HCL TECHNOLOGIES LIMITED HCL

Audited Financial Statement
1998-99

Prepared under Indian GAAP

To the Members of
HCL Technologies Limited
(formerly HCL Consulting Limited)

We have audited and the attached Balance Sheet of HCL Technologies Limited (formerly HCL Consulting Limited) as at 30 June 1999 and the Profit and loss account for the year ended on that date, annexed thereto.

We report as follows :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2. Further to the comments in the Annexure referred to in paragraph I above :

   (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 the books;

   (c) the Balance Sheet and the Profit and loss account dealth with by this report are in agreement with the books of account :

   (d) in our opinion, the Balance Sheet and the Profit and loss account comply with the Accounting Standards referred to in sub section (3C) of section 211 of the Companies Act, 1956, to the extent applicable; and

   (e) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view :
   (i) in the case of Balance Sheet, of the state of affairs of the company as at 30 June 1999; and
   (ii) in the case of Profit and loss account of the profit of the company for the year ended on that date.

For BSR & Co,
Chartered Accountants

Sd/-
Rajesh Jain
Partner

Place : New Delhi
Date : 20th October, 1999

Annexure to the Auditors' report
(Referred to in paragraph 1 of our report of even date)

1. The company has maintained proper records showing full particulars, including quantitative details an situation of its fixed assets. As explained to us, the fixed assets have been physically verified by th management according to a phased programme designed to cover all items of fixed assets over a period c three years. Accordingly, some of the fixed assets have been physically verified by the managemer during the year in accordance with the programme of verification. As informed to us, no material discrepancie were noticed on such verification.

2. The fixed assets of the company has not been revalued during the year.

3. The company has not taken any loans, secured or unsecured, from companies, firms or other parties liste in the register maintained under section 301 of the Companies Act, 1956. As informed to us, there are n companies under the same management as defined by sub-section (1-B) of section 370 of the Companie Act, 1956.

4. The company has not granted any loans, secured or unsecured, to companies, firms or other parties liste in the register maintained under section 301 of the Companies Act, 1956 except for an unsecured, interes free loan amounting to Rs. 163,271,750 and an advance towards share application money amounting to Rs 53,900,000 to HCL Technologies Limited, Bermuda, a wholly owned subsidiary. In our opinion, havin regard to the involvement with this company and considering the explanations given to us in this regard, the terms and conditions of the above are not prima facie prejudicial to interests of the company. As informe to us, there are no companies under the same management as defined by sub-section (1-B) of section 37 of the Companies Act, 1956.

5. The company has not granted any loans or advances in the nature of loans except for a loan t HCL Technologies Limited, Bermuda as mentioned in para 4, the terms of repayment of which have beer stipulated and loans to employees, who are repaying principal and interest thereon as stipulated.

6. In our opinion, and accordingly to the information and explanations given to us, having regard to the explanation that certain assets purchased are specific to the company's technical requirements, in respec of which comparable alternative quotations are not considered necessary, there are adequate internal contro procedures commensurate with the size of the company and the nature of its business with regard t purchases of plant and machinery, equipments and other assets. There are no sale of goods.

7. In our opinion and having regard to our comments in paragraph 6 above and according to the information anc explanations given to us, the transactions of purchase of certain assets and sale of services in pursuance of contracts and arrangements entered in the register maintained under section 301 of the Companies Act 1956 and aggregating during the year to Rs. 50,000 or more in respect of each party have been made ir respect of items of special nature and in respect of which alternative quotations are not considered necessary.

8. The company has not accepted any deposits from the public.

9. The company's operations do not generate any scraps or by-products.

10. The company has an internal audit system commensurate with its size and nature of its business.

11. As informed to us, the provisions of clause 4A (xvi) regarding maintenance of cost records are not applicable to the company.

12. The company has been regular in depositing Provident Fund and Employees State Insurance dues with the appropriate authorities during the year.

13. According to information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, as at 30 June 1999, for a period exceeding six months from the date they became payable.

14. According to information and explanations given to us and the records of the company examined by us, no personal expenses have been charged to the revenue accounts, other than those payable under contractual obligations or in accordance with generally accepted business practice.

15. The company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

16. In respect of company's service activities, we further report as follows :

16.1 as informed to us, the service activities of the company do not involve consumption of any materials or stores.

16.2 since the services rendered are billed to customers at pre-determined rates, the allocation of man-hours utilised to the relative jobs has not been considered necessary by the company.

17. As is apparent, the other clauses of the Order are not applicable to the company.

For BSR & Co,
Chartered Accountants

Sd/-
Rajesh Jain
Partner

Place : New Delhi
Date : 20th October, 1999

Balance Sheet as at 30 June 1999

All amounts in thousands of rupees

	Schedule No.	As at 30 June 1999	As at 30 June 1998
Sources of funds			
Shareholders' funds			
Share capital	1	331,948	331,948
Reserves and surplus	2	1,816,854	825,431
		2,148,802	1,157,379
Loan funds			
Secured loans	3	-	379,524
		2,148,802	**1,536,903**
Application of funds			
Fixed assets	4		
Gross block		627,989	479,691
Less: Accumulated depreciation		(240,985)	(76,652)
Net block		387,004	403,039
Capital advances		18,534	16,056
		405,538	419,095
Investments	5	449,170	317,242
Current assets, loans and advances			
Sundry debtors	6	646,249	477,189
Cash and bank balances	7	562,308	223,689
Loans and advances	8	327,314	310,400
Other current assets	9	15,186	8,260
		1,551,057	1,019,538
Less: Current liabilities and provisions	10	(256,963)	(218,972)
Net current assets		1,294,094	800,566
		2,148,802	**1,536,903**
Notes to the accounts	15		

As per our report attached

For BSR & Co.
Chartered Accountants

Sd/-
Rajesh Jain
Partner

For HCL Technologies Limited

Sd/-
Vineet Nayyar
Director

Sd/-
Shiv Nadar
Chairman, President and CEO

Sd/-
Anil Chanana
Corporate Vice President - Finance

Sd/-
Manish Anand
Company Secretary

Place : New Delhi
Date : 20th October, 1999

Place : New Delhi
Date : 20th October, 1999

Profit and Loss Account for the year ended 30 June 1999

All amounts in thousands of rupees

	Schedule No.	Year ended 30 June 1999	Year ended 30 June 1998
Income			
Software and related technical services		2,757,316	1,242,380
Other income	11	180,049	77,748
		2,937,365	**1,320,128**
Expenditure			
Cost of software development	12	1,311,878	435,762
Administration and other expenses	13	386,959	227,902
Finance charges	14	43,530	51,284
Depreciation		164,692	37,135
		1,907,059	**752,083**
Profit before tax		1,030,306	568,045
Less: Provision for tax		(20,626)	(12,950)
Profit after tax		1,009,680	555,095
Balance brought forward		785,431	258,593
Profit available for appropriation		**1,795,111**	**813,688**
Appropriations			
Proposed dividend		16,597	16,597
Corporate dividend tax		1,660	1,660
Transfer to general reserve		200,000	10,000
Balance carried forward		1,576,854	785,431
		1,795,111	**813,688**
Notes to the accounts	15		

As per our report attached

For BSR & Co.
Chartered Accountants

Sd/-
Rajesh Jain
Partner

For HCL Technologies Limited

Sd/-
Vineet Nayyar
Director

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Chairman, President and CEO

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Anil Chanana
Corporate Vice President - Finance

Sd/-
Manish Anand
Company Secretary

Place : New Delhi
Date : 20th October, 1999

Place : New Delhi
Date : 20th October, 1999

All amounts in thousands of rupees

	As at 30 June 1999	As at 30 June 1998
Schedule 1: Share capital		
Authorised		
50,000,000 (Previous year 50,000,000) equity shares of Rs.10 each	500,000	500,000
Issued, subscribed and paid up		
33,194,751 (Previous year 33,194,751) equity shares of Rs. 10 each	331,948	331,948
(Of the above shares 3,200,000 equity shares are allotted as fully paid up pursuant to a contract for consideration other than cash)	331,948	331,948

Notes

Subsequent to the year end :

1. The shareholders' in the extra-ordinary general meeting of the company dated 13 September 1999 have authorised an issue of bonus shares in the ratio of 1 share for every two held, by the capitalisation of general reserves.
2. The shareholders' in the extra-ordinary general meeting of the company dated 13 September 1999 have authorised the splitting of shares, in accordance with the provisions of section 94 of the Companies Act, 1956, for sub-dividing the shares into shares of face value of Rs 4 each from Rs. 10 each.
3. The authorisation to the board of directors for issue of bonus shares and splitting the shares is conditional on approval by the Securities and Exchange Board of India, of the terms of public issue of 14,200,000 equity shares of Rs 4 each for cash, at such premium, as may be decided by the Board of Directors.
4. The shareholders' in the extra-ordinary general meeting of the company dated 13 September 1999 have authorised the Board of Directors to issue upto 20,000,000 stock options to the employees and directors of the company including employees of its subsidiaries, at a price as may be determined by the Board of Directors from time to time and as per the terms and conditions to be decided by the Board of Directors as per the Employee Stock Option Plan of the company. In accordance with the approval granted to the board of directors, 14,475,527 options have been issued at a price of Rs. 255 per share, being the fair value as determined by the management of which 2,466,289 options vested and were exercisable as at 1 October 1999.

Schedule 2: Reserves and surplus

	As at 1 July 1998	Additions	Deductions	As at 30 June 1999
General reserve	40,000	200,000	-	240,000
	(30,000)	(10,000)		(40,000)
Profit and loss account	785,431	991,423	200,000	1,576,854
	(258,593)	(555,095)	(28,257)	(785,431)
	825,431	**1,191,423**	**200,000**	**1,816,854**
	(288,593)	**(565,095)**	**(28,257)**	**(825,431)**

Note : Previous year figures are in brackets.

All amounts in thousands of rupees

	As at 30 June 1999	As at 30 June 1998
Schedule 3: Secured loans		
Term loan from financial institution		
Rupee term loan		
Industrial Credit and Investment Corporation of India Limited	-	132,500
Foreign currency loan		
Industrial Credit and Investment Corporation of India Limited	-	77,101
From banks		
Short term loan	-	140,000
Pre-Shipment credit	-	29,923
	-	**379,524**

Notes

1. The loan from the financial institution was secured by a first charge created on all immovable properties, pledge on investments of the Company and hypothecation of all movable properties except book debts. Further, these loans were personally guaranteed by some directors of the Company, till a charge was created on the immovable properties.
2. Pre-shipment and bill discounting facilities from banks were secured by a hypothecation of receivables and by a second charge on all other movable and immovable properties of the Company.

Schedule 4 : Fixed assets

All amounts in thousands of rupees

	As at 1 July 1998	Additions	Disposal/ adjustments	As at 30 June 1999
Gross block				
Freehold land	10,148	-	-	10,148
Leasehold land	15,051	122	-	15,173
Buildings	91,481	11,536	-	103,017
Office equipment	105,731	41,728	239	147,220
Computers	192,920	58,648	80	251,488
Furniture and fixtures	62,960	36,723	849	98,834
Motor vehicles	1,400	859	150	2,109
	479,691	**149,616**	**1,318**	**627,989**
Previous year	263,402	216,588	299	479,691
Accumulated depreciation				
Leasehold land	187	193	-	380
Buildings	2,845	5,296	-	8,141
Office equipment	7,325	47,605	44	54,886
Computers	57,531	83,116	57	140,590
Furniture and fixtures	8,527	28,034	218	36,343
Motor vehicles	237	448	40	645
	76,652	**164,692**	**359**	**240,985**
Previous year	39,574	37,135	57	76,652
Net block	**403,039**			**387,004**
Previous year	223,828			403,039
Capital advances	**16,056**			**18,534**
Previous year	97,122			16,056

Note

The leasehold and freehold land in Gurgaon and Noida respectively have not yet been transferred in the name of the company. Further, the legal documents of freehold land at Noida have not yet been obtained from the erstwhile owner as they are in the possession of the their bankers pending the release of a mortgage charge.

Schedule 5: Investments

	All amounts in thousands of rupees	
	As at 30 June 1999	**As at 30 June 1998**
Long term investments - in shares		
Non trade (unquoted)		
In subsidiaries		
Nil equity shares of US$ 1 each fully paid up in HCL America Inc. (Previous year 5,500,101 equity shares of US$ 1 each)	-	136,647
Nil equity shares of one US$ 1 each fully paid up in HCL James Martin Inc. (Previous year 3,600,000 equity shares of US$ 1 each)	-	129,124
1,368,832 equity shares of US$ 1 each fully paid in HCL Technologies Limited, Bermuda (Previous year Nil)	449,170	-
Trade (unquoted)		
Nil Ordinary shares of Singapore $ 1 each fully paid up in Far East Computers Private Limited (Previous year 550,000 ordinary shares of Singapore $ 1 each)	-	51,471
	449,170	**317,242**

Schedule 6: Sundry debtors

Unsecured - considered good		
Debts exceeding six months	35,326	-
Other debts	610,923	477,189
Unsecured - considered doubtful		
Debts exceeding six months	362	-
Other debts	169	-
Less: Provision for doubtful debts	(531)	-
	646,249	**477,189**

Note

Sundry debtors include Rs. 639,490 thousands (Previous year Rs. 265,314 thousands) recoverable from subsidiaries of the company.

Schedule 7: Cash and bank balances

All amounts in thousands of rupees

	As at 30 June 1999	As at 30 June 1998
Cash in hand	144	583
Cash in transit	24,604	
Balances with scheduled banks		
- On current accounts	75,455	221,313
- On fixed deposit accounts	462,105	1,793
	562,308	**223,689**

Schedule 8: Loans and advances

Advances receivable in cash or in kind or value to be received (unsecured)		
- Considered good (refer note)	107,402	310,400
- Considered doubtful	692	692
Advance to subsidiary company (unsecured, considered good)	219,912	-
	328,006	**311,092**
Less: Provision for doubtful advances	692	692
	327,314	**310,400**

Note

Includes due from officers of the company Rs. Nil (Previous year Rs. 9 thousands). Maximum amount due at any time during the year Rs. 141 thousands (Previous year Rs 21 thousands).

Schedule 9: Other current assets

Income accrued but not due	15,186	8,260
	15,186	**8,260**

Schedule 10: Current liabilities and provisions

All amounts in thousands of rupees

	As at 30 June 1999	As at 30 June 1998
Current liabilities		
Sundry creditors	139,584	134,517
Other liabilities	6,252	8,996
Interest accrued but not due	-	8,509
Advance due to a subsidiary	1,686	1,686
Advances from customers	25,188	10,425
	172,710	**164,133**
Provisions		
Provision for income tax [net of advance tax Rs. 10,373 thousands (Previous year Rs. 6,672 thousands)	45,308	27,265
Provision for dividend	16,597	16,597
Provision for corporate dividend tax	1,660	1,660
Provision for staff benefits	20,688	9,317
	84,253	**54,839**
	256,963	**218,972**

Schedule 11: Other income

	Year ended 30 June 1999	Year ended 30 June 1998
Interest [Tax deducted at source Rs. 2,936 thousands (Previous year Rs. 1,103 thousands)]	29,951	35,944
Sale of special import licenses	2,364	5,453
Exchange gain (net)	26,672	34,617
Profit on sale of investments (Refer note 4, schedule 15)	118,928	-
Miscellaneous income	2,134	1,734
	180,049	**77,748**

Schedule 12: Cost of software development

Personnel expenses		
Salaries, wages, bonus etc.	397,655	244,752
Contribution to provident and other funds	15,135	16,372
Staff welfare expenses	25,396	16,760
Software development expenses - external [Includes Rs. 638,713 thousands (previous year - Rs. Nil) paid to subsidiaries of the company]	873,692	157,878
	1,311,878	**435,762**

Schedule 13: Administration and other expenses

All amounts in thousands of rupee

	Year ended 30 June 1999	Year ende 30 June 199
Rent	24,463	23,36
Electricity and water	25,921	16,89
Insurance	2,429	1,75
Repairs and maintenance		
- Buildings	61	46
- Others	28,202	20,18
Communication costs	31,526	26,04
Travel and conveyance	193,945	75,11
Business promotion	3,355	2,01
Legal and professional charges	12,412	6,01
Lease charges	12,546	9,00
Software license fee	11,858	11,66
Printing and stationery	7,046	5,29
Bank charges	1,152	1,64
Rates and taxes	11,157	5,51
Advertising and publicity	2,889	1,94
Books and periodicals	1,652	2,49
Recruitment, training and development	10,261	12,63
Miscellaneous expenses	5,547	5,86
Loss on sale of fixed assets (net)	6	2
Provision for doubtful debts	531	
	386,959	**227,90**

Schedule 14: Finance charges

Interest		
- term loans	35,453	46,03
- others	8,077	5,25
	43,530	**51,28**

Schedule 15: Notes to the accounts

1. Significant accounting policies

(i) Basis of preparation

The financial statements are prepared under the historical cost convention on the accrual basis, in accordance with the generally accepted accounting principles and materially comply with the mandatory accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956.

(ii) Use of estimates

The preparation of financial statements in conformity with the generally accepted accounting principles 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.

(iii) 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.

(iv) Depreciation

Depreciation on fixed assets except leasehold land is provided on the straight-line method based on estimated useful lives, as estimated by the management. Leasehold land is amortised over the period of lease. 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
Computers and software (excluding mainframes)	3
Mainframe computer system (including software)	6
Furniture and fixtures	4
Vehicles	5

(v) Revenue recognition

Revenue from software developed on a time and materials basis is recognised in accordance with the term of the agreement. Revenue from fixed price contracts is recognised in accordance with the percentag completion method under which the sales value of performance including earnings thereon is recognised o the basis of effort incurred in respect of each contract as a proportion of total effort expected to be incurre Anticipated losses, if any, upto the completion of contract are recognised immediately. Income accrue but not due represents revenue recognised on contracts to be billed in the subsequent period, in accordanc with the terms of contract.

Interest on the deployment of surplus funds is recognised using the time-proportion method, based o interest rates implicit in the transaction. Dividend income is recognised when the right to receive dividen is established. Revenue from the sale of special import licences is recognised when the licences ar actually sold.

(vi) Expenditure

Expenses are accounted for on the accrual basis and provisions are made for all known losses and liabilitie Provisions are made for future unforeseeable factors, which may affect the ultimate profit on fixed pric software development contracts. The cost of services for software development is charged to revenue i the same year. The leave encashment and gratuity of the company is provided on the basis of an actuari valuation.

(vii) Investments

Investments are classified into long term and current investments. Long-term investments are stated a cost and provision is made to recognise any decline other than temporary in the value of such investment Current investments are stated at the lower of cost and the fair value.

(viii) Foreign exchange transactions

Foreign exchange transactions are recorded at the exchange rates prevailing at the date of transactio Foreign currency assets and liabilities are translated at year end rates and resultant gains/losses on foreig exchange translations other than those relating to fixed assets are recognised in the profit and loss accoun Gains/losses on the translation of foreign exchange liabilities incurred to acquire fixed assets are include in the carrying cost of such fixed assets.

(ix) Retirements benefits

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

(x) Taxation

Provision for tax is made on the basis of taxable income for the previous year ended on 31 March an estimated taxable income for the three months ended 30 June. Taxable income for the three months ende 30 June is dependent upon the estimated results of subsequent nine months ending on 31 March of th following fiscal year.

2. **Scheme of amalgamation**

(i) The scheme of amalgamation of HCL Technologies India Private Limited ("the amalgamating company"), a wholly owned subsidiary engaged in the business of rendering information technology services, with the company with effect from 1 October 1998 was approved by the Hon'ble High Court of Delhi on 30 August 1999. Pursuant to the scheme, the company has taken over the entire business of the amalgamating company including all its properties, both movable and immovable, other assets, liabilities and obligations as on 1 October 1998, which has been accounted for in the books of account of the company on "pooling of interest" basis.

(ii) Prior to the amalgamation, the company had entered into an agreement with the amalgamating company on 1 October 1998 for a "slump sale" of its entire business including all its properties, both movable and immovable, other assets except investments, liabilities and obligations as on 30 September 1998. The amalgamating company discharged the consideration by the issue of 85,000,000 equity shares of Rs. 10 each, fully paid up, to the company thereby becoming a subsidiary of the company. The excess of book value of net identifiable assets transferred to the amalgamating company amounting to Rs. 23,913 thousands was transferred to capital reserve.

(iii) Subsequent to the amalgamation, the excess of consideration over the value of net identifiable assets acquired by the company, amounting to Rs. 23,913 thousands, has been adjusted against capital reserve in the books of account of the company arising on the sale of business to the amalgamating company. Further, the company has cancelled its investment and has ceased to be a member of the amalgamating company from the effective date of amalgamation.

3. During the year ended 30 June 1999 the company revised the estimated useful life of the fixed assets. Accordingly, depreciation on fixed assets has been provided on the straight-line method, based on useful lives as estimated by the management, which have been disclosed in note 1(iv) of schedule 15 forming part of accounts. In the earlier years depreciation was calculated on the straight-line method at the rates prescribed in schedule XIV to the Companies Act, 1956. As a result of the change in estimated useful lives, depreciation for the year is higher and the net block and profit for the year is lower by Rs. 115,971 thousands.

4. Profit on sale of investments disclosed under the head "other income" in the profit and loss account includes:

(i) 5,500,101 equity shares of US$ 1 each, fully paid up, in HCL Technologies America Inc, a wholly owned subsidiary, to HCL Technologies Limited, Bermuda, a wholly owned subsidiary, for Rs. 272,829 thousands resulting in a profit amounting to Rs. 136,182 thousands.

(ii) 3,600,000 equity shares of US$ 1 each fully paid up, in HCL James Martin Inc, a wholly owned subsidiary to HCL Technologies Limited, Bermuda, a wholly owned subsidiary, for Rs. 110,840 thousands resulting in a loss amounting to Rs.18,283 thousands.

(iii) 550,000 equity shares of Singapore $ 1 each, fully paid up, in Far East Computers Private Limited to HCL Infosystems Limited, a company listed in the register maintained under section 301 of the Companies Act, 1956 for Rs. 52,500 thousands resulting in a profit amounting to Rs. 1,029 thousands.

5. The company develops software for HCL Technologies Japan Limited, Japan ("HCLT Japan"), a subsidiary of HCL Technologies Limited, Bermuda. During the year ended 30 June 1999, the tax authorities in Japan raised a demand on HCLT Japan for not withholding tax on payments to the company during the period February 1998 to September 1998 amounting to Rs. 4,379 thousands. In accordance with the terms of agreement between the company and HCLT Japan, the withholding tax liability, if any, is payable by the

company. As on 30 June 1999, the company also has a receivable from HCLT Japan, on which withholdin tax is payable on remittance to India. The company does not agree with the stance of the tax authorities i Japan and has invoked the mutual agreement provision under section 25 of the Convention between th Government of India and Government of Japan for the avoidance of double taxation and prevention of fisc evasion in respect of taxes on income. The matter is now under the consideration of the competen authorities of India and Japan. If the contention of the company is not upheld by the competent authorities there could be an additional tax liability amounting to Rs. 10,874 thousand. The management, based o legal advice, does not believe that the liability in this regard will crystallise and therefore, no provision ha been made in respect of this amount.

6. Additions in fixed assets include exchange difference capitalised amounting Rs.1,715 thousand (Previous year Rs. 12,751 thousands).

7. The future lease obligations in respect of vehicles on lease are Rs. 19,184 thousands (Previous yea Rs. 25,288 thousands).

8. The estimated value of contracts remaining to be executed on capital account and not provided for i Rs. 17,719 thousands (Previous year Rs. 10,884 thousands).

9. Guarantees issued on behalf of subsidiaries for loans granted to them - Nil (Previous yea Rs. 127,000 thousands).

10. Licensed capacity and actual production-

Due to nature of its activities, the Company is not subject to industrial licensing and the clause relating t actual production is not applicable.

	Year ended 30 June 1999 (Rs in 000's)	Year ended 30 June 1998 (Rs in 000's)
11. Managerial remuneration		
Salary	8,006	1,187
Contribution to provident and superannuation fund	456	163
Other perquisites	1,281	798
	9,743	2,148

Note: Managerial remuneration excludes provision for leave encashment and gratuity. Perquisites have been valued in accordance with provisions of the Income tax Act, 1961.

	Year ended 30 June 1999 (Rs in 000's)	Year ended 30 June 1998 (Rs in 000's)
12. Payment to auditors		
Statutory audit	1,100	300
Tax audit fees	300	150
Out of pocket expenses	70	-
	1,370	450

		Year ended 30 June 1999 (Rs in 000's)	Year ended 30 June 1998 (Rs in 000's)
13.	CIF value of imports		
	Capital goods	37,899	15,834
		37,899	15,834
14.	Expenditure in foreign currency (on cash basis)		
	Software development charges	842,485	118,123
	Travel	144,279	72,547
	Interest on foreign currency loan	914	9,411
	Annual maintenance contracts	3,958	2,451
	Others	4,879	2,672
		996,515	205,204

The Expenditure re-imbursed by the customers in foreign currency has been netted off against the related expenses in the profit and loss account and amounts to Rs. 97,852 thousands (Previous year Rs. 98,964 thousands).

15.	Earnings in foreign currency		
	Income from software and technical services	2,705,364	1,242,380
	Interest	24,568	932
	Exchange gain (net)	26,672	34,617
		2,756,604	1,277,929
16.	Dividend remitted in foreign currency-		
	Number of non-resident shareholders	3	2
	Number of shares held	2,224,744	224,744
	Amount remitted (net of tax)	1,112	112
	Year to which it relates	1998	1997

17. The company had 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 1999.

18. The name of the company has been changed from HCL Consulting Limited to HCL Technologies Limited and a fresh certificate of incorporation has been issued by the Registrar of Companies, National Capital Territory of Delhi and Haryana on 6, October 1999.

19. Previous year figures have been reclassified / re-grouped to conform to current years classification.

For HCL Technologies Limited

Sd/-
Vineet Nayyar
Director

Sd/-
Shiv Nadar
Chairman, President and CEO

Sd/-
Anil Chanana
Corporate Vice President-Finance

Sd/-
Manish Anand
Company Secretary

Place : New Delhi
Date : 20th October, 1999

Balance Sheet Abstract and Company's General Business Profile

I. Registration details

Registration No.	55-46369	State Code 55
Balance Sheet Date	*30 June 1999*	

II. Capital raised during the year (Rupees in thousands)

Public issue	Rights issue
Not applicable	*Not Applicable*
Bonus issue	Private placement
Not Applicable	*Not applicable*

III. Position of mobilisation and deployment of funds (Rupees in thousands)

Total Liabilities	Total Assets
2,148,802	*2,148,802*
Sources of Funds	
Paid-Up capital	Reserves & Surplus
331,948	*1,816,854*
Secured loans	Unsecured loans
Nil	*Nil*
Application of Funds	
Net Fixed Assets	Investments
405,538	*449,170*
Net Current Assets	Misc. Expenditure
1,294,094	*Nil*
Accumulated Losses	
Nil	

IV. Performance of company (Rupees in thousands)

Turnover	Total expenditure
2,937,365	*1,907,059*
Profit before tax	Profit after tax
1,030,306	*1,009,680*
Earnings per share (Rs)	Dividend rate %
30.41	*5*

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

Sd/-
Vineet Nayyar
Director

Sd/-
Shiv Nadar
Chairman, President and CEO

Sd/-
Anil Chanana
Corporate Vice President-Finance

Sd/-
Manish Anand
Company Secretary

Place : New Delhi
Date : 20th October, 1999

Results of Operations

The following table summarizes stand alone historical results of HCL Technologies Limited for the fiscal years ended June 30, 1999, 1998, 1997 and 1996.

Fiscal years ended June 30
All amounts in thousands of rupees

	1999	1998	1997	1996
Service income	275,73	124,24	54,13	25,63
Other income	18,01	7,77	4,31	2,47
Total income	**293,74**	**132,01**	**58,44**	**28,10**
Cost of Software Development	131,19	43,58	26,06	7,35
Administration and Other Expenses	38,69	22,79	13,30	6,71
Total expenditure	**169,88**	**66,37**	**39,36**	**1,406**
Operating profit	**123,86**	**65,64**	**19,08**	**14,04**
Interest	4,35	5,13	4,67	1,41
Depreciation	16,46	3,71	2,46	1,34
Profit before tax	**103,03**	**56,80**	**11,95**	**11,29**
Provision for tax	2,06	1,29	1,56	61
Profit after tax	**100,97**	**55,51**	**10,39**	**10,68**

Fiscal 1998 Compared to Fiscal 1999

Services Revenues : The company's revenues increased 122% to Rs. 275,73 lacs in fiscal 1999 from Rs. 124,24 lacs in fiscal 1998. In fiscal 1999, the revenues from America were approximately Rs. 201,60 lacs, an increase of approximately Rs. 113,71 lacs, as compared to fiscal 1998. However, share of America in the total revenue rose to 73% in fiscal 1999 from 71% in fiscal 1998. In an effort to cover more geographical domains, the company increased its focus on Europe, Australasia and Japan markets. These markets contributed approximately Rs 74,13 lacs to company's revenue, a growth of approximately Rs. 47,46 lacs, over fiscal 1998. The percentage share of these markets in the overall revenue reduced to 27% in fiscal 1999 from 29% in fiscal 1998.

Other income : The company's other income grew to Rs. 18,01 lacs in fiscal 1999 from Rs. 7,77 lacs in fiscal 1998. The increase was mainly on profit on sale of investments, which amounted to Rs.11, 89 lacs in fiscal 1999. This related to the sale of shares of HCL Technologies America and HCL James Martin Inc. to HCL Technologies Bermuda, a 100% subsidiary of the company.

Cost of Software development : Employee costs of the company increased to Rs. 43,82 lacs in fiscal 1999 from Rs. 27,78 lacs in fiscal 1998, an increase of 58%. Employee costs as a percentage of services revenues fell to 16% in fiscal 1999 from 22% in fiscal 1998. This is mainly on account of higher billing rates per man-month and also higher utilization levels.
The company subcontracts certain projects to third parties and subsidiaries. These costs increased to Rs. 87,37 lacs in fiscal 1999 from Rs. 15,79 lacs in fiscal 1998. Of the total subcontract costs in fiscal 1999, Rs. 63,87 lacs were paid to the subsidiaries of the company for providing software development services.

Administration and other expenses : These costs mainly consist of rent, communication costs, travel costs, electricity, repair and maintenance, software license fees, legal and professional charges, etc. These costs went up to Rs. 38,69 lacs in fiscal 1999 from Rs. 22,79 lacs in fiscal 1998, an increase of 70%. The increase in costs was mainly on account of travel, communication and other utilities costs. As a percentage of total revenue, such costs fell to 13% in fiscal 1999 from 17% in fiscal 1998.

Interest expense : Interest expense reduced to Rs. 4,35 lacs in fiscal 1999 from Rs. 5,13 lacs in fiscal 1998.

Depreciation : Depreciation increased 343% to Rs. 16,47 lacs in fiscal 1999 from Rs. 3,71 lacs in fiscal 1998. The company revised the estimated full life of the assets, which resulted in higher depreciation for the year. The gross block in the same period increased to Rs. 62,79 lacs in fiscal 1999 from Rs. 47,97 lacs in fiscal 1998.

Taxation : The company derives all its revenues from export of software from its STP units. Hence all its profits are exempt under Section 10A of the Income tax Act, 1961. The company only provides for taxes payable on interest income earned by deployment of idle funds and profit on sale of import licences. As per the current provisions of the Income tax Act, the company is entitled to a tax holiday of 10 years. As per the current tax laws, the company may not be required to pay any taxes on its software income as all profits from software exports are deductible under Section 80HHE. The tax expense for fiscal 1999 was Rs. 2,06 lacs.

Profit after tax : The company's profit after tax increased to Rs. 100,96 lacs in fiscal 1999 from Rs. 55,51 lacs in fiscal 1998, an increase of 82%. Profit after tax as a percentage of total revenues decreased to 34% in fiscal 1999 from 42 % in fiscal 1998.

Fiscal 1997 Compared to Fiscal 1998

Services Revenues : The company's revenues increased 130% to Rs. 124,24 lacs in fiscal 1998 from Rs. 54,13 lacs in fiscal 1997. In fiscal 1998, the revenues from America were approximately Rs. 87,89 lacs, an increase of approximately Rs. 40,94 lacs, as compared to fiscal 1997. However, share of America in the total revenue fell to 71% in fiscal 1998 from 87% in fiscal 1997. In an effort to cover more geographical domains, the company increased its focus on Europe, Australasia and Japan markets. These markets contributed approximately Rs. 26,67 lacs to company's revenue, a growth of approximately Rs. 22,05 lacs, over fiscal 1997. The percentage share of these markets in the overall revenue increased to 21% in fiscal 1998 from 9% in fiscal 1997.

Other income : The company's other income grew to Rs. 7,77 lacs in fiscal 1998 from Rs. 4,31 lacs in fiscal 1997. The increase was mainly on account of exchange gain, which increased to Rs. 3,46 lacs from Rs. 51 lacs.

Cost of Software development : Employee costs of the company increased to Rs. 27,79 lacs in fiscal 1998 from Rs. 18,19 lacs in fiscal 1997, an increase of 65%. Employee costs as a percentage of services revenues fell to 22% in fiscal 1998 from 34% in fiscal 1997. This is manly on account of higher billing rates per man-month and also higher utilization levels. At times the company has to subcontract certain projects. These costs increased to Rs. 15,79 lacs in fiscal 1998 from Rs. 7,87 lacs in fiscal 1997.

Administration and Other expenses : These costs mainly consist of rent, communication costs, travel costs, electricity, repair and maintenance, software license fees, legal and professional charges, etc. These costs went up to Rs. 22,79 lacs in fiscal 1998 from Rs. 13,30 lacs in fiscal 1997, an increase of 71%. The increase in costs was mainly on account of travel, communication and other utilities costs. As a percentage of total revenue, such costs fell to 17% in fiscal 1998 from 23% in fiscal 1997.

Interest expense : Interest expense increased marginally to Rs. 5,13 lacs in fiscal 1998 from Rs. 4,67 lacs in fiscal 1997.

Depreciation : Depreciation increased 51% to Rs. 3,71 lacs in fiscal 1998 from Rs. 2,46 lacs in fiscal 1997. The gross block in the same period increased to Rs. 47,97 lacs in fiscal 1998 from Rs. 26,34 lacs in fiscal 1997. During the year, the company capitalised a software facility in Noida with an approximate area of 15,000 square feet. The amount capitalised in fiscal 1998 for this facility was approximately Rs. 7,50 lacs. The company also expanded the capacity of the Networking products centre in Chennai at a cost of approximately Rs. 5,82 lacs.

Taxation : The company derives all its revenues from export of software from its STP units. Hence all its profits are exempt under Section 10A of the Income tax Act, 1961. The company only provides for taxes payable on interest income earned by deployment of idle funds and profit on sale of import licences. As per the current provisions of the Income tax Act, the company is entitled to a tax holiday of 10 years. As per the current tax laws, the company may not be required to pay any taxes on its software income as all profits from software exports are deductible under Section 80HHE. The tax expense for fiscal 1998 was Rs. 1,29 lacs.

Profit after tax : The company's profit after tax increased to Rs. 55,51 lacs in fiscal 1998 from Rs. 10,39 lacs in fiscal 1997, an increase of 434%. Profit after tax as a percentage of total revenues increased to 42% in fiscal 1998 from 18 % in fiscal 1997.

Fiscal 1997 Compared to Fiscal 1996

Services Revenues : The company's revenues increased to Rs. 54,13 lacs in fiscal 1997 from Rs. 25,63 lacs in fiscal 1996, an increase of 111%. This was mainly on account of increase in focus on offshore software development and particularly in technology development areas.

Other income : The company's other income grew to Rs. 4,31 lacs in fiscal 1997 from Rs. 2,47 lacs in fiscal 1996. This was mainly on account of increase in interest earned on idle funds.

Cost of Software development : Employee costs of the company increased 147% to Rs. 18,19 lacs in fiscal 1997 from Rs. 6,14 lacs in fiscal 1996. In fiscal 1997, the company hired a large number of IT professionals for the software factories to expand its offshore delivery capacities. This was done in anticipation of increase in future revenues. This resulted in lower utilisation of available capacity and lower operating margins. Employee costs as a percentage of services revenues increased to 34% in fiscal 1997 from 27% in fiscal 1996. Other software development expenses costs incurred on account of work subcontracted to third parties increased to Rs. 7,87 lacs in fiscal 1997 from Rs. 1,21 lacs in fiscal 1996.

Administration and Other Expenses : These costs increased to Rs. 13,30 lacs in fiscal 1997 from Rs. 6,70 lacs in fiscal 1996, an increase of 99%. As a percentage of total revenue, these costs remained stable at 23% for fiscal 1997 and 24% for fiscal 1996.

Interest expense : During fiscal 1997, the company's long-term loan increased to Rs. 26,72 lacs from 13,00 lacs in fiscal 1996. The loans were taken to finance the expansion of software factories. Consequently, the interest expense increased to Rs. 4,67 lacs in fiscal 1997 from Rs. 1,41 lacs in fiscal 1996.

Depreciation : Depreciation expense increased to Rs. 2,46 lacs in fiscal 1997 from Rs. 1,34 lacs in fiscal 1996, an increase of 83%. The company's invested Rs. 4,69 lacs in computer systems and Rs. 2,26 lacs in Furniture fixtures, etc for expansion of software development facilities.

Taxation : The tax expense for fiscal 1997 was Rs. 1,56 lacs as compared to Rs. 61 lacs in fiscal 1996. As a percentage of profit before tax, it was only 13%

Profit after tax : The company's profit after tax remained almost unmoved at Rs. 10,39 lacs in fiscal 1997 as compared to Rs. 10,67 lacs in fiscal 1996 due to investment in offshore software development facilities as described above.

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