchase shares in HCL. The Group has reserved 20,000,000 options and issued 14,475,527 options in HCL. These options vest over a period of 3 to 7 years from the date of grant, have fixed terms and expire in ten years from the grant date. These options were granted at $5.85 per share, the fair value on the grant date as determined by management. Accordingly, no compensation cost will be recorded. Out of the above options granted, 2,466,289 options vested and were exercisable on October 1, 1999.

Since the options granted in HCL Bermuda have been subsequently cancelled, the pro forma disclosure provisions of SFAS No. 123 have not been adopted.

Intelicent has adopted an independent stock option plan in August 1997. Under the plan, the subsidiary may grant options to its employees and directors. Options granted will be exercisable at the fair market value of the subsidiary's common stock at the date of the grant and expire ten years after the date of the grant. The vesting period of these options is 3 years. The subsidiary has followed APB Opinion No.25 in accounting for the options issued under the plan.

Details of options issued and outstanding under the plan are as follows:

As of June 30	1999	
	Shares arising out of options	Weighted average exercise price
Outstanding at the beginning of the year	226,500	$1.00
Granted during the year	622,000	$1.82
Forfeited during the year	(230,033)	$1.52
Exercised during the year	-	
Outstanding at the end of the year	618,467	$1.63
Exercisable at the end of the year	124,333	$1.24
Weighted average fair value of the grants during the year.	-	$1.82

21. EMPLOYEE BENEFIT PLANS

India operations

The Group 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 Group provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The 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 Group.

The following table sets forth the funded status of the plan and the amounts recognized in the Group's balance sheet as of June 30, 1998 and 1999 (in thousands):

	1998	1999
Change in benefit obligation		
Projected Benefit Obligation ('PBO') at the beginning of the year	$ 150	$ 273
Service cost	74	105
Interest cost	16	32
Benefits paid	(6)	(19)
Actuarial (gain)/loss	74	(35)
Effect of exchange rates changes	(35)	(3)
PBO at the end of the year	273	353

Change in Plan assets		
Fair value of plan assets at the beginning of the year	$ -	$ -
Employer contributions	6	19
Benefits paid	$ (6)	$ (19)
Plan assets at the end of the year	-	-
Funded status	$ (273)	$ (353)
Unrecognized actuarial loss	73	28
Unrecognized transitional obligation	61	53
Effect of exchange rates changes	(5)	-
Net amount recognized	$ (144)	$ (272)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	(144)	(272)

Net gratuity cost for the years ended June 30, 1998 and 1999 comprise of the following components (in thousands):

	1997	1998	1999
Service cost	$ 51	$ 74	$ 105
Interest cost	11	16	32
Amortization	9	8	12
Net gratuity cost	$ 71	$ 98	$ 149

For the above calculations, a discount rate of interest of 12% per annum has been assumed. Salaries are assumed to increase at the rate of 15% per annum till the year 2001, 12% per annum and 10% per annum thereafter. The mortality rates used are as published by one of the leading life insurance companies in India.

Superannuation

The superannuation plan is a defined contribution pension plan for senior employees of the Group. The Group contributes to an employees' superannuation fund established with a government owned insurance corporation at 15% of the employee's base compensation. The contributions made are recorded in the statement of operations on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 1997, 1998 and 1999 are $158,000, $203,000 and $208,000 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 Group. This fund is recognized by the Government of India. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer. These contributions were 10% of the base compensation until September 1997.

The Group has no further obligations under the plan beyond its monthly contributions. The funds contributed to the fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

Total contributions made by the Group in respect of this plan for the years ended June 30, 1997, 1998 and 1999 were $178,000, $258,000 and $333,000 respectively.

Subsidiary in the US

The Group 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 15% of their compensation or $7,000, whichever is lower. The Group 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 Group, for years ended June 30, 1997, 1998 and 1999 are $385,000, $577,000 and $815,000, respectively.

Subsidiary in Australia

As per local laws of Australia, employers must provide a 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 Group contributes to a fund approved by the Government of Australia. Total contributions made to the plan by Group, for years ended June 30, 1998 and 1999 were $6,000 and $96,520, respectively. No contributions were made to the plan during the year ended June 30, 1997.

22. RELATED PARTY TRANSACTIONS

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

a) Companies in which Mr. Nadar, a principal shareholder, has a significant ownership interest, controlling interest or over which he exercises significant influence ("significant interest entities");

b) Equity investees of the Group, and their subsidiaries ("equity investees"); and

c) Employees of the Group.

The related party transactions can be categorized as follows:

Revenues

The Group provides software development and other services to related parties. The related parties to whom these services were provided and the corresponding amounts of revenues earned are as follows (in thousands):

	Years ended June 30,		
	1997	1998	1999
Significant interest entities	$ 5,225	$ 3,873	$ 6,386
Equity investees	307	5,937	1,582
Total	$ 5,532	$ 9,810	$ 7,968

Cost of revenues

The Group 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 related parties to whom such consulting charges were paid and the corresponding amounts are as follows (in thousands):

	Years ended June 30,		
	1997	1998	1999
Significant interest entities	$ 2,223	$ 6,056	$ 11,447
Equity investees	-	148	184
Total	$ 2,223	$ 6,204	$ 11,631

Interest expense

The Group paid interest to significant interest entities amounting to $32,000 for the year ended June 30, 1999.

Computer equipment and software purchases

The Group purchases computer equipment and software from certain significant interest entities. These purchases during the years ended June 30, 1997, 1998 and 1999 amount to $857,000, $769,000 and $682,000 respectively.

Professional management services

A significant interest entity has charged the Group $275,000, $17,000 and $3,900 for the years ended June 30, 1997, 1998 and 1999, respectively, for professional management services. These services consisted of internal audit services, assistance in obtaining financing and services of certain senior employees.

Subleasing of facilities

Certain significant interest entities have subleased a portion of their facilities to the Group. Total amount charged as rent for the years ended June 30, 1997 and 1998 was $102,000 and $248,000, respectively. No rent was charged during the year ended June 30, 1999.

Leased assets

A subsidiary has taken certain assets on lease from a significant interest entity. Amount charged by the significant interest entity as lease rent for the years ended June 30, 1997 and 1998 is $356,000 and $180,000, respectively. In October 1997, the subsidiary terminated the lease and purchased the asset. The amount paid on termination was $928,000, against the lease obligation of $644,000.

Other transactions with related parties

Funds have been advanced by the Group, repayable on demand, to certain significant interest entities at an average interest rate of 19% per annum. The interest income on the above loans for the years ended June 30, 1997, 1998 and 1999 is $767,000, $878,000 and $575,000, respectively.

A significant interest entity has extended an interest-free loan of $384,000 to the Group during the year ended June 30, 1999. The loan was outstanding at the year end and has subsequently been repaid.

The Group has advanced loans to employees bearing interest ranging from 2% to 16%. These are housing and general purpose loans. The repayment schedule for these loans is not specified. However, the tenure of these loans is fixed between two to six years.

The balances receivable from and payable to related parties are as follows:

At June 30, 1998 (in thousands):

	Significant interest entities	Equity investees	Employees	Total
Accounts receivable	$ 2,700	$ 1,334	$ -	$ 4,034
Short term loans	3,988	-	-	3,988
Unbilled receivables	40	-	-	40
Other receivables	962	95	-	1,057
Accounts payable	3,614	46	-	3,660
Other payables	1,081	-	250	1,331

At June 30, 1999 (in thousands):

	Significant interest entities	Equity investees	Employees	Total
Accounts receivable	$ 1,149	$ 465	$ -	$ 1,614
Unbilled receivables	119	-	-	119
Other receivables	268	60	-	328
Accounts payable	2,348	229	-	2,577
Short term borrowings	614	-	-	614
Deferred revenue	511	77	-	588
Other payables	70	43	-	113

23. Year 2000

Certain organizations anticipate that they will experience operational difficulties at the beginning of the Year 2000 as a result of operational computer programs using two digits rather than four to define the applicable year. The Group's plan for the Year 2000 calls for compliance verification with external vendors supplying the Group software, verifying compliance by the in-house engineering personnel and communication with significant suppliers to determine the readiness of these third parties for compliance with the Year 2000 problem.

Any Year 2000 compliance problems of the Group, its clients or suppliers can have a material adverse effect on the Group's business, financial condition and on the results of operations.

During the past three years, the Group completed an effort to upgrade its financial systems to well-known commercial products that, according to their suppliers, are Year 2000 compliant. The Group has received confirmations from its primary suppliers indicating that they are either Year 2000 compliant or have plans in place to ensure readiness. As part of the Group's assessment, the Group is evaluating the level of validation required of the third parties to ensure their Year 2000 readiness.

To date, the Group has not encountered any material Year 2000 issues. All costs associated with carrying out the Group's plan for the Year 2000 problem are expensed as incurred. The costs associated with preparation for the Year 2000 remediation are not expected to have a material adverse effect on the Group's business, financial condition and results of operations. Nevertheless, there is an uncertainty concerning the potential costs and effects associated with any Year 2000 compliance.

24. COMMITMENTS AND CONTINGENCIES

Capital commitments

At June 30, 1999, the Group had committed to spend $377,000, under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Guarantees

At June 30, 1999, performance guarantees provided by banks on behalf of the Group to certain Indian Government bodies amount to $3,593,000 as part of the bank line of credit.

Other commitments

The Group's Indian operations have been established as a Software Technology Park Unit under a plan formulated by the Government of India. As per the plan, the Group's India operations have export obligations to the extent of 1.5 times the employee costs for the year on an annual basis and 1.5 times the amount of foreign exchange released for capital goods imported, over a five year period. The consequence of not meeting this commitment in the future, would be a retroactive levy of import duty on certain computer hardware previously imported duty free.

Contingencies

In December 1998, a customer filed a claim against a subsidiary alleging breach of contractual obligations between the parties under a software development agreement. The customer has claimed losses and damages of an amount not less than $4,000,000. The subsidiary has denied all claims of the customer and has filed a related action suit against the customer. The matter is currently at the discovery stage. In management's opinion, the resolution of this issue will not have a material effect on the Group's financial position or results of operations; however, final outcome of this litigation cannot be predicted with certainty and, accordingly, no assurance can be given that the ultimate resolution of the

matter will not have an adverse impact on the Group's financial position or result of operations.

From time to time, the Group has been involved in various disputes which have arisen in the ordinary course of business. Management believes that the ultimate resolution of the disputes will not have a material adverse impact on the Group's financial position or results of operations.

25. SEGEMENT REPORTING

The Group provides software services to customers in various geographies. Further, it provides networking services to customers in India. The Group views the geographic divisions of its business as operating segments. The following is the information about the Groups revenue by reportable segments (in thousands):

	1997	1998	1999
Revenues			
United States	$ 58,894	$ 88,095	$ 114,301
India	14,373	19,240	22,967
Europe	-	9,078	15,113
Other international		2,355	13,945
Total revenues	$ 73,267	$ 118,768	$ 166,326

Revenues are attributed to individual geographies based on where the contract for providing services is entered into. No single customer accounted for more than 10% of the revenues of the Group during the years ended June 30, 1997, 1998 and 1999.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Group'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. The fair value of debt bearing a fixed interest rate recorded in the consolidated financial statements as of June 30, 1998 and 1999 at $6,421,000 and $1,951,000 is $6,603,000 and $2,090,000 respectively. The fair value of the fixed interest rate debt has been arrived at by discounting future out flows at the current market interest rate.

The carrying amount of other long-term debt approximates fair value as the variable interest rates reflect prevailing market rates.

The Group advanced loans to employees bearing interest ranging from 2% to 16%. The tenure of the loans is fixed but the schedule of repayment is not ascertainable. Therefore, the fair value of the long-term employee receivables cannot be estimated.

27. SIGNIFICANT ACQUISITIONS

In July 1996, the Group acquired the technology division from a related party in India. The acquisition primarily involved the transfer of the employees of the division. The purchase consideration for the business acquired was 12,000,000 shares of common stock valued at $3,679,000 attributable to net tangible assets acquired of $787,000 and to the value attributed to the acquired employee workforce amounting to $2,892,000.