

Auditors' Report to the Members of HCL Security Limited

1. We have audited the attached Balance Sheet of HCL Security Limited (the "Company") as at June 30, 2010, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, 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, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the "Order"), 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 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, 2010 and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2010 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, 2010;

- (ii) in the case of the Profit and Loss Account, of the loss 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.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Place: Noida
Date: August 25, 2010

Abhishek Rara
Partner
Membership Number: F-77779

Annexure to Auditors' Report

Referred to in paragraph 3 of the Auditors' Report of even date to the members of HCL Security Limited on the financial statements for the year ended June 30, 2010

1. (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation, of fixed assets.
(b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies between the book records and the physical inventory have been noticed. In our opinion, the frequency of verification is reasonable.
(c) In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed of by the Company during the year.
2. (a) The inventory has been physically verified by the Management during the year. In our opinion, the frequency of verification is reasonable.
(b) In our opinion, the procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) On the basis of our examination of the inventory records, in our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material.
3. (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act.
(b) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. 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 system.
5. (a) According to the information and explanations given to us, there have been no contracts or arrangements referred to in Section 301 of the Act during the year to be entered in the register required to be maintained under that Section. Accordingly, the question of commenting on transactions made in pursuance of such contracts or arrangements does not arise.
(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees Five Lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
6. 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.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. 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.

Annexure to Auditors' Report

Referred to in paragraph 3 of the Auditors' Report of even date to the members of HCL Security Limited on the financial statements for the year ended June 30, 2010

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9. (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 regular in depositing the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess 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, there are no dues of income-tax, sales-tax, wealth-tax, service-tax, customs duty, excise duty and cess which have not been deposited on account of any dispute.
10. As the Company is registered for a period less than five years, clause (x) of paragraph 4 of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable for the year.
11. 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 any financial institution or bank or debenture holders as at the balance sheet date.
12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund/ societies are not applicable to the Company.
14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.
15. 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.
16. 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.
17. 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, the Company has used funds raised on a short-term basis for long-term investment. The Company has financed its losses and additions to fixed assets aggregating to Rs. 3,320,913 from the funds raised on short-term basis (negative working capital).
18. 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.
19. The Company has not raised any money by public issues during the year.
20. 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.

Annexure to Auditors' Report

Referred to in paragraph 3 of the Auditors' Report of even date to the members of HCL Security Limited on the financial statements for the year ended June 30, 2010

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21. The clause (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, is not applicable in the case of the Company for the year, since in our opinion there is no matter which arises to be reported in the aforesaid Order.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

Place: Noida
Date: August 25, 2010

Abhishek Rara
Partner
Membership Number: F-77779

HCL Security Limited
Balance Sheet as at June 30, 2010

	Schedule (Note No.)	As at 30.06.2010 Rs.	As at 30.06.2009 Rs.
Sources of Funds:			
Shareholders' Funds:			
Capital	1	40,500,000	40,500,000
Loan Funds:			
Unsecured Loans	2	100,000,000	-
		<u>140,500,000</u>	<u>40,500,000</u>
Application of Funds:			
Fixed Assets:			
Gross Block	3	10,073,080	3,576,353
Less: Depreciation		<u>3,478,815</u>	<u>696,051</u>
Net Block		6,594,265	2,880,302
Deferred Tax Asset (Net)	15(4)	45,786,940	15,675,065
Current Assets, Loans and Advances:			
Inventories	4	25,171,699	6,677,471
Sundry Debtors	5	172,583,942	40,830,569
Cash and Bank Balances	6	1,315,922	2,054,167
Other Current Assets	7	9,109,188	980,750
Loans and Advances	8	<u>19,760,933</u>	<u>1,237,751</u>
		227,941,684	51,780,708
Less: Current Liabilities and Provisions			
Current Liabilities	9	231,262,597	58,139,650
Provisions		<u>6,546,402</u>	<u>2,344,978</u>
		237,808,999	60,484,628
Net Current Assets / (Liabilities)		(9,867,315)	(8,703,920)
Profit and Loss Account		97,986,110	30,648,553
		<u>140,500,000</u>	<u>40,500,000</u>
Significant Accounting Policies	14		
Notes to Accounts	15		

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

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

For Price Waterhouse
 Firm Registration Number: 301112E
 Chartered Accountants

For and on behalf of the Board of Directors

ABHISHEK RARA
 Partner
 Membership No. F-77779

AJAI CHOWDHRY
 Director

SANDEEP KANWAR
 Director

Place: Noida
 Date: August 25, 2010

DEEPA RAVI SHANKAR
 Company Secretary

HCL Security Limited
Profit and Loss Account for the year ended June 30, 2010

	Schedule (Note No.)	Year ended 30.06.2010 Rs.	Period from 19.03.2008 to 30.06.2009 Rs.
Income			
Sale of Goods	15(5)	384,227,383	71,259,156
Sale of Services		7,574,387	172,428
Profit on Foreign Exchange Fluctuation (net)		953,988	322,344
		<u>392,755,758</u>	<u>71,753,928</u>
Expenditure			
Cost of goods and services sold	10	376,634,508	60,996,126
Personnel	11	77,926,466	24,682,522
Administration, Selling, Distribution and Others	12	29,239,440	26,382,051
Repairs and Maintenance	13	3,505,247	5,113,876
Finance Charges		116,765	-
Depreciation	3	2,782,764	696,051
		<u>490,205,190</u>	<u>117,870,626</u>
		<u>(97,449,432)</u>	<u>(46,116,698)</u>
Loss before Tax			
Tax Expense / (Credit)	15(4)		
- Fringe Benefit		-	206,920
- Deferred		(30,111,875)	(15,468,145)
		<u>(30,111,875)</u>	<u>(15,468,145)</u>
Loss after Tax			
		<u>(67,337,557)</u>	<u>(30,648,553)</u>
Add: Balance in Profit & Loss Account brought forward		<u>(30,648,553)</u>	-
Balance carried over to the Balance Sheet			
		<u>(97,986,110)</u>	<u>(30,648,553)</u>
Earning per equity share (in Rs.)			
Basic and Diluted (of Rs. 10/- each)	15(12)	(16.63)	(21.25)
Significant Accounting Policies			
Notes to Accounts	14		
	15		

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

The Schedules referred to above form an integral part of the Profit and Loss account

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

For and on behalf of the Board of Directors

ABHISHEK RARA
Partner
Membership No. F-77779

AJAI CHOWDHRY
Director

SANDEEP KANWAR
Director

Place: Noida
Date: August 25, 2010

DEEPA RAVI SHANKAR
Company Secretary

HCL Security Limited
Cash Flow Statement for the year ended June 30, 2010

	Year ended 30.06.2010 Rs.	Period from 19.03.2008 to 30.06.2009 Rs.
1. Cash Flow from Operating Activities		
Net Loss before tax	(97,449,432)	(46,116,698)
Adjustments for:		
Depreciation	2,782,764	696,051
Unrealised (Gain)/Loss on Foreign Exchange Fluctuation (Net)	(690,038)	134,022
Provision for Warranty	2,032,724	-
Provision for Gratuity and other Employee Benefits	2,168,700	2,344,979
Provision for Doubtful Debts	1,295,623	-
Operating profit before Working Capital Changes	(89,859,659)	(42,941,646)
Adjustments for changes in Working capital:		
(Increase)/ Decrease in Trade Receivables	(133,048,996)	(49,780,270)
(Increase)/ Decrease in Other Receivables	(26,651,621)	(2,218,500)
(Increase)/ Decrease in Inventories	(18,494,228)	(6,677,471)
Increase/ (Decrease) in Current Liabilities	173,812,986	66,955,327
Cash generated from Operation	(94,241,518)	(34,662,560)
Direct Tax (Paid)/Refund (Net)	-	(206,920)
Net cash from / (used in) Operating activities (A)	(94,241,518)	(34,869,480)
2. Cash Flow from Investing Activities		
Purchase of Fixed Assets	(6,496,727)	(3,576,353)
Net cash from / (used in) Investing activities (B)	(6,496,727)	(3,576,353)
3. Cash Flow from Financing Activities		
Issue of shares to HCL Infosystems Limited	-	40,500,000
Unsecured Loans Received	100,000,000	-
Net cash from / (used in) Financing activities (C)	100,000,000	40,500,000
Net Increase/(Decrease) in Cash and Cash Equivalents	(738,245)	2,054,167
Total (A)+(B)+(C)	(738,245)	2,054,167
Opening Balance of Cash and Cash Equivalents	2,054,167	-
Closing Balance of Cash and Cash Equivalents	1,315,922	2,054,167
Cash and Cash Equivalents comprise		
Cash in hand	9,525	113
Balance with Scheduled Banks in Current Accounts	1,306,397	2,054,054

Note :

- 1) The above Cash Flow Statement has been prepared under the indirect method as set out in the Accounting Standard - 3 notified u/s 211(3C) of the Companies Act, 1956.
- 2) Schedule 1 to 15 form integral part of Cash Flow Statement.
- 3) Figures in brackets indicates cash Outgo.

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

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

For and on behalf of the Board of Directors

ABHISHEK RARA
Partner
Membership No. F-77779

AJAI CHOWDHRY SANDEEP KANWAR
Director Director

Place: Noida
Date: August 25, 2010

DEEPA RAVI SHANKAR
Company Secretary

HCL Security Limited
Schedules to the Balance Sheet as at June 30, 2010

	As at 30.06.2010 Rs.	As at 30.06.2009 Rs.
1 - Capital		
Authorised:		
5,000,000 Equity Shares of Rs.10/- each	<u>50,000,000</u>	<u>50,000,000</u>
Issued, Subscribed and Paid up:		
4,050,000 Equity Shares of Rs. 10/- each, fully paid up (Paid up share capital includes 4,000,000 Equity Shares of Rs.10/- each, issued pursuant to a right issue)	40,500,000	40,500,000
(Wholly owned subsidiary of HCL Infosystems Limited)	<u>40,500,000</u>	<u>40,500,000</u>
2 - Unsecured Loans		
Other Loans*		
- Interest-free Loan received from HCL Infosystems Limited	100,000,000	-
	<u>100,000,000</u>	<u>-</u>
*Amount payable within one year Rs. Nil (Previous Period Rs. Nil)		

HCL Security Limited
Schedules to the Balance Sheet as at June 30, 2010
3 - Fixed Assets

[Schedule 15, Note 2]

(Amount in Rs)

	Gross Block		Depreciation		Net Block		
	As at 01.07.2009	Additions during the year	As at 30.06.2010	As at 01.07.2009	Additions during the year	As at 30.06.2010	As at 30.06.2009
Tangible :							
Leasehold Improvements	-	2,285,251	2,285,251	-	1,264,714	1,020,537	-
Computers	1,091,331	1,604,960	2,696,291	167,748	644,015	811,763	923,583
Office Equipment, Furniture and Fixtures	2,485,022	2,606,516	5,091,538	528,303	874,035	1,402,338	3,689,200
TOTAL	3,576,353	6,496,727	10,073,080	696,051	2,782,764	3,478,815	6,594,265
Previous Period	-	3,576,353	3,576,353	-	696,051	696,051	2,880,302

HCL Security Limited
Schedules to the Balance Sheet as at June 30, 2010

	As at 30.06.2010 Rs.	As at 30.06.2009 Rs.
4 - Inventories [Schedule 15, Note 5]		
Finished Goods [Including Goods in transit Rs. 14,661,448 (Previous Period Rs. 2,163,925)]	25,171,699	6,677,471
	<u>25,171,699</u>	<u>6,677,471</u>
5 - Sundry Debtors - Unsecured		
Debts outstanding for a period exceeding six months :		
- Considered Good	13,910,287	1,364,519
- Considered Doubtful	<u>1,295,623</u>	-
	15,205,910	1,364,519
Other Debts		
- Considered Good	<u>158,673,655</u>	39,466,050
	173,879,565	40,830,569
Less: Provision for Doubtful Debts	<u>1,295,623</u>	-
	<u>172,583,942</u>	40,830,569
6 - Cash and Bank Balances		
Cash balance on hand	9,525	113
Balance with Scheduled Bank - Current Account	<u>1,306,397</u>	2,054,054
	<u>1,315,922</u>	2,054,167
7 - Other Current Assets - Unsecured		
Deposits	5,586,633	980,750
Unbilled Revenue	<u>3,522,555</u>	-
	<u>9,109,188</u>	980,750
8 - Loans and Advances - Unsecured		
Unsecured - Considered good		
- Amounts recoverable in cash or in kind or for value to be received	10,732,290	601,592
- Advance Income tax [Net of provision for Fringe Benefit tax Rs. 206,920 (Previous Period Rs. 206,920)]	543,127	174,357
- Balances with Customs, Port trust and Sales tax authorities	<u>8,485,516</u>	461,802
	<u>19,760,933</u>	1,237,751
9 - Current Liabilities and Provisions		
Current Liabilities:		
Acceptances	3,107,545	2,397,196
Sundry Creditors		
- Due to Micro and Small Enterprises [Schedule 15, Note 3]	442,060	-
- Other than Micro and Small Enterprises	193,096,256	53,144,166
Advances from Customers	369,572	638,806
Other Liabilities	<u>34,247,164</u>	1,959,482
	<u>231,262,597</u>	58,139,650
Provisions:		
For Warranty Liability [Schedule 15, Note 11]	2,032,724	-
Gratuity and Other Employee Benefits [Schedule 15, Note 13]	4,513,678	2,344,978
	<u>6,546,402</u>	2,344,978
	<u>237,808,999</u>	60,484,628

HCL Security Limited	Year ended	Period from
Schedules to the Profit and Loss account	30.06.2010	19.03.2008 to
for the year ended June 30, 2010	Rs.	30.06.2009
	<u>Rs.</u>	<u>Rs.</u>
10 - Cost of goods and services sold		
[Schedule 15, Note 5]		
Purchase of Traded goods	395,128,736	67,673,597
Closing Stock		
- Finished Goods (Including in Transit)	25,171,699	6,677,471
Opening Stock		
- Finished Goods (Including in Transit)	6,677,471	-
(Increase)/ Decrease in Stocks of Finished Goods:	31,849,171	6,677,471
	<u>376,634,508</u>	<u>60,996,126</u>
11 - Personnel		
[Schedule 15, Note 13]		
Salaries, Wages, Allowances, Bonus and Gratuity	74,435,248	24,047,489
Contribution to Provident and Other Funds	2,096,757	601,630
Staff Welfare Expenses	1,394,461	33,403
	<u>77,926,466</u>	<u>24,682,522</u>
12 - Administration, Selling, Distribution and Others		
[Schedule 15, Notes 8, 9, and 10]		
Rent	6,096,811	3,491,471
Rates and Taxes	116,818	-
Printing and Stationery	463,383	151,315
Communication	1,280,197	380,600
Travelling and Conveyance	8,141,506	2,427,273
Packing, Freight and Forwarding	812,721	49,369
Legal and Professional	5,661,299	7,252,405
Training and Conference	736,501	283,424
Office Electricity and Water	367,537	174,676
Insurance	404,371	91,846
Advertisement and Publicity	1,138,445	1,656,596
Hire Charges	376,252	93,205
Commission on Sales	127,948	15,000
Bank Charges	637,759	110,791
Recruitment Expenses	1,126,752	10,016,823
Provision for Doubtful Debts	1,295,623	-
Miscellaneous	455,517	187,257
	<u>29,239,440</u>	<u>26,382,051</u>
13 - Repairs and Maintenance		
Buildings	2,301,352	4,906,131
Others	1,203,895	207,745
	<u>3,505,247</u>	<u>5,113,876</u>

SCHEDULE 14 - SIGNIFICANT ACCOUNTING POLICIES

1. BACKGROUND

HCL Security Limited ("The Company") was incorporated on March 19, 2008 and is the wholly owned subsidiary of HCL Infosystems Limited. The Company is engaged in the business of supply and/or installation of Security, Surveillance and Scanning related equipments.

These financial statements are for the year ended June 30, 2010 whereas the previous period's comparative amounts are for the period from March 19, 2008 to June 30, 2009. Therefore, the previous period's comparative amounts are not comparable with the current year's financials.

2. BASIS OF ACCOUNTING

The financial statements of the Company have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India and comply with the mandatory Accounting Standards notified under section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.

As at June 30, 2010, the Company has material accumulated losses of Rs. 97,986,110. HCL Infosystems Limited, the Holding Company, has confirmed its intention to provide continued financial and operational support to the Company, to enable it to operate as a going concern. Accordingly, the accompanying financial statements have been prepared on a going concern basis.

3. FIXED ASSETS

Fixed Assets and Capital Work-in-Progress are stated at cost net of accumulated depreciation.

4. DEPRECIATION

(a) Depreciation on fixed assets is provided on a pro-rata basis using the straight-line method based on economic useful lives of the assets determined by way of periodical technical evaluation. Individual assets costing less than Rs. 5,000 are depreciated fully in the year of acquisition.

(b) Economic useful lives, which are not exceeding those stipulated in Schedule XIV of the Companies Act, 1956 are as under:

Furniture and Fixtures	4-6	years
Office Equipment	3-6	years
Computers	3-5	years

(c) Leasehold improvements are amortised on straight line basis over the period of three years or lease period whichever is lower.

5. INVENTORIES

Finished Goods are valued at lower of cost and net realizable value. Cost is determined on the basis of weighted average method. Goods in Transit are valued inclusive of Customs Duty, where applicable.

6. FOREIGN CURRENCY TRANSACTIONS

a) Foreign currency transactions are recorded at the exchange rates prevailing at the date of transaction. Exchange differences arising on settlement of transactions, are recognised as income or expense in the year in which they arise.

b) At the balance sheet date, all assets and liabilities denominated in foreign currency are reported at the exchange rates prevailing at the balance sheet date and the resultant gain or loss is recognised in the profit and loss account.

7. EMPLOYEE BENEFITS

Defined Benefit:

Liability for gratuity and leave encashment is provided as determined on actuarial valuation made at the end of the year which is computed using projected unit credit method. Gains/losses arising out of actuarial valuation are recognised immediately in the profit and loss account as income/expense.

Defined Contribution:

Company's contributions towards recognised Provident Fund, Employee State Insurance and Superannuation Fund are accounted for on accrual basis. The Company has an obligation to make good the shortfall, if any, between the return from the investment of the provident fund trust and the notified interest rate.

The Company makes defined contributions to a superannuation trust established for the purpose. The Company has no further obligation beyond the monthly contributions.

8. REVENUE RECOGNITION

- (a) Composite contracts, outcome of which can be reliably estimated, where no significant uncertainty exists regarding realisation of the consideration, revenue is recognised in accordance with the percentage completion method, under which revenue is recognised on the basis of cost incurred as a proportion of total cost expected to be incurred. The foreseeable losses on the completion of the contract, if any, are provided for immediately.
- (b) Service income includes income from Installation and Commissioning services and is recognised on completion of such services.

9. LEASES

Assets taken on leases where significant portion of risks and rewards of ownership are retained by lessor are classified as operating leases. Lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

10. INCOME TAXES

The current charge for income taxes is calculated in accordance with the relevant tax regulations.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantially enacted tax rates as on the balance sheet date. Deferred tax asset is recognized and carried forward when it is reasonably certain that sufficient taxable profits will be available in future against which deferred tax assets can be realised except in case of carry forward tax losses or unabsorbed depreciation where deferred tax asset is recognized only when it is virtually certain that sufficient taxable profits will be available in future against which deferred tax can be realised.

11. PROVISIONS AND CONTINGENCIES

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that probably will not require an outflow of resources or where a reliable estimate of the amount of the obligation cannot be made.

12. IMPAIRMENT OF ASSETS

At the each balance sheet date, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount and if the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in the profit and loss account to the extent the carrying amount exceeds the recoverable amount.

13. USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Examples of such estimates include estimate of cost expected to be incurred to complete performance under composite arrangements, income taxes, provision for warranty, employment benefit plans, provision for warranty, 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.

SCHEDULE 15 - Notes to Accounts

1. Contingent Liabilities: Claims against company not acknowledged as debts : Rs. Nil (2009: Rs. Nil).
2. Estimated value of contracts on capital account, net of capital advances, remaining to be executed and not provided for: Rs. Nil (2009: Rs. Nil).
3. Disclosure of Micro, Small and Medium Enterprises based on information available with the Company:

	2010	2009
a. (i) Principal amount remaining unpaid to any supplier as at the end of the year.	442,060	-
(ii) Interest due on above amount.	116,762	-
b. (i) Amount of interest paid in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (Act).	-	-
(ii) Amount of payments made to the suppliers beyond the appointed day during the year.	3,945,674	-
c. Amount of interest due and payable for the period of delay in making payment but without adding the interest specified under the Act.	-	-
d. Amount of interest accrued and remaining unpaid at the end of the year.	116,762	-
e. Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises.	-	-

4. Taxation:

(a) Provision for taxation has been computed by applying the Income Tax Act, 1961 to the profit for the year ended June 30, 2010, although the actual tax liability of the Company has to be computed each year by reference to the taxable profit for each fiscal year ended March 31. The Company has Tax loss during the current year, accordingly no provision has been made for current tax.

(b) Deferred Tax:

Major components of Deferred Tax arising on account of temporary timing difference along with their movement as at June 30, 2010 are:

	As at 30.06.09	Movement during the year	As at 30.06.10
Assets			
Carry forward Tax Loss and Unabsorbed Depreciation	14,773,094	28,676,740	43,449,835
Depreciation	-	262,558	262,558
Provision for Doubtful Debts	-	400,348	400,348
Expense accruals (Bonus, Gratuity, Leave Encashment and Provision for Warranty)	917,919	785,531	1,703,449
Total (A)	15,691,013	30,125,177	45,816,190
Liabilities			
Preliminary Expenses	-	29,250	29,250
Depreciation	15,948	(15,948)	-
Total (B)	15,948	13,302	29,250
Net Deferred Tax Asset (A) - (B)	15,675,065	30,111,875	45,786,940
Previous period	-	15,675,065	15,675,065

5. Stocks and Sales:

Sales, Purchases, Opening and Closing stocks have been given in terms of value and /or, where ascertainable, in numbers.

(a) Information in respect of purchase of traded goods:

	Nos.	Value Rs.
CCTV Cameras	1,323 (1229)	35,763,572 (12,644,667)
Baggage Scanners	28 (5)	27,668,590 (6,205,650)
Others *		331,696,574 (48,823,280)
Total		395,128,736 (67,673,597)

*Does not include any item which in value individually accounts for 10% or more of the total value of purchase of traded goods.

(b) Stocks and Sales:

Class of Products	Unit	Sales/Adjustments		Opening Stock		Closing Stock	
		Qty	Value Rs.	Qty	Value Rs.	Qty	Value Rs.
CCTV Cameras	Nos.	1318 (1100)	45,501,234 (25,440,291)	129 -	1,075,802 -	134 (129)	982,328 (1,075,802)
Baggage Scanners	Nos.	28 (4)	33,328,107 (6,488,606)	1 -	1,349,556 -	1 (1)	1,349,556 (1,349,556)
Others *	Nos.		305,398,042 (39,330,259)		4,252,113 -		22,839,815 (4,252,113)
Total			384,227,383 (71,259,156)		6,677,471 -		25,171,699 (6,677,471)

*Does not include any item which in value individually accounts for 10% or more of the total value of sales/stock.

	2010	2009
	<u>Rs.</u>	<u>Rs.</u>
6. Value of Imports calculated on CIF basis:		
Traded items	165,026,502	19,238,692
Total	<u>165,026,502</u>	<u>19,238,692</u>
7. Earnings in Foreign Currency:		
FOB value of exports	638,802	-
Total	<u>638,802</u>	<u>-</u>
8. Expenditure in Foreign Currency: (On cash basis)		
a) Travel	243,750	178,573
b) Others	2,056,186	1,528,915
Total	<u>2,299,936</u>	<u>1,707,488</u>
9. Remuneration to Auditor*:		
As Auditor	200,000	200,000
In Other Capacity:		
Out-of-Pocket Expenses	25,000	20,000
Total	<u>225,000</u>	<u>220,000</u>
* Excluding service tax		

10. Leases:

Operating Lease:

(i) Cancelable Operating Leases

(a) The Company has taken various commercial premises under cancelable operating leases. These are normally renewable on expiry.

(b) The rental expense in respect of operating leases was Rs. 4,396,927 (2009: Rs. 133,511).

(ii) Non-Cancelable Operating Leases

(a) The Company has taken commercial premises on non-cancelable operating leases, the future minimum lease payments in respect of which are:

	2010	2009
	<u>Rs.</u>	<u>Rs.</u>
Not later than one year	1,681,704	926,520
Later than one year and not later than five years	-	-
Total	<u>1,681,704</u>	<u>926,520</u>

(b) Minimum lease payments in respect of assets taken on lease recognised as an expense in the profit and loss account for the year ended June 30, 2010 is Rs. 1,699,884 (2009: Rs. 3,357,960)

11 The Company has the following warranty provision in the books of account:

	2010	2009
	<u>Rs.</u>	<u>Rs.</u>
Opening Balance as on July 1	-	-
Additions during the year	2,032,724	-
Utilised/ Reversed during the year	-	-
Closing Balance as on June 30	<u>2,032,724</u>	<u>-</u>

The warranty provision has been recognised for expected warranty claims on products sold during the year. Due to the very nature of such costs, it is not possible to estimate the timing of cash outflows due to uncertainties relating to the outflow of economic benefits.

12. Earnings per share (EPS)

The earnings considered in ascertaining the Company's EPS represent profit/(loss) for the year after tax. Basic earnings per share is computed and disclosed using the weighted average number of equity shares outstanding during the current year. Diluted earnings per share is computed and disclosed using the weighted average number of equity and dilutive equivalent shares outstanding during the year except when results would be anti-dilutive.

Calculation of EPS:

Particulars	2010	2009
Profit / (Loss) after tax (Rs.)	(67,337,557)	(30,648,553)
Weighted average number of shares considered as outstanding in computation of Basic EPS	4,050,000	1,442,077
Add: Dilutive impact of unsecured loans from Holding Company	-	-
Weighted average number of shares considered as outstanding in computation of Diluted EPS	4,050,000	1,442,077
Basic EPS (of Rs 10/- each)	(16.63)	(21.25)
Diluted EPS (of Rs 10/- each)	(16.63)	(21.25)

13. The Company has calculated the various benefits provided to employees as under:

(a) Defined Contribution Plans

(i) Provident Fund

(ii) Superannuation Fund

During the period, the Company has recognised the following amounts in the profit and loss account:

	2010	2009
	Rs.	Rs.
Employers Contribution to Provident Fund*	930,294	463,131
Employers Contribution to Superannuation Fund*	666,772	133,758

(b) State Plans

(i) Employee State Insurance

(ii) Employee's Pension Scheme 1995

During the period, the Company has recognised the following amounts in the profit and loss account:

	2010	2009
	Rs.	Rs.
Employers Contribution to Employee State Insurance*	31,855	2,616
Employers Contribution to Employee's Pension Scheme 1995*	467,836	2,125

* Included in Contribution to Provident and Other Funds under Personnel Cost (Refer Schedule 11).

(c) Defined Benefit

(i) Gratuity

(ii) Leave Encashment/Compensated Absence

In accordance with Accounting Standard 15 (revised 2005), an actuarial valuation was carried out in the respect of the aforesaid defined benefit plans based on the following assumptions:

	Employees Gratuity Fund		Leave Encashment/ Compensated Absence	
	2010	2009	2010	2009
Discount Rate (per annum)	7.80%	7.00%	7.80%	7.00%
Rate of increase in compensation levels	7.00%	7.00%	7.00%	7.00%
Rate of return on plan assets	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Expected average remaining working lives of employees (years)	23.32	24.23	23.32	24.23

The estimates of future salary increases considered in actuarial valuation take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

	2010		2009	
	Gratuity	Leave Encashment/ Compensated Absence	Gratuity	Leave Encashment/ Compensated Absence
	Rs.	Rs.	Rs.	Rs.
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:				
Present value of obligation at the beginning of the period	1,578,529	766,449	-	-
Current service cost	383,044	895,158	1,578,529	766,449
Past service cost	434,065	-	-	-
Interest cost	123,125	48,462	-	-
Actuarial (gain)/loss	93,403	270,325	-	-
Benefits (paid)	-	(78,882)	-	-
Present value of obligation at the end of the period	2,612,166	1,901,512	1,578,529	766,449
Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets:				
Present value of the obligation as at the end of the period	2,612,166	1,901,512	1,578,529	766,449
Fair value of plan assets at the end of the period	-	-	-	-
Assets/(Liabilities) recognised in the Balance Sheet	(2,612,166)	(1,901,512)	(1,578,529)	(766,449)
Cost recognised for the period (included under Salaries, Wages, Allowances, Bonus and Gratuity under Personnel Cost - Schedule 11)				
Current service cost	383,044	895,158	1,578,529	766,449
Past service cost	434,065	-	-	-
Interest cost	123,125	48,462	-	-
Actuarial (gain)/loss	93,403	270,325	-	-
Net cost recognised for the period	1,033,637	1,213,945	1,578,529	766,449

14. Foreign Currency Exposure:

(a) The Company has no outstanding forward contracts to buy foreign currency as at June 30, 2010 (2009: Rs. Nil).

(b) As at June 30, 2010, the foreign currency exposure that is not hedged by a derivative instrument or otherwise is as follows:

Particulars	Year ended 30.06.2010			Period ended 30.06.09	
	EUR	USD	INR	USD	INR
Payables	393,268	-	22,785,948	-	-
Payables	-	1,748,487	81,287,153	196,535	9,419,915
Total	393,268	1,748,487	104,073,101	196,535	9,419,915

15. Disclosure as per Clause 32 of the listing agreement of HCL Infosystems Limited, the Holding Company:

a) No loans and advances in the nature of loans have been given during the year to any subsidiary, associate or firms/ Companies in which the directors are interested.

b) Loans to employees under various schemes of the Company have been considered to be outside the purview of the disclosure requirements.

16. Disclosure of related parties and related party transactions:

(a) Holding Company:

-HCL Infosystems Limited (holds 100% of equity share capital of the Company)

(b) Company having substantial interest:

-HCL Corporation Limited due to substantial interest in voting power of the holding company

(c) Fellow subsidiaries:

-HCL Infinet Limited
-HCL Infocom Limited
-HCL Insys Pte. Limited
-RMA Software Park Private Limited

(d) Other related parties with whom transactions have taken place during the year and/or where balances exists:

-HCL Technologies Limited
-HCL Techno Parks Limited
-NEC HCL Systems Technologies Limited

(e) Key Management Personnel:

Mr. Rothin Bhattacharyya with effect from August 4, 2009

(f) Summary of Related Party disclosures for year ended June 30, 2010:

Rs.

Particulars	Company having substantial interest		Holding Company		Others		Key Management Personnel		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
(a) Transactions										
Sales and related income										
-HCL Technologies Limited					3,841,496	9,552,611			3,841,496	9,552,611
-HCL Infosystems Limited		340,772,174	51,842,047						340,772,174	51,842,047
-HCL Techno Parks Limited					15,391,724	-			15,391,724	-
Purchase of Goods										
-HCL Infosystems Limited		15,841,165	4,955,626						15,841,165	4,955,626
-HCL Infinet Limited					11,890	-			11,890	-
Equity Shares issued, subscribed and paid up										
-HCL Infosystems Limited		-	40,000,000						-	40,000,000
Unsecured Loans received										
-HCL Infosystems Limited		100,000,000	-						100,000,000	-
Assets purchased										
-HCL Infosystems Limited		909,140	-						909,140	-
Remuneration										
-Mr. Rothin Bhattacharyya							12,443,715	-	12,443,715	-
Reimbursement of Expenses										
-HCL Infosystems Limited			1,449,539	22,789,938					1,449,539	22,789,938
-HCL Corporation Limited	-	5,492,537							-	5,492,537
-HCL Technologies Limited					-	2,514,661			-	2,514,661
-NEC HCL Systems Technologies Limited					-	778,209			-	778,209
(b) Amount due to/ from related parties										
Unsecured Loans		100,000,000	-	-	-	-	-	-	100,000,000	-
Accounts Receivables		137,776,961	27,733,539	20,379,384	1,874,427	-	-	-	158,156,345	29,607,966
Creditors		12,900,092	1,832,019	3,078	-	-	-	-	12,903,170	1,832,019
Other Payables		-	15,928,882	-	-	-	-	-	-	15,928,882

Note: All transactions with related parties have been entered into in the normal course of business.

(g) The Company has taken working capital facilities (non funded) from bank which is secured by a corporate guarantee given by HCL Infosystems Limited, the holding company, against which the Company has utilised Rs. 128,463,598 (2009 - Rs. 9,901,652) as at June 30, 2010.

17. Employee Stock Option Plan (ESOP):

The holding company has established Employee Stock Option Scheme 2000 and Employee Stock Based Compensation Plan 2005 for the employees of HCL Infosystems Limited and its subsidiaries.

HCL Infosystems Limited, Holding Company follows the Intrinsic Value Method of accounting and there is no charge for ESOPs based on this method during the current year which relates to the Company.

The impact on the profit of the Company for the current year ended June 30, 2010 and the basic and diluted earnings per share had the Holding Company followed the fair value method of accounting for stock options is set out below:

Proforma disclosures

Particulars	Year ended	Period ended
	June 30, 2010	June 30, 2009
	<u>Rs.</u>	<u>Rs.</u>
Loss after tax as per Profit and Loss account (a)	(67,337,557)	(30,648,553)
Add: Employee Stock Compensation Expense as per Intrinsic Value Method	-	-
Less: Employee Stock Compensation Expense as per Fair Value Method	1,972,568	200,000
Loss after tax recomputed for recognition of employee stock compensation expense under fair value method (b)	(69,310,125)	(30,848,553)
Earnings Per Share based on earnings as per (a) above:		
- Basic and Diluted (Refer Note 12)	(16.63)	(21.25)
Earnings Per Share had fair value method been employed for accounting of employee stock options:		
- Basic and Diluted	(17.11)	(21.39)

18. Amount due from companies under the same management under Section 370(1B) of the Companies Act, 1956 are as follows:

	2010	2009
	<u>Rs.</u>	<u>Rs.</u>
-HCL Technologies Limited	3,262,406	1,872,740
-Universal Office Automation Limited	-	1,687
	<u>3,262,406</u>	<u>1,874,427</u>

19. The Company's business falls within a single primary business and geographical segment, i.e. supply and/or installation of the Security, Surveillance and Scanning related equipments. Accordingly, pursuant to Accounting Standard 17 on 'Segment Reporting', notified under section 211 (3C) of the Companies Act, 1956, segment information is not required to be disclosed.

20. Previous period's figures have been regrouped / recasted where necessary to conform to current year's presentation.

For Price Waterhouse
Firm Registration Number: 301112E
Chartered Accountants

For and on behalf of the Board of Directors

ABHISHEK RARA
Partner
Membership No. F-77779

AJAI CHOWDHRY
Director

SANDEEP KANWAR
Director

Place: Noida
Date: August 25, 2010

DEEPA RAVI SHANKAR
Company Secretary