At HCL there's only one thing more important than brains.

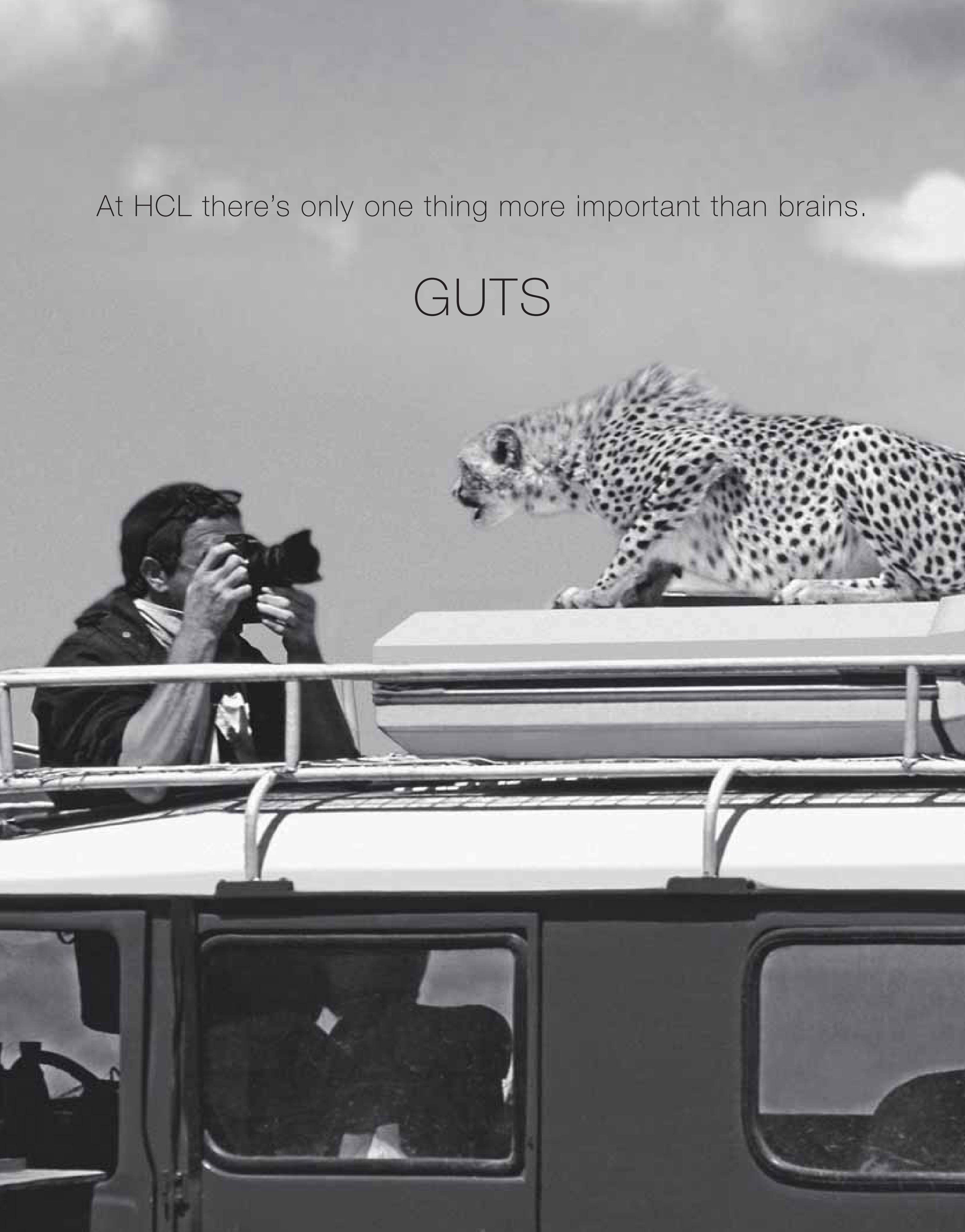
GUTS.

HCL Technologies Ltd.

ANNUAL REPORT 2004-2005

CONTENTS


You don't have more courage
when you are young.
YOU HAVE LESS FEAR.


At HCL there's only one thing more important than brains.
GUTS

Dear Friend,

HCL is India's original garage IT start up story. For 29 years, HCL has stood for invention, re-invention, and creativity. Our DNA reflects restlessness for listening to and responding to the heartbeat of our stakeholders.

Though HCL is a 3 decade old enterprise and HCL Technologies already amongst the Big 5 of Indian IT Service Companies, we are the youngest. Its only been 5 years since we went public. During this time we have unleashed strategic changes to reinvent ourselves and are now on the cusp of a significant transformation. We have over the last few years quietly but determinedly gone about our job of transforming the company, taking bold and courageous steps.

If there is something that separates HCL from others it is our spirit of entrepreneurship, a burning desire to ensure customer satisfaction, and the guts to do things which carry risk but deliver a commensurate reward as well. This has found expression in our "FEARless" advertising campaign where we tried to communicate the fact that HCL has the courage and guts to reinvent itself, continually. Let me explain why we believe we can make a difference to our stakeholders.

First, among all the IT companies, our portfolio of services is perhaps the best balanced. We have depth across 4 broad segments; Product Engineering & Technology Services, Applications, Infrastructure & BPO. We rank No.1 in Infrastructure, No. 2 in Product Engineering & Technology Services, No.3 in BPO, and No. 5 in Applications. So our goal of a balanced portfolio and leadership within them has now taken definite shape. Each business is now on a profitable growth track with demonstrable beach head practices. We saw the future of these services early on and backed them solidly. Today their numbers are a testimony to the wisdom of our strategic choices. Product Engineering & Technology Services had been our core business when we began our 2001-02 portfolio rebalancing exercise. Today we do cutting edge work for global customers in domains such as Aerospace, Semiconductors, Consumer & Retail, BFS, Life Sciences, Telecom, etc. with our deep knowledge of practices in Technology, Applications, Infrastructure, and BPO. I do want to mention that our Applications business which was developed with both organic and inorganic means is today a creditable No.5 in 3 years time.

We have invested solidly in our physical infrastructure which now boasts of world class facilities and 3 campuses in the making, in Noida, Bangalore, and Chennai. We have 24,000 employees spread across 6 cities. Our HR practices not only focus on strengthening technical skills but are shaping leaders for the future.

HCL pursued a landmark strategy of inorganic growth over the last few years with huge payoffs. Over the early part of 2005 we bought out stakes of 6 subsidiaries that have been significant contributors to our growth. There are two stars of which we are particularly proud of; the first is HCL Capital Market Services (CMS), the erstwhile Deutsche Software Ltd (DSL), which today is a business in excess of $100million in revenues. The other is the British Telecom JV which not only gave us a global footprint but which led to the largest BPO order in Indian history, of $150 million. These transactions represent HCL's landmark "carve out" strategy where we have literally "carved out" departments of large firms as cost centers and monetized it by way of a capital transaction delivering value for both partners. Such global transactions and value creation have few parallels within Indian firms.

We have now demonstrated over the last several quarters that we can grow all our business lines profitably. Both revenues and EBITDA have grown. Over the last 8 quarters our run rate is up by 90% and EBITDA is up 130%.

HCL Technologies has a robust balance sheet. Our net worth of $871 million, Cash of $457 million, and cash flow of $137 million, gives us a solidity not only to invest and aggressively grow our organic business but also to pursue inorganic growth.

We have avoided the distractions of the short term to keep a single minded focus on the long term, and ultimately in doing what is good for the overall business and our stakeholders.

With best regards,
Shiv Nadar

BRAND HCL

"Courage – Guts – Fearlessness"

Beginning FY'05, HCL kicked off many initiatives as part of Project Heartbeat-its strategy to reinvent HCL as a valuable global Technology and IT brand which has not missed a single heartbeat in the ever changing, dynamic IT landscape.

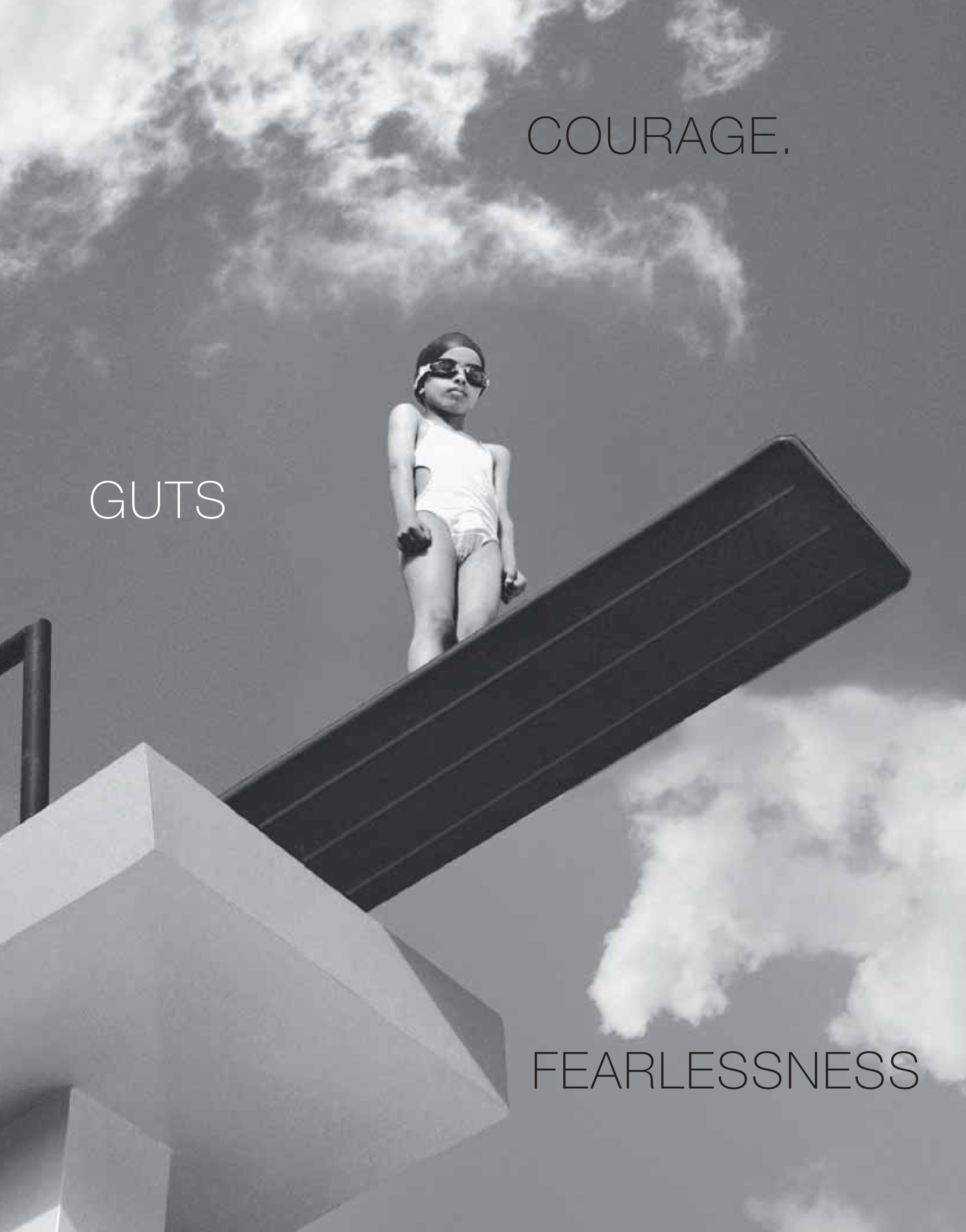
HCL is India's original IT start up founded by Shiv Nadar, Ajai Chowdhry, and a few other passionate entrepreneurs in 1976, 3 decades ago. It has grown to become a $2.5 billion enterprise by 30th June, 2005, pitch forking it into the big league of Indian corporates. All this in an industry that a generation ago would never have been seen IT as an area of Indian strength.

At a time when India was closed to the outside world it took HCL's extraordinary vision to have not only taken the bold courageous steps into the future but also to have ridden the IT wave. This is symbolized in a sense of "fearlessness", which has found expression in the "Courage – Guts – Fearlessness" campaign launched this year. As HCL commenced its 30th year of business on 11th August, 2005 we wish to remind our stakeholdersthat within a large, 3 decade old organization with many firsts, there exists all the virtues of youth, courage, guts, and fearlessness.

The genesis of this campaign is primarily a simple one – to inform and provoke HCL's key stakeholders (customers, employees, investors, and the Indian and international community) to recognize one of the iconic Indian brands that symbolizes the spirit of a resurgent India.

Today, HCL is uniquely positioned in the IT space with offerings straddling software and BPO services as well as IT hardware, system integration and distribution of technology and telecom products. The HCL enterprise operates through two entities listed in India- HCL Technologies and HCL Infosystems. While HCL Technologies is the IT and BPO service arm of HCL, HCL Infosystems is the IT hardware and system integration arm operating in the domestic market.

Going forward the brand will be anchored in its core values of Leading, Inventing, and Re-inventing the Technology and IT space. Ultimately HCL aspires to become one of India's truly recognizable global brands.


COURAGE.
GUTS
FEARLESSNESS

HCL Milestones

The journey so far

1978
HCL successfully ships in-house designed micro-computer at the same time as Apple- Indian computer industry is born.

1977
Distribution alliance with Toshiba for copiers and notebooks.

1976
Hindustan Computers Limited (HCL) born.

2004-05
A dedicated Offshore Design Center for leading Tier 1 Aerospace supplier, Hamilton Sundstrand

JV with NEC, Japan

HCL Technologies accorded Leaders status by MetaSpectrum^{SM} in Offshore Outsourcing.

Acquires remaining stake in British Telecom's Apollo Contact Centre at Belfast.

Buys out remaining stake in JV with Deutsche Bank.

HCL Infosystems continues to be largest manufacturer of PCs in India.

HCL signs Software Development Agreement with Boeing for the 787 Dreamliner program

2003
Landmark deal with Airbus.

2001-02
JV with Deutsche Bank

Services portfolio enhanced to include Enterprise Services, BPO Services and Infrastructural Services.

1997
HCL Infosystems is formed.

HCL's R&D spun-off as HCL Technologies-marks advent into software services.

JV with Perot Systems stake divested in 2003.

1994
Distribution alliances with Ericsson Switches and Nokia Cell phones

1991
HCL-HP JV develops multi-processor Unix for HP-heralds HCL's entry into contract R&D.

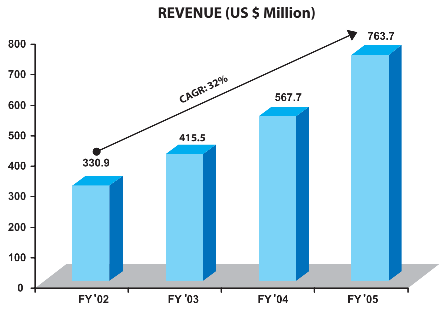
1980s
Introduces fine-grained multi-processor Unix-3 years ahead of "Sun" & "HP" (1989)

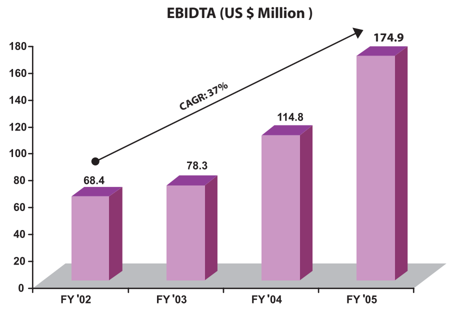
HCL becomes the largest IT company in India (1986)

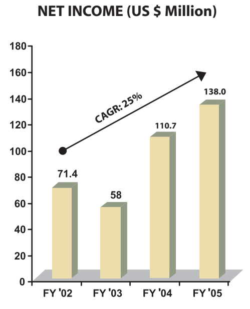
Indigenously develops an RDBMS, a Networking OS and a Client Server architecture, at the same time as global IT peers (1983)

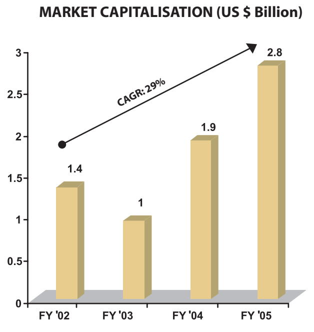
HCL introduces bit sliced, 16-bit processor based micro-computer (1980)

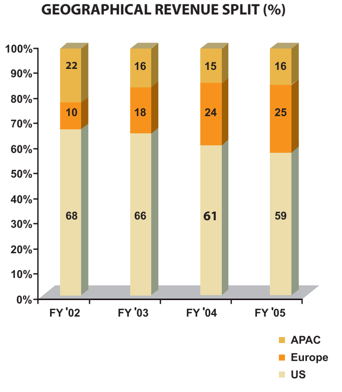
Key Financials 2004-05

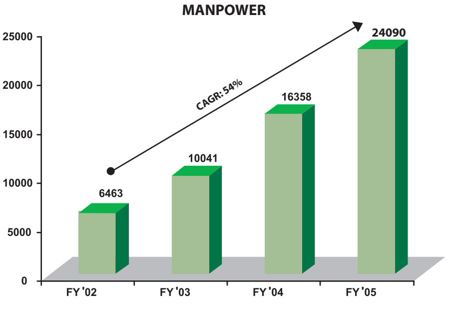












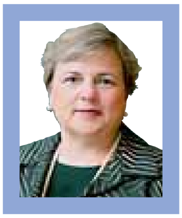
The Management

Board of Directors

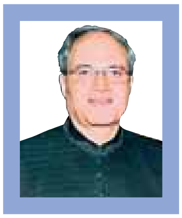
SHIV NADAR
Chairman of the Board

S. RAMAN
Executive Director

T.S.R. SUBRAMANIAN
Independent Director
Former Cabinet Secretary,
Government of India



ROBIN ABRAMS
Independent Director
Former COO, Chemdex;
Former President & CEO,
Verifone



AJAI CHOWDHRY
Independent Director
Chairman & CEO,
HCL Infosystems

SUBROTO BHATTACHARYA
Independent Director

AMAL GANGULI
Independent Director
Former Chairman,
Price Waterhouse India

CYRIL SURESH SHROFF
Independent Director

Corporate Officers

SHIV NADAR
Chief Executive Officer

RANJIT NARASIMHAN
Executive Vice President
President & CEO – BPO Division

R. VAIDYANATHAN
Executive Vice President
Extended Organisation

AMITAVA ROY
Senior Corporate Vice President
Head – Enterprise Consulting Services

ANIL KUMAR CHANANA
Senior Corporate Vice President - Finance

GUNASEELAN NARAYANAN
Senior Corporate Vice President
Head - Technology Consulting Services

PREM K. ASIJA
Senior Corporate Vice President
Executive Vice President - BPO Division

SHAMSHER KHORANA
Senior Corporate Vice President
Head - America Business

V. RAMAKRISHNA
Corporate Vice President
Head - Capital Markets

ANANT GUPTA
Corporate Vice President
Head - Infrastructure Services Division

DANIEL J. MORRIS
Corporate Vice President
Head - Insurance Vertical

G H RAO
Corporate Vice President

J VIJAY
Corporate Vice President
Head - ASEAN Business

VINEET NAYAR
President
Head - Software Services & Infrastructure Services

M. N. DIVAKAR
Corporate Vice President
Head - Semiconductor Vertical

MICHAEL H. BARBAKOFF
Corporate Vice President
Head - Retail Vertical

PREM KUMAR S
Corporate Vice President
Head - Banking & Finance Vertical

RAJEEV SAWHNEY
Corporate Vice President
Head - Europe Business

RAJEEV SODHI
Corporate Vice President - Operations

RAJIV SWARUP
Corporate Vice President
Head - Application Consulting Services

S. L. NARAYANAN
Corporate Vice President - Corporate Finance

SANDIP GUPTA
Corporate Vice President - Financial Analysis & Planning

SANJEEV NIKORE
Corporate Vice President - Sales & Marketing

SAURAV ADHIKARI
Corporate Vice President - Strategy

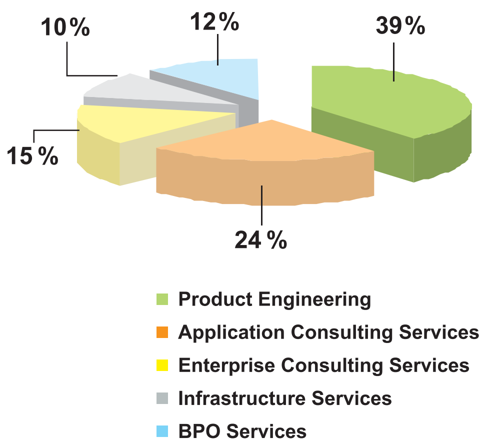
V. S. SRIRAM
Corporate Vice President
Head - Application Consulting Services

HCL Technologies Today

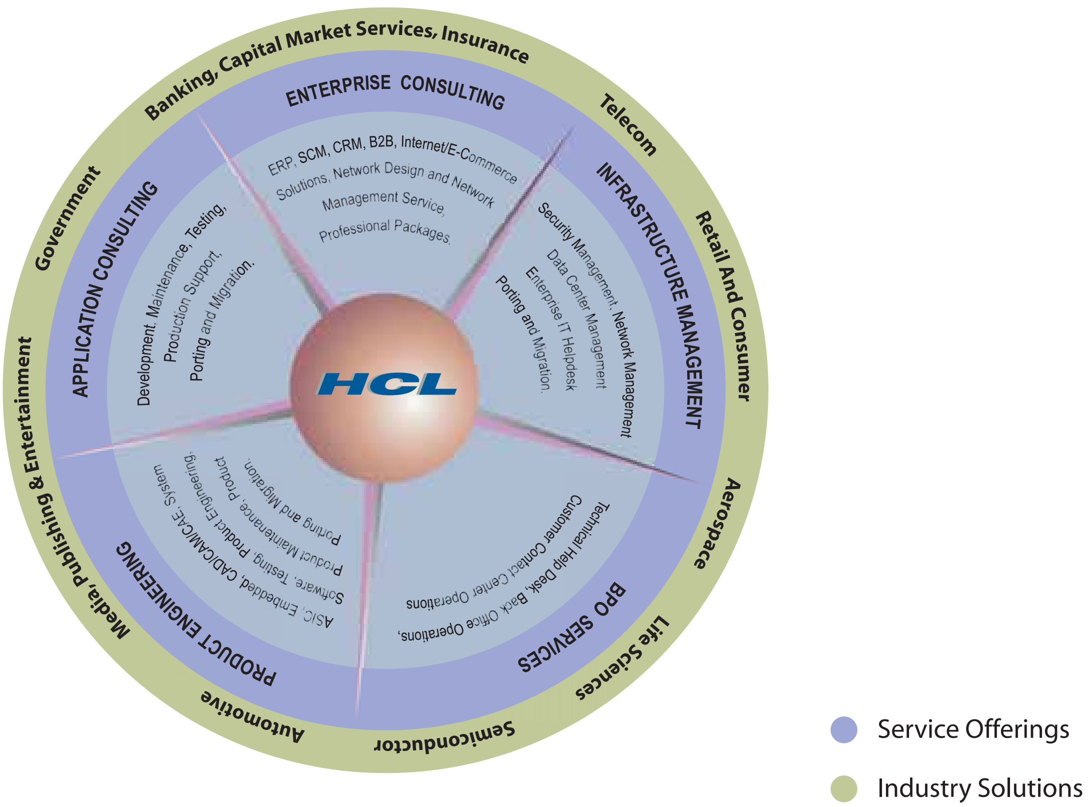
The Courage of Our Convictions

HCL Technologies ("HCL"), the global IT Services (Technology' Application, Infrastructure and BPO) arm of US$2.5 billion HCL Enterprise, consolidated its growth with 35% increase to achieve US$764 million in revenue for FY 05. It has consolidated its position amongst top 5 Indian players in offshore-led, technology-centric business model with broadbased service offerings and industry solutions across business domains.

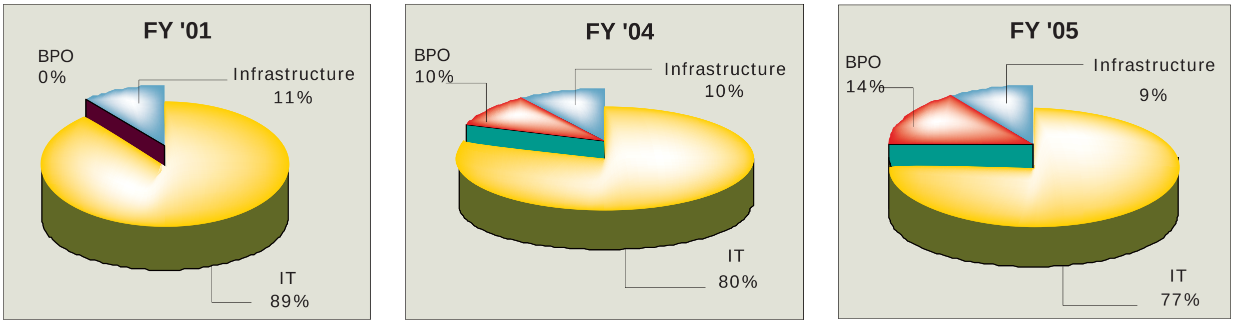
TOTAL REVENUE BREAKUP IN FY '05



HCL Technologies Service Offerings Industry Solutions



Faced with the industry challenges, HCL has been able to re-invent itself over last few years, responding to the exigencies with-in the IT offshore industry. Keeping pace with the industry trend, HCL applied itself to gaining momentum in emerging business segments such as ***Infrastructure Services & BPO***, optimizing its business portfolio. Nearly 25% of revenues now come from these high growth segments of tomorrow.



BALANCED PORTFOLIO OF SERVICES - CAPABILITIES SPANNING IT SERVICES, BPO, INFRA

HCL Endorsements

"HCL Technologies ranked among World's Top 5 IT Services Cos. Ranked#1 among World's Specialty Offshore Infrastructure Service Providers"

- CPM

"For companies that want to form a joint venture in India... HCL is a top choice. It is also a top choice for embedded systems engineering and product development work"

- Forrester Research

"HCL Technologies positioned as leaders in Offshore Outsourcing"

- MetaSpectrum^{SM}, 2004 Ratings

HCL's Capital Transaction Initiatives

Creating Enterprise Value Through Carve-outs

"For companies that want to form a join venture in India......HCL is a top choice."

Forrester
-April 7, 2004

"HCL's unique and internationally recognized model creates enterprise value by monetizing partner "non core-non revenue generating" processes and departments by carving them out into a joint venture and providing a visible exit to all partners. This is over and above the conventional outsourcing revenue savings…"

HCL's "Carve-out" strategy is unique as it creates two sources of value to our partner. The first is the conventional outsourcing savings, and the second, the value created at the time of exit from the Joint Venture. In the process we create a vibrant customer focused organization with deep domain skills. This is a clear "Win-Win" proposition.

The HCL "Carve-out" strategy literally extracts the non-revenue generating, non-core business processes and departments or by converting specific process/department fixed costs into variable costs of the company. It allows a company to outsource complete process/departments without the normal cost bulge from day one.

Two case studies :

(1) Deutsche Software Ltd (DSL): In September 2001, HCL acquired a 51% stake in Deutsche Software Ltd. (DSL), Deutsche Bank AG's IT services subsidiary in India. Deutsche Software had experience and an established track record of providing IT services to Deutsche Bank's internal customers. From 450 employees, at the time of formation of the partnership, this entity has grown to around 3000 employees and registered a 400% growth in revenue.

In 2004-05, HCL successfully concluded the joint venture by acquiring the balance 49% of the stake by issuing equity shares and fully integrating the entity into HCL as a division – now called HCL Capital Market Services (CMS) . HCL CMS deepened its domain expertise and is now not only the Center of Excellence that brings together expertise in areas of Operations, Technology and Infrastructure to provide integrated, best-in class services to the global financial services community, but this landmark deal makes Deutsche Bank HCL's second largest shareholder. This is a clear "Win-Win" for both partners.

(2) British Telecom Contact Center: HCL entered into a strategic alliance with British Telecom (BT) in October 2001, to provide contact centre services through BT's 400 seat Apollo Contact Center at Belfast, Northern Ireland (UK). HCL acquired a 90% equity stake in Apollo Contact Centre with British Telecom holding the remaining 10%.

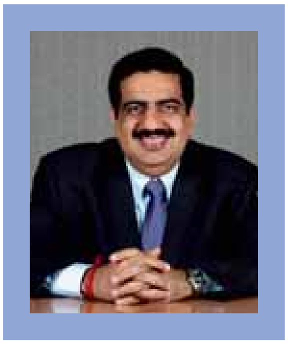
The landmark transaction was the first by an Indian IT company in establishing an overseas BPO business. This was an early move in integrating HCL's global delivery capabilities. This Belfast based JV grew from 350 to 1600 employees and recorded a revenue growth of 200% over the 2001 to 2005 period. HCL became in the process the largest Indian employer in Northern Ireland (UK), recognized by the Northern Ireland government as well as by Tony Blair, Prime Minister of UK.

The deal consolidated HCL's relationship with BT leading to the largest BPO deal ever in the history of the Indian industry – a record $160 million over 5 years, establishing HCL among the leaders in the BPO space.

A successful conclusion of this JV was achieved in 2004-05 through an acquisition of the remaining 10% stake, once again, demonstrating HCL's ability to create value from carve-outs.

HCL concluded out five JVs in 2004-05 by buying out the stakes of its partners and in the process acquired domain expertise, lowered costs for the partners and their customers, and created significant enterprise value for all stakeholders.

HCL's Service Offerings



Value leadership does not come overnight. HCL has been making investments, quietly though, over the years in service capability, vertical readiness and unique partnerships that strengthen our capability and market standing. These along with the fundamental strengths of HCL have led us to a very unique position in the market based on high-value and innovation driven by boutique capabilities. HCL, today, is one of the leading IT Services companies to be in the top 5 across its whole service portfolio of software services, infrastructure services and business process outsourcing. In a market where there is a visible shift towards value centricity from the utility model, we believe HCL is well positioned to meet the inflexion point where the value-volume proportionality will disappear.

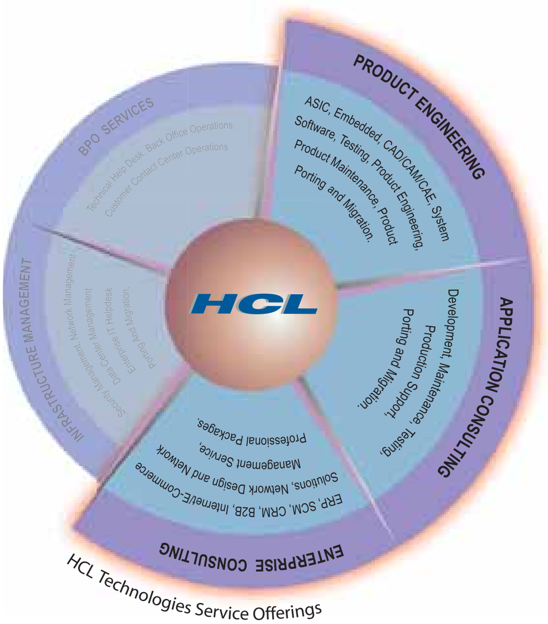
Vineet Nayar
President – HCL Technologies &
Head - Software Services & Infrastructure Services

Software Services

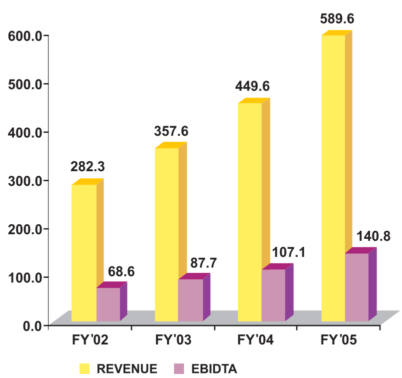
Powering Growth, Building Expertise.

HCL's software services mix includes

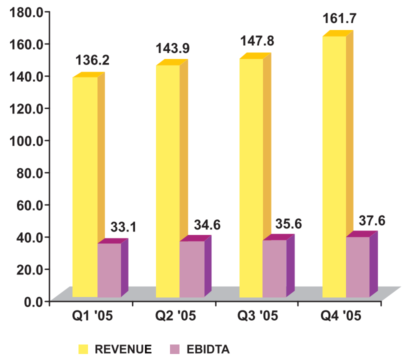
- *Product Engineering*
- *Application Consulting Services*
- *Enterprise Consulting Services*



REVENUES & EBIDTA (US $ Million)



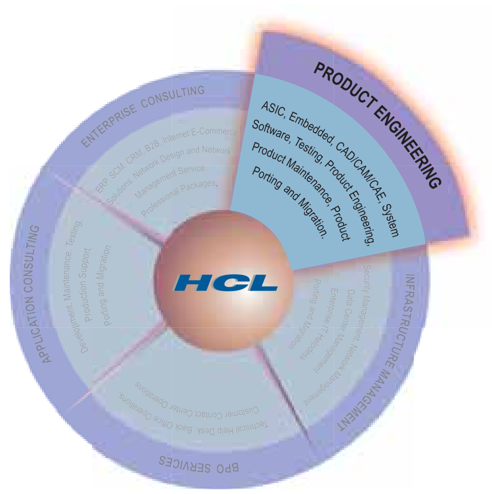
REVENUES & EBIDTA (US $ Million)



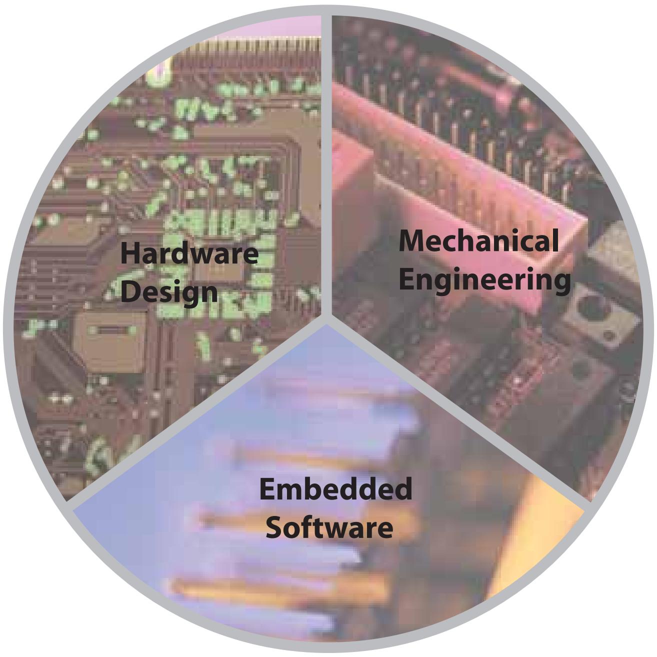
Software Services-
Product Engineering

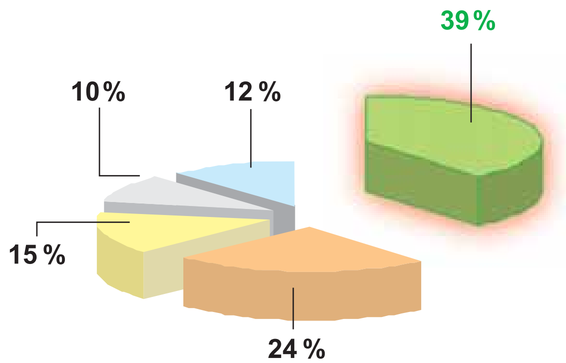
Our product engineering services address the needs of customers in aerospace, automotive, medical devices, consumer electronics, security, telecom, storage systems, semiconductor, manufacturing, retail and financial technologies and software product companies. Collaborations with contract manufacturers, industry forums, tool vendors, and certifications to industry-specific standards (ISO 13485:2003 and AS 9100) make for HCL's advanced capabilities.

HCL's capabilities in the "Product Engineering Services Triad" of hardware, software and mechanical design enables R&D organizations work with a single source that understands all interdependencies for full system engineering. The value proposition includes reduced time to market, expanded product footprint, extended product lifecycle and enhanced product line profitability. With select software product companies, the service portfolio extends beyond engineering to implementation services.



Product Engineering Services Triad





TOTAL REVENUES BREAKUP IN FY '05

- Product Engineering
- Application Consulting Services
- Enterprise Consulting Services
- Infrastructure Services
- BPO Services

NEC - HCL TEAM

NEC - HCL JOINT VENTURE

NEC Corporation, Japan, world's leading provider of internet, broadband network and enterprise business solutions and HCL entered into a joint venture to provide offshore led software engineering solutions in embedded software, hardware design, network & security, R&D, high performance computing, and mobile technology to NEC, its subsidiaries and their clients, in Japan and globally. NEC Corporation and its subsidiary, NEC System Technologies Ltd., will have a 51% stake in the joint venture while remaining 49% will be held by HCL.

The joint venture is the culmination of a longstanding relationship of HCL with NEC and uniquely positions the JV to draw upon the business and the market reach of NEC and offshore centric technologies expertise of HCL. It is a reinforcement of NEC's trust in HCL's strong product engineering capabilities. HCL's relationship with NEC goes back to 1997 which started with a small project in system software and currently encompasses work on mobile technologies, system software, embedded software, network and securities, R&D, security products, web technologies, etc.

KEY ENGAGEMENTS

- HCL is working with the world's largest manufacturer of micro processors for PC and server applications. The project is for CD integration and validation. This CD is shipped along with the client's motherboards.

- HCL is associated with a leading provider of efficient storage utilization through integrated discovery, visualization, reporting, and management of storage resources. HCL is managing their high-end devices in storage area networks.

- A leading provider of high speed broadband communications semiconductors and MIPS-based processors, has entrusted HCL with the task to develop a Voice-over Internet Protocol (VoIP) Analog Terminal Adapter (ATA). The ATA is to provide a gateway to connect the existing home network to the Wide Area Network (WAN).

- A leading semiconductor foundry that provides advanced foundry standards, CMOS logic, high voltage & mixed signal, RF technologies has engaged HCL in Computer Integrated Manufacturing, MES shop floor upgradation.

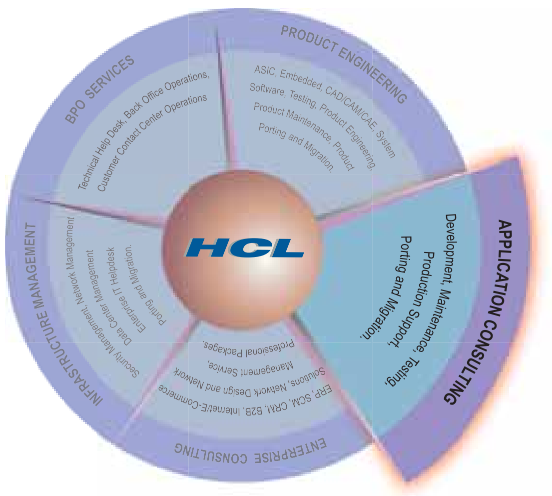
- A major airborne electronics systems company and HCL are jointly developing a portable in-flight entertainment system targeted at passengers demanding powerful entertainment stations at their seats.

- A global provider of mobile multi-media devices has commissioned to work on their next generation 3G mobile phone. The client has chosen HCL as the “Best Outsourcing Partner” from a list of 31 Indian & Japanese vendors.

- A global provider of enterprise & small business communications solutions has commissioned HCL to develop an Enterprise Management System to bring centralized management, administration provisioning and operations capabilities.

Service Offerings

Software Services -
Application Consulting Services



The Application Cosulting Services (ACS) at HCL offers custom application development, deployment & integration, corrective maintenance, new releases management and backup recovery management, production support, porting/migration and testing. ACS creates value for clients in the following areas :

E-Commerce Optimization: HCL has specialized service offerings in the area of e-optimization and legacy modernization. HCL offers end-to-end solution for e-commerce management and optimization for both B2C and B2B combining e-commerce functional components, underlying systems and infrastructure management.

Legacy Management and Extension: With 20 years of experience in legacy systems and application management, coupled with rare skills in technologies like Assembler, PL/1, GUTS, Natural, COBOL and expertise in reusable component based technologies like .NET and J2EE, HCL has a complete lifecycle service offering for modernization/ enhancement, testing, maintenance, production support and helpdesk. This is backed by a world class risk mitigated migration and modernization solution through a tool based approach. HCL is IBM's only Indian partner in the legacy and Mainframe space.

Mission Critical Testing: 300+ test professionals, a fully equipped application performance laboratory and partnerships with Mercury, Rational, Segue, Compuware and Amdahl allows HCL to provide cost effectively managed test services in an optimized offshore-onsite mix.

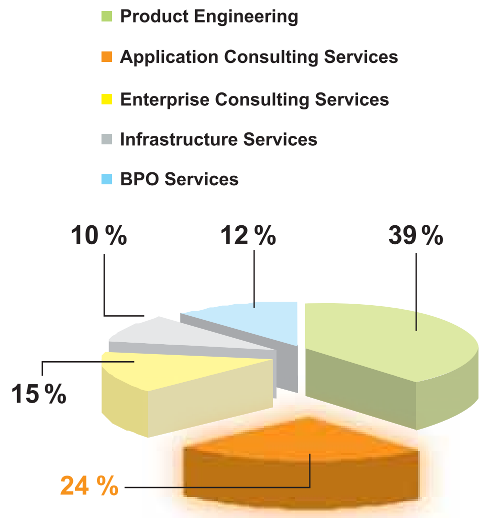
Application Portfolio Optimization (APO): A key consulting service which optimizes the portfolio of businesses running multitude of applications by identifying and retiring under utilized, redundant and obsolete applications.

Data Warehousing and Business Intelligence: HCL empowers organizations to grow by extracting useful information from their enterprise databases employing the lastest technologies in the DW/BI area. Capable of deploying a tool based, package based as well as custom development approach, HCL delivers end-to-end implementations in this space.

Technical Support for ISV's: HCL provides high-end technical support for leading ISV's. Deep understanding of Software Product Engineering requirements, coupled with Centers of Excellence on key technology stacks like .Net, Java, IBM v series and IBM i series enable service offerings that span the entire support lifecycle covering technical helpdesk, engineering support services, testing services and lifecycle maintenance.

With domain knowledge acquired from vertical focus, ACS has been able to support business objectives of key players in segments spanning BFSI, Retail and Consumer, Media Publishing and Entertainment, Lifesciences, Automotive, Transportation and Government.

TOTAL REVENUES BREAKUP IN FY '05



Application Consulting Services

Application Re-engineering & Integration

Application Management

Application Migration & Modernization

Data Warehousing/ Business Intelligence

Product Development Support of Application ISVS

Centers of Excellence

Centers of Excellence and Competency Centers to foster capability building and technology innovations form an integral part of ACS at HCL. Dedicated CoEs for Z Series, Data-warehousing, I Series, J2EE and .NET complemented by competency centers for Java and .Net technologies across various lines of businesses help HCL deliver state-of-the-art solutions to its customers across the globe.

KEY ENGAGEMENTS

- HCL has been engaged by a leading IT solutions provider in the international banking, healthcare and financial services markets for the outsourcing of the development and maintenance of their flagship Commercial Lending product, on loan origination and tracking.

- With the objective of reducing their operating costs & providing value added services to their end customers, a leading exchange operator and technology solution provider for exchanges in Europe chose to partner with HCL. HCL worked on customization of two major products depending upon the needs of existing customers as well as new installations across the globe.

- A leading bank in SE Asia, as a part of their strategy for 2004-2005,is setting up a call center in Malaysia. HCL has been assigned the task of managing the vendors and the project on behalf of the client, provide technical consultancy, test the deliverables and roll out the application.

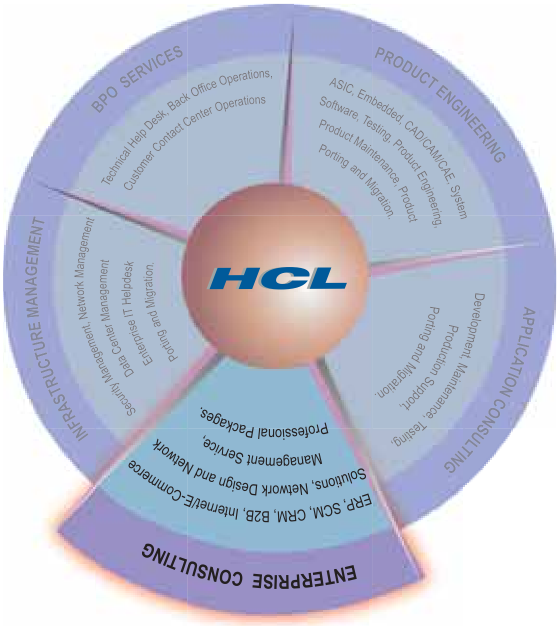
- For a leading re-insurer in US, HCL developed and successfully implemented a Rating Work Bench Application. The workbench is in its third version and the fourth version is currently being developed. HCL also developed a Web-enabled Underwriting application which is used for analyzing client data at the time of policy renewal or in case of a new prospect. A Portfolio Underwriting Review System was also developed using three-tier client server architecture.

- HCL implemented this web-based workflow system for Public Utility Commission of a State in USA. The system integrates automated process management, imaging and content management through a central electronic repository for handling complaints, enquiries, tariff rate case filings, staff reports, Commission agendas and orders. This system has received various awards and appreciation from FileNet and Client.

- HCL developed a statewide N-tier web-based system to provide several thousand users, concurrent access to WIA-related applications and support job related services provided to the citizens by four State agencies. The system integrated with other program areas providing needed services such as job services, unemployment insurance, DHS' Support Services, and other job training services.

Service Offerings

Software Services-
Enterprise Consulting Services



HCL today handles India's unique engagement in the Enterprise Applications space - an Integrated ERP Management engagement that spans the customer's infrastructure layer, Applications Maintenance Layer and User Layer comprising both Help-desk as well as Process Outsourcing. Though a relatively recent entrant in the Enterprise Applications space, HCL has grown with extreme rapidity in this segment.

Through a unique Center of Excellence model, HCL has developed in-depth capabilities in consulting, product engineering, implementation as well as maintenance of software products in the areas of :

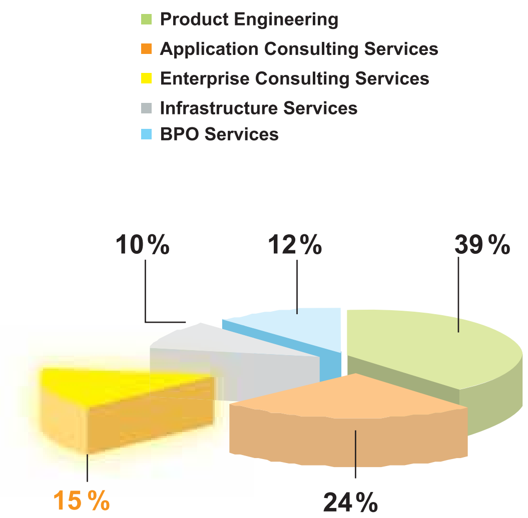
ERP: HCL's capabilities in the ERP space covers all segments from SAP and Oracle (including JDE and PeopleSoft), to Microsoft Business Solutions. HCL offers services in ERP Business Consulting, ERP Package Implementation, ERP Application Development & Maintenance and Infrastructure Management (including help-desk & data center support).

ECMP: With the increase of collaborative work processes, increasingly stringent regulatory requirements and the difficulty of managing unstructured information (currently constituting 80% of information), Content Management has become one of the fastest growing areas in the IT space. HCL has 15 years of experience in delivering enterprise content management solutions both as service partner for end-users and engineering partner for product companies. HCL's ECMP practice is at CMM Level 5 certification, moving towards CMM I. With excellence in delivering solutions to the manufacturing, banking, insurance, pharmaceutical and utilities industries and government, HCL today has 80 clients spread across US, UK, Malaysia and Singapore.

CRM: HCL has put in place a segmented CRM strategy with Centers of Excellence in Siebel (as the mainstream CRM product), Kana (as the leading Contact Center CRM product) and leveraging COEs of SAP, PeopleSoft and Oracle (for ERP extensions to CRM). This has led to an agnostic consulting service with unique offerings focused in vertical spaces, innovative engagement models and value added services like Hosted Service Resolution Management.

TESTING: Testing demands a different rigor and culture from development. Recognizing this, HCL has set up the Testing Center of Excellence, applying the rigor of organizations - product engineering heritage to the critical testing function. The Testing COE combines capability in Enterprise Applications Testing along with Product Testing. This has led to HCL's engagement in a significant number of Mission Critical Testing projects for clients, with a fully equipped test laboratory. HCL is well positioned to provide cost effective test services through an optimized offshore onsite mix.

TOTAL REVENUES BREAKUP IN FY '05



EAI: With the entry of Aalayance in the HCL family, HCL has become one of the most significant Indian players in the EAI space. With Center of Excellence and a product engineering partnership with TIBCO, HCL has deployed best practice in EAI implementations across Telecom, BFSI, Petroleum, Retail, ERP, CRM and SCM.

CONSULTING: Enterprises are today faced with two emerging technology challenges — regulatory and compliance issues, and the need to optimize cost and functionality of numerous silo systems built over time. HCL's Consulting practice has used technology to provide solutions to both these areas. The two key offerings in this space are Post Compliance Sustenance of SOX, Process Consulting and Enterprise Risk Management.

Key Partnerships

- **ERP** — SAP — Oracle — Microsoft
- **Testing** — Rational — Mercury — Segue — Compuware
- **CRM** — Siebel — Kana
- **EAI** — Web Methods — TIBCO — BEA — SAP NW
- **ECMP** — FileNet — Documentum — IBM — Plumtree

KEY ENGAGEMENTS

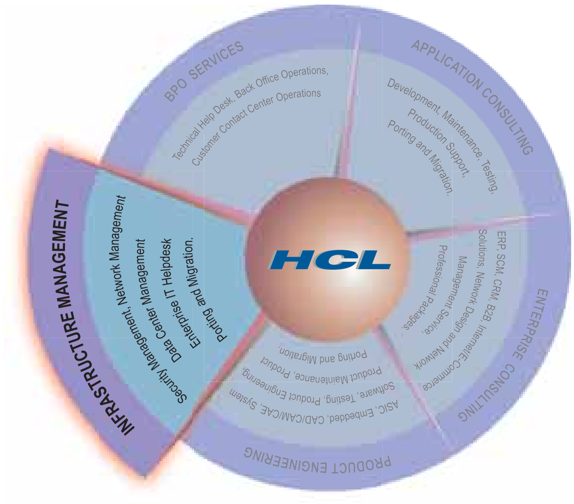
- For one of the largest banks in the world, HCL has implemented a Siebel system that has been benchmarked as being one of the best across the industry on an exhaustive set of chosen parameters.
- For a global leader in Embedded Software & Services, HCL has followed up a successful implementation with high quality monitoring for diverse modules in manufacturing, financials and CRM.
- For a leading Water Services company based in UK, HCL has implemented the SAP IS Utilities Solution and SAP Asset Life Cycle Management (ALM).
- For a multinational German based bank, HCL provides maintenance, enhancements and fresh developments for a diverse system portfolio, thus helping it produce consolidated, timely and accurate financial statements & reports.
- For a global provider of IT products and Services, HCL is harmonizing systems across 13 countries under one global template by migrating them to SAP R/3. This is one of the largest on going SAP implementations worldwide.

Awards & Achievements

- *HCL has been recognized as a significant offshore player in the SAP implementation and maintenance through the outstanding partner award 2004 presented by SAP in March 2005. We have a proven track record of 100+ Go Lives over 8 years of expertise in SAP.*
- *HCL was awarded the Best CRM Implementation Award 2004 for Bank Islam in Malaysia. The Award for Outstanding Contribution to Oracle Projects was presented to us by North American Manufacturing Competency Center.*
- *HCL is the only Indian IT company to provide upgrade service for customers to move to Siebel 7.8.*

Service Offerings

Infrastructure Services



Having pioneered the Remote Infrastructure Management Services more than ten years ago, today HCL Infrastructure Services Division (ISD) is a world leader in this space with an unrivalled experience of transitioning complex real time IT Infrastructure and Applications operations environments for more than 25 global Fortune 500 clients. Its unique 'Assess-Transition-Transform Methodology' has become an Industry benchmark in helping clients to devise an effective infrastructure management offshoring strategy.

The range of services that HCL ISD offers span across the following specialized groups:

- Data Center Management Services
- End-user Computing Services
- Managed Security Services
- Networking Services
- Tools and Process Consulting

These services are being delivered to a range of industry verticals such as Banking and Financial Services, Manufacturing , Pharma and Healthcare, etc., for Fortune 500 Global Corporations across geographies such as US and EMEA.

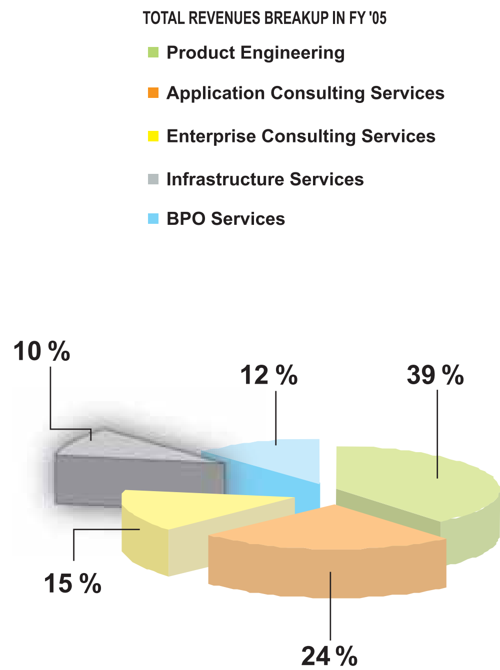
Though services such as Data Center Management, End-user

THE HCL ADVANTAGE

- Services 95+ customers including 25+ Global organizations.
- Manages 45,000+ devices.
- Services 300,000 enterprise end-users.
- First company to receive a BS 150000 certification for a Customer Operations Management center.

Computing, Networks and Security Services form a part of our standard deliverables, the Tools and Process Consulting Services form the backbone of our IMS Offerings with their promise of optimizing client investment through streamlining their operations towards an ITIL Framework.

Data Center Management Services: These services offer management of the entire client data center; right from monitoring of servers, databases, midrange and storage devices to management of all critical processes and operations for the client infrastructure and hosting services. The portfolio is offered



to customers based on their unique needs, varying from Production Support to Data Center Operations and Level 2, Level 3 Support plus there is also tie-up with third party vendors for hosting the client data centers. These services leverage the expertise of best of breed service providers and in-house capabilities to deliver best-in-class services to its client which guarantee strategic and financial benefits.

End-user Computing Services: This family of services includes management of workstation hardware and software components for daily organizational use and provides technical support and maintenance for end users. The service offering includes:

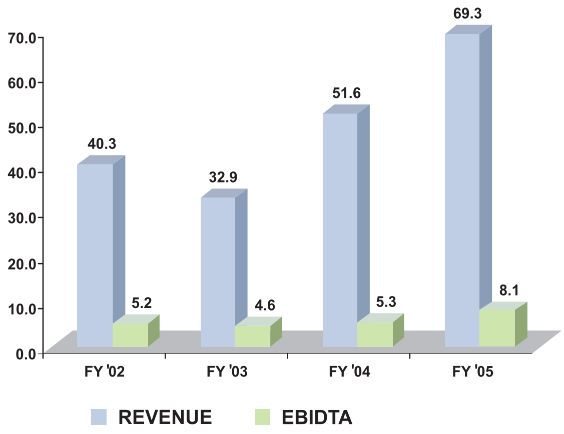
- ***Enterprise Help-desk Services:*** HCL provides customer support services on a global basis for clients in North America, South America, Europe, Asia/Pacific and Australia. Our approach in delivering help-desk services focuses on analytical modeling and delivering services for optimal client satisfaction.

- ***Centralized Remote Desktop Management Services:*** Encompass services like Asset Management, Desktop Security Management, Desktop Configuration Management, Mobile Device Management and Remote Troubleshooting. Our COE approach for device management gives customers complete control over their end-user devices and provides benefits such as reduced cost and enhanced security and compliance.

Managed Security Services: HCL offers end-to-end security solutions right from defining Information Security strategy, developing security frameworks, security policy formulation, perimeter security solutions, content security solutions and professional services including developing IT Security frameworks for regulatory compliance (SOX, HIPAA, etc.), security audits based on BS7799 standards and consulting services. The portfolio also includes 24/7 monitoring and management of security solutions deployed, visibility and advance reporting, advanced event co-relation to enable real time incident detection, event alerting and improved incidence response time. Experts Services have also been added to specifically offer remote anti-virus management services to clients in alliance with a leading anti-virus solution provider.

These services are rendered from BS7799 certified security operations center, which also has the distinction of being amongst the few BS15000 compliant security services delivery centers across the world.

REVENUE & EBIDTA (US $ Million)



Network Services: A decade of experience and market leadership in the managed networks domain has helped HCL understand the paradigm shift from uptime aware to response time aware networks. HCL's managed network services offer leading networking solutions that help improve the application response time without any increase in the bandwidth. The core of these services lie in unique tools "SmartManage" and "My Dashboard", which assist network administrators in preventing disruptions and bottlenecks from impeding connectivity while enabling them to maximize value from their networks. The services offered include QoS Engineering and Effectiveness Service, Application Response Time Assurance, Data, Voice and Video Management Services, etc.

Tools & Process Consulting: Leveraging HCL's experience in infrastructure management delivered through world class processes and best-of-breed tools, this service addresses two key components of IT Infrastructure management - Process Methodology and Management Tools. The expertise built around various technology domains for databases, operating systems, messaging systems and a business applications is shared through propositions like:

- Tool Implementation (Architecture & Design, Deployment & Configuration)
- Tool Re-engineering (Mapping Best Practices, Customizations, Optimization, Consolidation)
- Tool Integration
- Tool Administration and Maintenance (Threshold Setting, Performance Tuning)

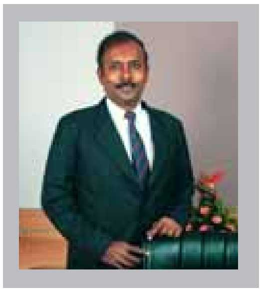
On the processes side HCL ISD delivery operations are ISO 9000:2001 certified and based on best practices as defined by IT Infrastructure Library (ITIL). To ensure the highest safety standards for information security, we have undergone BS7799 certification. The division periodically provides process consultancy to clients and has already obtained BS15000 certification for a Fortune 500 client.

AWARDS AND ACHIEVEMENTS

- Rated No. 1 "Infrastructure Management Service Provider" by CMP (world´s leading IT publication group).
- Frost & Sullivan, the leading UK research firm rates HCL ISD as the No. 1 "Managed Security Services Provider".
- IDC-Dataquest Survey: In their January 2005 audit of customer satisfaction, IDC & Dataquest ranked HCL's Infrastructure Services Division as the No.1 Service Provider on different parameters of customer satisfaction. This survey involved not only Indian companies but also all other MNC's in infrastructure management space that are operating through India.
- Ranked for the second year consecutively as the No. 1 Network Services (VSAT) Provider, Network Management Service Provider and Security Services Provider in India by Voice & Data 100 Survey.
- Ranked No. 3 in the Network Integrators rankings in India with highest services revenue amongst the top 3 NIs in the country by Voice&Data 100 Survey.
- Recognized as the "Organization that creates Fun and Joy at work" by HT Power Jobs.
- Ranked 4th in the "Best Companies to work for in India Survey"- 2004. This is an Industry-wide survey conducted by eminent international agencies like TNS & Mercer in partnership with Business Today.
- A strategic partnership was forged with Trend Micro, to provide India's first Experts Services (ESO) in Remote anti-virus Management.

Service Offerings

BPO Services

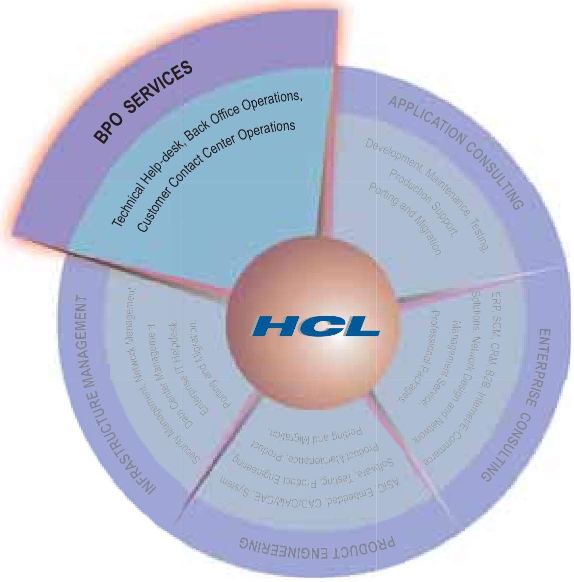


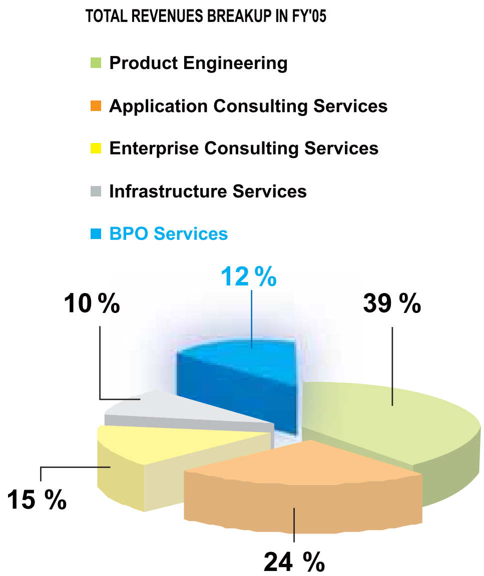
"This year has been especially fruitful for us with revenues almost doubling from $56 million to over a $100 million and our headcount increasing from 4300 to close to 7000.
Our accomplishments in 2004 -05 have validated our belief in ourselves and has set the foundation for a profitably sustainable business. We now plan to surge ahead with a concerted stress on acquiring new business and targeting new regions and avenues for growth."

Ranjit Narasimhan
Excutive Vice President - HCL Technologies
President & CEO- BPO Services

HCL's BPO division represents one of our most significant strategic business extensions and investments to date. The focus and commitment to BPO is based around HCL's global client base and relationships, related technology domain expertise (such as CRM/ ERP/ SCM/ Imaging/ Workflow) and relevant industry practices (such as Financial Services, Retail and Telecom).

In only its third full year of operations, HCL's BPO division has breached the $100 million revenue barrier to enter the select Top 3 of India's third party BPO service providers a rise of nine positions from the previous year.





HCL pursued its global offshore - nearshore strategy for its BPO Services to provide seamless delivery to the client. In Northern Ireland (UK). HCL acquired the balance 10% stake from BT in the Apollo Contact Centre where it had invested in 90% shareholding in 2001, now making it a wholly-owned subsidiary of the company. Thus, HCL has emerged as an example of reverse investment into the UK from India creating significant employment opportunities. Both the operational units of HCL BPO India and Northern Ireland (UK) contributed almost in equal measure to the top line, achieving profitability levels that were significantly superior to relevant geographic industry norms. The sustained rate of growth in Northern Ireland (UK) necessitated acquisition of a second delivery center located at Armagh in December 2004.

With local workforce strength of over 2000 people, HCL became the largest third party outsourcing company in the entire island of Ireland and one of the Top 10 employers in Northern Ireland (UK).

The prime objective of HCL BPO in fiscal '05 was to establish a profitably sustainable business by effectively managing business growth and organizational change. Since the objective of BPO services is to provide risk- mitigated, high quality service, the focus of HCL's BPO services strategy was:

1. Enhanced Delivery Infrastructure

- Capacity Enhancement through new delivery center each in Noida and Chennai and the acquisition of a second Center in Armagh, Northern Ireland (UK).
- Infrastructure Risk Mitigation through implementation of a 7 level Infrastructure Resilience Architecture spanning Centers/Locations/Countries/ Equipment / Communications to provide high level of delivery reliability.

2. Service Delivery Excellence

- Enhanced Process Span: Delivery of wing-to-wing processes such as Procure-to-Pay and Order-to-Cash for major clients globally.
- Continuous Improvement: Significant improvements beyond contracted metrics for a wide range of processes through investments in performance improvement techniques and resources. resulting in enhanced value to the customer and complete retention of the client base.

3. Customer Relationship Management

- Process Ramp-ups: Most of the running processes have been ramped up to substantially higher headcount reflecting the quality of service.
- Engagement Expansion : Several major clients have not only ramped up existing processes but have also added additional processes to expand the scope of the engagement and thereby enhancing the durability of the relationship.

The initiatives undertaken and the investments made in each of the three strategic focal points have significantly enhanced the capability of HCL BPO in terms of business fluctuation reliance and organizational agility:

Today, HCL's BPO is poised to enter the next phase of business growth with consolidation of delivery capability and expansion of key engagements.

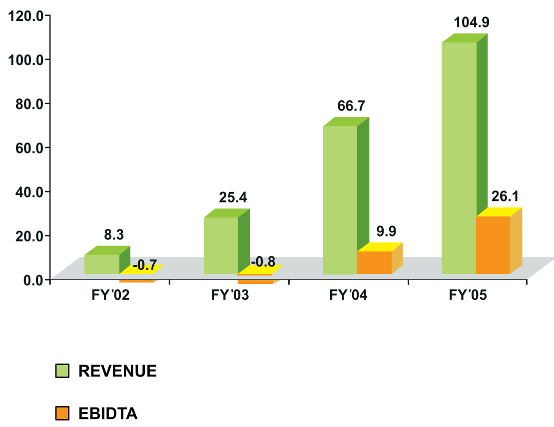
Highlights:

- NASSCOM ranked HCL No. 3 amongst top 15 third party ITES (Call Center and BPO) companies.

- HCL's BPO Services in Northern Ireland (UK) has received the prestigious "Excellence in Training Achievement Award" and a commendation in the "Excellence in Service to Business" category.

- HCL received a grant of £ 920,000 from Invest Northern Ireland (Invest NI) located at Belfast, for its Belfast operations. This investment is especially significant as it marked HCL's commendable initiative in creating new job opportunities in its country of operation, thus reversing the off shoring trend that has seen call-center jobs exported to India.

REVENUES & EBIDTA (US $ Million)



KEY ENGAGEMENTS

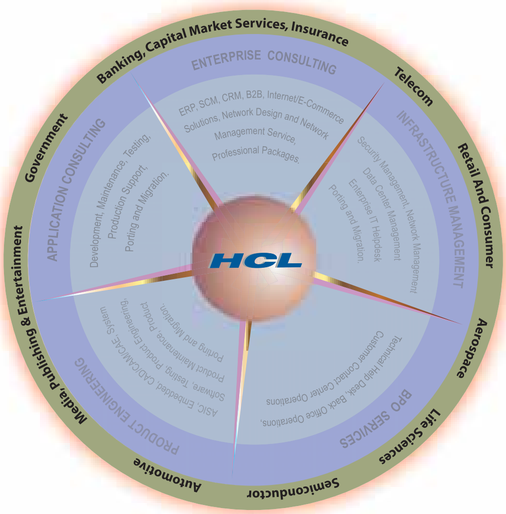
- HCL is providing technical help-desk support services to a leading manufacturer/marketer of award winning removable flash memory cards, USB flash drives, card readers and ATA controller technology solutions.
- Our client is a leading US based manufacturer of equipments used to fabricate microprocessors with operations in US, Europe, Asia, etc. HCL has been selected to process both machine down orders for the client. A 24x7 campaign, the orders are received through e-mail, fax and phone and the complete process is enabled through SAP.
- HCL is running a B, 2B out bound collection campaign for a US based supplier of postal meters. Our client's solutions include a wide range of mailing and document technologies, efficiency, management services and one-to-one management expertise.
- For leading cellular services provider in India who caters to both landline and mobile segment in the market , HCL is handling an inbound customer support services campaign.

HCL Advantage

- First Indian BPO company tto receive the COPC certification for collections services.
- Perdue Benchmark
- ISO 9001: 2002 and BS7799 Certification.
- Process improvement through Six Sigma.
- Enhancing process delivery capability from non-core, rule-set based services to core expertise knowledge based services.
- Certified for over 22 processes spanning Front Office and Back Office.
- Multi-lingual capability in 6 ASEAN and 8 European languages.
- Established methodologies – POEM process evaluation matrix and ARMOR delivery methodology.

HCL's BPO Center at Armagh, Northern Ireland (UK)

HCL's Industry Solutions



Banking, Capital Market Services & Insurance

A mature group of verticals that has made significant contribution to all our service offerings.

The Banking, Insurance & Capital Market Services group of verticals is committed to helping global financial institutions improve enterprise performance, comply with regulatory mandates, boost operational efficiency, and better serve customers through our integrated multi-services capability, derived from a proven track record of domain expertise. Value is delivered through domain intensive participation across the **"Build, Maintain, Manage & Operate"** cycle of IT-lead services.

Analyst Speak

Analysts predict favorable economic conditions in most countries through 2005-06. Financial institutions will be challenged to grow revenues through a judicious mix of organic growth and targeted acquisitions, while continuing to ramp up operating efficiency. These institutions will need to enhance the management of risks inherent in the financial services business while complying with ever-increasing regulatory requirements. These changing market dynamics, regulatory compliances and increasingly sophisticated and demanding customers will combine to pose complex challenges to the industry. Our consulting capabilities supported by proactive industry and market research help these institutional majors address the "change" needs brought upon by regulations such as Basel II and Sarbanes Oxley. Unique process based methodology for Application Portfolio Optimization can help financial institutions identify and release redundant IT assets.

Banking

The independent engagement - led focus in the Banking landscape spans across Core Banking, Retail and Consumer Banking. The rapid strides made over the years in our penetration amongst Global Banks has largely been possible on account of IPR and framework based proactive investments, which have led to the creation and launch of solutions for the global market place like:

- Loan Origination & Tracking
- Ops Risk Shelter, an innovative answer to address the operational risk requirements under Basel II

Capital Market Services

The unique customer partnership - led model in this micro vertical has created the largest pool of domain experts in the capital market space in India. The insight obtained through several successfully managed engagements across the business lines of an Investment Bank puts us already ahead of our peers with respect to moving from offering operational efficiency to transactional value. Our domain expertise lies in the areas of Equities, Foreign Exchange, Fixed Income, Derivatives, Trading, Sales and Research, Risk Management, Cash Management, Asset Management, Credit Management, Emerging Markets, Exchanges Services and Prime Brokerage Services.

Insurance

Gartner rates HCL's Insurance Practice "Mature"

HCL's Insurance Practice has been rated as "Mature" in its capability to support Life and Property & Casualty (P&C) Insurance IT Outsourcing (ITO) projects by Gartner. HCL is also one of the top two companies, which are present across all insurance product segments and has been rated as "Emerging" in the BPO – Life and P&C Insurance

Over 2000 person years of experience in providing market leading solutions to the Insurance segment coupled with ruthless focus on building domain & functional expertise has helped HCL to reduce the cost, risk and time to market for new insurance solutions by over 20%. This is a testimony to our emphasis on Value over plain Cost Subtraction. An achievement facilitated through the development of Insurance Solution Accelerators.

The domain focus has been corroborated by Gartner in the recent report on Insurance Outsourcing with rating of Mature in Life, Property and Casualty ITO apart from rating of Moderate for BPO and the recognition of our expertise in Reinsurance ITO.

For the second year, HCL has been awarded the LOMA Excellence in Education - a reaffirmation of the importance HCL attaches to domain expertise.
Our Insurance process and functional experience includes Sales and Marketing (Agency/Brokerage), Underwriting, Policy Administration, Claims Processing, Compensation, Marketing, Actuarial (Valuation and Statutory Reporting), Management Reporting, Data Warehousing, Workflow and Imaging, CRM and ERP.

KEY ENGAGEMENTS - BANKING

- HCL has been awarded a project to develop corporate credit rating systems for the lending business of a leading national bank in India. This rating system covers the entire commercial and corporate lending business of the bank and includes small, medium and large corporates. The business, management and organization parameters are considered for rating and the system also offers the flexibility of comparison between corporates.

- HCL won a large order to execute a comprehensive Loans Origination system for a leading financial services group in Malaysia, comprising consumer loans, commercial loans and a collateral management system. This win against an established product vendor, goes a long way in validating the practice's investments in solution sets and reusable components. This approach will substantially reduce the time to implement the solution, thereby increasing the ROI for the client.

- A global multi-national bank in Malaysia has entrusted HCL with the task of building interfaces between an internationally renowned Credit scoring engine and their lending systems. These lending systems were developed by HCL and are being maintained by HCL.

- One of the largest financial institutions in South East Asia selected HCL of strategic offshore partner for a comprehensive project to interact with various technology providers to implement the call center.

KEY ENGAGEMENTS - CAPITAL MARKETS

- A Leading Exchange Operator & Technology Solutions Provider for Exchanges in Europe engaged HCL to work on customization of two major products depending upon the needs of existing customers as well as new installations across the globe, to reduce their operating costs & provide value added services to their end customers. The users of these products are external traders and market makers. The system is a set of modular subsystems that handle and match orders, disseminate information and can be interfaced to external clearing systems. HCL will be responsible for customizations and future enhancements of these modular subsystems.

- HCL has been chosen by Security and Exchange Board of India for implementing an Integrated Market Surveillance System (IMSS)to analyze market irregularities and identify suspected market offenders and market entities. Once the system is built, the IMSS will be the equivalent of an integrated surveillance system across 27 exchanges, including 23 regional exchanges as well as the two majors for both equities and derivatives.

KEY ENGAGEMENTS - INSURANCE

- A leading Life Insurer chose HCL as its Strategic Offshore Partner in October 2004. HCL will be helping the client undergo a complete business transformation to enable this client to become more customer centric and realize greater value from their operating platform.

- Farm Bureau Financial Services (FBFS) is part of FBL Financial Group, which underwrites, markets, and distributes life insurance, annuities, and mutual funds. FBL also manages all aspects of three Farm Bureau affiliated property-casualty insurance companies. HCL has been chosen to provide business analysis, systems development, and project management support for a number of initiatives at FBFS.

Telecom

IPs	Usage Monitoring & Accounting System SOHO Gateway Voucher Management
Industry Association	Nokia ProForum Member European Telecommunication Standards Institute's member

Our rich experience of 7500 person years in building sector specific capabilities is dominantly exhibited in our present standing in telecom sector. HCL covers the breath of telecom structures from equipment manufacturers, service providers to software vendors with its integrated offerings of software services, business process and infrastructure management. Our end-to-end capabilities from Product Engineering to Enterprise Applications to BPO have led to:

- IP development such as protocol, stacks, frameworks and solution accelerators
- Development of mobile applications and convergence solutions in the triple play arena
- Significant engagements in the billing applications including core rating engines
- The largest engagement in the BPO space run by an India based ESP with BT around critical business processes, which directly impact revenue

Our strong partnerships with leading processor companies, EMS vendors and players in the OS space, help us in our unique time-to-market proposition. Today HCL takes pride in its relationships with Tier 1 service providers like BT and a global player in networking equipment.

New Projects

- **Domain: SOHO Gateway**
  Customer: PMC Sierra, a leading provider of Broadband ICs and MIPS based processors.
  HCL is developing a reference design for a VoIP Analog Telephone Adapter using PMC-Sierra's Multi Service Processor family of VoIP Solutions. HCL fits into the project well as it has end-to-end product development team which included HCL professionals from Hardware, Software and product casing team in order to provide a total solution for PMC Sierra.

- **Domain: OSS in NGN**
  Customer: Leading manufacturer of telecommunications and internetworking equipment for carrier and enterprises.
  The scope of the engagement was in different projects which include conceptualization, requirements gathering, architecture, design, development and testing for different components which form part of the customer's soft switch solution for an IMS compliant NGN network. As a part of this engagement HCL has to integrate with different IMS compliant components in a NGN Network.

- **Domain: Mobile Protocols**
  Customer: Leading provider of systems, components, services and integrated solutions for computing and communications applications.

HCL is working on optimizing and enhancing the GPRS stack to support EDGE features. HCL is also developing functional test specifications for GSM, GPRS, EGPRS along with consultancy support.

KEY ENGAGEMENTS

- The British Telecom Joint Venture is the largest ever engagement in the BPO space awarded to an Indian company. There are total of 28 processes BT which run across two centers.
- Tier 1 BSL provider managing CPE and customer through voice chat and email medium leading to 40% reduction in cost of support and 10% increase in operation efficiency through WORKFORCE Management Systems.

Retail and Consumer

Certifications	APICS-Supply Chain Certified in Production and Inventory Management (CPIM) Certified Supply Chain Professional (CSCP)
Frameworks/Products	eStore, CxOs Dashboard, Connect, EPOS4U, WPOS, Try on Products (Apparel Try & Jewel Try), RFID, Kiosk, Business Intelligence JV products like EDI Tracker, BudPro, FOCUS, COMS, FinPro, TaxPro, Tradeweave JDA products like MMS®, Win/DSS(TM) Intactix(TM) Space Planning and Floor Planning, E3, Arthur Enterprise Suite Performance Analysis by IDEAS® data warehouse

HCL's Retail practice is the "hypermart" for retail enterprises globally, offering cutting edge end-to-end solutions to serve all IT/IS needs from Infrastructure to SAP to Siebel for the retail and consumer products sector. HCL leverages its capabilities in Software Development, Business Process Outsourcing (BPO), Hardware, Network and Infrastructure Management for providing a single window to all IT requirements of retailers. Our Retail experience exhibits agility by spanning across all key modern retail format stores and prime segments like

- Food & Grocery
- Health & Beauty
- Fashion & Apparel
- Convenience Stores
- Consumer Packaged Goods
- Specialty Stores
- Manufacturers/ Distributors/ Suppliers
- Hospitality

We have proven expertise and competency in **Applications Engineering and Advanced Technology**. We use our competence to provide proven and cost-effective solutions in the key areas of POS, Kiosks, Electronic Pricing, Merchandising and Planning, Decision Support Systems, SCM, ERP, CRM and Enterprise Applications Integration. The applications management offerings have helped our customers reduce the total cost of ownership for maintenance, enhancement and support of existing legacy systems.

To continuously enhance our domain expertise and benefit our clients by delivering best-in-class solutions, HCL Retail has been actively involved in concerted R&D activities. The Retail Vertical Solutions Group (RVSG) is a step in this direction. The group has been involved assessing the trends and anticipating the future needs of the industry and developing IPs/Frameworks. The Retail Lab of the group currently showcases cutting edge solutions on RFID technology, Wireless POS & Business intelligence and products like Apparel Try, CXO Dashboards, Loyalty Management Systems and Retail Kiosks.

Technology Alliances	
Alliances with Technology Majors	• Microsoft • IBM • Oracle
Partnership with Commercial Package Vendors	• SAP Retail • JDA • Oracle/PeopleSoft/JD Edwards • I2 • Filenet

Key Collaboration-HCL Jones

Joint Venture between HCL & Jones Apparel Group

HCL formed a joint venture with Jones Apparel Group (JAG), a Fortune 500 US$ 4.6 billion apparel major. The JV has been a strong win-win opportunity for both the partners. JAG draws from our vast technology experience and HCL has exposure to JAG's domain expertise in apparel, footwear and fashion retailing. The JV has successfully served the IT needs for JAG and all its divisions like Nine West, JNY, Polo, etc., in the past 3 years. With its proven solutions the JV plans to go to market and will help solve the unique business challenges of the apparel industry.

JDA Alliance

HCL signed a partnership agreement with JDA to become the prime implementer for JDA solutions in India and the preferred implementation partner for APAC. This partnership lays the foundation of a strong and mutually beneficial relationship between both companies and uniquely positions JDA, the partnership vehicle, to leverage the strengths of both the partners.

KEY ENGAGEMENTS

- HCL is engaged with GSI Commerce, a leading outsource solution provider for the entire spectrum of e-Commerce, in providing the application enhancement and maintenance services, for their various groups and platforms. HCL teams are primarily working in Web Technologies area, QA Testing group, DBA group, SCM group for maintenance of JDA applications (MMS, Retail Ideas), CRM (Epiphany - campaign management) support.

- HCL has set up an Offshore Development Center for a leading US based supplier of e-business solutions, for retailers to provide enhancement and maintenance support for their products like Enterprise1 Big Ticket, Enterprise General Retail and Customer1. HCL will also be providing professional services support in customizing the above products for client's customers.

- HCL has been involved in a close engagement with the world's largest apparel company. During the last year, HCL has been involved in MOJO (Management of Orders through Java Objects) to develop a unified order management system on open web based architecture. This engagement addressed all the order processing requirements of the client.

Aerospace

Certification	AS9100 AND D0178

HCL's Aerospace practice currently counts several global aerospace majors including airframe manufacturers, system integrators and Tier 1 suppliers amongst its clients. Based on proven expertise and solution delivery, HCL has forged longstanding relationship with them.

We have consolidated our core avionics skills and its ability to run complex programs over the last five years. Through consistent delivery of value to customers, we have been able to take on complete off-shoring assignments of independent development of core avionics sub-systems besides customers' verification and validation requirements.

The services offered by this practice encompass embedded software, hardware design, engineering services, test solutions and applications development. The practice is supported by practitioners combining over 2500 person years of experience in avionics specific programming languages, methodologies, tools, operating systems, compilers and standards.

HCL has development experience as per DO-178B requirements across the complete lifecycle of software development spanning specification, design, development, testing, verification & validation and sustenance. This is complemented by end-to-end solutions to DO-254 standards. HCL has the distinction of being the first India based ESP to acquire AS9100, which is the de-facto standard for the Aerospace Industry by BVQI, UK.

One of the major focuses has been development of IPs like avionics specific O/S-Fault Tolerant Real Time Executive (FTREX), DEX Tool (Data Extractor and Document generator), MCDC GEN (MCDC Generator), PCI based ARINC 429 simulator card and ARINC 429 bus analyzer software.

The service offerings are across the following sub-domains:

- Flight Management Systems
- Flight Control Systems
- Cockpit Display & Information Systems
- Flight Warning Systems
- Engine Control Systems
- Air Management Systems
- Auxiliary Power Systems

• In-flight entertainment systems
• Communication, navigation and surveillance system
• Air traffic management systems
• GPS based systems
• Simulation systems
• Health management systems
•Tools to support onboard systems' design and development
• Automatic test equipment
• In-flight entertainment system
• Secondary flight control system

KEY ENGAGEMENTS

- A leading Indian Aeronautical and Defense establishment has given HCL Technologies the opportunity to develop software for the Geographical Image Exploitation System.
- One of our key engagements in Indian aerospace industry involves working on finite element modeling of an indigenously designed engine.
- A US based firm which is a leader in the development, design, manufacture, and service of control systems and components for aerospace and related high-technology markets, has engaged HCL for the qualification of the Rational Test Real Time tool used in the avionics domain. We have also executed the project involving requirement based testing for Rudder control system.
- HCL has set up a dedicated design center for product engineering services in Bangalore for Hamilton Sundstrand, one of the leading worldwide suppliers of technologically advanced aerospace and industrial products.

HCL Signs Software Development Agreement with Boeing for the 787 Dreamliner Program

HCL has been selected by the Boeing Company (Boeing) as a software development partner for the 787 Dreamliner (formerly known as the 7E7) program. A multiyear, multi-million dollar software development agreement has been signed between Boeing and HCL.

Under this contract, HCL will provide software services to Boeing as well as its Tier 1 systems suppliers for the 787 program, which opens a new chapter in HCL's aerospace services practice. The 787 integrates diverse leading edge technologies to deliver an environmentally preferred solution with hitherto unmatched efficiency, for medium capacity long-range aircraft.

HCL has initiated several projects relating to this program and is currently working on providing a hosting platform for the flight test computing system. In addition, HCL engineers are working at a systems requirements definition level for some of the Line Replaceable Units (LRU's) with some of Boeing's Tier 1 systems suppliers for the 787 program.

Life Sciences

Industry Segments	Pharmaceuticals, Medical devices, Healthcare & ISVs
Certification	ISO 9001, ISO 13485, BS7799

The year 2004-2005 witnessed Life Sciences and Healthcare practice at HCL focusing on the research and development business segment primarily in the areas of drug discovery and development for genomics and proteomics projects as well as bioinformatics solution development. HCL continues to offer other focused offerings for the pharmaceutical, medical devices and healthcare segments.

The Life Sciences team, during the course of the year, further strengthened its domain knowledge by induction of team of domain analyst in CRO, Healthcare Informatics and Medical Devices arena. Our Life Sciences practice is now actively concentrating on clinical data management.

HCL has also been engaged with one of the largest pharmaceuticals company in India for their order taking process management. HCL has been delivering significant value for its Life Science and Health-care customers through the integrated package of process manage-ment, software services and infrastructure management.

HCL is the first and only Indian company to have an ISO 13485 certification for design and development of medical devices. Today HCL is engaged with 8 of the Top 15 companies in pharmaceutical sector. It is one of the few offshore IT providers for validation services, it has FDA compliant QMS. HCL is doing some high-end work for designs across all classes of medical devices (class I, II, III) with focus on effective risk management flow for software hazard analysis, failure mode effect analysis and worst case and reliability analysis.

KEY ENGAGEMENTS

- HCL signed a MoU with the "Supercomputing Facility for Bioinformatics and Computational Biology" (SCFBio) at IIT Delhi to work collaboratively on high-end projects in the area of drug discovery and development, including genomics and proteomics projects.

- One of the big 5 Pharmaceutical Companies has partnered with HCL for application support and maintenance of its suite of applications at an enterprise level over a period of next 5 years. HCL is now working with this client in multiple geographies both US and Europe.

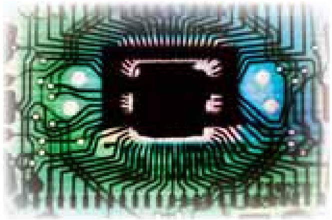
- HCL forged alliances to further expand its service offerings in Life Science domain including partnership with:

  a. Waban software, US for joint product develop-ment and go to market

  b. Tokushima University, Japan for Bioinformatics solution development

  c. Saila Systems, Japan for go to market

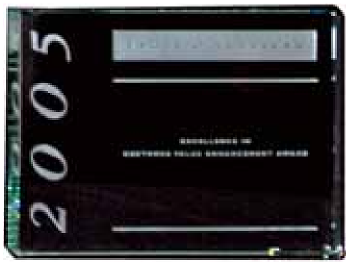
Semiconductor



Over the past 5 years, HCL's Semiconductor practice has developed strong relationships with leading semiconductor equipment manufacturers, foundries and device makers. These relationships are based on significant value delivered to all the players in the industry.

HCL's Semiconductor practice offers end-to-end solutions in equipment engineering solutions as well as manufacturing IT services - Core fab applications including MES and factory automation solution sets, enterprise applications and partner integration, infrastructure and process management services. Our expertise extends beyond product development on Semi equipment and manufacturing operations inside a semiconductor fab.

High Lights:



- HCL's Semiconductor practice has been chosen for Frost & Sullivan's "2005 Customer Value Enhancement Award". This award recognizes HCL's capability in providing innovative factory Automation solutions to the Semiconductor industry.
- HCL became a sponsor member of Power.org, a collaborated standards organization and developer community with a mission to revolutionize design of consumer electronics, networking, automotive and IT systems.
- HCL has invested in the development of solution sets and frameworks for Factory automation solutions, which make the semiconductor equipment and factories compliant to the Semiconductor Equipment and Materials International (SEMI) standards. These solution sets, which are HCL's IP, are based on innovative building-block approach. Such solution sets and frameworks are used by HCL's customers for automating their equipments and fabs, to derive a much faster time-to-market advantage than using home grown solutions.
- HCL has played an active role in the promotion of SEMI standards, presenting papers on the benefits of standard compliance for industry consortiums like International SEMATECH Manufacturing Initiative (ISMI) to select audience at various forums.
- As Global Systems Integration partner to Microsoft, we are working on the latest technologies and platforms like .NET. Microsoft helps us in software architecting, technology training and solution certification.

Quality Initiatives

- HCL's rigorous quality processes are acknowledged and endorsed by our customers. One of the customers leveraged our quality team to study the control software of particular equipment, analyze the defects and make recommendations to improve product quality. We have published a paper on "Predictive feed forward control Framework -The Panacea to predict and manage ALL that can be measured" and it was accepted for the "3rd World Congress for Software Quality", in Germany, one of only three papers from India.
- As a part of our continued effort in quality, besides CMM model, we have also introduced the Six Sigma approach to improve the quality of our processes and deliverables, creating better customer satisfaction.

KEY ENGAGEMENTS

- We have successfully upgraded the CIM systems consisting of shop floor applications, database and hardware environment for a leading Asian foundry with very minimal production downtime, surpassing customer expectations. Our customer has realized significant increase in production throughput due to this upgrade.
- A leading Automated Test Equipment (ATE) supplier first outsourced the sustenance of the core test equipment software to us. We have enlarged the engagement to include new software releases of the existing range of products, turnkey testing projects and technical help-desk support, etc., for the client's end customers. We are now offering end-to-end product development that enhances their entire line of ATE systems with particular emphasis on instrumentation.
- Our engagement with a leading manufacturer of dry strip and rapid thermal processing (RTP) solutions started with development and sustenance of embedded equipment software in 2002. Aiming to be a strategic IT and software outsourcing partner, we expanded our service offerings for the client and completely implemented SAP at the client's key facilities worldwide. We also leveraged our understanding of Supply Chain Management in the semiconductor industry by handling Spare Part Management for the client. As part of this service proposition, we directly receive requests for spare parts from the foundries that have deployed the client's equipment and ensure that the spare parts are delivered to the foundry, in collaboration with the client's logistics provider.
- We are developing an integrated abstraction layer based on discussions with the world's leading computer processor maker that helps the factory applications run independent of the underlying communication protocols, thus increasing the interoperability and upgradeability of the various applications running in the factory.

Automotive

Technology	Driver information system, Powertrain Engine Control, Telematics, Navigation System, Body Electronics, Entertainment System and Supply Chain Management
Certification	CMM level 5 and ISO 9001 standards, Towards TS 16949

With close to a decade of automotive industry experience, HCL has comprehensive service offerings like Automotive Electronics and Software, Mechanical Design and Analysis and Product Data Management and Lifecycle Management, Enterprise applications, Hardware, Remote Infrastructure Management services and Business Process Outsourcing Services for its automotive client.

HCL offers a unique and invaluable combination of "Concept-to-Finish" comprising of software engineering, hardware engineering to manufacturing services in the automotive domain. The practice appreciates automotive industry demands in terms of performance, reliability, reduced footprint & scalability.

HCL's Automotive practice serves as the technology partner to 6 of the top 10 vehicle manufacturers and several leading Tier 1 suppliers worldwide with cutting edge software services. Our Automotive practice has a strong presence across the automotive functional chain with some marquee customers from among Tier 1-3 suppliers, OEMs/Primes and after market service providers. HCL has assisted customers in achieving design wins, through co-development of Proof-of-concepts, which has led to a scaling of relationships with most of our automotive clients. These include DaimlerChrysler, General Motors, Siemens VDO and Visteon among others.

Our continued investments in people (including CPIM certified), industry associations (SAE, APICS), tools and solution sets, help us maintain our edge in helping clients achieve speed-to-market and cost efficacy. Our solution sets include Imaging products consisting of solutions for panoramic view, Reconfigurable instrument cluster, Engine Management systems, Body electronics, Navigation systems, Telematics framework, productivity and entertainment systems, Supply chain risk manager, .Net migration methodology, Predictive Warranty, Plant Floor Collaboration.

KEY ENGAGEMENTS

- Development of Intelligent Headlamp Controller software for a leading Tier 1 Supplier
- Software development for the complete dashboard Instrument cluster comprising driver, application and display modules
- Design, development and supply of automotive radio and multimedia system for a leading supplier of multimedia products
- An operational demonstrator to reproduce the behavior of a distributed car navigation system on the IDB 1394 Network for a leading car manufacturer
- Development & Enhancement of Roadside Assistance service
- 24x7x365 support for IT infrastructure of a Fortune 300 engines manufacturer

Media, Publishing & Entertainment

HCL's Media Publishing and Entertainment (MPE) practice has the privilege of strong relationships with key industry players in both Publishing and Gaming. Today the MPE industry is focused on adoption of new generation technologies like DRM and DAM, etc., new distribution channels like broadband and wireless networks, licensed digital content, content security and phenomena of the combination of game, gaming and gambling. HCL is well poised to address these market challenges with its service triad across Software Services, Infrastructure Management and Business Process Outsourcing. HCL's focused service offerings for this segment are content aggregation, transformation & editing, asset management, content security & rights management, content storage & distribution, enterprise solutions like ERP, CRM, sales & marketing, business intelligence, royalties & payment and BPO. HCL's MPE practice is strongest in Publishing, Education & Learning, Information collection and delivery.

Focus on Gaming

Assessing the high growth rate for gaming, HCL has strategized its MPE practice to go full scale for online lottery, commercial gaming and console gaming. The focus is on game design development, Back Office Operations, Player Management, Instants Distribution, Warehousing, Content Development, Pay Tables, Validation services, Race track, Creative Design, Artwork, character & terrain modeling, Image Processing and 3D Visualization.

New Domain Initiatives

- **Domain Specific**
  - DRM (Digital Rights Management)
  - Common Portal for group companies
  - ISBN Framework
  - Online Book store
  - CD ROM publishing
  - Search Engine for CD ROM
  - Cataloguing & Indexing

- **Technology Specific**
  - Work using tool/products like XyVision and VISTA
  - SSO (Single Sign On) Framework
  - Identity Management System
  - Data Architecture
  - Storage Solutions
  - Format Conversion

Key Partnerships

Microsoft, Documentum, Filenet, OpenText, BEA, Plumtree, Lotus Domino, Fulcrum, Vignette

KEY ENGAGEMENTS

- HCL is working with a leading ISV in the education domain on various projects. Some of these are testing & assessment system, content management system, online payment system, performance management system and analytical reporting system. Various technologies being used for these systems are VB6, .NET, VC++, Web Services, SQL Server, Oracle.

- A leading information and collection delivery provider has entrusted HCL for majority of its core processes involving collection, conversion, editing, storage, retrieval, delivery, business intelligence, billing & royalties, etc. HCL is working on their web portals, authoring & submission, desktop applications, content management, online statistics, test automation suits, etc.

- HCL is doing business intelligence work for a leading book Publisher. All applications are modeled around data warehousing technologies - Data extraction; transformation and loading (ETL) takes place between source systems and target data warehouse databases. The technologies used are mainly AIX Unix, Sun Solarix Unix, Oracle 8i/9i, Business Objects 5.1.7, Informatica 5.1.2, Actuate 6, and Sybase.

Government

HCL, through its wholly-owned subsidiary HCL (Mass) Inc., is focused on providing solutions to the state and local government segment in the United States. In a short span of three years the company has established key relationships in several states such as Georgia, Florida, New York, Massachusetts, New Hampshire, Connecticut, Nevada, Missouri, Maryland, Virginia, Colorado, District of Columbia and Texas.

A dedicated team of nearly 200 consultants which include domain experts in Health and Human services, Labor, Workers Compensation and Quasi Judicial Case management applications have come together to create a range of solutions and established this practice. The Government business has established strong credentials in Electronic Document and Content Management systems in partnership with a leading platform provider FileNet. It has grown by 65% this year and a healthy order backlog situation promises similar growth this year.

Significant investments have been made in creating a comprehensive solution in the space of Health and Human services; Case Management systems for Welfare programs that include Workforce Investment Act, Vocational Rehabilitation, Child Care, Adult Education; Workers Compensations systems; Case Management applications for Public Utilities Commission; Fraud investigation systems.

The Government Solutions business is now poised to grow rapidly as it offers to the government customers much needed flexibility and quality software engineering capability at a significant cost advantage.

Georgia recovered more than $6 million in fraudulent food stamp money and $1.5 million in child-care overpayments for fiscal 2005 -- and did so in two days with the help of its new Investigative Services Information System (ISIS) from HCL.
Source: Government Technology

KEY ENGAGEMENTS

- **Integrated Claims Management Systems for Georgia Division of Workers Compensation:** HCL won this contract to deliver most comprehensive application. The software covers entire operation of the division right from first report of injury to adjudication of claims. The system includes EDI, Data Warehouse and FileNet based document management and workflow

- **Service oriented architecture for Division of Welfare, Nevada:** HCL won this contract to implement electronic forms on an enterprise scale for the division. The system is based on FileNet's latest P 8 architecture and is going to form the foundation for all the new applications in the division

- **Long term maintenance contract for Department of Labor and Welfare, Tennessee:** This is a five-year contract for providing maintenance and enhancement services for the department for the enterprise case management application. Built on industry standard J2EE architecture, this application provides significant knowledge to HCL in the labor domain area

- **Vocational Rehabilitation System for the Department of Human Services, Colorado:** HCL will build a comprehensive application to help the state implement an application for rehabilitating workers displaced due to injury. The application is developed using the .net framework and will be a benchmark application in the area of GUI design as some users of this application are challenged for sight

- **Office of Children and Families, New York:** HCL built a comprehensive case management application for the department in partnership with FileNet. The Application has been built on Microsoft's .net platform and is now in production use

Reusable components and solutions for:

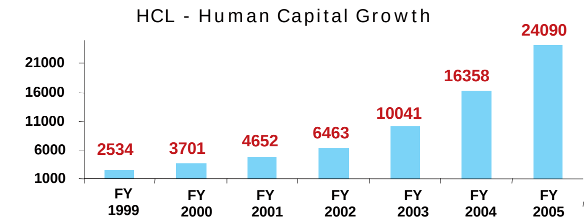
- Fraud Management
- Quasi judicial case management
- Service Oriented Architecture
- Electronic Document management and Forms
- Case Management for Welfare programs
- Unemployment Insurance
- Public Utility commissions
- Worker's Compensation systems

Service Offerings:

- Application Engineering
- Application Maintenance
- Business Consulting
- Legacy Migration
- Web Enabling applications
- Electronic Document Management and Workflow
- Project Management
- Systems Integration

Dare to Win –
Pride, Passion & Results

"If you have pride in what you do and do it with passion, results are sure to come"



Headcount growth of 140% in 2 years

"The biggest challenge in people management today is gaining credibility, for which HR has to be on toes and come out with initiatives that reflect this. Transparency in the systems is appreciated by employees and in the long run differentiates a high performing company from others."

- **D K Srivastava, Vice President** – ***Corporate Human Resources.***

For FY '05, HCL has continued its investment in human capital by creating a unique experience at workplace for its 24,000 strong, multi-cultural talent pool across 15 countries. The "Employee First" philosophy is at the core of this approach because, at HCL, we believe it's the efforts of our employees that creates value for our customers. Our endeavor is to provide our employees the same experience that we promise to our external customers by being proactive and responsive in addressing matters which concern them. This unique experience for the employees is created through technology and process innovation.

HCL is committed to giving our employees a work environment and culture they can take pride in. We believe that with pride comes the passion which directly impacts the work dynamics and the outcome. Our HR initiatives are a reflection of this vision and emphasize our primary focus - to provide excellent human resources leadership and expertise to the organization and to attract and retain a workforce that is diverse, inclusive, and committed to quality customer service.

DIGITALLY CONNECTED WITH EMPLOYEES:

On-line tools applied across HR functions help in optimizing role of HR within organization by providing direct connectivity with each and every employee and ensuring a continuous, bi-lateral feedback process.

- **Smart Service Desk (SSD):** For instant solutions to employees's problems, we have created an on-line SSD which enables employees to raise any issue through this tool. With clear-cut SLAs defined for each support function, this is an epitome for internal customer satisfaction.

- **I4Excel:** This is an on-line tool for conducting our performance appraisal and review process. The highlight again is the transparency. This tool also helps in building an individual performance development plan for the individual. The customer feedback is also built-in as a feature which helps employee gain an overall feedback on his/her performance.

- **360 Degree Feedback:** Launched with the aim of providing the managers with a multi-directional feedback (manager is rated by 1st and 2nd level superiors, peers and subordinates), this on-line tool reflects openness of the managers to receive feedback. Around 1000 managers received feedback from all quarters on 18 different leadership and management parameters. The focus was on adding value to the manager's leadership qualities and capabilities.

- **Psychometric Tools:** On-line administration of MBTI was taken up for the managers to help them understand their profile. This feedback along with the 360 Degree feedback will be used to build personal development plans for the individuals.

- **Compensation Console:** A tool that provided an on-line support to the managers during the compensation review. This finally culminated in the employees receiving the compensation review letters electronically.

- **Natasha:** An on-line portal housing all policies and procedures was put in place thereby furthering our cause of creating transparency.

Identifying and Nurturing Talent

The Campus Placement Drive at HCL is designed not only to hire the best young minds from professional business schools & top engineering institutes of the country but to groom them in becoming leaders of change and growth in the group.

HCL Technologies provides its young and dynamic professionals with exceptional opportunities, responsibilities and international exposure in an environment that is professional, exacting and at the same time exciting, entrepreneurial, passionate and supportive. For the new recruits, at HCL, the training and development goes beyond the regular rigors of an Induction Program. It begins even before the employee comes on board and becomes an integral, continuous process.

Training & Development

The changing face of the Industry has encouraged training to enter into new domains, viz. Behavioral, Soft Skills, Advanced Technical Training, etc. The trainings are also based on the competency development plan, which provides strategic guidance to the training needs of the organization and its employee's aspirations, as captured in the appraisal process. The employee has the opportunity to acquire and hone foundational skill & functional skills as they move up the delivery layer.

Besides, managers from all disciplines across the company, attend regular development programs to facilitate learning, communication and networking. Various level development programs are undertaken for the expansion of a person's capacity to be effective in leadership roles and also in their required functions.

At HCL BPO Services, besides the basic component of Accent Neutralization and Culture, we are focusing on improving the soft skills, language, domain-specific skills and critical aspects of customer service by catering to different geographical regions around the globe. The idea behind the accent neutralization and culture exercise is to gain better understanding of the people and their lifestyles as this plays a vital role in better communication.

Various Long Distance Training programs and certification-linked programs like MCSC, CCNA, Six Sigma, etc., in addition to degree courses like MBA and MCA are being offered to the employees at various levels.

As the experience and expertise of the workforce evolves, ample opportunities are given to associates for internal growth through Transparent Development Programs such as the Fast Tracker Development Program and Internal Job Postings.

We are confident that HR, in partnership with our stakeholders, can build a flexible, fluid organization that is quick to respond promptly and effectively to business needs and, in turn, make positive contributions to excellent service delivery and making our clients competitive.

INNOVATION IN LEARNING AT OUR OFF-SHORE CENTER

HCL's BPO Services Northern Ireland (UK) was recently announced the winner of the Investors in People sponsored Belfast Telegraph – Northern Ireland Business Award 2005 for "Excellence in Training Achievement".

HCL BPO Services engages close to 2000 people in its Belfast and Armagh offices. It is the single largest private employer in Northern Ireland (UK) and has been acknowledged for its training and development initiatives by Investors in People Standard. With a focus on Life Long learning, HCL BPO Services had launched an innovative "in-house" university providing access to a suite of educational opportunities to its staff. This includes an IT diploma program. This initiative with clear objective, achievable goals and continuous evaluation ensured that 98% of its staff achieved learning benchmark across a range of training disciplines. This approach also resulted in almost 50% growth in staff strength.

HCL ISD was ranked 4th in the ***"Best Companies to work for in India Survey" 2004.*** *This is an Industry-wide survey conducted by eminent international agencies like TNS & Mercer in partnership with Business Today.*
"The energy in a company that's just 12 years old and boasts an average employee age of 25 is palpable..."
"The company seems more like a band of corporate warriors..."

Well Resourced For The Next Big Leap

Proposed Campus in The National Capital Region, New Delhi.

Proposed Campus at Bangalore

Talent **Transformation** & Intrapreneurship Development

> *"In today's competitive scenario we need to address the key success factor which is empowering the human capital. Our objective is to build this human capital one competency at a time." –* ***Anand Pillai, Vice President, Talent Transformation & Intrapreneurship***

Beyond learning & development…

Talent Transformation and Intrapreneurship development is a pan-organization initiative which seeks to unleash the potential and power within people from various teams and transform middle level managers into leaders. This is required to bridge the gap between organization's need and employee's aspirations.

The identification of training need in HCL revolves around a competency-based approach rather than role-based approach. The program focuses on technical, business and process, and behavioral competencies.

Trainers and coaches are identified internally, from within the organization, who teach and share in a structured way, and in the process, become change agents in HCL.

The training itself is an extended program of building competencies through a process of internalization of these skill sets by an individual. This is a paradigm shift from the traditional approach of "Training Intervention" to "Process Intervention" in developing competencies within our people.

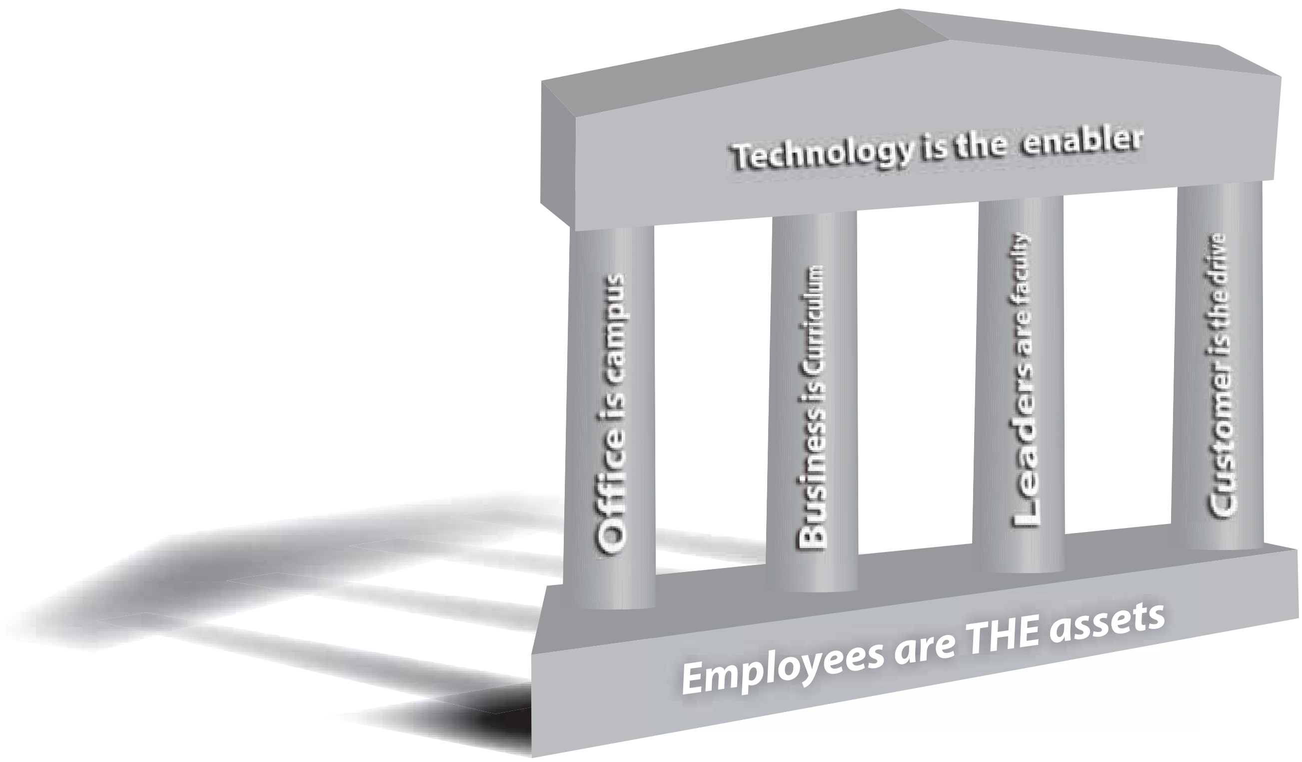
FROM

- Training Intervention
- Demand Based
- Trainer Facilitation
- Developing People

→

To

- Process Intervention
- Competency
- Manager / Leader
- Making Client Competitive



Intrapreneurship

The key to attract and retain top talent

The New HR challenges at HCL center around cultivating innovation and creativity within the enterprise. At HCL, we address this by fostering a culture of "Intrapreneurship" or "Internal – Entrepreneurship" which is all about turning ideas into business internal to the organization. Our history is also replete with instances where employees have transformed ideas into successful actions resulting in profitable enterprises.

We have initiated a process of institutionalizing "Intrapreneurship" to enable managers to shift from managing opportunities to creating opportunities. The organization gets structured around teams that function as small businesses nested together. These small business teams choose and work-out exchanges between themselves and with others outside, either as customers or collaborators, and greatly speed up the process of innovation.

At HCL, we have initiated opening up of information structures and encouraging individuals to share knowledge, technology, and skills in pursuit of and exploiting opportunity. Individuals/teams are not only given the required training and coaching, but also empowered to take decisions. This has oriented employees to opportunity, growth and renewal, enabling them to realize and harness their potential. This has not only created greater value for our customers, but has also helped HCL in retaining top managerial talent.

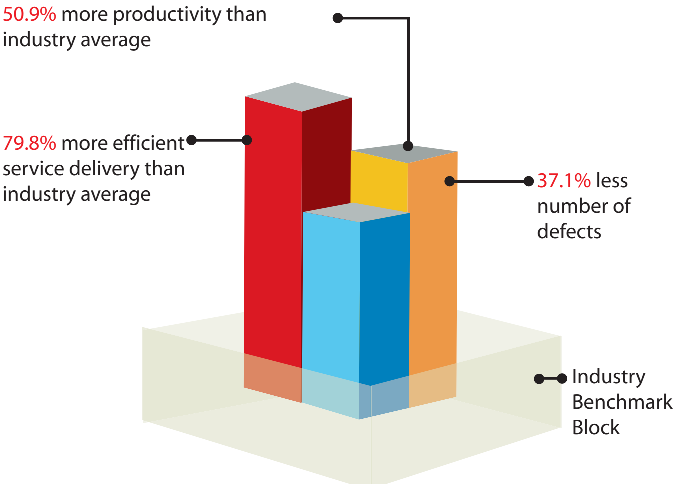
Quality

The Question of Quality is a Question of Determination

HCL has been focused on delivering greater value to its customers to meet the challenges as globalization makes the environment more competitive. Hence, quality becomes an integral part of our processes. Our quality initiatives not only ensure regulatory compliance but also meet the standards of our customers.

To assess the current levels of productivity and quality of deliverables, HCL initiated an independent benchmarking exercise lead by an external, independent agency to benchmark HCL's competency with those of International Players. Focus areas for the benchmarking exercise were - Productivity, Time to Market & Delivery Quality Levels. The result places HCL on par or better than industry expectations. The summary results are:

Performance Better Than The Industry Average



Source: Soft Productivity Research, Jan 2005

HCL Execution Methodologies rated by META Group

Performance	Sub - Criteria Type	Ratings
Execution	Quality Methodologies	Very Good
	Process Maturity	Excellent
	Customer Focus	Very Good
	Customer Referenceability	Very Good

Source : Meta 2004 Offshore Outsourcing Rating

Certifications Achieved in the Year 2004-2005

- HCL's Capital Market Services has achieved CMMI Level 5, the highest Process Maturity level. CMMI is the next generation process model for process improvement.
- HCL becomes the first Indian company to achieve AS9100: 2001 certification for aerospace. HCL has been recommended for AS9100: 2001 certification by the certification body, BVQI Ltd. (Bureau Verities Quality International), UK. The recommendation is accredited UKAS (The United Kingdom Accreditation Service) of UK. The AS9100:2001 is globally accepted as the de-facto quality standard for the demanding aerospace industry.
- Aerospace domain was assessed at SEI Software CMM Level 5 maturity.
- Life Sciences & Healthcare Domain has been successfully assessed for ISO 13485:2003 for the year 2005-2006 without any deviations and observations; it has also been certified for AAMI SW68-2001.
- Leading Automotive OEM Customer carried out an independent audit based on ISO 15504 – SPICE and according to the audit team, the Homogeneous assessment result was on HIGH NOTE and the result achieved was best among such supplier audits conducted by the OEM and the first Indian Software services company to achieve this level of process maturity.

Process Consulting Assignments

- HCL partnered with one of its leading clients in Japan in their process journey by providing complete support in process definition, implementation and in SEI CMM Managed Level (Level 4) assessment.
- HCL played a key role in a leading Japanese customer process improvement initiative in-line with SEI CMMI model by sharing the process assets, training the customer teams and assisting in the process deployment at customer locations.
- HCL Off-shore development center lead and participated in one of our key customers operating from US in achieving SEI CMM Level 4 maturity.
- HCL played a key role in one of the world largest listed Insurance group to establish common QMS in all 5-service centers addressing various verticals. QMS has been leveraged from the best practices of Customer and HCL's OMS.

- HCL partnered with one of the largest Fund Managers in Australia to achieve SW-CMM Level 3 and to reduce the Defect Density & there by reduce the Rework effort.
- HCL partnered with a global technology corporation with a long history of pioneering innovation in aerospace, aviation, helicopter design, climate control, elevator design and hydrogen fuel cells for Benchmarking their process capability & identify Gaps with respect to CMM model.

Information Security

All Centers of HCL are certified to BS7799.

At HCL, we recognize the need to establish a comprehensive information security policy and ensure the confidentiality, integrity and availability of both vital corporate information and customer information. In keeping with the information security requirement, all SDCs of HCL are certified the British security standard—BS7799. The Chennai center of HCL BPO has been certified to BS7799. HCL BPO is among the leading BPO firms in India to achieve this third-party certification for its quality management system.

We are on the verge of SAS70 Certification for which review has already happening in our Capital Markets Division at Bangalore.

E School for Software Engineering Quality Management

HCL aims to make Quality intrinsic to every employee through continuous process learning. To this effect, we have partnered with QAI-Roger Pressman Associates for using Its online e-school covering various phases of Software Engineering. With the partnership, all employees who are less than 2 years of experience in HCL will have a cost-effective learning environment where they can learn at their own pace. The e-school initiative will facilitate the building of Software Engineering and Quality Management competencies amongst professionals. The entire program is integrated with the Employee induction and successful candidates will be awarded with a Certificate.

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. Factors that could cause or contribute to such changes include those described under the heading 'Risk Factors' in the Prospectus filed with the Securities and Exchange Board of India (SEBI) as well as factors discussed elsewhere in this report. 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 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, Capital Markets and Insurance, Government, Life Sciences, Media, Publishing and Entertainment, Retail and Consumer 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 marketshare by leveraging its wide service mix and strong client relationships.

The Company's total revenues grew from $55.8 million in fiscal 1996 to $762.0 million in fiscal 2005, representing a CAGR of 33.7%, while net income grew from $3.2 million in fiscal 1996 to $138.1 million in fiscal 2005, representing a CAGR of 51.9%.

Management Discussion and Analysis (Contd.)

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:

	(in thousands, except number of shares and per share data) Fiscal year ended June 30,				
	2005	**2004**	**2003**	**2002**	**2001**
Revenues	762,038	567,709	415,486	330,948	298,573
Cost of revenues	479,676	362,640	255,697	188,025	159,383
Selling, general and administrative expenses	109,098	90,224	81,456	74,529	49,663
Depreciation and amortization	33,586	25,138	18,961	11,957	8,944
Income from operations	**139,678**	**89,707**	**59,372**	**56,437**	**80,583**
Other income, net	24,082	106,511	10,742	18,804	19,991
Income before income taxes, share of income of equity investees and minority interest 163,760	196,218	70,114	75,241	100,574	
Income tax expense	15,205	8,845	6,662	8,264	8,250
Equity in earnings / (losses) of affiliates	(577)	(2,073)	1,336	6,976	9,628
Minority interest	(9,921)	(13,351)	(6,748)	(2,543)	(5)
Net income (loss)	**138,057**	**171,949**	**$58,040**	**$71,410**	**$101,947**
Earnings per equity share					
Basic	$0.45	$0.59	$0.20	$0.25	$0.36
Diluted	$0.44	$0.58	$0.20	$0.24	$0.34
Weighted average number of equity shares used in computing earnings per equity share:					
Basic	307,406,759	292,323,540	287,201,728	283,276,203	282,409,797
Diluted	316,008,887	297,532,978	293,639,246	292,161,015	296,688,505

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.

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:

(in $ million, except percentages)

	Fiscal year ended June 30,					
	2005		**2004**		**2003**	
Software services	597.4	78.4%	449.6	79.2%	357.6	86.0%
Networking services	64.2	8.4%	52.6	9.3%	33.7	8.1%
Business Process Outsourcing services	101.5	13.3%	66.7	11.7%	29.1	7.0%
Inter-segment transactions	(1.1)	(0.1%)	(1.0)	(0.2)%	(4.6)	(1.1)%
Total	**762.0**	**100%**	**567.9**	**100%**	**415.8**	**100%**

Management Discussion and Analysis (Contd.)

The software services part of the business portfolio increased by 32.9% during the year under review while the networking services business increased by 22.1%. The Company's BPO business showed a strong growth of 52.1%. BPO has been the fastest growing segment for the Company over the last two years. As a result, the share of BPO in the total revenues has gone up to 13.3% in the fiscal under review from 7% in the fiscal 2003.

Geographic Breakdown of Revenues

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

(in $ million, except percentages)

	Fiscal year ended June 30,					
	2005		2004		2003	
America	452.4	59.4%	346.8	61.0%	265.8	63.9%
Europe	192.0	25.2%	125.5	22.1%	73.1	17.6%
India	53.9	7.1%	46.4	8.2%	33.2	8.0%
Others	63.7	8.3%	49.2	8.7%	43.7	10.5%
Total	**762.0**	**100%**	**567.9**	**100%**	**415.8**	**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 networking 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, rent, repairs and maintenance and electricity charges and all other costs directly identifiable with the provision of services. This cost excludes an allocation of depreciation and amortization.

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.

(in $ million)

	Fiscal year ended June 30,		
	2005	2004	2003
Personnel costs	280.0	197.4	129.3
Establishment maintenance and communication costs	40.6	29.4	18.6
Travel costs	47.3	33.1	23.9
Others direct costs	111.8	102.7	83.9
Total	**479.7**	**362.6**	**255.7**

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.

Cost of revenues as a percentage of revenues decreased to 62.9% in fiscal 2005 from 63.9% in fiscal 2004.

Management Discussion and Analysis (Contd.)

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 $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.

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 financials 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. During the year ended June 30, 2000, the Company set-up new undertakings in Software Technology Parks for whichexemptions are available till March 2010.

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 Technologies LLC, 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.

Management Discussion and Analysis (Contd.)

Fiscal 2003 compared to Fiscal 2003

Revenue

Total revenues were $567.7 million in fiscal 2004, representing an increase of 36.6% from $415.5 million in fiscal 2003.

Cost of Revenues

Cost of revenues was $362.6 million in fiscal 2004, representing an increase of 41.8% from $255.7 million in fiscal 2003.

This increase was due primarily to increase in personnel costs. Personnel costs increased from $129.3 million in fiscal 2003 to $197.4 million in fiscal 2004 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 and were at $29.4 million for the fiscal 2004 as compared to $18.6 million in fiscal 2003.

Project related travel also increased by 38.4% from $23.9 million in fiscal 2003 to $33.1 million in fiscal 2004.

Cost of revenues as a percentage of net revenues increased to 63.9% in fiscal 2004 from 61.5% in fiscal 2003.

Selling, general and administrative expenses

These expenses were $90.2 million in fiscal 2004, representing an increase of 10.8% from $81.5 million in fiscal 2003. The Company has achieved growth in revenues by leveraging existing sales and marketing infrastructure. The efforts to control selling, general and administrative expenses have hade a very healthy impact on the profitability of the Company. As a percentage of net revenues, these expenses have fallen to 15.9% as compared to 19.6% in the previous fiscal.

Depreciation and Amortization

Depreciation and amortization was $25.1 million in fiscal 2004 as compared to $19.0 million in 2003. This increase was primarily because of increased depreciation charges due to substantial infrastructure additions to fixed assets in fiscal 2004.

Income from Operations

As a result of the foregoing factors, income from operations was $89.7 million in fiscal 2004, representing an increase of 51.1% from $59.4 million in fiscal 2003. Income from operations as a percentage of net revenues increased to 15.8% in fiscal 2004 from 14.3% in fiscal 2003.

Other Income, net

Other income, net was $106.5 million in fiscal 2004, representing an increase of 895.3% from $10.7 million in fiscal 2003. A substantial part of the other income, to the tune of $ 67.1 million came from profit on the divestment of stake in HPS to PSC. The remaining other income 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.

Income Tax Expense

Income tax expense was $8.8 million in fiscal 2004 as compared to $6.7million in 2003.

Share of Income of Equity Investees

Share of loss of equity investees was $2.1 million in fiscal 2004 as compared to an income of $1.3 million in fiscal 2003.

Minority interest

Share of interest of minority holders for the year was $13.4 million in fiscal 2004 as compared to $6.7 million in fiscal 2003.

Net Income

As a result of the foregoing factors, net income was $171.9 million in fiscal 2004, representing a increase of 196.3% from $58.0 million in fiscal 2003.

Management Discussion and Analysis (Contd.)

Review of Financial Condition

Cash and cash equivalents
As of June 30, 2005, 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. For debt securities 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 $404.4 million as of June 30, 2005 as compared to $419.6 million as of June 30, 2004. 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, 2005 stood at $147.0 million as compared to $107.1 million as of June 30, 2004.

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 $11.7 million and $5.6 million as of June 30, 2004 and 2005 respectively. The charge to the statement of income with respect to uncollectible receivables was $1.8 million for the year ended June 30, 2005.

Debtors at 19.3% of revenues for the year ended June 30, 2005 represented an outstanding of 70 days as compared to 18.8% for the year ended June 30, 2004 (69 days).

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 $0.1million as of June 30, 2005. The Company's equity in the loss of HCLA was nil for the year ended June 30, 2005.

Management Discussion and Analysis (Contd.)

Diamondhead Ventures LLP (DV)

As of June 30,2005, the Company held an 11.1% interest in DV, a technology venture fund. The carrying value of this investment was $7.4 million as of June 30, 2005 while the Company's equity in the loss of DV was $0.5 million for the year ended June 30, 2005. The Company has a commitment to contribute an additional $4.5 million to DV over the future years.

Property and Equipment

As of June 30, 2005, the property and equipment of the Company consisted of the following:

(in $ million)

	Fiscal year ended June 30,	
	2005	2004
Land	36.1	10.1
Buildings	22.5	13.6
Computer and networking equipment..	110.0	73.8
Software	28.4	21.6
Mainframe computer system	1.2	1.1
Office furniture and equipment	43.9	27.9
Vehicles	5.7	3.8
Capital work in progress	23.0	31.4
	270.8	183.3
Accumulated depreciation and amortization	(119.2)	(80.4)
Property and equipment, net	151.6	102.9

During the year, the Company added a sum of $87.5 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 the following operating segments.

(in $ million)

	Fiscal year ended June 30,	
	2005	2004
Software services.	168.8	49.2
Networking services	2.5	2.3
Business process outsourcing services	8.1	7.3
Total	**179.4**	**58.8**

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. This term loan has been repaid subsequent to the fiscal year end. The loan agreements also have financial covenants and restrictions on indebtedness.

Share Capital

The Company has equity shares with a face value of Rs.2 each. The authorised capital of the Company is divided into 400 million equity shares.

Management Discussion and Analysis (Contd.)

During the year, the issued, subscribed and outstanding shares of the Company increased by 23.2 million. This was consequent to a) the Company making a preferential allotment of 19.4 million shares to Deutsche Bank in lieu of the Company acquiring the balance 49% stake in DSI Financial Solutions Pte b) the exercise of 3.8 million shares by employees under the stock option plans.

Dividend Policy

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.

Liquidity and Capital Resources

Cash Flows from Operating Activities
Net cash provided by operating activities increased to $140.8 million in 2005 from $104.7 million in fiscal 2004. 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 in the current fiscal. The accounts receivable at the end of fiscal 2005 increased by $29.6 million as compared to that at the end of fiscal 2004. The increase in accounts receivable is due to an increase in the size of operations of the Company with the Days of Sales Outstanding remaining almost constant.

Cash Flows from Investing Activities
Net cash used in investing activities was $28.4 million and $67.4 million in fiscal 2005 and 2004 respectively. Cash used in investing activities in fiscal 2005 consisted primarily of $69.9 million used to purchase property and equipment and a sum of $11.6 million used for investment in business affiliates and payment for business acquisitions. A net sum of $52.7 million was generated from sale of investments.

Cash Flows from Financing Activities
Net cash used by financing activities was $114.3 million in 2005 as compared to $23.0 million in 2004.

During the current fiscal, the Company had an outflow of $126.7 million related to payments of dividends to its shareholders.

During the current fiscal, the Company also repayed a short term loan of $2.8 million. A sum of $16.0 million was received by the Company as proceeds from issuance of equity shares to its employees under Employee Stock Option Schemes.

Risk factors

The key risk factors for the Company are as follows:

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
- Currency risk related to fluctuations in the foreign exchange rate
- Geo-political risks
- Risks related to the operating environment

Internal Risks
Business concentration risks
The Company has taken steps to ensure that it does not become too dependent on any particular set of clients, specific service lines or any particular geography.

Management Discussion and Analysis (Contd.)

The Company gets its revenues from a total of around 500 clients to ensure this. Given the position of the American continent as the largest IT spender in the world, a large portion of the Company's revenues comes from this geography. 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. The share of non-US revenues for the year under review has gone up to 40.6% from 39% in the previous year.

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 fiscal year June 30, 2002 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, business process outsourcing and infrastructure management services.

M & A execution risks
The 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 three 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
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 local companies in each important country. The 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
For any software services company, its human capital is its primary asset. With increase in competitive pressures in the marketplace, the Company faces the risk of losing key human talent which can impact execution of its projects. To address this, the Company has put in place all requisite initiatives to ensure that it remains an employer of choice within the competitive landscape. The Company continues to focus on several training and development initiatives to ensure that its human resource base is kept abreast of the latest developments in information technology.

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

Management Discussion and Analysis (Contd.)

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.

Since the previous fiscal year, the Company has started taking foreign exchange forward covers to hedge completely against foreign currency fluctuations related to its billed receivables and forecast revenues. The Company does not speculate in foreign currency.

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.

HCL TECHNOLOGIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2004 AND 2005
AND FOR THE THREE YEARS ENDED JUNE 30, 2005
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

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, Stockholders' Equity and Cash Flows present fairly, in all material respects, the financial position of HCL Technologies Limited and subsidiaries as at June 30, 2004 and June 30, 2005, and the results of their operations and their cash flows for the years then ended 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. The financial statements of the Company for the year ended June 30, 2003, prior to the adjustment described in Note 29 and retroactive consolidation of Professional Service Organisation Division of HCL Infosystems Limited, a company under common control as the Company, as described in Note 9, were audited by other independent accountants whose report, dated September 11, 2003 expressed an unqualified opinion on those statements. We also audited the adjustments described in Note 29 that were applied to adjust the financial statements for the year ended June 30, 2003. In our opinion, such adjustments are appropriate and have been properly applied to the prior period financial statements.

PRICE WATERHOUSE

New Delhi, India

Consolidated Balance Sheets

(Thousands of US Dollars, except per share data and as stated otherwise)

	As of June 30,	
	2004	**2005**
ASSETS		
Current assets		
Cash and cash equivalents	$48,743	$52,358
Restricted cash	277	598
Accounts receivables, net of allowances	101,652	137,260
Unbilled receivables	5,428	9,727
Investment securities, available for sale	419,637	404,390
Due from related parties	1,310	1,554
Inventories	5,887	9,932
Employee receivables	4,054	5,715
Deferred income taxes	4,428	6,626
Other current assets	35,178	53,477
Total current assets	**626,594**	**681,637**
Employee receivables	101	317
Deferred income taxes	4,846	4,082
Investments in affiliates	8,637	7,526
Other investments	13,870	12,558
Property and equipment, net	102,869	151,587
Intangible assets, net	1,032	14,197
Goodwill	58,826	179,386
Other assets	7,840	11,491
Total assets	**$824,615**	**$1,062,781**

Consolidated Balance Sheets (Contd.)

(Thousands of US Dollars, except per share data and as stated otherwise)

	As of June 30,	
	2004	**2005**
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	$548	$969
Accounts payable	12,243	18,577
Due to related parties	2,367	406
Short term loans	7,457	21,115
Accrued employee costs	29,511	36,406
Deferred revenue	9,829	14,678
Deferred income taxes	867	3,400
Taxes payable	22,714	24,308
Other current liabilities	39,355	44,257
Total current liabilities	**124,891**	**164,116**
Long term debts	29,861	18,224
Capital lease obligations, excluding current portion	1,273	2,312
Deferred income taxes	138	1,023
Other liabilities	3,006	4,167
Total liabilities	**159,169**	**189,842**
Contingencies and commitments (refer note 27)		
Minority interest	**24,688**	**2,542**
Stockholders' equity		
Equity shares, 400,000,000 and 400,000,000 shares authorized		
Issued and outstanding – 296,080,438 and 319,214,784 shares as of June 30, 2004 and 2005 respectively	16,158	17,215
Additional paid-in capital	238,579	418,034
Share application money pending allotment	616	377
Deferred Stock compensation	-	(1,150)
Retained earnings	399,948	409,782
Accumulated other comprehensive income/(loss)	(10,275)	26,139
Treasury stock, at cost – 994,445 and Nil shares as of June 30, 2004 and 2005 respectively	(4,268)	-
Total stockholders' equity	**640,758**	**870,397**
Total liabilities, minority interest and stockholders' equity	**$824,615**	**$1,062,781**

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

Consolidated Statements of Income

(Thousands of US Dollars, except per share data and as stated otherwise)

	Year ended June 30,		
	2003	**2004**	**2005**
Revenues	$415,486	$567,709	$762,038
Cost of revenues (exclusive of depreciation and amortization shown separately below)	255,697	362,640	479,676
Selling, general and administrative expenses	81,456	90,224	109,098
Depreciation and amortization	18,961	25,138	33,586
Income from operations	**59,372**	**89,707**	**139,678**
Other income, net	10,742	106,511	24,082
Income before income taxes, share of earnings from affiliates and minority interest	**70,114**	**196,218**	**163,760**
Income taxes	6,662	8,845	15,205
Income before share of equity in earnings of affiliates and minority interest	**63,452**	**187,373**	**148,555**
Equity in earnings/(losses) of affiliates	1,336	(2,073)	(577)
Minority interest	(6,748)	(13,351)	(9,921)
Net income	**$58,040**	**$171,949**	**$138,057**
Earnings per equity share			
Basic	$0.20	$0.59	$0.45
Diluted	$0.20	$0.58	$0.44
Weighted average number of equity shares used in computing earnings per equity			
Basic	287,201,728	292,323,540	307,406,759
Diluted	293,639,246	297,532,978	316,008,887

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

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 capital	Shares application money pending allotment	Retained earnings	Compre-hensive Income / (Loss)	Accumulated other Compre-hensive Income / (Loss)	Treasury stock		Total stock-holders' equity
	Shares	Amount						Shares	Amount	
Balances as of June 30, 2002	**287,884,290**	**$15,802**	**$222,891**	**$283**	**$251,892**		**$(38,166)**	**(4,919,675)**	**$(16,923)**	**$435,779**
Issuance of equity shares on exercise of options	552,348	23	1,427	(283)	-	-	-	839,414	2,227	3,394
Share application money pending allotment	-	-	-	143	-	-	-	-	-	143
Purchase of equity shares by trust	-	-	-	-	-	-	-	(170,000)	(634)	(634)
Contribution from principal shareholder in the form of stock based sales incentive	-	-	361	-	-	-	-	-	-	361
Capital transactions of affiliate	-	-	(170)	-	-	-	-	-	-	(170)
Income tax benefit on exercise of stock options	-	-	67	-	-	-	-	-	-	67
Other capital transactions	-	-	(358)	-	-	-	-	-	-	(358)
Cash dividend	-	-	-	-	(22,444)	-	-	-	-	(22,444)
Comprehensive income										
Net income	-	-	-	-	58,040	$58,040	-	-	-	58,040
Other comprehensive income										
- Unrealized gain on available for sale securities, net	-	-	-	-	-	19,736	-	-	-	-
- Translation adjustments	-	-	-	-	-	23,998	-	-	-	-
Total other comprehensive income	-	-	-	-	-	43,734	43,734	-	-	43,734
Total comprehensive income	-	-	-	-	-	$101,774	-	-	-	-
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**

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

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 capital	Shares application money pending allotment	Retained earnings	Compre-hensive Income / (Loss)	Accumulated other Compre-hensive Income / (Loss)	Treasury stock		Total stock-holders' equity
	Shares	Amount						Shares	Amount	
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)	-	-	-	-
- Translation adjustments	-	-	-	-	-	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.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(Thousands of US Dollars, except per share data and as stated otherwise)

	Equity shares		Additional	Shares	Deferred stock	Retained	Compre-	Accumulated	Treasury stock		Total
	Shares	Amount	paid-in capital	application money pending allotment	Compen- sation	earnings	hensive Income / (Loss)	other Compre- hensive Income / (Loss)	Shares	Amount	stock- holders' 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	-	-	-	-
- Translation adjustments	-	-	-	-	-	-	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.

Consolidated Statements of Cash Flows

(Thousands of US Dollars, except per share data and as stated otherwise)

	Year ended June 30 ,		
	2003	**2004**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$58,040	$171,949	$138,057
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	18,961	25,138	33,586
Deferred income taxes	(1,466)	(525)	125
Loss/(gain) on sale of property and equipment	(17)	(17)	(249)
Stock based sales incentive	361	151	(34)
Amortization of deferred stock compensation	-	-	572
Other non-cash charges	409	349	2,361
Loss/(profit) on sale of investment securities	(4,033)	(20,930)	(12,313)
Unrealized foreign exchange gain on long term debts	-	-	(1,699)
Profit on divestment of stake in HPS	-	(67,092)	-
Other than temporary decline in value of investment	1,000	-	-
Share of income from affiliates	(1,336)	2,073	577
Effective interest yield adjustment	-	61	31
Minority interest	6,748	13,351	9,921
Changes in assets and liabilities, net			
Accounts receivable	6,427	(40,086)	(29,612)
Other assets	(11,021)	(4,406)	(21,658)
Accounts payable	2,536	(988)	5,341
Accrued employee costs	2,390	13,514	6,919
Other liabilities	6,369	12,186	8,910
Net cash provided by operating activities	**85,368**	**104,728**	**140,835**
CASH FLOWS FROM INVESTING ACTIVITIES			
Movement in restricted cash	(467)	878	(321)
Purchase of property and equipment	(27,167)	(62,622)	(69,866)
Proceeds from sale of property and equipment	378	1,079	688
Purchase of investments	(150,114)	(318,489)	(454,695)
Proceeds from sale of investments	100,352	216,685	507,417
Proceeds from sale of stake in equity affiliates (net of expense)	-	100,228	-
Investments in affiliates	(2,157)	(3,869)	(2,250)
Net payments for business acquisitions	(3,081)	(1,290)	(9,341)
Net cash used in investing activities	**(82,256)**	**(67,400)**	**(28,368)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments under principal capital lease obligations	(329)	(508)	(1,156)
Proceeds from short term borrowings	-	7,457	-
Repayment of short term borrowings	-	-	(2,830)
Proceeds from issuance of long term debt	10,000	19,800	-
Proceeds from issuance of equity shares, net of expenses	3,394	10,818	16,008
Proceeds from subscription of shares pending allotment, net	143	616	377
Purchase of equity shares by trust	(634)	-	-
Settlement of customer options	(285)	(75)	-
Capital distribution to principal shareholder	(73)	(646)	-
Other capital transaction	-	151	-
Dividends paid	(22,444)	(58,607)	(126,672)
Dividends paid to minority shareholder of consolidated subsidiaries	(605)	(2,030)	-
Net cash provided by (used in) financing activities	**(10,833)**	**(23,024)**	**(114,273)**

Consolidated Statements of Cash Flows (Contd.)

(Thousands of US Dollars, except per share data and as stated otherwise)

	Year ended June 30,		
	2003	2004	2005
Effect of exchange rate on cash and cash equivalents	$1,132	$2,077	$ 5,421
Net increase/ (decrease) in cash and cash equivalents	(6,589)	16,381	3,615
CASH AND CASH EQUIVALENTS			
Beginning of the year	$38,951	$32,362	$48,743
End of the year	**$32,362**	**$48,743**	**$52,358**
SUPPLEMENTARY INFORMATION			
Cash paid during the year for interest	$479	$536	$1,602
Cash paid during the year for income taxes	$7,584	$7,529	$10,938
Non-cash investing activities			
Property and equipment acquired under capital lease obligation	$504	$737	$932
Details of business acquisition to the extent accounted under purchase method			
Value of intangible assets acquired	$1,243	$12,809	$15,483
Value of tangible assets (net of cash) acquired	$485	$-	$11,396
Value of liability assumed	$214	$-	$7,205

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

Notes to the Consolidated Financial Statements

(Thousands of US Dollars, except share data and as stated otherwise)

1. Organization and Nature of Operations

Incorporation and history

HCL Technologies Limited ("HCL" or "the Company") was incorporated in India in November 1991. The Company and its subsidiaries are primarily engaged in providing a range of information technology services targeted at technology vendors, software product companies and medium to large end-user organizations. Certain subsidiaries of HCL are engaged in other businesses such as networking and business process outsourcing services.

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 ("US 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 (hereinafter collectively referred to as "the Company"). All material inter-company accounts and transactions are eliminated on consolidation. Minority interest in subsidiaries represents the minority shareholders' proportionate share of the net assets and the results of operations of HCL'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 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 US 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 and efforts 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 exchange rate 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. 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

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as component of accumulated 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. Incremental revenue from existing contracts arising on future sales of customers' products will be recognized when it is earned.

Revenue from sale of goods is recognized in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, when significant risks and rewards in respect of ownership of the products are transferred to the customer and when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occured and services have been rendered;
- The price to the buyer is fixed and determinable; and
- Collectibility of the sales price is reasonably assured.

Revenue from providing network access and maintenance services is recognized systematically over the term of the agreement.

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 had adopted the guidance in EITF Issue No. 00-21 for all revenue arrangements entered into from the year beginning July 1, 2003. Prior to adoption of EITF Issue No. 00-21, the Company had elected an accounting policy to recognize allocated revenue for product sales on dispatch, though the customer was not obligated to pay a portion of the contract price allocable to the delivered products until installation was completed. EITF Issue No. 00-21 does not permit such an election.

As per EITF 00-21, 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 has been 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.

Revenue from sale of goods is shown net of sales tax and applicable discounts and allowances. In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company has accounted

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

for reimbursements received for out-of-pocket expenses incurred as revenues in the statement of operations.

Revenue accrued not yet billed is classified as unbilled revenue, while billings on incomplete contracts in excess of accrued revenue 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 that 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, less trade discounts.

(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
Mainframe Computer System	6 years
Office Furniture and Equipment	4 years
Vehicles	5 years

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 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. Available-for-sale securities are carried at fair value based on quoted market prices.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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. 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, 2003, June 30, 2004 and June 30, 2005 were $215, $609 and $1,717 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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

(q) Stock based compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, 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, to account for its fixed stock option plans. Under this method, compensation expense is recorded at the date of grant only if the current market price of the underlying stock has exceeded the exercise price. 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 has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123*. All stock options issued to date have been accounted as a fixed stock option plan.

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.

		Year ended June 30,		
		2003	**2004**	**2005**
Net income, as reported		**$58,040**	**$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		17,968	7,455	12,515
Proforma net income		**$40,072**	**$164,494**	**$126,114**
Earnings per share				
Basic	- As reported	$0.20	$0.59	$0.45
	- Proforma	$0.14	$0.56	$0.41
Diluted	- As reported	$0.20	$0.58	$0.44
	- Proforma	$0.14	$0.55	$0.41

The pro-forma disclosures shown above are not representative of the effects on net revenue and earnings per share in future years.

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

	2003	**2004**	**2005**
Dividend yield %	0.10% to 0.64%	0.1% to 3.2%	0.1% to 4.9%
Expected life	up to 110 months	up to 110 months	up to 110 months
Risk free interest rates	6% to 10%	6% to 10%	5.4% to 10%
Volatility	53% to 69.0%	53% to 69.0%	39% to 69.0%

(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) Retirement benefits to employees

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. The liabili ty 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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

(t) Dividend

Dividends are recognized upon approval by the shareholders.

(u) Derivative and hedge accounting

The Company purchases forward foreign exchange contracts and options to mitigate the risk of changes in foreign exchange rates associated with certain payables and forecast sales 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. In respect of derivatives designated as cash flow hedges, gains or losses resulting from changes in the fair value are deferred and recorded as a component of accumulated other comprehensive income within stockholders' equity until the hedged transactions occur and are then recognized in the Consolidated Statements of Income. Changes in fair value for derivatives not designated as hedging instruments are recognized in Consolidated Statements of Income in the current period.

In respect of derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will, prospectively, discontinue hedge accounting with respect to that derivative.

(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 December 2004, the FASB issued Statement of Financial Accounting Standards Board No. 123R, *Share-Based Payment*, which is a revision of FAS 123. FAS 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB 25, which is allowed under the original provisions of FAS 123. FAS 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the service periods. The requirements of FAS 123R are effective for fiscal periods beginning after June 15, 2005. FAS 123R allows for either modified prospective recognition of compensation expense or modified retrospective recognition, which may be back to the original issuance of FAS 123 or only to interim periods in the year of adoption. The Company currently plans to apply the provisions of FAS 123R on a modified prospective basis for the recognition of compensation expense for all share-based awards granted on or after July 1, 2005 and any awards that are not fully vested as of June 30, 2005. Compensation expense for the unvested awards will be measured based on the fair value of the awards

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

previously calculated in preparing the Pro Forma disclosures in accordance with the provisions of FAS 123. The Company is evaluating the impact of the provisions of FAS 123R on the financial statements for the year ending June 30, 2006.

(x) *Reclassifications*

The Company has reclassified unbilled revenue from accounts receivable to conform to current presentation. Certain other reclassifications have been made to conform prior period data to current presentation. The above 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 and short-term loans. 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, 2004 and 2005, 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 accordingly, trade receivables are concentrated in the United States. To reduce credit risk, the Company performs ongoing credit evaluation of customers.

As of June 30, 2004 and 2005, a single customer accounted for approximately 20.5% and 22.6% of the accounts receivable respectively.

4. Cash and Cash Equivalents

The cost and fair values for cash and cash equivalents as of June 30, 2004 and 2005 are as follows:

	2004	2005
Deposits with banks	$1,281	$715
Other cash and bank balances	47,462	51,643
Cash and cash equivalents	**$48,743**	**$52,358**

5. Property and Equipment

As of June 30, 2004 and 2005, property and equipment comprise the following:

	2004	2005
Land	$10,072	$36,103
Buildings	13,635	22,537
Computer and networking equipment	73,833	110,023
Software	21,574	28,359
Mainframe computer system	1,112	1,175
Office furniture and equipment	27,835	43,875
Vehicles	3,809	5,784
Capital work-in-progress	31,411	23,008
	183,281	**270,774**
Accumulated depreciation and amortization	**(80,412)**	**(119,187)**
Property and equipment, net	**$102,869**	**$151,587**

Depreciation expense was $15,178, $21,254 and $29,106 for the years ended June 30, 2003, 2004 and 2005 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $14,551 and $20,745 as of June 30, 2004 and 2005 respectively. Amortization expense for software for the years ended June 30, 2003, 2004 and 2005 was $2,959, $3,518 and $4,051 respectively.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

Computer and networking equipment as of June 30, 2004 and 2005 includes certain equipment given on operating lease costing $621 and $725 respectively. The accumulated depreciation on these equipment as of June 30, 2004 and 2005 amounts to $417 and $514 respectively.

As of June 30, 2004 and 2005 property and equipment include assets held under capital leases, which comprise:

	2004	2005
Computer and networking equipment	$162	$121
Vehicles	2,774	4,604
Office furniture and equipment	50	489
	2,986	**5,214**
Accumulated depreciation	**(1,160)**	**(1,941)**
	$1,826	**$3,273**

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, 2005 are as follows:

Year ending June 30,	
2006	$1,262
2007	1,132
2008	898
2009	586
Total minimum payments	**$3,878**
Less: Amount representing future interest	597
Present value of minimum payments	**$3,281**
Less: Current portion	969
Long term capital lease obligation	**$2,312**

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, 2005 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2006	$15,143
2007	12,805
2008	11,369
2009	9,694
2010	4,954
Thereafter	1,985
Total minimum payments	**$55,950**

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 expense under operating leases is $8,572, $12,022 and $17,998 for the years ended June 30, 2003, 2004 and 2005 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:

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

	Total minimum lease payments receivables as on 30 June, 2005	Interest included in minimum lease payments receivables	Present value of minimum lease payments receivables
Not later than one year	326	137	189
Later than one year but not later than 5 years	281	63	218
	607	**200**	**407**

7. Goodwill

The following table presents the changes in goodwill during the year ended June 30, 2004 and 2005:

	2004	2005
Opening balance	$45,464	$58,826
Goodwill relating to business combinations consummated during the year	12,517	119,330
Effect of exchange rate changes	845	1,230
Closing balance	**$58,826**	**$179,386**

Goodwill has been allocated to the following operating segments:

	2004	2005
Software services	$49,184	$168,784
Networking services	2,320	2,454
Business process outsourcing services	7,322	8,148
	$58,826	**$179,386**

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, 2004			June 30, 2005		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	$350	$(350)	$-	$350	$(350)	$-
Amortizable employee workforce	235	(156)	79	235	(235)	-
Customer related intangibles	2,629	(1,769)	860	17,819	(3,695)	14,124
Non-compete agreements	165	(72)	93	167	(94)	73
	$3,379	**$(2,347)**	**$1,032**	**$18,571**	**$(4,374)**	**$14,197**

Amortization expense for other intangible assets for the year ended June 30, 2003, 2004 and 2005 is $993, $501 and $2,288 respectively. Amortization expense is included in depreciation and amortization other than $169, $135 and $1,859, which is reported as a reduction of revenue during the year ended June 30, 2003, 2004 and 2005 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, 2005 the Company has unamortized Customer related intangibles of $8,846 which would be amortized in future periods and reported as a reduction of revenue.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

The estimated amortization schedule for the intangible assets on a straight-line basis is set out below:

Year ending June 30,	
2006	$3,102
2007	2,579
2008	2,319
2009	1,544
2010	1,138
Thereafter	3,515
	$14,197

9. Business Combinations

During the years ended June 30, 2004 and 2005, 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.

During July 2001, the Company had acquired 51% equity interest in the Enterprise Resource Planning business of Computech Corporation and Systech for cash. The Company has 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 intangible 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 for by following the purchase method.

As per the shareholder agreement, the Company has 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" (formerly known as Apollo BT Center)

In December 2001, the Company acquired a 90% equity interest in the Business Process Outsourcing (BPO) division of British Telecommunications plc. (Apollo BT call center), 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 HCL'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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

HCL Technologies Mass Inc. (formerly "Gulf Computers 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 provide 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 was payable either in cash or in common stock of the Company.

The Company had followed the consensus reached in EITF 95-8, *Accounting for Contingent Consideration Paid to Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and would have recorded contingent payments as goodwill in the period in which the contingency was resolved. 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 loss/ (income) of Shipara for the years ended June 30, 2003 and 2004 was $801 and $(166) respectively. The carrying value of the investment in Shipara was $2,362 as of June 30, 2004.

Aquila Technologies Limited ("Aquila")

As of June 30, 2004, a joint venture of the Company, Shipara held 37% stake in Aquila. During the current 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 for the year ended June 30, 2005 have been included in the Consolidated Financial Statements of the Company.

Aalayance Inc. USA ("Aalayance")

In January 2003, the Company acquired a 19.03% equity interest in Aalayance Inc. for a cash consideration of $450. During January 2005, the Company has acquired an additional stake by way of subscription of 9,081,268 equity shares of Aalayance 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) making Aalayance, and its subsidiaries, HCL EAI Services Private Limited (formerly "Aalayance E-com Services Private Limited") 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 Aalayance had given the Company ability to exercise significant influence over the operating and financial policies of the Aalayance Inc., as such the investment was being accounted for by the equity method. The Company's equity in the loss of Aalayance Inc. for the years ended June 30, 2003 and 2004 is $43 and $19 respectively. The carrying value of the investment in Aalayance Inc. is $388 as of June 30, 2004.

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.

Aalayance had granted options of its shares to its employees and employees of its subsidiaries, prior to it becoming subsidiary of the Company. Options for 2,616,127 equity shares of Aalayance are outstanding as of June 30, 2005 and are required to be acquired by the Company in stages by October 1, 2009 as per the terms of the shareholders agreement.

Answer Call Direct Limited ("Answer Call")

During the year, one of the subsidiaries of the Company has acquired business and assets of an existing call center, Answer Call for a cash consideration of $1,737. This has resulted in goodwill aggregating $897.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

Joint Venture with NEC Corporation Japan ("NEC")

In June 2005, the Company entered into a Joint Venture Agreement with NEC and its subsidiary, NEC System Technologies Ltd. ("NECST") to form a Joint Venture Company ("JVC") which would provide offshore led software engineering solutions to NEC, its subsidiaries and their clients, in Japan and globally. The 49% stake in JVC will be held by the Company for which there is a commitment to contribute $2,478 to the share capital of the proposed JVC.

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.

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 HCL's stock.

Common control transaction

HCL Infinet Ltd.

In January 2003, the Company acquired the BPO division of HCL Infinet Limited (a company under common control as HCL) for a cash consideration of $422. The results of the operations of the business are included in the Company's Consolidated Financial Statements with effect from the date on which both the Company and HCL Infinet Limited became companies under common control. To the extent this business acquisition is in the nature of exchange of ownership interests between entities under common control, the acquired assets have been recorded on a historical cost basis and the difference between the consideration paid and the historical cost aggregating $73 has been reflected as a distribution in the Consolidated Financial Statements. The remaining portion of the acquisition transaction has been accounted for by the purchase method and has resulted in recognition of goodwill of $118, non-compete rights of $32 and customer relationship of $32.

Professional Service Organization (PSO) Division

In January 2003, the Company entered into a scheme of arrangement with HCL Infosystems Limited ("HCLIS") (a company under common control as HCL) to acquire the software business of the latter. The Company filed the scheme of arrangement with Hon'able Court of Delhi, which accorded its approval on July 8, 2003. The Company intimated the Registrar of Companies regarding the scheme of arrangement on July 24, 2003.

The scheme of arrangement envisaged a share entitlement ratio of 2 equity shares of the Company for every 9 equity shares of HCLIS in consideration for the proposed business transfer.

The results of the operations of the acquired business are included in the Company's Consolidated Financial Statements with effect from May 1, 2002 on which both the Company and HCLIS became companies under common control. To the extent this business acquisition is in the nature of exchange of ownership interests between entities under common control, the acquired assets have been recorded on a historical cost basis and the recording of fair value of shares issued has been restricted to the historical cost of the acquired asset. The excess of historical cost of net assets acquired over par value of shares aggregating $2,870 has been reflected in additional paid-in capital.

The remaining portion of the acquisition transaction has been accounted for by the purchase method. The acquisition of minority interest has resulted in recognition of goodwill of $11,413, customer contract of $102 and customer relationship of $151.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

10. Investments in Affiliates

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

- ***11.1% interest in Diamondhead Ventures LLP***

During the year ended June 30, 2003, 2004 and 2005, the Company invested $750, $3,000 and $2,250 in Diamondhead Ventures LLP, a technology venture fund. As of June 30, 2005, the Company holds an 11.1% interest in Diamond Ventures LLP. The Company's equity in the loss/ (income) of Diamondhead Ventures LLP for the years ended June 30, 2003, 2004, and 2005 is $1,198, $(118) and $468 respectively. The carrying value of investment in this LLP is $5,731 and $7,410 as of June 30, 2004 and 2005 respectively. As of June 30, 2005 the Company has a commitment to contribute an additional $4,500 to Diamondhead Ventures LLP over the future years.

- ***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, 2005 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, 2003, 2004 and 2005 is $311, $(25) and $Nil respectively. The carrying value of the investment in HCL Answerthink Inc. as of June 30, 2004 and 2005 is $156 and $116 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.

An analysis of the carrying amount of the investment, the earnings of HPS included in net income and summarized financial information is as follows:

	2003	2004
Carrying value	$35,746	$-
Share of income/(loss) from affiliate included in net income	$3,736	$(2,363)

The loss in 2004 is 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.

In 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 year 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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

11. Investment Securities

Investment securities, available for sale consist of the following:

As of June 30, 2004:

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	$34,683	$2,913	$-	$37,596
Equity securities	225	-	(61)	164
Mutual fund units	374,791	7,409	(323)	381,877
Total	**$409,699**	**$10,322**	**$(384)**	**$419,637**

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**

The maturity profile of the available-for-sale debt securities as of June 30, 2005 is set out below:

	Carrying value	Fair value
Less than one year	$5,190	$5,253
One to five years	2,298	2,390
Five to ten years	-	-
Total	**$7,488**	**$7,643**

Proceeds from the sale of securities, available for sale, were $100,352, $316,913 and $507,417 during the years ended June 30, 2003, 2004 and 2005 respectively. Interest and dividend income earned from these investments during the years ended June 30, 2003, 2004 and 2005 was $4,406, $12,632 and $6,509 respectively. Investments in mutual fund units aggregating $26,130 are pledged with long term loans lender of the Company as security.

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 153,321 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 and the warrants, being freestanding derivatives, are carried at fair value with changes in fair values being recognized in earnings.

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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

12. Other Investments

The Company holds investments in LLP technology venture funds. The carrying value of investment as on June 30, 2004 and 2005 in LLP technology venture funds aggregated $13,870 and $12,558 respectively. The Company's interest in these funds ranges from 0.6% to 4.7%. As of June 30, 2005, the Company has commitments to contribute an additional $6,451 to these venture funds over the future years.

During the year ended June 30, 2003, 2004, and 2005, as part of its ongoing evaluation of these investments, the Company recorded an impairment charge of $1,000, $Nil and $Nil respectively, for other than temporary decline in value of investments. Distribution recorded as dividend income from these investments during the years ended June 30, 2003, 2004, and 2005 was $Nil, $1,950 and $2,508 respectively.

In June 2000, the Company purchased 1,538,462 convertible preferred shares of an unlisted company at a cost of $2,000. Each preferred share is convertible to one common share at the option of the holder. In the event of an Initial Public Offering (IPO) by the affiliate, the preferred shares will be converted to common shares. During the year ended June 30, 2002, the Company had recorded an impairment charge of $2,000 for other than temporary decline in value of investment in this company.

13. Derivative Financial Instruments

The Company enters into forward 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 twelve months.

As of June 30, 2004 and June 30, 2005, the Company has recorded a gain/ (loss) aggregating $(5,689) and $5,072 as a component of accumulated other comprehensive income within stockholder's equity.

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,	**2004**	**2005**	**2004**	**2005**
Foreign exchange forward contracts denominated in				
United States Dollars	$132,570 (sell)	$257,130 (sell)	$(6,329)	$5,052
Great Britain Pounds	£860 (sell)	£13,659 (sell)	(96)	374
Euros	€3,935 (sell)	€60,254 (sell)	(33)	1,527
Australian Dollars	-	$450 (sell)	-	2
Japanese Yen	-	¥452,002 (buy)	-	(32)
			$ (6,458)	**$6,923**

1. Notional amounts are key elements 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 or market risks.
2. Balance sheet exposure is denominated in United States Dollars and denotes the fair value of the derivative products on the reporting date.

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(Thousands of US Dollars, except share data and as stated otherwise)

14. Other Current Assets

As of June 30, 2004 and 2005, other current assets comprise the following:

	2004	2005
Prepaid expenses	$6,408	$8,848
Interest receivable	877	299
Prepaid/advance taxes	24,304	29,062
Deposits	687	1,935
Fair value of forward contracts	-	6,923
Others	2,902	6,410
Other current assets	**$35,178**	**$53,477**

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 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.

The movement in allowance for accounts receivable is given below:

	2004	2005
Balance at the beginning of the year	$12,274	$11,717
Additional provision during the year	1,253	1,886
Deductions on account of write off	(1,810)	(7,983)
Balance at the end of the year	**$11,717**	**$5,620**

16. Short Term Loans

The Company has line of credit facilities in India from its bankers aggregating $10,342 for financing its fund based and non-fund based working capital requirements. These facilities bear interest which averaged 6.0% to 6.5% per annum. As of June 30, 2004 and June 30, 2005, there were no outstanding balances against fund-based facilities.

COMNET, a subsidiary based in India, has fund-based facility of $2,988 and non-fund based facilities of $32,521. These facilities bear interest which averaged 0.35% to 13% per annum. As of June 30, 2004 and 2005, outstanding balances against the fund-based facilities were $6,872 and $4,071. 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 $6,750 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, 2004 and 2005, there were no outstanding balances against this line of credit. The facilities are issued against a corporate guarantee furnished by HCL Technologies Limited.

HCLT Europe, a subsidiary based in the UK has obtained revolving line of credit facilities from a bank subject to an overall ceiling of $1,329. As of June 30, 2004 and 2005, outstanding balances against the fund-based facilities were $585 and Nil. The facilities are issued against corporate guarantee furnished by HCL Technologies Limited and contain financial covenants and restrictions on indebtedness.

Deutsche Software, a subsidiary based in India, has certain non-fund based facilities aggregating $1,149. As of June 30, 2004 and 2005, there were no outstanding balances against this line of credit. These facilities are secured by certain current assets of the subsidiary and contain financial covenants and restrictions on indebtedness.

HCL BPO Services, a subsidiary based in India, has a line of credit facility from its bankers aggregating $8,969 for financing its fund-based and non-fund based facilities. These facilities bear interest which averaged 10% to 12% per annum. As of June 30, 2004 and

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

2005, there were no outstanding balances against these facilities. These facilities are issued against corporate guarantee furnished by HCL Technologies Limited.

HCL Technologies (Mass) Inc., a subsidiary based in US, has non-fund based credit facility of $5,000. As of June 30, 2004 and 2005, there were no outstanding balances against this line of credit. The facilities are issued against corporate guarantee furnished by HCL Technologies Limited and contain financial covenants and restrictions on indebtedness.

HCL BPO Services (NI) Limited, a subsidiary based in Northern Ireland has an outstanding interest free loan of $5,377 granted during the year, secured by charge over certain assets and against corporate guarantee furnished by HCL Technologies Limited.

Non-fund based facilities include guarantees and letters of credit.

17. Long Term Debts

In June 2003, HCL BPO Services obtained a term loan of $10,000 to finance its capital expenditure requirements. The term 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 previous year, the Company further obtained a term loan of $20,000 to finance its expansion and working capital requirem ent. The term loan bears interest 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 subsequent to the year end.

As of June 30, 2004 and June 30, 2005, long-term debt comprises of:

	2004	2005
Secured foreign currency debts	$29,861	$29,891
Less : Current portion of long-term debts	-	11,667
	$29,861	**$18,224**

Additionally, the loan agreements contain financial covenants and restrictions on indebtedness. The maturity profile of term loans is as follows:

	2004	2005
Within one year	$-	$11,667
One to two years	11,667	13,333
Two to three years	13,333	4,891
Three to four years	4,861	-
Total	**$29,861**	**$29,891**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

18. Other Current Liabilities

As of June 30, 2004 and 2005, other current liabilities comprise the following:

	2004	2005
Advances from customers	$1,444	$1,259
Sales tax and withholding taxes payable	5,824	7,119
Unclaimed dividend	121	264
Accrued liabilities and expenses	20,019	26,034
Consideration payable in connection with an acquisition transaction	209	209
Warranty obligations	427	450
Fair value of forward contracts	6,458	-
Others	4,853	8,922
Other current liabilities	**$39,355**	**$44,257**

The movement in warranty obligations is given below:

	2004	2005
Balance at the beginning of the year	$297	$427
Additional provision during the year	1,676	400
Reduction due to utilizations	(1,546)	(377)
Balance at the end of the year	**$427**	**$450**

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, 2005 is $0.05.

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 $22,444, $58,607 and $126,672 during the years ended June 30, 2003, 2004 and 2005 respectively. The dividend per share was $0.08, $0.17 and $0.37 during the years ended June 30, 2003, 2004 and 2005 respectively. During the year ended June 30, 2004 and 2005, dividend distributions to a minority shareholder in consolidated subsidiaries aggregated $ 2,030 and $Nil.

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 shares 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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

20. Other Income, Net

For the years ended June 30, 2003, 2004 and 2005, interest and other income comprises the following:

	2003	2004	2005
Interest income	$4,511	$3,911	$2,122
Dividend income from investments	161	10,668	7,210
Profit/ (loss) on sale of investment securities, net	4,033	20,930	12,313
Profit on divestment on stake in HPS	-	67,092	-
Other than temporary decline in value of investments	(1,000)	-	-
Foreign exchange gains, net	337	2,998	1,185
Miscellaneous income	3,249	2,462	3,082
Interest and other finance costs	(549)	(1,550)	(1,830)
Other income, net	**$10,742**	**$106,511**	**$24,082**

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, 2003, 2004 and 2005 were allocated as follows:

	2003	2004	2005
Income from continuing operations	$6,662	$8,845	$15,205
Stockholders' equity for:			
Tax benefits received on exercise of employee stock options reflected as part of additional paid-in capital	(67)	(331)	(1,419)
Unrealized holding gains/(losses) on available for sale investment securities	1,963	(1,537)	2,731
Unrealized gain/(loss) on cash flow hedge	-	166	(166)
Effect of exchange rate fluctuations	171	31	166
Total taxes	**$8,729**	**$7,174**	**$16,517**

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

	2003	2004	2005
Current			
Indian taxes	$6,741	$6,584	$7,111
Others	1,387	2,786	7,969
Total	**$8,128**	**$9,370**	**$15,080**
Deferred			
Indian taxes	$(1,451)	$(1,890)	$1,415
Others	(15)	1,365	(1,290)
Total	**$(1,466)**	**$(525)**	**$125**
Total taxes	**$6,662**	**$8,845**	**$15,205**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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

	2003	2004	2005
Income before taxes, share of income from affiliates and minority interest	$70,114	$196,218	$163,760
Average enacted tax rate in India	35.88%	35.88%	33.66%
Expected tax expense	25,156	70,403	55,123
Non-taxable export income (net)	(20,064)	(32,186)	(39,453)
Non-taxable other income	(264)	(19,838)	(2,073)
Income taxed at a lower/higher rate	(975)	(3,921)	408
Differences between Indian and Foreign tax rates	812	(7,090)	(3,605)
Increase/(decrease) in valuation allowance including losses of subsidiaries	1,281	(1,150)	630
Others	716	2,627	4,175
Total taxes	**$6,662**	**$8,845**	**$15,205**

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 April 1, 2005. The aggregate dollar and per share effects of the tax holiday are $20,064 and $0.07 per share for the year ended June 30, 2003, $32,186 and $0.11 per share for the year ended June 30, 2004 and $39,453 and $0.13 for the year ended June 30, 2005.

The components of the deferred tax balances as of June 30, 2004 and 2005 are as follows:

	2004	2005
Deferred tax assets:		
Business losses	$4,309	$1,556
Capital losses	193	-
Allowance for accounts receivable	1,620	647
Accrued employee costs	2,199	4,035
Property and equipment	2,303	4,082
Other temporary differences	653	1,207
	11,277	**11,527**
Less: Valuation allowance	(2,003)	(819)
Total deferred tax assets	**$9,274**	**$10,708**
Deferred tax liabilities:		
Unrealized gains on investment securities	$782	$3,400
Others	223	1,023
Total deferred tax liabilities	**$1,005**	**$4,423**
Net deferred tax assets	**8,269**	**6,285**

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.

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(Thousands of US Dollars, except share data and as stated otherwise)

As of June 30, 2005, the US based subsidiary of the Company has utilized all brought forward business and capital losses. Further, this subsidiary has carried back certain Net Operating Losses relating to years ending June 30, 2001 and 2002. This has resulted in Tax Credit of $1,479, out of which $702 has been applied to the tax payment for the year ended June 30, 2004. 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, 2003, 2004 and 2005, the US based subsidiary of the Company has received tax benefit aggregating $67, $210 and $1,419 respectively, upon exercise of employee stock options. During the year ended June 30, 2004, the Company has also reversed the valuation allowance of $121 created on employee stock options tax benefit in the year ended June 2002 and recorded the reversal through stockholders' equity.

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, these tax benefits have been reserved.

The components of valuation allowance of June 30, 2004 and 2005 are as follows:

	2004	2005
Business losses	$1,810	$819
Capital losses	193	-
Total	**$2,003**	**$819**

Undistributed earnings of the domestic subsidiaries amounted to approximately $49,903 and $103,804 as of June 30, 2004 and 2005 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, 2003, 2004 and 2005:

	2003	2004	2005
Weighted average number of equity shares outstanding used in computing basic EPS	287,201,728	292,323,540	307,406,759
Dilutive effect of stock options and other contingently issuable shares	6,437,519	5,209,438	8,602,128
Weighted average number of equity shares and equity equivalent shares outstanding used in computing diluted EPS	293,639,246	297,532,978	316,008,887

Options to purchase 28,435,725, 16,403,500 and 9,346,907 equity shares during the years ended June 30, 2003, 2004 and 2005 respectively, were not included in the computation of diluted EPS as these options were anti-dilutive.

Shares of the Company held by the controlled trust and 50% of the shares of the Company held by HPS (a 50% owned affiliate till 2003), were reduced from the outstanding shares of the Company in the computation of basic and diluted EPS.

23. Stock Option Plans

1999 Stock Option Plan

In September 1999, the Company instituted the 1999 Stock Option Plan (1999 Plan) to provide equity-based incentives to all eligible employees of the Company and its subsidiaries. The 1999 Plan is administered by the Committee consisting of majority of independent

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(Thousands of US Dollars, except share data and as stated otherwise)

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.

Each option granted under the 1999 Plan, entitles the holder to two equity shares of the Company. The equity shares covered under these options vest over a maximum period of 110 months from the date of the grant. The options are to be exercised within a maximum period of five years from its date of vesting.

The Company has adopted the intrinsic value method of APB 25 to account for options granted to employees under the 1999 Plan. The excess of the fair value of the underlying shares at the grant date over the exercise price of the options amounting to $301 has been recognized as deferred stock compensation during the year ended June 30, 2000, and amortized over the vesting period of the options. The movement in the options granted to employees during the years ended June 30, 2003, 2004 and 2005 under the 1999 Plan is set out below:

	Shares arising out of option Year ended June 30,			Weighted average exercise price Year ended June 30,		
	2003	2004	2005	2003	2004	2005
Outstanding at beginning of the year	24,663,239	21,854,762	16,703,590	$5.49	$5.92	$6.49
Granted	-	-	8,280,672	-	-	$7.34
Forfeited	(781,918)	(980,184)	(1,529,858)	$9.32	$8.51	$8.39
Expired	(687,717)	(748,178)	(447,698)	$3.78	$5.67	$9.30
Exercised	(1,338,842)	(3,422,810)	(2,835,040)	$2.73	$2.77	$3.09
Outstanding at the end of the year	21,854,762	16,703,590	20,171,666	$5.92	$6.49	$7.42
Exercisable at the end of the year	12,491,125	10,428,752	8,481,672	$3.97	$5.05	$6.44
Weighted-average grant date fair value of grants during the year				-	-	$1.93

As of June 30, 2004 and 2005, of the total options exercised, options for 145,530 and 74,258 shares were pending allotment, respectively.

The following table summarizes information about stock options outstanding under the 1999 Plan as of June 30, 2004:

	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
$2.77-$6.30	10,808,458	3.39 years	$3.91	8,343,496	$3.46
$10.70-$26.55	5,895,132	6.13 years	$11.21	2,085,256	$11.39

The following table summarizes information about stock options outstanding under the 1999 Plan 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
$2.76 - $8.62	15,039,610	6.25 years	$5.89	5,975,386	$4.09
$11.32 - $28.08	5,132,056	5.54 years	$11.89	2,506,286	$12.04

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2000 Stock Option Plan

In October 2000, the Company instituted the 2000 Stock Option Plan (2000 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 Committee on the date the option is granted.

Each option granted under the 2000 Plan, entitles the holder to two equity shares of the Company. The equity shares covered under these options vest over a maximum period of 104 months from the date of the grant. The options are to be exercised within a pe riod of five years from the date of vesting.

The Company has adopted the intrinsic value method of APB 25 to account for options granted to employees under the 2000 Plan. Since no option has been awarded at an exercise price below the market price of the underlying shares at the grant date, no compensation cost has been recognized.

The movement in the options granted to employees during the years ended June 30, 2003, 2004 and 2005 under the 2000 Plan is as set out below:

	Shares arising out of option			Weighted average exercise price		
	2003	2004	2005	2003	2004	2005
Outstanding at beginning of the year	17,782,762	17,629,222	15,278,478	$6.76	$6.67	$6.75
Granted	1,640,050	218,550	14,390,890	$4.23	$6.73	$7.33
Forfeited	(1,515,190)	(1,303,052)	(1,689,300)	$5.55	$6.06	$7.00
Expired	(277,950)	(895,290)	(728,326)	$7.34	$6.86	$7.96
Exercised	(450)	(370,952)	(1,847,504)	$3.44	$4.95	$5.38
Outstanding at the end of the year	17,629,222	15,278,478	25,404,238	$6.67	$6.75	$7.36
Exercisable at the end of the year	5,791,493	9,045,586	7,743,804	$7.65	$6.88	$7.61
Weighted-average grant date fair value of grants during the year				$1.91	$2.84	$1.91

As of June 30, 2004 and 2005, of the total options exercised, options for 42,876 and 26,890 shares were pending allotment, respectively.

The following table summarizes information about stock options outstanding under the 2000 Plan as of June 30, 2004:

	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
$2.82-$5.11	7,093,018	4.66 years	$4.85	5,139,020	$5.02
$5.11-$9.47	4,643,906	6.18 years	$5.77	1,475,026	$5.74
$9.47-$14.75	3,541,554	4.47 years	$11.85	2,431,540	$11.50

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

The following table summarizes information about stock options outstanding under the 2000 Plan 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
$2.99 - $5.40	4,911,792	4.57 years	$5.10	3,655,746	$5.26
$5.40 - $10.02	17,333,742	8.48 years	$7.06	1,689,352	$6.08
$10.34 - $15.61	3,158,704	4.08 years	$12.52	2,398,706	$12.25

2004 Stock Option Plan

In December 2004, the Company instituted the 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 2004 plan, entitles the holder to two equity shares of the Company. The equity shares covered under these options vest over a maximum period of 84 months from the date of the grant. The options are to be exercised within a period of five years from the date of vesting or the date of expiry of the 2004 Plan, whichever is earlier.

The Company has adopted the intrinsic value method of APB 25 to account for options granted to employees under the 2004 Plan. Under the 2004 Plan, options may be issued at an exercise price, which is equal to the market price as at the date of the grant or at such other prices as may be determined by the Compensation Committee on the date of grant of options.

During the current year options having 183,904 underlying shares have been granted at prices less than the market price as at the date of grant of options. The excess of the market value of the underlying shares at the grant date over the exercise price of the options amounting to $1,722 has been recognized as deferred stock compensation during the current year and is being amortized over the vesting period of the options.

The movement in the options granted to employees during the year ended June 30, 2005 under the 2004 Plan is as set out below:

	Shares arising out of option 2005	Weighted average exercise price 2005
Outstanding at beginning of the year	-	-
Granted	746,944	$5.93
Forfeited	-	-
Outstanding at the end of the year	746,944	$5.93
Weighted-average grant date fair value of grants during the year	-	$1.94
Weighted-average grant date fair value of grants during the year, at less than market price	-	$7.40

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

The following table summarizes information about stock options outstanding under the 2004 Plan 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
$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	-	-

Also refer *note 9 on "Business Combinations" relating to "Aalayance 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, 2004	2005
Shares held at the beginning of the year	4,098,887	994,445
Shares issued to employees	(3,104,442)	(994,445)
Shares held at the end of the year	**994,445**	**-**

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, 2004 and 2005. The measurement date used is June 30 of the relevant fiscal year.

	2004	2005
Change in benefit obligation		
Projected Benefit Obligation (PBO) at the beginning of the year	$1,950	$3,198
Service cost	691	904
Interest cost	137	241
Benefits paid	(184)	(385)
Actuarial (gain)/loss	605	253
Effect of exchange rates changes	(1)	206
PBO at the end of the year	**$3,198**	**$4,417**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

	2004	2005
Change in plan assets		
Fair value of plan assets at the beginning of the year	$106	$122
Actual return on plan assets	3	10
Employer contributions	197	415
Benefits paid	(184)	(385)
Effect of exchange rates changes	2	7
Plan assets at the end of the year	**$124**	**$169**

	2004	2005
Funded status	$(3,076)	$(4,247)
Unrecognized actuarial loss	779	1,009
Unrecognized transitional obligation	20	12
Effect of exchange rates changes	(11)	-
Net amount recognized	**(2,288)**	**(3,226)**
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	**$(2,288)**	**$(3,226)**

Net gratuity cost for the years ended June 30, 2003, 2004 and 2005 comprise of the following components:

	2003	2004	2005
Service cost	$417	$691	$904
Interest cost	128	137	241
Expected return on assets	(7)	(4)	(10)
Amortization of unrecognized transition obligation	8	3	8
Amortization of unrecognized actuarial loss	22	20	23
Net gratuity cost	**$568**	**$847**	**$1,166**

The weighted average actuarial assumptions used in accounting for the benefit obligations and net gratuity cost under the Gratuity Plan as of June 30, 2003, 2004 and 2005 are given below:

	2003	2004	2005
Discount rate	7.5%	7.5%	7.5%
Expected rate of increase in salaries			
- for the next five years	7.5%	7.2%	7.5%
- thereafter	6%	6%	6%

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, 2004 and 2005 was $1,795 and $2,637 respectively.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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

Year ending June 30,	
2006	$431
2007	477
2008	613
2009	856
2010	1,237
2011-2014	6,286
Total	**$9,900**

The expected benefits are based on the same assumptions used to measure the Company's benefit obligations as of June 30, 2005.

The Company expects to contribute $431 approximately, to the gratuity trusts during fiscal 2006.

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 contributions made are recorded in the statement of income on an accrual basis. The Company has no further obligations under the plan beyond its monthly contributions. Total contributions made in respect of this plan for years ended June 30, 2003, 2004 and 2005 are $1,976, $348 and $469 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, 2003, 2004 and 2005 are $2,090, $3,166 and $5,145 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, 2003, 2004 and 2005 are $515, $829 and $699 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 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, 2003, 2004 and 2005 are $281, $270 and $371 respectively.

Subsidiaries in Europe

The Company has established pension plans for its employees of the subsidiaries in Europe. The plans operating in Europe and Sweden 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, 2003, 2004 and 2005 were $262, $404 and $491 respectively.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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, 2003, 2004 and 2005 are $43, $97 and $116 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 $361 and $151 for the year ended June 30, 2003 and June 30, 2004 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 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 can be 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		
	2003	**2004**	**2005**
Significant interest entities	$871	$1,269	$2,543
Affiliates	1,010	418	-
Total	**$1,881**	**$1,687**	**$2,543**

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.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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

	Year ended June, 30		
	2003	2004	2005
Significant interest entities	$1,453	$1,897	$2,073
Affiliates	4,136	6,354	-
Total	**$5,589**	**$8,251**	**$2,073**

Computer equipment and software purchases

The Company purchases computer equipment and software from certain significant interest entities. These purchases during the years ended June 30, 2003, 2004 and 2005 amount to $5,091, $4,717 and $8,268 respectively.

Subleasing of facilities

A significant interest entity has subleased a portion of their facilities to the Company. Total amount charged for the year ended June 30, 2003, 2004 and 2005 were $183, $39 and $245 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, 2004 and 2005 are $751 and $708 respectively.

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

As of June 30, 2004	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$398	$474	$872
Other receivables	113	325	438
	$511	**$799**	**$1,310**
Dues to related parties			
Accounts payable	$819	$364	$1,183
Deferred revenue	19	-	19
Other payables	18	1,147	1,165
	$856	**$1,511**	**$2,367**

As of June 30, 2005	Significant interest entities	Affiliates	Total
Due from related parties			
Accounts receivable	$960	$-	$960
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**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

27. Contingencies and Commitments

Capital commitments

As of June 30, 2005, the Company had committed to spend $9,028 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 (EOU)/STP units 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, 2005 is $4,690.

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 Software 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.

Segment information for prior periods is provided on a comparative basis.

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

Information on reportable segments for year ended June 30, 2003 is as follows:

	Software services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$357,206	$32,863	$25,417	$-	$-	$415,486
Internal revenue	-	822	3,731	(4,553)	-	-
Total	**357,206**	**33,685**	**29,148**	**(4,553)**	**-**	**415,486**
Identifiable operating expenses (net)	272,510	29,109	29,922	(4,553)	10,165	337,153
Depreciation and amortization	12,171	2,049	3,661	-	1,080	18,961
Segment income from operations	**$72,525**	**$2,527**	**$(4,435)**	**$-**	**$(11,245)**	**$59,372**
Total assets of segment	$218,671	$33,635	$36,320	$(12,215)	**$357,492**	**$633,903**
Total liabilities of segment	76,104	15,352	33,638	(12,215)	3,112	115,991
Capital employed	**$142,567**	**$18,283**	**$2,682**	**$-**	**$354,380**	**$517,912**
Capital expenditure during the year	**$15,052**	**$1,663**	**$8,832**	**$-**	**$1,176**	**$26,723**

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

	Software 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**	**(1,081)**	**-**	**567,709**
Identifiable operating expenses (net)	342,401	47,394	56,796	(1,081)	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**
Capital expenditure during the year	**$48,756**	**$8,186**	**$5,806**	**$-**	**$618**	**$63,366**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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

	Software 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	-	1,078	-	(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**
Capital expenditure during the year	**$46,417**	**$9,701**	**$12,714**	**$-**	**$1,034**	**$69,866**

Notes to the Consolidated Financial Statements (Contd.)

(Thousands of US Dollars, except share data and as stated otherwise)

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:

	2003	2004	2005
America	$265,871	$346,758	$452,358
Europe	73,083	125,502	192,041
India	33,172	46,372	53,929
Others	43,721	49,228	63,676
	$415,847	**$567,860**	**$762,004**

No single customer accounted for more than 10% of the revenues of the Company during the years ended June 30, 2003. During the years ended June 30, 2004 and 2005, a single customer accounted for approximately 12% and 13.2% of the revenue of the Company.

29. Accounting of Financial Instruments

The Company recognizes gain or loss on investments in mutual fund units in the statements of income at the time of redemption or exchange of units with units of a different plan, whereas in the year ended June 30, 2003, the gain or loss on investments in mutual fund units was accounted for in the Statements of Income at the time of redemption, exchange of units with units of a different plan and exchange of units of different scheme of the same plan and the effect of the same has been reflected in the Consolidated Financial Statements. This, however, did not have any impact on the net cash flows.

Set forth below is the effect of the same as of June 30, 2003:

	Year ended June 30, 2003	Effect of adjustment	Adjusted
Other income, net	$19,060	$(8,318)	$10,742
Provision for income taxes	7,721	(1,059)	6,662
Net income	$65,299	$(7,259)	$58,040
Earnings per share			
- Basic	$0.23	$(0.03)	$0.20
- Diluted	$0.22	$(0.02)	$0.20

This has resulted in a decrease in other comprehensive income, accumulated other comprehensive income and retained earnings by $7,847, $11,010 and $10,783 respectively, as of June 30, 2003.

30. 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. The approximate fair value of long-term debts, as determined by using current interest as of June 30, 2005 is $29,779 as compared to the carrying amount of $29,891.

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