



## **Knowledge.**

A simple word. A complex idea.

Holding within itself the potential and the promise.

To achieve the impossible, the untried.

A gift of labour, diligence and hard work.

Powering genius, transcending limitations.

Providing the winning *edge*.

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# edgde

**Knowledge** is not the means to an end.  
It is its own reward.

**Knowledge** is not about information.  
It is about understanding.

**Knowledge** is about being pushy.  
Pushing yourself, pushing the competition,  
pushing the envelope.

**Knowledge** is not about maintaining standards.  
It is about the pursuit of excellence.

**Knowledge** is not about being competitive.  
It is about holding the advantage.

**Knowledge** is not an upstart.  
It is the voice of experience.

## BOARD OF DIRECTORS

**Mr. SHIV NADAR**

Chairman & CEO

**Mr. T S R SUBRAMANIAN**

Director

**Ms. ROBIN ABRAMS**

Director

**Mr. S. RAMAN**

COO, President and Whole time Director

**Mr. AJAI CHOWDHRY**

Director

**Mr. SUBROTO BHATTACHARYA**

Director

**Mr. AMAL GANGULI**

Director

**Mr. CYRIL SURESH SHROFF**

Director

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**Mr. ALLWYN NORONHA**

General Manager & Company Secretary

### Auditors

Price Waterhouse,  
Chartered Accountants,  
New Delhi

### Bankers

**Citibank, N.A.**

Global Corporate & Investment Banking  
DLF Centre, 5th Floor  
Parliament Street  
New Delhi-110001

**Deutsche Bank AG**

Corp office-DLF Square  
4th Floor, Jacaranda Marg,  
DLF City, Phase-II,  
Gurgaon-122002

**Standard Chartered Bank**

Corporate & Institutional Banking  
Credit Operations, India  
H-2 Connaught Circus  
New Delhi 110001

**ICICI Bank Limited**

ICICI Tower  
NBCC Place, Bhasham Pitamah Marg,  
Pragati Vihar  
New Delhi-110003

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND STANDALONE RESULTS OF OPERATIONS OF HCL TECHNOLOGIES LIMITED PREPARED UNDER INDIAN GAAP

*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 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, performances or achievements could differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences 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 as not to place undue reliance on the forward-looking statements as they speak only as of their dates. The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto.*

### INTRODUCTION AND BUSINESS OVERVIEW

HCL Technologies Ltd. is India's fifth largest IT services exporter with services spanning pure software services as well as IT-enabled services. The key service areas in which the Company provides its services are as indicated below.

**Technology led services:** The Company offers a wide range of services like ASIC Design, Embedded Systems, Computer Aided Design, Computer Aided Manufacturing, Computer Aided Engineering, Product Development and Maintenance/Product Lifecycle Management, Verification & Validation Software & Hardware Product Engineering, Testing, Maintenance, Porting & Migration. The Company also undertakes complete product ownership.

**Practice led services:** HCLT offers a wide range of services in areas that require strong consulting and implementation-based expertise. These areas are consulting and implementation of Supply Chain Management, Customer Relationship Management, Business-to-Business (B2B), Enterprise Resource Planning, Imaging and Workflow Packages and Solutions, Internet/e-commerce Solutions, Network Design and IT Infrastructure Management.

**Application led services:** The Company offers application services over a variety of platforms like NT, UNIX, Linux, IBM mainframe, IBM AS/400 and I-series, etc. These include services in the area of development, maintenance, testing, porting/migration and production support.

**IT enabled services:** These include Technical Help Desk, Business Process Outsourcing and Customer Contact Centers.

These service lines are delivered to OEM and end-user organizations in key verticals such as Retail & Consumer, Insurance, Banking and other Financial Services, Aerospace, Automobiles, Semiconductors, Life Sciences and Petroleum.

The services in the areas of Network design and IT infrastructure management as well as those in the IT-enabled segments are offered

through separate companies which are subsidiaries of HCL Technologies Ltd. The financials of these entities are not captured in the standalone results of the Company.

Also, in the area of software services, the Company has joint-ventures and subsidiaries, the financials of which are not represented in the standalone results of the Company.

The Company's technological prowess lies in the dedicated Offshore Development Centers it operates for some of the world's leading organizations. These centers located in Chennai, Gurgaon and Noida in India. HCLT is the preferred partner to more than 450 prestigious organizations in the world, including more than 60 Global 500 companies. Its presence across 15 countries gives the company global reach and a vast rollout support capability. Currently, it serves global markets through offices in America, Asia Pacific, Europe and Japan.

### THE CURRENT OPERATING ENVIRONMENT AND OUTLOOK

The previous fiscal year had witnessed a very challenging operating environment for Indian IT services vendors with most of the client organisations yet to recover fully from the impact of a global slowdown. However, the year under review saw a noteworthy improvement in overall global market conditions and the industry as a whole has reported all round revival in revenue growth rates and profitability measures. The Company is continuing with several initiatives aimed at improving its competitive positioning and a broadening of its practice domains. While the outlook for technology spending is expected to remain positive in the coming months according to various industry analysts, studies indicate that the larger IT companies have increased their overall market-share during the last two years. The Company is hopeful that it will continue to leverage several new opportunities in the wake of vastly improved business conditions.

### REVENUE CONTRIBUTION FROM DIFFERENT GEOGRAPHICAL SEGMENTS

The Company operates in all the key major IT markets of the world. The markets are serviced through a network of global offices. With the American continent being the largest spender on IT services as well as the largest outsourcer, the largest share of the Company's revenue continues to come from this geography like most other Indian vendors. However, conscious efforts have been initiated to ensure that the share of other geographies increases to reduce the risk of overdependence on the American continent. As a result, the revenue share from Europe, the next largest contributor to revenues, has been increasing. The contributions from the key geographical segments to the Company's revenues have been indicated in the Table.

Revenue contribution from various geographies	2004	2003
America	80.4%	82.2%
Europe	13.4%	11.9%
Others	6.2%	5.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**INTERNAL CONTROL SYSTEMS**

Internal control systems instituted in the Company are intended to provide reasonable assurance that assets are in safe custody, business dealings are executed in accordance with management's authorization and properly recorded, and accounting records provide a true and fair view of the financial condition of the Company. In this regard, processes have been documented and implemented throughout the organization to ensure that policies are promoted and adhered to. Roles and responsibilities have been clearly defined at various levels of operations.

The internal audit function performs internal audit periodically to ascertain the adequacy and effectiveness of such internal control systems. Specifically the Internal Audit function is tasked to ensure that

- Adequate processes, systems, internal controls are implemented.
- These are commensurate with the size and operations of the Company.
- Transactions are undertaken according to the policies and as per authorizations.
- Resources have been deployed as per the business plan, policies and authorization.

The Company has a rigorous business planning system to set targets and parameters for operations and the same are reviewed with actual performance to ensure timely initiation of corrective action if required.

The Company's Audit Committee is a sub committee of the Board. It reviews adherence to internal control systems, internal audit reports and implementation of suggestions. This Committee reviews all quarterly and yearly results of the Company and sends the same to Board for consideration and approval along with its recommendation.

**RISK FACTORS**

The key risk factors for the Company are as follows:

**Internal Risks**

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

**External Risks**

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

**Internal Risks*****Business concentration risks***

The Company has taken efforts to ensure that it does not become too dependent on any particular set of clients, specific service lines or any particular geography.

The Company's revenues are spread across a total of more than 450 clients to ensure this. Given the position of the American continent as the largest IT spender in the world, a large portion of the Company's revenues comes from this geography. However, conscious efforts are being made to reduce this dependence. Non-US revenues as a percentage of the total revenues of the Company have been steadily increasing over the years. The share of non-US revenues for the year under review has

gone up to 20% from 18% in the previous year.

A very high dependence on certain segments of the IT services market may also pose certain risks in the event of a slowdown impacting such segments. Indeed, the Company had recognised this factor and had undertaken multiple initiatives during the fiscal year June 30, 2002 to rebalance its business portfolio. As a result of these initiatives, the Company has managed to reduce its dependence on its traditional stronghold of product engineering and now has substantial revenues coming in from end user applications, Business Process Outsourcing and Infrastructure Management Services.

***M & A execution risks***

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

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

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

***Investment portfolio related risks***

The Company's primary market risk exposures are related to the interest rate risk on its investment securities.

The Company's exposure to interest rate risk is from its investment securities. To mitigate interest rate risk, all surplus funds are invested in avenues upon a review by the investment committee. However, the guiding principles of all investment decision are safety of investments, followed by liquidity and returns.

**External Risks*****Risks related to the operating environment***

The Indian IT services market remains a very competitive space. The Company is facing competition not only from other large Indian IT vendors but also global vendors who are increasing their India presence given the popularity of the Indian offshore model.

To maintain its competitive edge in this landscape, the Company has been making significant investment in software engineering processes and offshore methodologies. All of the Company's software development centers are ISO 9001 certified. Most of the Company's centers have also obtained Capability Maturity Model (CMM) Level 4 or Level 5 accreditation. The Company has also built a world-class sales and marketing infrastructure to service its global clientele. To achieve maximum penetration within the various target markets with a high degree of sensitivity to the culture and needs of the local market, the Company has established local companies in each important country. The Company believes that its rigorous, research-oriented approach to identify, qualify and develop relationship has been a key differentiator in the market place.

The Company is also taking efforts to ensure that key employees of the Company are not poached by competitors.

**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.

**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 US 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, US 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.

Company used derivatives to hedge completely against foreign currency fluctuations related to its billed receivables and expected cash flows from future revenues. The Company does not speculate in foreign currency.

There is some foreign exchange risk which arises from accounts payable to overseas vendors and foreign currency loans. 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.

**Geo-political risks**

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

**EMPLOYEE STOCK OPTION PLANS**

**Employee stock option plan 1999**

The Company had instituted an Employees Stock Option Plan – 1999 (“1999 Plan”) for employees in pursuance of the special resolution approved by the shareholders in the Extra Ordinary General Meeting held on September 13, 1999. The Plan provided for the issuance of 20,000,000 options to employees as recommended by the Committee constituted for this purpose.

Each option granted under the Plan, entitles the holder thereof with an option to apply for and be issued two equity shares of the Company.

Till June 30, 2004, 76,94,841 options had been exercised under the 1999 Plan. As of June 30, 2004, 83,51,795 stock options were in force under the 1999 Plan.

**Employee stock option plan 2000**

The Company instituted another Employees Stock Option Plan – 2000 (“2000 Plan”) in October 2000. The 2000 Plan provided for the issuance of 15,000,000 options to employees. Each option granted under the 2000 Plan entitles the holder thereof with an option to apply for and be issued two equity shares of the Company.

Till June 30, 2004, 1,85,701 options had been exercised under the 2000 Plan. As of June 30, 2004, 76,39,239 stock options were in force under the 2000 Plan.

**SOFTWARE DEVELOPMENT CENTERS AND MANPOWER**

The Company services its customers through a network of 25 software development facilities situated in the cities of Chennai, Gurgaon and Noida. The seating capacity of the Company went up from 6,197 as of June 30, 2003 to 8,653 as of June 30, 2004. During the fiscal 2004, the Company invested a sum of Rs.1,865 million in building, land, equipment, computers, etc., as against Rs. 624 million in the previous fiscal.

The total number of billable employees increased from 5,677 (5,070 offshore and 607 onsite) as on June 30, 2003 to 8,137 (6,962 offshore and 1,175 onsite) as on June 30, 2004. In view of the competitive situation that prevailed for most part of the year, salary structures were modified to increase the proportion of performance-based pay. The Company is continuing with this system of compensation. The Company focuses on several training and development initiatives to ensure that its human resource base is kept abreast of the latest developments in information technology.

**RESULTS OF OPERATIONS (STANDALONE)**

(Rs. in million)

	Fiscal years ended June 30				
	2000	2001	2002	2003	2004
Service income	3,997	7,245	7,234	8,717	11,280
Other income	521	1,086	1,331	1,078	1,467
<b>Total Income</b>	<b>4,518</b>	<b>8,331</b>	<b>8,565</b>	<b>9,795</b>	<b>12,747</b>
Cost of software development	1,451	2,068	2,644	4,049	6,066
Administration and other expenses	811	1,507	1,371	2,013	2,662
<b>Total expenditure</b>	<b>2,262</b>	<b>3,575</b>	<b>4,015</b>	<b>6,062</b>	<b>8,728</b>
<b>PBIDT</b>	<b>2,256</b>	<b>4,756</b>	<b>4,551</b>	<b>3,733</b>	<b>4,019</b>
Interest	-	-	17	11	55
Depreciation	154	225	355	493	569
<b>Profit before tax</b>	<b>2,102</b>	<b>4,530</b>	<b>4,179</b>	<b>3,229</b>	<b>3,395</b>
Provision for tax	103	262	159	104	138
<b>Profit after tax</b>	<b>1,999</b>	<b>4,268</b>	<b>4,020</b>	<b>3,125</b>	<b>3,257</b>

**FISCAL 2004 COMPARED TO FISCAL 2003**

**Service Revenues.** The Company's revenues of Rs. 11,280 million in fiscal 2004 were 29% higher than that for fiscal 2003. While the Company added headcount to handle the increased business volumes, bill rates for the year were almost at the same level as that in the previous fiscal.

In fiscal 2004, the revenues from America were Rs. 9,065 million, an increase of approximately 27% as compared to that for fiscal 2003. Share of America in the total revenue dropped marginally to 80% in fiscal 2004 from 82% in fiscal 2003. In an effort to derisk its business model, the Company is focussing on the markets in Europe, Australasia, Singapore, Malaysia and India. These markets contributed about 20% to the Company's revenues in the current fiscal and it is expected that their contribution is likely to increase in the coming years.

**Other income.** The Company's other income grew to Rs. 1,467 million in fiscal 2004 from Rs. 1,078 million in fiscal 2003. This mainly comprises of interest income on bonds, dividend on investments in debt mutual funds, gain resulting from sale of such investments as well as gains related to differential movement of currencies.

**Cost of software development.** The cost of software development increased by 50% from Rs. 4,049 million in fiscal 2003 to Rs. 6,066 million. This was mainly on account of an increase in employee costs. Employee costs of the Company increased to Rs. 3,624 million in fiscal 2004 from Rs. 2,548 million in fiscal 2003, an increase of 42%. Employee costs as a percentage of service revenues have increased to 32% in fiscal 2004 from 29% in fiscal 2003. The increase in employee costs have been driven by i) increase in number of billable employees from 5,677 in the previous year to 8,137 in the year ended June 30, 2004 ii) increase in staff in marketing and key corporate functions. The Company also subcontracts certain projects to its subsidiaries and third parties. These costs increased to Rs. 2,442 million in fiscal 2004 from Rs. 1,501 million in fiscal 2003. Of the total subcontract costs, Rs. 2,057 million and Rs. 1,292 million were paid in fiscal 2004 and 2003 respectively to the subsidiaries of the Company for providing software development services.

**Administration and other expenses.** As a percentage of service revenue, such costs increased to 24% in fiscal 2004 from 23% in fiscal 2003. These costs among others consist of rent, communication costs (including on project), travel costs (including on project), electricity, repair and maintenance, software license fees, legal and professional charges, etc.

**Depreciation.** Depreciation increased to Rs. 569 million in fiscal 2004 from Rs. 493 million in fiscal 2003. The gross block has increased to Rs. 4,123 million in fiscal 2004 as compared to Rs. 3,278 million in fiscal 2003 which has caused this increase in depreciation.

**Taxation.** The net tax expense for fiscal 2004 was Rs. 138 million as compared to Rs. 104 million in fiscal 2003. The tax liability during 2003 was low as a result of finalization of certain prior period adjustments.

**Profit after tax.** The Company's profit after tax increased to Rs. 3,257 million in fiscal 2004 from Rs. 3,125 million in fiscal 2003, an increase of 4%. Profit after tax as a percentage of software service revenues decreased to 29% in fiscal 2004 from 36% in fiscal 2003.

#### TAX DEDUCTIONS

A substantial portion of the profits of the Company's India operations are deductible for the calculation of taxes under Indian law, these profits being attributable to export operations and profits from undertakings situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize a deduction of profits attributable to its export operations, for the calculation of income tax for a period of any ten consecutive years subject to certain conditions and stipulations, however

no such deduction shall be available on such profits from April 1, 2009. Over the past few years the Company has opted for this exemption for its various STP undertakings as and when a new undertaking was established under the provisions of the Indian tax laws. However, the profits arising out of the non export business and other non business income are subject to corporate income tax at the rate of 36.59%, including the applicable surcharge and education cess.

#### 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 Rs. 5,982 million and Rs. 3,542 million in fiscal 2004 and 2003. The increase in cash from operating activities is primarily because of an increase in profitability in the year under review, as compared to the previous fiscal, a decreased debtors period as also because of some advances received from subsidiary companies.

The Company has sought to keep a very tight control on its accounts receivables. In fiscal 2004, accounts receivable at 15% of the total revenues decreased from 26% for fiscal 2003. The debtors' turnover ratio has sharply decreased to 55 days, as of June 30, 2004 from 95 days as of June 30, 2003.

##### **Cash Flows from Investing Activities**

In fiscal 2004, an amount of Rs. 2,825 million was additionally invested in debt mutual funds while Rs. 80 million of bonds were redeemed. During the year, a net amount of Rs. 1,887 million was invested in fixed assets, and Rs. 280 million was used for investments and loans in subsidiaries. Cash from investing activities arose mainly from income on investment as also in the form of repayment of loans which had been advanced to the ESOP trust. Net cash, thus, used in investing activities was Rs. 3,914 million in fiscal 2004 as compared to Rs. 2,947 million in 2003.

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 reasonable returns from the investment of surplus funds.

Any surplus funds are invested in avenues at the discretion of the investment committee. However, the guiding principles of all investment decision are safety of investments, followed by liquidity and return on investment.

##### **Cash Flows from Financing Activities**

Cash flow from financing activities in the year under review was an outflow of Rs.1,714 million mainly due to a large dividend outflow of Rs. 2,667 million pertaining to the dividend declared in the previous fiscal as well as the interim dividend paid out during the year under review. The Company also raised borrowings to the tune of Rs. 921 million during the year under review.

As a result of the above, the total amount of cash and cash equivalents available with the company as of June 30, 2004, was Rs. 728 million. Management believes that these balances along with cash from future operations and existing credit facilities will be sufficient to meet all needs of the Company in the next fiscal year.

**DIRECTORS' REPORT**

Dear Shareholders,

Your Directors have pleasure in presenting this Twelfth Annual Report together with the Audited Accounts for the year ended June 30, 2004.

**FINANCIAL RESULTS**

The highlights of consolidated financial results of your Company and its subsidiaries prepared under US GAAP are as follows:

(Rupees in million)

	Year ended June 30, 2004	Year ended June 30, 2003
<b>Gross Revenues</b>	<b>26136</b>	<b>19308</b>
Direct costs	16691	11872
<b>Gross Profits</b>	<b>9445</b>	<b>7436</b>
Selling and general administration expenses	4153	3782
<b>EBIDTA</b>	<b>5293</b>	<b>3654</b>
Depreciation and amortisation expenses	1157	880
<b>EBIT</b>	<b>4136</b>	<b>2773</b>
Other income (net)	4630	499
<b>EBT</b>	<b>8766</b>	<b>3272</b>
Provision for tax	407	309
<b>EAT</b>	<b>8359</b>	<b>2963</b>
Share from equity investments	177	62
Share of (income) / loss of minority shareholders	(614)	(313)
<b>Net Income</b>	<b>7921</b>	<b>2712</b>
Stock based sales incentive (non cash)	(7)	(17)
<b>Net Income (after sales incentive)</b>	<b>7914</b>	<b>2695</b>

The highlights of consolidated financial results of your Company and its subsidiaries prepared under Indian GAAP are as follows:

(Rupees in million)

	Year ended June 30, 2004	Year ended June 30, 2003
<b>Income</b>		
Sales	25,637	21,435
Other income	4,765	1,101
	<u>30,402</u>	<u>22,536</u>
<b>Expenditure</b>		
Cost of goods sold	1,133	796
Cost of services	13,690	12,089
Administration and other expenses	5,815	4,562
Finance costs	97	49
Depreciation	1,652	1,575
	<u>22,387</u>	<u>19,071</u>
Prior period charge	-	464
<b>Profit before tax and minority interest</b>	<b>8,015</b>	<b>3,001</b>
Provision for income tax - current	407	(445)
Deferred tax benefit	155	165
Provision for income tax of earlier years written back	-	-
<b>Profit before minority interest</b>	<b>7,763</b>	<b>2,721</b>

Share of loss of equity investees	(110)	(4)
Share of minority shareholders	(791)	(238)
	<b>6,862</b>	<b>2,479</b>
Balance brought forward	11,097	9,000
<b>Amount available for appropriation</b>	<b>17,959</b>	<b>11,480</b>
<b>Appropriations</b>		
Proposed final dividend [including Rs. 0.5 million (previous year Rs. 0.3 million) paid for previous year]	1,184	592
Corporate dividend tax	155	76
Interim dividend	1,774	577
Corporate dividend tax on interim dividend	227	74
Transfer to general reserve	326	313
<b>Balance carried forward to the balance sheet</b>	<b>14,293</b>	<b>9,849</b>
	17,959	11,480

Financial results of your Company as a standalone entity prepared under Indian GAAP are as follows:

(Rupees in million)

	Year ended June 30, 2004	Year ended June 30, 2003
Revenue from software services	11,280	8,717
Other income	1,467	1,078
<b>Total Income</b>	<b>12,747</b>	<b>9,795</b>
Cost of software development	6,066	4,049
Administration and other expenses	2,662	2,013
Finance charges	55	11
Depreciation	569	493
	<b>9,352</b>	<b>6,566</b>
<b>Profit before tax</b>	<b>3,395</b>	<b>3,229</b>
Provision for tax	138	136
<b>Profit after tax</b>	<b>3,257</b>	<b>3,093</b>
Balance brought forward from previous year	11,507	10,001
<b>Available for appropriation</b>	<b>14,764</b>	<b>13,137</b>
<b>Appropriations</b>		
Proposed final dividend [including Rs. Nil (previous year Rs. 0.5 million) paid for previous year]	1184	592
Corporate dividend tax on final dividend	155	76
Interim dividend	1,774	577
Corporate dividend tax on interim dividend	227	74
Transfer to general reserve	326	312
Balance carried forward	11,098	11,507
<b>Total</b>	<b>14,764</b>	<b>13,138</b>

## OPERATIONS

During the current year, the Company has come up with a very good performance with a healthy 29% growth in revenues. This has been driven primarily by the strengthened service offerings of the Company consequent to the rebalancing of its service portfolio over the last two fiscal periods. These efforts have also been helped by favourable market conditions in the IT services space. However, even with the increased

demand for IT services, conditions in the market-place remain extremely competitive, as a result of which the growth in revenues has been driven solely by volumes with price realisations remaining even during the year. This has led to a fall in gross margins as well as operating margins for the Company. As a result of this, the net profit growth for the Company has been lower than the revenue increase even after having a higher other income.

**DIVIDEND**

Your directors had declared and paid three interim dividends for the quarters ended September 30, 2003, December 31, 2003 and March 31, 2004 respectively, as per the details given hereunder:

S.No.	Interim dividend for the quarter ended	Rate of dividend	Amount of dividend paid Rs./million	Distribution tax paid by the Company Rs./million
1.	September 30, 2003	Rs. 2/- per share	591.06	75.73
2.	December 31, 2003	Rs. 2/- per share	591.31	75.76
3.	March 31, 2004	Rs. 2/- per share	591.82	75.83

Your directors are further pleased to recommend a final dividend of Rs. 4/- per share for the financial year ended on June 30, 2004. The total amount of dividend (including interim dividend paid) for the year ending June 30, 2004 is Rs. 2958.5 million as against Rs. 1168.5 million for the previous year. The final dividend, if approved, will be paid to those members whose names appear in the register of members on the date of the ensuing Annual General Meeting. Under the Indian Income Tax Act 1961, the receipt of dividend is tax-free in the hands of the shareholders. The tax on distributed profits, payable by the Company would amount to Rs. 382.1 million.

**SOFTWARE DEVELOPMENT CENTERS**

The Company services its customers through a network of 25 software development facilities situated in the cities of Chennai, Gurgaon and Noida. The seating capacity of the Company went up from 6,197 as of June 30, 2003 to 8,653 as of June 30, 2004. During the fiscal 2004, the Company invested a sum of Rs. 1,865 million in building, land, equipment, computers, etc., as against Rs. 711 million in the previous fiscal.

**SCHEME OF ARRANGEMENT**

Pursuant to a Scheme of Arrangement ("Scheme") entered into between HCL Technologies Limited ("HCLT"), HCL Infosystems Ltd. ("HCL Insys") and HCL Infinet Ltd., and as approved by the Hon'ble High Court of Delhi vide its order dated 8 August 2003, the software services business of HCL Infosystems Limited (both in India and abroad) was transferred to HCL Technologies Limited. In terms of the said scheme, the consideration was to be paid by HCLT by issuing its 2 (two) equity shares of Rs. 2/- each credited as fully paid-up for every 9 (nine) equity shares of Rs. 10/- each fully paid up, held by members of HCL Insys. Accordingly, HCLT had allotted 70,90,990 shares of Rs. 2/- each to the shareholders of HCL Infosystems Limited on August 30, 2003.

Pursuant to the above scheme, the following overseas subsidiaries of HCL Insys. became the subsidiaries of your Company.

- a) Infosystems (Bermuda) Limited
- b) FEC Infosystems Pte. Ltd. ("FEC")
- c) HCL Infosystems (Malaysia) Sdn. Bhd.
- d) Infosystems (Europe) Ltd.
- e) Infosystems (America) Inc., USA
- f) Insys Inc., Canada
- g) Infosystems Australia Pty. Ltd.

Since your Company already has a presence in most of the countries in which the acquired subsidiaries of HCL Insys. exist, steps have been taken to rationalise the acquired subsidiaries with the existing subsidiaries. The steps have been taken/being taken to merge/wound up some of the above subsidiaries after business transfer to the existing subsidiaries/ change the name(s) of the subsidiary(ies).

Infosystems (Bermuda) Limited has been amalgamated with HCL Technologies (Bermuda) Limited. Infosystems (America) Inc., USA has been wound up after business transfer to HCL Technologies (America) Inc., USA. The names of FEC Infosystems Pte. Ltd. and HCL Infosystems (Malaysia) Sdn. Bhd. were changed to HCL Technologies Singapore Pte. Ltd. and HCL Technologies (Malaysia) Ltd. respectively.

**SUBSIDIARIES CLOSED DURING THE YEAR**

**Winding up of the operations of HCL Technologies South Africa Proprietary Limited**

The available business opportunities in South Africa did not match the overall business plan of your Company. Accordingly, the operations in this company have been wound up.

**EXISTING SUBSIDIARIES AND JOINT VENTURES - DIVESTMENTS/ FURTHER INVESTMENTS MADE DURING THE YEAR**

- a) **HCL Perot Systems Ltd. ("HPS")**  
During the year under review, a subsidiary of the Company has sold its stake in the Joint Venture Company, HCL Perot Systems N.V. at a Gross consideration of Rs. 48,006 lacs (US \$ 105.3 million).
- b) **HCL Technologies (Bermuda) Limited ("HCL Bermuda")**  
To support the business operations of its subsidiary HCL Bermuda, the Company has invested an additional sum of Rs. 46 million (US \$ 1million) during the year.  
  
HCL Bermuda also invested a sum of Rs. 59.4 million (US \$ 1.29 million) towards increase of stake in its subsidiary HCL Enterprise Solutions Ltd., ("HES") Mauritius. During the year, its stake in HES Mauritius increased from 67.33% to 83.66%.
- c) **Shipara Technologies Limited ("Shipara")**  
During the year under review, additional investment of Rs. 40 million was made in Shipara Technologies Limited towards equity capital, thereby increasing the stake of the Company to 77% from 70.5%.
- d) **HCL Comnet Systems and Services Ltd. ("Comnet")**  
During the fiscal under review, the Company invested a sum of Rs. 200 million in Comnet towards issue of 1% redeemable preference shares.

**PROPOSED ACQUISITION**

Pursuant to the Joint Venture Agreement dated September 26, 2001 entered into by the Company ("HCLT") with Deutsche Bank AG ("DBAG"), DBAG is under an obligation to sell the balance (49%) stake in DSI Financial Solutions Pte. Ltd. ("DSI") to the Company. The consideration for the said stake is to be paid by HCLT by issuing its fully paid equity shares to DBAG. The Company has received the approval of the FIPB in this regard and would complete the acquisitions of shares on determination of the consideration in terms of the Joint Venture Agreement.

**SUBSIDIARIES**

The statement pursuant to Section 212 of the Companies Act, 1956 is annexed with this report. The Ministry of Company Affairs, Government of India, vide its approval letter no. 47/62/2004-CL-III dated 6 September 2004 has granted exemption to the Company from annexing the accounts and other information of the subsidiaries along with the accounts of the

Company, as required under section 212 of the Companies Act, 1956 for the year ending June 30, 2004. The information giving the Aggregate figures of certain items of Balance Sheet and Profit & Loss Account for each subsidiary is enclosed along with the consolidated balance sheet forming part of the Annual Report. The Company would provide accounts/ other information on the subsidiaries on specific requests made to it in this regard by investors.

**CHANGES IN CAPITAL STRUCTURE**

During the year under review the company allotted 552,810 shares of Rs. 2/- each on exercise of stock options.

Further, consequent upon the sanctioning of the Scheme of Arrangement, between HCL Infosystems Ltd., HCL Technologies Ltd., HCL Infinet Ltd. and the respective shareholders and creditors, by the Hon'ble High Court of Delhi, the Company had allotted 70,90,990 shares of Rs. 2/- each to the shareholders of HCL Infosystems Limited on August 30, 2003.

As on June 30, 2004, the issued & paid up share capital of the Company was Rs. 592,160,876 comprising of 296,080,438 equity shares of Rs. 2/- each.

**DELISTING OF SHARES FROM DELHI STOCK EXCHANGE ("DSE")**

The shares of the Company were not traded on DSE and the entire trading

of the Company's shares was done only at The Stock Exchange, Mumbai ("BSE") and National Stock Exchange ("NSE"). Pursuant to "SEBI (Delisting of Securities) Guidelines 2003", which permitted companies to delist its shares from one or more Stock Exchange(s), the Company after seeking the shareholders' approval in its Annual General Meeting held in December 2003, applied for voluntarily delisting of its shares from DSE and w.e.f. January 23, 2004, the shares were delisted from DSE. The shares of the Company continue to be listed on BSE and NSE, which have nationwide trading terminals and provide full liquidity to the investors.

**EMPLOYEE STOCK OPTION PLANS**

**1999 Stock Option Plan/2000 Stock Option Plan**

Pursuant to the approval of the shareholders, your Company had instituted 1999 Stock Option Plan ("1999 Plan") and the 2000 Stock Option Plan ("2000 Plan") for all eligible employees of the Company and its subsidiaries. The 1999 Plan and 2000 Plan are administered by the Compensation Committee of the Board and provide for issuance of 20,000,000 and 15,000,000 options respectively.

Each option granted under the 1999 Plan and 2000 Plan, entitles the holder thereof with an option to apply for and be issued two equity shares (post split) of the Company.

The details of the options granted under the 1999 and 2000 Plans are given below:

S. No.	Description	1999 Plan	2000 Plan
1.	Total number of options granted (gross)	22,460,538	10,551,956
2.	The pricing formula	Market price/Internal valuation	Market price
3.	Number of options vested	13,884,598	5,297,039
4.	Number of options exercised	7,694,841	185,701
5.	Number of options lapsed	975,381	588,545
6.	Number of options forfeited	5,438,521	2,138,471
7.	Variation in terms of options	None	None
8.	Money realised by exercise of options	Rs. 1,955.99 million	Rs. 84.63 million
9.	Total number of options in force as on June 30, 2004	8,351,795	7,639,239
10.	Grant to senior management		
	- Number of options	1,601,968	110,311
	- Vesting period	3-7 years	2-7 years
11.	Employees holding 5% or more of the total number of options granted during the year	None	None
12.	Employees granted options equal to or exceeding 1% or more of the issued capital during the year	None	None

The diluted earnings per share were Rs. 10.86 and Rs. 10.62 for the fiscal years ended June 30, 2004 and 2003 respectively.

Further details regarding "1999 Plan" and "2000 Plan" are provided in the annexure forming part of this report.

**HCL TECHNOLOGIES LIMITED EMPLOYEES TRUST**

In April 2001, a HCL Technologies Limited Employees Trust (Trust) was formed for the purpose of creating further stock option scheme(s) for the benefit of employees of the Company and/or its subsidiaries at any time (including directors of the Company). The Company would provide this trust interest free loan(s) from time to time up to a limit of Rs.1,500 million for administering the stock option scheme(s).

During the year, no loan was provided to the trust. Out of the shares already held by the Trust, the Trust transferred 31,04,442 shares to the employees on exercise of their stock options and collected an amount of Rs. 428 million on this account. The trust paid an amount of Rs. 474

million to the Company towards the repayment of loan taken by it. As on June 30, 2004, an amount of Rs. 205 million is outstanding as loan from the Company and 9,94,445 shares of the Company are held by the trust to be transferred to the employees who shall exercise their stock options.

**SHARES UNDER COMPULSORY DEMATERIALISATION**

The Equity Shares of your Company have been included in the list of specified scrips where delivery of shares in dematerialised (demat) form is compulsory effective July 24, 2000, if the same are traded on a Stock Exchange, which is linked to a depository. As of June 30, 2004, 99.73% shares are held in demat form.

**CORPORATE GOVERNANCE**

Your Company follows principles of effective Corporate Governance. The endeavor of your Company is not only to comply with regulatory requirements but also to practice Corporate Governance principles that lay a strong emphasis on integrity, transparency and overall accountability.

The report of the Directors on the practices of Corporate Governance is given as a separate section titled "Corporate Governance", which forms part of this Annual Report.

**INSIDER TRADING REGULATIONS**

The Securities and Exchange Board of India (SEBI) has, effective February 20, 2002, introduced amendments to the existing Insider Trading Regulations of 1992 which ordain new action steps by corporates and other market intermediaries for the purposes of prevention of Insider Trading.

These regulations specify for a mandatory model Code of conduct for prevention of insider trading and for a mandatory Code for corporate disclosures for all listed companies. Based on the requirements under these regulations, Code of conduct for prevention of insider trading and Code for corporate disclosures introduced by the Company during the year ending June 30, 2002 are in force.

**DIRECTORS' RESPONSIBILITY STATEMENT**

Responsibility statement of the directors relating to compliance with the financial and accounting reporting requirements specified under section 217 (2AA) of the Companies (Amendment) Act, 2000, is annexed to this report.

**DIRECTORS**

During the year, Ambassador Richard Burt retired by rotation at the Annual General Meeting of the Company held on December 20, 2003 as he expressed his unwillingness to be re-appointed. It was further resolved at the meeting that the vacancy caused by the retirement of Ambassador Richard Burt be not filled in.

In accordance with the Articles of Association of the Company, Mr Shiv Nadar, Mr S Raman and Ms Robin Abrams retire by rotation as Directors at the ensuing Annual General Meeting and are eligible for re-appointment.

**AUDITORS**

The auditors, M/s Price Waterhouse, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office of Auditors, if re-appointed.

**CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO**

Disclosure of particulars as required by Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988, are set out in the annexure included in this report.

**FIXED DEPOSITS**

Your Company has not accepted any fixed deposits. As such, no amount of principal or interest was outstanding as of the balance sheet date.

**PARTICULARS OF EMPLOYEES**

As required under the provisions of section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure included in this report.

**ACKNOWLEDGMENTS**

The Board wishes to place on record its appreciation to the contribution made by employees of the Company and its subsidiaries during the year under review. The Company has achieved impressive growth through the competence, hard work, solidarity, cooperation and support of employees at all levels. Your directors thank the customers, clients, vendors and other business associates for their continued support of the Company's growth. The Directors also wish to thank the Government Authorities, Financial Institutions and Shareholders for their cooperation and assistance extended to the Company.

**For and on behalf of the board of directors**

Noida (UP), India  
September 15, 2004

**Shiv Nadar**  
Chairman & CEO

## ANNEXURE TO THE DIRECTORS' REPORT

### Particulars pursuant to companies (disclosure of particulars in the report of the board of directors) Rules, 1988

#### a) Conservation of energy

The nature of your Company's operation does not involve intensive energy consumption. However, your Company constantly endeavors to plan infrastructure investments of a design that results in conservation of energy. Adequate measures have been taken to reduce energy consumption, wherever possible. As energy cost forms a very small part of total cost, the impact on cost is not material.

#### b) Research and development

Your Company continued its R&D efforts to build competence in the emerging Internet, Telecom and Embedded Technology areas thereby ensuring a continuous movement up the value chain. Since business and technologies are changing constantly, continuous investments in research and development need to be made. As a result of research efforts, your Company has been able to develop processes and methodologies that have resulted in constant improvement in quality and productivity.

Expenditure on R&D for the years ended June 30, 2004 and 2003 are as follows:

	(Rs. in million)	
	2004	2003
Revenue expenditure	28.03	10.0
Capital expenditure	-	-
Total R&D expenditure	28.03	10.0
R&D expenditure as a percentage of software services revenue	0.2%	0.1%

#### c) Technology absorption, adaptation and innovation

Your Company's core businesses demand absorption of emerging technologies to stay at the cutting edge of technology. New methods for absorbing, adapting and effectively deploying new technologies have been developed. Your Company has made significant additions to the number of servers used for software development as well as file and print servers. Your Company has made investments in applications and other software tools required for engineering design work in all its Software Development Centers.

#### d) Foreign exchange earnings and outgo

Your Company is an export-oriented unit and majority of the software development work undertaken by the Company is for the entities outside India. Apart from USA, which is the major source of the Company's revenue, the Company is expanding its business in Europe, Australia and Japan.

The foreign exchange earned and spent by the Company during the year under review is as follows:

	(Rs. in million)	
	2004	2003
Foreign exchange earnings	11,475	8,505
Foreign exchange outgo	3,711	2,168

**For and on behalf of the board of directors**

Noida (UP), India  
September 15, 2004

**Shiv Nadar**  
Chairman & CEO

### Directors' Responsibility Statement as required under Section 217 (2AA) of the Companies (Amendment) Act, 2000

- 1) The financial statements have been prepared in accordance with the accounting standards issued by the Institute of Chartered Accountants of India and also the requirements of the Companies Act, 1956, to the extent applicable to the Company. There have been no material departures from prescribed accounting standards while preparing these financial statements.
- 2) The Board of Directors has selected the accounting policies described in the notes to the accounts, which have been consistently applied, except where otherwise stated. The estimates and judgments relating to the financial statements have been made on a prudent basis, in order that the financial statements reflect in a true and fair manner, the state of affairs of the Company as at June 30, 2004 and the profit of the Company for the year ended on that date.
- 3) The board of directors and management has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- 4) The annual accounts have been prepared on the historical cost convention, as a going concern and on the accrual basis.

**For and on behalf of the board of directors**

Noida (UP), India  
September 15, 2004

**Shiv Nadar**  
Chairman & CEO

ANNEXURE TO THE DIRECTORS' REPORT (Contd.)

Details on Employees Stock Option Plans  
Post IPO Details of Employee Stock Option Schemes

Particulars	Year ended June 30, 2004	
	1999 Plan	2000 Plan
Total no. of options outstanding as on 1 July 2003	5,281,894	8,814,611
Options granted	-	109,275
Pricing formula	Market price	Market price
Options vested	781,177	2,260,168
Options exercised	1,300	185,476
Total no. of shares arising as a result of exercise of options	2,600	370,952
Options lapsed	582,385	1,099,171
Variation in terms of options	None	None
Money realised by exercise of options (Rs. crore) (includes issued through Trust)	0.08	8.46
<b>Total no. of options in force</b>	<b>4,698,209</b>	<b>7,639,239</b>
Fair value compensation cost for options granted (Rs. crore)	-	2.86
Weighted average exercise price of options granted	-	619.11
Weighted average fair value of options granted	-	261.28
<b>Significant assumptions</b>		
Risk free interest rate	-	6.00%
Expected life	-	upto 110 months
Expected volatility	-	69.00%
Expected dividends	-	3.20%
The price of the underlying options in market at the time of grant	-	619.11

Pre IPO Details of Employee Stock Option Schemes

Particulars	As on June 30, 2004 ESOP 1999 Plan
Options granted pre IPO	14,223,832
Pricing formula	Internal valuation
Options vested	11,729,343
Options exercised	7,648,023
Total no. of shares arising as a result of exercise of options	15,296,046
Options lapsed	2,922,223
Variation in terms of options	None
Money realised by exercise of options (Rs. crore) (includes issued through Trust)	192.91
<b>Total no. of options in force</b>	<b>3,653,586</b>
Fair value compensation cost for options granted (Rs. crore)	44.35
Weighted average exercise price of options	255.00
Weighted average fair value of options granted	36.87
<b>Significant assumptions</b>	
Risk free interest rate	10.00%
Expected life	12 to 110 months
Expected volatility	-
Expected dividends	0.10%

## ANNEXURE TO THE DIRECTORS' REPORT (Contd.)

## Employee Compensation Cost Based on fair value of the options

(All amounts are in Rs. crores)

	<b>Year ending 30 June 2004</b>
Net income, as reported	325.72
Add: Stock-based employee compensation expense included in reported net income	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	35.75
<b>Pro forma net income</b>	<b>289.97</b>
<b>Earnings per share</b>	
As reported - Basic	11.06
- Diluted	10.86
Adjusted pro forma - Basic	9.85
- Diluted	9.67
<b>Significant assumptions</b>	
Dividend yield %	0.1% to 3.2%
Expected life	upto 110 months
Risk free interest rates	6% to 10%
Volatility	53% to 69%

**ANNEXURE TO THE DIRECTORS' REPORT (Contd.)****Details of options granted to Senior Managerial Personnel of the Company – Pre IPO**

<b>Name of the Senior Managerial Personnel</b>	<b>Grant date</b>	<b>Options granted</b>
Raman Subrahmanyam	13-Sep-99	366,000
Dennis Roy Ing	13-Sep-99	219,600
Sanjay Kalra	13-Sep-99	109,800
Raj K Sirohi	13-Sep-99	219,600
Ashok Jain	13-Sep-99	109,800
Sujit Baksi	13-Sep-99	109,800
Anil Kumar Chanana	13-Sep-99	81,984
Prem Kumar Asija	13-Sep-99	81,984
Ramamurthy Vaidyanathan	13-Sep-99	81,984
Raj Kumar Mahajan	13-Sep-99	109,800
Ashok Syal	13-Sep-99	61,488
Amitava Roy	13-Sep-99	24,156
Ranjit Narasimhan	13-Sep-99	61,000
Robin Abrams	13-Sep-99	48,800
Richard Burt	13-Sep-99	48,800
TSR Subramanian	13-Sep-99	48,800
Divakar Naga Maddipatla	13-Sep-99	24,400
Shamsher Khorana	13-Sep-99	10,029
Ramamurthy Vaidyanathan	19-Oct-99	16,016
Amitava Roy	19-Oct-99	52,844
<b>Total</b>		<b>1,886,685</b>

Details of shares granted to employees during the year ended June 30, 2004 amounting to 1% or more of the issued capital of the Company at the time of the grant - Nil

**Details of shares granted to employees amounting to 5% or more of the options granted during the year ended June 2004**

<b>Name</b>	<b>No. of options granted</b>	<b>% of option granted during the year</b>
George T Tsokolas	6,400	5.86%
John Russo	6,400	5.86%
Kevin Houston	9,200	8.42%
Stephen Ashley	6,400	5.86%
Stuart Drew	6,400	5.86%
<b>Total</b>	<b>34,800</b>	

Details of shares granted to employees during the year ended June 30, 2004, amounting to 1% or more of the issued capital of the Company at the time of the grant - Nil

**For and on behalf of the board of directors**

Noida (UP), India  
September 15, 2004

**Shiv Nadar**  
Chairman & CEO

**ANNEXURE TO THE DIRECTORS' REPORT (Contd.)**

**STATEMENT UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 FORMING PART OF DIRECTORS' REPORT**

**A. EMPLOYED FOR FULL FINANCIAL YEAR - 2003-2004**

S. No.	Name	Age (Years)	Designation/ Nature of duties	Educational qualifications	Remuneration (Rs.)	Experience (Years)	Date of Joining	Previous employment	Designation in previous employment	Previous employment held since	% of equity shares held in the Company as on June 30, 2004
1	Amitava Roy	48	Executive Vice President	ME (Computer Science)	3,826,800	22	18-Jan-99	Hughes Software Systems	Assistant Vice President	Jul-92	0.0030%
2	Anup Dutta	45	General Manager	M Tech (Electrical)	2,706,754	23	1-Jul-96	HCL Hewlett Packard Ltd.	Dy. Manager	Jul-81	0.0017%
3	Ashish Kumar Kole	47	General Manager	BE/BTech	2,525,574	21	5-May-97	HCL Hewlett Packard Ltd.	Product Manager	Jul-83	0.0034%
4	Gade Hanumantha Rao	46	Associate Vice President- Embedded Technologies	BE	2,769,268	23	1-Jul-96	HCL Hewlett Packard Ltd.	Asst. Engineer	Nov-80	0.0069%
5	Gunaseelan Narayanan	49	Vice President	M Tech	3,426,784	24	1-Jul-96	HCL Hewlett Packard Ltd.	General Manager	Aug-79	0.0084%
6	Mukul Jain	44	General Manager	B Tech (Electrical)	2,642,876	23	1-Jul-96	HCL Hewlett Packard Ltd.	Dy. Manager	Jun-81	0.0029%
7	Prem Kumar Asija	54	Executive Vice President	BE	4,628,947	35	1-Sep-97	APT Automation	Director	Jan-93	0.0084%
8	Rajiv Sodhi	45	Vice President	BE	2,564,963	23	24-Jul-97	T C S	Manager Systems	Jul-81	0.0086%
9	Rajiv Swarup	52	Vice President	MBA	2,603,266	30	8-Mar-00	ModiCorp Ltd	Director- Business Development	Sept-99	0.0000%
10	Ramamurthy Vaidyanathan	49	Executive Vice President & Global HR Head	BE	4,315,304	23	1-Jul-96	HCL Hewlett Packard Ltd.	DGM -R&D	Jul-81	0.0136%
11	Raman Subrahmanyam	63	COO, President & Wholetime Director	B Tech	11,353,118	38	1-Apr-97	HCL Hewlett Packard Ltd.	Vice Chairman		0.0335%
12	Ranjeet Bhargava	54	Chief Information Officer	PGD	3,174,255	32	1-Nov-00	Murugappa Group	CIO	Jan-97	0.0000%
13	Ranjit Narasimhan	50	Corp Vice President & COO BPO Division	MBA	3,906,624	26	15-Apr-99	Riviera Confectionery Pvt. Ltd	MD	Jul-87	0.0494%
14	Ravi Shankar Aguru Venkata	45	Head Legal	BA(Eco), LLB	2,512,955	15	2-Apr-01	IDFC Ltd	VP (LEGAL)	Dec-98	0.0000%
15	Shyamal Bhattacharya	51	Vice President - IT Services	BE/BTech	2,556,338	27	2-Jan-01	TATA Tech	Dy.G.M	Apr-97	0.0000%
16	Srinivasa Krishnakumar Thakkolam	43	General Manager	M Tech	2,778,748	19	1-Jul-96	HCL Hewlett Packard Ltd.	Group Project Manager	Jan-88	0.0033%
17	Sriram Subramanian Vaitheeswaran Kovil	47	Head Operations	MBA	3,760,177	23	1-Oct-01	Citicorp Overseas Software Ltd	Centre Head - Chennai	Nov-88	0.0000%
18	Subramanian Lakshmi Narayanan	42	Corporate Vice President- Finance	B COM, ICAI,ICWAI	4,152,479	18	15-May-01	BPL Cellular Ltd	CFO	Nov-99	0.0000%
19	Udayakumar Nalinasekaren	44	Associate Vice President	M Tech	3,079,450	20	1-Jul-97	HCL Hewlett Packard Ltd.	Group Project Manager	Jul-84	0.0024%
20	Vasudevan Aravamudhan	45	General Manager	BE	2,855,401	21	1-Jul-96	HCL Hewlett Packard Ltd.	Asst. Engineer	Dec-82	0.0078%
21	Vijay Ahojja	47	Associate Vice President	MBA	2,956,888	25	17-Jul-01	Price Waterhouse Associates	Principal Consultant	May-98	0.0000%

**B. EMPLOYED FOR PART OF THE FINANCIAL YEAR - 2003-2004**

S. No.	Name	Age (Years)	Designation/ Nature of duties	Educational qualifications	Remuneration (Rs.)	Experience (Years)	Date of Joining	Previous employment	Designation in previous employment	Previous employment held since	% of equity shares held in the Company as on June 30, 2004
1	J Vijay	51	Vice President	ME/M Tech	1,039,279	29	01-Apr-04	Sutherland Tech.	Head - Service Delivery	Nov-03	0.0001%
2	Sanjay Kalra	41	Executive Vice President	B Tech	948,774	13	01-Apr-97	HCL Corporation Limited	GM	Apr-95	0.0142%
3	Saurav Adhikari	46	Corporate Vice President- Strategy	BA (Hons.), MBA	680,677	23	01-Nov-02	HCL Infosystems Ltd.	President	Jan-00	0.0005%
4	Srikanth Sunderajan	43	Vice President- Sales & Marketing	PHD	6,144,011	16	01-Aug-03	HCL Infosystems Ltd.	Vice President	Feb-02	0.0000%
5	Sujit Baksi	54	Executive Vice President HR	MBA	2,119,803	32	01-Dec-95	HCL Corporation Ltd.	Director	Dec-95	0.0014%

Notes - None of the employees is a relative of any director and the employment held is of contractual nature.

## CORPORATE GOVERNANCE

### Philosophy on Code of Governance

The Company continues to focus on good corporate governance, in line with the global standards, and its primary objective is to create and adhere to a corporate culture of conscience and consciousness, integrity, transparency and accountability for efficient and ethical conduct of business for meeting its obligations towards shareholders and other stakeholders.

Corporate governance is an integral part of HCL Technologies and in its pursuit of excellence, growth and value creation, it continuously endeavors to leverage resources to translate opportunities into reality. The Company recognises that strong corporate governance is indispensable to resilient and vibrant capital markets and is therefore an

important instrument of investor protection. The Company endeavors to benchmark its internal policies and systems with the best in the world.

### Board of Directors

The Board of Directors ("Board") of the Company has an optimum combination of executive and non-executive directors. Majority of the Board comprises of independent non-executive directors. The present Board comprises of 8 members, of whom, one is the promoter director who is Chairman and CEO of the Company, one is whole time director who is Chief Operating Officer, President and Whole Time Director (WTD), six are independent directors. Other details relating to the directors are given below:

Names of Director	Position	Directorships in other companies	Committee memberships in other companies	Chairmanships in committees of other companies in which they are members
Mr. Shiv Nadar	Chairman & CEO	6	3	1
Mr. S Raman	COO, President & WTD	3	1	-
Mr. TSR Subramanian	Independent Non Executive Director	1	-	-
Mr. S Bhattacharya	Independent Non Executive Director	10	10	4
Mr. Ajai Chowdhry	Independent Non Executive Director	7	9	2
Ms. Robin Abrams	Independent Non Executive Director	2	-	-
Mr. Amal Ganguli	Independent Non Executive Director	9	7	2
Mr. Cyril S Shroff	Independent Non Executive Director	5	4	-

The names of the other companies in which the current directors hold directorships and committee memberships are as under:

#### Mr. Shiv Nadar

S. No.	Name of the Company in which interested	Nature of Interest
1.	HCL Corporation Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of the Audit Committee</li> </ul>
2.	HCL Comnet Systems & Services Ltd.	<ul style="list-style-type: none"> <li>▪ Chairman</li> <li>▪ Member of the Audit Committee</li> </ul>
3.	DSL Software Limited	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Chairman of the Compensation Committee</li> </ul>
4.	DSI Financial Solutions Pte. Limited	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
5.	HCL Technologies America Inc.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>

#### Mr. S Raman

S. No.	Name of the Company in which interested	Nature of Interest
1.	Shipara Technologies Limited	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of the Audit Committee</li> </ul>
2.	DSL Software Limited	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
3.	DSI Financial Solutions Pte. Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>

**Mr. Subroto Bhattacharya**

S. No.	Name of the Company in which interested	Nature of Interest
1.	HCL Infosystems Limited	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of Accounts &amp; Audit Committee</li> <li>▪ Member of Shareholders &amp; Investor Grievances Committee</li> <li>▪ Member of Employees Compensation and Employees Satisfaction Committee</li> </ul>
2.	NIIT Limited	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Chairman of Audit Committee</li> </ul>
3.	NIIT Technologies Limited	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Chairman of Audit Committee</li> <li>▪ Chairman of Remuneration Committee</li> </ul>
4.	DSL Software Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
5.	HCL Infinet Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Chairman of Accounts &amp; Audit Committee</li> <li>▪ Member of Employees Compensation Committee</li> <li>▪ Member of Customer Satisfaction Committee</li> </ul>
6.	Infosystems (Europe) Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
7.	Infosystems (America) Inc.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
8.	HCL Peripherals Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
9.	DSI Financial Solutions Pte. Ltd., Singapore	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
10.	HCL Corporation Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of Audit Committee</li> </ul>

**Mr. Ajai Chowdhry**

S. No.	Name of the Company in which interested	Nature of Interest
1.	Apollo Trading and Finance Pvt. Ltd	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
2.	HCL Infosystems Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of KRA Review Committee</li> <li>▪ Member of Employees Compensation Committee</li> <li>▪ Member of Accounts &amp; Audit Committee</li> <li>▪ Chairman of Customer Satisfaction Committee</li> <li>▪ Member of Shareholders &amp; Investor Grievance Committee</li> </ul>
3.	HCL Peripherals Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
4.	HCL Infinet Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> <li>▪ Member of KRA review Committee</li> <li>▪ Member of Accounts &amp; Audit Committee</li> <li>▪ Chairman of Employees Compensation Committee</li> <li>▪ Member of Customer Satisfaction Committee</li> </ul>
5.	Infosystems (Europe) Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
6.	Infosystems (America) Inc.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
7.	Infosystems (Australia) Pty. Ltd.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>

**Mr. TSR Subramanian**

S. No.	Name of the Company in which interested	Nature of Interest
1.	ABN AMRO Bank	<ul style="list-style-type: none"> <li>▪ Chairman, Local Board in India</li> </ul>
2.	Interstrat Limited	<ul style="list-style-type: none"> <li>▪ Shareholder</li> </ul>
3.	Vita Pumps Limited	<ul style="list-style-type: none"> <li>▪ Shareholder</li> </ul>

**Ms. Robin Abrams**

S. No.	Name of the Company in which interested	Nature of Interest
1.	HCL Technologies (Bermuda) Limited	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>
2.	Zilog Inc.	<ul style="list-style-type: none"> <li>▪ Director</li> </ul>

**Mr. Amal Ganguli**

S. No.	Name of the Company in which interested	Nature of Interest
1.	Hughes Escorts Communications Ltd.	▪ Director
2.	Hughes Software Systems Ltd.	▪ Director ▪ Chairman of Audit Committee
3.	ML Infomap Pvt. Ltd.	▪ Director
4.	Tube Investments of India Ltd.	▪ Director ▪ Member of Remuneration Committee
5.	Gillette India Ltd.	▪ Director ▪ Member of Audit Committee ▪ Member of Remuneration Committee
6.	Maruti Udyog Limited	▪ Director ▪ Chairman of Audit Committee
7.	Samtel Color Limited	▪ Director ▪ Member of Audit Committee
8.	Samcor Glass Limited	▪ Director ▪ Member of Audit Committee
9.	New Delhi Television Limited	▪ Director ▪ Member of Audit Committee
10.	Century Textiles and Industries Limited	▪ Director ▪ Member of Audit Committee

**Mr. Cyril Suresh Shroff**

S. No.	Name of the Company in which interested	Nature of Interest
1.	Kotak Mahindra Bank Ltd.	▪ Director ▪ Member of Audit Committee ▪ Member of Remuneration Committee
2.	IDBI Capital Markets Ltd.	▪ Director
3.	Thirumalai Chemicals Ltd.	▪ Director
4.	Grasim Industries Ltd.	▪ Director ▪ Member of Investor Committee
5.	Associated Cement Companies Ltd.	▪ Director

**Board Meetings**

The dates of the board meetings of the ensuing year are decided in advance and published as part of the Annual Report. The board meets at least once a quarter to review the quarterly results and other items on the agenda. When necessary, additional meetings are held. The board meetings are generally held at the corporate office of the Company at Noida. The agenda for the board meeting is drafted in consultation with

the Chairman and the same is distributed in advance to the board members. Committees of the Board usually meet on the day of the board meeting.

There were seven board meetings held during the year ended June 30, 2004. These were held on September 12, 2003, October 31, 2003, November 14, 2003, December 2, 2003, January 29, 2004, April 26, 2004 and June 11, 2004. The following table gives the attendance record of the directors in the board meetings and last Annual General Meeting.

Name of Director	No. of board meetings held	No. of board meetings attended	Whether attended last AGM
Mr. Shiv Nadar	7	6*	No
Mr. S Raman	7	7*	Yes
Mr. TSR Subramanian	7	7	Yes
Mr. S Bhattacharya	7	6	No
Mr. Ajai Chowdhry	7	7	Yes
Mr. Richard Burt#	4	1*	No
Ms. Robin Abrams	7	5**	No
Mr. Amal Ganguli	7	7*	Yes
Mr. Cyril S Shroff	7	2	No

# Retired at the AGM held on December 20, 2003. \* includes 1 meeting attended through conference call. \*\* includes 2 meetings attended through conference call.

#### Availability of information to the members of the Board

The board has complete access to any information within the company, and to any employee of the Company. The Board welcomes the presence of managers in the board meeting, who can provide additional insights into the items being discussed in the meeting.

The information regularly provided to the board includes:

- Annual operating plans and budgets including capital budgets and any updates.
- Quarterly results for the Company and its operating divisions or business segments.
- Minutes of meetings of Audit Committee and Compensation Committee of the Board.
- The information on recruitment and remuneration of senior officers just below the Board level, including appointment or removal of Chief Financial Officer and the Company Secretary.
- Show cause, demand, prosecution notices and penalty notices which are materially important.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any material default in financial obligations to and by the company, or substantial non-payment for goods sold by the company.
- Any issue, which involves possible public or product liability claims of substantial nature, including any judgment or order, which may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
- Details of any joint venture or collaboration agreement.
- Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- Any significant development in Human Resources/Industrial Relations front.
- Sale of material, nature of investments, subsidiaries, assets, which is not in normal course of business.
- Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

#### Re-appointment of Directors

**Mr. Shiv Nadar** has been a director of your Company since January 1993. Mr. Nadar shall retire by rotation at the forthcoming Annual General Meeting and being eligible offers himself for re-appointment.

Mr. Shiv Nadar, aged 59 years, is an Electrical Engineer from Coimbatore in South India. He has been a Director of the Company since January 1993 and was appointed as Managing Director of the Company effective September 13, 1999 for a period of five years. Mr. Nadar established HCL as a startup in 1976 and today the HCL group is the leader in Infotech industry in India and rapidly growing overseas. Mr. Nadar, a technocrat, was nominated the Dataquest IT Man of the Year in 1995.

Mr. Shiv Nadar is a Director on Board of some subsidiaries companies of the Company and is also on the Board of HCL Corporation Limited. He is the Chairman of the Compensation Committee and a member of the Shareholders' Committee of the Company.

**Mr. S Raman** has been a director of your Company since October 2002. Mr. Raman shall retire by rotation at the forthcoming Annual General Meeting and being eligible offers himself for re-appointment.

Mr. S Raman aged 63 years is an Electronics engineer from the Madras Institute of Technology. He is a member of Employee Stock Option Allotment Committee of the Board of Directors of the Company. He is

presently a Director on the Board of Shipara Technologies Limited, DSL Software Limited and DSI Financial Solutions Pte. Ltd., Singapore.

Nature of expertise in specific functional area—Managing Technology Development, has undertaken research work in control engineering, modeling and digital simulation of large systems.

**Ms. Robin Abrams** has been a director of your Company since September 1999. Ms. Abrams shall retire by rotation at the forthcoming Annual General Meeting and being eligible offers herself for re-appointment.

Ms. Robin Abrams, aged 53 years holds both a Bachelor of Science and a Juris Doctor degree from the University of Nebraska. She is a member of Compensation Committee and Audit Committee of the Board of Directors of the Company. She is presently the Chairman of the Board of HCL Technologies (Bermuda) Ltd., a wholly owned subsidiary of the Company and a Director on the Board of Zilog Inc.

Nature of expertise in specific functional area, Ms. Abrams has nearly 30 years of computing and computing services expertise coupled with strategic planning and management experience.

#### Board Committees

Currently, the Board has four committees, viz., the Audit Committee, the Compensation Committee, the Shareholders Committee and ESOP Allotment Committee.

The Board decides the terms of service of various committees and the assignment of members to various committees. Normally, the committee meetings are held once in every quarter except for Shareholders Committee and ESOP Allotment Committee that normally meet once every month.

#### Audit Committee

The Audit Committee comprises of the following directors, namely:

- a) Mr. TSR Subramanian (Chairman)
- b) Ms. Robin Abrams
- c) Mr. Subroto Bhattacharya
- d) Mr. Amal Ganguli
- e) Mr. Cyril Suresh Shroff

Ambassador Richard Burt, Director of the Company was also a member of Audit Committee and on his retirement as Director of the Company w.e.f. December 20, 2003, he also ceased to be the member of this Committee.

#### Terms of Reference

The constitution of the Audit Committee meets all the requirements of Section 292A of the Companies Act, 1956 as well as Clause 49 of the Listing Agreement. The Board of Directors has approved the following terms of reference for the Audit Committee.

#### a) Statutory auditors

Recommend to the Board the appointment and removal of the Statutory Auditors, fixation of audit fee and also approve payment for any other services.

#### b) Review independence of Statutory Auditors

In connection with recommending the firm to be retained as the Company's Statutory Auditors, review the information provided by management to the auditors relating to the independence of such firm, including, among other things, information related to the non-audit services provided and expected to be provided by the Statutory Auditors. The Committee is also responsible for:

- i) Ensuring that the Statutory Auditors submit on a periodic basis

- to the Committee a formal written statement delineating all relationships between the auditor and the Company,
- ii) Actively engaging in dialogue with the Statutory Auditors with respect to any disclosed relationship or services that may impact the objectivity and independence of the statutory auditors, and
  - iii) Recommending that the Board take appropriate action in response to the Statutory Auditors' Report to satisfy itself of their independence.
- c) Review audit plan**
- Review with the Statutory Auditors their plans for, and the scope of, their annual audit and other examinations.
- d) Conduct of audit**
- Discuss with the Statutory Auditors the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit.
- e) Review audit results**
- Review with the Statutory Auditors the report of their annual audit, or proposed report of their annual audit, areas of concern, the accompanying management letter, if any, the reports of their reviews of the Company's interim financial statements conducted in accordance with Statement on Auditing Standards No. 71, and the reports of the results of such other examinations outside of the course of the statutory auditors' normal audit procedures that they may from time to time undertake.
- f) Review financial statements**
- Review of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. The Audit Committee reviews with appropriate officers of the Company and the Statutory Auditors, the annual and interim financial statements of the Company prior to submission to the Board or public release thereof, focusing primarily on:
- i) Any changes in accounting policies and practices.
  - ii) Major accounting entries based on exercise of judgment by management.
  - iii) Qualifications in draft audit report.
  - iv) Significant adjustments arising out of audit.
  - v) The going concern assumption.
  - vi) Compliance with accounting standards.
  - vii) Compliance with stock exchange and legal requirements concerning financial statements.
  - viii) Any related party transactions, i.e. transactions of the Company with promoters or the management, their subsidiaries or relatives, etc., that may have conflict with the interest of the Company at large.
- g) Review policies**
- Review of the Company's financial and risk management policies.
- h) Review internal audit function**
- Review the adequacy of internal audit function, including the structure of internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- i) Review internal audit plans**
- Review with the senior internal auditing executive and appropriate members of the staff of the internal auditing department the plans for and the scope of their ongoing audit activities.
- j) Review internal audit reports**
- Review with the senior internal auditing executive and appropriate members of the staff of the internal auditing department the annual report of the audit activities, examinations and results thereof of the internal auditing department, any significant findings and follow up thereon. The Audit Committee also reviews the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- k) Review systems of internal accounting controls**
- Review with the statutory auditors, the senior internal auditing executive and, if and to the extent deemed appropriate by the Chairman of the Committee, members of their respective staffs the adequacy of the Company's internal accounting controls, the Company's financial, auditing and accounting organisations and personnel and the Company's policies and compliance procedures with respect to business practices.
- l) Review recommendations of outside auditors**
- Review with the senior internal auditing executive and the appropriate members of the staff of the internal auditing department recommendations made by the Statutory Auditors and the senior internal auditing executive, as well as such other matters, if any, as such persons or other officers of the Company may desire to bring to the attention of the Committee.
- m) US Securities Exchange Act**
- Obtain assurance from the statutory auditors that Section 10A of the US Securities Exchange Act has not been implicated.
- n) Review other matters**
- Review such other matters in relation to the accounting, auditing and financial reporting practices and procedures of the Company as the Committee may, in its own discretion, deem desirable in connection with the review functions described above.
- o) Board reports**
- Report its activities to the Board in such manner and at such times, as it deems appropriate.
- p) Investigation**
- The Audit Committee has the authority to investigate into any matter in relation to the items specified in Section 292A of the Companies Act, 1956 or referred to it by the Board and for this purpose. It has full access to information contained in the records of the Company. It can also investigate any activity within its term of reference. It has the authority to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (for non payment of declared dividends) and creditors, if any.
- q) Seek information/advice**
- The Audit Committee can seek information from any employee and can obtain from outside any legal or other professional advice. It can also secure attendance of outsiders with relevant experience, if it considers necessary.

**r) To attend Annual General Meeting**

The Chairman of the Committee would attend the Annual General Meetings of the Company to provide any clarification on matters relating to audit sought by the members of the Company.

Statutory Auditors of the Company are special invitees to the Audit Committee meetings, wherein they participate on discussions related to the review of financial statements of the Company and any other matter that in the opinion of the statutory auditors needs to be brought to the notice of the committee.

Five Audit Committee meetings were held during the year, on the following dates:

- September 11, 2003
- October 30, 2003
- January 29, 2004
- April 26, 2004
- June 11, 2004

Attendance details of each member at the Audit Committee meetings during the current fiscal year are as follows:

Name of the committee member	Number of meetings held	Number of meetings attended
Mr. TSR Subramanian	5	5
Mr. Richard Burt*	2	-
Ms. Robin Abrams	5	5**
Mr. Subroto Bhattacharya	5	5
Mr. Amal Ganguli	5	5
Mr. Cyril Suresh Shroff	5	1

\* Ceased to be a member of the Committee w.e.f December 20, 2003.  
 \*\* Includes 2 meetings attended through conference call.

**Compensation Committee**

The Compensation Committee of the Board consists of following members:

- a) Mr. Shiv Nadar (Chairman)
- b) Mr. TSR Subramanian
- c) Ms. Robin Abrams

**Terms of Reference**

The role of the Compensation Committee has been defined as under:

- a) To review and approve/recommend the remuneration for the Corporate Officers or Whole Time Directors of the Company.
- b) To review and recommend to the Board the remuneration policy for the Company.
- c) To approve grant of stock options to the employees and/or Directors of the Company and subsidiary companies and perform such other functions as are required under the various Employees Stock Option Plans of the Company.
- d) To discharge such other function(s) or exercise such power(s) as may be delegated to the Committee by the Board from time to time.

Five Compensation Committee meetings were held during the year on the following dates:

- September 11, 2003
- October 30, 2003
- January 29, 2004
- April 26, 2004
- June 30, 2004

Attendance details of each member at the Compensation Committee meetings during the current fiscal year are as follows:

Name of the committee member	Number of meetings held	Number of meetings attended
Mr. Shiv Nadar	5	5
Mr. TSR Subramanian	5	5
Ms. Robin Abrams	5	5*

\* Includes 2 meetings attended through conference call.

**Remuneration Policy**

The remuneration policy of the Company is aimed at rewarding performance, based on review of achievements on a regular basis and is in consonance with the existing industry practice.

**Remuneration to Directors**

Presently, the Company is paying remuneration to Mr. S Raman, who is a Whole Time Director and also paying sitting fees and commission to independent directors.

The remuneration paid to Mr. S Raman for the period July 1, 2003 to June 30, 2004 is as under:

Particulars	Rs. / lacs
Salary	49.80
Allowances	13.20
Perquisites	1.53
Contribution to provident fund	5.98
Performance linked pay	49.00
<b>Total</b>	<b>119.51</b>

The appointment of Mr. S Raman can be terminated by the Company by giving six months notice in writing or such shorter notice as may be mutually agreed between Mr. Raman and the Company. In lieu of the notice, payment by the Company or by Mr. S Raman to the Company, equivalent to six months last drawn remuneration can be made.

The sitting fees/commission as per the details given hereunder is paid/ approved by the Board:

Name of the Director	Sitting fees for the year ended June 30, 2004 Rs./lacs	Commission for the year ended June 30, 2004 Rs./lacs
Mr. TSR Subramanian	2.40	8.00
Ms. Robin Abrams	1.20	8.00
Mr. Amal Ganguli	2.20	8.00
Mr. Cyril Shroff	0.60	4.00
Mr. S Bhattacharya	2.20	8.00
Mr. Ajai Chowdhry	1.40	-

The Company has also granted Stock Options to some of the independent directors and to Mr. S Raman, Whole Time Director, under the 1999 Stock Option Plan of the Company as per the details given hereunder.

Name of the Director	Number of options	Vesting period (in years)	Vesting start date
Ambassador Richard Burt *	48,800	5	October 1, 1999
Ms. Robin Abrams	48,800	5	October 1, 1999
Mr. TSR Subramanian	48,800	5	October 1, 1999
Mr. S Raman	366,000	6	October 1, 2000

\* Retired at the AGM held on December 20, 2003.

#### Shareholders Committee

The Shareholders Committee consists of following members:

- a) Mr. TSR Subramanian (Chairman)
- b) Mr. Shiv Nadar
- c) Mr. S Raman
- d) Mr. Subroto Bhattacharya
- e) Mr. Ajai Chowdhry
- f) Mr. Amal Ganguli

Mr. S Raman, Mr. Subroto Bhattacharya, Mr. Ajai Chowdhry and Mr. Amal Ganguli were co-opted as additional members of the Shareholders' Committee w.e.f. February 6, 2004.

Mr. Allwyn Noronha, General Manager & Company Secretary is the compliance officer.

#### Terms of Reference

In view of the SEBI Corporate Governance norms, which have been incorporated in the Listing Agreement, the Shareholders Committee has been formed to undertake the following activities:

- a) To review and take all necessary actions for redressal of investors' grievances and complaints as may be required in the interests of the investors.
- b) To approve requests for share transfers, transmissions, transpositions, rematerialisations, split and duplicate shares.

The details relating to number of shareholder complaints received, number not resolved to the satisfaction of the shareholders and number of pending transfers has been provided in the shareholders information section.

During the year under review, the committee met 11 times.

#### ESOP Allotment Committee

The ESOP Allotment Committee consists of following members:

- a) Mr. Shiv Nadar, Chairman & CEO
- b) Mr. S Raman, COO, President & Wholetime Director
- c) Mr. TSR Subramanian, Director
- d) Mr. Subroto Bhattacharya, Director
- e) Mr. Vineet Nayar, Executive Vice President
- f) Mr. SL Narayanan, Corporate Vice President – Finance

Mr. Shiv Nadar, Mr. TSR Subramanian, Mr. Subroto Bhattacharya—Directors, Mr. Vineet Nayar and Mr. SL Narayanan were co-opted as

additional members of the ESOP Allotment Committee w.e.f. November 4, 2003.

Mr. Sujit Baksi, Executive Vice President – Human Resources, was also a member of ESOP Allotment Committee and on his cessation of services from the Company, he also ceased to be the member of this Committee.

This Committee has been formed to allot shares to the employees who exercise their stock options under the Stock Option Plans of the Company. During the year under review, the committee met 9 times.

#### General Body Meetings

The location and time of the last three AGMs

Year	Date	Venue	Time
2000-2001	Oct 20, 2001	FICCI Auditorium, Federation House, Tansen Marg, New Delhi.	4.00 P.M.
2001-2002	Nov 7, 2002	FICCI Auditorium, Federation House, Tansen Marg, New Delhi.	10.00 A.M.
2002-2003	Dec 20, 2003	FICCI Auditorium, Federation House, Tansen Marg, New Delhi.	11.00 A.M.

No resolution was put through postal ballot last year.

#### Disclosures

##### a) Related party transactions

The Company has not entered into any transaction of a material nature with the promoters, directors or the management, their subsidiaries or relatives, etc., that may have any potential conflict with the interest of the Company.

##### b) Compliances by the Company

The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters relating to capital markets during the last three years. No penalties or strictures have been imposed on the Company by the stock exchanges, SEBI, or other statutory authorities relating to the above.

#### Means of Communication

- a) At present, half yearly report on accounts is not being sent to each household of shareholders.
- b) The quarterly financial results are generally published in Business Standard and Jansatta newspapers.
- c) The quarterly, half yearly and annual financial statements are posted on the Company's website that is <http://www.hcltech.com>.
- d) The Company also makes a presentation to the investors and analysts after taking on record the quarterly results by the Company. Any press releases or official news is displayed on the Company's website.
- e) The Management Discussion and Analysis (MD&A) on the financial statements is provided in the Annual Report.

**Shareholders' Information**

**a) General information**

Dates of book closure:	December 10, 2004 to December 17, 2004 (both days inclusive)
Date, time and venue of the Annual General Meeting:	December 17, 2004; 11.00 A.M. FICCI Auditorium, Federation House, 1, Tansen Marg, New Delhi – 110 001.
Dividend payment date:	December 24, 2004
Listing on stock exchanges in India at:	National Stock Exchange of India Ltd. (NSE) Exchange Plaza, 5 <sup>th</sup> Floor, Plot No. C/1 G Block, Bandra Kurla Complex, Bandra East, Mumbai – 400 051, India. Tel.: +91-22-659 8236 Fax: +91-22-659 8237  The Stock Exchange, Mumbai (BSE) Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001, India Tel.: +91-22-272 1233 Fax: +91-22-272 3121
Listing fees:	Paid to all the above stock exchanges for the Year 2004-2005.
Stock code:	National Stock Exchange – “HCLTECH” The Stock Exchange, Mumbai – “532281”
Registered office:	806, Siddharth, 96, Nehru Place, New Delhi – 110 019, India Tel.: 91-11-26444812 Homepage: <a href="http://www.hcltech.com">www.hcltech.com</a>
Share transfers in physical form and other communications regarding share certificates, dividends, and change of address, etc., may be addressed to:	Alankit Assignments Limited 205-208, Anarkali Market, Jhandewalan Extension, New Delhi – 110 055. Tel.: 91-11-51540060-63, Fax: 91-11-51540064 E-mail: <a href="mailto:ra@alankit.com">ra@alankit.com</a>

**b) Share transfer system**

Shares sent for physical transfer are generally registered and returned within a period of 15-20 days from the date of receipt, if the documents are clear in all respects. The shares of the Company have been placed by SEBI under compulsory dematerialisation (“Demat”) with effect from July 24, 2000. The Company has, as per SEBI guidelines with effect from the said date offered the facility of transfer cum Demat.

Under the said system, after the share transfer is effected, an option letter is sent to the transferee indicating the details of the transferred shares and requesting him to approach a Depository Participant (“DP”) with the option letter, in case he desires to hold his shares in

Demat form. The DP, based on the option letter, generates a Demat request and sends the same to the Company along with the option letter issued by the Company. On receipt of the same the Company dematerialises the shares. In case the transferee desires to hold his shares in physical form, he need not exercise the option and the Company dispatches the share certificates after 15 days from the date of such option letter.

**c) Dematerialisation of shares**

About 99.73% of the shares issued by the Company have been dematerialised up to June 30, 2004.

Demat ISIN Numbers in NSDL & CDSL: INE860A01027

**d) Distribution of shareholding as on June 30, 2004**

Number of Equity Shares held	Shareholders (Numbers)	Shareholders (%)	Shares (Numbers)	Shares (%)
1 – 100	52775	83.70	1875097	0.63
101 – 200	5396	8.64	917127	0.31
201 – 500	2454	3.93	820502	0.28
501 – 1000	815	1.31	622552	0.21
1001 – 5000	1011	1.62	2355718	0.80
5001 – 10000	254	0.41	1751338	0.59
10001 and above	245	0.39	287738104	97.18
<b>Total</b>	<b>62450</b>	<b>100.00</b>	<b>296080438</b>	<b>100.00</b>

e) Categories of shareholders as on June 30, 2004

Category	Number of shareholders	Number of shares held	Voting strength (%)
Individuals	59692	9710722	3.27
Companies	1645	9450618	3.19
FIs	52	32568274	11.00
OCBs, NRIs & foreign nationals	646	2620736	0.89
Founders	6	224646968	75.87
Mutual funds	99	11179573	3.78
Banks and financial institutions	33	4231747	1.43
Clearing members	266	195940	0.07
Trusts	11	1475860	0.50
<b>Total</b>	<b>62450</b>	<b>296080438</b>	<b>100.00%</b>

f) Stock market data

Monthly high and low quotations, as well as, the volume of shares traded at National and Mumbai stock exchanges for fiscal year are as follows:

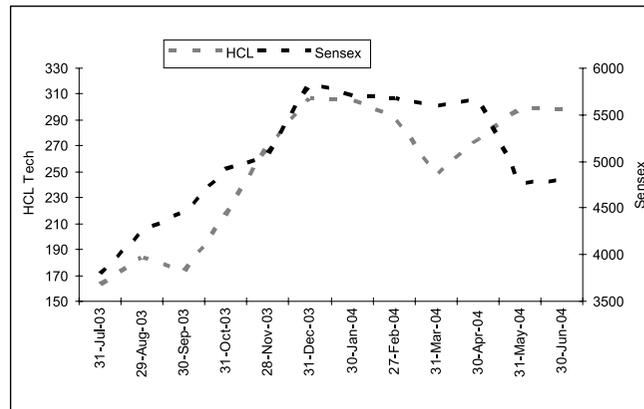
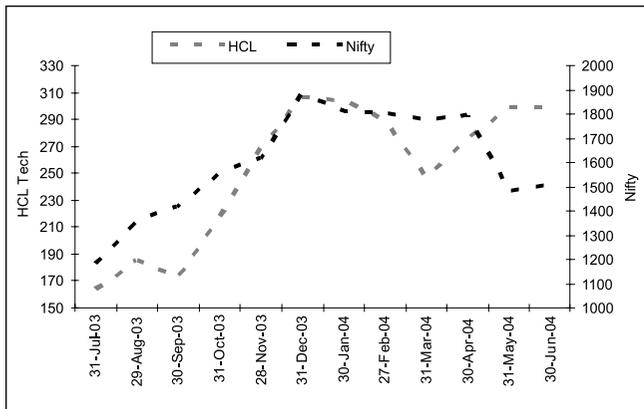
Month	NSE			BSE		
	High Rs.	Low Rs.	Volume	High Rs.	Low Rs.	Volume
July 2003	176.40	144.00	23552718	178.00	141.25	8849871
August	196.90	157.30	24769811	196.80	157.35	8378773
September	228.70	152.00	59580953	227.60	151.20	20038037
October	218.80	170.20	40454275	218.70	170.50	13668202
November	279.75	219.80	41361566	279.60	220.00	12467849
December	310.00	260.70	31336336	309.70	260.65	10411325
January 2004	345.00	278.00	27857906	339.80	282.00	10204869
February	317.80	257.00	22184329	317.90	259.60	7094383
March	298.40	233.55	21802580	298.80	233.15	7426321
April	305.50	246.40	12845475	305.75	246.00	4069534
May	349.00	245.45	18140246	348.90	241.40	5390139
June	315.35	284.00	17672509	316.00	284.00	4716375

g) Liquidity

The Company's shares are among the most liquid and actively traded

shares on National and Mumbai stock exchanges. The monthly trading volumes of the Company's shares on these exchanges are given in the table above in the Paragraph (f) titled "stock market data".

**h) Share price performance in comparison to broad based Indices**



**Investor services**

**(i) Complaints received during the year 2003-2004**

Source of complaint	Received	Attended
Directly from the Investors	23	23
Through SEBI, Stock Exchanges, etc.	16	16
<b>Total</b>	<b>39</b>	<b>39</b>

**(ii) Share transfers** – As on June 30, 2004, no share transfer requests were pending for consideration for transfer.

**i) Location and addresses of Software Development Centers of the Company**

**Gurgaon**

3, Udyog Vihar Phase 1  
Gurgaon, 122 016  
Haryana, India  
Tel. : +(91) 124 243 9900  
Fax :+(91) 124 243 9910

Plot No. 5,6,7 Udyog Vihar Phase 4  
Gurgaon, 122 016  
Haryana, India  
Tel. : +(91) 124 501 9000  
Fax :+(91) 124 501 9851

Plot No. 244, Udyog Vihar Phase 1  
Gurgaon, 122 016  
Haryana, India  
Tel. : +(91) 124 234 6405  
Fax :+(91) 124 234 9020

**Noida**

A-10 & 11, Sector 3  
Noida, 201 301  
UP, India  
Tel. : +(91) 120 252 0917  
Fax :+(91) 120 244 0155

A-1/ CD, Sector 16  
Phase III  
Noida, 201 301  
UP, India  
Tel. : +(91) 120 251 6321  
Fax :+(91) 120 251 6315

A-8 & 9, Sector 60  
Noida, 201 301,  
UP, India  
Tel. : +(91) 120 258 4362-6  
Fax :+(91) 120 258 2915

A-5, Sector 24  
Noida, 201 301  
UP, India  
Tel. : +(91) 120 253 4265  
Fax :+(91) 120 244 0155

A-11, Sector 16,  
Noida, 201 301  
UP, India  
Tel. : +(91) 120 251 0701  
Fax :+(91) 120 251 0713

**Chennai**

50-53, Greams Road  
Chennai, 600 006  
India  
Tel. : +(91) 44 2829 3298  
Fax :+(91) 44 2829 4969

PM Towers, 37, Greams Road  
Chennai, 600 006  
India  
Tel. : +(91) 44 2829 1735  
Fax :+(91) 44 2829 1738

No. 51, J.N. Road, Guindy  
Chennai, 600 097  
India  
Tel. : +(91) 44 2232 1960  
Fax :+(91) 44 2234 4256

J-16, Anna Nagar East  
Chennai, 600 102  
India  
Tel. : +(91) 44 2626 4206  
Fax :+(91) 44 2628 1120

34 & 35 Haddows Road,  
Chennai, 600 034  
India  
Tel. : +(91) 44 5213 8215  
Fax :+(91) 44 5213 2749

Thapar House  
43 / 44, Montieth Road, Egmore,  
Chennai, 600 008  
Tel. : +(91) 44 2851 1293  
Fax :+(91) 44 2851 1986

No.184-188, 190,192 & 196 Arcot Road, Vadapalani  
Chennai, 600 026  
India  
Tel. : +(91) 44 2372 8366  
Fax :+(91) 44 2372 8368

158, Arcot Road, Vadapalani  
Chennai, 600 026  
India  
Tel. : +(91) 44 2375 0171  
Fax :+(91) 44 2375 0185

64 & 65, Second Main Road  
Ambattur Industrial Estate, Ambattur  
Chennai, 600 058  
India  
Tel. : +(91) 44 2652 1077  
Fax :+(91) 44 5206 0485

D-12, 12B, Ambattur Industrial Estate  
Ambattur  
Chennai, 600 058  
India  
Tel. : +(91) 44 2623 0711  
Fax :+(91) 44 2624 4213

78 Ambattur Industrial Estate, Ambattur  
Chennai, 600 058  
India  
Tel. : +(91) 44 2623 2318  
Fax :+(91) 44 2625 9476

49-50, Nelson Manickam Road  
Chennai, 600 029  
India  
Tel. : +(91) 44 2374 1939  
Fax :+(91) 44 2374 1038

601-602, 604 Tidel Park  
4 Canal Road, Taramani  
Chennai, 600 113  
India  
Tel. : +(91) 44 2254 0473  
Fax :+(91) 44 2254 0308

Sapna Trade Centre  
109/110 P H Road  
Chennai, 600 084  
India  
Tel. : +(91) 44 2822 1129  
Fax :+(91) 44 2821 4278

Module 812, 8<sup>th</sup> Floor, Raheja Towers  
Mount Road,  
Chennai, 600 002  
India

**j) Financial calendar (tentative and subject to change)**

Annual General Meeting	December 17, 2004
Financial reporting for the first quarter ending September 30, 2004	October 25, 2004
Financial reporting for the second quarter ending December 31, 2004	January 24, 2005
Financial reporting for the third quarter ending March 31, 2005	April 25, 2005
Financial reporting for the year ending June 30, 2005	August 31, 2005
Annual General Meeting for the year ending June 30, 2005	November 2005

**k) Address for Investors correspondence**

The Investor Relations  
HCL Technologies Limited  
A-10 & 11, Sector-3, Noida – 201 301  
U.P., India  
Tel. +91-120-254 6043 Fax: +91-120-252 6907  
E-mail: investor@corp.hcltech.com

## AUDITORS' CERTIFICATE

### ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENTS

#### To the Members of HCL Technologies Limited

1. We have reviewed the implementation of Corporate Governance procedures by HCL Technologies Limited, (the Company) during the year ended June 30, 2004, with the relevant records and documents maintained by the Company, furnished to us for our review and the report on Corporate Governance as approved by the Board of Directors.
2. The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

3. We state no investors grievances are pending for a period exceeding one month against the Company except those under dispute or sub judice, as per the records maintained by the Shareholders'/Investors' Grievance Committee.
4. On the basis of our review and according to the information and explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreements with the Stock Exchange have been complied with in all material respect by the Company.

**Kaushik Dutta**  
Partner  
Membership No: 88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: New Delhi  
Date: 15<sup>th</sup> September, 2004

# FINANCIAL STATEMENTS

**AUDITORS' REPORT**

To the Members of  
**HCL Technologies Limited**

1. We have audited the attached Balance Sheet of HCL Technologies Limited, as at June 30, 2004, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. 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 audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
  - (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;
  - (e) On the basis of written representations received from the directors, as on June 30, 2004 and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
  - (f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto give in the prescribed manner the information required by the Act and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of affairs of the company as at June 30, 2004;
- (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**Kaushik Dutta**  
*Partner*  
Membership Number. F – 88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: Delhi  
Date : September 15, 2004

**ANNEXURE TO AUDITORS' REPORT**

[Referred to in paragraph 3 of the Auditors' Report of even date to the members of HCL Technologies Limited on the financial statements for the year ended 30<sup>th</sup> June 2004]

1. (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
  - (b) The fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and the physical inventory have been noticed.
  - (c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the company during the year.
2. (a) The company has granted loans, secured or unsecured, to three companies covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loans aggregates to Rs. 52.77 crores and Rs. 40.19 crores respectively. The company has taken loans, secured or unsecured, from a company covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year end balance of such loan is Rs. 2.89 crores and Rs nil respectively.
  - (b) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the company.
  - (c) In respect of the aforesaid loans, the company is regular in repaying the principal amounts as stipulated and is also regular in payment of interest, where applicable. The parties are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.
  - (d) In respect of the aforesaid loans, there is no overdue amount more than Rupees One Lakh.

3. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of fixed assets. The activities of the Company do not involve purchase of inventory and the sale of goods. Further, on the basis of our examination of the books and records of the company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control procedures.
4. (a) In our opinion and according to the information and explanations given to us, the transactions that need to be entered into the register in pursuance of Section 301 of Act, have been so entered.  
  
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered into the register in pursuance of Section 301 of the Act and exceeding the value of Rupees Five Lakhs in respect of any party during the year, are in respect of items of a special nature and in respect of which alternative quotations are not considered necessary by the Company.
5. The company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the rules framed there under.
6. In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
7. The Central Government of India has not prescribed the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act for any of the products of the company.
8. (a) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing the undisputed statutory dues including investor education and protection fund, provident fund, employees' state insurance, income-tax, wealth tax, sales tax and other material statutory dues as applicable, with the appropriate authorities.  
  
(b) According to the information and explanations given to us and the records of the company examined by us, the particulars of dues of sales tax which has not been deposited on account of dispute is as follows -
9. The company has no accumulated losses as at 30<sup>th</sup> June 2004 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.
10. According to the records of the Company examined by us and the information and explanation given to us, the company has not defaulted in repayment of dues to bank and financial institution as at the balance sheet date. The company has not issued any debentures.
11. The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
12. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the company.
13. In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments.
14. In our opinion and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year.
15. In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.
16. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment, and vice versa.
17. The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year.
18. The company has not raised any money by public issues during the year.
19. During the course of our examination of the books and records of the company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the company, noticed or reported during the year, nor have we been informed of such case by the management.
20. Clauses, (ii) and (xix), of paragraph 4 of the Companies (Auditor's Report) Order 2003 are not applicable in the case of the company for the current year, since in our opinion there is no matter which arises to be reported in the aforesaid order.

Name of the statute	Nature of dues	Amount (Rs.)	Period to which the amount relates	Forum where the dispute is pending
Tamil Nadu General Sales Tax Act.	Sales Tax	12,28,009	1998 – 1999	Appellate Assistant Commissioner (Sales tax)
		756,531	1999 – 2000	
		245,805	2001 – 2002	

**Kaushik Dutta**  
*Partner*  
 Membership Number. F – 88540  
 For and on behalf of  
 Price Waterhouse  
 Chartered Accountants

Place: Delhi  
 Date : September 15, 2004

**BALANCE SHEET as at 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Schedule	As at 30 June 2004	As at 30 June 2003
<b>Sources of Funds</b>			
<b>Shareholders' funds</b>			
Share capital	1	59.22	57.69
Equity shares to be issued as per approved scheme of arrangement		—	1.42
Share application money pending allotment		0.03	0.29
Reserves and surplus	2	2,231.96	2,256.47
		2,291.21	2,315.87
<b>Loan funds</b>			
Secured loans	3	97.90	5.42
Unsecured loans	4	0.33	0.41
		98.23	5.83
		<b>2,389.44</b>	<b>2,321.70</b>
<b>Application of Funds</b>			
<b>Fixed assets</b>			
Gross block	5	412.32	327.79
Less: Accumulated depreciation		(207.04)	(150.70)
Net block		205.28	177.09
Capital work-in-progress (including capital advances)		118.63	12.05
		323.91	189.14
<b>Investments</b>	6	2,250.36	1,908.60
<b>Deferred tax assets</b>	17(10)	7.28	7.42
<b>Current assets, loans and advances</b>			
Sundry debtors	7	168.59	228.93
Cash and bank balances	8	72.78	37.12
Loans and advances	9	135.57	181.32
Other current assets	10	11.51	8.23
		388.45	455.60
<b>Less: Current liabilities and provisions</b>	11	(580.56)	(241.56)
<b>Net current assets</b>		(192.11)	214.04
<b>Miscellaneous expenditure</b> (to the extent not written off or adjusted)	12	—	2.50
		<b>2,389.44</b>	<b>2,321.70</b>

**Significant accounting policies and notes to the accounts**

17

The schedules referred to above form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.

**For HCL Technologies Limited**

**Kaushik Dutta**  
Partner  
Membership No.: F-88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: Delhi, India  
Date: September 15, 2004

**Shiv Nadar**  
Chairman and CEO

**S L Narayanan**  
Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and  
Company Secretary

**PROFIT AND LOSS ACCOUNT for the year ended 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Schedule	Year ended 30 June 2004	Year ended 30 June 2003
<b>Income</b>			
Software services		1,127.98	871.73
Other income	13	146.76	107.78
		<b>1,274.74</b>	<b>979.51</b>
<b>Expenditure</b>			
Cost of software development	14	606.63	404.93
Administration and other expenses	15	263.71	201.08
Finance charges	16	5.48	1.06
Product development cost	12	2.50	0.22
Depreciation	5	56.89	49.31
		935.21	656.60
<b>Profit before tax</b>		339.53	322.91
Tax expense - current		(13.64)	(19.43)
- deferred		(0.14)	5.85
Provision for wealth tax		(0.03)	(0.03)
		325.72	309.30
Provision for income tax for earlier years written back		—	3.17
<b>Profit after tax</b>		325.72	312.47
Balance in Profit and Loss Account brought forward		1,150.69	1,001.28
Profit available for appropriation		<b>1,476.41</b>	<b>1,313.75</b>
<b>Appropriations</b>			
Proposed final dividend [including Rs. Nil (previous year Rs. 0.05 crore) paid for previous year]		118.43	59.16
Corporate dividend tax on final dividend		15.48	7.57
Interim dividend		177.42	57.69
Corporate dividend tax on interim dividend		22.73	7.39
Transfer to general reserve		32.57	31.25
Balance carried forward to the balance sheet		1,109.78	1,150.69
		<b>1,476.41</b>	<b>1,313.75</b>
Earnings per equity share	17(19)		
Basic		11.06	10.83
Diluted		10.86	10.62
Number of shares used in computing earnings per equity share			
Basic		294,519,683	288,287,307
Diluted		299,985,305	294,088,917

**Significant accounting policies and notes to the accounts**

17

The schedules referred to above form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our report of even date.

**For HCL Technologies Limited**

**Kaushik Dutta**  
Partner  
Membership No.: F-88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

**Shiv Nadar**  
Chairman and CEO  
  
**S L Narayanan**  
Corporate Vice President - Finance

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and  
Company Secretary

Place: Delhi, India  
Date: September 15, 2004

Place: Noida (UP), India  
Date: September 15, 2004

**CASH FLOW STATEMENT for the year ended 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Year ended 30 June 2004	Year ended 30 June 2003
<b>Cash Flows from Operating Activities</b>		
Profit before tax	339.53	322.91
<b>Adjusted for:</b>		
Income from investments, interest and rent	(61.37)	(23.04)
Gain on sale of investments	(65.99)	(64.72)
Loss on sale of investments	2.07	8.20
Depreciation	56.89	49.31
Loss/(gain) on sale of fixed assets	(0.27)	(0.01)
Diminution in value of investments	18.34	—
Provision for diminution in value of investments written back	—	(9.42)
Provision for royalty written back	—	(1.90)
Provision for doubtful debts	0.08	(1.72)
Bad debts written off	0.27	1.93
Premium amortised on bonds	0.97	0.99
Miscellaneous expenditure written off	2.50	0.22
Finance charges	4.84	0.60
	<b>297.86</b>	<b>283.35</b>
Decrease/(increase) in sundry debtors	59.99	13.18
Decrease/(increase) in loans and advances	3.01	(2.96)
Decrease/(increase) in other current assets	(3.28)	1.83
Increase/(decrease) in current liabilities and provisions	244.05	75.19
Income taxes paid	(3.47)	(14.97)
Miscellaneous expenditure (to the extent not written off)	—	(1.41)
<b>Net cash from operating activities</b>	<b>598.16</b>	<b>354.21</b>
<b>Cash Flows from Investing Activities</b>		
Investment in mutual funds (net)	(282.51)	(205.43)
Investment in bonds (net)	8.00	40.01
Investment in subsidiaries	(28.57)	(81.09)
Loans to subsidiaries	0.62	(7.46)
Advances to HCL Technologies Limited Employees Trust	47.40	9.07
Purchase of fixed assets (including capital advances)	(186.47)	(62.40)
Principal payment on finance lease obligations	(2.24)	(1.69)
Proceeds from sale of fixed assets	1.51	1.46
Income from investments, interest and rent	63.34	23.04
Income taxes paid	(12.43)	(10.19)
<b>Net cash (used for) investing activities</b>	<b>(391.35)</b>	<b>(294.68)</b>
<b>Cash Flows from Financing Activities</b>		
Issue of share capital (including share application money pending allotment, net of share issue expenses)	6.86	5.92
Increase/(decrease) in unsecured loans	(0.08)	(5.94)
Dividends paid (including corporate dividend tax)	(266.72)	(107.94)
Finance charges on finance lease obligations	(0.84)	(0.60)
Interest charges on loans from banks	(2.60)	—
Interest charges on other loans	(0.02)	—
Loans raised during the year	92.05	—
<b>Cash flows from financing activities</b>	<b>(171.35)</b>	<b>(108.56)</b>

**CASH FLOW STATEMENT for the year ended 30 June 2004 (Contd.)**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Year ended 30 June 2004	Year ended 30 June 2003
Unrealised exchange gain on cash and equivalents held in foreign currency	0.20	0.70
Cash and bank balances taken over during acquisition of software business of HCL Infosystems Limited	—	1.40
Net increase/(decrease) in cash and equivalents	35.26	(48.33)
Cash and equivalents at the beginning of the year	37.12	84.75
<b>Cash and equivalents at the end of the year</b>	<b>72.78</b>	<b>37.12</b>

For components of cash and cash equivalents refer schedule 8 of the Balance Sheet.

**Notes:**

- The above Cash Flow Statement has been prepared under the indirect method set out in Accounting Standard-3 issued by the Institute of Chartered Accountants of India.
- Figures in brackets indicate cash outflow.
- Previous period figures have been regrouped and recast wherever necessary to conform to the current period classification.
- Cash and cash equivalents include the following which are not available for use by the company:

Investor Education and Protection Fund - Unclaimed dividend	0.56
Bank Guarantee margin	0.01

This is the Cash Flow Statement referred to in our report of even date.

**For HCL Technologies Limited**

**Kaushik Dutta**  
Partner  
Membership No.: F-88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: Delhi, India  
Date: September 15, 2004

**Shiv Nadar**  
Chairman and CEO

**S L Narayanan**  
Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and  
Company Secretary

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 1: Share Capital	As at 30 June 2004	As at 30 June 2003
<b>Authorised</b>		
400,000,000 equity shares of Rs. 2 each (previous year 350,000,000 equity shares of Rs. 2 each)	<b>80.00</b>	<b>70.00</b>
<b>Issued, subscribed and paid up</b>		
296,080,438 equity shares of Rs. 2 each, fully paid up (previous year 288,436,638 equity shares of Rs. 2 each, fully paid up)	59.22	57.69
	<b>59.22</b>	<b>57.69</b>

**Notes:**

- Paid up share capital includes:
  - 16,000,000 (previous year 16,000,000) equity shares of Rs. 2 each allotted as fully paid up, pursuant to a contract for consideration other than cash.
  - 82,986,872 (previous year 82,986,872) equity shares of Rs. 2 each issued as bonus shares in the ratio of one share for every two held by capitalisation of general reserve.
  - 7,090,990 equity shares of Rs. 2 each issued to the shareholders of HCL Infosystems Ltd. in pursuance of the scheme of arrangement as approved by the Hon'ble Delhi High Court on July 8, 2003.
  - 11,621,722 equity shares of Rs. 2 each (previous year 11,075,562) allotted to employees of the Company and its subsidiaries on vesting of stock options issued under Employee Stock Option Plan 1999 of the Company. (refer note 3 of schedule 17)
  - 7,100 equity shares of Rs. 2 each (previous year 450) allotted to employees of the Company and its subsidiaries on vesting of stock options issued under Employee Stock Option Plan 2000 of the Company. (refer note 3 of schedule 17)
- Of the above subscribed shares 162,017,167 (previous year 159,572,772) equity shares are held by HCL Corporation Limited (formerly Slocum Investments Private Limited), the holding company and 1,500,000 (previous year 1,500,000) equity shares are held by HCL Peripherals Ltd being the fellow subsidiary.

Schedule 2: Reserves and Surplus	As at 1 July 2003	Additions	Deductions	As at 30 June 2004
Securities premium account	934.19	7.01	—	941.20
	(927.34)	(6.85)	—	(934.19)
General reserve	171.59	32.57	23.18	180.98
	(115.60)	(55.99)	—	(171.59)
Profit and loss account	1,150.69	—	40.91	1,109.78
	(1,001.28)	(180.66)	(31.25)	(1,150.69)
	<b>2,256.47</b>	<b>39.58</b>	<b>64.09</b>	<b>2,231.96</b>
Previous year	(2,044.22)	(243.50)	(31.25)	(2,256.47)

**Notes:**

- Additions to the securities premium account represent securities premium in respect of allotment of equity shares of Rs. 2 each to employees of the Company and its subsidiaries under the Employee Stock Option Plan 1999 and Employee Stock Option Plan 2000.
- Additions to general reserve include Rs. Nil (previous year Rs. 24.74 crores) pursuant to the scheme of arrangement between the Company and HCL Infosystems Limited, as approved by Hon'ble High Court of Delhi on 8 July 2003.
- Deduction from general reserve is on account of loss on effective hedges. (refer note 2 of schedule 17)
- Previous year figures are given in brackets.

## SCHEDULES FORMING PART OF THE ACCOUNTS

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 3: Secured Loans	As at 30 June 2004	As at 30 June 2003
From Bank		
-Term loan (Secured by pledge of specified mutual fund units - refer note 2 of schedule 6)	92.05	—
From Others		
-Finance lease obligations [refer note 6 (i) of schedule 17] (Secured by hypothecation of leased vehicles)	5.85	5.42
	<b>97.90</b>	<b>5.42</b>

Schedule 4: Unsecured Loans	As at 30 June 2004	As at 30 June 2003
Other Loans and advances		
-From financial institution [Amount payable within one year - Rs. 0.06 crore (previous year Rs. 0.10 crore)]	0.33	0.41
	<b>0.33</b>	<b>0.41</b>

Schedule 5: Fixed Assets										
PARTICULARS	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
	As at 1 July 2003	Addi- tions	Dispos- als/Adju- stments	As at 30 June 2004	As at 1 July 2003	Addi- tions	Dispos- als/Adju- stments	As at 30 June 2004	As at 30 June 2004	As at 30 June 2003
Goodwill	0.73	—	—	0.73	0.16	0.14	—	0.30	0.43	0.57
Freehold land	16.64	22.72	—	39.36	—	—	—	—	39.36	16.64
Leasehold land	12.34	—	—	12.34	0.55	0.16	—	0.71	11.63	11.79
Building	56.78	5.24	—	62.02	7.06	2.90	—	9.96	52.06	49.72
Plant and machinery	55.93	13.24	0.07	69.10	32.91	11.90	0.03	44.78	24.32	23.02
Computers	74.65	17.92	0.22	92.35	49.87	15.69	0.10	65.46	26.89	24.78
Software	41.80	9.21	0.11	50.90	25.20	10.73	0.02	35.91	14.99	16.60
Furniture and fixtures	58.72	14.83	0.23	73.32	32.09	13.13	0.08	45.14	28.18	26.63
Vehicles - owned	3.60	0.49	0.17	3.92	1.56	0.72	0.06	2.22	1.70	2.04
- leased	6.60	2.67	0.99	8.28	1.30	1.52	0.26	2.56	5.72	5.30
	<b>327.79</b>	<b>86.32</b>	<b>1.79</b>	<b>412.32</b>	<b>150.70</b>	<b>56.89</b>	<b>0.55</b>	<b>207.04</b>	<b>205.28</b>	<b>177.09</b>
Previous year	259.26	71.52	2.99	327.79	95.11	57.13	1.54	150.70	177.09	164.15
Capital work-in-progress (including capital advances)									<b>118.63</b>	<b>12.05</b>

### Notes:

1. The freehold land at Gurgaon costing Rs. 1.01 crores (previous year Rs. 1.01 crores), included in opening gross block has not yet been transferred in the name of the company.
2. Additions to fixed assets include a building at Kolkata costing Rs. Nil (previous year Rs. 0.49 crore) acquired pursuant to the acquisition of software business of HCL Infosystems Limited, which has not yet been transferred in the name of the Company.
3. Additions to gross block and accumulated depreciation include Rs. Nil (previous year Rs. 10.48 crores) and Rs. Nil (previous year Rs. 7.82 crores) respectively, acquired pursuant to the acquisition of software business of HCL Infosystems Limited.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments				As at 30 June 2004	As at 30 June 2003
<b>Long term investments</b>					
<b>Equity shares in subsidiaries - Trade and unquoted</b>					
12,793,904 equity shares of Rs. 10 each, fully paid up in HCL Comnet Systems and Services Limited (previous year-12,793,904 equity shares of Rs. 10 each, fully paid up)				23.65	23.65
113,170,582 equity shares of USD 1 each, fully paid in HCL Technologies (Bermuda) Limited, Bermuda, formerly HCL Technologies Limited, Bermuda (previous year-109,170,638 equity shares of USD 1 each, fully paid up)				590.70	565.58
13,820,000 equity shares of Rs. 10 each, fully paid up in Shipara Technologies Limited (previous year-9,820,000 equity shares of Rs.10 each, fully paid up)				13.82	9.82
4,950,000 equity shares of Rs. 10 each, fully paid up in HCL Technologies (Mumbai) Limited (previous year-4,950,000 equity shares of Rs. 10 each, fully paid up)				4.95	4.95
Nil equity shares of USD 10 each, fully paid up in Infosystems (Bermuda) Limited, Bermuda (refer note 1) (previous year-143,000 equity shares of USD 10 each, fully paid up)				—	6.47
550,000 equity shares of SGD 1 each, fully paid up in HCL Technologies Singapore Pte. Limited , formerly FEC Infosystems Pte. Limited, Singapore. (previous year-550,000 equity shares of SGD 1 each, fully paid up)				5.25	5.25
<b>Total long term investments (a)</b>				<b>638.37</b>	<b>615.72</b>
<b>Current investments</b>					
<b>Investments in mutual funds - Non-trade and unquoted</b>					
	<b>Number of units</b>	<b>Face value per unit (Rupees)</b>	<b>Aggregate value</b>		
Grindlays-Investment Plan-Growth	—	—	—		
	(24,026,592)	(10)	(34.22)		
JM Income Fund-Growth Plan-Growth Option	—	—	—		
	(4,165,400)	(10)	(10.00)		
Kotak Mahindra K Bond Unit Scheme 99- Wholesale Plan-Growth	—	—	—		
	(7,021,182)	(10)	(10.83)		
Templeton India Income Builder Account Plan A-Growth (Formerly Kothari Pioneer Income Builder Account Plan A-Growth)	—	—	—		
	(8,340,344)	(10)	(17.60)		
Templeton India Income Builder Account- Institutional Plan-Dividend Reinvestment	—	—	—		
	(22,695,920)	(10)	(25.43)		
Prudential ICICI Income Plan-Growth	—	—	—		
	(25,676,925)	(10)	(43.46)		
Prudential ICICI Long Term Plan-Cumulative	99,253,229	10	116.97		
	(99,187,941)	(10)	(109.30)		
Prudential ICICI Long Term Plan-Dividend (refer note 2)	96,488,566	10	114.31		
	(96,488,566)	(10)	(114.31)		
Prudential ICICI Flexible Income Plan-Growth	9,076,887	10	10.58		
	(6,354,163)	(10)	(7.00)		
HDFC Income Fund Premium Plus Plan-Dividend	19,502,476	10	21.10		
	(27,348,763)	(10)	(30.27)		
Sun F&C Money Value Fund Bond-Growth	—	—	—		
	(4,821,416)	(10)	(7.84)		
Birla Income Plus Institutional Plan-Dividend-Payout	11,975,180	10	31.80		
	(11,233,694)	(10)	(29.84)		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments (Contd.)	Number of units	Face value per unit (Rupees)	Aggregate value	As at 30 June 2004	As at 30 June 2003
<b>Current investments (Contd.)</b>					
<b>Investments in mutual funds - Non-trade and unquoted</b>					
Grindlays Dynamic Bond Fund-Institutional Plan B -Quarterly Dividend	38,278,546	10	39.74		
	(9,978,904)	(10)	(10.54)		
Grindlays Dynamic Bond Fund-Growth	—	—	—		
	(11,225,117)	(10)	(12.00)		
Sundaram Bond Saver-Appreciation	—	—	—		
	(2,636,118)	(10)	(5.15)		
Tata Income Plus Fund-Option B-Growth	—	—	—		
	(9,850,276)	(10)	(10.00)		
IL&FS Bond Fund-Growth	—	—	—		
	(2,557,218)	(10)	(4.00)		
IL&FS Bond Fund-Institutional Plan-Growth	—	—	—		
	(958,957)	(10)	(1.50)		
Deutsche Premier-Institutional Plan-Growth	6,694,017	10	7.00		
	(9,577,443)	(10)	(10.00)		
HDFC Gilt Fund Long Term-Growth	—	—	—		
	(4,245,935)	(10)	(5.88)		
Kotak Mahindra K Gilt Unit Scheme 98- (Investment Plan)-Dividend	—	—	—		
	(5,749,106)	(10)	(6.05)		
Prudential ICICI Gilt Fund Investment Plan-Growth	—	—	—		
	(6,269,672)	(10)	(11.53)		
Templeton India Government Securities Fund-Growth	—	—	—		
	(2,801,299)	(10)	(5.70)		
UTI Liquid Cash Plan-Income Option-Dividend Reinvestment	—	—	—		
	(4,998,301)	(10)	(5.00)		
HDFC Liquid Fund Premium Plan-Growth	—	—	—		
	(9,952,143)	(10)	(12.00)		
Kotak Mahindra Liquid Scheme Institutional Plan-Growth	—	—	—		
	(4,140,821)	(10)	(5.00)		
HSBC Cash Fund-Growth	—	—	—		
	(5,689,949)	(10)	(5.80)		
Templeton India Treasury Management Account-Growth (Formerly Kothari Pioneer ITI Treasury Management Account-Growth)	—	—	—		
	(49,849)	(1,000)	(7.51)		
Birla Bond Plus-Growth	—	—	—		
	(14,161,631)	(10)	(15.00)		
Birla Bond Plus Plan A-Dividend Reinvestment	—	—	—		
	(18,670,543)	(10)	(19.41)		
Birla Bond Plus Institutional Plan-Growth	16,755,119	10	19.27		
	(12,380,648)	(10)	(14.00)		
Grindlays Growth Fund-Short Term Plan-Growth	—	—	—		
	(46,857,177)	(10)	(54.50)		
Grindlays Floating Rate Fund-Growth	—	—	—		
	(9,321,807)	(10)	(9.33)		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments (Contd.)	Number of units	Face value per unit (Rupees)	Aggregate value	As at 30 June 2004	As at 30 June 2003
<b>Current investments (Contd.)</b>					
<b>Investments in mutual funds - Non-trade and unquoted</b>					
Grindlays Medium Term Fund-Growth	10,000,000	10	10.00		
	(10,000,000)	(10)	(10.00)		
Grindlays Short Term Plan B Institutional Plan-Growth	19,094,017	10	23.73		
	(26,622,232)	(10)	(32.54)		
HSBC Income Fund Short Term Plan-Dividend	6,915,107	10	6.99		
	(9,482,534)	(10)	(9.58)		
HDFC Short Term Premium Plan-Dividend	32,377,667	10	35.03		
	(31,131,154)	(10)	(33.67)		
HDFC Short Term Premium Plan-Growth	—	—	—		
	(13,500,864)	(10)	(15.00)		
IDBI Principal Income Fund-Growth	—	—	—		
	(26,576,434)	(10)	(28.25)		
Kotak Mahindra K Bond Short Term Plan-Growth	36,538,155	10	40.55		
	(45,543,669)	(10)	(47.42)		
Prudential ICICI Short Term Plan-Cumulative	—	—	—		
	(39,389,407)	(10)	(42.76)		
Prudential ICICI Short Term Plan Institutional-Growth	21,834,020	10	25.52		
	(43,811,163)	(10)	(50.27)		
Templeton Floating Rate Income Fund-Short Term Plan-Growth	8,162,579	10	9.00		
	(19,543,982)	(10)	(21.00)		
Templeton India Short Term Income Plan-Growth (Formerly Kothari Pioneer ITI Short Term Income Plan-Growth)	490,309	1000	55.65		
	(461,386)	(1,000)	(48.50)		
Templeton India Short Term Income Plan-Monthly Dividend	4,404	1000	0.45		
	(4,196)	(1,000)	(0.43)		
DSP Merrill Lynch Short Term Fund-Growth	20,003,239	10	21.61		
	(40,308,581)	(10)	(41.38)		
Deutsche Short Maturity Fund-Growth Plan	5,813,783	10	6.00		
	(32,616,566)	(10)	(33.03)		
HDFC High Interest Fund Short Term Plan-Growth (Formerly Zurich India High Interest Fund Short Term Plan-Growth)	11,902,339	10	13.55		
	(27,831,040)	(10)	(28.96)		
HDFC High Interest Fund Short Term Plan-Dividend	—	—	—		
	(10,906,397)	(10)	(11.49)		
HSBC Income Fund Investment Plan Growth	7,496,884	10	8.00		
	—	—	—		
Prudential ICICI Institutional Income Plan Growth	25,539,276	10	49.34		
	—	—	—		
Grindlays Dynamic Bond Fund Super Institutional Plan C-Quarterly Dividend	22,950,195	10	23.00		
	—	—	—		
Prudential ICICI Flexible Income Plan-Quarterly Dividend	19,056,766	10	20.33		
	—	—	—		
Grindlays Dynamic Bond Fund Institutional Plan Growth	4,878,610	10	5.73		
	—	—	—		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments (Contd.)	Number of units	Face value per unit (Rupees)	Aggregate value	As at 30 June 2004	As at 30 June 2003
<b>Current investments (Contd.)</b>					
<b>Investments in mutual funds - Non-trade and unquoted</b>					
Alliance Cash Manager Institutional Plan-Weekly Dividend	21,313,970	10	21.32		
	—	—	—		
Birla Cash Plus Institutional Premium Dividend Plan-Fortnightly Dividend	59,617,748	10	59.65		
	—	—	—		
CanLiquid fund-Institutional Daily Dividend Reinvest	4,491,435	10	4.51		
	—	—	—		
Deutsche Insta Cash Plus Fund-Institutional Monthly Dividend Plan	23,433,234	10	23.44		
	—	—	—		
Deutsche Insta Cash Plus Fund-Regular Dividend Plan	32,250,172	10	32.74		
	—	—	—		
DSP Merrill Lynch Liquidity Fund-Weekly Dividend	32,450,600	10	40.26		
	—	—	—		
Grindlays Cash Fund Super Institutional Plan C-Weekly Dividend	80,006,432	10	80.06		
	—	—	—		
HDFC Liquid-Premium Plus-Dividend Reinv.-Weekly	61,069,373	10	73.19		
	—	—	—		
HSBC Cash Fund-Institutional-Monthly Dividend	39,081,604	10	40.90		
	—	—	—		
IDBI Principal Cash Management Institutional Plan-Monthly Dividend	10,791,183	10	10.81		
	—	—	—		
IL & FS Liquid Account-Inst. Plan Dividend	16,378,092	10	16.38		
	—	—	—		
JM High Liquidity Fund Inst. Plan-Dividend Reinv.	11,253,941	10	11.28		
	—	—	—		
Kotak Liquid Inst. Premium Plan-Weekly Dividend	36,435,914	10	36.54		
	—	—	—		
Prudential ICICI Liq. Inst. Plus-Monthly Dividend	63,993,353	10	76.31		
	—	—	—		
SBI Magna Insta Cash Fund-Dividend Reinvestment	9,802,742	10	10.33		
	—	—	—		
Sundaram Money Fund-Dividend Reinv. Monthly	15,876,066	10	15.89		
	—	—	—		
TATA Liq. Super High Inv. Fund-Monthly Dividend	7,387,477	10	8.26		
	—	—	—		
Templeton India TMA Weekly Dividend Reinvestment	358,705	1,000	44.65		
	—	—	—		
Birla Bond Plus Institutional Plan Dividend Reinv.-Fortnightly	17,417,224	10	18.15		
	—	—	—		
Deutsche Short Maturity Fund-Monthly Dividend Plan	8,838,044	10	9.07		
	—	—	—		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments (Contd.)	Number of units	Face value per unit (Rupees)	Aggregate value	As at 30 June 2004	As at 30 June 2003
<b>Current investments (Contd.)</b>					
<b>Investments in mutual funds - Non-trade and unquoted</b>					
DSP Merrill Lynch Short Term Fund-Dividend Reinvestment	19,353,065	10	19.72		
	—	—	—		
Grindlays Medium Term Institutional Plan-Bimonthly Dividend	11,805,007	10	11.91		
	—	—	—		
HSBC Income fund Short term Institutional Dividend	4,794,166	10	5.05		
	—	—	—		
Prudential ICICI Short term Plan Institutional Dividend Option	5,392,309	10	5.85		
	—	—	—		
HSBC Income Fund Short Term Plan Growth	4,811,579	10	5.00		
	—	—	—		
IL&FS Bond Fund-Short Term Plan Growth	8,943,744	10	10.00		
	—	—	—		
SBI Magna Insta Cash Fund-STP Growth	4,741,404	10	5.00		
	—	—	—		
Tata Short Term Bond Fund-Growth	20,898,646	10	22.50		
	—	—	—		
Grindlays Floating Rate Fund Super Institutional Plan C-Monthly Dividend	4,383,483	10	4.38		
	—	—	—		
Kotak Floater Monthly Dividend	13,144,802	10	13.17		
	—	—	—		
Prudential ICICI Floating Rate Plan-Dividend Reinvestment	13,982,186	10	14.05		
	—	—	—		
Templeton Floating Rate Income Fund STP Dividend Reinvestment	5,082,495	10	5.08		
	—	—	—		
				1,470.70	1,124.28
Less: Diminution in value of investments				(18.34)	—
				<b>1,452.36</b>	<b>1,124.28</b>
<b>Investments in bonds and debentures - Non-trade and quoted</b>					
Bank of Baroda 11.15% Bonds	500	100,000	5.10		
	(500)	(100,000)	(5.13)		
BPCL 9.95% Debentures	25	10,000,000	25.00		
	(25)	(10,000,000)	(25.00)		
HDFC 11.30% Bonds	—	—	—		
	(50)	(1,000,000)	(5.02)		
ITI 10.5% Bonds-Series G	100	500,000	5.00		
	(100)	(500,000)	(5.00)		
NPC 10% Bonds	1,500	100,000	15.00		
	(1,500)	(100,000)	(15.00)		
SBI 10.80% Bonds	2,500	100,000	25.02		
	(2,500)	(100,000)	(25.04)		
SBI 11.90% Bonds	200	1,000,000	20.70		
	(200)	(1,000,000)	(20.88)		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 6: Investments (Contd.)	Number of units	Face value per unit (Rupees)	Aggregate value	As at 30 June 2004	As at 30 June 2003
<b>Current investments (Contd.)</b>					
<b>Investments in bonds and debentures - Non-trade and unquoted</b>					
10.90% PGC 2015 Bonds	100	1,100,000	11.00		
	(100)	(1,200,000)	(12.00)		
12.95% Standard Chartered Bank 2009 Debentures	15	10,000,000	17.06		
	(15)	(10,000,000)	(17.45)		
11.15% Grindlays Bank 2010 Debentures	5	10,000,000	5.40		
	(5)	(10,000,000)	(5.47)		
PFC 10.5% Tax Free Redeemable Bonds	—	—	—		
	(1,000)	(20,000)	(2.00)		
IRFC 7.8% Tax Free Bonds	100	1,000,000	10.00		
	(100)	(1,000,000)	(10.00)		
NPC 10.5% Tax Free Bonds	2,000	100,000	20.35	159.63	168.60
	(2,000)	(100,000)	(20.61)		
<b>Total current investments (b)</b>				<b>1,611.99</b>	<b>1,292.88</b>
<b>Grand Total (a+b)</b>				<b>2,250.36</b>	<b>1,908.60</b>

**Notes:**

1. Pursuant to the approval dated October 16, 2003 accorded by R.B.I., Infosystems (Bermuda) Limited has been merged with HCL Technologies (Bermuda) Limited.
2. Out of these 92,032,780.831 Units have been pledged in favour of ABN Amro Bank.
3. Net asset value of investment in mutual funds as on June 30, 2004, Rs. 1,470.38 crores (previous year Rs. 1,161.49 crores).
4. Market value of investments in bonds and debentures as on June 30, 2004, Rs. 173.04 crores (previous year Rs. 189.44 crores).
5. Previous year figures are in brackets.

**Particulars of units of mutual funds purchased and sold during the year ended 30 June 2004**

	Number of units	Face value per unit (Rupees)	Purchase Price		
Birla Bond Plus-Institutional Plan-Dividend Reinvestment	517,440	10	0.54		
Birla Cash Plus-Institutional Plan Daily Dividend	22,507,075	10	24.27		
Birla Cash Plus-Institutional Plan Growth	6,043,757	10	10.00		
Birla Cash Plus Monthly Dividend reinvestment	71,705,414	10	71.84		
Deutsche Insta Cash Plus Fund-Regular Dividend Plan	45,747,629	10	46.48		
DSP Merrill Lynch Liquidity Fund-Weekly Dividend	19,235,249	10	23.87		
DSP Merrill Lynch Short Term Fund Growth	6,827,900	10	7.26		
Grindlays Cash Fund-Daily Dividend	3,781,739	10	4.00		
Grindlays Cash fund-Inst. Plan B daily dividend	12,312,532	10	13.03		
Grindlays Cash Fund Institutional Plan Growth	4,959,761	10	5.73		
Grindlays Cash Fund Institutional Plan Weekly Dividend	160,111,119	10	165.00		
Grindlays Floating Rate Fund Super Institutional Plan C-Monthly Dividend	21,951,089	10	21.95		
Grindlays Floating Rate Inst. Plan-Monthly Dividend	26,292,247	10	26.38		
HDFC India High Interest Fund STP Dividend	248,819	10	0.26		
HDFC Liquid Fund Premium Plan-Dividend Reinvestment	15,513,897	10	18.55		
HDFC Liquid Fund Premium Plan Growth	17,616,886	10	21.50		
HDFC Liquid-Premium Plus-Dividend Reinv. Weekly	5,831,834	10	6.98		
HSBC Cash Fund-Institutional-Monthly Dividend	9,542,531	10	9.98		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Particulars of units of mutual funds purchased and sold during the year ended 30 June 2004 (Contd.)

	Number of units	Face value per unit (Rupees)	Purchase Price		
HSBC Cash Fund-Institutional Option-Growth	9,549,548	10	10.00		
HSBC Income Fund Short Term Plan-Institutional Option	1,888,164	10	2.00		
HSBC Institutional Income Fund STP-Dividend Reinv. (Fortnightly)	2,018,644	10	2.05		
IL & FS Liquid Account-Inst. Plan Dividend	5,000,000	10	5.00		
JM High Liquidity Fund Inst. Plan-Dividend Reinv.	5,003,383	10	5.01		
K Gilt Unit Scheme 98 (Investment Plan)-Dividend	112,865	10	0.12		
K Liquid Institutional Plan-Daily Dividend	7,373,546	10	9.02		
K Liquid Institutional-Weekly Dividend	21,812,321	10	21.85		
Kotak Bond Short Term Plan-Dividend (Monthly Reinvestment)	4,084,038	10	4.11		
Kotak Liquid Inst. Premium Plan-Weekly Dividend	34,898,348	10	35.00		
Kotak Mahindra Liquid Institutional Plan-Daily Dividend	17,212,500	10	21.05		
Kotak Mahindra Liquid Scheme Institutional Plan Growth	12,857,940	10	16.00		
Pru ICICI Liquid Fund Institutional Growth Option	7,283,803	10	11.00		
Prudential ICICI Flexible Income Plan-Half Yearly Dividend Option	31,428,583	10	34.16		
Prudential ICICI Gilt Fund Investment Plan Dividend	22,637,987	10	25.35		
Prudential ICICI Institutional Liquid Plan-Monthly Dividend	70,643,599	10	84.39		
Prudential ICICI Institutional Liquid Plan-Quarterly Dividend	11,693,565	10	16.41		
Prudential ICICI Liq. Inst. Plus-Monthly Dividend	66,111,270	10	78.91		
Prudential ICICI Liquid Plan-Dividend Option	13,115,792	10	15.52		
Prudential ICICI Short term Plan Institutional Dividend Option	10,605,411	10	11.50		
SBI Magna Insta Cash Fund-Dividend Reinvestment	12,338,892	10	13.00		
Sundaram Money Fund-Growth	7,751,492	10	10.00		
Tata Dynamic Bond Fund-Growth	4,000,540	10	4.00		
TATA Liq Super High Inv. Fund Monthly Dividend	20,591,630	10	23.00		
Tata Liquid Fund High Inv.-Daily Dividend	3,597,608	10	4.00		
Tata Liquid Fund-Growth	4,888,302	10	5.00		
Templeton India Income Builder Institutional	1,279,232	10	1.36		
Templeton India TMA Growth	98,170	1,000	15.00		
Templeton India TMA Weekly Dividend Reinvestment	816,572	1,000	101.64		
UTI Liquid Cash Plan-Income Option-Dividend Reinvestment	62,391	10	0.06		
UTI Liquid Cash Plan Regular-Monthly Income Reinvestment	5,000,541	10	5.03		

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 7: Sundry Debtors	As at 30 June 2004	As at 30 June 2003
<b>Unsecured - considered good</b> (refer note)		
- Debts outstanding for more than six months	0.83	2.46
- Other debts	167.76	226.47
	<b>168.59</b>	<b>228.93</b>
<b>Unsecured - considered doubtful</b>		
- Debts outstanding for more than six months	1.56	1.37
- Other debts	—	0.12
	1.56	1.49
Less: Provision for doubtful debts	(1.56)	(1.49)
	<b>168.59</b>	<b>228.93</b>

**Note:** Sundry debtors include Rs. 86.57 crores (previous year Rs. 186.57 crores) recoverable from subsidiaries of the Company.

Schedule 8: Cash and Bank Balances	As at 30 June 2004	As at 30 June 2003
Cash in hand	0.08	0.06
Cheques in hand	—	0.06
Remittances in transit	20.44	17.17
<b>Balances with scheduled banks</b>		
- On current accounts in Indian rupees (refer note 1)	7.31	2.40
- On current accounts in foreign currency	33.20	10.34
- On fixed deposit accounts in Indian rupees (refer note 2)	11.54	6.82
<b>Balances in current accounts with non-scheduled banks</b>		
- Citi Bank N.A. Singapore - Singapore dollar account (refer note 3)	0.09	0.11
- Citi Bank N.A. Singapore - United States dollar account (refer note 4)	0.09	0.16
- Deutsche Bank, France-Euro account (refer note 5)	0.03	—
	<b>72.78</b>	<b>37.12</b>

**Notes:**

1. Includes Rs. 0.56 crore (previous year Rs. 0.45 crore) in unclaimed dividend account.
2. Pledged with banks as security for guarantees Rs. 0.01 crore (previous year Rs. 0.07 crore).
3. Maximum balance outstanding during the year Rs. 0.15 crore (previous year Rs. 0.23 crore).
4. Maximum balance outstanding during the year Rs. 0.41 crore (previous year Rs. 0.56 crore).
5. Maximum balance outstanding during the year Rs. 0.14 crore (previous year Nil).

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 9: Loans and Advances	As at 30 June 2004	As at 30 June 2003
(Unsecured and considered good, unless otherwise stated)		
Loans and advances recoverable in cash or in kind or for value to be received		
- Considered good (refer note 1 and 2)	69.75	120.17
- Considered doubtful	0.34	0.34
Loans to subsidiaries	40.19	40.81
Advance Income Tax (refer note 3)	1.34	—
Share application money to subsidiaries	20.00	14.08
Interest receivable (refer note 4)	4.29	6.26
	<b>135.91</b>	<b>181.66</b>
Less: Provision for doubtful advances	(0.34)	(0.34)
	<b>135.57</b>	<b>181.32</b>

**Notes:**

1. Includes Rs.10.16 crores (previous year Rs. 16.97 crores) recoverable from the subsidiaries of the Company.
2. Includes Rs. 20.50 crores (previous year Rs. 67.90 crores) on account of loan given to HCL Technologies Limited Employees Trust.
3. Net of provision for Income tax of Rs. 13.64 crores.
4. Interest receivable includes Rs. Nil (previous year Rs. 0.59 crore) recoverable from subsidiaries of the Company.

Schedule 10: Other Current Assets	As at 30 June 2004	As at 30 June 2003
Income accrued but not due (refer note)	11.51	8.23
	<b>11.51</b>	<b>8.23</b>

**Note:** Includes Rs. 4.47crores (previous year Rs. 6.31 crores) in respect of subsidiaries of the Company.

Schedule 11: Current Liabilities and Provisions	As at 30 June 2004	As at 30 June 2003
<b>Current liabilities</b>		
Sundry creditors (refer note 1 and 2)	220.47	151.21
Unrealised loss on forward exchange contracts	17.88	—
Advance billing (refer note 3)	4.07	7.23
Advance from customer (refer note 4)	176.35	0.06
Interest accrued but not due on term loan	0.75	—
Investor education and protection fund - Unclaimed dividend	0.56	0.45
Other liabilities	6.21	1.55
	<b>426.29</b>	<b>160.50</b>

**Notes:**

1. Sundry creditors include Rs. 139.86 crores (previous year Rs. 83.82 crores) due to subsidiaries of the Company.
2. The Company has no amounts payable to small-scale industrial undertakings as defined under Section 3 (j) of the Industries (Development and Regulation) Act, 1951 as on 30 June 2004.
3. Advance billing includes Rs. 2.24 crores (previous year Rs. 4.13 crores) pertaining to the subsidiaries of the Company.
4. Advance from customer includes Rs. 176.26 crores (previous year Rs. Nil) pertaining to subsidiaries of the company.

Provisions		
Provision for income tax	—	0.70*
Provision for wealth tax	0.03	0.03
Provision for dividend	133.91	66.68
Provision for staff benefits	20.33	13.65
	<b>154.27</b>	<b>81.06</b>
	<b>580.56</b>	<b>241.56</b>

\* Net of advance tax Rs. 61.78 crores.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 12: Miscellaneous Expenditure (to the extent not written off or adjusted)	As at 30 June 2004	As at 30 June 2003
Product development cost	2.50	2.72
Less: Product development cost amortised	(2.50)	(0.22)
	<b>—</b>	<b>2.50</b>

Schedule 13: Other Income	As at 30 June 2004	As at 30 June 2003
<b>Interest income - gross</b> [Tax deducted at source Rs. 3.27 crores (previous year Rs. 3.83 crores)]		
- On fixed deposits	0.10	1.87
- From customers	0.41	1.75
- On non-trade investments	17.24	18.22
- On loans	0.17	0.29
<b>Income from non-trade investments</b>		
- Dividend	38.34	1.79
- Others	—	0.11
Dividend from trade investments	4.52	—
Exchange differences	18.89	—
Rent received	0.59	0.79
Profit on sale of non-trade investments	65.99	64.72
Profit on sale of fixed assets (net)	0.27	0.01
Provision for diminution in value of investments written back	—	9.42
Provision for doubtful debts written back	—	1.72
Bad Debts recovered	0.14	—
Other provisions written back	—	1.90
Miscellaneous income	0.10	5.19
	<b>146.76</b>	<b>107.78</b>

Schedule 14: Cost of Software Development	As at 30 June 2004	As at 30 June 2003
<b>Personnel expenses</b>		
Salaries, wages and bonus	332.18	231.83
Contribution to provident and other funds	11.64	10.00
Staff welfare expenses	18.57	12.99
<b>Software development expenses - external</b> [Includes Rs. 205.74 crores (previous year Rs. 129.17 crores) paid to subsidiaries of the Company]	244.24	150.11
	<b>606.63</b>	<b>404.93</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 15: Administration and Other Expenses	Year ended 30 June 2004	Year ended 30 June 2003
Rent	17.19	12.09
Electricity and water	13.49	11.80
Insurance	0.31	1.90
Repairs and maintenance		
- Plant and machinery	5.53	4.60
- Building	4.67	3.90
- Others	6.39	6.02
Communication costs	16.32	12.67
Travel and conveyance	91.31	68.29
Marketing expenses	34.49	28.33
Business promotion	1.73	1.49
Legal and professional charges	6.43	5.87
Lease rent	5.77	1.69
Software licence fee	12.67	0.70
Printing and stationery	1.97	1.37
Rates and taxes	8.61	7.24
Advertising and publicity	0.09	0.10
Books and periodicals	2.03	1.14
Recruitment, training and development	10.96	8.25
Provision for doubtful debts	0.08	—
Bad debts written off	0.27	1.93
Donations	0.02	0.83
Loss on sale of non-trade Investments	2.07	8.20
Provision for diminution in value of investments	18.34	—
Premium amortisation on bonds	0.97	0.99
Exchange differences	—	7.50
Miscellaneous expenses	2.00	4.18
	<b>263.71</b>	<b>201.08</b>

Schedule 16: Finance Charges	Year ended 30 June 2004	Year ended 30 June 2003
Interest		
- on vehicles under finance lease	0.84	0.59
- on loan from bank	2.60	0.01
- others	1.40	—
Bank charges	0.64	0.46
	<b>5.48</b>	<b>1.06</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts**

**1. Significant accounting policies**

**(i) Basis of preparation**

The financial statements are prepared under the historical cost convention, in accordance with the Indian Generally Accepted Accounting Principles (GAAP), accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956, as adopted consistently by the Company. The financial statements are presented in crores of Indian rupees.

**(ii) Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of expected contract costs to be incurred to complete software development, provision for doubtful debts and estimated useful life of fixed assets. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

**(iii) Revenue recognition**

Revenue from software developed on a time and materials basis is recognised as the related services are rendered by the Company. Revenue from fixed price contracts is recognised in accordance with the percentage completion method under which the sales value of performance, including earnings thereon, is recognised on the basis of effort incurred in respect of each contract as a proportion of total effort expected to be incurred. Anticipated losses, if any, up to the completion of contract are recognised immediately. Revenue from sale of licenses for the use of software applications is recognised on transfer of title in the user license. Revenue from annual technical service contracts is recognised on a pro rata basis over the period in which such services are rendered. Revenue from products developed for customers under a revenue sharing plan is recognised in accordance with the terms of the contract. Income accrued but not due represents revenue recognised on contracts to be billed in the subsequent period, in accordance with terms of the contract.

Interest on the deployment of surplus funds is recognised using the time-proportion method, based on interest rates implicit in the transaction. Dividend income and brokerage is recognised when the right to receive the same is established.

**(iv) Expenditure**

Expenses are accounted for on the accrual basis and provisions are made for all known losses and liabilities. Provisions are made for future unforeseeable factors, which may affect the ultimate profit on fixed price software development contracts. The cost of services for software development is charged to revenue in the same year.

**(v) Fixed assets**

Fixed assets are stated at the cost of acquisition including incidental costs related to acquisition and installation. Fixed assets under construction, advances paid towards acquisition of fixed assets and cost of assets not put to use before the year-end, are disclosed as capital work-in-progress.

**(vi) Depreciation**

Depreciation on fixed assets except leasehold land and leasehold improvements is provided on the straight-line method based on estimated useful lives, as determined by the management. Leasehold land is amortised over the period of lease. Estimated useful life of goodwill is five years and the carrying value of goodwill at the end of each accounting period is reviewed for impairment. Depreciation is charged on a pro rata basis for assets purchased/sold during the year. Assets costing less than Rs. 5,000 are fully depreciated in the year of purchase. The management's estimate of the useful life of the various fixed assets is as follows:

	<b>Life (in years)</b>
Buildings	20
Plant and machinery (including office equipment, air conditioners and electrical installations)	4
Computers (excluding mainframes)	3
Mainframe computer system (including related software)	6
Furniture and fixtures	4
Vehicles-owned	5
-leased	Over the period of lease or 5 years, whichever is lower

These rates are equal to or higher than the rates specified by Schedule XIV to the Companies Act, 1956.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)****(vii) Intangible assets**

Intangible assets include goodwill and software. Goodwill is the difference between purchase price and book value of assets and liabilities of the business acquired by the Company. The intangible assets are amortised on the straight-line method over the periods during which the benefits are expected to accrue from these assets. The estimated useful lives of intangible assets are as follows:

Goodwill	5 years
Software	3 years or period of licence whichever is shorter

The carrying values of intangible assets are tested for impairment at each balance sheet date.

**(viii) Leases****Finance leases  
Up to 31 March 2001**

In respect of assets taken on lease, the lease rental payments are charged to the profit and loss account rateably over the period of lease.

**From 1 April 2001**

The assets taken on finance lease are capitalised at an amount equal to fair value of the leased assets or the present value of the minimum lease payments determined after applying a discount rate of 7% to 9.5%, in case fair value of the leased asset exceeds the present value of the minimum lease payments, liability of an equal amount is recognised. In case there is certainty that the Company shall obtain ownership of the asset by the end of the lease term, the asset is depreciated in accordance with the Company's accounting policy. In case there is no reasonable certainty, the asset is depreciated over the lease term or useful life, whichever is shorter. The lease payment is apportioned between finance charge and reduction of outstanding liability. The finance charge is allocated to periods over the lease term so as to produce a constant periodic rate of interest on the remaining liability.

**Operating leases**

Lease payments under an operating lease are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

**(ix) Investments**

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as long term or current investments, based on management's intention at the time of purchase. Long term investments are stated at cost, and provision is made to recognise any decline, other than temporary, determined separately for each investment. Current investments are stated at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments.

**(x) Foreign exchange transactions**

Foreign exchange transactions are recorded at the exchange rates prevailing at the date of the transaction. Realised gains and losses on foreign exchange transactions during the year are recognised in the Profit and Loss Account. Foreign currency monetary assets and liabilities are translated at year-end rates and resultant gains/losses on foreign exchange translations are recognised in the Profit and Loss Account.

The branches of the Company in Singapore and France are considered integral to the Company's operations. The transactions of these branches have been translated as if the transactions of the branches were the transactions of the Company itself.

**(xi) Forward exchange contracts (also refer note 2)**

The Company enters into forward foreign exchange 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 and forecast cash flows denominated in certain foreign currencies.

With effect from April 1, 2004, the Company has decided to account for forward exchange contracts that constitute a hedge from an economic perspective based on their designation as "effective hedges" or "non effective hedges".

To designate a forward contract as an effective hedge, management objectively evaluates each contract with appropriate supporting documentation and evidence at the inception of each forward contract and on an ongoing basis to determine whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. Further, it has been recently clarified that the revised Accounting Standards (AS) 11 does not cover forward exchange contracts entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Under the circumstances, guidance from International Accounting Standard (IAS) 39 - Financial Instruments: Recognition and Measurement has been taken for accounting for these forward exchange contracts.

The Company records the gain or loss on effective hedges in the general reserve until the transactions are complete. On completion the gain or loss is transferred to the Profit and Loss Account for that period. In the absence of an effective hedge, the gain or loss is recognized in the Profit and Loss Account.

Gains and losses on forward exchange contracts are computed by multiplying the foreign currency amount of the forward exchange

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period).

**(xii) Employee stock option based compensation**

The Company calculates the compensation cost based on the intrinsic value method wherein the excess of market price of underlying equity shares as of the date of the grant of options over the exercise price of the options given to employees under the employee stock option schemes of the Company, is recognised as deferred stock compensation cost and amortised over the vesting period on a straight-line basis.

Market price of a share means the higher of the average of the two weeks high and low price of the share preceding the date of grant of option or the price of the company's share immediately preceding the date of grant of option on the stock exchange, where there is highest trading volume.

**(xiii) Taxation**

Income tax expenses comprise current tax and deferred tax charge or credit (reflecting the tax effects of the timing differences between the accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in the future; however, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Provision for wealth tax is made annually based on tax liability computed after considering tax allowances and exemptions available in accordance with the provisions of the Wealth Tax Act, 1957.

**(xiv) Retirement benefits**

Contributions to provident fund are deposited with a recognised provident fund trust, set up by the Company. The Company contributes to a scheme administered by the Life Insurance Corporation of India in respect of superannuation. Provision for gratuity and leave encashment is made on the basis of an actuarial valuation.

**(xv) Miscellaneous expenditure**

Product development costs consisting of proportionate compensation costs of employees involved in product development, related travel costs and other direct costs are capitalised subsequent to achievement of technical feasibility of the product. All costs incurred until technical feasibility is achieved are expensed as incurred. Product development costs are amortised in the ratio that current gross revenues for the product bear to the total current and expected future gross revenues for that product, or the straight-line method over the remaining estimated economic life of the product, whichever is greater.

**(xvi) Earnings per share**

Basic earning per share is computed using the weighted average number of equity shares outstanding during the year. Diluted earning per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding at the year-end, except where the results would be anti dilutive.

- During the previous year ended June 30, 2003, the Company had adopted revised Accounting Standards (AS) 11 on "The Effects of Change in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India which prescribes the accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading/speculation purposes.

During the current year, in absence of the guidelines available in revised AS 11 for accounting of forward exchange contracts which are designated as hedge instruments, the Company has adopted the guidelines of IAS 39 [refer note 1 (xi)].

Consequent to the change in the accounting policy, the charge to the Profit and Loss Account for the year ended June 30, 2004 is lower by Rs. 20.70 crores with the corresponding decrease on current liability by Rs. 20.70 crores.

**3. Employee stock option plan (ESOP)**

The Company has established ESOP 1999 and ESOP 2000, for a total grant of 20,000,000 and 15,000,000 options respectively, to employees of the Company and its subsidiaries. These options are vested over a maximum period of 110 months and 104 months respectively, from the date of grant and are to be exercised within a maximum period of five years from the date of vesting.

Each option granted under the above plans entitles the holder to two equity shares of the Company at an exercise price, which is approved by the Compensation Committee.

As at 30 June 2004, 8,351,795 (previous year 10,927,381) options were outstanding with the employees of the Company and its subsidiaries under the ESOP 1999.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

	Year ended 30 June 2004	Year ended 30 June 2003
Options outstanding at the beginning of the year	10,927,381	12,331,619
Less: Forfeited during the year	(490,092)	(390,959)
Exercised during the year	(1,711,405)	(669,421)
Expired during the year	(374,089)	(343,858)
Options outstanding at the end of the year	<b>8,351,795</b>	<b>10,927,381</b>

As at 30 June 2004, 7,639,239 (previous year 8,814,611) options were outstanding with the employees of the Company and its subsidiaries in respect of the ESOP 2000 plan.

Options outstanding at the beginning of the year	8,814,611	8,891,381
Add: Granted during the year	109,275	820,025
Less: Forfeited during the year	(651,526)	(757,595)
Exercised during the year	(185,476)	(225)
Expired during the year	(447,645)	(138,975)
Options outstanding at the end of the year	<b>7,639,239</b>	<b>8,814,611</b>

**4. HCL Technologies Limited Employees Trust**

During the year ended 30 June, 2002, the Company established an independent trust called the HCL Technologies Limited Employees Trust (Trust). In accordance with the trust deed, the Trust acquires shares from the stock exchange out of funds borrowed from the Company and issues these shares to employees eligible to exercise stock option under the Employees Stock Option Plans 1999 and 2000.

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

	Year ended 30 June 2004	Year ended 30 June 2003
Shares held at the beginning of the year	4,098,887	4,768,301
Add: shares purchased during the year	—	170,000
Less: shares issued to employees	(3,104,442)	(839,414)
Shares held at the end of the year	<b>994,445</b>	<b>4,098,887</b>

5. During the year ended 30 June 2000, the Company entered into software consulting and engineering service agreements with certain customers wherein these customers committed certain revenues. On achievement of the revenues and on fulfillment of the necessary conditions, shares of the Company will be transferred by the promoter shareholder. No such shares were transferred during the year ended 30 June 2003 and 2004. During the year ended 30 June 2003, the Company through one of its subsidiary entered into an agreement with one of the customers to settle in cash, the outstanding shares granted under this program. Such cash payments are recognised as cost in the profit and loss account of that subsidiary amounting to Rs. 0.60 crore (previous year Rs. 1.94 crores).

6. (i) The Company has acquired vehicles on a finance lease basis. The legal title to assets acquired under the finance leases vests in the lessors. The total minimum lease payments and maturity profile of finance leases at the balance sheet date, the element of interest included in such payments, and the present value of the minimum lease payments are as follows:

	Total minimum lease payments outstanding	Interest included in minimum lease payments	Present value of minimum lease payments
Not later than one year	2.40	0.59	1.81
	(1.98)	(0.63)	(1.35)
Later than one year but not later than five years	4.64	0.60	4.04
	(4.86)	(0.79)	(4.07)
	<b>7.04</b>	<b>1.19</b>	<b>5.85</b>
	<b>(6.84)</b>	<b>(1.42)</b>	<b>(5.42)</b>

Previous year figures are in bracket.

(ii) The Company's significant leasing arrangements are in respect of operating leases for office space and accommodation for its employees. These leasing arrangements which are not non-cancellable are usually renewable by mutual consent on mutually agreed terms. The aggregate lease rental expense recognised in the profit and loss account for the year amount to Rs. 19.32 crores (previous year Rs. 13.97 crores).

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**7. Segment Reporting**

The Company renders software services to customers in various geographical locations, which have been identified as primary segments. These are as follows:

- America
- Europe
- Others (includes Australia, New Zealand, Singapore, Malaysia, Hong Kong and India)

The above segments have been identified and reported taking into account the differing risks and returns, nature of regulatory environment, underlying currency risks and internal financial reporting systems.

Financial information relating to the primary segments is presented below:

	For the year ended 30 June 2004				For the year ended 30 June 2003			
	America	Europe	Others	Total	America	Europe	Others	Total
<b>Segment revenues</b>	906.50	151.05	70.43	<b>1,127.98</b>	716.29	103.79	51.65	<b>871.73</b>
<b>Segment results</b>	255.34	24.54	23.57	<b>303.45</b>	264.32	38.06	10.72	<b>313.10</b>
Less: Unallocated corporate expenses and depreciation				(110.68)				(90.47)
<b>Operating profit</b>				<b>192.77</b>				<b>222.63</b>
Income from treasury operations and other income				127.87				107.78
Exchange gain/(loss) net				18.89				(7.50)
<b>Net profit before tax</b>				<b>339.53</b>				<b>322.91</b>
<b>Assets</b>								
<b>Segment assets</b>	240.22	27.16	28.41	<b>295.79</b>	311.91	54.46	23.14	<b>389.51</b>
Unallocated corporate, treasury and deferred tax assets				2,350.30				1,984.63
Unallocated fixed assets				323.91				189.12
<b>Total assets</b>				<b>2,970.00</b>				<b>2,563.26</b>
<b>Liabilities</b>								
<b>Segment liabilities</b>	362.78	53.92	8.39	<b>425.09</b>	139.17	20.14	8.90	<b>168.21</b>
Unallocated corporate liabilities				253.70				79.18
<b>Total liabilities</b>				<b>678.79</b>				<b>247.39</b>
<b>Significant non cash adjustments affecting segment results</b>								
Provision for doubtful debts and bad debts written off	0.35	—	—	0.35	1.93	—	—	1.93
Amortisation of product development costs	2.50	—	—	2.50	0.22	—	—	0.22

The Company is engaged exclusively in the business of providing a comprehensive range of information technology services including software development, systems maintenance, engineering design services and product development. These have been considered to constitute one single business segment, i.e. software services based on the internal reporting systems and nature of regulatory environment.

**Segment accounting policies**

The accounting principles consistently used in the preparation of the financial statements and consistently applied to record revenue and expenditure in individual segments are as set out in Note 1 to this schedule on significant accounting policies. The accounting policies in relation to segment accounting are as under:

**a) Segment assets and liabilities**

All segment assets (excluding fixed assets) and liabilities have been allocated to the various segments on the basis of specific identification or on the basis of revenue generated from each segment. Fixed assets used in the Company's business have not been identified to any of the reportable segments, as the fixed assets are used interchangeably between segments.

Segment assets principally consist of sundry debtors, loans and advances, cash and bank balances, and unbilled receivables. Segment assets do not, however, include fixed assets, unallocated corporate investments, treasury assets and net tax assets.

Segment liabilities include sundry creditors, advance from customers, other liabilities, unaccrued income, unsecured loans, and secured loans in respect of leased vehicles. Segment liabilities do not include share capital, reserves, borrowings and provision for income tax.

**b) Segment revenue and expenses**

Segment revenue is directly attributable to the segment and segment expenses have been allocated to various segments on the basis of specific identification and actual efforts made. However, segment revenue does not include miscellaneous income, income from investments and other income. Segment expenses do not include depreciation, financing cost, unallocated costs which are not directly attributable to a segment, e.g. managerial remuneration, premium amortised on bonds and diminution allowance in respect of non-trade investments, etc.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)****8. Related Party Transactions****a) Related parties where control exists****Holding company**

HCL Corporation Limited, India (formerly Slocum Investment Private Limited)

**Subsidiaries**

HCL Technologies America Inc., United States of America  
HCL Technologies Europe Limited, United Kingdom  
HCL Technologies (Netherlands) BV, Netherlands  
HCL Technologies GmbH, Germany  
HCL Technologies Belgium NV, Belgium  
HCL Technologies Sweden AB, Sweden  
HCL Technologies Italy SLR, Italy  
HCL Technologies Australia (Pty.) Limited, Australia  
HCL Technologies (New Zealand) Limited, New Zealand  
HCL Technologies (Hong Kong) Limited, Hong Kong  
HCL Technologies Japan Limited, Japan  
HCL Technologies South Africa (Proprietary) Limited, South Africa  
HCL Comnet Systems and Services Limited, India  
HCL Comnet Limited, India  
HCL Technologies (Bermuda) Limited, Bermuda  
HCL Venture Capital Limited, Bermuda  
HCL Holdings GmbH, Austria  
eServe Holdings Limited, Mauritius  
HCL Technologies BPO Services Limited, India (formerly HCL eServe Technologies Limited)  
HCL Enterprise Solutions Limited, Mauritius  
HCL Technologies (Illinois) Inc., USA (formerly HCL Enterprise Solutions Inc.)  
HCL Enterprise Solutions (India) Limited, India  
Intelicent India Limited, India  
DSI Financial Solutions Pte. Limited, Singapore  
DSL Software Limited, India  
DSL GmbH, Germany  
HCL Technologies NI Limited, Northern Ireland  
HCL Technologies (Mass.) Inc., USA (formerly Gulf Computers Inc.)  
HCL Technologies (Mumbai) Limited, India  
HCL Jones Technologies (Bermuda) Limited, Bermuda  
HCL Jones Technologies, LLC, United States of America  
Infosystems America Inc., United States of America  
Insys Inc., Canada  
FEC Infosystems Pte. Limited, Singapore  
HCL Infosystems (Malaysia) Sdn. Bhd., Malaysia  
Infosystems Europe Limited, United Kingdom  
Infosystems (Bermuda) Limited, Bermuda  
Infosystems Australia Pty. Limited, Australia  
HCL m.a. Limited

**Others**

HCL Technologies Limited Employees Trust

**b) Related parties with whom transactions have taken place during the year****Subsidiaries**

HCL Technologies America Inc., United States of America  
HCL Technologies Europe Limited, United Kingdom

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

HCL Technologies (Netherlands) BV, Netherlands  
HCL Technologies GmbH, Germany  
HCL Technologies Belgium NV, Belgium  
HCL Technologies Sweden AB, Sweden  
HCL Technologies Australia (Pty.) Limited, Australia  
HCL Technologies (New Zealand) Limited, New Zealand  
HCL Technologies (Hong Kong) Limited, Hong Kong  
HCL Comnet Systems and Services Limited, India  
HCL Comnet Limited, India  
HCL Technologies (Bermuda) Limited, Bermuda  
HCL Technologies BPO Services Limited, India  
(formerly HCL eServe Technologies Limited)  
HCL Technologies (Illinois) Inc., USA  
(formerly HCL Enterprise Solutions Inc.)  
HCL Enterprise Solutions (India) Limited, India  
DSL Software Limited, India  
DSL GmbH, Germany  
HCL Technologies (Mumbai) Limited, India  
HCL Jones Technologies (Bermuda) Limited, Bermuda  
HCL Jones Technologies, LLC, United States of America  
Infosystems America Inc., United States of America  
Insys Inc., Canada  
FEC Infosystems Pte. Limited, Singapore  
HCL Infosystems (Malaysia) Sdn. Bhd., Malaysia  
Infosystems Europe Limited, United Kingdom  
Infosystems Australia Pty. Limited, Australia  
HCL m.a. Limited

**Fellow subsidiaries**

HCL Infosystems Limited  
HCL Peripherals Ltd.  
HCL Infinet Ltd.

**Jointly controlled entities**

Shipara Technologies Limited, India  
HCL Answerthink Inc., United States of America.  
Aquila Technologies Limited, India

**Associates**

Aalayance Inc., United States of America

**Others**

HCL Technologies Limited Employees Trust

**Key managerial personnel**

S Raman

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**c) Transactions with related parties during the year**

Particulars	Subsidiaries Year ended 30 June		Fellow subsidiaries Year ended 30 June		Jointly controlled entities Year ended 30 June		Associates Year ended 30 June		Others Year ended 30 June		Key managerial personnel Year ended 30 June		Total Year ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Sale of materials and services	560.21	452.76	3.37	0.47	1.73	3.46	—	—	—	—	—	—	565.31
Purchase of materials and services	240.23	149.08	0.94	6.82	25.02	11.57	1.80	—	—	—	—	—	267.99	167.47
Acquisition of software services division	—	—	—	26.16	—	—	—	—	—	—	—	—	—	26.16
Payment for use of facilities	—	—	1.45	—	1.03	—	—	—	—	—	—	—	2.48	—
Receipt for use of facilities	0.59	0.51	—	—	—	0.30	—	—	—	—	—	—	0.59	0.81
Dividend received	4.52	—	—	—	—	—	—	—	—	—	—	—	4.52	—
Interest paid	1.40	—	—	—	—	—	—	—	—	—	—	—	1.40	—
Investments	18.65	354.73	—	—	4.00	3.55	—	—	—	—	—	—	22.65	358.28
Loans and advances (net of repayments)	2.64	3.08	—	0.02	(3.26)	4.38	—	—	(47.40)	(9.07)	—	—	(48.02)	(1.59)
Donations	—	—	—	—	—	—	—	—	—	0.83	—	—	—	0.83
Other receipts	0.40	1.74	—	—	0.16	0.26	—	—	—	—	—	—	0.56	2.00
Purchase of capital equipments	0.12	0.33	12.49	12.85	—	—	—	—	—	—	—	—	12.61	13.18
Sale of capital equipment	0.40	—	—	—	—	—	—	—	—	—	—	—	0.40	—
Remuneration	—	—	—	—	—	—	—	—	—	—	1.20	0.46	1.20	0.46
Guarantees	184.09	131.40	—	—	4.60	—	—	—	—	—	—	—	188.69	131.40

**d) Outstanding balances with related parties**

Particulars	Subsidiaries Year ended 30 June		Fellow subsidiaries Year ended 30 June		Jointly controlled entities Year ended 30 June		Associates Year ended 30 June		Others Year ended 30 June		Key managerial personnel Year ended 30 June		Total Year ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Debtors	86.57	186.57	1.16	—	—	0.31	—	—	—	—	—	—	87.73
Short term loans by company	39.07	36.43	—	—	1.12	4.38	—	—	20.50	67.90	—	—	60.69	108.71
Other receivables	14.63	23.87	0.64	0.89	2.28	0.54	—	—	—	—	—	—	17.55	25.30
Creditors	139.86	83.82	0.62	10.58	5.57	1.73	0.18	—	—	—	—	—	146.23	96.13
Advance received	176.26	—	—	—	—	—	—	—	—	—	—	—	176.26	—
Unaccrued income	2.24	4.13	—	—	—	—	—	—	—	—	—	—	2.24	4.13

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**9. Loans and Advances in the Nature of Loans to Subsidiaries**

Name of the company	Amount of loan	Rate of interest	Maximum amount outstanding during the year	Investment by the loanee in subsidiary company
HCL Technologies BPO Services Limited	39.07	—	47.15	—
	(35.93)	(—)	(75.43)	(—)
HCL Technologies (Mumbai) Limited	—	—	0.50	—
	(0.50)	(—)	(0.50)	(—)
Shipara Technologies Limited	1.12	9%	5.12	—
	(4.38)	(9%)	(4.38)	(—)
HCL Technologies Limited Employees Trust	20.50	—	68.08	—
	(67.90)	(—)	(81.97)	(—)

Previous year figures are in brackets.

There are no loans or advances in the nature of loans granted to associates.

**10. Components of Deferred Tax Asset**

	As at 30 June 2004	As at 30 June 2003
Depreciation	6.94	6.95
Amortisation of premium on bonds	0.34	0.40
Others	—	0.07
	<b>7.28</b>	<b>7.42</b>

**11. Capital Commitments and Contingent Liabilities**

	As at 30 June 2004	As at 30 June 2003
<b>Capital commitments</b>		
Estimated amount of unexecuted capital contracts (net of advances and deposits)	16.24	29.98
	<b>16.24</b>	<b>29.98</b>
<b>Contingent liabilities</b>		
Outstanding guarantees to various banks, in respect of the guarantees given by those banks in favour of various subsidiaries.	188.69	131.40
Disputed sales tax*	0.22	—
Outstanding letters of credit	0.43	1.34
	<b>189.34</b>	<b>132.74</b>

\* This pertains to demand raised by The Commercial Tax Officer (TNGST) on account of disputed sales tax. The Company has deposited a sum of Rs. 0.02 crore under protest for grant of stay.

**12. Derivative Financial Instruments**

The Company enters into forward foreign exchange contracts where the counter party is a bank. The forward foreign exchange contracts mature between one to twelve months. The Company considers the risk of non performance by the counter party as negligible. The value of forward covers outstanding as on 30 June 2004, amounted to Rs. 456.39 crores (previous year Rs. 227.97 crores).

**13. Auditors' Remuneration**

	Year ended 30 June 2004	Year ended 30 June 2003
Statutory audit *	0.47	0.35
Tax audit fees *	0.15	0.15
Certification	0.03	0.31
	<b>0.65</b>	<b>0.81</b>

\* Excluding service tax

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**14. CIF Value of Imports**

	Year ended 30 June 2004	Year ended 30 June 2003
Capital goods	15.44	17.57
	<b>15.44</b>	<b>17.57</b>

**15. Expenditure in Foreign Currency**

	Year ended 30 June 2004	Year ended 30 June 2003
Software development charges	243.31	139.12
Interest	2.91	—
Travel (on cash basis)	74.44	52.93
Rates and taxes	8.35	6.97
Exchange differences	—	7.50
Marketing Expenses	34.49	28.33
Others	7.64	8.75
	<b>371.14</b>	<b>243.60</b>

**16. Earnings in Foreign Currency**

	Year ended 30 June 2004	Year ended 30 June 2003
Income from software services	1123.73	868.88
Interest	0.40	1.74
Exchange differences	18.89	—
Dividend from subsidiary	4.52	—
Recovery of expense	—	4.51
	<b>1,147.54</b>	<b>875.13</b>

Expenditure reimbursed by the customers in foreign currency has been netted off against the related expenses in the profit and loss account and amounts to Rs. 19.61 crores (previous year Rs. 21.10 crores).

**17. Dividend Remitted in Foreign Currency**

	Year ended 30 June 2004	Year ended 30 June 2003
<b>Final dividend</b>		
Number of non-resident shareholders	55	54
Number of shares held	64,136,466	67,902,558
Amount remitted (net of tax)	12.83	9.14
Year to which it relates	2002-03	2001-02
<b>Interim dividend (For 1st Qtr)</b>		
Number of non-resident shareholders	56	—
Number of shares held	64,551,968	—
Amount remitted (net of tax)	12.91	—
Year to which it relates	2003-04	—
<b>Interim dividend (For 2nd Qtr)</b>		
Number of non-resident shareholders	56	—
Number of shares held	62,472,111	—
Amount remitted (net of tax)	12.49	—
Year to which it relates	2003-04	—
<b>Interim dividend (For 3rd Qtr)</b>		
Number of non-resident shareholders	54	52
Number of shares held	62,563,461	64,830,914
Amount remitted (net of tax)	12.51	12.97
Year to which it relates	2003-04	2002-03

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**18. Managerial Remuneration**

i) Computation of Net profit in accordance with Section 349 of the Companies Act, 1956 and calculation of commission payable to directors:

Year ended 30 June 2004		
<b>Profit before tax as per Profit and Loss Account</b>		<b>339.53</b>
<b>Add:</b>		
Depreciation as per books of account	56.89	—
Provision for doubtful debts	0.08	—
Book loss on sale of Investments	2.07	—
Provision for diminution in value of investments	18.34	—
Donations	0.02	77.40
<b>Less:</b>		
Depreciation under section 350 of the Companies Act, 1956	56.89	—
Book profit on sale of fixed assets credited to profit and loss account	0.27	—
Profit on sale of investments	65.99	123.15
<b>Profit as per section 349</b>		<b>293.78</b>
<b>Add:</b>		
Director's remuneration		1.74
<b>Profit as per section 198</b>		<b>295.52</b>
Maximum commission allowed under Section 309 of the Companies Act, 1956 @ 1%		2.96
Commission approved by the board		0.36

ii) Managerial remuneration comprises:

	Year ended 30 June 2004	Year ended 30 June 2003
Salaries and allowances	1.12	0.40
Sitting fees	0.10	—
Commission to non executive directors*	0.36	—
Contribution to provident fund	0.06	0.04
Perquisites	0.02	0.02
	<b>1.66</b>	<b>0.46</b>

\* Subject to approval by shareholders at the ensuing AGM.

The above excludes provision for gratuity which is actuarially determined on an overall basis.

During the year ended 30 June 2004 wholly owned subsidiaries have made following payments to directors of the Company:

	Year ended 30 June 2004	Year ended 30 June 2003
Remuneration paid to executive directors	4.14	0.57
Reimbursement of expenses paid to non executive directors	0.15	0.30
Sitting fees	0.25	0.11
	<b>4.54</b>	<b>0.98</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 17: Significant Accounting Policies and Notes to the Accounts (Contd.)****19. Earnings Per Equity Share (EPS)**

	Year ended 30 June 2004	Year ended 30 June 2003
Net profit as per profit and loss account for computation of EPS	325.72	312.47
Weighted average number of shares outstanding in computation of basic EPS	294,519,683	288,287,307
Dilutive effect of stock options outstanding	5,465,622	3,119,600
Dilutive effect of shares issued in accordance with the scheme of arrangement between the Company and HCL Infosystems Limited	—	2,682,010
Weighted average number of equity shares and equity equivalent shares outstanding in computing diluted EPS	299,985,305	294,088,917
Nominal value of equity shares	2	2
Basic	11.06	10.83
Diluted	10.86	10.62

20. The Company has a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income Tax Act, 1961. Since the law requires existence of such information and documentation to be contemporaneous in nature, the company appoints independent consultants for conducting a Transfer Pricing Study to determine whether the transactions with associate enterprises are undertaken during the financial year, on an "arms length basis". Adjustments, if any, arising from the Transfer Pricing Study shall be accounted for as and when the study is completed for the current financial year. However, the management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

21. Previous year figures have been reclassified/regrouped to conform to current year's classification.

**For HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**T S R Subramanian**  
Director

**S L Narayanan**  
Corporate Vice President - Finance

**Allwyn Noronha**  
General Manager and Company Secretary

Place: Noida (UP), India  
Date: September 15, 2004

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

(All amounts thousands of rupees, unless otherwise stated)

**I. Registration details**

Registration No.	55-46369	State Code	55
Balance Sheet Date	30 June 2004		

**II. Capital raised during the year**

Public issue	<i>Nil</i>	Rights issue	<i>Nil</i>
Bonus issue	<i>Nil</i>	Private placement	68,711

**Note:** Capital raised during the year includes share application money.**III. Position of mobilisation and deployment of funds**

Total liabilities	23,894,384	Total assets	23,894,384
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**Sources of funds**

Paid-up capital	592,518*	Reserves and surplus	22,319,606
Secured loans	979,009	Unsecured loans	3,251

\*Includes Rs. 358 thousands in respect of share application money.

**Application of funds**

Net fixed assets	3,239,093**	Investments	22,503,577
Net current assets	(1,921,120)	Misc.expenditure	<i>Nil</i>
Accumulated losses	<i>Nil</i>	Deferred tax	72,834

\*\* Includes Rs. 1,186,310 thousands in respect of capital work-in-progress

**IV. Performance of Company**

Turnover	12,747,408	Total expenditure	9,352,124
Profit before tax	3,395,284	Profit after tax	3,257,216
Earnings per share (in Rs.)		Dividend rate	500%
11.06 (Basic)			
10.86 (Diluted)			

**V. Generic names of Principal Products/Services of Company (as per monetary terms)**

Product description:	Software
Item code (ITC code):	852490

**For HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**S L Narayanan**  
Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and Company Secretary

**REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF HCL TECHNOLOGIES LIMITED**

1. We have audited the attached consolidated balance sheet of HCL Technologies Limited as at June 30, 2004, the consolidated profit and loss account for the year ended on that date annexed thereto, and the consolidated cash flow statement for the year ended on that date, which we have signed under reference to this report. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and 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 audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of certain consolidated entities whose financial statements reflect total assets of Rs. 401 crores, as at June 30, 2004 and total revenues of Rs. 438.63 crores for the year ended on that date. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors.
4. Subject to note 3 on Schedule 20, relating to accounting investment in HCL Perot Systems N.V (HPS) according to equity method instead of reporting the entity using the proportionate consolidation method as required under Accounting Standard (AS) – 27, Financial reporting of interests in joint venture, due to non availability of the consolidated HPS financial statements in the format prescribed under Schedule VI of the Companies Act, 1956, we report that the consolidated financial statements have been prepared by the company in accordance with the requirements of AS 21 - Consolidated Financial Statements, AS 23 – Accounting for investment in Associates in Consolidated Financial Statements and AS 27 – Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of HCL Technologies Limited and its consolidated entities included in the consolidated financial statements.
5. On the basis of the information and explanations given to us and on consideration of the separate audit reports on individual audited financial statements of HCL Technologies Limited and its consolidated entities, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the consolidated balance sheet, of the consolidated state of affairs of HCL Technologies Limited and its consolidated entities as at June 30, 2004;
  - (b) in the case of the consolidated profit and loss account, of the consolidated results of operations of HCL Technologies Limited and its consolidated entities for the year ended on that date; and
  - (c) in the case of the consolidated cash flow statement, of the consolidated cash flows of HCL Technologies Limited and its consolidated entities for the year ended on that date.

**Kaushik Dutta**  
*Partner*  
Membership Number. F – 88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: Delhi  
Date : September 15, 2004

**CONSOLIDATED BALANCE SHEET as at 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Schedule	As at 30 June 2004	As at 30 June 2003
<b>Sources of Funds</b>			
<b>Shareholders' funds</b>			
Share capital	1	59.22	57.66
Equity shares to be issued as per approved scheme of arrangement		-	1.42
Employee stock compensation liability	20(6)	-	9.88
Share application money pending allotment		0.04	0.29
Reserves and surplus	2	2,573.14	2,229.81
		2,632.40	2,299.06
<b>Minority interest</b>			
		118.82	49.32
<b>Loan funds</b>			
Secured loans	3	178.01	53.26
Unsecured loans	4	0.39	0.41
		178.40	53.67
		<b>2,929.62</b>	<b>2,402.05</b>
<b>Application of Funds</b>			
<b>Fixed assets</b>			
Gross block	5	998.21	910.76
Less: Accumulated depreciation		(556.53)	(447.32)
Net block		441.68	463.44
Capital work-in-progress (including capital advances)		144.63	32.52
		586.31	495.96
<b>Investments</b>			
	6	1,989.47	1,537.32
<b>Deferred tax asset (net)</b>			
	20(4)	39.82	27.29
<b>Current assets, loans and advances</b>			
Inventories	7	25.70	32.57
Sundry debtors	8	466.61	351.01
Cash and bank balances	9	224.88	179.17
Loans and advances	10	145.76	179.17
Other current assets	11	25.15	11.27
		888.10	753.19
<b>Less: Current liabilities and provisions</b>			
	12	(574.08)	(414.21)
<b>Net current assets</b>			
		314.02	338.98
<b>Miscellaneous expenditure (to the extent not written off or adjusted)</b>			
	13	-	2.50
		<b>2,929.62</b>	<b>2,402.05</b>

**Significant accounting policies and notes to the accounts**

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The schedules referred to above form an integral part of the Balance Sheet.

This is the Consolidated Balance Sheet referred to in our report of even date.

For **HCL Technologies Limited**

**Kaushik Dutta**  
Partner  
Membership No.: F-88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

**Shiv Nadar**  
Chairman and CEO  
  
**S L Narayanan**  
Corporate Vice President - Finance

**T S R Subramanian**  
Director  
  
**Allwyn Noronha**  
General Manager and  
Company Secretary

Place: Delhi, India  
Date: September 15, 2004

Place: Noida (UP), India  
Date: September 15, 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Schedule	Year ended 30 June 2004	Year ended 30 June 2003
<b>Income</b>			
Sales	14	2,563.69	2,143.50
Other income	15	476.51	110.09
		<b>3,040.20</b>	<b>2,253.59</b>
<b>Expenditure</b>			
Cost of goods sold	16	113.31	79.58
Cost of services	17	1,368.95	1,208.88
Administration and other expenses	18	581.53	456.19
Finance costs	19	9.69	4.92
Depreciation	5	165.20	157.51
		<b>2,238.68</b>	<b>1,907.08</b>
<b>Profit before prior period item, tax, minority interest and share of loss of equity investees</b>		801.52	346.51
Prior period item		-	(46.39)
<b>Profit before tax, minority interest and share of loss of equity investees</b>		801.52	300.12
Tax expense – current		(40.73)	(44.54)
– deferred		15.48	16.51
		776.27	272.09
<b>Profit before minority interests and share of loss of equity investees</b>		776.27	272.09
Share of loss of equity investees		(10.97)	(0.43)
Share of minority shareholders	20(18)	(79.07)	(23.73)
		686.23	247.93
Balance in profit and loss account brought forward		1,109.70	900.07
Profit available for appropriation		1,795.93	1,148.00
<b>Appropriations</b>			
Proposed final dividend [including Rs.Nil (previous year Rs. 0.05 crore) paid for previous year]		118.43	59.16
Corporate dividend tax on final dividend		15.48	7.57
Interim dividend		177.42	57.69
Corporate dividend tax on interim dividend		22.73	7.39
Transfer to general reserve		32.57	31.25
<b>Balance profit and loss account carried forward to the Balance Sheet</b>		<b>1,429.30</b>	<b>984.94</b>
		<b>1,795.93</b>	<b>1,148.00</b>
<b>Earnings per equity share</b>			
Basic		23.30	8.60
Diluted		22.88	8.43
<b>Weighted average number of equity shares used in computing earnings per equity share</b>	20(11)		
Basic		294,519,683	288,135,933
Diluted		299,985,305	293,937,543

**Significant accounting policies and notes to the accounts**

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The schedules referred to above form an integral part of the Profit and Loss Account  
This is the Consolidated Profit and Loss Account referred to in our report of even date.

**Kaushik Dutta**  
Partner  
Membership No.: F-88540  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place: Delhi, India  
Date: September 15, 2004

For **HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**S L Narayanan**  
Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and  
Company Secretary

**CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 June 2004**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Year ended 30 June 2004	Year ended 30 June 2003
<b>Cash Flows from Operating Activities</b>		
Profit before tax	801.52	300.12
<b>Adjusted for:</b>		
Income from investments and interest	(47.87)	(27.27)
(Profit)/loss on sale of investments	(70.93)	(58.17)
(Profit)/loss on sale of investments in Joint Venture	(306.19)	-
Depreciation and amortisation	165.20	157.51
Finance charges on lease	0.79	0.61
(Profit)/Loss on sale of fixed assets	(0.08)	(0.08)
Diminution in value of investments	18.68	10.76
Provision for doubtful debts	(10.81)	7.98
Premium amortised on bonds	0.97	0.99
Provision for diminution in value of investments written back	-	(9.79)
Provision for liabilities written back	(0.89)	(7.68)
Miscellaneous expenditure written off	2.50	0.22
Amortisation of stock compensation	-	8.29
Taxes paid	(17.45)	(33.30)
Decrease/(increase) in sundry debtors	(155.57)	34.26
Decrease/(increase) in inventories	6.87	(19.55)
Decrease/(increase) in other current assets	(14.45)	5.09
Decrease/(increase) in loans and advances	(39.86)	(43.87)
Decrease/(increase) in miscellaneous expenditure (to the extent not written off)	-	(1.40)
Increase/(decrease) in current liabilities and provisions	98.02	72.35
<b>Net cash from (used for) operating activities</b>	<b>430.45</b>	<b>397.07</b>
<b>Cash Flows from Investing Activities</b>		
Investment in mutual funds (net)	(503.75)	(302.88)
Investments in equity investees	-	(2.17)
Investment in bonds (net)	8.97	40.00
(Loan)/Repayment to Employees Stock Option Trust	47.40	(9.07)
Investment in Venture Capital Funds	(23.52)	(9.52)
Proceeds from sale of Investment in Joint Venture	461.80	-
Purchase of fixed assets (including capital advances)	(285.75)	(145.93)
Proceeds from sale of fixed assets	4.92	1.80
Payment for business acquisition	(5.85)	(15.14)
Income from investments and interest	47.87	27.27
Principal payment for capital lease obligations	(2.32)	(2.21)
<b>Net cash from (used for) investing activities</b>	<b>(250.23)</b>	<b>(417.85)</b>
<b>Cash Flows from Financing Activities</b>		
Payment for capital lease obligations	(0.79)	(0.61)
Proceeds (repayment) from bank line of credit	31.55	-
Repayment of short-term loans	0.02	(5.92)
Proceeds from long-term loans	92.05	49.61
Repayment of long-term loans	-	(2.54)
Issue of share capital (including share application money pending allotment and net of share issue expenses)	6.87	5.92
Dividend paid to minority shareholders of consolidated subsidiaries	(9.16)	(2.90)
Dividends paid (including corporate dividend tax)	(266.72)	(107.94)
<b>Cash flows from (used for) financing activities</b>	<b>(146.18)</b>	<b>(64.38)</b>

**CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 June 2004 (Contd.)**

(All amounts in crores of rupees except share data and unless otherwise stated)

	Year ended 30 June 2004	Year ended 30 June 2003
Effect of exchange rates on cash and cash equivalents held in foreign currency	11.67	4.67
Cash and bank balance taken over during the acquisition of software business of HCLIS	-	23.44
Net increase/(decrease) in cash and equivalents	34.04	(85.16)
Cash and equivalents at the beginning of the year	179.17	236.22
<b>Cash and equivalents at the end of the year</b>	<b>224.88</b>	<b>179.17</b>

For components of cash and cash equivalents refer schedule 9 of the Balance Sheet

**Notes:**

- The above Cash Flow Statement has been prepared under the indirect method set out in Accounting Standard - 3 issued by the Institute of Chartered Accountants of India.
- Figures in brackets indicate cash outflow.
- Previous figures have been regrouped and recast wherever necessary to confirm to the current period classification.
- Cash and cash equivalents include the following, which are not available for use by the Company:

Investor Education and Protection Fund - Unclaimed dividend	0.56
Bank Guarantee margin	1.27

This is the Consolidated Cash Flow Statement referred to in our report even date.

**For HCL Technologies Limited****Kaushik Dutta**Partner  
Membership No.: F-88540For and on behalf of  
Price Waterhouse  
Chartered AccountantsPlace: Delhi, India  
Date: September 15, 2004**Shiv Nadar**

Chairman and CEO

**S L Narayanan**

Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004**T S R Subramanian**

Director

**Allwyn Noronha**General Manager and  
Company Secretary

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 1: Share Capital	As at 30 June 2004	As at 30 June 2003
<b>Authorised</b>		
400,000,000 (previous year 350,000,000) equity shares of Rs. 2 each	<b>80.00</b>	<b>70.00</b>
<b>Issued, subscribed and paid up</b>		
296,080,438 (previous year 288,436,638) equity shares of Rs. 2 each, fully paid up	59.22	57.69
Less: Nil (previous year 151,374) equity shares held by HCL Perot Systems NV ("HPS"), proportionately consolidated in accordance with AS-27 on "Financial Reporting for Interests in Joint Ventures", issued by the Institute of Chartered Accountants of India (ICAI) in the previous year [refer note 20(3)(b)]	-	0.03
	<b>59.22</b>	<b>57.66</b>

**Notes:**

- Paid up share capital includes:
  - 16,000,000 (previous year 16,000,000) equity shares of Rs. 2 each allotted as fully paid up, pursuant to consideration other than cash.
  - 82,986,872 (previous year 82,986,872) equity shares of Rs. 2 each issued as bonus shares in the ratio of one share for every two held by capitalisation of general reserve.
  - 7,090,990 equity shares of Rs. 2 each issued to the shareholders of HCL Infosystems Ltd. in pursuance of the scheme of arrangement as approved by the Hon'ble Delhi High Court on July 8, 2003.
  - 11,621,722 (previous year 11,075,562) equity shares of Rs. 2 each allotted to employees of the Company and its subsidiaries on vesting of stock options issued under Employee Stock Option Plan 1999 of the Company.
  - 7,100 (previous year 450) equity shares of Rs. 2 each allotted to employees of the Company and its subsidiaries on vesting of stock options issued under the Employee Stock Option Plan 2000 of the Company.
- Of the above shares 162,017,167 (previous year 159,572,772) equity shares are held by HCL Corporation Limited (formerly Slocum Investments Private Limited), the holding company and 1,500,000 (previous year 1,500,000) equity shares are held by HCL Peripherals Ltd, being a fellow subsidiary.

Schedule 2: Reserves and Surplus	As at 1 July 2003	Additions	Deletions	As at 30 June 2004
Securities premium account	931.40	9.81	-	941.21
	(927.34)	(6.85)	(2.79)	(931.40)
Foreign currency translation reserve	(2.31)	7.53	-	5.22
	(-)	(-2.31)	(-)	(-2.31)
General reserve	191.02	32.57	(35.67)	187.92
	(115.60)	(75.42)	(-)	(191.02)
Profit and loss account	1,109.70	361.66	(32.57)	1,438.79
	(900.07)	(240.88)	(31.25)	(1,109.70)
	<b>2,229.81</b>	<b>411.57</b>	<b>(68.24)</b>	<b>2,573.14</b>
Previous year	(1943.01)	(320.84)	(34.04)	(2,229.81)

**Notes:**

- Addition to general reserve includes Rs. Nil (previous year Rs. 34.68 crores) pursuant to the scheme of arrangement between the Company and HCL Infosystems Limited ("HCLIS") as approved by the Hon'ble High Court of Delhi on 8 July 2003.
- Addition to the securities premium account represents share premium in respect of allotment of equity shares to employees of the Company and its subsidiaries under the Employee Stock Option Plan 1999 and 2000 and it further includes Rs. 2.79 crores (previous year Rs. Nil) representing excess of carrying value of investments over face value of the shares of the Company held by HPS, which was excluded from securities premium account last year on proportionate consolidation in accordance with AS-27.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

3. Addition to Profit and Loss Account includes a loss of Rs. Nil (previous year Rs. 0.80 crores) being the Company's share for investments made in equity associates pertaining to prior years in accordance with the transitional provisions of AS-23 on "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India (ICAI).
4. Addition to Profit and Loss Account and General Reserve also includes Rs. Nil (previous year Rs. 125.56 crores) and Rs. Nil (previous year Rs. 9.49 crores) respectively, being the Company's share on account of proportionate consolidation of joint ventures, pertaining to prior years in accordance with the provisions of AS-27.
5. The Profit and Loss Account includes profit/(loss) of HCL Answerthink Inc. Rs. (1.51) crores [previous year Rs. (1.51) crores], Aquila Technologies Private Limited Rs. (0.72) crores [previous year Rs. (0.50) crores] and Shipara Technologies Limited Rs. (6.46) crores [previous year Rs. (4.19) crores], HCL Perot Systems NV Rs. Nil [previous year Rs. 144.46 crores], being the jointly controlled entities.
6. Deletion from General Reserve includes Rs. 9.49 crores (previous year Rs. Nil) transferred to Profit and Loss Account on account of sale of a joint venture [refer note 20(3)(b)].
7. Deletion from General Reserve includes Rs. 26.18 crores (previous year Rs. Nil) of unrealised loss on forward exchange contracts [refer note 20(1)(e)].
8. Previous year figures are in brackets.

Schedule 3: Secured Loans	As at 30 June 2004	As at 30 June 2003
From Bank		
-Term loan (Refer note below)	138.08	46.45
From Others		
-Short term loan	31.55	-
-Finance lease obligations (Secured by hypothecation of leased vehicles)	8.38	6.81
	<b>178.01</b>	<b>53.26</b>

**Note:**

1. Term loan includes loan of Rs. 92.05 crores (previous year Rs. Nil) secured by pledge of specified units of mutual fund.
2. Term loan includes loan of Rs. 46.03 crores (previous year Rs. 46.45 crores) taken by a subsidiary and secured by hypothecation of first and pari passu charge of all current assets including stocks, book debts and other receivables both present and future and moveable plant and machinery, both present and future of that subsidiary.
3. Short term loan of Rs. 31.55 crores (previous year Rs. Nil) is taken by a subsidiary and secured by hypothecation of first and pari passu charge of all current assets including stocks, book debts and other receivables both present and future and moveable plant and machinery, both present and future and intangible moveable goods of that subsidiary.

Schedule 4: Unsecured Loans	As at 30 June 2004	As at 30 June 2003
Other Loans and Advances		
- From financial institution [Amount payable within one year - Rs. 0.06 crore (previous year Rs. 0.10 crore)]	0.39	0.41
	<b>0.39</b>	<b>0.41</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 5: Fixed Assets	As at 1 July 2003	Additions	Deletions	Translation Differences	As at 30 June 2004
<b>Gross Block</b>					
Goodwill	273.52	5.56	10.87	1.73	269.94
Intellectual property rights	1.50	-	-	0.12	1.62
Non-compete agreements	4.26	-	3.67	(0.03)	0.56
Freehold land	16.64	22.72	-	-	39.36
Leasehold land	26.32	-	13.98	-	12.34
Buildings	79.68	5.51	20.29	3.29	68.19
Plant and machinery - Owned	114.57	23.56	16.06	1.37	123.44
- Leased	0.06	-	-	-	0.06
Computers - Owned	177.41	74.34	19.55	(2.76)	229.44
- Leased	0.17	-	-	0.01	0.18
Mainframe computer system	6.10	-	-	-	6.10
Software	82.52	17.63	6.91	4.19	97.43
Furniture and fixtures - Owned	113.86	32.92	12.70	(2.15)	131.93
- Leased	0.23	-	-	-	0.23
Vehicles - Owned	5.41	1.68	1.02	(0.99)	5.08
- Leased	8.51	4.21	1.41	1.00	12.31
	<b>910.76</b>	<b>188.13</b>	<b>106.46</b>	<b>5.78</b>	<b>998.21</b>
Previous year	673.59	238.01	7.84	7.00	910.76
<b>Accumulated Depreciation</b>					
Goodwill	134.10	49.04	10.87	0.61	172.88
Intellectual property rights	1.50	-	-	0.12	1.62
Non-compete agreement	3.84	0.12	3.67	-	0.29
Leasehold land	0.92	0.19	0.36	(0.04)	0.71
Building	9.11	3.33	0.99	0.58	12.03
Plant and machinery - Owned	62.67	23.06	9.27	1.36	77.82
- Leased	0.06	-	-	-	0.06
Computers - Owned	110.27	44.81	13.55	(3.89)	137.64
- Leased	0.13	0.03	-	0.01	0.17
Mainframe computer system	5.42	0.13	-	-	5.55
Software	56.98	16.16	5.77	(0.07)	67.30
Furniture and fixtures - Owned	57.54	25.64	5.49	(4.13)	73.56
- Leased	0.23	-	-	-	0.23
Vehicles - Owned	2.51	0.93	0.47	(0.01)	2.96
- Leased	2.04	2.21	0.51	(0.03)	3.71
	<b>447.32</b>	<b>165.65</b>	<b>50.95</b>	<b>(5.49)</b>	<b>556.53</b>
Previous year	243.22	201.48	3.02	5.64	447.32
Net Block	463.44	-	-	-	<b>441.68</b>
Previous year	430.37	-	-	-	463.44
Capital Work-in-progress	32.52	-	-	-	<b>144.63</b>
Previous year	22.51	-	-	-	32.52

**Notes:**

1. The freehold land at Gurgaon costing Rs. 1.01 crores (previous year Rs. 1.01 crores), included in opening gross block has not yet been transferred in the name of the company.
2. Additions to fixed assets include a building at Kolkata costing Rs. Nil (previous year Rs. 0.49 crore), acquired pursuant to acquisition of software business of HCLIS, which has not yet been transferred in the name of the Company.
3. Gross block of plant and machinery as on 30 June 2004 includes Rs. 2.86 crores (previous year Rs. 6.64 crores) in respect of assets given on operating leases. The accumulated depreciation on these assets upto 30 June 2004 and the depreciation for the period ended on that date amounted to Rs. 1.92 crores (previous year Rs. 2.50 crores) and Rs. 1.07 crores (previous year Rs. 1.03 crores) respectively.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

4. Additions to gross block and accumulated depreciation include Rs. Nil (previous year Rs.16.53 crores) and Rs. Nil (previous year Rs.12.67 crores) respectively, on account of assets acquired pursuant to the scheme of arrangement between the Company and HCLIS.
5. Additions to fixed assets and accumulated depreciation include Rs. 0.98 crore (previous year Rs. 68.91 crore) and Rs. 3.67 crores (previous year Rs. 31.30 crores) respectively, in respect of the Company's share of fixed assets on account of proportionate consolidation of joint ventures.
6. Additions to fixed assets and accumulated depreciation also include Rs. 1.27 crores (previous year Rs. Nil) and Rs. 0.45 crore (previous year Rs. Nil), respectively, on account of additional stake acquired in joint ventures during the year.
7. Deletions from fixed assets and accumulated depreciation include Rs. 84.82 crores and Rs. 43.66 crores respectively, on account of divestment of the Company's 50% stake in HCL Perot Systems N.V., Netherlands ("HPS N.V.") a proportionately consolidated company [refer Note 20(3)(b)].

Schedule 6: Investments	As at 30 June 2004	As at 30 June 2003
<b>Long term investments</b>		
<b>Non-trade and quoted</b>		
Investment in shares Nil (previous year 2,360,025 shares) of Zamba Corporation, United States of America (refer note 2 below)	-	4.45
Less: Provision for diminution	-	(2.03)
	-	2.42
<b>Trade and unquoted</b>		
<b>Investments in associate</b>		
1,854,080 shares (previous 1,854,080 shares) of no par value in Aalayance Inc., United States of America	1.78	1.89
	1.78	1.89
<b>Non-trade and unquoted</b>		
<b>Investment in venture capital funds</b>		
Diamondhead Ventures, LLP	34.70	22.61
FCPR Viventures	9.51	9.21
Arena Capital Investment Fund, L.P.	40.59	38.03
Carlyle Internet Partners, Europe	11.68	10.75
Carlyle Asia Venture Partners, L.P.	17.87	15.20
	114.35	95.80
Less: Provision for diminution in value	(23.90)	(25.64)
	90.45	70.16
<b>Others</b>		
Harmony Software Inc., United States of America	9.21	9.29
Less: Provision for diminution in value	(9.21)	(9.29)
	-	-
<b>Current Investments</b>		
Investments in mutual funds - Non-trade and quoted	1,755.45	1,294.25
Less: Provision for diminution in value	(18.59)	-
	1,736.86	1,294.25
Investments in bonds and debentures - Non-trade and quoted	159.63	168.60
Investment in 1,022,139 shares (previous year Nil) of Zamba Corporation, United States of America - Non-trade and quoted (refer note 2 below)	1.64	-
Less: Provision for diminution in value	(0.89)	-
	0.75	-
	<b>1,989.47</b>	<b>1,537.32</b>

**Notes:**

1. Net asset value of investments in mutual funds as on 30 June 2004, Rs. 1,757.59 crores (previous year Rs. 1,405.31 crores).
2. Market value of investment in shares of Zamba Corporation, United States of America as on June 30, 2004, Rs. 0.75 crore (previous year Rs. 2.42 crores). In current year these investments have been classified as current investments based on the management's intention. During the year ended June 30, 2004, the company has sold 1,337,886 shares at an average price of Rs. 12 per share. Further it includes warrants to purchase 615,006 shares of the investee common stock. Warrants are exercisable at any time till 21 February 2007 at a per share purchase price of Rs. 28.32.
3. Market value of bonds and debentures as on 30 June 2004, Rs. 173.04 crores (previous year Rs. 189.44 crores).

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 7: Inventories	As at 30 June 2004	As at 30 June 2003
Networking equipment	23.43	26.99
Work-in-progress	1.25	0.12
Goods in transit	1.02	5.46
	<b>25.70</b>	<b>32.57</b>

Schedule 8: Sundry Debtors	As at 30 June 2004	As at 30 June 2003
Unsecured - Considered good		
- Debts outstanding for more than six months	51.29	13.29
- Other debts	415.32	337.72
	466.61	351.01
Unsecured - Considered doubtful		
- Debts outstanding for more than six months	46.76	63.06
- Other debts	4.44	1.63
	51.20	64.69
Less: Provision for doubtful debts	(51.20)	(64.69)
	<b>466.61</b>	<b>351.01</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 9: Cash and Bank Balances	As at 30 June 2004	As at 30 June 2003
Cash in hand	0.32	0.31
Cheques in hand	7.52	1.49
Remittances in transit	23.40	23.22
<b>Balance with scheduled banks</b>		
- On current accounts in Indian rupees [includes Rs. 0.56 crore (previous year Rs. 0.46 crore in unclaimed dividend account)]	28.60	13.13
- On current accounts in foreign currency	36.60	18.16
- On fixed deposit accounts in Indian rupees [pledged with banks as security for guarantees and letter of credit - Rs. 1.42 crores (previous year Rs. 5.55 crores)]	6.27	12.51
<b>Balance with non-scheduled banks</b>		
<b>On Current account</b>		
ABN Amro Bank, N.V., Germany	-	0.25
ABN Amro Bank, N.V., Netherlands	0.16	0.17
Banca Popolare di Sondrio, Italy	0.02	0.02
Australia and New Zealand Banking Group Ltd., Sydney, Australia	1.58	1.77
Australia and New Zealand Banking Group Ltd., Wellington, New Zealand	0.48	0.42
Bank of America, United States of America	-	4.10
Bank of Austria	0.05	-
Bank of Bermuda, Bermuda	0.79	0.18
Bank of Butterfield, Bermuda	-	0.13
Bank of Ireland, Ireland	-	0.09
Bank of Ireland - Collection Account, Belfast, Ireland	-	7.81
Bank of Ireland - Payment Account, Belfast, Ireland	1.46	1.00
Bank of Tokyo - Mitsubishi Ltd., Tokyo, Japan	1.97	1.79
Bank of Tokyo - Mitsubishi Ltd., Tokyo, Japan	0.13	0.09
Bank Brussels Lambert, Brussels, Belgium	0.10	0.20
Banque St. Generale, France	0.01	0.02
Barclays Bank Plc., United Kingdom	-	2.31
Chevy Chase Bank, Virginia, United States of America	-	0.01
Citi Bank N.A., Singapore - SGD Account	0.09	0.11
Citi Bank N.A., Singapore - USD Account	0.09	0.16
Citi National Bank, United States of America	0.02	0.02
Creditanstalt AG, Vienna, Austria	-	0.51
Deutsch Bank, Hungary	-	0.10
Deutsche Bank, New York, USA	0.33	1.80
Deutsche Bank, Singapore	0.63	-
Deutsche Bank, Singapore (2nd account)	0.07	0.43
Deutsche Bank, London, United Kingdom	1.50	(1.66)
Deutsche Bank, Delaware	41.22	-
Dresdner Bank, Frankfurt, Germany	0.18	0.27
DSL Bank, Frankfurt, Germany	0.36	0.18
Fleet Bank, Boston, United States of America	-	0.06
Hong Kong & Shanghai Banking Corporation Limited, Hong Kong	2.86	0.80
Hong Kong & Shanghai Banking Corporation Limited, Mauritius	-	0.37
Hong Kong & Shanghai Banking Corporation Limited, Malaysia	3.94	4.31
Hong Kong & Shanghai Banking Corporation Limited, United States of America	-	0.52
Hong Kong & Shanghai Banking Corporation Limited, Sydney	0.60	0.77
Indian Overseas Bank, Singapore, SGD Account	11.09	10.65

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 9: Cash and Bank Balances (Contd.)	As at 30 June 2004	As at 30 June 2003
Indian Overseas Bank, Singapore-USD Account	0.03	0.23
Industrial and Commercial Bank, Singapore-SGD Account	-	0.24
Lloyds TSB, London, United Kingdom	1.89	2.97
May Bank, Malaysia	-	0.22
National Bank of Dubai, Dubai	-	0.75
PNC Bank	-	9.77
Public Bank Bhd, Malaysia	8.75	10.38
SBI International (Mauritius) Ltd., Mauritius	0.03	0.07
Scotia Bank, Winnipeg, Canada	0.05	0.20
South Shore Saving Bank, MA, USA	-	0.70
Skandinaviska Enskilda Banken AB, Stockholm, Sweden	-	-
Skandinaviska Enskilda Banken AB, Stockholm, Sweden - USD Account	-	0.02
Silicon Valley Bank, CA, USA - United States of America	6.31	23.42
Standard Chartered Bank, Malaysia	-	0.01
Standard Chartered Bank, Singapore	-	3.74
Sumitomo Bank limited, Tokyo, Japan	0.78	0.42
Sun Trust Bank	0.39	0.39
UBS AG, Switzerland	-	4.16
United Overseas Bank	0.59	-
Westpac	0.03	-
Wells Fargo Bank, CA, United States of America	-	0.95
Wells Fargo Bank, CA, United States of America	1.25	0.79
<b>On Deposit account</b>		
ABN Amro Bank, N. V., United Kingdom	-	0.23
Australia and New Zealand Banking Group Limited, Sydney, Australia - USD Account	2.97	1.57
Australia and New Zealand Banking Group Limited, Wellington, New Zealand - Call Account	0.20	0.02
Australia and New Zealand Banking Group Limited, Sydney, Australia - Cash Management	7.29	3.60
Australia and New Zealand Banking Group Limited, Wellington, New Zealand - USD Account	0.01	0.03
Australia and New Zealand Banking Group Limited, Wellington, New Zealand - Serious Saver	0.90	0.10
Australia and New Zealand Banking Group Limited, Sydney, Australia - Term Deposits	-	0.76
Bank of America, N.A., United States of America	-	0.01
Bank of Ireland, Ireland	1.07	1.33
Deutsche Bank, Singapore	-	0.04
Hongkong & Shanghai Banking Corporation Limited, United States of America - USD Account	0.38	-
PNC Bank	15.69	-
South Shore Savings Bank, MA, United States of America	0.35	1.71
Standard Chartered Bank, Singapore	-	1.33
UBS AG, Switzerland	-	0.43
Wells Fargo Bank, CA, United Bank of America	3.48	-
	<b>224.88</b>	<b>179.17</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 10: Loans and Advances	As at 30 June 2004	As at 30 June 2003
(Unsecured and considered good, unless otherwise stated)		
Loans and advances recoverable in cash or in kind or for value to be received		
- Considered good (refer note 1 and 2)	141.54	173.01
- Considered doubtful	0.60	2.22
Interest receivable	4.22	6.16
	<b>146.36</b>	<b>181.39</b>
Less: Provision for doubtful advances	(0.60)	(2.22)
	<b>145.76</b>	<b>179.17</b>

**Notes:**

1. Includes Rs. 20.50 crores (previous year Rs. 67.90 crores) on account of loan given to HCL Technologies Limited Employees Trust.
2. Includes advance income tax of Rs. 111.72 crores after netting of tax provision of Rs. 99.01 crores.

Schedule 11: Other Current Assets	As at 30 June 2004	As at 30 June 2003
Income accrued but not due	25.15	11.27
	<b>25.15</b>	<b>11.27</b>

Schedule 12: Current Liabilities and Provisions	As at 30 June 2004	As at 30 June 2003
<b>Current liabilities</b>		
Sundry creditors	296.23	248.22
Unrealised loss on forward exchange contracts	20.48	-
Other liabilities	26.81	17.19
Advance from customers	6.64	6.96
Deferred revenue	0.09	0.21
Advance billing	45.22	41.33
Investor education and protection fund - Unclaimed dividend	0.56	0.46
Interest accrued but not due on borrowings	0.79	0.02
	<b>396.82</b>	<b>314.39</b>
<b>Provisions</b>		
Provision for income tax (refer note below)	-	3.79
Proposed dividend (including corporate dividend tax)	133.91	66.68
Provision for warranties	1.97	1.38
Provision for staff benefits	41.38	27.97
	<b>177.26</b>	<b>99.82</b>
	<b>574.08</b>	<b>414.21</b>

**Note:** Previous year provision is net of advance tax of Rs. 92.83 crores.

Schedule 13: Miscellaneous Expenditure (to the extent not written off or adjusted)	As at 30 June 2004	As at 30 June 2003
Product development cost	2.50	2.72
Less: Amortised during the year	2.50	0.22
	<b>-</b>	<b>2.50</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 14: Sales	Year ended 30 June 2004	Year ended 30 June 2003
Goods		
- Networking equipment	113.19	72.34
- Software	6.29	7.84
Services		
- Software	2,028.23	1,869.10
- Networking	115.24	76.39
- Business process outsourcing	300.74	117.83
	<b>2,563.69</b>	<b>2,143.50</b>

Schedule 15: Other Income	As at 30 June 2004	As at 30 June 2003
Interest income		
- On fixed deposits	0.53	3.26
- On non-trade investments	17.25	15.64
- From customers	-	1.75
- Others	0.87	1.06
Exchange differences	18.53	-
Income from non-trade investments		
- Dividend	49.16	2.48
Provision for liabilities not required written back	0.89	7.68
Profit on sale of investments	70.93	58.17
Profit on sale of stake in joint venture [refer note 20(3)(b&c)]	306.19	-
Profit on sale of fixed assets (net)	0.08	0.08
Provision for diminution in value of investments written back	-	9.79
Miscellaneous income	12.08	10.18
	<b>476.51</b>	<b>110.09</b>

Schedule 16: Cost of Goods Sold	As at 30 June 2004	As at 30 June 2003
Opening stock	26.99	11.86
Purchases	109.75	94.71
Closing stock	(23.43)	(26.99)
	<b>113.31</b>	<b>79.58</b>

Schedule 17: Cost of Services	As at 30 June 2004	As at 30 June 2003
<b>Personnel expenses</b>		
Salaries, wages and bonus	1,031.81	850.08
Contribution to provident and other funds	98.38	67.94
Staff welfare expenses	15.94	13.46
	<b>1,146.13</b>	<b>931.48</b>
<b>Others</b>		
Software development expenses	207.82	264.66
License and transponder fee	15.00	12.74
	<b>1,368.95</b>	<b>1,208.88</b>

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

Schedule 18: Administration and Other Expenses	Year ended 30 June 2004	Year ended 30 June 2003
Rent	52.15	49.28
Electricity and water	23.66	20.39
Insurance	11.12	14.84
Repairs and maintenance		
- Buildings	2.90	1.80
- Plant and machinery	16.19	14.28
- Others	18.35	13.61
Communication costs	77.04	44.96
Travel and conveyance	191.89	162.15
Business promotion	3.30	3.49
Legal and professional charges	25.15	26.24
Software license fee	16.42	16.60
Software tools	10.58	-
Printing and stationery	6.99	5.44
Rates and taxes	13.50	7.27
Advertising and publicity	0.88	1.37
Postage and courier	2.45	1.82
Provision for current assets other than bills receivable	0.36	0.47
Donations	0.02	0.83
Recruitment, training and development	21.08	18.22
Provision for doubtful debts	5.41	7.98
Bad debts written off	0.27	0.70
Other establishment cost	4.89	5.63
Provision for diminution in value of investments	18.68	10.76
Premium amortised on bonds	0.97	0.99
Loss on sale of investments	1.21	-
Exchange differences	-	3.53
Miscellaneous expenses	56.07	23.54
	<b>581.53</b>	<b>456.19</b>

Schedule 19: Finance Costs	Year ended 30 June 2004	Year ended 30 June 2003
Interest		
- on vehicles under finance lease	0.79	0.61
- on loan from banks	3.41	0.36
- others	2.99	0.89
Bank charges	2.50	3.06
	<b>9.69</b>	<b>4.92</b>

**Schedule 20: Significant Accounting Policies and Notes to the Accounts**

**1. Significant accounting policies**

**a) Basis of preparation**

The financial statements are prepared and presented under the historical cost convention, in accordance with the Indian Generally Accepted Accounting Principles (GAAP), accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956, to the extent applicable. The financial statements are prepared in crores of Indian rupees.

**b) Principles of consolidation**

These consolidated financial statements relate to HCL Technologies Limited (“HCL” or “the Company”), the parent company, its subsidiaries, joint ventures and associates, which are as follows:

Name of the company	Location	Holding percentage
<b>Subsidiaries</b>		
1. HCL Technologies America Inc.	United States of America	100%
2. HCL Technologies Europe Limited	United Kingdom	100%
3. HCL Technologies Netherlands BV	Netherlands	100%
4. HCL Technologies GmbH	Germany	100%
5. HCL Technologies Belgium NV	Belgium	100%
6. HCL Technologies Sweden AB	Sweden	100%
7. HCL Technologies Italy SLR	Italy	100%
8. HCL Technologies (Australia) Pty. Limited	Australia	100%
9. HCL Technologies (NZ) Limited	New Zealand	100%
10. HCL Technologies (Hong Kong) Limited	Hong Kong	100%
11. HCL Technologies Japan Limited	Japan	100%
12. HCL Technologies South Africa (Proprietary) Limited*	South Africa	100%
13. HCL Comnet Systems & Services Limited	India	99.88%
14. HCL Comnet Limited	India	99.88%
15. HCL Technologies (Bermuda) Limited	Bermuda	100%
16. HCL Venture Capital Limited	Bermuda	100%
17. HCL Holdings GmbH	Austria	100%
18. eServe Holdings Limited	Mauritius	100%
19. HCL Technologies BPO Services Limited	India	100%
20. HCL Enterprise Solutions Limited	Mauritius	83.66%
21. HCL Technologies (Illinois) Inc.	United States of America	83.66%
22. HCL Enterprise Solutions (India) Limited	India	89.11%
23. Intelicent India Limited	India	100%
24. DSI Financial Solutions Pte. Limited	Singapore	51%
25. DSL Software Limited	India	51%
26. DSL GmbH	Germany	51%
27. HCL Technologies BPO Services NI Limited (formerly HCL Technologies NI Limited)	United Kingdom	90%
28. HCL Technologies (Mass.) Inc.	United States of America	100%
29. HCL Jones Technologies, LLC	United States of America	51%
30. HCL Jones Technologies (Bermuda) Limited	Bermuda	51%
31. HCL m.a. Limited	United Kingdom	51%
32. HCL Technologies (Mumbai) Limited	India	100%
33. Infosystems (America) Inc.**	United States of America	100%
34. Insys Inc., Canada	Canada	100%
35. HCL Technologies Singapore Pte. Limited (formerly FEC Infosystems Pte. Ltd.)	Singapore	100%
36. HCL Technologies (Malaysia) Limited [formerly HCL Infosystems (Malaysia) Sdn. Bhd.]	Malaysia	100%
37. Infosystems (Europe) Limited	United Kingdom	100%
38. Infosystems Bermuda Limited ***	Bermuda	100%
39. Infosystems Australia Pty. Limited	Australia	100%

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

Name of the company	Location	Holding percentage
<b>Joint ventures</b>		
1. HCL Perot Systems NV [refer note 20(3) (b)]	Netherlands	50%
2. HCL Answerthink Inc.	United States of America	50%
3. Shipara Technologies Limited	India	77%
4. Aquila Technologies Private Limited	India	26.95%
<b>Associates</b>		
1. Aalayance Inc.	United States of America	19.03%
2. Net India Private Limited [refer note 20(3) (c)]	India	46.72%

\* Company was deregistered w.e.f. May 11, 2004.

\*\* Pursuant to the approval dated April 16, 2004 Infosystems (America) Inc. has been merged with HCL Technologies America Inc.

\*\*\* Pursuant to the approval dated October 16, 2003 accorded by R.B.I., Infosystems (Bermuda) Limited has been merged with HCL Technologies (Bermuda) Limited.

The consolidated financial statements have been prepared on the following basis:

The excess of cost to the parent company of its investment in subsidiaries over its portion of equity in subsidiaries at the respective date on which investment in subsidiaries was made is recognised in the financial statements as goodwill. The parent company's portion of equity in the subsidiary is determined on the basis of book value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

The financial statements of the parent company and subsidiaries are combined on a line by line basis by adding together the book values of like items of assets, liabilities, incomes and expenses after eliminating intra group balances/transactions and resulting unrealised profits in full. The unrealised losses resulting from intra group transactions have also been eliminated. The amount shown in respect of reserves comprises the amount of relevant reserves as per the balance sheet of the parent company and its share in the post acquisition increase in the relevant reserves of the subsidiaries.

Investment in entities in which the parent company or a subsidiary has joint control with one or more co-venturers, is reported using the proportionate consolidation method. The application of proportionate consolidation means that the Consolidated Balance Sheet and Profit and Loss Account include the Company's share of assets, liabilities, incomes and expenses in the jointly controlled entities. For the purposes of applying proportionate consolidation, the Company uses the consolidated financial statements of the jointly controlled entities. Most of the procedures for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries.

Investment in entities in which the parent company or any of its subsidiaries has significant influence but not a controlling interest, are reported according to the equity method, i.e. the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post-acquisition change in the investor's share of the net assets of the investee. The Consolidated Profit and Loss Account includes the investor's share of the results of operations of the investee.

Minority interests' share of net profit is adjusted against the income to arrive at the net income attributable to the shareholders of the parent Company. Minority interests' share of net assets is disclosed separately in the Balance Sheet.

The consolidated financial statements are prepared, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements. The consolidated financial statements are prepared using uniform accounting policies for similar transactions.

**c) Use of estimates**

The preparation of financial statements in conformity with GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting period. Examples of such estimates include estimates of expected contract costs to be incurred to complete software development, provision for doubtful debts and estimated useful life of the fixed assets. The actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

**d) Foreign exchange transactions and translation of financial statements of foreign operations**

Foreign exchange transactions are recorded at the exchange rates prevailing at the date of transaction. Realised gains and losses on foreign exchange transactions during the year are recognised in the Profit and Loss Account. Foreign currency monetary assets and liabilities are translated at year-end rates and resultant gains/losses on foreign exchange translations are recognised in the Profit and Loss Account.

Foreign operations of the Company are classified into integral and non-integral. The financial statements of an integral foreign operation are translated as follows:

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

Revenue items, except opening and closing inventories and depreciation, are translated at weighted average rate. Opening and closing inventories are translated at the rate prevalent at the commencement and close respectively of the accounting period.

Monetary assets and liabilities are translated using the closing rate. Non-monetary assets and liabilities, other than investments and fixed assets are translated using the exchange rate at the date of the transaction, i.e. the date when they were acquired.

Fixed assets existing at the date of acquisition of a subsidiary are translated using the exchange rate at that date. For fixed assets acquired later, the exchange rate at the date of acquisition of the fixed asset is used. Investments are translated at historical cost. The net exchange difference resulting from the translation of items in the financial statements of the subsidiary is recognised as income or expense for the period.

In respect of foreign operations identified as non-integral to the operations of the Company, the translation of functional currency into reporting currency 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 gain or loss resulting from such translations is accumulated in a foreign currency translation reserve.

Contingent liabilities are translated at the closing rate.

**e) Forward exchange contracts** (Also refer to note 2)

The Company enters into forward foreign exchange 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 and forecast cash flows denominated in certain foreign currencies.

With effect from April 1, 2004, the Company has decided to account for forward exchange contracts that constitute a hedge from an economic perspective based on their designation as "effective hedges" or "non effective hedges". To designate a forward contract as an effective hedge, management objectively evaluates each contract with appropriate supporting documentation and evidence at the inception of each forward contract and on an ongoing basis to determine whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. Further, it has been recently clarified that the revised AS (11) does not cover forward exchange contracts entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Under the circumstances, guidance from International Accounting Standard (IAS) 39 - Financial Instruments: Recognition and Measurement has been taken for accounting for these forward exchange contracts.

The Company records the gain or loss on effective hedges in the general reserve until the transactions are complete. On completion the gain or loss is transferred to the profit and loss account for that period. In the absence of an effective hedge, the gain or loss is recognised in the profit and loss account.

Gains and losses on forward exchange contracts are computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period).

**f) Revenue recognition**

Revenue from software developed and service contracts, on a time and materials basis is recognised as the services are rendered by the Company. Revenue from fixed price contracts is recognised in accordance with the percentage completion method under which the sales value of performance, including earnings thereon, is recognised on the basis of effort incurred in respect of each contract as a proportion of total effort expected to be incurred. Anticipated losses, if any, up to the completion of contract are recognised immediately. Revenue from sale of licenses for the use of software applications is recognised on transfer of title in the user license. Revenue from annual technical service contracts is recognised on a pro rata basis over the period in which such services are rendered. Revenue from products developed for customers under a revenue sharing plan is recognised in accordance with the terms of the contract. Income accrued but not due represents revenue recognised on contracts to be billed in the subsequent period, in accordance with terms of the contract.

Revenue from the sale of networking equipment and software is recognised on transfer of all the significant risk and rewards of ownership of goods to the buyer and excludes sales tax.

Revenue from installation services is recognised when installation of networking equipment at customer site is completed and accepted by the customer.

Revenue from bandwidth services is recognised upon actual usage of such services by customers based on either the time for which these services are provided or volume of data transferred or both, and excludes service tax.

Revenue from maintenance services and software related services is recognised rateably over the period of the contract.

Unaccrued income arising in respect of bandwidth services and maintenance services is calculated on the basis of unutilised period of service at the balance sheet date and represents revenue, which is expected to be earned in future periods in respect of these services.

Interest on the deployment of surplus funds is recognised using the time-proportion method, based on interest rates implicit in the transaction. Dividend income, commission, brokerage and rent are recognised when the right to receive the same is established.

**g) Expenditure**

Expenses are accounted for on an accrual basis and provisions are made for all known losses and liabilities.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)****h) Inventory**

Inventories are valued at the lower of cost and net realisable value. The cost is calculated on the basis of weighted average price method. The net realisable value is determined with reference to selling prices of related finished goods. The comparison of cost and net realisable value is made on an item-by-item basis.

**i) Fixed assets**

Fixed assets are stated at cost of acquisition including incidental costs related to acquisition and installation. Fixed assets under construction, advances paid towards acquisition of fixed assets and cost of assets not put to use before the year-end, are disclosed as capital work-in-progress.

**j) Leases**

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

The assets given under operating leases are shown in the balance sheet under fixed assets and depreciated on a basis consistent with the depreciation policy of the Company. The lease income is recognised in the profit and loss account on a straight-line basis over the lease term.

The assets taken on finance lease are capitalised at an amount equal to the fair value of the leased assets or the present value of the minimum lease payments determined after applying a discount rate of 7% to 9.5%, in case fair value of leased asset exceeds the present value of the minimum lease payments and liability of an equal amount is recognised. In case there is certainty that the Company will obtain ownership of the asset by the end of the lease term, the asset is depreciated in accordance with the Company's accounting policy. In case there is no reasonable certainty, the asset is depreciated over the lease term or useful life, whichever is shorter. The lease payment is apportioned between finance charge and reduction of outstanding liability. The finance charge is allocated to periods over the lease term so as to produce a constant periodic rate of interest on remaining liability.

Lease payments under an operating lease are recognised as expenses in the profit and loss account on a straight-line basis over the lease term.

**k) Depreciation**

Depreciation on fixed assets except leasehold land and leasehold improvement is provided on the straight-line method based on estimated useful lives, as determined by the management. Leasehold land is amortised over the period of lease. Leasehold improvement is amortised over a period of 4 years or the remaining period of the lease, whichever is shorter. Depreciation is charged on a pro rata basis for assets purchased/sold during the year. Assets costing less than Rs. 5,000 are fully depreciated in the year of purchase. The management's estimates of the useful life of the various fixed assets is as follows:

	Life (in years)
Buildings	20
Plant and machinery (including office equipment, air conditioners and electrical installations)	4 to 5
Computers (excluding mainframes)	3 to 4
Mainframe computer systems (including related software)	6
Furniture and fixtures (including leasehold improvement)	4
Vehicles	5

Leased assets are depreciated over the period of lease.

These rates are equal to or higher than the rates prescribed by Schedule XIV to the Companies Act, 1956.

**l) Intangible assets**

Intangible assets represent goodwill and identified amortisable intangible assets such as intellectual property rights and non-compete agreements, which arise or have been acquired through acquisitions.

Values have been assigned to the identified intangible assets based on valuations done by independent valuers. The intangible assets are amortised on the straight-line method over the periods during which the benefits are expected to accrue from these assets. The estimated useful lives of intangible assets are as follows:

Goodwill	5 years
Intellectual property rights	4 years
Non-compete agreements	3 to 5 years

The carrying values of intangible assets are tested for impairment at each balance sheet date.

Intangible assets also include software which are amortised over a period of 3 years or period of license, whichever is shorter.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)****m) Investments**

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as long term or current investments, based on management intention at the time of purchase. Long-term investments are stated at cost and provision is made to recognise any decline, other than temporary, determined separately for each investment. Current investments are stated at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments.

**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 capitalised under relevant heads.

**o) Software product development**

Product development cost consisting of proportionate compensation cost of employees involved in product development, related travel cost and other direct cost are capitalised subsequent to achievement of technical feasibility of the product. All costs incurred until technical feasibility is achieved are expensed as incurred. Product development costs are amortised in the ratio that current gross revenues for the product bear to the total current and anticipated future gross revenues for that product, or the straight-line method over the remaining estimated economic life of the product, whichever is greater.

**p) Warranty**

Provision for warranty is calculated on the basis of the unexpired warranty period of equipment installed during the year and the annual maintenance cost of equipment.

**q) Income taxes**

Income tax expenses comprise current tax and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carried forward loss under the taxation laws, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written up or down to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The deferred tax liabilities/assets and tax expense are determined separately for parent, each subsidiary and joint venture and then aggregated.

**r) Earnings per share**

Basic earnings per share is computed using the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of equity and dilutive equity equivalent shares outstanding at the year-end, except where the results are anti-dilutive.

**s) Retirement benefits to employees**

India

Contributions to provident fund are deposited with a recognised provident fund. The Company contributes to a scheme administered by the Life Insurance Corporation of India in respect of superannuation. Provision for gratuity and leave encashment is made on the basis of an actuarial valuation.

Subsidiaries in the US

The Company has a saving and investment plan under section 401(k) of the Internal Revenue Code of the United States of America. This is a defined contribution plan. Contributions are charged to income in the period in which they accrue. Leave encashment is provided in accordance with Company policy on full liability basis.

Subsidiaries in Europe

The Company contributes towards pension plans of government for its employees of the subsidiaries in United Kingdom, Sweden, Netherlands and Northern Ireland.

Subsidiaries in Australia

As per local laws of Australia, the Company contributes to a fund approved by the Government of Australia.

**t) Employee stock based compensation**

The Company calculates the compensation cost based on the intrinsic value method wherein the excess of market price of underlying equity shares as of the date of the grant of options over the exercise price of the options given to employees under the employee stock option schemes of the Company, is recognised as deferred stock compensation cost and amortised over the vesting period on a straight-line basis.

Market price of a share means the higher of the average of the two weeks' high and low price of the share preceding the date of grant of option or the price of the company's share immediately preceding the date of grant of option on the stock exchange, where there is highest trading volume.

2. During the previous year ended June 30, 2003, the Company had adopted revised Accounting Standard (AS) -11 on "The Effects of Change in Foreign Exchange rates" issued by the Institute of Chartered Accountants of India which prescribes the method of accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading/speculation purposes.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise states)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

During the current year, in absence of the guidelines available in revised AS-11 for accounting of forward exchange contracts which are designated as hedge instruments, the Company has adopted the guidelines of IAS 39 [Refer note 1 (e)].

Consequent to the change in the accounting policy, the charge to the profit and loss account for the year ended June 30, 2004 is lower by Rs. 23.70 crores with the corresponding decrease in current liabilities.

**3. Acquisitions/Sale**

**a) Acquisition of an additional 16.33% in the ERP business of Computech Corporation and systech Inc.**

Following the initial acquisition of 51% equity interest in the Enterprise Resource Planning business of Computech Corporation and Systech Inc., through its subsidiary HES Enterprise Solutions Ltd., Mauritius, for cash during July 2001, the Company acquired an additional 32.67% in two equal tranches during September 2002 and October 2003, for a cash consideration.

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

	Amount
Purchase consideration	<b>5.18</b>
Allocated to:	
Current assets	-
Fixed assets	-
Liabilities assumed	-
Goodwill	5.18
	<b>5.18</b>

In terms of the shareholders' agreement the Company is required to acquire and the minority shareholders are required to sell the balance of 16.33% by January 31, 2005. The consideration for the acquisition of the balance of 16.33% is payable in cash and is determined based on earning and revenue of the acquired business.

**b) Sale of 50% Equity interest in HCL Perot Systems NV (HPS)**

During the current year, the company through one of its subsidiaries, has sold its holding in HPS to Perot Systems Corporation (PSC) on December 19, 2003 at a gross consideration of Rs. 484.82 crores. Consequent to the sale of its holding in HPS to PSC, the Company has recorded a gain of Rs. 305.99 crores, net of related expenses, in the year ended June 30, 2004.

In previous year ended June 30, 2003, the company in its consolidated financial statements reported the investment using the proportionate consolidation method in accordance with AS-27 on financial reporting of interests in joint ventures. During the current year, in absence of requisite information as required for proportionate consolidation, the company has accounted for its investment in HPS as an equity investee as prescribed in AS-23, Accounting for Investment in Associates in Consolidated Financial Statements. The Company's equity in the loss of HPS for the period ended December 19, 2003 is Rs.10.88 crores.

**c) Sale of 46.72% equity interest in Net India Private Limited (NIPL)**

In December 2003, the Company has sold its stake in NIPL for a consideration of Rs. 0.20 crore in cash. Since the carrying value of the investment in NIPL was nil at the date of sale, entire sale proceeds has been accounted for as a gain during the year ended June 30, 2004 in the income statement.

**4. Component of Deferred Tax Assets/Liabilities**

Components of deferred tax assets/liabilities are:

	As at 30 June 2004	As at 30 June 2003
<b>Deferred tax assets</b>		
Business losses	11.47	11.76
Provision for diminution in value of investments	-	0.07
Provision for doubtful debts	7.46	2.13
Accrued employee costs	10.13	1.08
Warranties	0.71	-
Depreciation	9.25	11.35
Others	1.83	1.30
	<b>40.85</b>	<b>27.69</b>
<b>Deferred tax liabilities</b>		
Intangibles	1.03	0.40
	<b>1.03</b>	<b>0.40</b>
<b>Net deferred tax assets</b>	<b>39.82</b>	<b>27.29</b>

## SCHEDULES FORMING PART OF THE ACCOUNTS

(All amounts in crores of rupees except share data and unless otherwise stated)

### Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)

#### 5. Employee Stock Option Plan (ESOP)

The Company has established ESOP 1999 and ESOP 2000, for a total grant of 20,000,000 and 15,000,000 options respectively, to employees of the Company and its subsidiaries. These options are vested over a maximum period of 110 months and 104 months respectively, from the date of grant and are to be exercised within a maximum period of five years from the date of vesting.

Each option granted under the above plans entitles the holder to two equity shares of the Company at an exercise price, which is approved by the Compensation Committee.

As at 30 June 2004, 8,351,795 (previous year 10,927,381) options were outstanding with the employees of the Company and its subsidiaries under the ESOP 1999.

	Year ended 30 June 2004	Year ended 30 June 2003
Options outstanding at the beginning of the year	10,927,381	12,331,619
Less: Forfeited during the year	(490,092)	(390,959)
Exercised during the year	(1,711,405)	(669,421)
Expired during the year	(374,089)	(343,858)
Options outstanding at the end of the year	<b>8,351,795</b>	<b>10,927,381</b>

As at 30 June 2004, 7,639,239 (previous year 8,814,611) options were outstanding with the employees of the Company and its subsidiaries in respect of the ESOP 2000.

	Year ended 30 June 2004	Year ended 30 June 2003
Options outstanding at the beginning of the year	8,814,611	8,891,381
Add: Granted during the year	109,275	820,025
Less: Forfeited during the year	(651,526)	(757,595)
Exercised during the year	(185,476)	(225)
Expired during the year	(447,645)	(138,975)
Options outstanding at the end of the year	<b>7,639,239</b>	<b>8,814,611</b>

#### HCL Technologies Limited Employees Trust

During the year ended 30 June 2002, the Company established an independent trust called the HCL Technologies Limited Employees Trust (Trust). In accordance with the trust deed, the Trust acquires shares from the stock exchange out of funds borrowed from the Company and issues these shares to employees eligible to exercise stock option under the Employees Stock Option Plans 1999 and 2000.

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

	Year ended 30 June 2004	Year ended 30 June 2003
Shares held at the beginning of the year	4,098,887	4,768,301
Add: Shares purchased during the year	-	170,000
Less: Shares issued to employees	(3,104,442)	(839,414)
Shares held at the end of the year	<b>994,445</b>	<b>4,098,887</b>

6. In the previous year employee stock compensation liability represents the future liability attributable to unvested stock options issued by HCL Perot Systems NV (HPS) to its employees under its stock option plans.
7. During the year ended June 30, 2000, the Company entered into software consulting and engineering service agreements with certain customers wherein these customers committed certain revenues. On achievement of the revenues and on fulfillment of the necessary conditions, shares of the Company will be transferred by the promoter shareholder. No such shares were transferred during the year ended June 30, 2003 and 2004. During the year ended June 30, 2003, the Company entered into an agreement with one of the customers to settle in cash, the outstanding shares granted under this program. Such cash payments are recognised as cost in the profit and loss account amounting to Rs. 0.60 crores (previous year Rs. 1.94 crores).
8. **Segment Reporting**  
The Company's and its subsidiaries' operations predominately relate to providing software services, delivered to customers located globally. Further, subsidiaries are also engaged in the business of rendering networking services including sale of networking equipment, software and business process outsourcing services, which are in the nature of customer contact centres and technical help desks. The Chairman of the Company, who is the Chief Executive Officer, evaluates the Company's performance and allocated resources based on an analysis of various performance indicators by types of services provided by the Company and geographic segmentation of customers.

## SCHEDULES FORMING PART OF THE ACCOUNTS

(All amounts in crores of rupees except share data and unless otherwise stated)

### Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)

Accordingly, revenue from service segments comprise the primary basis of segmental information set out in these financial statements. Secondary segmental reporting is performed on the basis of the geographical location of customers.

Revenue in relation to service segments is categorised based on items that are individually identifiable to that segment, while expenditure is categorised in relation to the associated turnover of the segment. Assets and liabilities are also identified to service segments.

Geographic segmentation is based on the location of the respective client. The principal geographical segments have been classified as America, Europe, India and others. Europe comprises business operations conducted by the Company in the United Kingdom, Sweden, Germany, Italy, Belgium, Netherlands, Northern Ireland and Switzerland. Since services provided by the Company within these European entities are subject to similar risks and returns, their operating results have been reported as one segment, namely Europe. India has been identified as a separate segment. All other customers, mainly in Japan, Australia, New Zealand, Singapore, Malaysia and Hong Kong are included in others.

The Company is presenting only revenue for geographic segments. Fixed assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments.

Financial information about the business segments for the year ended 30 June 2004 is as follows:

	Software services	Networking services	Business process outsourcing services	Segment Total	Inter segment transactions	Total
Revenue						
- External revenue	2,028.23	234.72	300.74	2,563.69	-	2,563.69
- Internal revenue	-	4.90	-	4.90	(4.90)	-
<b>Total</b>	<b>2,028.23</b>	<b>239.62</b>	<b>300.74</b>	<b>2,568.59</b>	<b>(4.90)</b>	<b>2,563.69</b>
Identifiable operating expenses (net)	1,544.36	215.28	255.87	2,015.51	(4.90)	2,010.61
Depreciation and amortisation	113.61	14.83	36.76	165.20	-	165.20
Foreign exchange (gain)/loss	(18.29)	0.65	(0.89)	(18.53)	-	(18.53)
<b>Segment results</b>	<b>388.55</b>	<b>8.86</b>	<b>9.00</b>	<b>406.41</b>	<b>-</b>	<b>406.41</b>
Unallocated corporate expenses						62.87
Other income						457.98
<b>Profit before taxes</b>						<b>801.52</b>
Prior period item						-
Income tax expenses						25.25
Minority interest						79.07
Share of loss of equity investees						10.97
<b>Net profit after taxes</b>						<b>686.23</b>
Segment assets	1,038.62	213.96	168.25	1,420.83	(36.23)	1,384.60
Unallocated assets						2,119.10
<b>Total assets</b>						<b>3,503.70</b>
Segment liabilities	393.21	105.20	152.24	650.65	(36.23)	614.42
Unallocated liabilities						256.88
<b>Total liabilities</b>						<b>871.30</b>
<b>Other information</b>						
Capital expenditure including capital work-in-progress	225.02	39.16	27.65	291.83	-	291.83
Unallocated corporate capital expenditure						2.84
<b>Total capital expenditure</b>						<b>294.67</b>
<b>Significant non cash adjustments affecting segment results</b>						
Provision for doubtful debts and bad debts written off	1.76	3.74	0.18	5.68	-	5.68
Revenue						
- External revenue	1,869.10	156.57	117.83	2,143.50	-	2,143.50
- Internal revenue	-	4.24	21.41	25.65	(25.65)	-
<b>Total</b>	<b>1,869.10</b>	<b>160.81</b>	<b>139.24</b>	<b>2,169.15</b>	<b>(25.65)</b>	<b>2,143.50</b>
Identifiable operating expenses (net)	1,423.62	138.75	142.77	1,705.14	(25.65)	1,679.49

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

	Software services	Networking services	Business process outsourcing services	Segment Total	Inter segment transactions	Total
Depreciation and amortisation	121.81	12.26	23.44	157.51	-	157.51
Foreign exchange (gain)/loss	6.30	(0.35)	(2.42)	3.53	-	3.53
<b>Segment results</b>	<b>317.37</b>	<b>10.15</b>	<b>(24.55)</b>	<b>302.97</b>	<b>-</b>	<b>302.97</b>
Unallocated corporate expenses						(66.55)
Other income						110.09
<b>Profit before taxes</b>	<b>317.37</b>	<b>10.15</b>	<b>(24.55)</b>	<b>302.97</b>	<b>-</b>	<b>346.51</b>
Prior period item	46.39	-	-	46.39	-	46.39
Income tax expenses						28.03
Minority interest						23.73
Share of loss of equity investees						0.43
<b>Net profit after taxes</b>	<b>270.98</b>	<b>10.15</b>	<b>(24.55)</b>	<b>256.58</b>	<b>-</b>	<b>247.93</b>
Segment assets	1,142.03	143.48	161.49	1,447.00	(88.29)	1,358.71
Unallocated assets						1,457.55
<b>Total assets</b>						<b>2,816.26</b>
Segment liabilities	265.73	62.29	153.04	481.06	(88.29)	392.77
Unallocated liabilities						124.43
<b>Total liabilities</b>						<b>517.20</b>
<b>Other information</b>						
Capital expenditure including capital work in progress	173.24	8.42	40.68	222.34	-	222.34
Unallocated corporate capital expenditure						5.36
<b>Total capital expenditure</b>						<b>227.70</b>
<b>Significant non cash adjustments affecting segment results</b>						
Provision for doubtful debts and bad debts written off	5.43	2.98	0.27	8.68	-	<b>8.68</b>

The Company has four geographic segments: America, Europe, India and Others. Revenue from the geographic segments based on domicile of the customer is as follows:

	Year ended 30 June 2004	Year ended 30 June 2003
America	1,564.52	1,356.35
Europe	571.49	420.08
India	210.52	159.42
Others	217.16	207.65
	<b>2,563.69</b>	<b>2,143.50</b>

**Other Information**

No single customer accounted for more than 10% of the revenues of the Company during the year ended June 30, 2003. During the year ended June 30, 2004 a single customer, who holds 49% interest in a consolidated subsidiary, accounted for approximately 12.15% of the revenue of the company.

**Segment accounting policies**

The accounting principles consistently used in the preparation of the financial statements and consistently applied to record revenue and expenditure in individual segments are as set out in Note 1 to this schedule on significant accounting policies. The accounting policies in relation to segment accounting are as under:

**a) Segment assets and liabilities**

All segment assets and liabilities have been allocated to the various segments on the basis of specific identification.

Segment assets consist principally of fixed assets, sundry debtors, loans and advances, cash and bank balances, and unbilled receivables. Segment assets do not, however, include unallocated corporate and treasury assets and net deferred tax assets.

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

Segment liabilities include sundry creditors, other liabilities, unsecured loan and secured loan in respect of leased vehicles. Segment liabilities do not include share capital, reserves and provision for income tax.

**b) Segment revenue and expenses**

Segment revenue is directly attributable to the segment and segment expenses have been allocated to various segments on the basis of specific identification. However, segment revenue does not include miscellaneous income, income from investments and other income. Segment expenses do not include premium amortised on bonds and diminution allowance in respect of current and trade investments.

**9. Related Parties**

**a) Related parties where control exists**

**Holding company**

HCL Corporation Limited, India, (formerly Slocum Investments Private Limited)

**Others**

HCL Technologies Limited Employees Trust

**b) Related parties with whom transactions have taken place during the year**

**Fellow subsidiaries**

HCL Infosystems Limited

HCL Infinet Limited

HCL Peripherals Ltd.

**Joint ventures**

HCL Perot Systems N.V., Netherlands [refer note 3(b)] – 50% interest

Aquila Technologies Private Limited - 26.95% interest

HCL Answerthink Inc., United States of America – 50% interest

Shipara Technologies Limited, India – 77% interest

**Associates**

Aalayance Inc.

Net India Private Limited [Refer note 3(c)]

**Key management personnel**

Shiv Nadar-Chairman and CEO

S Raman-Chief Operating Officer and whole-time Director

**Others**

HCL Technologies Limited Employees Trust

Transactions with related parties in the normal course of business

Particulars	Fellow Subsidiaries		Jointly controlled entities		Associates		Others		Key management personnel	
	Year ended 30 June		Year ended 30 June		Year ended 30 June		Year ended 30 June		Year ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Sale of materials and services	5.75	4.61	1.02	2.12	-	-	-	-	-	-
Purchase of materials and services	6.69	14.23	8.41	5.35	2.84	-	-	-	-	-
Payment for use of facilities	1.45	-	0.06	-	-	-	-	-	-	-
Receipt for use of facilities	-	-	-	0.15	-	-	-	-	-	-
Loans and advances (net of repayments)	-	0.09	(0.75)	-	-	-	(47.40)	(9.07)	-	-
Purchase of capital equipments	21.53	25.68	-	-	-	-	-	-	-	-
Remuneration	-	-	-	-	-	-	-	-	5.30	1.03
Guarantees given	-	-	4.6	-	-	-	-	-	-	-

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

**c) Outstanding balances as at year end**

Particulars	Fellow Subsidiaries		Jointly controlled entities		Associates		Others		Key management personnel	
	Year ended 30 June		Year ended 30 June		Year ended 30 June		Year ended 30 June		Year ended 30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Debtors	1.83	0.27	0.64	0.40	-	-	-	-	-	-
Other receivables	0.70	2.37	0.34	3.19	-	-	-	-	-	-
Creditors	1.77	12.11	2.31	1.11	1.00	-	-	-	-	-

**10. Leases**

i) The future lease obligations in respect of assets taken on finance lease on or after 1 April 2001 are as follows:

	Total minimum lease payments outstanding as on 30 June 2004	Interest included in minimum lease payments	Present value of minimum lease payments
Not later than one year	3.25	0.73	2.52
Later than one year but not later than 5 years	6.85	0.99	5.86

ii) The Company's significant leasing arrangements are in respect of operating leases for office space and accommodation for its employees. These leasing arrangements, which are cancelable, are usually renewable by mutual consent on mutually agreed terms. The aggregate lease rental expense recognised in the profit and loss account for the year in respect of which leases entered into after July 1, 2001 amount to Rs. 54.53 crores (previous year Rs. 39.88 crores).

iii) The Company has given networking equipment to its customers on non-cancelable operating lease for a maximum period of three years. The lease rental income recognised in the profit and loss account for the year in respect of such leases entered into after 1 July 2001 is Rs. 2.27 crores (previous year Rs. 4.02 crores). The future minimum lease receivables under such operating leases are as follows:

	Amount
2004-05	0.27
2005-09	0.04
Thereafter	-

iv) The Company has given networking equipments to its customers on finance lease basis.

The future lease payments in respect of assets given on finance lease on or after 1 April 2001 are as follows:

	Total minimum lease payments receivable as on 30 June 2004	Interest included in minimum lease payments receivable	Present value of minimum lease payments receivable
Not later than one year	0.78	0.25	0.53
Later than one year but not later than 5 years	0.76	0.02	0.74

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)****11. Earnings Per Share (EPS)**

The computation of earnings per share is as follows:

	Year ended 30 June 2004	Year ended 30 June 2003
Net profit as per Profit and Loss Account for computation of EPS	686.23	247.93
Weighted average number of equity shares outstanding in computation of basic EPS	294,519,683	288,135,933
Dilutive effect of stock options outstanding	54,65,622	3,119,600
Dilutive effect of shares to be issued in accordance with the scheme of arrangement between the Company and HCLIS	-	2,682,010
Weighted average number of equity shares and equity equivalent shares outstanding in computing diluted EPS	299,985,305	293,937,543
Nominal value of equity shares	2	2
<b>Earnings per equity share</b>		
Basic	23.30	8.60
Diluted	22.88	8.43

**12. Commitments and Contingent Liabilities**

	As at 30 June 2004	As at 30 June 2003
<b>Capital commitments</b>		
Estimated amount of unexecuted capital contracts (net of advances and deposits)	26.70	41.70
<b>Other commitments</b>		
Commitment to contribute to venture capital funds over the next two/three years	73.31	88.93
<b>Contingent liabilities</b>		
Outstanding guarantees given on behalf of various subsidiaries	188.69	131.40
Outstanding letters of credit	0.43	1.34
	<b>289.13</b>	<b>263.37</b>

**13. Derivative Financial Instruments**

The Company enters into forward foreign exchange contracts where the counter party is a bank. The forward foreign exchange contracts mature between one to twelve months. The Company considers the risk of non-performance by the counter party as negligible. The value of the forward foreign exchange contracts outstanding as on 30 June 2004 amounted to Rs. 621.44 crores (previous year 237.42 crores).

**14. Joint Ventures**

The Company has interest in the following jointly controlled entities:

Name of the company	Shareholding	Incorporated in
1. HCL Perot Systems, N.V. *	50%	Netherlands
2. HCL Answerthink, Inc.	50%	United States of America
3. Aquila Technologies Private Limited	26.95%	India
4. Shipara Technologies Limited	77.00%	India

\* The 50% equity interest in HPS N.V. has been sold off in December 2003 [Refer note 3 (b)].

## SCHEDULES FORMING PART OF THE ACCOUNTS

(All amounts in crores of rupees except share data and unless otherwise stated)

### Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)

The aggregate amounts of assets, liabilities, income and expenditure to the extent of the interest of the Company in the above jointly controlled entities (as per audited results made available) are given hereunder:

	Year ended 30 June 2004	Year ended 30 June 2003
Revenue from software services	18.19	245.83
Other income	0.73	0.32
<b>Total</b>	<b>18.92</b>	<b>246.15</b>
Personnel expenses	14.35	135.97
Other expenses	2.93	68.86
Finance charges	0.15	0.25
Depreciation	3.78	16.93
<b>Total</b>	<b>21.21</b>	<b>222.01</b>
<b>Profit/(loss) before tax</b>	<b>(2.29)</b>	<b>24.14</b>
Provision for tax	0.20	13.12
<b>Net profit/(loss) after tax</b>	<b>(2.49)</b>	<b>11.02</b>

	As at 30 June 2004	As at 30 June 2003
<b>Assets</b>		
Fixed assets [including goodwill of Rs. 2.17 crores (previous year 14.15 crores)]	6.15	52.03
Sundry debtors	0.91	55.90
Cash and bank balances	1.50	23.72
Loans and advances	1.96	87.66
Deferred tax asset	0.01	3.99
<b>Liabilities</b>		
Secured loans	-	0.17
Current liabilities and provisions	3.88	42.30

#### 15. Auditor's Remuneration

	Year ended 30 June 2004	Year ended 30 June 2003
Statutory audit	2.64	3.13
Tax audit fee	0.34	0.34
Certification	0.03	-
Advisory Services	0.46	0.85
	<b>3.47</b>	<b>4.32</b>

#### 16. Maximum balances outstanding with non-scheduled banks are as follows:

Non-scheduled Banks	Year ended 30 June 2004	Year ended 30 June 2003
<b>On Current account</b>		
ABN Amro Bank, N.V., Germany	0.25	2.13
ABN Amro Bank, N.V., Netherlands	7.37	1.13
Banca Popolare di Sondrio, Italy	0.02	0.03
Australia and New Zealand Banking Group Ltd., Sydney, Australia	9.04	3.73
Australia and New Zealand Banking Group Ltd., Wellington, New Zealand	0.52	1.94
Bank of America, United States of America	4.08	21.07
Bank of America, Boston, United States of America	0.02	0.02
Bank of Bermuda, Bermuda	0.16	0.17
Bank of Butterfield, Bermuda	0.79	0.40
Bank of Ireland - Collection Account, Belfast, Ireland	13.30	18.95
Bank of Ireland, Ireland	10.98	7.37
Bank of Ireland - Payment Account, Belfast, Ireland	0.09	8.66

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

Non-scheduled Banks (Contd.)	Year ended 30 June 2004	Year ended 30 June 2003
Bank of Tokyo - Mitsubishi Ltd., Tokyo, Japan	0.55	5.12
Bank of Tokyo - Mitsubishi Ltd., Tokyo, Japan	0.40	0.37
Bank Brussels Lambert, Brussels, Belgium	5.58	1.50
Banque St. Generale, France	0.02	0.04
Barclays Bank Plc. United Kingdom	2.31	22.63
Chevy Chase Bank, Virginia, United States of America	0.03	0.14
Citi Bank N.A., Singapore - SGD Accounts	0.89	0.23
Citi Bank N.A., Singapore - USD Accounts	11.71	0.56
Citi National Bank, United States of America	9.63	0.02
Creditanstalt AG, Vienna, Austria	0.51	0.52
Deutsch Bank, Hungary	0.10	0.26
Deutsche Bank, New York, United States of America	1.80	0.08
Deutsche Bank, Singapore	0.63	-
Deutsche Bank, Singapore (2nd account)	0.63	0.06
Deutsche Bank, London, United Kingdom	77.78	4.38
Dresdner Bank, Frankfurt, Germany	1.08	1.33
DSL Bank, Frankfurt, Germany	3.10	4.22
Fleet Bank, Boston, United States of America	0.06	0.06
Hong Kong & Shanghai Banking Corporation Limited, Hong Kong	2.60	2.62
Hong Kong & Shanghai Banking Corporation Limited, Mauritius	0.37	0.75
Hong Kong & Shanghai Banking Corporation Limited, Malaysia	1.75	4.31
Hong Kong & Shanghai Banking Corporation Limited, United States of America	0.52	0.52
Hong Kong & Shanghai Banking Corporation Limited, Sydney	22.63	0.89
Indian Overseas Bank, Singapore - SGD Account	7.85	10.65
Indian Overseas Bank, Singapore - USD Account	2.26	0.45
Industrial and Commercial Bank, Singapore - SGD Account	1.33	1.33
Lloyds TSB, London, United Kingdom	21.52	21.52
May Bank, Malaysia	0.22	0.88
National Bank of Dubai, Dubai	1.56	1.56
PNC Bank	21.07	9.77
Public Bank Bhd., Malaysia	9.38	10.38
SBI International (Mauritius) Ltd., Mauritius	1.60	0.07
Scotia Bank, Winnipeg, Canada	0.38	0.33
South Shore Saving Bank, MA, USA	0.70	0.70
Skandinaviska Enskilda Banken AB, Stockholm, Sweden	0.39	0.79
Skandinaviska Enskilda Banken AB, Stockholm, Sweden - USD Account	0.24	0.18
Silicon Valley Bank, CA, USA - United States of America	20.42	68.14
Standard Chartered Bank, Malaysia	0.02	0.02
Standard Chartered Bank, Singapore	9.63	9.63
Sumitomo Bank limited, Tokyo, Japan	3.00	2.76
Sumitomo Bank limited, Tokyo, Japan - USD Account	0.25	0.23
Suntrust Bank,	0.39	4.49
TCF Bank, Illinois, United states of America	0.40	-
United Overseas Bank Limited, Singapore	3.73	-
UBS, AG Switzerland	0.43	9.04
Wells Fargo Bank, CA, United States of America	7.85	6.14
Wells Fargo Bank, CA, United States of America	0.79	1.03

**SCHEDULES FORMING PART OF THE ACCOUNTS**

(All amounts in crores of rupees except share data and unless otherwise stated)

**Schedule 20: Significant Accounting Policies and Notes to the Accounts (Contd.)**

17. The Company and its various subsidiaries are required to comply with the local transfer pricing regulations, which are contemporaneous in nature. The Company appoints independent consultants annually for conducting a Transfer Pricing Study to determine whether transactions with associate enterprises are undertaken on "an arm's length basis". Adjustments, if any, arising from the-transfer-pricing-study will be accounted for as and when the study is completed. The management is of the opinion that its international transactions are at arm's length so that aforesaid legislation will not have any impact on the financial statements, particularly on the amount of the tax expense and that of provision for taxation.
18. Amortisation of the goodwill by the parent company has not been allocated to the minority interests retroactively. This has resulted in an increase of minority interest as at June 30, 2004 by Rs. 26.08 crores (Rs. 16.60 crores pertaining to previous years).
19. Previous year figures have been reclassified/regrouped to conform to current year's classifications.

**For HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**T S R Subramanian**  
Director

**S L Narayanan**  
Corporate Vice President - Finance

**Allwyn Noronha**  
General Manager and Company Secretary

Place: Noida (UP), India  
Date: September 15, 2004

**Statement regarding Subsidiary Companies pursuant to section 212(3) and 212(5) of the Companies Act,1956 as on June 30, 2004.**

S.No.	Name of the subsidiary company	Financial year to which accounts relate	Holding Company's interest as at close of financial year of the subsidiary company		Net aggregate amount of subsidiary company's Profits after deducting its losses or vice versa, so far as it concerns members of holding company which are not dealt with in the Company's accounts (All amounts in Rupees thousands)		Net aggregate amount of subsidiary company's Profits after deducting its losses or vice versa, so far as it concerns members of holding company which are dealt with in the Company's accounts	
			Shareholding (No. of shares)	Extent of holding (%)	For the year ended June 30, 2004	For previous financial years	For the year ended June 30, 2004	For the year ended June 30, 2003
1	HCL Technologies (Bermuda) Ltd., Bermuda	30-Jun-04	113,170,582	100	402,067	(749,643)	Nil	Nil
2	HCL Technologies America Inc., USA*	30-Jun-04	5,500,101	100	274,935	(576,042)	Nil	Nil
3	HCL Technologies Europe Ltd., UK*	30-Jun-04	10,568,000	100	16,342	(580,817)	Nil	Nil
4	HCL Technologies Sweden AB*	30-Jun-04	10,000	100	134	9,239	Nil	Nil
5	HCL Technologies (Netherlands) BV*	30-Jun-04	400	100	(4,855)	(125,405)	Nil	Nil
6	HCL Technologies GmbH, Germany*	30-Jun-04	25,565	100	(3,348)	(116,777)	Nil	Nil
7	HCL Technologies Italy SLR*	30-Jun-04	19,800,000	99	(583)	(2,116)	Nil	Nil
8	HCL Technologies Belgium NV*	30-Jun-04	2,750	100	3,130	(13,416)	Nil	Nil
9	HCL Technologies Australia (Pty.) Ltd.*	30-Jun-04	1,979,393	100	14,611	11,917	Nil	Nil
10	HCL Technologies (New Zealand) Ltd.*	30-Jun-04	10	100	5,643	4,357	Nil	Nil
11	HCL Technologies (Hong Kong) Ltd.*	30-Jun-04	193,167	100	(8,521)	297,897	Nil	Nil
12	HCL Technologies Japan Ltd.*	30-Jun-04	4,400	100	(12,079)	(114,588)	Nil	Nil
13	HCL Holdings GmbH, Austria*	31-Dec-03	6,500,000	100	4,448,877	(17,387)	Nil	Nil
14	HCL Venture Capital Ltd., Bermuda*	30-Jun-04	12,000	100	(8,024)	(1,296)	Nil	Nil
15	Intelicent India Ltd., India*	30-Jun-04	106,000	100	33,400	105,333	Nil	Nil
16	HCL Comnet Systems and Services Ltd., India #	30-Jun-04	12,793,904	99.88	141,034	430,076	Nil	Nil
17	Shipara Technologies Limited	30-Jun-04	13,820,000	77	(21,676)	(39,360)	Nil	Nil
18	e-Serve Holding Limited *	30-Jun-04	1,000,002	100	(452)	(951)	Nil	Nil
19	HCL Technologies BPO Services Ltd.*	30-Jun-04	4,680,700	100	81,329	(218,240)	Nil	Nil
20	HCL Enterprise Solutions Ltd., Mauritius *	30-Jun-04	50,200	83.66	(763)	(1,224)	Nil	Nil
21	HCL Technologies (Illinois) Inc. USA *	30-Jun-04	418	83.66	24,594	34,654	Nil	Nil
22	HCL Enterprise Solutions (India) Ltd. *	30-Jun-04	133,727	89.11	18	(36,219)	Nil	Nil
23	DSI Financial Solutions Pte. Limited, Singapore*	30-Jun-04	5,100	51	(1,178)	6,703	Nil	Nil
24	DSL Software Ltd., India *	30-Jun-04	25,510	51	565,982	577,535	Nil	Nil
25	DSL GmbH, Germany *	30-Jun-04	1	51	(391)	(16,121)	Nil	Nil
26	HCL Technologies BPO Services NI Ltd.*	30-Jun-04	4,000,000	90	6,984	(28,443)	Nil	Nil
27	HCL Technologies (Mass.) Inc., USA *	30-Jun-04	200	100	2,165	(10,411)	Nil	Nil
28	HCL Comnet Ltd. #	30-Jun-04	949,840	99.88	17,730	54,500	Nil	Nil
29	HCL Jones Technologies LLC*	30-Jun-04	1,000,000	51	15,557	13,540	Nil	Nil
30	HCL Jones Technologies (Bermuda) Limited*	30-Jun-04	510	51	71,872	13,140	Nil	Nil
31	HCL m.a. Limited*	30-Jun-04	102,000	51	(1,403)	(12,204)	Nil	Nil
32	HCL Technologies (Mumbai) Limited	30-Jun-04	4,950,060	100	5,814	5,950	Nil	Nil
33	Insys Inc, Canada*	30-Jun-04	2,400,000	100	1,842	-	Nil	Nil
34	HCL Technologies Singapore Pte. Limited* (formerly FEC Infosystems Pte. Ltd.)	30-Jun-04	2,000,000	100	22,387	-	45245	Nil
35	HCL Technologies (Malaysia) Limited* [formerly HCL Infosystems (Malaysia) Sdn. Bhd.]	30-Jun-04	100,000	100	33,637	-	Nil	Nil
36	Infosystems (Europe) Limited*	30-Jun-04	314,510	100	19,615	-	Nil	Nil
37	Infosystems Australia Pty. Limited*	30-Jun-04	629,034	100	11,028	-	Nil	Nil

**Note:**

- a) Subsidiaries marked with asterisk (\*) are held indirectly through HCL Technologies Bermuda Ltd.
- b) # HCL Comnet Ltd. is held indirectly through HCL Comnet Systems & Services Limited.
- c) In respect of subsidiary whose financial year does not coincide with the financial year of the Company, neither there has been change in the holding company's interest in the subsidiary nor any material transaction has occurred except a loan of Rs. 460.03 crores advanced to HCL Technologies America Inc., between the end of the financial year of the subsidiary and the end of the holding company's financial year.

**For HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**T S R Subramanian**  
Director

**S I Narayanan**  
Corporate Vice President - Finance

**Allwyn Noronha**  
General Manager and Company Secretary

Place: Noida (UP), India  
Date: September 15, 2004

**Statement regarding subsidiary companies as required by the approval granted under Section 212(8)**

(All amounts in Rupees thousands)

S. No.	Name of the subsidiary company	Share capital	Reserves	Total assets	Total liabilities	Investments (other than in subsidiaries)	Turnover	Profit before tax	Provision for tax	Profit after tax	Proposed dividend
1	HCL Technologies (Bermuda) Ltd., Bermuda	5,208,676	126,342	5,366,065	31,047	925,179	505,929	402,067	-	402,067	Nil
2	HCL Technologies America Inc., USA *	1,265,692	(33,074)	7,649,033	6,416,415	990,125	8,194,637	221,895	(53,040)	274,935	Nil
3	HCL Technologies Europe Ltd., UK	881,148	(564,475)	744,490	427,817	-	1,997,008	24,430	8,088	16,342	Nil
4	HCL Technologies Sweden AB	612	9,373	17,437	7,452	-	6,094	134	-	134	Nil
5	HCL Technologies (Netherlands) BV	1,016	(130,259)	44,635	173,878	-	54,689	(4,855)	-	(4,855)	Nil
6	HCL Technologies GmbH, Germany	1,431	(120,124)	95,147	213,840	-	78,054	(3,348)	-	(3,348)	Nil
7	HCL Technologies Italy SLR	560	(2,727)	434	2,602	-	-	(511)	78	(590)	Nil
8	HCL Technologies Belgium NV	3,816	(10,286)	18,650	25,121	-	75,023	3,130	-	3,130	Nil
9	HCL Technologies Australia (Pty.) Ltd.	63,142	19,001	191,096	108,952	-	485,893	20,126	5,515	14,611	Nil
10	HCL Technologies (New Zealand) Ltd.	1,352	10,336	25,095	13,407	-	106,035	8,535	2,892	5,643	Nil
11	HCL Technologies (Hong kong) Ltd.	1,140	10,421	61,465	49,905	-	126,400	(8,521)	-	(8,521)	Nil
12	HCL Technologies Japan Ltd.	93,082	(126,667)	130,753	164,339	-	434,745	(11,543)	535	(12,079)	Nil
13	HCL Holdings GmbH, Austria	26,948	4,535,260	4,624,295	62,086	-	4,503,343	4,448,877	-	4,448,877	Nil
14	HCL Venture Capital Ltd., Bermuda	552	(9,320)	54,733	63,501	-	46	(8,024)	-	(8,024)	Nil
15	Intelcent India Ltd., India	1,061	138,733	142,571	2,777	134,650	48,866	47,505	14,105	33,400	Nil
16	HCL Comnet Systems and Services Ltd., India **	328,094	750,741	1,337,419	258,584	200,291	622,852	147,432	6,228	141,203	Nil
17	Shipara Technologies Limited	179,320	(83,948)	171,647	76,276	-	218,321	(28,150)	-	(28,150)	Nil
18	e-Serve Holding Limited	45,970	(1,403)	46,052	1,485	-	-	(452)	-	(452)	Nil
19	HCL Technologies BPO Services Ltd.	46,807	(150,365)	889,661	993,219	-	1,089,115	14,376	(66,952)	81,329	Nil
20	HCL Enterprise Solutions Ltd., Mauritius	2,762	261,175	271,095	7,158	-	-	(912)	-	(912)	Nil
21	HCL Technologies (Illinois) Inc., USA	-	211,453	396,528	185,075	-	856,050	42,330	12,931	29,398	Nil
22	HCL Enterprise Solutions (India) Ltd.	1,501	(21)	1,576	96	-	89	38	32	20	Nil
23	DSI Financial Solutions Pte. Limited, Singapore	268	5,524	6,867	1,075	-	15	(1,178)	-	(1,178)	Nil
24	DSL Software Ltd., India	500	2,255,210	2,760,364	504,654	1,208,804	3,172,613	1,198,545	88,776	1,109,769	Nil
25	DSL GmbH, Germany	1,054	30,844	75,273	43,376	31,643	182,733	(1,413)	(646)	(767)	Nil
26	HCL Technologies BPO Services NI Ltd.	333,599	6,724	850,519	510,196	-	1,534,422	23,102	15,342	7,760	Nil
27	HCL Technologies (Mass.) Inc., USA	837	(8,247)	169,475	176,885	-	443,744	4,492	2,327	2,165	Nil
28	HCL Comnet Ltd.	9,499	576,754	1,418,488	832,236	272,969	1,813,311	27,925	8,173	17,752	Nil
29	HCL Jones Technologies LLC	90,245	(8,023)	206,307	124,086	-	635,762	30,528	24	30,504	Nil
30	HCL Jones Technologies (Bermuda) Limited	552	40,607	83,023	41,863	-	306,494	140,926	-	140,926	Nil
31	HCL m.a. Limited	167	(10,172)	5,336	15,342	-	48,026	(2,752)	-	(2,752)	Nil
32	HCL Technologies (Mumbai) Limited	49,501	11,764	80,084	18,819	6,366	74,754	8,640	2,825	5,814	Nil
33	Insys Inc., Canada	8,227	(18,962)	735	11,470	-	7,537	1,842	-	1,842	Nil
34	HCL Technologies Singapore Pte. Limited* (formerly FEC Infosystems Pte. Ltd)	53,567	80,308	242,714	108,839	-	294,678	63,659	(3,973)	67,632	Nil
35	HCL Technologies (Malaysia) Limited* [formerly HCL Infosystems (Malaysia) Sdn. Bhd.]	1,211	80,144	227,928	146,572	-	354,879	34,364	727	33,637	Nil
36	Infosystems (Europe) Limited	26,223	(19,580)	6,643	-	-	69,836	25,877	6,261	19,615	Nil
37	Infosystems Australia Pty. Limited	20,066	(10,977)	9,530	441	-	33,747	11,028	-	11,028	Nil

**Note:**

- a) \*Share capital include Rs. 200,000 the share application money received pending allotment of shares.
- b) \*\*Share capital include Rs. 1,012,550 the share application money received pending allotment of shares.
- c) During the year HCL Jones Technologies LLC, HCL Jones Technologies Bemuda LLC, HCL Technologies Singapore Pte. Limited and HCL Technologies (Malaysia) Limited has paid an interim dividend of Rs. 64,845, Rs. 125,860, Rs. 90,434 and Rs. 36,340 respectively.

**For HCL Technologies Limited**

**Shiv Nadar**  
Chairman and CEO

**S L Narayanan**  
Corporate Vice President - Finance

Place: Noida (UP), India  
Date: September 15, 2004

**T S R Subramanian**  
Director

**Allwyn Noronha**  
General Manager and Company Secretary

## WORLDWIDE OFFICES

### Corporate Headquarters

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### India - Noida and Gurgaon

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Netcentric Technologies Division  
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HCL Integrated Networking Centre  
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HCL Technologies BPO Services Limited  
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**India - Chennai and Bangalore**

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Chennai 600 058  
India  
Tel: +91-44-262-30711  
Fax: +91-44-262-44213

Application Solutions Development  
Centre  
J-16 Anna Nagar East  
Chennai 600 102  
India  
Tel: +91-44-262-64206  
Fax: +91-44-262-81120

Software Engineering Solutions Centre  
Sapna Trade Centre  
109/110 P H Road  
Chennai 600 084  
India  
Tel: +91-44-282-21129  
Fax: +91-44-282-14278

Business Solutions Centre  
No. 51 J.N. Road,  
Guindy  
Chennai 600 097  
India  
Tel: +91-44-223-21960-65  
Fax: +91-44-223-44256

Banking Software Development  
Center  
602 Tidel Park  
No. 4, Canal Bank Road  
Taramani  
Chennai - 600113  
India  
Tel: +91-44-2254 0473  
Fax: +91-44-2254 0308

HCL Technologies Ltd  
"Thapar House", II Floor,  
43-44 Montieth Road,  
Chennai - 600 008  
Tel: +91-44-2851 1293  
Fax: +91-44-2851 1986

HCL Technologies Ltd  
Old No 17 & 18, 34- 35,  
Haddows Road,  
Chennai - 600 006  
Tel: +91-44-5215 9999  
Fax: +91-44- 5213 2749

HCL Technologies BPO Services Limited  
30 Ethiraj Salai, Egmore,  
Chennai - 600 015  
India  
Tel: +91-442828 9200

HCL Technologies BPO Services Limited  
30, Commander-in-Chief Road, Egmore,  
Chennai - 600 008, India

HCL Technologies BPO Services Limited  
Old # 64, New # 84, Greams Road, 1000 Lights,  
Chennai - 600 006, India

HCL Technologies BPO Services Limited  
Number 123, DSL Software BPO Division  
Second Floor, Block 2, Shivalaya  
EPIP Phase 2, Whitefield Industrial Area  
Bangalore - 560 066, India

DSLSoftware Ltd  
"6th Floor, Leela Galleria,"  
No.23, Airport Road,  
Bangalore - 560 008  
India  
Tel: + 91-80-5054000

Shipara Technologies Ltd.  
No. 8 & 9,  
G.B. Palya, Off Hosur Road  
Bangalore - 560 068  
India  
Tel: +91-80-573-5171-176  
Fax: +91-80-573-5516

Aquila Technolgies  
5, 100FT Ring Road, BTM Layout,  
1st Stage, 1st Phase,  
Bangalore - 560 068, India  
Tel: +91-80 668 9684  
Fax: +91-80 678 0957

**HCL TECHNOLOGIES LIMITED**

Regd. Office : 806, Siddharth,  
96, Nehru Place, New Delhi - 110 019

HCL TECHNOLOGIES **HCL**

**ATTENDANCE SLIP**

**12<sup>th</sup> Annual General Meeting on 17<sup>th</sup> December, 2004 at 11.00 A.M. at FICCI Auditorium, Federation House, 1, Tansen Marg, New Delhi-110 001.**

[Empty box for recording attendance]

I hereby record my presence at the 12<sup>th</sup> Annual General Meeting of the company, held on the 17<sup>th</sup> day of December, 2004 at 11.00 A.M. at FICCI Auditorium, Federation House, 1, Tansen Marg, New Delhi-110 001.

I am a shareholder of the Company\*/I am a Proxy/Authorised Representative of the shareholder(s).\*  
My name is

-----  
(Surname) (First Name) (Middle Name)

\*Please strike off whichever is not applicable.

(Signatures)

**FOR THE ATTENTION OF SHAREHOLDERS  
NO GIFTS WOULD BE DISTRIBUTED BY THE COMPANY AT THE AGM**

**Note: Please complete the Attendance Slip and hand it over at the entrance of the Meeting Hall.**

HCL TECHNOLOGIES **HCL**

**PROXY FORM**

**HCL TECHNOLOGIES LIMITED**

Regd. Office : 806, Siddharth,  
96, Nehru Place, New Delhi

I/We ..... of .....  
being a Member/Members of HCL Technologies Limited, hereby appoint ..... of .....or  
failing him .....of..... as my/our Proxy to attend  
and vote for me/us on my/our behalf at the 12<sup>th</sup> Annual General Meeting of the company to be held on Friday, the 17<sup>th</sup> day of December, 2004 at  
11.00 A.M. at FICCI Auditorium, Federation House, 1, Tansen Marg, New Delhi-110 001 and any adjournment thereof.

Signed this ..... day of ..... 2004

Reference foilo No.:

Affix  
Re. 1/-  
Revenue  
Stamp

(Signatures)

- Notes:**
- 1. The proxies, to be effective, should be deposited at the Registered Office of the Company, at 806, Siddharth, 96, Nehru Place, New Delhi - 110 019, not later than **FORTY EIGHT HOURS** before the commencement of the meeting.
  - 2. A Proxy need not be a member of the Company.
  - 3. In case of multiple proxies, proxy later in time shall be accepted.