HCL TECHNOLOGIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS - AS OF JUNE 30, 1999 AND 2000 AND FOR THE YEARS THEN ENDED TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

Independent auditors' report

To the Board of Directors and Stockholders

HCL Technologies Limited

We have audited the accompanying consolidated balance sheets of HCL Technologies Limited and subsidiaries as of June 30, 1999 and 2000 and the related statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of HCL Perot Systems, NV (a 50% owned investee company). The Company's investment in HCL Perot Systems, NV as of June 30, 1999 and 2000 was $7,896,000 and $15,875,000, respectively, and its equity in earnings of HCL Perot Systems, NV was $4,258,000 and $6,224,000 for the years June 30, 1999 and 2000, respectively. The financial statements of HCL Perot Systems, NV were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HCL Perot Systems, NV, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HCL Technologies Limited and subsidiaries as of June 30, 1999 and 2000, 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.

KPMG
New Delhi, India

July 25, 2000

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30,	
	1999	**2000**
ASSETS		
Current assets:		
Cash and cash equivalents	$17,887	$ 39,807
Accounts receivable, net	33,344	41,214
Marketable securities, available for sale	62	168,943
Due from related parties	2,061	427
Inventories	1,440	2,147
Short-term loans	1,040	323
Employee receivables	994	2,132
Deferred income taxes	1,913	2,285
Other current assets	2,572	5,520
Total current assets	**61,313**	**262,798**
Property and equipment, net	10,892	17,684
Intangible assets, net	10,875	10,185
Investments in equity investees	7,896	15,875
Other investments	-	10,826
Deferred income taxes	1,688	1,392
Employee receivables	595	608
Other assets	793	871
Total assets	**$ 94,052**	**$ 320,239**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands, except number of shares)

	As of June 30,	
	1999	**2000**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short–term borrowings	$ 1,558	$ -
Current portion of long-term debt	871	-
Current portion of capital lease obligations	288	171
Accounts payable	3,927	4,475
Due to related parties	3,892	1,333
Liability to principal shareholder	5,151	-
Accrued employee costs	9,826	7,616
Deferred revenue	2,876	3,690
Deferred income taxes	107	179
Acquisition of minority interest	7,000	-
Other current liabilities	8,763	15,694
Taxes payable	1,387	4,670
Total current liabilities	**45,646**	**37,828**
Long-term debt	1,080	-
Capital lease obligations	389	149
Other liabilities	276	281
Deferred credit, net	316	222
Deferred income taxes	15	9
Total liabilities	**47,722**	**38,489**
Minority interest	**2,093**	**9**
Stockholders' equity		
Equity shares, 187,500,000 shares authorized as of 1999 and 2000; Issued and outstanding – 124,480,318 shares as of 1999 and 139,763,531 shares as of 2000	10,240	15,449
Additional paid-in capital	408	191,144
Shares subscribed pending allotment	-	440
Deferred stock compensation	-	(582)
Retained earnings	38,065	85,526
Accumulated other comprehensive income	(4,476)	(10,236)
Total stockholders' equity	**44,237**	**281,741**
Total liabilities and stockholders' equity	**$ 94,052**	**$ 320,239**

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except number of shares and per share data)

	Years ended June 30,	
	1999	**2000**
Revenues	$ 166,326	$ 206,833
Less: Stock based sales incentive	-	2,266
Net revenues	166,326	204,567
Cost of revenues	100,330	106,637
Gross profit	**65,996**	**97,930**
Operating expenses		
Sales and marketing	13,538	14,960
General and administrative	26,638	35,402
Depreciation and amortization	7,023	7,010
Total operating expenses	47,199	57,372
Income from operations	**18,797**	**40,558**
Interest expense	2,198	757
Interest and other income, net	2,053	12,022
Income before income taxes, share of income of equity investees and minority interest	**18,652**	**51,823**
Income tax expense	647	5,885
Income before share of income of equity investees and minority interest	**18,005**	**45,938**
Share of income of equity investees	3,891	6,224
Minority interest	222	(52)
Net income	**$ 22,118**	**$ 52,110**
Earnings per equity share		
Basic	$ 0.18	$ 0.39
Diluted	$ 0.17	$ 0.37
Weighted average number of equity shares		
Basic	124,480,318	132,219,054
Diluted	131,713,156	140,477,055

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

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

	Equity shares		Additional paid-in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Total stockholders' equity
	No. of shares	Amount							
Balances as of June 30, 1998	**124,480,318**	**$ 10,240**	**$ 1,724**	**$ -**	**$ -**	**$ 16,297**		**$ (3,684)**	**$ 24,577**
]uity in net income of equity investee for the hree months ended June 30, 1998 due to change fiscal year end	-	-	-	-	-	647		-	647
ıare of net income of a subsidiary for the three nonths ended June 30, 1998 due to change in iscal year end	-	-	-	-	-	464		-	464
ıin on dilution of interest in a subsidiary	-	-	-	-	-	251		-	251
istribution to principal shareholder	-	-	(1,316)	-	-	-		-	(1,316)
ısh dividend	-	-	-	-	-	(427)		-	(427)
ɔmprehensive income									
Jet income	-	-	-	-	-	22,118	$ 22,118	-	22,118
)ther comprehensive income									
alized loss on available for sale securities, net of	-	-	-	-	-	-	(104)	-	-
slation adjustments	-	-	-	-	-	-	(688)	-	-
al other comprehensive income	-	-	-	-	-	-	(792)	(792)	(792)
l comprehensive income	-	-	-	-	-	-	$ 21,326	-	-
Balances as of June 30, 1999	**124,480,318**	**10,240**	**408**	**-**	**-**	**39,350**		**(4,476)**	**45,522**
Prior period adjustment related to change in fiscal year end of a subsidiary (Note 30)	-	-	-	-	-	(1,285)		-	(1,285)
Balances as of June 30, 1999, restated	**124,480,318**	**$ 10,240**	**$ 408**	**$ -**	**$ -**	**$ 38,065**		**$ (4,476)**	**$ 44,237**

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

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

	Equity shares		Additional paid-in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Total stockholders' equity
	No. of shares	Amount							
Balances as of June 30, 1999, restated	**124,480,318**	**$ 10,240**	**$ 408**	**$ -**	**$ -**	**$ 38,065**		**$ (4,476)**	**$ 44,237**
suance of equity shares, net	14,200,000	1,301	181,641	-	-	-		-	182,942
suance of equity shares on exercise of options	1,083,213	99	6,066	-	-	-		-	6,165
ock dividend	-	3,809	-	-	-	(3,809)		-	-
iares subscribed	-	-	-	440	-	-		-	440
epurchase of shares and vested stock options by a bsidiary	-	-	-	-	-	(421)		-	(421)
ir value of stock options granted for acquisition minority interest	-	-	150	-	-	-		-	150
ompensation related to stock option grant	-	-	301	-	(301)	-		-	-
mortization of compensation related to stock ption grant	-	-	-	-	175	-		-	175
ompensation related to stock based sales incentive	-	-	2,722	-	(2,722)	-		-	-
mortization of compensation related to stock ased sales incentive	-	-	-	-	2,266	-		-	2,266
iare in stock compensation of equity investee	-	-	305	-	-	-		-	305
come tax benefit on exercise of stock options of ubsidiaries	-	-	668	-	-	-		-	668
istribution to principal shareholder, net	-	-	(1,117)	-	-	-		-	(1,117)
ash dividend	-	-	-	-	-	(419)		-	(419)
omprehensive income									
Net income	-	-	-	-	-	52,110	$ 52,110	-	52,110
Other comprehensive income									
alized gain on available for sale securities, net of	-	-	-	-	-	-	121	-	-
e in unrealized gain on available for sale rities, net of taxes, of equity investee	-	-	-	-	-	-	1,838	-	-
slation adjustments	-	-	-	-	-	-	(7,719)	-	-
al other comprehensive income	-	-	-	-	-	-	(5,760)	(5,760)	(5,760)
l comprehensive income	-	-	-	-	-	-	$ 46,350	-	-
Balances as of June 30, 2000	**139,763,531**	**$ 15,449**	**$ 191,144**	**$ 440**	**$ (582)**	**$ 85,526**		**$ (10,236)**	**$ 281,741**

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

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

	Years ended June 30,	
	1999	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 22,118	$ 52,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,023	7,010
Deferred income taxes	(425)	(158)
(Gain) loss on sale of property and equipment	(3)	5
Stock based sales incentive	-	2,266
Amortization of deferred stock compensation expense	-	175
Loss on sale of investment securities	-	7,061
Write-down of marketable securities, available for sale	228	40
Share of income of equity investees	(3,891)	(6,224)
Minority interest	(222)	52
Changes in assets and liabilities, net		
Accounts receivable	(1,768)	(6,804)
Other assets	4,464	(4,886)
Accounts payable	62	(1,216)
Accrued employee costs	2,583	(2,085)
Other liabilities	1,801	11,151
Net cash provided by operating activities	31,970	58,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,679)	(11,723)
Proceeds from sale of property and equipment	62	109
Purchase of investments	(463)	(241,912)
Proceeds from sale of investments	-	47,671
Payment for business acquisition, net of cash acquired	(2,754)	(7,000)
Loans extended to related parties	(7,060)	-
Loans repaid by related parties	11,258	21
Net cash used in investing activities	(4,636)	(212,834)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of capital lease obligations	(106)	(340)
Repayment of bank line of credit	(6,873)	(7)
Decrease in short term borrowings, net	(3,682)	(973)
Repayment of long term debt	(5,532)	(1,944)
Proceeds from issuance of equity shares, net	-	189,107
Proceeds from subscription of shares pending allotment	-	440
Proceeds from issuance of equity shares of subsidiary to minority	352	11
Repurchase of equity shares and stock options of a subsidiary	-	(774)
Payment of liability to principal shareholder	1,469	(5,151)
Capital distribution to principal shareholder	(1,316)	(1,117)
Payment of dividends	(428)	(419)
Net cash (used in) provided by financing activities	(16,116)	178,833
Effect of exchange rate on cash and cash equivalents	(1,229)	(2,576)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 9,989	$ 21,920
CASH AND CASH EQUIVALENTS		
Beginning of the year	$ 8,038	$ 17,887
Net cash activity of subsidiary for three months ended June 30, 1998	(140)	
End of the year	$ 17,887	$ 39,807
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,982	$ 3,339
Cash paid during the year for income taxes	$ 528	$ 3,106
Non-cash investing activities		
Property and equipment acquired under capital lease obligation	$ 335	$ -
Details of acquisitions:		
Fair value of assets acquired	$ 11,339	$ -
Fair value of liabilities assumed	$ 1,339	$ -

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

HCL TECHNOLOGIES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND NATURE OF OPERATIONS

a) Incorporation and history

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

b) Reorganization and basis of presentation of financial statements

Mr. Nadar, the Company's principal shareholder, had a controlling /significant interest in, inter alia, the following entities during the periods presented:

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

- In January 1995, HCL acquired HCL Technologies America, Inc. ("HCL America"), for cash from a company in which Mr. Nadar held less than a controlling interest. HCL America was a company organized under the laws of California, USA in November 1988. This acquisition was accounted for under the purchase method;
- Intelicent, Inc. ("Intelicent", formerly known as HCL James Martin Inc.), a 60% owned company organized under the laws of Virginia, USA in March 1996; and
- Far East Computers Private Limited ("FEC"), a 43% equity investee organized under the laws of Singapore in January 1980.

(ii) HCL Technologies Bermuda Limited ("HCL Bermuda"), a 100% owned company organized in December 1997 under the laws of Bermuda. HCL Bermuda has 100% owned subsidiaries in Europe and Asia Pacific.

(iii) HCL Holdings GmbH, Vienna ("HCLH"), a 100% owned company, organized in December 1996 under the laws of Austria. In August 1997, HCLH purchased a 44% interest in HCL Perot Systems NV ("HPS"), a company organized under the laws of The Netherlands in March 1996. These transactions were accounted for under the purchase method.

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

A reorganization of the above-mentioned controlled entities was completed through a series of transactions. The following transactions occurred:

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

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

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

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

5. HCLH purchased an additional 6% interest in HPS making HPS a 50% equity investee.

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

7. HCL's acquisition of a 100% interest in COMNET from Mr. Nadar and other minority shareholders;

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements present the accounts of the Company and all of its subsidiaries, which are more than 50% owned and controlled. The financial statements of COMNET used for consolidation in 1998 is as of March 31, 1998. In 1999, COMNET changed its fiscal year-end to June 30. The results of operations for the period from April 1, 1998 to June 30, 1998 were added to retained earnings for the year ended June 30, 1999 in order to report only 12 months of operating results. Intelicent has been consolidated from March 1, 1999 upon acquisition of the 40% minority interest from the previous minority shareholder who had significant participating rights that precluded consolidation prior to the acquisition. Previously, Intelicent was accounted for by the equity method.

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

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

(b) Use of estimates

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

(c) Exchange rate translation

The consolidated financial statements are reported in United States Dollars ("US Dollars"). The functional currency of each entity in the Group is its respective local currency. The translation of the functional currency into US dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue and expense accounts using an appropriate monthly weighted average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as a separate component of stockholders' equity.

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

(d) Revenue recognition

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

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

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

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

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

(e) Inventory

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

(f) Property and equipment

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

(g) Intangible assets

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

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

(h) Impairment of long-lived assets

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

(i) Investments

Investments in equity investee : The Group's share of profits/losses of equity investees is included in the consolidated statements of operations, and the Group's share of net assets of equity investees is included in the consolidated balance sheets. A transaction of an equity investee of a capital nature, which affects the investor's share of stockholders' equity of the investee, is accounted for as if the investee were a consolidated subsidiary.

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

Investments in Limited Liability Partnerships ("LLPs") : Investments in LLPs where the Company holds less than 5% interest are accounted for at cost. In cases where the Company has significant influence or a controlling interest the equity method of accounting or consolidation is followed respectively.

(j) Cash and cash equivalents

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

(k) Income taxes

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity in the Group. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Deferred tax assets are recognized in full, subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized.

(l) Earnings per share

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earning Per Share, basic earnings per share are 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.

(m) Accounting for stock options issued to employees

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

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

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

(o) Dividend

Dividends are recognized upon approval by the shareholders.

(p) Reclassification

Certain prior period amounts have been reclassified to conform to the current year's presentation.

3. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

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

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

4. CASH AND CASH EQUIVALENTS

The cost and fair values for cash and cash equivalents as of June 30, 1999 and 2000 are as follows (in thousands):

	1999	2000
Term deposits with banks	$ 12,053	$ 18,429
Others cash and bank balances	5,834	21,378
Cash and cash equivalents	$ 17,887	$ 39,807

5. PROPERTY AND EQUIPMENT

As of June 30, 1999 and 2000 property and equipment comprise the following (in thousands):

	Estimated Useful Lives (in years)	1999	2000
Land	-	$ 321	$ 1,487
Buildings	20	2,787	3,769
Computer and related equipments	3 to 4	13,711	17,532
Software	3 to 3.5	4,353	5,451
Mainframe computer system	6	988	1,152
Office furniture and equipment	4	2,994	3,982
Vehicles	5	1,110	1,114
Capital work-in-progress	-	470	2,641
		26,734	37,128
Accumulated depreciation and amortization		(15,842)	(19,444)
Property and equipment, net		$ 10,892	$ 17,684

Depreciation expense was $5,802,000 and $4,466,000 for the years ended June 30, 1999 and 2000 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $3,793,000 and $4,311,000 as of June 30, 1999 and 2000 respectively. Amortization expense for software for the years ended June 30, 1999 and 2000 was $487,000 and $547,000 respectively.

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

As of June 30, 1999 and 2000 property and equipment includes assets held under capital leases, which comprise (in thousands):

	1999	2000
Computer equipment	$ 522	$ 516
Vehicles	796	624
Office furniture and equipment	23	21
	1,341	1,161
Accumulated depreciation	(797)	(904)
	$ 544	$ 257

6. LEASES

The Group leases computer equipment, vehicles and office furniture and equipment under capital leases. Future minimum lease payments under capital leases as of June 30, 2000 are as follows (in thousands):

Year ending June 30,	
2001	$209
2002	113
2003	39
2004	20
Total minimum payments	381
Less: Amount representing future interest	61
Present value of minimum payments	320
Less: Current portion	171
Long term capital lease obligation	$149

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

Rental expense under those leases is $2,526,000 and $2,650,000 for the years ended June 30, 1999 and 2000 respectively. Future minimum lease payments as of June 30, 2000 for such non-cancelable operating leases are as follows (in thousands):

Year ending June 30,	
2001	$ 2,649
2002	2,134
2003	1,625
2004	653
2005	391
Thereafter	1,093
Total minimum payments	$ 8,545

7. INTANGIBLE ASSETS

As of June 30, 1999 and 2000 intangible assets comprise the following (in thousands):

	Estimated Useful Lives (in years)	1999	2000
Goodwill	5 to 7 years	$ 8,496	$ 10,475
Employee workforce	4 to 5 years	3,761	3,663
Customer relationships	10	992	947
Intellectual property rights	4	350	350
		13,599	15,435
Accumulated amortization		(2,724)	(5,250)
Intangible assets, net		$ 10,875	$ 10,185

Amortization expense for the year ended June 30, 1999 and 2000 is $1,221,000 and $2,544,000 respectively, net of $60,000 and $ 71,000 deferred credit amortization.

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

During the year ended June 30, 2000 the group acquired a 48% interest in COMNET for a consideration of $4,222,000. This acquisition has been accounted for under the purchase method and resulted in goodwill of $2,001,000.

8. INVESTMENTS

Equity investee

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

- *60% interest in Intelicent*

Intelicent has not been consolidated for the period July 1, 1996 to February 28, 1999 as the minority shareholder James Martin Inc. had certain significant participating rights, which provided for its effective involvement in significant decisions in the ordinary course of business. In February 1999, the Group acquired the remaining 40% shareholding from James Martin Inc. Accordingly, the entity has been consolidated from the period March 1, 1999 to June 30, 1999 and thereafter. Subsequent to the acquisition, Intelicent issued shares to certain employees at fair value. During the year ended June 30, 2000 Intelicent repurchased these shares for cash consideration.

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

	Period ended February 28, 1999
Share of loss of equity investee included in net income	$ (367)

The summarized income statement for the period ended February 28, 1999 is as follows (in thousands):

	Period ended February 28, 1999
Income statement	
Revenues	$11,338
Loss before income taxes	$ (300)
Net loss	$ (612)

- *50% interest in HPS*

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

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

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

	As of June 30,	
	1999	2000
Carrying value represented by share of net assets	$ 7,896	$ 15,875
Share of income of equity investee included in net income	$ 4,258	$ 6,224

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

The summarized balance sheet of HPS as of June 30, 1999 and 2000 and summarized income statement for the year ended June 30, 1999 and 2000 are as follows (in thousands):

	As of June 30,	
	1999	2000
Balance sheet		
Current assets	$ 27,791	$ 36,478
Non-current assets	1,796	14,256
Total assets	$ 29,587	$ 50,734
Current liabilities	$ 11,673	$ 16,707
Non-current liabilities	2,122	2,277
Stockholders' equity	15,792	31,750
Total liabilities and stockholders' equity	$ 29,587	$ 50,734

	Years ended June 30,	
	1999	2000
Income statement		
Revenues	$ 49,860	$ 56,743
Income from operations	$ 8,482	$ 11,661
Income before income taxes	$ 8,981	$ 12,674
Net income	$ 8,679	$ 12,449

The Group's share of reported earnings in HPS will change to 45.65% in the event that contingent issuances of equity shares arising from stock options granted by HPS are exercised in future. The aggregate impact of these contingent issuances is not material based on the share of earnings for the year ended June 30, 2000.

Marketable securities, available for sale

Marketable securities, available for sale consist of the following (in thousands):

As of June 30, 1999 (in thousands):

	Carrying Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities	$ 62	$ -	$ -	$ 62

As of June 30, 2000 (in thousands):

	Carrying Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities	$ 22	$ -	$ -	$ 22
Mutual fund units	168,726	200	(5)	168,921
Total	$ 168,748	$ 200	$ (5)	$ 168,943

Proceeds from the sale of securities, available for sale, were $ Nil and $47,671,000 during the year ended June 30, 1999 and 2000, respectively. The dividend income earned from these investments in 1999 and 2000 were $ Nil and $ 10,649,000, respectively. Gross realized losses on ex-dividend investment securities included in the net income in 1999 and 2000 were $ Nil and $7,061,000, respectively.

Other investments

During the year ended June 30, 2000, the Group invested in LLP technology venture funds and in preferred stock of an unlisted company amounting to $8,826,000 and $2,000,000 respectively. The number of shares of preferred stock held by the Group amounts to 1,538,462. The preferred stock carries a dividend of $0.104 per share per annum or, if greater, an amount equal to that paid on the common stock. The rights to such dividends are non-cumulative. The preferred stock shall be redeemable at the option of the holders of 75% of the outstanding preferred stock at any time and from time to time after January 1, 2003. The redemption price per share shall be $1.56. The preferred stock is convertible into shares of common stock at the option of the holder. The preferred stock will convert into shares of common stock in the event of an initial public offering.

9. ALLOWANCES FOR ACCOUNTS RECEIVABLE

The Group maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors utilized by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the aging of the trade receivables. Allowance for uncollectible receivables aggregated $3,576,000 and $1,077,000 as of June 30, 1999 and 2000 respectively. The charge to the statement of income with respect to uncollectible receivables was $743,000 and $839,000 for the years ended June 30, 1999 and 2000 respectively.

10. ACQUISITION OF MINORITY INTERESTS

In February 1999, the Group acquired a 40% interest in Intelicent from James Martin Inc., the minority shareholder, for a cash consideration of $10,000,000.

During the year ended June 30, 2000, the Group acquired a 13% interest in COMNET from its employees for total consideration of $715,000, of which $150,000 was in the form of stock options.

These acquisitions have been accounted for under the purchase method.

11. TRANSACTIONS WITH PRINCIPAL SHAREHOLDER

During the year ended June 30, 2000, the Company purchased an additional 35% interest in COMNET from the principal shareholder of HCL for cash consideration of $1,724,000 pursuant to his acquisition of this interest from the former minority shareholders of COMNET. The Company also settled the outstanding liability of $2,516,000, attributable to the purchase of the principal shareholder's 52% interest in COMNET reflected as of June 30, 1999.

During the year ended June 30, 2000, the Company also settled the outstanding liability of $2,635,000 as of June 30, 1999, attributable to the purchase of HCLH.

The differences between the cost to the principal shareholder and the consideration paid have been reflected as either capital contributions or capital distributions, as the case may be.

12. BANK LINE OF CREDIT

The Group has a credit facility in India in the amount of $3,799,000 for discounting accounts receivables and availing of cash credits relating to software exports and facilities for guarantees and letters of credit of $2,346,000. The credit facilities bear interest at the rate set by the bank, which is ranging from 9% to 14% per annum. As of June 30, 1999 and June 30, 2000, there were no outstanding balances against fund-based facilities. These facilities are secured by a lien on certain business assets of the Group's India operations.

A subsidiary has a credit facility of $2,346,000 and facilities for guarantees and letters of credits of $11,061,000. The effective rate of interest was 16% per annum as of June 30, 2000. As of June 30, 1999 and 2000, the subsidiary had borrowed $7,400 and $Nil respectively under this line of credit. These facilities are secured by lien on business assets of the subsidiary personal guarantees of the principal shareholder.

Another subsidiary has a line of credit agreement with a bank in the US, which allows for a borrowing of 60% of the eligible accounts receivable subject to a ceiling of $5,000,000. The line of credit bears interest at the bank's prime lending rate plus 0.75% per annum and is secured by certain assets of the subsidiary. There were no outstanding balances against the facility as of June 30, 1999 and 2000.

13. SHORT-TERM BORROWINGS

The group has no short-term loans outstanding as of June 30, 2000. The short-term loan outstanding as of June 30, 1999 of $1,558,000, bearing interest at 1% above LIBOR, was repaid during the year ended June 30, 2000.

The Group had outstanding interest free inter-corporate deposits of $614,000 as of June 30, 1999 from related parties. The deposits, having a maturity profile of three to six months, were repaid during the year ended June 30, 2000.

14. OTHER CURRENT LIABILITIES

As of June 30, 1999 and 2000 other current liabilities comprise the following (in thousands):

	1999	2000
Advances from customers	$ 285	$ 2,661
Other taxes payable	971	1,277
Accrued liabilities and expenses	5,196	9,803
Others	2,311	1,953
	$ 8,763	$ 15,694

15. LONG-TERM DEBT

Long-term debt as of June 30, 1999 and 2000 is as follows (in thousands):

	1999	2000
Indian Rupee loans		
Term loan with interest payable quarterly at 17.5% to 19.56% per annum.	$ 1,951	$ -
Less: Current portion	871	-
	$ 1,080	$ -

16. DEFERRED CREDIT

In the year ended June 30, 1999, the Group acquired a 20% interest in HCLH from the minority shareholders. The acquisition was accounted by the purchase method. The acquisition resulted in a deferred credit, which represents the excess of fair value of assets acquired over the cost of acquisition. Deferred credit is amortized to income over the estimated period of benefit of 5 years. The net deferred credit aggregated to $316,000 and $222,000 as of June 30, 1999 and 2000 respectively. Deferred credit of $60,000 and $71,000 has been amortized for the years ended June 30, 1999 and 2000 respectively.

17. EQUITY SHARES

The Company has only one class of capital stock referred to herein as "equity shares".

Voting

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

Dividends

Should the Company declare and pay dividends, such dividends will be paid in Indian Rupees and will be paid for the full year irrespective of the period of holding of the shares.

Indian law mandates that any dividend, exceeding 10% of the common stock, can be declared out of distributable profits only after the transfer of upto 10% of net income computed in accordance with current regulations, to a general reserve. Further, 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 of $427,000 and $419,000 during the years ended June 30, 1999 and 2000 respectively.

Liquidation

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

Stock Options

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

Stock split

The Company changed its capital structure, through a 2.5-for-1 stock split in September 1999, and a 1-for-2 stock dividend in October 1999, of the Company's equity shares. The change in capital structure has been given retroactive effect in the financial statements. In line with legal requirements, retained earnings were capitalized at par value of the shares issued as stock dividend.

Initial public offering

In December 1999, the Company issued 14,200,000 equity shares in an Initial public offering at a price of $13.28 per share. The proceeds amounted to $182,942,000, net of issue expenses of $5,698,000.

Capital structure

The capital structure is presently as follows:

Date of issue of shares	No. of shares	Par value	Share capital (in thousands)
March 25, 1992	26	$0.095	$ -
September 6, 1994 – July 20, 1995	77,925,000	$0.085	6,658
February 20, 1996	4,555,292	$0.073	334
March 27, 1996	22,500,000	$0.079	1,768
April 12, 1996	5,625,000	$0.078	441
June 29, 1996	1,875,000	$0.076	143
February 14, 1997	12,000,000	$0.075	896
October 25, 1999 Stock Dividend (1-for-2)	-	$0.092	3,809
December 24, 1999	14,200,000	$0.092	1,301
January 7, 2000	589,409	$0.091	54
March 30, 2000	493,804	$0.091	45
Total	139,763,531		$ 15,449

18. INTEREST AND OTHER INCOME, NET

For the years ended June 30, 1999 and 2000, interest and other income comprises the following (in thousands):

	1999	2000
Interest income	$1,015	$ 4,384
Foreign exchange gain, net	549	1,447
Dividend income from investment securities	-	10,649
Loss on sale of ex-dividend investment securities	-	(7,061)
Miscellaneous income	489	2,603
Total	$2,053	$12,022

19. INCOME TAXES

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

The income tax expense for the years ended June 30, 1999 and 2000 comprises the following (in thousands):

	1999	2000
Current -		
US taxes	$ 813	$ 673
Others	259	5,370
Total	$ 1,072	$ 6,043
Deferred -		
US taxes	$ 210	$ (456)
Others	(635)	298
Total	$ (425)	$ (158)
Total taxes	$ 647	$ 5,885

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

	1999	2000
Net income before taxes	$ 18,652	$ 51,823
Enacted tax rate in India	38.5%	38.5%
Expected tax expense	7,181	19,952
Differences between Indian and foreign tax rates	238	(258)
Non-taxable export income	(8,261)	(16,122)
Non-taxable other income	-	(4,099)
Increase in valuation allowance	885	3,639
Other	604	2,773
Total taxes	$ 647	$ 5,885

A substantial portion of the profits of the Group's India operations are exempt from Indian income taxes being profits attributable to export operations and profits from undertakings situated in Software Technology Parks. Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years subject to certain conditions and stipulations. The Group has opted for this exemption for the years ended March 31, 1997 to March 31, 2006 for the existing undertakings situated in Software Technology Parks. During the year ended June 30, 2000, the Group has set-up new undertakings in Software Technology Parks for which exemption is available till March 2010. The aggregate dollar and per share effects of the tax holiday are $8,261,000 and $0.07 per share for the year ended June 30, 1999 and $15,657,000 and $0.12 per share for the year ended June 30, 2000 respectively.

The components of the deferred tax balances as of June 30, 1999 and 2000 are as follows (in thousands):

	1999	2000
Deferred tax assets:		
Business losses	$ 3,320	$ 3,134
Prior period adjustment to business loss	(1,285)	-
Capital losses	798	3,439
Allowance for accounts receivable	555	316
Accrued employee costs	887	801
Pre-operative expenses	674	553
Property and equipment	829	629
Stock based sales incentive	-	330
Other temporary differences	271	99
	6,049	9,301
Less: Valuation allowance	(2,448)	(5,624)
Total deferred tax assets	$ 3,601	$ 3,677
Deferred tax liabilities:		
Asset given on lease	$ 98	$ -
Unrealized gain on holding gains	-	75
Others	24	113
Total deferred tax liabilities	$ 122	$ 188

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

As per Indian tax laws, the benefit of the carried forward business losses are not available to a company where there is a change in the ownership of the company by more than a specified percentage. As the ownership of COMNET has changed by more than 80% subsequent to June 30, 1999, the benefit of business losses will not be available in future and accordingly a valuation allowance of $689,000 had been created as of June 30, 1999. During the year ended June 30, 2000, subsequent to the change in ownership, the deferred tax asset and the valuation allowance has been reversed. Additionally, valuation allowances of $961,000 and $2,067,000 have been established for business losses of other subsidiaries as of June 30, 1999 and 2000, respectively. As of June 30, 2000, the Group has a net deferred tax asset for business losses of $1,068,000, of which, $131,000, and $937,000 can be carried forward until 2005 and 2015 respectively.

Valuation allowances of $798,000 and $829,000 have been created as of June 30, 1999 and 2000, respectively in respect of investments that were written-off for book purposes in the books of a subsidiary, but would be deductible for tax purposes only when they are sold and if the subsidiary has offsetting capital gains. Given these uncertainties, the tax benefit on the write-off of the investment has been fully reserved. Additionally, valuation allowances of $2,610,000 have been established for capital losses as of June 30, 2000.

20. EARNINGS PER EQUITY SHARE ("EPS")

The following is the reconciliation of the weighted average number of equity shares used in the computation of basic and diluted EPS as of June 30, 1999 and 2000:

	1999	2000
Weighted average number of equity shares outstanding used in computing basic EPS	124,480,318	132,219,054
Dilutive effect of stock options outstanding	7,232,838	8,258,001
Weighted average number of equity shares and equity equivalent shares outstanding used in computing diluted EPS	131,713,156	140,477,055

Options issued within a one year period prior to the initial filing of the prospectus relating to the IPO has been treated as outstanding for all reported periods in computing diluted EPS.

Options to purchase 117,650 equity shares at weighted average exercise price of $38.14 were outstanding during the year ended June 30, 2000 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the equity shares.

21. STOCK OPTION PLAN 1999

In September 1999, the Company instituted the 1999 Stock Option Plan ("Plan") to provide equity based incentives to all eligible employees of the Company and its subsidiaries. The Plan is administered by a Committee consisting of a majority of independent directors of the Company and provides for the issuance of a maximum of 20,000,000 underlying shares at the option price determined by the Committee on the date the option is granted.

Each option granted under the Plan, entitles the holder to one equity share 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 period of five years from its date of vesting.

The Group has adopted the intrinsic value method of APB 25 to account for options granted to employees under the Plan. The excess of the fair value of the underlying shares at the grant date over the exercise price of the options amounting to $301,000 has been recognized as deferred compensation during the year ended June 30, 2000, to be amortized over the vesting period of the options.

The movement in the options granted to employees during the year ended June 30, 2000 under the Plan is set out below:

	Shares arising out of options	Weighted average exercise price
Granted	20,889,512	$ 9.36
Forfeited	1,927,716	$ 7.91
Expired	29,706	$ 4.13
Exercised	1,092,484	$ 5.63
Outstanding at the end of the year	17,839,606	$ 9.76
Exercisable at the end of the year	1,304,007	$ 5.73
Weighted-average grant date fair value of grants during the year		$ 9.39

As of June 30, 2000, of the total options exercised, 9,271 options were pending allotment.

The weighted-average grant-date fair value of options granted during the year ended June 30, 2000 under the Plan is as below:

Options granted during the year	Shares arising out of options	Weighted average grant date fair value	Weighted average exercise price
At grant date fair value	20,785,537	$9.41	$9.41
Below grant date fair value	103,975	$5.70	$0.16

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

	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
$ 0.16	78,744	5.25 years	$ 0.16	-	$ -
$ 5.70 - $ 12.96	14,795,669	6.73 years	$ 7.22	1,304,007	$5.73
$ 22.01 - $54.61	2,965,193	10.64years	$ 22.65	-	$ -

The Company has adopted the pro forma disclosure provisions of SFAS No. 123. For options granted prior to the Company's IPO in December 1999, volatility of the stock price was omitted from the pricing model. Had compensation cost for the Company's stock-based compensation plan been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's net income and basic and diluted EPS as reported would have been reduced to the pro forma amounts indicated below:

		For years ended June 30,	
		1999	2000
Net income			
As reported		$22,118,000	$52,110,000
Adjusted pro forma		$22,118,000	$43,744,000
EPS			
As reported	– Basic	$0.18	$0.39
	- Diluted	$0.17	$0.37
Adjusted pro forma	– Basic	$ -	$0.33
	- Diluted	$ -	$0.31

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

	2000
Dividend yield %	0.10%
Expected life	0-110 months
Risk free interest rates	10.0%
Volatility	53.0%

22. STOCK OPTION PLAN OF SUBSIDIARIES

HCL Bermuda

In October 1998, the Group adopted a stock option plan whereby key employees of the Group were granted options to purchase shares of HCL Bermuda, a consolidated subsidiary. The options were granted at $13.50 per share.

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

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

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

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

Intelicent

Intelicent had adopted a stock option plan in August 1997. Under the plan, the subsidiary granted options to its employees and directors. Options granted were exercisable at the fair market value of the subsidiary's equity share at the date of the grant and expired ten years after the date of the grant. The vesting period of these options was 3 years. The Company has followed APB Opinion No.25 in accounting for the options issued under the stock option plan. Details of options issued and outstanding under the plan are as follows:

	As of June 30,			
	1999		2000	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
Outstanding at the beginning of the year	237,500	$1.00	642,500	$1.63
Granted	616,500	$1.82	78,500	$5.81
Forfeited	206,500	$1.52	258,962	$2.53
Exercised	-	$ -	-	$ -
Repurchased	5,000	$1.00	145,039	$1.06
Cancelled in lieu of options issued by HCL	-	$ -	316,999	$1.99
Outstanding at the end of the year	642,500	$1.63	-	$ -
Exercisable at the end of the year	124,333	$1.24	-	$ -
Weighted average fair value of the grants during the year	-	$1.82	-	$5.81

During the year ended June 30, 2000, the subsidiary has repurchased 145,039 options for cash consideration. The Company has followed FASB Interpretation No. 44 (Accounting For Certain Transactions Involving Stock Compensation) in accounting for the repurchase of options. Accordingly, the consideration paid to the employees for the re-purchase of options within six months from the dates of their vesting aggregating to $346,249 has been accounted for as stock compensation and the consideration paid for the repurchase of options after six months from the dates of their vesting aggregating to $ 305,124 has been added to the accumulated deficit.

Since the options granted in Intelicent have either been repurchased or cancelled, the proforma disclosure provisions of SFAS No. 123 have not been adopted.

23. EMPLOYEE BENEFIT PLANS

India operations

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

Gratuity

In accordance with Indian law, the Group provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The 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 Group. The Group estimates its liability as of each balance sheet date based on an actuarial valuation. Accrual costs are not funded annually.

The following table sets forth the funded status of the plan and the amounts recognized in the Group's balance sheet as of June 30, 1999 and 2000 (in thousands):

	1999	2000
Change in benefit obligation		
Projected Benefit Obligation ("PBO") at the beginning of the year	$ 273	$ 353
Service cost	105	122
Interest cost	32	41
Benefits paid	(19)	(10)
Actuarial (gain) loss	(35)	66
Effect of exchange rates changes	(3)	(20)
PBO at the end of the year	$ 353	$ 552
Change in Plan assets		
Fair value of plan assets at the beginning of the year	$ -	$ -
Employer contributions	19	19
Benefits paid	(19)	(19)
Plan assets at the end of the year	$ -	$ -
Funded status	$ (353)	$(552)
Unrecognized actuarial loss	28	100
Unrecognized transitional obligation	53	44
Effect of exchange rates changes	-	(2)
Net amount recognized	$ (272)	$ (410)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	$ (272)	$ (410)

Net gratuity cost for the years ended June 30, 1999 and 2000 comprise of the following components (in thousands):

	1999	2000
Service cost	$ 105	$ 122
Interest cost	32	41
Amortization	12	7
Net gratuity cost	$ 149	$ 170

For the above calculations, a discount rate of interest of 12% per annum has been assumed. Salaries are assumed to increase at the rate of 15% per annum till the year 2001, 12% per annum for next 5 years and 10% per annum thereafter. The mortality rates used are as published by one of the leading life insurance companies in India.

Superannuation

The Superannuation plan is a defined contribution pension plan for senior employees of the Group. The Group contributes to an employees' superannuation fund established with a government owned Insurance Corporation at 15% of the employee's base compensation. The contributions made are recorded in the statement of operations on an accrual basis. Total contributions made in respect of this plan for years ended June 30, 1999 and 2000 are $208,000 and $176,000 respectively.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by certain employees of the Group. The Government of India recognizes this fund. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer.

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

Total contributions made by the Group in respect of this plan for the years ended June 30, 1999 and 2000 are $333,000 and $507,000 respectively.

Subsidiary in the US

The Group has a Savings and Investment Plan under Section 401 (k) of the Internal Revenue Code. This is a defined contribution plan where employees above the age of 21 years, having completed one year of service may choose to contribute up to 15% of their compensation or $7,000, whichever is lower. The Group makes a contribution equal to 50% of the employee's contribution, up to a maximum of 5% of the employee's annual compensation. Total contributions made to the plan by Group, for years ended June 30, 1999 and 2000 are $815,000 and $704,000 respectively.

Subsidiary in Australia

As per local laws of Australia, employers must provide a minimum level of superannuation for most employees or incur a non tax deductible Superannuation Guarantee Charge including interest and penalties. The required level of employer superannuation contribution is a percentage of the employee's earnings base. The Group contributes to a fund approved by the Government of Australia. Total contributions made to the plan by Group, for years ended June 30, 1999 and 2000 are $96,520 and $163,000 respectively.

24. STOCK BASED SALES INCENTIVE

During the year ended June 30, 2000, the Company has entered into software consulting and engineering service agreements obligating the customers either to commit and/or project revenues over periods ranging from 3 to 5 years. On achievement of the revenues and/or on fulfillment of necessary conditions, the Company has agreed to grant stock options to these customers, with shares for the option plan to be currently 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 as a future date, after a specified minimum volume of services has 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.

The Company accounts for these options in accordance with the Emerging Issues Task Force Abstract No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"). 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 service period. During the year ended June 30, 2000, the Company has amortized a total of $2,266,000 as sales incentive representing the pro-rata cost of stock options over the service period. The aggregate amount of deferred stock based sales incentive carried forward as of June 30, 2000 is $456,000.

25. RELATED PARTY TRANSACTIONS

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

a) Companies in which Mr. Nadar, a principal shareholder, has a significant ownership interest, controlling interest or over which he exercises significant influence ("significant interest entities");
b) Equity investees of the Group, and their subsidiaries ("equity investees"); and
c) Employees of the Group.

The related party transactions can be categorized as follows:

Revenues

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

	Years ended June 30,	
	1999	2000
Significant interest entities	$ 6,386	$1,162
Equity investees	1,582	176
Total	$ 7,968	$1,338

Cost of revenues

The Group out sources certain contracts to related parties and also procures personnel from them for software development. These costs are recorded as consulting charges and included as part of cost of revenues. The related parties to whom such consulting charges were paid and the corresponding amounts are as follows (in thousands):

	Years ended June 30,	
	1999	2000
Significant interest entities	$ 11,447	$ 4,559
Equity investees	184	95
Total	$ 11,631	$4,654

Interest expense

The Group paid interest to significant interest entities amounting to $32,000 and $25,000 for the year ended June 30, 1999 and 2000 respectively.

Computer equipment and software purchases

The Group purchases computer equipment and software from certain significant interest entities. These purchases during the years ended June 30, 1999 and 2000 amount to, $682,000 and $2,731,000 respectively.

Purchase of land and building

During the year ended June 30, 2000, the Company purchased land and building amounting to $953,000 from a company in which the principal shareholder has controlling interest.

Subleasing of facilities

A significant interest entity has subleased a portion of their facilities to the Group. Total amount charged as rent for the year ended June 30, 1999 and 2000, was $ Nil and $189,000 respectively.

Professional management services

A significant interest entity has charged the Group $4,000 and $Nil for the years ended June 30, 1999 and 2000, respectively, for professional management services. These services consisted of internal audit services, assistance in obtaining financing and services of certain senior employees.

Other transactions with related parties

Funds have been advanced by the Group, repayable on demand, to certain significant interest entities at an average interest rate of 19% per annum. The interest income on the above loans for the years ended June 30, 1999 and 2000 is $575,000, and $Nil respectively.

A significantly interested entity extended an interest-free loan of $384,000 to the Group during the year ended June 30, 1999. The loan was repaid during the year ended June 30, 2000
The Group has advanced loans to employees bearing interest ranging from 2% to 16%. These are housing and general purpose loans. The repayment schedule for these loans is not specified. However, the tenure of these loans is fixed between two to six years.

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

As of June 30, 1999 (in thousands):

	Significant interest entities	Equity investees	Total
Accounts receivable	$ 1,268	465	$ 1,733
Other receivables	$ 268	60	$ 328
Accounts payable	$ 2,348	229	$ 2,577
Short term borrowings	$ 614	-	$ 614
Deferred revenue	$ 511	77	$ 588
Other payables	$ 70	43	$ 113

As of June 30, 2000 (in thousands):

	Significant interest entities	Equity investees	Total
Accounts receivable	$ 298	15	$ 313
Other receivables	$ 114	-	$ 114
Accounts payable	$ 952	6	$ 958
Deferred revenue	$ 177	8	$ 185
Other payables	$ 175	15	$ 190

26. YEAR 2000

To date, the Company has not encountered any material Year 2000 issues concerning its respective computer programs. The Company's plan for the Year 2000 included replacing or updating existing systems (which were not year 2000 compliant), assessing the Year 2000 preparedness of customers and counter-parties and formulating a contingency plan to ensure business continuity in the event of unforeseen circumstances. All costs associated with carrying out the Company's plan for Year 2000 problem have been expensed as incurred.

27. COMMITMENTS AND CONTINGENCIES

Capital commitments

At June 30, 2000, the Group had committed to spend $3,200,000 under agreements to purchase property and equipment. This amount is net of capital advances paid in respect of these purchases.

Guarantees

At June 30, 2000, performance guarantees provided by banks on behalf of the Group to certain Indian Government bodies amount to $694,000 as part of the bank line of credit.

Other commitments

The Company's software development centers in India are 100% Export Oriented (EOU)/Software Technology Park (STP) Units under the Software Technology Park 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.

Contingencies

In December 1998, a customer had filed a claim against a subsidiary alleging breach of contractual obligations between the parties under a software development agreement. The customer has claimed all losses, expenses, costs, damages and indemnification from the subsidiary for its alleged breach of the agreement in an amount not less than $10,000,000 as well as restitution for amounts paid to the subsidiary in an amount not less than $308,000.

In management's opinion, the resolution of this issue will not have an adverse effect on the Group's financial position or results of operations. However, final outcome of this litigation cannot be predicted with certainty and, accordingly, no assurance can be given that the ultimate resolution of the matter will not have a material impact on the Group's financial position or result of operations.

28. SEGMENT REPORTING

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

	Years ended June 30,	
	1999	2000
Revenues		
United States	$ 114,301	$146,363
India	22,967	25,945
Europe	15,113	13,679
Others	13,945	20,846
Total revenues	$ 166,326	$206,833

Revenues are attributed to individual geographies based on where the contract for providing services is entered into. No single customer accounted for more than 10% of the revenues of the Group during the years ended June 30, 1999 and 2000.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

30. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2000, the Company corrected an error relating to the computation of deferred taxes arising from the change in year end of COMNET resulting in an adjustment of $1,285,000 to retained earnings at the beginning of the year with the offsetting adjustment to deferred tax asset. The error had no impact on previously reported net income since the results of COMNET's operations for three-month period to which the error relates were reflected directly in retained earnings.