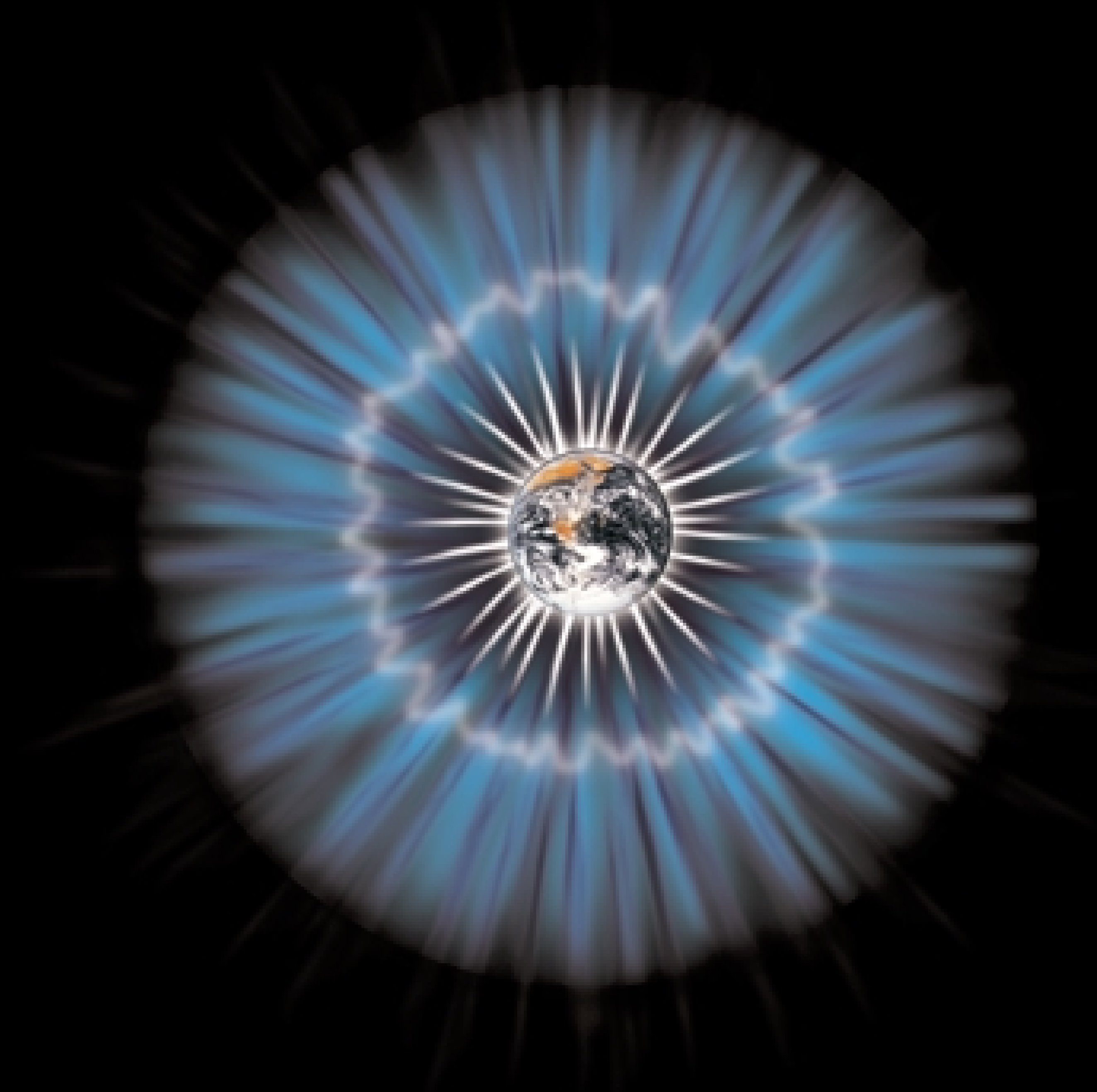
HCL TECHNOLOGIES HCL

powering imagination



HCL TECHNOLOGIES LIMITED
Annual Report 2001-02

www.hcltech.com

CONTENTS

TRISYS COMMUNICATIONS

concept, research and visualisation by trisys (trisys@vsnl.com)

When it comes to
human imagination,
there are simply no limits.

powering imagination

Making your voice heard

When you use the cellphone to speak to someone while driving, the person at the other end inevitably hears more of the peripheral noise from the road, than what you urgently want to convey.

AT HCLT, we are working on a solution that will raise the share of the subscriber's voice over the foreseeable future.

We mean literally.

HCLT has developed an algorithm-centric technology solution for telecom equipment manufacturers, an IP which will make it possible for automobiles to be fitted with a hands-free wireless phone in the future. This will not only enable those driving automobiles to speak on the phone without taking their hands off the wheel, but also eliminate ambient sound through the creation of an opposing sound field. Thus delivering crystal clear sound even while driving at 90 kms per hour!

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Moving the stocks off the shelves

Maximizing footfalls in non-peak hours is every marketing manager's challenge.

At HCLT, we have designed solutions to help retail companies improve customer flow and achieve a more equitable distribution and profitable utilization of retail time and space.

One of HCLT's retail solutions identifies offtake imbalances and enables real-time implementation of pricing options - higher prices in peak hours and lower in lean hours - to attract more consumers and distribute them, to ensure enhanced levels of service.

A comprehensive retail management system which ingeniously deploys electronic shelf labels and hand-held remote controlled devices, has also been developed. Around the electronic shelf-labels was built a market proven, scalable and reliable architecture. As soon as store managers detect a weak consumer offtake, they can instantaneously alter prices or offer schemes, using their remote-controlled hand-held devices.

The system helps in streamlining inventory (avoid stock-outs/overstocks), in-store inventory valuations and replenishments as well.

Other retail solutions include Loyalty Management to track customer buying habits in order to design better promotions; Shelf Management solutions that enable better management of shelf space for improved customer service, as well as integrated solutions to help put the right Merchandise mix on the shelves, by keeping track of demand and supply.

Thanks to these solutions, HCLT is helping retail giants across the world add precious basis points to their margins and strengthen their competitiveness.

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Taking the stops out of your journey

When you are touching 90 kms per hour on a highway, nothing shakes the system - yours and the car's - worse than the wheel passing over a pothole.

Exposed to the natural elements as well as the incessant pounding of heavy vehicles every single day and night throughout the year, road conditions deteriorate over time. Maintaining them in an optimal condition, especially across large tracts of land, can challenge the best of infrastructure.

HCLT has designed a unique solution that protects the health of the road, the car and your body. For a large Australian customer managing road infrastructure, which includes the building and maintenance of 22,000 kms of arterial roads and over 4,000 bridges and major culverts, HCLT has developed a fully integrated Road Asset System (RAS) with web interface and GIS (Geographical Interface System) functionality. A fully integrated browser based intranet application, the RAS has interoperability features and the capability of providing a graphical, map-based method of examining and viewing road information.

Maintenance teams across the country can thus quickly identify sites that need attention and repair and initiate preventive action proactively.

As a result of HCLT's solution, customers Down Under can enjoy a smooth ride - in more senses than one.

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Taking the long-strain out of distance air-travel

Think of a long air haul and you think of strained backs and aching muscles.

Worse, you can think of some insipid canned music and films that you couldn't be bothered to watch.

No longer. Thanks to HCLT's inflight entertainment system software and hardware solutions, developed for leading InFlight Entertainment system providers. Allowing travellers access to a choice of features including Audio Video on demand, internet and email options. As well as Data and Voice communications, leveraging the latest technology trends in embedded, networking, Digital Media content management, telephony and communication technologies. An array interesting enough indeed, to take the boredom out of air travel.

Besides, HCLT is working in the flight safety and mission critical areas related to Air Borne, Air Traffic Management and Ground based Systems. An in-house developed framework that conforms to the most stringent and exacting safety requirements and standards, has ensured consistent delivery of flight safety critical system development services .

Making your ATM account absolutely secure.

A number of users are paranoid about carrying their ATM card for fear that, if pilfered or misplaced, it could be misused to siphon precious savings.

At HCLT, we have developed an eye for such problems. Quite literally. The company is presently working on solutions that leverage biometric technologies to reduce incidences of ATM fraud. These solutions include deployment of retina recognition and finger printing technologies. By incorporating these distinctive features of account holders, all that an ATM card holder will have to do in the future, is stare into a 'retina detector', which would match his retina characteristics with a captive record and, on immediate confirmation, disburse the cash.

HCLT is also working currently with a world technology leader to evolve the ATM from a single-function service into a multi-functional support facility. As a result, the new generation ATMs will be able to provide innovative additional functions to card holders. Including paying utility bills, dispensing stamps, printing and updating passbooks, rendering assistance in purchasing film tickets and booking airline tickets, among other functions.

Thanks to these solutions, the term ‘friend round the corner’ has acquired a new dimension.

Making pain more bearable

A number of illnesses, when treated in the conventional way, can be lingering, making life unbearable for both the patient and those around him.

At HCLT, we have leveraged our IT skills to develop advanced solutions, that help administer therapies conveniently. Take a pain in the back, for instance. Conventionally, in ailments related to the backbone and the spinal cord, while medicines are required to be injected into the body at intervals, frequent injections are not advised.

A leading Fortune 500 group's medical electronics division is using HCLT's embedded technology services for developing advanced hardware and associated software for implantable devices. The system incorporates an ultra low power design and radio-control, with electronics activated only when the device needs to work. The device will potentially ensure that chronic pain or similar ailments can be controlled or treated almost painlessly, without medicines having to be injected into the body at frequent intervals.

Thus alleviating suffering in more ways than one!

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Protecting your business secrets

In a world where business is getting increasingly competitive, there is a growing market for espionage and security breaches are the nightmare of most companies.

At HCLT, we have developed a customized PKI software toolkit, which is the core security Engine, for a leading provider of communications technology in the Internet messaging market space. Our customer provides integrated messaging services including e-mail, secure file storage / delivery and wireless messaging. This core security Engine, which gets integrated with the customer's next generation messaging service, provides the features of Digital Signing and Encryption, using smart cards, to facilitate secure communication.

Based on a modular extensible architecture the toolkit can also support future requirements and is upgradeable. Thanks to this secure technology, HCLT's customers' customers can enjoy complete peace of mind.

Until recently, video-based surveillance was a manual activity with no in-built decision-making intelligence. The introduction of License Plate Recognition is an enabling alternative, which has effectively plugged this handicap with the use of sophisticated technology, for instance, the application of License Plate Recognition in vehicle detection and identification. The system exploits the fact that each vehicle has a unique identification feature – its registration number and does not require any other external device to facilitate identification.

HCLT's competence in this area enables the detection and identification of the number plates on stationary as well as moving vehicles. The company's solution incorporates advanced image / video processing and neural network techniques to locate and recognize vehicle registration numbers. The company provides a robust and dependable framework to develop sophisticated Automatic Vehicle Identification (AVI) applications. The solution is available on a wide variety of platforms and works on a variety of plate syntax. It is also cost effective as it minimizes the need for external triggers to signal vehicle arrival.

The LPRS framework can be used for a wide range of applications including Electronic toll collection, Access control, Parking management, Vehicle traffic management and violation detection at signals or borders

powering imagination

Enabling the safe management of traffic

HIGHLIGHTS, 2001-02

- The company initiated a distinct, vertical-driven marketing strategy.
- The company entered into a slew of acquisitions, investments, alliances, partnerships and Joint Ventures.
- The company implemented a comprehensive Disaster-Recovery and Business Continuity planning program.
- The company added several new and large customers - United Technologies, Visteon, Lear Corporation, Exult Inc., Standard Chartered Bank, Deutsche Bank, British Telecom, General Motors, Parker Hannifin, World Bank and Metapack, among others.
- The company established a subsidiary dedicated to Business Process Outsourcing.
- The company undertook an enterprise-wide SAP implementation to streamline, all functions and data.

VISION >>

To be the most preferred and significant software led global IT services provider in our chosen markets.

MISSION To establish technology partnerships with end-to-end users and OEM organizations on a global basis, to deliver the highest quality and most cost-effective software engineering solutions for the emerging markets.

The HCLT visiting card

WHO WE ARE

HCL Technologies Limited, incorporated in November 1991, is one of India's leading global IT services and product engineering companies.

HCLT provides a wide range of IT solutions and services to a large number of customers, including several Fortune 500 and Global 2000 companies. The company had 6,463 employees as on 30 June 2002.

WHAT WE DO

HCLT possesses deep competencies in cutting-edge IT technologies. The company provides a range of high-end solutions across four services areas encompassing Technology development, Applications development, IT-enabled offerings and solutions across diverse Practices including CRM, SCM, ERP. The company has also focused on a vertical-centric strategy, given its incisive expertise across diverse industries including retail, banking, insurance, funds management, petrochemicals, pharmaceuticals, automotives, aerospace and semi-conductor manufacturing.

WHERE WE ARE LOCATED

HCLT is headquartered in Noida, Uttar Pradesh (on the outskirts of New Delhi, India's capital). The company has a total of 16 software development centers located across Noida, Gurgaon and Chennai - spanning over 600,000 square feet of area. The company has offices in 14 countries including USA, UK, Sweden, Germany, France, The Netherlands, Switzerland, Belgium, Japan, Hong Kong, Australia and New Zealand, among others.

WHO WE WORK WITH

Some of HCLT's leading global customers include Cisco Systems, General Motors, NCR, NEC, NTT Data, BT Financial Group, British Telecom, CSFB, Toshiba, RSA Security, KLA Tencor, Hitachi, Conexant, Air Canada, GTech, Johnson & Johnson and Agilent Technologies, among others. HCLT has set up 49 dedicated offshore development centers (ODCs) for several global customers at its offshore development centres.

THE NUMBERS (UNDER US GAAP)

HCLT recorded revenues of US $ 332.8 million in 2001-02

(US $ 298.4 million in 2000-01). Net income was US $ 86.9 million (US $ 101.9 million in 2000-01) for the same period. The company is listed on the Bombay, Delhi and National Stock Exchanges. The market capitalization of the company was US $ 1701.9 million on 30 June 2002.

ALLIANCES, INVESTMENTS AND JOINT VENTURES

In addition to long-standing customer relationships and key technology alliances, HCLT has embarked on an aggressive non-linear growth strategy. The last fiscal saw several acquisitions, alliances and joint ventures being forged to strengthen the company's solution delivery capabilities across select domains and verticals and to enhance revenues and profit growth. Some of the alliances forged this year include DSL Software Ltd.with Deutsche Bank's IT services subsidiary, HCL Answerthink with Answerthink Inc., HCL Jones Technologies with Jones Apparel Group, HCL Technologies NI with British Telecom, HCL Enterprise Solutions with Computech Corporation, among others.

Investments, alliances and acquisitions

At HCLT, we aim to build strengths across technologies, practices (like SCM, CRM, ERP) and verticals (banking, semi-conductors, aerospace) to follow a growth trajectory. Over the years, we have done so through prudent investments, alliances and acquisitions and derived a superior technological and business value. The company's focused initiatives in 2001-02 will strengthen its capability to deliver cutting-edge solutions across all sectors of its presence and operations.

HCL PEROT SYSTEMS

HCL Perot Systems (HPS) is a 50:50 Joint Venture between HCLT and Perot Systems Inc., USA. The joint venture was formed in 1996 to deliver state-of-the-art solutions to Fortune 500 companies and has emerged as a leading outsourcing and systems integration company in the banking, energy, healthcare, telecom, manufacturing and telecommunications industries.

The Joint Venture is among the Top 20 IT companies in India with revenues and net income of US $ 87.4 million and US $ 15.5 million respectively in 2001-02. It is the first and youngest enterprise-wide SEI-CMM Level 5 company in the HCL Group.

HCL COMNET LIMITED

HCL Comnet Limited is a 100 per cent subsidiary of HCLT. The company offers Life Cycle Services for strategic offsourcing of Operations & Management of IT infrastructure in legacy, client server or internet environments. The company delivers high-performance management services encompassing end-to-end infrastructure management including Network devices, Security, Databases, Systems and Internet site operations management.

DSL SOFTWARE LIMITED

HCLT acquired a 51 per cent stake in the holding company of Deutsche Software Limited, Deutsche Bank's IT services subsidiary in India, for US $ 25 mn along with management control. The JV will reinforce HCLT's presence in the global financial services segment, one of the largest end-user segments. DSL services Deutsche Bank's IT requirements in Frankfurt, London, Singapore and New York through a 500-person IT software services operation in Bangalore.

HCL ENTERPRISES SOLUTIONS INC.

HCLT entered into a joint venture with the Chicago-headquartered Computech Corporation to form HCL Enterprises Solutions Inc. (HES). HES plays a critical role across banking, insurance, fund management and other verticals.

HCL TECHNOLOGIES NI LIMITED

HCLT entered into a strategic alliance with British Telecom for dependable call centre services. This marked the beginning of HCLT's foray into the growing and profitable BPO segment. HCLT paid US $ 11.5 mn initially to acquire 90 per cent equity in Apollo Contact Centre operated by British Telecom at Belfast, Northern Ireland. HCLT is expected to acquire the rest of the stake after three years for US $ 1.2 mn. As a part of the terms of the agreement, revenues have been guaranteed at US $ 30.24 mn across the next three years. This 400 seat Apollo Contact Centre will be managed by HCL E-Serve Technologies Limited.

SHIPARA TECHNOLOGIES LIMITED

HCLT's Joint Venture in the high-technology domain of avionics electronics, Shipara Technologies gives HCLT competency in the profitable avionics and air traffic management area. The company invested US $ 604,000 in 2001 and US $ 708,000 and holds a 60.5 per cent equity interest in this JV as on June 30, 2002.

HCL ANSWERTHINK

HCLT entered into a 50:50 joint venture with Answerthink Inc., USA, a leading US-based technology solutions provider to Global 2000 firms. HCL Answerthink will outsource the IT requirements of its clients to HCLT's offshore development facilities, resulting in the delivery of lower cost, high-value solutions. 35 of Answerthink's global customers like Verizon, Bell South, AOL Time Warner, Metropolitan Life and Waste Management, among others, work regularly with this joint venture.

GULF COMPUTERS INC.

HCLT acquired Gulf Computers Inc., a US-based IT services company headquartered in Massachusetts. The acquisition will help HCLT broadbase its US client base, particularly in the Government sector. The aggregate marketing strengths of Gulf and HCLT are expected to translate into longstanding customer relationships.

HCL JONES TECHNOLOGIES

HCLT entered into a strategic technology Joint Venture with the Jones Apparel Group Inc. (JAG), a Fortune 500 company that owns leading brands like Ralph Lauren, Polo Jeans Company, Jones New York. The joint venture will leverage JAG's experience and HCLT's offshore capability to deliver solutions in the retail vertical.

ZAMBA SOLUTIONS

HCLT has entered into a strategic alliance with ZAMBA Solutions, a US based Customer Relationship Management (CRM) consulting and systems integration company. It offers joint CRM solutions to Global 2000 companies. ZAMBA brings the requisite CRM thought leadership and client relationships to the joint initiative, with its CRM process and implementation expertise, its comprehensive portfolio of solutions and deep experience of over 300 clients. The company has offices in Boston, Colorado Springs, Denver, Minneapolis, San Jose, Toronto and India.

AQUILA TECHNOLOGIES

HCLT acquired a 35.5 per cent stake in Aquila Technologies Pvt. Ltd. India. Aquila is a Bangalore-based software solutions provider in the areas of Engineering software and services like CAD/CAE PDM/CPC, Virtual engineering frameworks, Visualization, Image Processing and Computer Game Development. The company has focused skills in these defined areas, operating offshore from Bangalore, catering to both the domestic and the export market. Aquila currently has a client list that includes leading global majors such as Daimler Chrysler, Rieter Automotive, Hewlett Packard and Visionix among others.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

THE COMPANY DELIVERS SERVICES THROUGH ITS OFFSHORE INFRASTRUCTURE IN INDIA COMPRISING 16 SOFTWARE DEVELOPMENT CENTRES (INCLUDING 49 OFFSHORE DEVELOPMENT CENTRES), 1 NETWORK OPERATIONS CENTRE AND ITS GLOBAL MARKETING NETWORK COMPRISING 25 OFFICES IN 14 COUNTRIES.

Overview

HCL Technologies Ltd. ('The Company') is one of India's leading IT services companies, providing a broad range of IT services to customers worldwide. The Company's principal services include:

Software Services

This includes:

- *Technology R & D services*, which includes Technology Development Services (TDS) and Software Product Engineering Services (SPES). TDS includes the development, redevelopment and maintenance of software that is either embedded into or is integral to the functioning of hardware products and also includes development work on emerging technologies; SPES relates to assisting customers in the conceptualisation, design, development, global implementation and rollout of software products.
- *Application Services*, which include custom development, migration and re-engineering of application software as well as package implementation.

Networking Services

These relate to the design, connectivity, security and management of networks, internet consulting and sales of networking products.

Business process outsourcing services

These include services related to contact centres and transaction processing services.

The Company delivers these services through its offshore infrastructure in India comprising of 16 Software Development Centres including 49 Offshore Development Centres, 1 Network Operations Centre and its global marketing network comprising 25 offices in 14 countries.

The Company's total revenues grew from $55.8 million in fiscal 1996 to $332.8million in fiscal 2002, representing a CAGR of 34.7%, while net income grew from $3.2 million in fiscal 1996 to $86.9 million in fiscal 2002, representing a CAGR of 73.4%.

The current operating environment

The slowdown in the global markets has had a significant negative impact on the business growth of Indian IT vendors. The Company, like most of its other peers in the industry, was faced with the challenges posed by a deceleration in the rate of growth with respect to IT spends and the consequential pressure on billing rates through most of the fiscal year ended June 30, 2002. However, on the positive side, the slowdown has also catalysed major corporations, particularly those headquartered in the US, towards reallocating IT budgets in favour of vendors who can offer more cost-effective solutions. This is expected to give a major boost to the Indian IT industry, which has very ably demonstrated its offshore-based delivery capabilities with the highest of quality standards. The Company with its pre-eminent position in the Indian IT industry and proven capabilities in offshore software development is positioned to benefit from these new opportunities.

Rebalancing of portfolio and non-organic growth strategy

With the slowdown in technology investments worldwide, the Company's traditional revenue base consisting of technology development services and software product engineering witnessed challenging times after several years of robust sequential growth. As part of an overall de-risking strategy, the Company has embarked on an exercise to rebalance its services portfolio and increase the share of business derived from end-user applications. With a more balanced mix, the Company would be able to achieve a lower level of cyclicality going forward. It may be mentioned that the Company continues to invest in and nurture its traditional stronghold of technology development services so that the Company is in a state of preparedness to take advantage of the revival in the technology segment as and when it occurs.

To provide additional momentum to the re-balancing exercise mentioned above, the Company has undertaken a series of strategic acquisitions and alliances. These have helped the Company to add specific competencies to its portfolio and offer a wider mix of services to its clients.

With these measures, the Company has increased the contribution of end-user application services in its revenues. The share of application services in the total revenues has gone up from 24.4% in the year ended June 30, 2001 to 26.4% in the year ended June 30, 2002.

During the year the Company has reconfigured its service offerings around four key areas. These can be classified as:

i) *Practice-enabled services* – related to package implementation (in the areas of ERP, SCM and CRM), network design and internet / e-commerce solutions.

ii) *Application enabled services* – services in the areas of custom software development, maintenance, testing, production support along with porting and migration. These would be provided in the verticals of retail, banking, funds management, insurance, automotive, aerospace, petrochemicals, pharmaceuticals and semiconductor manufacturing.

iii) *Technology-enabled services* – services in the areas of chip design, embedded systems, CAD / CAM / CAE, product engineering and maintenance.

iv) *IT-enabled* – services in the area of technical help desks, business process outsourcing and customer contact services

Revenues

Sources of Revenue

The major share of the Company's revenues is derived from outsourced software development services in technology / application enabled practices, with the rest of the revenues coming in from networking services and business process outsourcing services. The breakup of revenue between the various business areas is:

(in $ million, except percentages)

	Fiscal year ended June 30,			
	2001		2002	
Customers Services Category	**Revenue**	**% of revenue**	**Revenue**	**% of revenues**
Software services	$266.7	89.4	$284.3	85.4
Networking services	32.9	11.0	40.6	12.2
Business process outsourcing services	–	–	8.5	2.6
Inter-segment transactions	(1.2)	(0.4)	(0.6)	(0.2)
Total	**$298.4**	**100**	**$332.8**	**100**

Mix of Revenues

The Company derives most of its revenues from offshore-centric services. The Company's offshore model involves the delivery of outsourcing services to customers located outside India by technical professionals working primarily offshore at its software development centers in India and may also include onsite work at the customer site located outside India on a short-term project-by-project basis. Offshore revenues also include revenues earned from networking services. The Company derived 71% and 63% of its total revenues in fiscal 2002 and 2001 from customers located outside India that hired it for offshore projects. For this purpose, offshore projects are defined to include projects that are managed offshore in India or performed primarily offshore in India or managed onsite using offshore resources.

Substantially all of its fees for outsourced software development services are earned from projects on which it generally charges for its services on a time-and-materials basis. In fiscal 2002, total revenues from time-and-materials projects were $311.4 million, representing 93.6% of total revenues in such period. Revenues from services provided on a time-and-materials basis are recognized in the month that services are provided and related costs are incurred. A small amount of revenues are generated from projects provided on a fixed-price basis. In fiscal 2002, total revenues from fixed-price contracts were $21.4 million, representing 6.4% of total revenues in such period. Revenues from services provided on a fixed-price basis are recognized upon the achievement of specified milestones identified in related contracts, in accordance with the percentage of completion method. Any anticipated losses upon contract completion are recognized immediately. The Company plans to continue to offer a significant portion of its services on a time-and-materials basis rather than on a fixed-price basis.

Geographic Breakdown of Revenues

The Company also reviews its business on a geographic basis. The following table sets forth information about the total revenues by geographic divisions:

(in $ million, except percentages)

	Fiscal year ended June 30,					
Total revenues	**2000**		**2001**		**2002**	
America	$146.4	70.8%	$222.8	74.7%	$229.4	68.9%
India	25.9	12.5	32.7	10.9	43.5	13.1
Europe	13.7	6.6	20.8	7.0	34.0	10.2
Others	20.8	10.1	22.1	7.4	25.9	7.8
Total	**$206.8**	**100%**	**$298.4**	**100%**	**$332.8**	**100%**

In the near term, the Company expects to continue to derive significant revenues from its customers in United States. However, revenue contribution from Europe is expected to pick up with contributions from newly acquired entities focusing on that region. Revenues in India are generated primarily from networking services provided to customers in India.

Revenue growth drivers

The revenue growth for the Company, in the current financial year, has been driven entirely by the addition of new entities, which have been added as a part of the Company's inorganic initiatives. The core organic software services business of the Company has shown a decline in the current year due to the tough environment in the technology R & D space.

Operating Expenses

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 and all costs directly identifiable with the provision of services. This cost excludes an allocation of depreciation and amortization, rent, repairs and maintenance, electricity charges, establishment and communication expenses.

Sales and Marketing 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

General and administrative expenses consist primarily of management and support personnel costs, rent expenses relating to development centres and marketing offices, communication expenses including expenses incurred in connection with project

HCL Technologies Limited

execution and co-ordination between marketing offices and offshore development centres, travel expenditure other than project and sales related travel, expenses incurred in connection with mergers and acquisition related initiatives and legal and administrative costs.

Equity Investees

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

HCL Perot Systems (HPS)

The Company holds 50% of the equity in HPS, a joint venture with Perot Systems. Its ownership interests and share of reported earnings in HPS will decrease to 48.12% if stock options granted by HPS to its employees and other parties are exercised in the future. As of June 30, 2002, carrying value of the Company's total investment in HPS was $30.3 million. Interest in the joint venture is accounted for under the equity method, and, accordingly, 50% share of HPS' net income is recognised on a net basis as the Company's share of income from equity investees. In fiscal 2002, HPS generated revenues of $87.4 million and net income of $15.5 million, and the Company's share of income was $7.7 million.

Shipara Technologies Limited (STL)

The Company holds a 60.5% interest in STL, a joint venture, where the minority shareholder is Rao Insulating Company Limited. Even though the Company holds more than 50% stake in STL, the financials of STL have not been consolidated as the minority shareholder has certain participating rights, which provides for its effective involvement in significant decisions in the ordinary course of business. The carrying value of the investment in STL was $1.3 million as of June 30, 2002. The Company's equity in the profit of STL was $0.1 million for the year ended June 30, 2002.

HCL Answerthink Inc (HCLA)

During the year under review, the Company has formed a joint venture with Answerthink Inc. The Company holds a 50% interest in this joint venture. The Company's equity in the loss of HCLA was $0.3 million for the year ended June 30, 2002.

Net India Private Limited (NIPL)

The Company has a 46.7% interest in NIPL. The carrying value of this investment is $0.05 million as of June 30, 2002 and the Company's equity in the loss was NIPL is $0.1 million for the year ended June 30, 2002.

Diamondhead Ventures LLP (DV)

As of June 30,2002, the Company held a 11.1% interest in DV, a technology venture fund. The carrying value of this investment was $3.8 million as of June 30, 2002 while the Company's equity in the loss of DV was $0.4 million for the year ended June 30, 2002.

Business Combinations

During the year under review, the Company completed several business combinations, which were accounted for under the purchase method.

HCL Enterprise Solutions Ltd (HES)

In July 2001, a 51% subsidiary of the Company – HES, acquired the ERP business of Computech Corporation and Systech Inc. The acquisition would allow the Company to leverage the competencies of acquired business in enterprise application and training segments. The remaining 49% shares in HES are held by the shareholders of Computech Corporation and Systech Inc. The Company is required to acquire the balance 49% from the minority shareholders in three equal tranches falling due on September 3, 2002, October 31, 2003 and January 31, 2005. The consideration for this balance 49% is payable in cash and is determinable based on earnings and revenues of HES. The results of HES are consolidated in the Company's financial statements with effect from July 1, 2001.

Deutsche Software

In October 2001, the Company acquired a 51% interest in the equity of Deutsche Bank Asia Pacific Training Centre Pte Limited, Singapore (Deutsche Software). This business combination would allow the Company to expand its technology service offerings in the banking and finance industry segment. The Company shall purchase the balance 49% in Deutsche Software held by Deutsche Bank AG upon the earlier of October 1, 2004 or Deutsche Software achieving certain specified revenue or earnings targets. The purchase consideration would be based on the earnings of Deutsche Software as also the prevailing earnings multiples and would be paid through the issuance of the Company's stock. Deutsche Software's operations are consolidated in the Company's financial statements with effect from October 1, 2001.

HCL Technologies NI Ltd (HCLTNI)

In December 2001, the Company acquired a 90% equity interest in the Business Process Outsourcing division of British Telecom plc (BT) - Apollo BT call centre - through HCLTNI, its subsidiary in Belfast, Northern Ireland. This was acquired for a cash consideration of $11.6 million. The acquisition would help the Company to augment its BPO service delivery capability and widen its client base in the European and the American markets. The Company has obtained binding commitments for the provision of IT enabled services to BT, with an aggregate contract value of not less than $13.8 million in the first year from the date of the acquisition and $9.2 million in each of the second and third years from the date of acquisition.

The Company has a call option and the minority shareholder (BT) has a put option on the remaining 10% stake in Apollo. The options are exercisable within a period of 30 days from the expiry of the December 1, 2004. The call/put option exercise price comprises a fixed portion of $1.2 million and a variable component, which will be determined on the basis of revenue from BT above the firmly committed revenues. The variable portion of the consideration is in the nature of a sales incentive. Due to the existence of a fixed price call/put option to acquire the remaining 10% equity interest at a future date, the Company has consolidated 100% of the results of HCLTNI from December 1, 2001.

Gulf Computers Inc (GCI)

In May 2002, the Company acquired all of the outstanding stock of GCI, US for a cash consideration of $9.7 million. The acquisition would enable the Company to expand its presence and service delivery capabilities in the Government sector in the USA. The terms of purchase also provide for the 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. This would be paid either in cash or in common stock of the Company. The Company, along with the acquisition of GCI has also acquired the business of Gulf Computers Private Limited and e-Gulf Technologies Private Limited, companies incorporated in India for a cash consideration of $0.3 million. The results of operations of GCI are consolidated in the Company's financial statements with effect from June 1, 2002.

HCL Jones Technologies Ltd (HCLJ)

In June 2002, the Company entered into an agreement with Jones Apparel Group Inc. (JAG) to form two new companies based in Bermuda and Delaware, USA. The Company contributed $1.0 million towards a 51% equity interest in these companies. The Company, as a part of this transaction, has obtained binding commitments for the provision of IT services to JAG, with an aggregate contract value of $14.3 million up to June 30, 2004, $6.8 million in the year ending June 30, 2005 and $5.3 million in each of the two succeeding years. JAG 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. The Company has entered into a forward purchase agreement for acquiring a portion of JAG's interest 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 results of the operations of these companies are consolidated in the Company financial statements with effect from June 13, 2002.

Income Taxes

A substantial portion of the profits of the Company's India operations are deductible for the purpose of calculating 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 a deduction of profit for calculation of income tax for a period of any ten consecutive years subject to certain conditions and stipulations. The Company 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 (STP). During the year ended June 30, 2002, the Company set-up new undertakings in Software Technology Parks for which deduction is available till March 2010.

Export income exempt from tax from STP units for the year commencing April 1, 2002, is restricted to 90% of its aggregate income. Non-exempt revenue of companies is currently subject to taxation at the rate of 36.75%, including the applicable surcharge.

HCL Comnet, the Company's wholly-owned subsidiary in India, benefits from a 100% tax deduction on a portion of its business income from April 1, 2000 to March 31, 2005 and a 30% tax deduction on such portion from April 1, 2005 to March 31, 2010.

HCL Technologies Bermuda Limited, or HCL Bermuda, the Company's wholly-owned subsidiary is an exempted company incorporated in Bermuda, a jurisdiction in which there is no income or capital gains tax. Furthermore, a tax assurance has been received from the Bermuda Ministry of Finance pursuant to which the Company has been guaranteed that in the event Bermuda enacts any legislation imposing tax computed on profits or income or computed on any capital assets, gains or appreciation, the imposition of any such tax shall not apply to HCL Bermuda or to any of its operations or the shares, debentures or other obligations. This tax assurance will be in effect until March 28, 2016.

HCL Technologies America, Inc., or HCL America, the Company's wholly-owned subsidiary based in the United States, is subject to United States federal and state taxes on its earnings in the United States. Similarly, other wholly owned subsidiaries located in Europe, Asia and Australia are subject to taxes on their income under local laws.

Results of Operations

The following table summarizes historical results of continuing operations for the past five years.

Consolidated Statement of Income:

(in thousands, except number of shares and per share data)

	Fiscal year ended June 30,				
	1998	**1999**	**2000**	**2001**	**2002**
Revenues	$118,768	$166,326	$206,833	$298,385	$332,843
Less: Stock based sales incentive	–	–	(2,266)	(1,733)	81
Net revenues	118,768	166,326	204,567	296,652	332,924
Cost of revenues (exclusive of certain cost as discussed below)	72,723	100,330	106,637	151,304	182,910
Sales and marketing expenses	12,760	13,538	14,960	17,684	27,364
General and administration Expenses	17,941	26,638	35,402	38,137	45,413
Depreciation and amortization	4,459	6,907	6,937	8,944	11,863
Foreign Exchange Gain, net	453	549	1,447	2,573	3,085
Income from operations	11,338	19,462	42,078	83,156	68,459
Other income, net	(1,686)	(694)	9,818	17,418	19,368
Income before income taxes, share of income of equity investees and minority interest	9,652	18,768	51,896	100,574	87,827
Income tax expense	250	647	5,885	8,250	5,705
Share of income of equity investee	2,042	3,775	6,151	9,628	6,976
Minority interest	251	222	(52)	(5)	(2,214)
Net income (loss)	$11,695	$22,118	$52,110	$101,947	$86,884
Earnings per equity share :					
Basic	$0.05	$0.09	$0.20	$0.36	$0.31
Diluted	$0.04	$0.08	$0.19	$0.34	$0.30
Weighted average number of equity shares used in computing earnings per equity share:					
Basic	248,960,636	248,960,636	264,438,108	282,409,797	282,680,796
Diluted	263,426,312	263,426,312	280,954,110	296,688,505	291,565,608

Cost of Revenues

The caption Cost of revenues does not include an allocation of depreciation and amortization, rent, repairs and maintenance, electricity charges, establishment and communication expenses. The charge for depreciation and amortization has been presented as a separate line item on the face of the consolidated statements of income, while the other allocable costs discussed above are included in General and administrative expenses. The following table lists the costs, other than depreciation and amortization, for the years ended June 30, 2000, 2001 and 2002, a portion of which is allocable to Cost of revenues.

	Fiscal year ended June 30,				
	1998	**1999**	**2000**	**2001**	**2002**
Rent	1,641	2,663	$3,482	$4,518	$6,027
Repairs and maintenance	670	834	1,430	1,810	2,569
Electricity charges	483	678	967	1,737	2,565
Establishment	334	423	696	581	715
Communication	1,709	2,314	2,682	3,721	4,142
Total	**$4,837**	**$6,912**	**$9,257**	**$12,367**	**$16,018**

Fiscal 2002 Compared to Fiscal 2001

Revenues. Total revenues were $332.8 million in fiscal 2002 representing an increase of 11.5% from $298.4 million in fiscal 2001. This increase was driven entirely by the addition of newly acquired entities during the year. The software services part of the business portfolio that existed as of the end of the last fiscal year, declined by 4.2% during the year under review. This decline has been due to a higher offshore contribution this year as well as the pressure on billing rates. Offshore-centric contribution in the year ended June 30, 2002 was at 71% as compared to 63% in 2001.

Net revenues. Net revenues were $332.9 million in fiscal 2002, representing an increase of 12.2% from $296.7 million in fiscal 2001. The Company amortizes cost associated with stock based sales incentives ratably over the applicable period of benefit in accordance with the requirements of EITF 96-18. This cost, aggregating $1.7 million for the year ended June 30,2001 and a benefit of $0.08 million for the year ended June 30, 2002 has been recorded as a contribution/distribution from/to the principal shareholder.

Cost of Revenues. Cost of revenues was $182.9 million in fiscal 2002, representing an increase of 20.9% from $151.3 million in fiscal 2001. This increase was due primarily to increase in personnel costs as also an increase in consulting charges for subcontracted work. Personnel costs increased from $64.6 million in fiscal 2001 to $77.5 million in fiscal 2002 due to i) increase in number of billable employees ii) full year impact of ramp-up in headcount which had happened in the last part of the year ended June 30, 2001. Consulting charges for the year increased from $46.9 million in FY2001 to $59.7 million. Project related travel were reigned in and decreased from $17.9 million in fiscal 2001 to $15.2 million in fiscal 2002. Cost of revenues as a percentage of net revenues increased to 54.9% in fiscal 2002 from 51.0% in fiscal 2001.

Sales and Marketing Expenses. Sales and marketing expenses were $27.4 million in fiscal 2002, representing an increase of 54.8% from $17.7 million in fiscal 2001. This increase was due to higher provisions for bad debt expenses. In view of the uncertain market conditions, the Company has adopted a more stringent provisioning policy as a result of which the provision for bad debts has increased from $3.4 million in fiscal 2001 to $11.6 million in fiscal 2002. Correspondingly, sales and marketing expenses as a percentage of net revenues increased to 8.2% in fiscal 2002 from 6% in fiscal 2001.

General and Administrative Expenses. General and administrative expenses as a percentage of net revenues have increased marginally to 13.7% in fiscal 2002 from 12.9% in fiscal 2001. General and administrative expenses were $45.4 million in fiscal 2002, representing an increase of 19.1% from $38.1 million in fiscal 2001. There has been significant addition to facilities and infrastructure both in India and abroad. In addition, this head of expenses has also increased due to addition of senior

HCL Technologies Limited

management staff to cater to mergers and acquisitions, business development and other corporate support functions.

Depreciation and Amortization. Depreciation and amortization was $11.9 million in fiscal 2002 as compared to $8.9 million in 2001. Depreciation expenses increased to $11.6 million in fiscal 2002 from $6.6 million in fiscal 2001. This increase is due to substantial infrastructure additions to fixed assets in fiscal 2002. The amortization expense for the year under review was $0.3 million as compared to $2.3 million in the year ending June 30, 2001. As of July 1, 2001, the Company adopted SFAS No.142, Goodwill and Other Intangible Assets, which addresses the financial accounting and reporting standards for goodwill and other intangible assets subsequent to their acquisition. In accordance with SFAS No.142, the Company discontinued the amortization of goodwill effective July 1, 2001. This standard requires that goodwill no longer be amortized and instead be tested for impairment on a periodic basis. During the year under review, the Company completed the transitional impairment test, which did not indicate an impairment.

Foreign Exchange Gain, net. Net exchange gains increased to $3.1million in fiscal 2002 from $2.6 million in fiscal 2001.

Income from Operations. As a result of the foregoing factors, income from operations was $68.5 million in fiscal 2002, representing a decrease of 17.7% from $83.2 million in fiscal 2001. Income from operations as a percentage of net revenues decreased to 20.6% in fiscal 2002 from 28.0% in fiscal 2001.

Other Income, net. Other income consists primarily of interest income and dividend income from investments made as a part of deployment of surplus funds. Net other income was $19.4 million in fiscal 2002, representing an increase of 11.5% from $17.4 million in fiscal 2001. The net other income for the year is after a provision of $4.8 million which pertains to a) decline in the value of the Company's investments in technology venture funds b) an impairment charge related to the Company's investment in Zamba Corporation c) an impairment charge related to the Company's investment in an unlisted company. In the previous year, a substantial part of the other income for the Company came from profit on the sale of investment securities. However, a large part of this year's other income is from dividend income on investment securities. The Company's investments were primarily in income plans of Indian mutual funds, fixed income securities of development financial institutions, public sector units and banks, rated AAA/P1+/A1+, or equivalent, and bank deposits.

Income Tax Expense. Income tax expense was $5.7 million in fiscal 2002, representing a decrease of 31.3% from $8.3 million in fiscal 2001. Tax liability has decreased mainly due to a decrease in the taxable component of the other income – a large portion of the other income was in the form of dividend income, which, till March 31, 2002, was tax-free in the hands of the recipient.

Share of Income of Equity Investees. Share of income of equity investees was $7.0 million in fiscal 2002, representing a decrease of 27.1% from $9.6 million in fiscal 2001.

Minority interest. Share of interest of minority holders for the year was $2.2 million in fiscal 2002.

Net Income. As a result of the foregoing factors, net income was $86.9 million in fiscal 2002, representing a decrease of 14.7% from $101.9 million in fiscal 2001.

Fiscal 2001 Compared to Fiscal 2000

Revenues. Total revenues were $298.4 million in fiscal 2001, representing an increase of 44.3% from $206.8 million in fiscal 2000. This increase was due primarily to – (a) an increase in billable manpower (b) additional business generated through new customers; (c) an increase in repeat business in fiscal 2001 from existing customers as compared to fiscal 2000, and (d) higher billing rates across the Company's range of services (both onsite and offshore). Revenue mix of the Company remained constant at 63% offshore in fiscal 2000 and 2001.

Net Revenues. Net revenues were $296.7 million in fiscal 2001, representing an increase of 45.0% from $204.6 million in fiscal 2000. The stock based sales incentive of $1.7 million in fiscal 2001, as against $2.2 million in fiscal 2000, represents the accounting charge calculated pursuant to EITF 96-18 for stock options that accrued to customers on meeting agreed revenue commitments.

Cost of Revenues. Cost of revenues was $151.3 million in fiscal 2001, representing an increase of 41.9% from $106.6 million in fiscal 2000. This increase was due primarily to increase in subcontracted cost, project related travel costs, and an increase in personnel costs due to the increase in billable manpower. Subcontracted costs were $46.9 million in fiscal 2001 as compared to $29.5 million in fiscal 2001. Personnel costs increased from $49.9 million in fiscal 2000 to $64.6 million in fiscal 2001. Project related travel increased from $11.4 million in fiscal 2000 to $17.9 million in fiscal 2001. Cost of revenues as a percentage of net revenues decreased to 51.0% in fiscal 2001 from 52.1% in fiscal 2000. This decrease was due primarily to a substantial increase in offshore revenues where the employee costs are lower and margins are higher than comparable onsite revenues and a further enhancement in utilization of billable resources both onsite and offshore.

Sales and Marketing Expenses. Sales and marketing expenses were $17.7 million in fiscal 2001, representing an increase of 18% from $15.0 million in fiscal 2000. This increase was due primarily to increase in bad debt expenses and marketing related travel costs. In view of the economic slowdown in the US markets, the Company adopted a conservative provisioning policy and increased the bad debts provision by $1.8 million in fiscal 2001 in its subsidiary in America, as compared to fiscal 2000. Sales and marketing related travel expense was $2.7 million in fiscal 2001 as compared to $2.1 million in fiscal 2000. Sales and marketing expenses as a percentage of net revenues decreased to 6% in fiscal 2001 from 7.3% in fiscal 2000. This decrease in percentage terms was due to a proportionately larger increase in revenues compared to the increase in sales and marketing expenses.

General and Administrative Expenses. General and administrative expenses were $38.1 million in fiscal 2001, representing an increase of 7.6% from $35.4 million in fiscal 2000. There was significant addition to offshore development infrastructure during fiscal 2001, which resulted in an increase in cost of utilities, communication expense, and rental expense of facilities. Legal and professional charges have increased in fiscal 2001 by $0.6 million, which was in line with growth in the Company's business volume. However, general and administrative expenses as a percentage of net revenues decreased to 12.9% in fiscal 2001 from 17.3% in fiscal 2000, mainly due to a relatively higher increase in revenues.

Depreciation and Amortization. Depreciation and amortization was $8.9 million in fiscal 2001 as compared to $6.9 million in 2000. Depreciation expenses increased to $6.6 million in fiscal 2001 from $4.5 million in fiscal 2000. This increase was due to substantial infrastructure additions to fixed assets in fiscal 2001. Amortization of goodwill and identified intangible assets, however, decreased to $2.3 million in fiscal 2001 from $2.5 million in fiscal 2000.

Foreign Exchange Gain, net. Net exchange gains increased to $2.6 million in fiscal 2001 from $1.4 million in fiscal 2000.

Income from Operations. As a result of the foregoing factors, income from operations was $83.2 million in fiscal 2001, representing an increase of 97.4% from $42.1 million in fiscal 2000. Income from operations as a percentage of net revenues increased to 28.0% in fiscal 2001 from 20.6% in fiscal 2000.

Other Income, net. Other income consisting primarily of interest, dividends and net capital gains arising from deployment of surplus funds, was $17.4 million in fiscal 2001, representing an increase of 77.6% from $9.8 million in fiscal 2000. Most of this increase can be attributed to an increase in the interest received on investments in debt securities, bank deposits and returns from mutual fund investments. The Company's investments were primarily in income plans of Indian mutual funds, fixed income securities of development financial institutions, public sector units and banks, rated AAA/P1+/A1+, or equivalent, and bank deposits.

Income Tax Expense. Income tax expense was $8.3 million in fiscal 2001, representing an increase of 40.7% from $5.9 million in fiscal 2000. Tax liability increased mainly due to an increase in taxable components of other income and increase in taxable profits of subsidiaries.

Share of Income of Equity Investees. Share of income of equity investees was $9.6 million in fiscal 2001, representing an increase of 54.8% from $6.2 million in fiscal 2000.

Net Income. As a result of the foregoing factors, net income was $101.9 million in fiscal 2001, representing an increase of 95.6% from $52.1 million in fiscal 2000. Net income as a percentage of net revenues increased to 34.3% in fiscal 2001 from 25.5% in fiscal 2000.

HCL Technologies Limited

Liquidity and Capital Resources

Cash Flows from Operating Activities

The Company's operations generate a significant amount of cash each year. Net cash provided by operating activities was $77.6 million and $80.9 million in fiscal 2001 and 2002. The Company has been financing its working capital needs through internally generated funds and revolving credit facilities with banks in India and the United States. Cash from operations consisted of net income, part of which was ploughed back as an increase in accounts receivable. Accounts receivable as at the end of fiscal 2001 and 2002 were approximately 18.0%and 21.7% of total revenues for each of the respective fiscal years then ended.

The Company generally bills its customers on a monthly basis. The Company has sought to keep a very tight control on its accounts receivables. With the tightening in the overall business environment, some customers have requested for some relaxation in the collection cycle. For some of these large, premium clients with strong balance sheets and with whom the Company has had a long-term relationship the credit terms have been relaxed. As a result, there has been some lengthening of the overall debtors period during the current fiscal. In fiscal 2002, the average days receivables, net of allowances for uncollectible receivables, increased to 79 days from 66 days as of June 30, 2001. During the current year, the Company added a sum of $8.2 million to its allowance for uncollectible receivables. This was based on careful assessment of the financial condition of the debtors and also keeping in view the uncertain economic environment. Accounts receivable, net of allowances for uncollectible receivables, increased from $53.6 million as of June 30, 2001 to $72.1 million as of June 30, 2002.

Cash Flows from Investing Activities

Net cash used in investing activities was $37.4 million and $118.1 million in fiscal 2001 and 2002 respectively. Cash used in investing activities in fiscal 2002 consisted primarily of a net sum of $52.2 million invested in investment securities, $44.6 million used for business acquisitions (payments net of cash acquired) and $20.4 million used to purchase property and equipment.

The Company holds investments in limited liability partnership interest technology venture funds. The carrying value of investments as of June 30, 2002 in these funds aggregated $11.5 million as on June 30, 2002. The Company's interest in these funds range from 0.6% to 4.7%. As of June 30, 2002, the Company has commitments to contribute an additional $12.1 million to these venture funds over the next two to three years. During the year under review, as part of ongoing evaluation of these investments, the Company recorded an impairment charge of $2.4 million for an other than temporary decline in the value of these investments. In June 2000, the Company had purchased 1,538,462 convertible preferred shares of an unlisted company at a cost of $2.0 million. During the year, the Company has recorded an impairment charge of $2.0 million for an other than temporary decline in the value of this investment.

Cash Flows from Financing Activities

Net cash provided by financing activities was $14.1 million in 2001 while net cash used in financing activities was $15.4 million in 2002.

During the year under review, the Company established a controlled trust called the HCL Technologies Limited Employees 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 eligible employees to exercise stock options under the 1999 and the 2000 Stock Option Plans. During the year ended June 30, 2002, the trust purchased 4,768,301 shares of the Company at a cost of $16.0 million.

The Company had raised approximately $188.8 million in net aggregate proceeds from its Initial Public Offering on the Indian stock exchanges done in the year 2000. The unutilized net proceeds from this IPO together with the cash provided by operating activities were invested in Indian mutual funds investing in debt and money market securities. The Company envisages that a large portion of these liquid funds will not be brought in to use in the next fiscal. Accordingly, in the last quarter of fiscal 2002, the Company moved a substantial portion of its investments, in debt mutual funds, from dividend to growth plans, where they will be retained for at least 12 months. The returns from these funds will be realised in the form of capital gains, only when these are redeemed rather than in the form of dividend income as had been the case earlier. This is expected to cause a significant drop in the Company's non-operating income during the fiscal 2003.

As of June 30, 2002, the Company had $34.3 million in cash and cash equivalents and had no bank borrowings.

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 maintains two revolving lines of credit with banks in India, and its subsidiary HCL Comnet maintains four revolving lines of credit with banks in India. The Indian Credit Facilities include facilities for overdrafts, cash credit, demand loans for working capital, letters of credit and bank guarantees. The subsidiary in America maintains a revolving line of credit with Silicon Valley Bank in the United States.

The Company's principal capital expenditures have been for purchase of computer equipment and software, office fixtures and for lease of land and buildings. In fiscal 2000, 2001 and 2002, $11.7 million, $22.3 million and $20.4 million, respectively, were spent to purchase property, plant and equipment.

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.

Risk factors

The key risk factors for the Company are as follows:

- Business concentration risks
- Technology-related risks
- Mergers and Acquisitions (M & A) execution risks
- Investment portfolio-related risks
- Currency risk related to fluctuations in the foreign exchange rate

Business concentration risks

The Company strives to ensure that it does not become too dependent on any particular set of clients or any particular geography. The Company's revenues are spread across a total of 362 clients with top 5, 10 and 20 clients having contributed 23%, 34% and 44% to the Company's revenues in the year under review.

With the USA remaining the largest IT spender in the world, a large portion of the Company's revenues come from USA. However, conscious efforts are being made to reduce this dependence. Non-US revenues as a percentage of the total revenues of the Company have increased to 31.1% in 2002 from 25.3% in 2001.

Similarly 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. Indeed, the Company has recognised this factor and has undertaken multiple initiatives during the fiscal year June 30, 2002 to rebalance its business portfolio.

Technology-related risks

The Company has competencies in a wide variety of software operating environments rather than depending on any specific technology. 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.

M & A execution risks

The Company's 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. Much of the risks are mitigated by restricting the choice of target companies by applying certain rigorous selection criteria.

Investment portfolio related risks

The Company's primary market risk exposures are to the following:

a) interest rate risk on its investment securities;
b) its investments in venture capital funds and in Harmony Software; and
c) foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate.

The Company's exposure to interest rate risk are from its investment securities. As of June 30, 2002, it had invested $228.5 million in investment securities in India. The breakdown of the investments in such securities as of June 30, 2002, is as follows:

(in $ millions)

Type of instruments	Amounts
Mutual Funds	$181.9
Equity Securities	0.5
Debt Securities	46.0
Total	**$228.5**

In addition to the above investments, as of June 30, 2002, the Company also had $34.3 million in cash and cash equivalents, consisting primarily of investments in bank deposits.

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.

The Company's exposure to its investments in venture capital funds arises principally from the investment portfolio of such funds. Its investments in these funds involve high risks and all or part of the amounts it has invested or is required to invest in future may be lost.

Exchange rate risk

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

Transaction gains and losses are recognized in the period in which they occur. During fiscal 2000, 2001 and 2002, there were no material operating trends or effects on liquidity as a result of fluctuations in currency exchange rates. Other than with respect to HCL Comnet and DSL Software, the Company does not generally use derivatives to hedge against foreign currency fluctuations and does not speculate in foreign currency.

The foreign exchange risk principally 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.

HCL Technologies Limited

INDEPENDENT AUDITORS' REPORT

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, 2001 and 2002, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2002. 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 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, 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, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations and Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets.

KPMG
New Delhi, India
August 28, 2002

HCL Technologies Limited

CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of June 30, 2001	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$91,007	$34,255
Restricted cash	376	688
Accounts receivable, net of allowances	53,591	72,073
Investment securities, available for sale	183,567	227,912
Due from related parties	292	497
Inventories	3,268	2,440
Short-term loans	5,309	2,132
Employee receivables	2,426	3,202
Deferred income taxes	2,403	5,637
Other current assets	13,001	18,676
Total current assets	**355,240**	**367,512**
Property and equipment, net	32,182	51,432
Intangible assets, net	7,195	44,978
Investments in equity investees	24,445	35,434
Investment securities, available for sale	–	541
Other investments	13,553	11,514
Employee receivables	135	286
Deferred income taxes	5,378	4,133
Other assets	1,816	6,568
Total assets	**$439,944**	**$522,398**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	As of June 30, 2001	2002
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$97	$249
Accounts payable	6,647	8,885
Due to related parties	828	1,200
Accrued employee costs	9,858	13,806
Deferred revenue	4,650	6,829
Deferred income taxes	662	1,087
Taxes payable	10,415	15,911
Other current liabilities	19,940	19,698
Total current liabilities	**53,097**	**67,665**
Capital lease obligations, excluding current portion	72	730
Deferred income taxes	–	134
Other liabilities	25	2,018
Total liabilities	**53,194**	**70,547**
Minority interest	**14**	**6,788**
Stockholders' equity		
Equity shares, 350,000,000 shares authorized, issued and outstanding – 284,919,708 and 287,884,290 shares as of June 30, 2001 and 2002 respectively	15,680	15,802
Additional paid-in capital	212,161	219,865
Share application money pending allotment	579	283
Deferred stock compensation	(17)	–
Retained earnings	187,038	267,366
Accumulated other comprehensive income	(26,128)	(41,330)
Treasury stock, at cost - 400,850 and 4,919,675 shares as of June 30, 2001 and 2002 respectively	(2,577)	(16,923)
Total stockholders' equity	**386,736**	**445,063**
Total liabilities, minority interest and stockholders' equity	**$439,944**	**$522,398**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Year ended June 30, 2000	2001	2002
Revenues	$206,833	$298,385	$332,843
Less: Stock based sales incentive	2,266	1,733	(81)
Net revenues	204,567	296,652	332,924
Cost of revenues (exclusive of certain costs as discussed in Note 19)	106,637	151,304	182,910
Sales and marketing expenses	14,960	17,684	27,364
General and administrative expenses	35,402	38,137	45,413
Depreciation and amortization	6,937	8,944	11,863
Foreign exchange gains, net	1,447	2,573	3,085
Income from operations	**42,078**	**83,156**	**68,459**
Other income, net	9,818	17,418	19,368
Income before income taxes, share of income from equity investees and minority interest	**51,896**	**100,574**	**87,827**
Income tax expense	5,885	8,250	5,705
Income before share of income from equity investees and minority interest	**46,011**	**92,324**	**82,122**
Share of income from equity investees	6,151	9,628	6,976
Minority interest	(52)	(5)	(2,214)
Net income	**$52,110**	**$101,947**	**$86,884**
Earnings per equity share			
Basic	$0.20	$0.36	$0.31
Diluted	$0.19	$0.34	$0.30
Weighted average number of equity shares used in computing earnings per equity share			
Basic	264,438,108	282,409,797	282,680,796
Diluted	280,954,110	296,688,505	291,565,608

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share data)

	Equity shares		Additional paid–in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Treasury stock		Total stockholders' equity
	Shares	Amount							Shares	Amount	
Balances as of June 30, 1999	**248,960,636**	**$10,240**	**$408**	**$–**	**$–**	**$38,065**	**–**	**$(4,476)**	**–**	**$–**	**$44,237**
Issuance of equity shares, net	28,400,000	1,301	181,641	–	–	–	–	–	–	–	182,942
Issuance of equity shares on exercise of options	2,166,426	99	5,761	–	–	–	–	–	–	–	5,860
Stock dividend	–	3,809	–	–	–	(3,809)	–	–	–	–	–
Shares subscribed pending allotment	–	–	–	440	–	–	–	–	–	–	440
Repurchase of equity shares by a subsidiary	–	–	–	–	–	(116)	–	–	–	–	(116)
Fair value of stock options granted for acquisition of minority interest	–	–	150	–	–	–	–	–	–	–	150
Compensation related to stock option grants	–	–	301	–	(301)	–	–	–	–	–	–
Amortization of compensation related to stock option grants	–	–	–	–	175	–	–	–	–	–	175
Contribution from principal shareholder in the form of stock based sales incentive, net of reversals	–	–	2,266	–	–	–	–	–	–	–	2,266
Purchase of equity shares by equity investee	–	–	–	–	–	–	–	–	(315,850)	(2,047)	(2,047)
Capital transactions of equity investee	–	–	305	–	–	–	–	–	–	–	305
Income tax benefit on exercise of stock options of subsidiaries	–	–	668	–	–	–	–	–	–	–	668
Distribution to principal shareholder, net	–	–	(1,117)	–	–	–	–	–	–	–	(1,117)
Cash dividend	–	–	–	–	–	(419)	–	–	–	–	(419)
Comprehensive income											
Net income	–	–	–	–	–	52,110	$52,110	–	–	–	52,110
Other comprehensive income											
Unrealized gain on available for sale securities, net	–	–	–	–	–	–	1,959	–	–	–	–
Translation adjustments	–	–	–	–	–	–	(7,719)	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	(5,760)	(5,760)	–	–	(5,760)
Total comprehensive income	–	–	–	–	–	–	$46,350	–	–	–	–
Balances as of June 30, 2000	**279,527,062**	**$15,449**	**$190,383**	**$440**	**$(126)**	**$85,831**		**$(10,236)**	**(315,850)**	**$(2,047)**	**$279,694**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share data)

	Equity shares		Additional paid–in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Treasury stock		Total stockholders' equity
	Shares	Amount							Shares	Amount	
Balances as of June 30, 2000	**279,527,062**	**$15,449**	**$190,383**	**$440**	**$(126)**	**$85,831**	**–**	**$(10,236)**	**(315,850)**	**$(2,047)**	**$279,694**
Issuance of equity shares on exercise of options	5,392,646	231	15,206	(440)	–	–	–	–	–	–	14,997
Shares subscribed pending allotment	–	–	–	579	–	–	–	–	–	–	579
Amortization of compensation related to stock option grants	–	–	–	–	109	–	–	–	–	–	109
Contribution from principal shareholder in the form of stock based sales incentive, net of reversals	–	–	1,733	–	–	–	–	–	–	–	1,733
Purchase of equity shares by equity investee	–	–	–	–	–	–	–	–	(85,000)	(530)	(530)
Capital transactions of equity investee	–	–	798	–	–	–	–	–	–	–	798
Income tax benefit on exercise of stock options of subsidiaries	–	–	4,041	–	–	–	–	–	–	–	4,041
Cash dividend	–	–	–	–	–	(740)	–	–	–	–	(740)
Comprehensive income											
Net income	–	–	–	–	–	101,947	$101,947	–	–	–	101,947
Other comprehensive income											
Unrealized loss on available for sale securities, net	–	–	–	–	–	–	(813)	–	–	–	–
Translation adjustments	–	–	–	–	–	–	(15,079)	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	(15,892)	(15,892)	–	–	(15,892)
Total comprehensive income	–	–	–	–	–	–	$+86,055	–	–	–	–
Balances as of June 30, 2001	**284,919,708**	**$15,680**	**$212,161**	**$579**	**$(17)**	**$187,038**		**$(26,128)**	**(400,850)**	**$(2,577)**	**$386,736**

See accompanying notes to the consolidated financial statements.

HCL Technologies Limited

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share data)

	Equity shares		Additional paid–in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Treasury stock		Total stockholders' equity
	Shares	Amount							Shares	Amount	
Balances as of June 30, 2001	**284,919,708**	**$15,680**	**$212,161**	**$579**	**$(17)**	**$187,038**	**–**	**$(26,128)**	**(400,850)**	**$(2,577)**	**$386,736**
Issuance of equity shares on exercise of options	2,964,582	122	7,554	(579)	–	–	–	–	–	–	7,097
Shares subscribed pending allotment	–	–	–	283	–	–	–	–	–	–	283
Purchase of equity shares by Trust	–	–	–	–	–	–	–	–	(4,768,301)	(15,950)	(15,950)
Amortization of compensation related to stock option grants	–	–	–	–	17	–	–	–	–	–	17
Contribution from principal shareholder in the form of stock based sales incentive, net of reversals	–	–	(81)	–	–	–	–	–	–	–	(81)
Sale of equity shares by equity investee	–	–	53	–	–	–	–	–	249,476	1,604	1,657
Capital transactions of equity investee	–	–	178	–	–	–	–	–	–	–	178
Cash dividend	–	–	–	–	–	(6,556)	–	–	–	–	(6,556)
Comprehensive income											
Net income	–	–	–	–	–	86,884	$86,884	–	–	–	86,884
Other comprehensive income											
Unrealized loss on available for sale securities, net	–	–	–	–	–	–	(1,195)	–	–	–	–
Translation adjustments	–	–	–	–	–	–	(14,007)	–	–	–	–
Total other comprehensive income	–	–	–	–	–	–	(15,202)	(15,202)	–	–	(15,202)
Total comprehensive income	–	–	–	–	–	–	$71,682	–	–	–	–
Balances as of June 30, 2002	**287,884,290**	**$15,802**	**$219,865**	**$283**	**$–**	**$267,366**		**$(41,330)**	**(4,919,675)**	**$(16,923)**	**$445,063**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended June 30, 2000	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$52,110	$101,947	$86,884
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	6,937	8,944	11,863
Deferred income taxes	(158)	97	(1,832)
Loss on sale of property and equipment	5	30	31
Stock based sales incentive	2,266	1,733	(81)
Amortization of deferred stock compensation expense	175	109	17
Other non cash charges	–	595	360
Dividend income reinvested in marketable securities	–	–	(11,782)
Loss (profit) on sale of investment securities	7,061	(7,130)	112
Other than temporary diminution in value of investment securities and other investments	40	–	4,751
Share of income from equity investees	(6,151)	(9,628)	(6,976)
Minority interest	52	5	2,214
Changes in assets and liabilities, net			
Accounts receivable	(6,804)	(13,629)	(11,129)
Other assets	(4,886)	(21,186)	(1,196)
Accounts payable	(1,216)	2,157	1,697
Accrued employee costs	(2,085)	2,358	4,347
Other liabilities	11,151	11,214	1,657
Net cash provided by operating activities	58,497	77,616	80,937
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash	554	39	(312)
Purchase of property and equipment	(11,723)	(22,273)	(20,418)
Proceeds from sale of property and equipment	109	158	156
Purchase of investments	(241,162)	(184,373)	(278,233)
Proceeds from sale of investments	47,671	172,131	225,995
Investments in equity investees	(750)	(3,069)	(708)
Payments for business acquisitions, net of cash acquired	(7,000)	–	(44,567)
Loans repaid by related parties	21	–	–
Net cash used in investing activities	(212,280)	(37,387)	(118,087)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of capital lease obligations	(340)	(104)	(252)
Net repayment of bank line of credit	(7)	–	–
Proceeds from short term borrowings	–	–	37,337
Repayment of short term borrowings	(973)	–	(37,337)
Repayment of long term debt	(1,944)	–	–
Proceeds from issuance of equity shares, net	188,802	14,840	7,380
Proceeds from subscription of shares pending allotment, net	440	139	–
Proceeds from issuance of equity shares of subsidiary to minority	11	–	–
Purchase of shares by trust	–	–	(15,950)
Repurchase of equity shares of a subsidiary	(469)	–	–
Liability to principal shareholder	(5,151)	–	–
Capital distribution to principal shareholder	(1,117)	–	–
Payment of dividends	(419)	(740)	(6,556)
Net cash provided by (used in) financing activities	178,833	14,135	(15,378)
Effect of exchange rate on cash and cash equivalents	(2,576)	(2,749)	(4,224)
Net increase in cash and cash equivalents	$22,474	$51,615	$(56,752)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended June 30, 2000	2001	2002
CASH AND CASH EQUIVALENTS			
Beginning of the year	$16,918	$39,392	$91,007
End of the year	$39,392	$91,007	$34,255
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the year for interest	$3,339	$1,563	$871
Cash paid during the year for income taxes	$3,106	$4,523	$8,429
Non-cash investing activities			
Property and equipment acquired under capital lease obligation	$-	$29	$1,091
Details of business acquisitions:			
Fair value of intangible assets acquired	$-	$-	$37,722
Fair value of tangible assets acquired	$8,040	$-	$18,378
Fair value of liabilities assumed	$3,818	$-	$4,382

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data and where otherwise stated)

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

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.

(b) 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 (hereinafter collectively referred to as the Company). All material inter-company accounts and transactions are eliminated on consolidation. 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 investee. 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.

(c) 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. Actual results could differ from these estimates.

(d) 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 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 are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies 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 the statement of income.

(e) Revenue recognition

Revenues from software development services comprise income from time-and-material and fixed price contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed price contracts is recognized in accordance with the percentage of completion method of accounting. 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.

Revenue from sale of goods is recognized 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;
- The price to the buyer is fixed and determinable; and
- Collectibility of the sales price is reasonably assured.

Revenue from sale of goods is shown net of sales tax and applicable discounts and allowances. Revenues from multiple-element arrangements are allocated among separate elements based on the fair value of each element. 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. When the Company receives advance payments from customers for sale of products or provisions for services, such payments are reported as advances from customers until all conditions for revenue recognition are met.

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

Revenue from call center services is recognized on a per hour basis or at the time calls are answered on a per minute and / or number of calls basis.

The Company adopted Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101) in the fourth quarter of 2001. The adoption of SAB 101 did not have a material impact on the Company's operating results or financial position.

(f) Shipping and handling costs

Shipping and handling costs are included in sales and marketing expenses.

(g) 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.

(h) 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 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.

(i) Impairment of long-lived assets

Long-lived assets and certain intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

(j) Start-up-costs

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

(k) Investments in equity investees

The Company's equity in the profits / losses of equity investees is included in the consolidated statements of income, and the Company'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.

(l) Investment securities

Investment securities consist of available-for-sale debt and equity securities. Available-for-sale securities are carried at fair value as determined by reference to prevailing market prices. Temporary unrealized gains and losses, net of the related tax effect are excluded from income and are reported as a separate component of other comprehensive income, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis and are included in income. However, in cases where specific identification method is not possible, first-in-first-out method is used. 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. The impairment is charged to income. Dividend and interest income are recognized when earned.

(m) 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.

(n) 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.

(o) Software product development

In accordance with the requirements of Statement of Financial Accounting Standards (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 greater 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.

(p) Cash equivalents and restricted cash

Cash equivalents represent highly liquid investments with remaining maturities, at the date of purchase / investment, of three months or less. Restricted cash represents margin money deposits against guarantees and letters of credit. Restrictions on such deposits are released on the expiry of the terms of guarantees and letters of credit.

(q) 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.

(r) 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. Shares whose issuance is contingent upon the satisfaction of certain conditions, and if such conditions have been satisfied, are included in the computation of diluted EPS as of the beginning of the period in which the conditions are satisfied or the date of the contingent stock agreement, whichever is later. Where necessary conditions have not been satisfied by the end of the period, the number of contingently issuable shares included in diluted EPS are based on the number of shares, if any, that would be issuable if the end of the reporting period was the end of the contingency period.

(s) Stock based compensation

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

(t) Stock based sales incentive

The Company accounts for stock based sales incentive in accordance with the Emerging Issues Task Force 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 period of benefit.

(u) Retirement benefits to employees

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

(v) Shares issued by subsidiary/equity method investee

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

(w) Dividend

Dividends are recognized upon approval by the shareholders.

(x) Derivative and hedge accounting

On July 1, 2000, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended, when the rules became effective for companies with fiscal year ending June 30. The Company enters into forward foreign exchange contracts on certain contracts where the counter party is generally a bank. The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable, accounts payable and forecasted cash flows denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended. Any derivative that is either not designated as a hedge, or is so designated but is ineffective as per SFAS No. 133, is marked to market and recognized in income immediately. No initial transition adjustments were required to adopt SFAS No. 133.

(y) Business combinations, goodwill and intangibles

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, which eliminates the pooling of interests method of accounting for all business combinations initiated after June 30, 2001, and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. As of July 1, 2001, the Company adopted this accounting standard.

In addition, as of July 1, 2001, the Company early-adopted SFAS No. 142, Goodwill and Other Intangible Assets, which addresses the financial accounting and reporting standards for goodwill and other intangible assets subsequent to their acquisition. This accounting standard requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis.

In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill effective July 1, 2001. In addition, the Company reclassified existing acquired employee workforce, net of related deferred tax liabilities, as goodwill to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. The provisions of SFAS No. 142 also require the completion of the transitional impairment test within six months of adoption with any impairments treated as a cumulative effect of change in accounting principle. As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to these reporting units on the date of adoption. During the quarter ended September 30, 2001, the Company completed the transitional impairment test by comparing the fair value of each reporting unit to its carrying value, to determine whether goodwill was impaired at the date of adoption. The impairment test did not indicate an impairment.

HCL Technologies Limited

The following table presents the impact of SFAS No. 142 on net income and earnings per share had the standard been in effect for the years ended June 30, 2000 and June 30, 2001:

	2000	2001
Net income:		
Reported net income	$52,110	$101,947
Goodwill amortization	1,644	1,615
Employee workforce amortization	696	665
Equity method goodwill amortization	57	61
Adjusted net income	$54,507	$104,288
Basic earnings per share:		
Reported basic earnings per share	$0.20	$0.36
Goodwill amortization	$0.01	$0.01
Employee workforce amortization	$0.00	$0.00
Equity method goodwill amortization	$0.00	$0.00
Adjusted basic earnings per share	$0.21	$0.37
Diluted earnings per share:		
Reported diluted earnings per share	$0.19	$0.34
Goodwill amortization	$0.01	$0.01
Employee workforce amortization	$0.00	$0.00
Equity method goodwill amortization	$0.00	$0.00
Adjusted diluted earnings per share	$0.20	$0.35

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets which are as follows:

Employee workforce	5 years
Customer relationships	1 to 10 years
Existing customer contracts	0.5 to 1 year
Non-compete agreements	3 to 5 years
Intellectual property rights	4 years

(z) Recent accounting pronouncements

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Adoption of SFAS No. 143 will not have a material impact on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets that replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Under this standard, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Adoption of SFAS No. 144 will not have a material impact on the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. SFAS No. 145 will be adopted beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which was adopted for transactions occurring subsequent to May 15, 2002. Adoption of SFAS No. 145 will not have a material impact on the consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating the impact of SFAS No. 146 on its consolidated financial statements.

(aa) Reclassifications

Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year. These reclassifications had no impact on reported net income.

HCL Technologies Limited

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, debt and equity 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, 2001 and 2002, 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. Trade receivables are not collateralized. To reduce credit risk, the Company performs ongoing credit evaluation of customers. No single customer accounted for 10% or more of the accounts receivables as of June 30, 2001 and 2002.

4. Cash and cash equivalents

The cost and fair values for cash and cash equivalents as of June 30, 2001 and 2002 are as follows:

	2001	2002
Term deposits with banks	$65,996	$8,236
Other cash and bank balances	25,011	26,019
Cash and cash equivalents	$91,007	$34,255

5. Property and equipment

As of June 30, 2001 and 2002, property and equipment comprise the following:

	2001	2002
Land	$3,960	$3,809
Buildings	5,683	10,442
Computer and networking equipment	25,027	43,035
Software	6,311	11,570
Mainframe computer system	915	879
Office furniture and equipment	7,596	14,659
Vehicles	1,092	2,199
Capital work-in-progress	6,566	4,356
	57,150	90,949
Accumulated depreciation and amortization	(24,968)	(39,517)
Property and equipment, net	$32,182	$51,432

Depreciation expense was $3,919, $5,912 and $9,883 for the years ended June 30, 2000, 2001 and 2002 respectively. Accumulated depreciation and amortization includes accumulated amortization for software of $4,896 and $7,395 as of June 30, 2001 and 2002 respectively. Amortization expense for software for the years ended June 30, 2000, 2001 and 2002 was $547, $710 and $1,747 respectively.

Computer and networking equipment includes assets costing $317 and $968 given on non-cancelable operating leases as of June 30, 2001 and 2002 respectively. The accumulated depreciation thereon as of June 30, 2001 and 2002 is $194 and $301 respectively. The depreciation expense for the years ended June 30, 2000, 2001 and 2002 is $66, $61 and $115 respectively.

Land and building includes certain assets costing $207 acquired in an earlier year from a related party. These assets have not yet been registered in the name of the Company.

As of June 30, 2001 and 2002 property and equipment includes assets held under capital leases, which comprise:

	2001	2002
Computer and networking equipment	$132	$125
Vehicles	561	1,438
Office furniture and equipment	50	61
	743	1,624
Accumulated depreciation	(597)	(655)
	$146	$969

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, 2002 are as follows:

Year ending June 30,	
2003	$374
2004	332
2005	281
2006	267
Total minimum payments	1,254
Less: Amount representing future interest	275
Present value of minimum payments	979
Less: Current portion	249
Long term capital lease obligation	$730

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

Rental expense under these leases is $2,650, $4,015 and $5,336 for the years ended June 30, 2000, 2001 and 2002 respectively. Future minimum lease payments as of June 30, 2002 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2003	$6,479
2004	4,573
2005	3,651
2006	3,167
2007	1,915
Thereafter	3,982
Total minimum payments	$23,767

7. Lease rental receivables

A subsidiary has given networking equipment to its customers under non-cancelable operating lease arrangements. The future minimum lease receivables under these operating leases are as follows:

Year ending June 30,	
2003	$939
2004	467
2005	49
Thereafter	–
Net minimum future lease receivables	$1,455

8. Intangible assets

The following table presents the changes in goodwill during the year ended June 30, 2002:

Balance as of June 30, 2001	$6,680
Employee workforce reclassified as goodwill on adoption of SFAS No. 142	367
Goodwill relating to business combinations consummated during the year	35,927
Effect of exchange rate changes	26
Balance as of June 30, 2002	$43,000

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

	June 30, 2001			June 30, 2002		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Intellectual property rights	$350	$(350)	$-	$350	$(350)	$-
Amortizable employee workforce	–	–	–	235	–	235
Customer relationships	424	(276)	148	2,116	(485)	1,631
Customer contracts	–	–	–	102	(102)	–
Non-compete agreements	–	–	–	120	(8)	112
	$774	$(626)	$148	$2,923	$(945)	$1,978

Amortization expense for the other intangible assets for the years ended June 30, 2000, 2001 and 2002 is $131, $42, and $324 respectively. Amortization expense is included in depreciation and amortization other than $91, which is reported as a reduction of revenue during the year ended June 30, 2002 in accordance with the Emerging Issues Task Force No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). As of June 30, 2002 the Company has unamortized customer relationships of $902, which would be amortized in future periods and reported as a reduction of revenue.

9. Business combinations

During the year ended June 30, 2002, the Company completed several business combinations, which were accounted for under the purchase method. The consolidated financial statements include the operating results of each business from the dates of the respective acquisitions.

Enterprise Resource Planning business of Computech Corporation and Systech Inc.

In July 2001, the Company acquired a 51% equity interest in the Enterprise Resource Planning business of Computech Corporation and Systech Inc. for cash. The acquisition would allow the Company to leverage the competencies of acquired business in enterprise application and training segments to move up the value chain in information technology services. The results of operations of the business are consolidated in the Company's financial statements with effect from July 1, 2001.

The balance 49% shares in the business are held by the shareholders of Computech Corporation and Systech Inc. (collectively referred to as the minority shareholders). As per the shareholders' agreement, the Company is required to acquire and the minority shareholders are required to sell the balance 49% interest in three equal tranches falling due on September 3, 2002, October 31, 2003 and January 31, 2005. The consideration for the acquisition of the balance 49% interest is payable in cash and is determinable based on earnings and revenue. Based on the revenues and earnings for the year ended June 30, 2002, the purchase consideration for the first tranche is $1,190.

The total purchase consideration has been allocated to the acquired assets and assumed liabilities as follows:

Purchase consideration	$2,964
Allocated to:	
Customer relationships	102
Customer contracts	102
Non-compete agreements	20
Goodwill	2,740
	$2,964

Deutsche Software

In October 2001, the Company acquired a 51% equity interest in Deutsche Bank Asia Pacific Training Centre Pte. Limited, Singapore (Deutsche Software). This acquisition would allow the Company to expand its technology service offerings in the banking and finance industry segment. The results of operations of Deutsche Software are consolidated in the Company's financial statements with effect from October 1, 2001.

Upon the earlier of October 1, 2004 or Deutsche Software achieving certain specified revenue or earnings targets, Deutsche Bank AG shall sell and the Company shall purchase the balance 49% equity interest in Deutsche Software at a consideration, which will be determined based on the earnings of Deutsche Software and the then prevailing earning multiples. The consideration will be paid through issuance of HCL's stock.

Additionally, the Company may be required to pay certain incremental amounts to Deutsche Bank AG contingent upon the composition of the revenues of the acquired business and the proportion of revenues derived from external customers. The incremental amounts will be determined through a specified formula.

The purchase consideration has been allocated to the acquired assets and assumed liabilities as follows:

Purchase consideration	$25,140
Allocated to:	
Customer relationships	816
Property plant and equipment	1,149
Current assets	4,854
Liabilities assumed	(1,887)
Goodwill	20,208
	$25,140

Apollo BT call centre

In December 2001, the Company acquired a 90% equity interest in the Business Process Outsourcing (BPO) division of British Telecommunications plc (Apollo BT call centre), for a cash consideration of $11,600. Through this acquisition, the Company seeks to augment its BPO service delivery capability and widen its client base in the European and American markets. The balance 10% equity interest in the business is held by British Telecommunications plc (BT).

Contemporaneously, the Company has obtained binding commitments for the provision of IT enabled services to BT, with an aggregate contract value of not less than $13,840 in the first year from the date of acquisition, and $9,230 in each of the second and third years from the date of acquisition.

Additionally, the Company has a call option and the minority shareholder has a put option on the balance 10% equity interest. The options are exercisable within a period of 30 days from the expiry of December 1, 2004. The call/put option exercise price comprises of a fixed portion of $1,200 and a variable component, which will be determined on the basis of revenue from BT above the firmly committed revenues. The variable portion of the consideration is in the nature of a sales incentive.

Due to the existence of a fixed price call/put option to acquire the remaining 10% equity interest at a future date, HCL has consolidated 100% of the results of operations of the acquired business. 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 accordance with the consensus reached in Emerging Issues Task Force No. 00-4, Majority Owners Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary. The stated yield earned under the combined derivative and minority interest portion has been attributed to interest expense. The present value of the fixed portion of the call/put option price included in other liabilities as of June 30, 2002 is $1,024.

The total purchase consideration has been allocated to the acquired assets and assumed liabilities as follows:

Purchase consideration	$13,575
Allocated to:	
Customer relationships	58
Property plant and equipment	7,499
Current assets	261
Goodwill	5,757
	$13,575

Gulf Computers

In May 2002, the Company acquired all of the outstanding capital stock of Gulf Computers Inc., US (GCI). The acquisition would enable the Company to expand its presence and service delivery capabilities in the Government sector in US. The results of operations of GCI are consolidated in the Company's financial statements with effect from June 1, 2002.

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 is payable either in cash or in common stock of the Company. The Company has followed the consensus reached in Emerging Issues Task Force No. 95-8, Accounting for Contingent Consideration Paid to Shareholders of an Acquired Enterprise in a Purchase Business Combination, and accordingly will record contingent payments as goodwill in the period in which contingency is resolved.

Contemporaneous to the acquisition of GCI, the Company also acquired the business of Gulf Computers Private Limited and e-Gulf Technologies Private Limited, companies incorporated in India, for a cash consideration of $325.

The total purchase consideration for the above acquisitions has been preliminarily allocated to the acquired assets and assumed liabilities as follows:

Purchase consideration	$10,039
Allocated to:	
Customer relationships	597
Non-compete agreements	100
Current assets	4,615
Liabilities assumed	(2,495)
Goodwill	7,222
	$10,039

The purchase consideration for the business combinations consummated during the year ended June 30, 2002 have been allocated on a preliminary basis to the assets acquired and liabilities assumed as of the respective dates of acquisition based on management's estimates and independent appraisals. However, certain independent appraisals reports are yet to be received by the Company. Finalization of the purchase price allocation, which is expected to be completed within one year from the respective dates of acquisition, may result in certain adjustments to the above reflected allocations.

Pro forma information (unaudited): The following table reflects unaudited pro forma consolidated results of operations, as if the above acquisitions had been made at the beginning of the periods presented below:

	2001	2002
Revenues	$351,569	$355,811
Net income	103,693	87,348
Earnings per equity share		
Basic	$0.37	$0.31
Diluted	$0.35	$0.30
Weighted average equity shares used in computing earnings per equity share		
Basic	282,409,797	282,680,796
Diluted	296,688,505	291,565,608

The pro forma consolidated results of operations include adjustments to give effect to amortization of acquired intangible assets other than goodwill, and certain other adjustments together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

Asset acquisitions

Jones Apparel Group Inc.

In June 2002, the Company, entered into an agreement with Jones Apparel Group Inc. (Jones) to form two new companies based in Bermuda and Delaware. The Company contributed $1,006 towards a 51% equity interest in the new companies. Jones contributed cash amounting to $256. The Company attributes the difference of $363 to employee workforce and customer relationships valued at $235 and $128 respectively. 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 $14,250 upto June 30, 2004, $6,750 in the year ending 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.

HCL Technologies Limited

10. Investments in equity investees

Equity investee

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

- 50% interest in HPS

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

	As of June 30,		
	2000	2001	2002
Carrying value	$14,128	$21,099	$30,257
Share of income from equity investee included in net income	$6,151	$10,105	$7,660

The summarized balance sheet of HPS as of June 30, 2001 and 2002 and summarized income statement for the year ended June 30, 2000, 2001 and 2002 are as follows:

	As of June 30,	
	2001	2002
Balance sheet		
Current assets	$42,200	$52,747
Non-current assets	21,660	21,162
Total assets	$63,860	$73,909
Current liabilities	$14,006	$9,354
Non-current liabilities	3,153	$3,110
Stockholders' equity	46,701	$61,445
Total liabilities and stockholders' equity	$63,860	$73,909

	Year ended June 30,		
	2000	2001	2002
Income statement			
Revenues	$56,743	$106,661	$87,359
Income from operations	$11,661	$20,547	$15,714
Income before income taxes	$12,674	$20,214	$15,023
Net income	$12,449	$20,339	$15,507

As of June 30, 2001 and 2002, HPS holds 801,700 and 302,748 equity shares of HCL at a cost of $5,154 and $2,002 respectively. The balance sheet of HPS, summarized above, includes these shares at their fair values with the unrealized loss of $163 and $610 as of June 30, 2001 and 2002, being reflected as a component of stockholders' equity. The Company's share of the unrealized gain/loss in relation to these shares has been eliminated in the consolidated financial statements. During the year ended June 30, 2002, HPS recorded a gain of $106 in relation to sale of 498,952 shares of HCL. The Company's share of the realized gain recorded by HPS has been reversed and reflected as a capital transaction in the consolidated financial statements of HCL. HCL has reported 50% of the HCL shares held by HPS as treasury stock. Accordingly, these shares are reported as a reduction from the outstanding shares and the cost of their acquisition is reported as a reduction of stockholders' equity.

The Company's share of reported earnings in HPS will change to 48.12% 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, 2001 and 2002.

- *11.1 % interest in Diamondhead Ventures LLP*

As of June 30, 2002, the Company held a 11.1% interest in Diamondhead Ventures LLP, a technology venture fund. The carrying value of the investment in this LLP is $2,693 and $3,823 as of June 30, 2001 and 2002 respectively. The Company's equity in the loss of Diamondhead Ventures LLP for the years ended June 30, 2001 and 2002 is $307 and $371 respectively. As of June 30, 2002 the Company has a commitment to contribute an additional $10,500 to Diamondhead ventures LLP over the next two to three years.

• 46.7 % interest in Net India Private Limited

In February 2001, the Company invested $215 in Net India Private Limited for a 46.7% equity interest. The carrying value of the investment in Net India Private Limited is $160 and $47 as of June 30, 2001 and 2002 respectively. The Company's equity in the loss of Net India Private Limited is $56 and $113 for the year ended June 30, 2001 and 2002 respectively.

• 60.5 % interest in Shipara Technologies Limited

During the years ended June 30, 2001 and 2002, the Company invested $604 and $708 in Shipara Technologies Limited. The Company holds a 60.5% equity interest in this joint venture as of June 30, 2002. Shipara Technologies Limited has not been consolidated as the minority shareholder Rao Insulating Company Limited has certain significant participating rights, which provide for its effective involvement in significant decisions in the ordinary course of business. The carrying value of the investment in Shipara Technologies Limited was $493 and $1,307 as of June 30, 2001 and 2002 respectively. The Company's equity in the loss/(profit) of Shipara Technologies Limited for the years ended June 30, 2001 and 2002 is $114 and $(137), respectively.

• 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. The Company holds a 50% interest in this joint venture as of June 30, 2002 and accounts for its interest in this joint venture by the equity method. The Company's equity in the loss of HCL Answerthink Inc. for the year ended June 30, 2002 is $337.

• Undistributed earnings of equity investees

As of June 30, 2001 and 2002, the Company's share in the undistributed earnings of equity investees aggregated $19,482 and $26,458 respectively.

11. Investment securities

Investment securities, available for sale consist of the following:

As of June 30, 2001

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	$101,950	$1,215	$(94)	$103,071
Mutual fund units	79,928	607	(39)	80,496
Total	$181,878	$1,822	$(133)	$183,567

As of June 30, 2001

	Carrying value	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Debt securities	$44,127	$1,906	$-	$46,033
Equity securities	541	–	–	541
Mutual fund units	183,832	1,755	(3,708)	181,879
Total	$228,500	$3,661	$(3,708)	$228,453

The maturity profile of the available-for-sale debt securities as of June 30, 2002 is set out below:

	2002	
	Carrying value	Fair value
Less than one year	$9,481	$9,693
One to five years	22,064	23,033
Five to ten years	10,131	10,625
Greater than ten years	2,451	2,682
Total	$44,127	$46,033

In February, 2002, HCL entered into a strategic alliance agreement with Zamba Corporation (Zamba) in which Zamba will work with HCL to jointly pursue, facilitate, manage and maintain business opportunities in the area of provision of CRM services through the use of the services offered by, and the particular experience and expertise of Zamba and HCL. In connection with the strategic alliance agreement, 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. The warrants may be exercised at a per share purchase price of $0.61 at any time through the close of business on February 21, 2007.

The current voting equity interest of HCL does not give it the ability to exercise significant influence over the operating and financial policies of Zamba. As quoted market prices are available for the common stock of Zamba, the common stock is classified as available-for-sale. The fair value of the common stock and the warrant on the date of acquisition is $858 and $142 respectively. The warrants, being freestanding derivatives, are carried at fair value with changes in fair values being recognized in earnings.

During the year ended June 30, 2002, as part of its ongoing evaluation of its investment in Zamba's common stock, the Company recorded an impairment charge of $317 for an other than temporary decline in value.

Proceeds from the sale of securities, available for sale, were $47,671, $172,131 and $225,995 during the years ended June 30, 2000, 2001 and 2002, respectively. Interest and dividend income earned from these investments during the years ended June 30, 2000, 2001 and 2002 was $10,649, $7,592 and $19,168 respectively.

12. Other investments

The Company holds cost method investments in LLP technology venture funds and in preferred stock of an unlisted company. The carrying value of investments as of June 30, 2001 and 2002 in LLP technology venture funds aggregated $11,553 and $11,514 respectively. The Company's interest in these funds ranges from 0.6% to 4.7%. As of June 30, 2002, the Company has commitments to contribute an additional $12,050 to these venture funds over the next two to three years.

During the year ended June 30, 2002, as part of its ongoing evaluation of these investments, the Company recorded an impairment charge of $2,434 for an other than temporary decline in value of these investments.

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. Alternatively, the holders can seek redemption on or after January 1, 2003 at a price of $1.56 per share. The redemption option can be exercised only after obtaining the approval of 75% of the preferred stock holders. The preferred shares carry a non-cumulative right to receive dividends of $0.104 per share or such higher amount of dividend as may be declared on the common stock. In the event of an Initial Public Offering (IPO) by the investee, the preferred shares will be converted to common shares.

During the year ended June 30, 2002, the Company has recorded an impairment charge of $2,000 for an 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 counter party is generally a bank. These forward foreign exchange contracts mature between one to six months. The Company considers the risk of non-performance by the counter party as non-material. The following table presents the aggregate contracted principal amounts of the Company's derivative financial instruments outstanding as of June 30, 2001 and 2002:

	2001	2002
Forward contracts	$501 (buy)	$500 (buy)

The forward foreign exchange contracts being derivative instruments are marked to market and recognized in income.

14. Other current assets

As of June 30, 2001 and 2002, other current assets comprise the following:

	2001	2002
Prepaid expenses	$2,851	$3,886
Interest receivable	2,798	227
Prepaid/advance taxes	6,027	12,763
Deposits	493	454
Others	832	1,346
Other current assets	$13,001	$18,676

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. Allowance for uncollectible receivables aggregated $3,423 and $11,597 as of June 30, 2001 and 2002 respectively. The charge to the statement of income with respect to uncollectible receivables was $839, $2,935 and $9,288 for the years ended June 30, 2000, 2001 and 2002 respectively.

16. Bank line of credit

The Company has a credit facility in India in the amount of $2,656 for discounting accounts receivables and availing of cash credits relating to software exports and facilities for guarantees and letters of credit of $2,349. The credit facilities bear interest at the rate set by the bank, which ranged from 10.0% to 12.0% per annum. As of June 30, 2001 and June 30, 2002, there were no outstanding balances against fund-based facilities. These facilities are secured by a lien on certain business assets of the Company's India operations.

COMNET, a subsidiary based in India, has a credit facility of $2,247 and facilities for guarantees and letters of credits of $15,015. The credit facilities bear interest at the rate set by the bank, which ranged from 11.5% to 16.0% per annum. As of June 30, 2001 and 2002, there were no outstanding balances against fund-based facilities. These facilities are secured by a lien on business assets of COMNET and personal guarantees of the principal shareholder.

HCL America, a subsidiary based in the US, has entered into an agreement with a bank in the US, which allows for a committed revolving line of credit subject to a ceiling of $5,000. 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. As of June 30, 2001 and 2002, there were no outstanding balances against this line of credit.

DSI, a subsidiary based in India, has facilities for guarantees and letters of credits of $470. These facilities are secured by lien on all current assets of the subsidiary. As of June 30, 2002, there were no outstanding balances against these facilities.

HCL E Serve, a subsidiary based in India, has a credit facility in the amount of $1,021 for availing cash credit, short-term loans, pre-export advances and facilities for guarantees. The credit facilities bear interest at the bank's prime lending rate, which approximated 14.0% per annum and are secured by a lien on the book debts of the subsidiary. As of June 30, 2001 and 2002, there were no outstanding balances against these facilities.

17. Other current liabilities

As of June 30, 2001 and 2002, other current liabilities comprise the following:

	2001	2002
Advances from customers	$2,041	$617
Sales tax and withholding taxes payable	2,028	2,079
Accrued liabilities and expenses	13,924	11,782
Consideration payable in connection with an acquisition transaction	–	1,750
Others	1,947	3,470
Other current liabilities	$19,940	$19,698

18. 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, 2002 is $0.04.

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 $419, $740 and $6,556 during the years ended June 30, 2000, 2001 and 2002 respectively. The dividend per share was $0.002 during the years ended June 30, 2000 and 2001 respectively and $0.02 during the year ended June 30, 2002.

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.

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. In line with legal requirements, retained earnings were capitalized at par value of the shares issued as stock dividend. The Company further changed its capital structure through a 2-for-1 stock split in December 2000. The changes in capital structure have been given retroactive effect in the financial statements.

IPO

In December 1999, the Company issued 28,400,000 equity shares in an IPO at a price of $6.64 per share. The proceeds amounted to $182,942, net of issue expenses of $5,698.

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19. Cost of revenues

The caption Cost of revenues does not include an allocation of depreciation and amortization, rent, repairs and maintenance, electricity charges, establishment and communication expenses. The charge for depreciation and amortization has been presented as a separate line item on the face of the consolidated statements of income, while the other allocable costs discussed above are included in General and administrative expenses. The following table lists the costs, other than depreciation and amortization, for the years ended June 30, 2000, 2001 and 2002, a portion of which is allocable to Cost of revenues:

	2000	2001	2002
Rent	$3,482	$4,518	$6,027
Repairs and maintenance	1,430	1,810	2,569
Electricity charges	967	1,737	2,565
Establishment	696	581	715
Communication	2,682	3,721	4,142
	$9,257	$12,367	$16,018

20. Other income, net

For the years ended June 30, 2000, 2001 and 2002, interest and other income comprises the following:

	2000	2001	2002
Interest and other finance costs	$(757)	$(2,041)	$(728)
Interest income	4,384	11,282	10,364
Dividend income from investment securities	10,649	399	12,787
Profit (loss) on sale of investment securities, net	(7,061)	7,130	(112)
Other than temporary decline in investments	(40)	–	(4,751)
Miscellaneous income	2,643	648	1,808
Other income, net	$9,818	$17,418	$19,368

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, 2000, 2001 and 2002 were allocated as follows:

	2000	2001	2002
Income from continuing operations	$5,885	$8,250	$5,705
Stockholders' equity for-			
tax benefits received on exercise of employee stock options reflected as part of additional paid in capital	(668)	(4,041)	–
unrealized holding gains on available for sale investment securities	75	596	(596)
effect of exchange rate fluctuations	73	(5)	34
Total taxes	$5,365	$4,800	$5,143

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

	2000	2001	2002
Current -			
Indian taxes	$5,201	$7,464	$6,882
Others	842	689	655
Total	$6,043	$8,153	$7,537
Deferred -			
Indian taxes	$360	$(202)	$(10)
Others	(518)	299	(1,822)
Total	$(158)	$97	(1,832)
Total taxes	$5,885	$8,250	$5,705

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

	2000	2001	2002
Income before taxes, share of income from equity investees and minority interest	$51,896	$100,574	$87,827
Average enacted tax rate in India	38.5%	38.59%	35.96%
Expected tax expense	19,980	38,812	31,583
Differences between Indian and foreign tax rates	(258)	818	1,946
Non-taxable export income	(15,657)	(31,743)	(21,855)
Non-taxable other income	(4,564)	(1,066)	(6,333)
Increase (decrease) in valuation allowance	3,639	(1,608)	(425)
Others	2,745	3,037	789
Total taxes	$5,885	$8,250	$5,705

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. 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 Company 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 (STP). During the year ended June 30, 2000, the Company set-up new undertakings in Software Technology Parks for which exemption is available till March 2010. The recently enacted Finance Act, 2002 requires that the exempt income from an export oriented undertaking, for the year commencing April 1, 2002, be restricted to 90% of its aggregate business income. The aggregate dollar and per share effects of the tax holiday are $15,657 and $0.06 per share for the year ended June 30, 2000, $31,743 and $0.11 per share for the year ended June 30, 2001 and $21,855 and $0.08 per share for the year ended June 30, 2002.

The components of the deferred tax balances as of June 30, 2001 and 2002 are as follows:

	2001	2002
Deferred tax assets:		
Business losses	$6,143	$5,508
Capital losses	853	449
Allowance for accounts receivable	1,165	3,885
Accrued employee costs	1,234	1,135
Property and equipment	1,370	740
Stock based sales incentive	330	–
Other temporary differences	126	503
	11,221	12,220
Less: Valuation allowance	(3,440)	(2,450)
Total deferred tax assets	$7,781	$9,770
Deferred tax liabilities:		
Unrealized gains on investment securities	$596	$-
Unbilled revenues	–	1,046
Others	66	175
Total deferred tax liabilities	$662	$1,221

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

As of June 30, 2002, the US based subsidiary of the Company has a deferred tax asset for business losses of $3,513. The Federal US net operating losses expire in the year 2021 and 2022 and the State net operating losses expire in 2011 and 2012. Additionally, this subsidiary has a deferred tax asset for capital loss carry forward of $232. The Federal capital loss will expire, if not utilized, by the fiscal year ending 2004, while the State capital loss can be carried forward indefinitely until utilized. 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. The remaining deferred tax assets in respect of business losses carry forward relate to the other subsidiaries of the Company and can be carried forward for a period upto five years.

During the years ended June 30, 2000, 2001 and 2002, the US based subsidiary of the Company has received tax benefit aggregating $668, $4,041 and $121 respectively upon exercise of employee stock options. The management has reserved the tax benefits associated with the exercise of stock options during the year ended June 30, 2002 aggregating $121 due to uncertainties associated with their realization. Any subsequent reversal of this valuation allowance would be recorded 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, capital loss carry forward and stock based sales incentives. Given the uncertainties, these tax benefits have been reserved.

The components of valuation allowance of June 30, 2001 and 2002 are as follows:

	2001	2002
Business losses	$1,910	$2,062
Capital losses	853	268
Stock based sales incentive	330	–
Others	347	120
Total	$3,440	$2,450

As per Indian tax laws, a taxpayer is allowed a deduction (being 100% for the first 5 years and 30% thereafter for a further period of 5 years) from the profits and gains from a newly formed industrial undertaking provided certain stipulated conditions are fulfilled. These tax benefits are optional and can be availed by the taxpayer at any time within a block of 15 years for a period of 10 years. During the year ended June 30, 2001, COMNET elected to avail these tax benefits in respect of the eligible business income with effect from April 1, 2000, being the beginning of its tax year. Accordingly, tax provisions made for the period April to June 2000 by COMNET aggregating $312 have been written back as a credit to the current tax expense during the year ended June 30, 2001.

As of June 30, 2001 and 2002 the Company's share in the undistributed earnings of HCL Perot Systems, a foreign equity investee amounted to approximately $19,959 and $27,619 respectively. Due to the existence of tax participation agreements providing for tax-free dividend distribution and due to the tax-exempt status of the special purpose entity holding this equity investment, the Company has not recorded deferred tax liability on the undistributed earnings.

Undistributed earnings of the domestic subsidiaries amounted to approximately $1,825 and $8,540 as of June 30, 2001 and 2002 respectively. Due to the ability of the Company to receive dividends and to liquidate these investments in a tax-free manner, the Company has not recorded deferred tax liability on the undistributed earnings

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, 2000, 2001 and 2002:

	2000	2001	2002
Weighted average number of equity shares outstanding used in computing basic EPS	264,438,108	282,409,797	282,680,796
Dilutive effect of stock options outstanding	16,516,002	14,278,708	7,967,544
Dilutive effect of contingently issuable shares	–	–	917,268
Weighted average number of equity shares and equity equivalent shares outstanding used in computing diluted EPS	280,954,110	296,688,505	291,565,608

Shares of the Company held by the controlled trust and 50% of the shares of the Company held by HPS, (a 50% owned equity investee) are reduced from the outstanding shares of the Company in the computation of basic and diluted EPS.

Options to purchase 2,510,689 and 20,480,412 equity shares during the years ended June 30, 2001 and 2002 respectively were not included in the computation of diluted EPS as these options were anti-dilutive.

As more fully explained in Note 9, Business Combinations, the Company may be required to issue certain shares based on the resolution of certain contingencies as assessed at the end of the contingency period. The contingently issuable shares have been calculated based on the number of shares, if any, which would be issuable as if June 30, 2002 were the end of the contingency period. 5,393,161 shares, which are contingently issuable in connection with the acquisition of the balance 49% equity interest in Deutsche Software, have not been included in the computation of diluted earnings per share as these issuances are not dilutive.

23. Stock option plan

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 a Committee consisting of a majority of independent directors of the Company (Compensation Committee) and provides for the issuance of a maximum of 40,000,000 underlying shares at the option price determined by the Compensation Committee on the date the option is granted.

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 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 years ended June 30, 2000, 2001 and 2002 under the 1999 Plan is set out below:

	Shares arising out of option			Weighted average exercise price		
	Year ended June, 30,			Year ended June 30,		
	2000	2001	2002	2000	2001	2002
Outstanding at beginning of the year	–	35,679,212	28,721,624	–	$4.88	$5.47
Granted	41,779,024	3,142,052	–	$4.68	$11.42	–
Forfeited	(3,855,432)	(4,318,692)	(940,815)	$3.96	$6.61	$7.81
Expired	(59,412)	(212,918)	(242,538)	$2.06	$2.94	$3.51
Exercised	(2,184,968)	(5,568,030)	(2,875,032)	$2.81	$2.72	$2.56
Outstanding at the end of the year	35,679,212	28,721,624	24,663,239	$4.88	$5.47	$5.49
Exercisable at the end of the year	2,608,014	4,593,616	9,983,795	$2.87	$2.92	$3.49
Weighted-average grant date fair value of grants during the year				$4.69	$11.42	–

As of June 30, 2001 and 2002, of the total options exercised, options for 191,140 and 101,590 shares were pending allotment, respectively.

The weighted-average grant-date fair value of options granted during the year ended June 30, 2000 under the 1999 Plan is as set out below:

	Shares arising out of options	Weighted average grant date fair value	Weighted average exercise price
Options granted during the year			
At grant date fair value	41,571,074	$4.70	$4.70
Below grant date fair value	207,950	$2.85	$0.08

During the year ended June 30, 2001 all the options under this plan had been granted at their fair values as of the grant date. During the year ended June 30, 2002 no options were granted under this plan.

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The following table summarizes information about stock options outstanding under the 1999 plan as of June 30, 2001:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of share arising out of options	Weighted average exercise price
$0.08	56,246	5.19 years	$0.08	3,742	$0.08
$2.71 - $6.16	20,835,412	5.99 years	$3.44	4,579,974	$2.88
$10.46 - $25.95	7,829,966	9.16 years	$10.89	9,900	$21.53

The following table summarizes information about stock options outstanding under the 1999 plan as of June 30, 2002:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of share arising out of options	Weighted average exercise price
$0.08	6,410	4.25 years	$0.08	6,410	$0.08
$2.60 - $5.92	17,374,368	5.15 years	$3.40	9,201,796	$2.87
$10.06 - $24.96	7,282,461	8.16 years	$10.49	775,589	$10.90

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 period 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, 2001 and 2002 under the 2000 Plan is as set out below:

	Shares arising out of options		Weighted average exercise price	
	Year ended June 30,		Year ended June 30	
	2001	2002	2001	2002
Outstanding at beginning of the year	-	11,965,208	-	$7.65
Granted	12,372,758	6,872,554	$7.72	$5.04
Forfeited	(407,550)	(1,051,150)	$9.94	$6.57
Expired	–	(3,850)	–	$10.38
Exercised	–	–	–	–
Outstanding at the end of the year	11,965,208	17,782,762	$7.65	$6.76
Exercisable at the end of the year	–	1,251,263	–	$10.73
Weighted-average grant date fair value of grants during the year			$7.71	$5.24

The following table summarizes information about stock options outstanding under the 2000 Plan as of June 30, 2001:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of share arising out of options	Weighted average exercise price
$4.99 - $9.26	7,428,054	7.06 years	$5.18	–	$-
$10.78 - $13.96	4,537,154	7.62 years	$11.68	–	$-

The following table summarizes information about stock options outstanding under the 2000 Plan as of June 30, 2002:

	Outstanding			Exercisable	
Range of exercise price	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of share arising out of options	Weighted average exercise price
$2.65 - $4.80	7,603,102	6.16 years	$4.66	–	$-
$4.80 - $8.90	5,888,556	8.58 years	$5.26	–	$-
$9.19 - $13.87	4,291,104	6.56 years	$10.99	1,251,263	$10.73

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 1999 and 2000 Stock Option Plans discussed above. During the year ended June 30, 2002, the Trust purchased 4,768,301 shares of the Company at a cost of $15,950. However, no shares have been issued to the employees. The shares held by the trust are reported as a reduction from stockholders equity.

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

	2002
Shares held at the beginning of the year	–
Shares purchased during the year	4,768,301
Shares issued to employees	–
Shares held at the end of the year	4,768,301

Pro forma disclosures

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:

		Year ended June 30,		
		2000	2001	2002
Net income				
As reported		$52,110	$101,947	$86,884
Adjusted pro forma		$43,744	$79,481	$61,498
EPS				
As reported	- Basic	$0.20	$0.36	$0.31
	- Diluted	$0.19	$0.34	$0.30
Adjusted pro forma	- Basic	$0.17	$0.27	$0.21
	- Diluted	$0.16	$0.27	$0.21

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

	Year ended June 30,		
	2000	2001	2002
Dividend yield %	0.10%	0.10%	0.19%
Expected life	upto 110 months	upto 110 months	upto 110 months
Risk free interest rates	10.0%	10.0%	9.5%
Volatility	53.0%	53.0%	69.0%

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 Company estimates its liability as of each balance sheet date based on an actuarial valuation.

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, 2001 and 2002:

	2001	2002
Change in benefit obligation		
Projected Benefit Obligation (PBO) at the beginning of the year	$552	$834
PBO assumed on a business acquisition	–	119
Service cost	165	298
Interest cost	62	97
Benefits paid	(16)	(61)
Actuarial (gain) loss	102	139
Effect of exchange rates changes	(31)	(39)
PBO at the end of the year	$834	$1,387
Change in plan assets		
Fair value of plan assets at the beginning of the year	$ –	$ –
Fair value of plan assets acquired on a business acquisition	–	75
Actual results on plan assets	–	1
Employer contributions	16	66
Benefits paid	(16)	(61)
Plan assets at the end of the year	$ –	$81
	2001	**2002**
Funded status	$(834)	$(1,306)
Unrecognized actuarial loss	191	284
Unrecognized transitional obligation	35	34
Effect of exchange rates changes	(2)	(4)
Net amount recognized	$(610)	$(992)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit cost	$(610)	$(3,721)

Net gratuity cost for the years ended June 30, 2000, 2001 and 2002 comprise of the following components:

	2000	2001	2002
Service cost	$122	$165	$298
Interest cost	41	62	97
Amortization	7	7	8
Net gratuity cost	$170	$234	$403

The weighted average actuarial assumptions used in accounting for the Gratuity Plan as of June 30, 2001 and 2002 are given below:

	2001	2002
Discount rate	11%	9.5%
Expected rate of increase in salaries		
-for the next five years	11%	9.5%
-thereafter	9%	8%

The mortality rates used are as published by one of the leading life insurance companies in India.

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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. Total contributions made in respect of this plan for years ended June 30, 2000, 2001 and 2002 are $176, $237 and $223 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. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer.

The Company 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 Company in respect of this plan for the years ended June 30, 2000, 2001 and 2002 are $507, $863 and $1,304 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 15% of their compensation or $11 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, 2000, 2001 and 2002 are $704, $557 and $722 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, 2000, 2001 and 2002 are $163, $123 and $173 respectively.

Subsidiaries in Europe

The Company has established pension plans for its employees of the subsidiaries in United Kingdom, Sweden and Netherlands. The plans operating in United Kingdom 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, 2000, 2001 and 2002 were $45, $46 and $162 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 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.

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, aggregating $2,266 and $1,733 for the years ended June 30, 2000 and 2001 respectively, and a benefit of $81 for the year ended June 30, 2002 have been recorded as a contribution/distribution from/to the principal shareholder.

26. Related party transactions

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

a) Companies in which Shiv Nadar, the principal shareholder, has a significant ownership interest, controlling interest or over which he exercises significant influence (significant interest entities);
b) Equity investees of the Company, and their subsidiaries (equity investees); 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 revenues earned are as follows:

	Year ended June 30,		
	2000	**2001**	**2002**
Significant interest entities	$1,162	$2,600	$8,113
Equity investees	176	103	33
Total	$1,338	$2,703	$8,146

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

	Year ended June 30,		
	2000	**2001**	**2002**
Significant interest entities	$4,559	$7,112	$3,482
Equity investees	95	465	2,402
Total	$4,654	$7,577	$5,884

Interest expense

The Company paid interest to significant interest entities amounting to $25, $Nil and $Nil for the years ended June 30 2000, 2001 and 2002 respectively.

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, 2000, 2001 and 2002 amount to $1,778, $2,219 and $1,946 respectively.

Purchase of land and building

During the year ended June 30, 2000, the Company purchased land and building amounting to $953 from a significant interest entity.

Subleasing of facilities

A significant interest entity has subleased a portion of their facilities to the Company. Total amounts charged for the years ended June 30, 2000, 2001 and 2002 were $189, $127 and $162 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 upto six years. Other than certain fully recourse loans granted to employees at or above market rate during the year ended June 30, 2001, none of the employee loans relate to financing the exercise of employee stock options. Employee loan balances outstanding as of June 30, 2001 and 2002 are $1,143 and $1,269 respectively.

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

	As of June 30, 2001		
	Significant interest entities	**Equity investees**	**Total**
Due from related parties			
Accounts receivable	$44	$11	$55
Other receivables	151	86	237
	$195	$97	$292
Dues to related parties			
Accounts payable	$544	$8	$552
Short term borrowings	31	–	31
Deferred revenue	214	5	219
Other payables	21	5	26
	$810	$18	$828
Due from related parties			
Accounts receivable	$117	$5	$122
Other receivables	117	258	375
	$234	$263	$497
Dues to related parties			
Accounts payable	$302	$233	$535
Deferred revenue	47	7	54
Other payables	306	305	611
	$655	$545	$1,200

HCL Technologies Limited

27. Commitments

Capital commitments

As of June 30, 2002, the Company had committed to spend $2,139 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.

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. Until 2001, the CODM used to evaluate the business by geographic performance and accordingly the geographic divisions of the business were viewed as operating segments. From 2002, the CODM evaluates the Company's performance by business segment, comprising Software services, Networking services and Business process outsourcing services.

Accordingly, with effect from 2002, 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.

Information on reportable segments for year ended June 30, 2000 is as follows:

	Software services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$181,588	$25,245	$ –	$ –	$ –	$206,833
Less: Stock based sales incentive	2,266	–	–	–	–	2,266
Internal revenue	–	669	–	(669)	–	–
Total	179,322	25,914	–	(669)	–	204,567
Identifiable operating expenses (net)	134,881	19,942	–	(669)	2,845	156,999
Depreciation and amortization	5,667	1,270	–	–	–	6,937
Foreign exchange gain (loss)	1,528	(81)	–	–	–	1,447
Segment operating income	$40,302	$4,621	$ –	$ –	$(2,845)	$42,078
Total assets of segment	$102,946	$21,481	$ –	$(624)	$194,388	$318,191
Total liabilities of segment	25,514	13,008	–	(624)	599	38,497
Capital employed	**$77,432**	**$8,473**	**$ –**	**$ –**	**$193,789**	**$279,694**

Information on reportable segments for year ended June 30, 2001 is as follows:

	Software services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$266,571	$31,814	$ –	$	$ –	$298,385
Less: Stock based sales incentive	1,733	–	–	–	–	1,733
Internal revenue	133	1,084	–	(1,217)	–	–
Total	264,971	32,898	–	(1,217)	–	296,652
Identifiable operating expenses (net)	177,780	27,028	203	(1,217)	3,331	207,125
Depreciation and amortization	7,296	1,648	–	–	–	8,944
Foreign exchange gain (loss)	2,685	(112)	–	–	–	2,573
Segment operating income	$82,580	$4,110	$(203)	$ –	$(3,331)	$83,156
Total assets of segment	$191,947	$25,188	$2,277	$(681)	$221,213	$439,944
Total liabilities of segment	38,079	13,229	1,473	(681)	1,108	53,208
Capital employed	**$153,868**	**$11,959**	**$804**	**$ –**	**$220,105**	**$386,736**

Information on reportable segments for year ended June 30, 2002 is as follows:

	Software services	Networking services	Business process outsourcing services	Inter segment transactions	Reconciling items	Entity total
Revenue						
External revenue	$284,311	$40,253	$8,279	$-	$-	$332,843
Less: stock based sales incentive	(81)	-	-	-	-	(81)
Internal revenue	-	401	184	(585)	-	-
Total	284,392	40,654	8,463	(585)		332,924
Identifiable operating expenses (net)	206,989	35,484	9,122	(585)	4,677	255,687
Depreciation and amortization	9,079	1,511	1,273	-	-	11,863
Foreign exchange gain (loss)	2,732	(64)	417	-	-	3,085
Segment operating income	71,056	3,595	(1,515)	-	(4,677)	68,459
Total assets of segment	$206,760	$29,138	$20,887	$(3,690)	$269,303	$522,398
Total liabilities of segment	42,716	14,386	14,621	(3,690)	9,302	77,335
Capital employed	**$164,044**	**$14,752**	**$6,266**	**$-**	**$260,001**	**$445,063**

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 and Hong Kong are included in Others.

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

	Year ended June 30,		
	2000	**2001**	**2002**
America	$146,363	$222,801	$229,424
Europe	13,679	20,850	34,034
India	25,945	32,653	43,530
Others	20,846	22,081	25,855
	$206,833	$298,385	$332,843

No single customer accounted for more than 10% of the revenues of the Company during the years ended June 30, 2000, 2001 and 2002.

29. Fair value of financial instruments

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

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CORPORATE INFORMATION

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Mr. Vineet Nayyar - *Vice Chairman*

Mr. T S R Subramanian - *Director*

Ambassador Richard Burt - *Director*

Ms. Robin Abrams - *Director*

Mr. Anupam Puri - *Director*

Mr. S Raman - *Chief Operating Officer,*
President Core Software and Technology Services
and Whole time Director

SECRETARY

Mr. Allwyn Noronha - *General Manager*
and Company Secretary

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Standard Chartered Grindlays Bank Limited
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