



## Celebrating 30 years of success

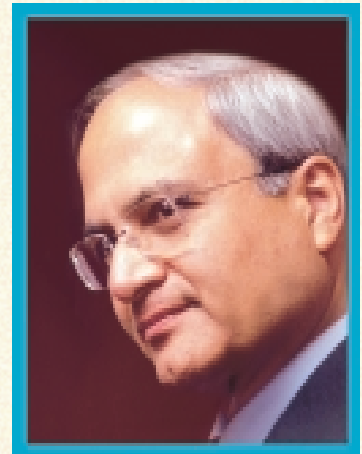
# **HCL**

**HCL INFOSYSTEMS LTD**

**ANNUAL REPORT 2005 - 2006**

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Dear Stakeholder,

“Only those manage to reach their destinations, whose dreams have the courage to live on...just having wings is not sufficient, its your conviction & confidence that enables you to fly on.”

Thirty years back, when we laid the foundation of HCL – it was this passion of keeping our dreams alive – no matter what the challenges – that has enabled us to achieve the milestones that we have accomplished so far – and will continue to inspire our journey in the times to come.

The three decade journey of spearheading the ICT technological evolution in India and keeping it at pace with the global advancements, has touched a new high, that of achieving a consolidated revenue of Rs. 11,455 crores during the current financial year. The journey is now poised to usher in an era of ‘digital convergence & lifestyle’ solutions.

In a nutshell, to sum up on what we have achieved, we are proud to share that your company is the No. 1 player in PCs, mobile phones, projectors, multi-function devices (MFDs) and No. 3 in servers as well as laser printers – which we just launched this year.

Further more, we are No. 1 in terms of both employee satisfaction as well as customer responsiveness and are today the nation’s largest player in the ICT distribution & service domain. In addition to this, our extensive pan-India support infrastructure, with capabilities to effectively reach out to the remotest corners of the nation, ensures that we retain this competitive advantage for the years to come.

We are sure, that with your continuous support & patronage, we at HCL would sustain this pace of innovation & creation of new markets as well as our dream of making every Indian technologically equipped to face the new, exciting, ever-evolving global future.

With warm regards,

Ajai Chowdhry

## CORPORATE INFORMATION

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### BOARD OF DIRECTORS

#### Chairman & Chief Executive Officer

Ajai Chowdhry

#### Whole-time Director

J.V. Ramamurthy (appointed from 11-08-2005)

#### Directors

R.P. Khosla

S.Bhattacharya

D.S. Puri

E.A. Kshirsagar

Anita Ramachandran

T.S. Purushothaman

Narasimhan Jegadeesh (appointed from 24.01.2006)

V.N. Koura (appointed from 24.01.2006)

### COMPANY SECRETARY

Sushil Kumar Jain

### AUDITORS

Price Waterhouse, New Delhi

### BANKERS

State Bank of India

Canara Bank

HDFC Bank Ltd.

ICICI Bank Ltd.

Societe Generale

Standard Chartered Bank

State Bank of Patiala

State Bank of Saurashtra

### REGISTERED OFFICE

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

### CORPORATE OFFICE

E-4, 5, 6, Sector XI, Noida-201 301 (U.P.)

### WORKS

- ◆ R.S. Nos: 34/4 to 34/7 and part of 34/1, Sedarapet, Pondicherry-605 111.
- ◆ R.S. Nos: 107/5, 6 & 7, Sedarapet Main Road, Sedarapet, Pondicherry-605 111.
- ◆ Plot No 78, South Phase, Ambattur Industrial Estate, Chennai-600 058.
- ◆ SPL. A2, Industrial Estate, Thattanchavadi, Pondicherry-605 009.
- ◆ Plot Nos. 1, 2, 27 & 28, Sector 5, 11E-Pantnagar, Rudrapur, Distt, U.S. Nagar, Uttaranchal



## FIVE YEAR FINANCIAL OVERVIEW

### Revenue and Profitability (Consolidated)

YEAR ENDED JUNE 30	2006	2005	2004	2003	Rs./Crores 2002
Total Revenue	11455	7787	4412	2705	1367
PBIDT	396	308	238	137	48
Interest	(1)	(3)	9	7	8
Depreciation	12	15	18	18	20
Effect of Impairment	0	0	0	34	0
Profit before Tax	385	296	211	78	20
Provision for Tax	105	68	36	(15)	5
Profit after Tax (PAT)	280	228	175	93	15
Profit available for Appropriation	640	491	352	220	139
Equity Dividend	135	103	68	32	8
Basic Earning Per Share (Rs.)*	16.7	13.7	10.9	5.8	1.0
PBIDT (%)	3%	4%	5%	5%	3%
Profit before Tax/Revenue (%)	3%	4%	5%	3%	1%
Return on Net worth (%)#	40%	41%	41%	31%	6%
Return on Capital Employed (%)#	35%	35%	35%	23%	4%
Equity Dividend (%)	400**	310	210	100	25

\* Base on equity shares of Rs. 2/- each on Balance sheet date.

\*\* Includes interim dividends aggregating to 300% and proposed final dividend of 100% amounting to Rs. 101 Crores and Rs.34 Crores respectively.

# Calculated on "PAT"

### Assets and Liabilities (Consolidated)

AS AT JUNE 30	2006	2005	2004	2003	Rs./Crores 2002
<b>Sources of Funds</b>					
Equity Funds	34	33	33	32	32
Reserves and Surplus	664	521	390	265	238
Loan Funds	84	82	72	118	141
Deferred Tax Liabilities (Net)	11	7	5	(10)	8
<b>Total</b>	<b>793</b>	<b>643</b>	<b>500</b>	<b>405</b>	<b>419</b>
<b>Application of Funds</b>					
Net block	98	76	66	66	80
Investments	295	143	219	219	102
Current Assets (including Cash & Bank Balances)	1543	1287	912	676	569
Current Liabilities	1143	863	697	556	335
Net Current Assets	400	424	215	120	234
Misc. Expenditure not w/off	0	0	0	0	3
<b>Total</b>	<b>793</b>	<b>643</b>	<b>500</b>	<b>405</b>	<b>419</b>

## DIRECTORS' REPORT

### To the Members,

Your Directors have pleasure in presenting their Twentieth Annual Report together with the Audited Accounts for the financial year ended 30th June, 2006.

### Financial Highlights

Particulars	(Rs. in Crores)			
	Consolidated		Parent Company	
	2005-06	2004-05	2005-06	2004-05
Net Sales and other income	<b>11402.16</b>	7788.58	<b>2311.71</b>	1963.91
Profit before Interest, Depreciation and Tax	<b>396.81</b>	308.33	<b>142.84</b>	156.33
Finance Charges	<b>(-) 0.88</b>	(-) 2.92	<b>4.57</b>	0.96
Depreciation	<b>12.43</b>	15.24	<b>6.75</b>	6.50
Profit before Tax	<b>385.26</b>	296.01	<b>131.52</b>	148.87
Provision for Taxation: Current	<b>98.53</b>	65.11	<b>11.61</b>	11.88
Fringe Benefit	<b>2.96</b>	0.84	<b>1.96</b>	0.48
Deferred	<b>3.41</b>	2.36	<b>4.73</b>	3.74
Net Profit after Tax	<b>280.36</b>	227.70	<b>113.22</b>	132.77
<b>Profit available for appropriation</b>	<b>640.58</b>	490.80	<b>354.25</b>	371.61
<b>Appropriations</b>				
Interim Dividend (includes tax on dividend)	<b>115.08</b>	79.14	<b>115.08</b>	79.14
Proposed Dividend (includes tax on dividend)	<b>38.49</b>	38.16	<b>38.49</b>	38.16
Transfer to General Reserve	<b>11.32</b>	13.28	<b>11.32</b>	13.28
Balance of Profit carried forward to next year	<b>475.69</b>	360.22	<b>189.36</b>	241.03

### Performance

The consolidated net revenue of the Company was Rs. 11402.16 crores as against Rs. 7788.58 crores in the previous year. The consolidated profit before tax was Rs. 385.26 crores as against Rs. 296.01 crores in the previous year.

The net revenue and profit before tax of the Parent Company were Rs. 2311.71 crores and Rs. 131.52 crores respectively.

The net revenue and profit before tax for the previous year were Rs. 1963.91 crores and Rs. 148.87 crores respectively.

Your Directors are pleased to recommend final Dividend @ 100% on the fully paid-up equity shares of Rs. 2/- each for the financial year ended on 30<sup>th</sup> June, 2006. During the first nine months, three interim (quarterly) dividends of 100% each were declared taking the total dividend for the year 2005-06 to 400%.

During the year, your company and Nokia jointly announced a long-term distribution strategy for further developing the rapidly growing Indian mobile phones market. As per the revised arrangement, Nokia would add certain areas for direct billing by them so as to ultimately maintain a balanced channel mix, for GSM handsets. As a part of this announcement, your company's distribution agreement with Nokia has been extended for the next several years.

### Operations

A review of operations of the businesses of your Company for the year ended June 30, 2006 is provided in the attached Management Discussion and Analysis Report.

### Quality Initiatives

During the year under review significant achievements have been made in the quality initiatives front.

Your Company has achieved continuous improvement on Customer Satisfaction Survey. Customer loyalty has improved with more than 77% customers rating "Very Likely " to continue to purchase products from your company.

Your Company was awarded the "Department of Electronics & Telecommunications (DET) Corporate Award" for Performance Excellence in the field of Computer & Tele-Communication System.

System Support Organization – Info Structure Services has been re-certified under ISO 9001-2000 by BVQI (Certification Body) during the year for the next 3 years upto 2009.

### Scheme of Arrangement

The Board of Directors have approved a composite Scheme of Arrangement (Scheme) for amalgamation of the Office Automation and Telecommunication business (remaining business) of HCL Infinet Limited, the wholly owned subsidiary with the Company after demerger of the Networking business of HCL Infinet Limited into Microcomp Limited. The Scheme is being filed under Sections 391-394 of the Companies Act, 1956 with the Hon'ble High Court of Delhi for necessary directions. The Scheme on its sanction by Hon'ble High Court shall be effective from April 1, 2006.

## DIRECTORS' REPORT

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The Scheme will help the Company to address the changing market scenario to take advantage of increasing convergence in the IT, Telecom and Office Automation technologies by offering these multifunctional products and services from one Company to cater the needs of customers and thus help compete better in the market place.

### Sub-division of Equity Shares

The Company has sub-divided the face value of each equity share of Rs. 10/- into 5 equity shares of Rs. 2/- each with effect from July 15, 2005, the Record Date pursuant to the resolution passed by the shareholders through postal ballot.

### Employee Stock Option Plan

#### Employees Stock Option Plan 2000

Pursuant to the approval of the shareholders at the Extra-Ordinary General Meeting held on 25<sup>th</sup> February, 2000 for grant of options to the employees of the Company and its subsidiaries (the ESOP 2000), the Board of Directors had approved the grant of 30,18,000 options including the options that had lapsed out of each grant.

#### Employees Stock Based Compensation Plan 2005

The shareholders of the Company have approved the Employees Stock Based Compensation Plan 2005 through a Postal Ballot for grant of 33,35,487 options to the employees of the Company and its subsidiary. The Board of Directors has granted 31,96,840 options including the options that had lapsed out of each grant. Each option confers on the employee a right for five equity shares of Rs. 2/- each at the market price as specified in the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, on the date of grant. None of these options are vested as on date.

### Credit Ratings

The credit rating by ICRA continued at 'A1+' rating indicating highest safety to the Company's Commercial Paper program of Rs.75 crores.

### Fixed Deposits

As on June 30, 2006, 69 depositors whose deposits amounting to Rs. 9,06,000/- had become due for repayment did not claim their deposits. During the year net fixed deposits repaid amounted to Rs. 1,09,000/-.

There has been no delay in making the payment of Fixed Deposits on maturity and in fulfillment of the terms and conditions of the Company's scheme.

### De-listing of Equity Shares

Your Company has applied for de-listing of its shares from Calcutta Stock Exchange Association Limited, Kolkata

The shares of the Company have already been de-listed from the Delhi Stock Exchange Association Limited and The Madras Stock Exchange Limited.

The shares of the Company will continue to be listed at The Bombay Stock Exchange Limited, Mumbai and National Stock Exchange of India Limited.

### Directors

During the year, Mr. Narasimhan Jegadeesh and Mr. V.N. Koura have been appointed as Additional Directors with effect from 24<sup>th</sup> January, 2006. Both Mr.Narasimhan Jegadeesh and Mr.V.N. Koura are Independent Directors. As per the provisions of Section 260 of the Companies Act, 1956, these Directors hold office only up to the date of the forthcoming Annual General Meeting of the Company. The Company has received notices under Section 257 of the Companies Act, 1956 in respect of the above persons, proposing their appointment as directors of the Company, along with the requisite deposit.

In accordance with the Articles of Association of the Company, Ms. Anita Ramachandran, Mr. Ajai Chowdhry and Mr. S. Bhattacharya, Directors retire by rotation and being eligible, offer themselves for re-appointment.

### Corporate Governance Report and Management Discussion and Analysis Statement.

A report on Corporate Governance is attached to this Report alongwith the Management Discussion and Analysis statement.

### Directors' Responsibility Statement

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, and based on the representations received from the operating management, the Directors hereby confirm that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any
- appropriate accounting policies have been selected and applied consistently, and that the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at June 30, 2006 and of the profit of the Company for the said period;

## DIRECTORS' REPORT

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- c. proper and sufficient care has been taken 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;
- d. the annual accounts have been prepared on a going concern basis.

### **Auditors & Auditors' Report**

M/s Price Waterhouse, Chartered Accountants, who are the statutory auditors of the Company hold office, in accordance with the provisions of the Companies Act, 1956, upto the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment. The proposed re-appointment, if made will be in accordance with the limits prescribed under Section 224(1B) of the Companies Act, 1956.

The Notes to Accounts are self explanatory and therefore do not call for any further comments.

### **Personnel**

Industrial Relations during the period under review continued to be peaceful and harmonious. No man-day was lost due to any Industrial Dispute.

Your Company was awarded Dataquest-IDC Best Employer Award with five stars.

Your Company successfully participated in DMA Watson Wyatt Award for Excellence in Innovative HR Practices and was placed amongst the Top 10 companies.

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is appended to and forms part of this report.

### **Community Service / Corporate Social Responsibility**

HCL over the years, has been contributing to the society.... making a conscientious effort to reach out and touch the lives of the less advantaged and the less fortunate members of the society.

#### **- Community Support Programmes**

HCL has affiliations with child development NGOs along with whom projects are taken up to bring help and happiness to the lives of the underprivileged children. Apart from this, there have been several other activities taken up by HCL from time to time like sponsorship of cricket tournaments to help CRY, donation of computers to charitable organizations, schools for the poor, schools for the blind and orphanages etc, organization of regular blood donation camps etc.

#### **- Response to national calamities**

HCL recognizes its duty and responsibility towards the society during emergency situations like national disasters / calamities and is one of the first to respond and come forward for help. During the recent Tsunami, HCL donated to the PM relief fund. The HCL relief team went to the Tsunami affected areas and provided emergency relief to the stranded families at Kalpakkam and nearby villagers for the first 6 days. During the Orissa cyclone and Gujarat earthquake, HCL sent in relief teams to set up the first communication links from the affected areas to the rest of the country, aiding the general relief work.

#### **- ICT enabled services implemented for Tirupati and Tiruchendur Devasthanams**

Tirumala Tirupati Devasthanams is a massive conglomeration of temples and it attracts the largest number of pilgrims compared to any other shrines of India. HCL has implemented ICT infrastructure services & solutions like 24X7 call centres with multi – language call support, touch screen kiosks at 13 locations providing all the necessary information pertaining to the temple, accommodation availability status, darshan seva status facilitating easy information access for the pilgrims. Apart from these, HCL has provided Biometric cards for all the employees of the temple. The card, which also has the photo of their family, can be used for multiple purposes like identification, attendance and also for availing free medical services.

In Tiruchendur, the ICT infrastructure was inaugurated on 14<sup>th</sup> Sept., 2006. HCL has computerized the ticketing process, the lodging facility at the temple, wait list status etc. thus facilitating the pilgrims visiting the temple.

#### **- Environment support programmes**

HCL manufacturing unit in Pondicherry is an eco – friendly unit, designed to use natural lighting, ventilation, solar heating systems, water harvesting through a green belt around the facility. HCL also has adopted green belts in various townships towards supporting environmental causes. The computer manufacturing facility has also commenced programmes on voluntary compliance of European RoHS (Restriction of Hazardous Substance) norms and the same will be completed in the near future. Also under this programme, all the e-waste generated at the facility are recycled through govt. approved recycling agencies.

#### **- Mindia™**

We at HCL believe in & are very proud of the “Indian” mind. In our own special way, we salute the prowess of the ‘Indian Mind’ and that’s how ‘Mindia™’ has come into being. The HCL Mind Conclaves aim to bring on an interactive



## DIRECTORS' REPORT

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platform, eminent Indians and key members of the society to share their thoughts on being proud of the Indian mind and of our nation with us. The Conclave has already covered 19 cities across the country since its initiation on 26<sup>th</sup> January 2004.

### **- The HCL Concert Series**

The HCL Concert Series is yet another initiative of HCL, conceived in 1998. Through these Concert Series, HCL continues to promote Indian traditions and recognize talent in diverse areas. The HCL Concert Series, is an unbroken pattern of four concerts every month at Indian Habitat Centre, with two dedicated to Dance and two to Music. The series have featured the finest names like Sonal Mansingh, Geeta Chandran, Madhavi Mudgal, Bharati Shivaji, Madhup Mudgal, Padmashri Raja & Radha Reddy, Rita Ganguly to name a few.

### **Additional information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo**

The additional information required in accordance with sub-section (1)(e) of Section 217 of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is appended to and forms part of this report.

### **Particulars of subsidiary company**

The Company has obtained permission from the Ministry of Company Affairs, Government of India, vide their letter No: 47/72/2006-CL-III dated 23<sup>rd</sup> February, 2006 for not annexing the accounts of HCL Infinet Limited, the wholly owned subsidiary of the Company.

The detailed annual accounts of the subsidiary of the Company are available on any working day at the Registered Office of the Company to the shareholders of the Company requiring such information.

### **Acknowledgement**

The Directors wish to place on record their appreciation for the continued co-operation the Company received from various departments of the Central and State Government, Bankers, Financial Institutions, Dealers and Suppliers and also acknowledge the contribution made by the employees.

The Board also wish to place on record its gratitude to the valued Customers, Members and Investing public for their continued support and confidence reposed in the Company.

On behalf of the Board of Directors

AJAI CHOWDHRY  
Chairman and Chief Executive Officer.

August 23, 2006

## ANNEXURE TO DIRECTORS' REPORT

**INFORMATION RELATING TO CONSERVATION OF ENERGY, R&D, TECHNOLOGY ABSORPTION AND INNOVATION, AND FOREIGN EXCHANGE EARNINGS/ OUTGO FORMING PART OF THE DIRECTORS' REPORT IN TERMS OF SECTION 217(1)(e) OF THE COMPANIES ACT, 1956.**

### **A. Conservation of Energy**

The entire product range including Personal Computers, Servers, Peripherals & associated electronic sub-assemblies are designed keeping in view the optimum energy utilization. Several environment friendly measures have been adopted by the Company such as:

1. Use of recycled materials in product packaging.
2. Maximizing the re-use / reduction of scrap from supplier's product packaging.
3. Creating environmental awareness to customers by distributing the information in electronic form along with our systems.
4. Rain water harvesting.
5. Use of displacement ventilation, minimising Air-conditioning usage .
6. Conservation of electrical energy by using natural day light with glare control measures in the factory thus avoiding usage of tube lights and bulbs in the day time in the operations area.
7. Automatic power shutdown of machines in the Reliability testing area once the testing is completed thus eliminating excess electricity consumption for the testing of computers.
8. Installation of different capacities of DG sets so that optimum amount of diesel is consumed as per the load.
9. Construction of artesian borewell to draw water from 260 ft. depth without using any electricity.

### **B. Research & Development:**

#### **1. Product Innovation and Engineering.**

Today one increasingly sees the need for products developed specifically for individual verticals. The Company is working in a number of areas and has over the last year released a number of products.

Management software : Today deployment of computers is all pervasive and there is a need for ease and convenience in their management. The Company has developed a best in class range of Management software for HCL Servers, Desktops and Laptops.

In the area of scientific computing, the Company has developed capability in the field of High Performance computing, both for horizontally scalable and vertically scalable clusters.

In the area of data Backup and Storage a range of solutions have been developed which are offered as an integral part of Server solutions that are taken to market.

On the trusted Infrastructure front, the Company has developed secure PCs with the indigenously developed SD2 technology, that enables the operation of one PC in two securely isolated work environments. It has special security features for data protection and creation of secure work domains at a hardware level.

On the POS range of systems the Company brought out customized products with multi lingual capability.

Under the display product range in CRT Monitors, the Company released models in 17" range both in MPRII & Non-MPRII categories. Also released was the 17" Flat model. In the LCD Monitors range, the Company released several LCD Display models with provision for touch screen and Pivot Support.

In Thin Client range, the Company released the VIA range of thin clients with a faster speed of 1GHz and a Powerful Graphic processing engine with a host of user preferred features.

A complimentary product to the thin client, the new model Lanterm model V6 with Freescale MPC8275 embedded processor running at 266 MHz was released. The embedded linux is used as the OS. The performance of this hardware is much higher than the earlier model of Lanterm.

Dual Channel Multiplexer has 16 or 8 serial ports and a Sync Port which was developed for Railways. This is an enhancement over the existing multiplexer.

Ticketing terminals with new additional features like standard terminal emulation with special customization for railways was designed and introduced for unreserved ticketing system for Railways.

The Company has designed a range of self service terminals or Kiosks, both for enquiry and transaction services. These come with a host of features customized for the local market.

In the engineering area the Company also undertook many high-speed multi-layer PCB designs for various customers and also augmented its EMI/EMC service setup to address wide spectrum of clients. The Company also took up projects for customized racks for various clients

## 2. Benefits derived as a result of the above R & D :

The management features released on the HCL range of computers facilitates administration and management of these products. These are among the best in class in their range and differentiates the Company's products from those of its competitors. These are available both for Microsoft and opensource O.S environments.

The range of multimedia Media Center based computers have strengthened the position of the Company as a leader in the consumer desktop space. These high end consumer PCs are targeted at customers looking for an experience of Live TV, Home theater, PC and multimedia peripherals - all in one. The Gaming PC addresses the new and growing Gaming segment.

The Leaptop range of products for the first time brought a variety of Notebook mobile computers with wide screen support, the first of its type from the company.

The multi lingual affordable POS enabled the Company to address the retail segment looking for billing systems for their business in their local language and made the Company a leader in this category.

The Kiosk range of self service products, has enabled the organization to offer solutions to organizations in the areas of customer and employee interface.

All the above innovations and solutions have contributed immensely to the ability of the Company to bring about product differentiation, customized products for segments and creations of new segments.

## 3. Expenditure on R & D :

	(Rs./ Crores)
Capital	0.02
Revenue	0.46
Total	<u>0.48</u>

## C. Technology absorption, adaptation and innovation

The Company has been closely tracking the introduction of new technology and during the year introduced a series of new products for its Server, Desktop, Workstation, Notebook, POS ranges of systems under various brands like Infiniti Global Line, Infiniti Xcel Line, NetManager, Infiniti Challenger, Infiniti Pro, Infiniti Orbital, Beanstalk, Busybee, Ezeabee, Infiniti Powerlite and BeePOS.

New series of notebooks were released under the brand name of HCL Leaptops. Notebooks supporting dual core and Centrino Duo technology are released. Various accessories for notebooks like note book charger from car battery, blue tooth adapter, USB based Security lock etc. were released.

Dual core processor based servers were launched which also supports latest technologies like VT, SAS & FBDIMM. A new range of four way servers were released with advanced RAS (Reliability, Availability & Supportability) features like memory RAID and memory hotswap.

Desktop platforms supporting dual core processors have been introduced. New storage interface SATA 300 was introduced in desktop & servers. Systems with RAID 6 feature were introduced under server product category, that offer enhanced data security and retrieval capability.

On the software and operating systems front, Windows XP starter edition was launched for the first time users of computers and Windows XP MCE 2005 Rolup2 was launched for enhanced multimedia experience in consumer PCs. Various utility softwares were developed for bundling with consumer PCs.

Launched the HCL BPO PC, co-created with the BPO segment, it incorporates specific needs of the BPO segment. Designed & developed at the HCL Labs, the indigenously developed SD2 technology, enables the operation of one PC in two securely isolated work environments and holds the potential of reducing IT spending per seat & infrastructure cost of a BPO center.

In partnership with Intel, the company developed and launched a PC called HCL Uday. HCL Uday is empowered with several pioneering features such as single-key data recovery capability, capability to work under extreme temperature, dust & humidity conditions and to run using a car battery in the absence of power.

#### **D. Foreign exchange earnings/outgo**

During the period under review, the Company's earnings in foreign currency were Rs. 78.60 Crores (Previous Year Rs. 47.01 Crores). The expenditure in foreign currency including imports during the year amounted to Rs. 1395.05 Crores (Previous year Rs. 999.51 Crores).

The details of the options granted under the HCL Infosystems Ltd., Employee Stock Option Schemes as on 30<sup>th</sup> June, 2006 are given below:-

Description	Scheme 2000	Scheme 2005																		
Options Granted	30,18,000 which confer a right to get 1 equity share of Rs. 10/- each. (Each equity share of the face value of Rs. 10/- has been sub divided into five equity shares of Rs. 2/- each).	31,96,840 which confer a right to get 5 equity shares of Rs. 2/- each.																		
Pricing Formula	<p>The members of the Company at the Extra Ordinary General Meeting held on February 25, 2000 approved the exercise price as the price which will be not less than 85% of the fair market value of the shares on the date on which the Board of Directors of the Company approved the Grant of such options to the employees or such price as the Board of Directors may determine in accordance with the regulations and guidelines prescribed by SEBI. The members of the Company at the Annual General Meeting held on October 21, 2004, approved the amendment to the pricing formula that the options granted but not yet exercised by the employees or options that would be granted in future, would be at the market price on the date of grant. For this purpose the market price as specified in the amended provisions of SEBI (Employee Stock Options Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the regulations/guidelines prescribed by the Securities and Exchange Board of India or any relevant authority, from time to time to the extent applicable.</p>	<p>Subject to the approval of the members of the Company, the options would be granted at the market price on the date of grant or such price as the Board of Directors may determine in accordance with the Regulations and Guidelines prescribed by the Securities and Exchange Board of India or other relevant authority from time to time. For this purpose, the market price as specified in the amended provisions of SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and the regulations / guidelines prescribed by SEBI or any relevant authority from time to time to the extent applicable.</p>																		
Options vested	<p>The options granted on 10/08/2000 have already been vested.</p> <p>(i) The vesting for other options is as under</p> <table> <tr> <th>Date of Grant</th> <th>Option Vested</th> </tr> <tr> <td>28/01/2004</td> <td>7,27,515</td> </tr> <tr> <td>25/08/2004</td> <td>49,703</td> </tr> <tr> <td>18/01/2005</td> <td>79,125</td> </tr> <tr> <td>15/02/2005</td> <td>2,520</td> </tr> <tr> <td>15/03/2005</td> <td>16,361</td> </tr> <tr> <td>15/04/2005</td> <td>6,151</td> </tr> <tr> <td>15/05/2005</td> <td>2,772</td> </tr> <tr> <td>15/06/2005</td> <td>4,080</td> </tr> </table> <p>(ii) The vesting schedule for the rest of the grants are as follows:-</p> <p>30%-12 Months after the grant date</p> <p>30%-24 Months after the grant date</p> <p>40%-42 months after the grant date</p>	Date of Grant	Option Vested	28/01/2004	7,27,515	25/08/2004	49,703	18/01/2005	79,125	15/02/2005	2,520	15/03/2005	16,361	15/04/2005	6,151	15/05/2005	2,772	15/06/2005	4,080	Not yet vested
Date of Grant	Option Vested																			
28/01/2004	7,27,515																			
25/08/2004	49,703																			
18/01/2005	79,125																			
15/02/2005	2,520																			
15/03/2005	16,361																			
15/04/2005	6,151																			
15/05/2005	2,772																			
15/06/2005	4,080																			



Options exercised	Date of Grant	Option Exercised.	Not Applicable
	10/08/2000	13,33,353	
	28/01/2004	4,56,242	
	25/08/2004	30,817	
	18/01/2005	15,480	
	15/02/2005	500	

Total number of shares arising as a result of exercise of option.	91,81,960 equity shares of Rs. 2/- each.	Not Applicable
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Options lapsed (including forfeiture)	The Details of lapsed during the year are as under
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Date of Grant	Options lapsed	Grant Price (Rs.)	Date of Grant	Option lapsed	Grant Price (Rs.)
10/08/2000	600	289.00	13/08/2005	3,75,060	1,144.00
28/01/2004	69,320	538.15	19/10/2005	24,690	1,157.50
25/08/2004	24,849	603.95	15/11/2005	4,430	1,267.75
18/01/2005	13,596	809.85	15/12/2005	7,200	1,348.25
15/02/2005	3,080	809.30	14/01/2006	4,920	1,300.00
15/03/2005	4,896	834.40	15/02/2006	1,310	1,308.00
15/04/2005	4,672	789.85	16/03/2006	1,500	1,031.00
15/05/2005	8,160	770.15	17/04/2006	1,500	868.75
15/06/2005	4,800	756.15	15/05/2006	0	842.50
15/07/2005	1,280	978.75	15/06/2006	0	620.50
13/08/2005	6,080	1,144.00			
15/09/2005	0	1,271.25			

Variance of terms of options	The market price has been defined to mean the market price as specified in the amended provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the regulations/ guidelines prescribed by SEBI or any relevant authority, from time to time to the extent applicable.	No variation made
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Money realized by exercise of options	Rs. 66,24,18,704.00	Not Applicable
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Total number of options in force	Date of Grant	Options in force	Grant price (Rs.)	Date of Grant	Options in force	Grant price (Rs.)
	10/8/2000	47,967	289.00	13/08/2005	28,21,780	1,144.00
	28/1/2004	6,91,611	538.15	19/10/2005	82,320	1,157.50
	25/8/2004	1,16,092	603.95	15/11/2005	47,380	1,267.75
	18/1/2005	2,43,874	809.85	15/12/2005	49,000	1,348.25
	15/2/2005	4,820	809.30	14/01/2006	54,220	1,300.00
	15/3/2005	52,520	834.40	15/02/2006	9,630	1,308.00
	15/4/2005	18,712	789.85	16/03/2006	46,340	1,031.00
	15/5/2005	9,240	770.15	17/04/2006	33,760	868.75
	15/6/2005	13,600	756.15	15/05/2006	38,100	842.50
	15/7/2005	26,160	978.75	15/06/2006	54,740	620.50
	13/8/2005	27,230	1,144.00			
	15/9/2005	13,620	1,271.25			

Employee-wise details of options granted to-	Name	No. of option	Name	No. of option
(i) Senior Management	Mr.T.S.Purushothaman	40,000	Mr.J.V.Ramamurthy	7,500
	(Ceases to be Whole- time Director w.e.f. 20 <sup>th</sup> July 05)		Mr George Paul	7,500
	Mr. Ravi Thumboochetty	30,000	Mr Rajeev Asija	7,500
	(Ceases to be Whole- time Director w.e.f. 10 <sup>th</sup> August 05)		Mr.Rakesh Mehta	7,500
	Mr. J.V.Ramamurthy	27,500	Mr Sandeep Kanwar	7,500
	Mr. Sandeep Kanwar	25,000	Mr.Hari Baskaran	7,500
	Mr. Rajendra Kumar	25,000	Mr.Rajendra Kumar	7,500
	Mr. M.L.Taneja	18,000	Mr.M.L.Taneja	7,500
	(Retired w.e.f. 1 <sup>st</sup> July 06)		(Retired w.e.f. 1 <sup>st</sup> July 06)	
	Mr. Hari Baskaran	15,000	Mr.Suman Ghose	7,500
	Mr. George Paul	14,000	Hazra	
	Mr. Raveev Asija	14,000		
	Mr. Rakesh Mehta	14,000		
	Mr. Suman Ghose Hazra	12,500		

(ii) Employees holding 5% or more of the total number of options granted during the year

NIL

NIL

(iii) Identified employees who were granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant.

NIL

NIL

Diluted Earning Per Share(EPS) pursuant to issue of shares on exercise of Option calculated in accordance with Accounting Standard (AS) 20 'Earnings per Share'

Rs. 6.64

Where the Company has calculated the employee compensation cost using the intrinsic value of Stock Options, the difference between the employee compensation cost that shall have been recognized if it had used the fair value of Options.

The Company has used intrinsic value method for calculating the employee compensation cost with respect to the Stock Options.

The impact on the profit of the Company for the year ended June 30, 2006 and the basic and diluted earnings per share had the Company followed the fair value method of accounting for stock options is set out below :

	Rs. Crores
Profit /(Loss) after tax as per Profit and Loss account (a)	113.22

The impact of this difference on profits and on EPS of the Company.	Add : Employee Stock compensation Expense as per intrinsic value method	-
	Less : Employee Stock compensation Expense as per fair value method (Net of Amount attributable to the employees of Subsidiaries Rs. 5.73 crores)	14.63
	Profit/(Loss) after tax recomputed for recognition of employee stock compensation Expense under fair value method (b)	98.59
	Earning per share based on earnings as per (a) above :	(Rs.)
	- Basic	6.74
	- Diluted	6.64
	Earning Per Share had fair value method been Employed for accounting of employee stock options:	
	- Basic	5.87
	- Diluted	5.78
	Weighted average exercise price of options granted. (Rs.)	428.67 1137.19
	Weighted average fair value of options granted: (Rs.)	743.88 1293.52

Description of the method and significant assumptions used during the year to estimate the fair value of Options, including the following weighted average information

Black-Scholes model

	<b>Scheme 2000</b>	<b>Scheme 2005</b>
Volatility	49% to 68%	47% to 62%
Risk Free Rate (%)	4.57% to 6.81%	6.49% to 7.49%
Time of Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	11% to 21%	10% to 23%
Life of Options	8.5 Years	10 Years

Notes :

1. Volatility : Based on historical volatility in the share price movement of the Company
2. Risk Free Rate : Being the interest rate applicable for maturity equal to the expected life of options based on yield curve for government securities.
3. Time to Maturity : Vesting period and volatility of the underlying equity shares have been considered for estimation.
4. Dividend Yield : based on historical dividend payouts.

## **AUDITORS' CERTIFICATE**

We have examined the books and records of the HCL Infosystems Limited Employee Stock Option Scheme 2000 and Employee Stock based Compensation Plan 2005 ("The Scheme") as produced before us and based on such books and records and according to the information and explanations given to us, we hereby certify that HCL Infosystems Limited ("The Company") has implemented The Scheme in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and in conformity with the resolutions passed by the shareholders in the Extra-Ordinary General Meeting of the Company held on February 25, 2000 and through postal ballot, the results whereof declared on June 13, 2005.

Place: New Delhi  
Date: August 23, 2006

V. Nijhawan  
Membership Number F-87228  
Partner  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

# REPORT ON CORPORATE GOVERNANCE

## 1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE :

The company believes that good corporate governance practices should be enshrined in all activities of the Company. This would ensure efficient conduct of the affairs of the Company while upholding the core values of transparency, integrity, honesty, and accountability and help the Company in its goal to maximize value for all its stakeholders. The Company is committed to maintaining the highest standards of Corporate Governance.

## 2. BOARD OF DIRECTORS :

- (i) The Company has an Executive Chairman and the number of Independent Directors at 60% is more than 50% of the total number of Directors. The number of Non-Executive Directors (NEDs) at 80% is more than 50% of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the listing agreement entered into with the Stock Exchanges.
- (ii) None of the Directors on the Board is a member of more than 10 Committees or Chairman of more than 5 Committees as specified in Clause 49 across all the Companies in which he is a Director. Necessary disclosures regarding Committee position in other public companies as at June 30, 2006 have been made by the Directors.
- (iii) The names and categories of the Directors on the Board, their attendance at Board meetings held during the year and the number of Directorships and Committee Chairmanship/Memberships held by them in other companies is given below. Other Directorships do not include alternate directorships, directorships of private limited companies and of companies incorporated outside India. Chairmanship/Membership of Board Committees include only Audit and Shareholders/Investors Grievance Committees.

Name	Category	No. of Board Meetings		Whether attended last AGM held on October 20, 2005	No of Directorship in other Public Companies		No of Committee positions held in other Public companies	
		Held	Attended		Chairman	Member	Chairman	Member
Mr. Ajai Chowdhry (Chairman & CEO)	Promoter & Executive Director	4	4	Yes	1	2	-	2
Mr.J.V. Ramamurthy <sup>1</sup> (Whole Time Director)	Executive Director	4	4	Yes	-	1	-	1
Mr.Ravi Thumboochetty <sup>2</sup> (Whole Time Director)	Executive Director	N/A	N/A	N/A	-	-	-	-
Mr.R.P. Khosla	Independent & Non-Executive Director	4	4	Yes	-	2	-	1
Mr.S. Bhattacharya	Independent & Non-Executive Director	4	4	Yes	-	6	4	2
Mr.D. S. Puri	Promoter & Non-Executive Director	4	3	No	-	1	-	1
Mr.E.A. Kshirsagar	Independent & Non-Executive Director	4	4	Yes	-	4	2	2
Ms.Anita Ramachandran	Independent & Non-Executive Director	4	3	Yes	-	2	-	1
Mr.T.S.Purushothaman <sup>3</sup>	Non independent & Non- Executive Director	4	4	Yes	-	-	-	-
Mr. Narasimhan Jegadeesh <sup>4</sup>	Independent & Non-Executive Director	4	2	N/A	-	-	-	-
Mr.V.N.Koura <sup>4</sup>	Independent & Non-Executive Director	4	1	N/A	-	4	-	1

<sup>1</sup>Appointed as wholetime director w.e.f August 11, 2005.

<sup>2</sup>Retired as wholetime director as well as director w.e.f August 10, 2005.

<sup>3</sup>Retired as wholetime director with effect from July 20, 2005 and reappointed as Director with effect from July 21, 2005.

<sup>4</sup>Appointed as additional director on January 24, 2006.



## REPORT ON CORPORATE GOVERNANCE

- (iv) Four Board Meetings were held during the year and the gap between two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows:  
18<sup>th</sup> August 2005, 19<sup>th</sup> October 2005, 24<sup>th</sup> January 2006 & 24<sup>th</sup> April 2006.
- (v) None of the Non-Executive Directors have any material pecuniary relationship or transactions with the Company.
- (vi) Necessary information as mentioned in Annexure 1A to Clause 49 of the listing agreement has been placed before the Board for their consideration.

Some of the items discussed at the Board meetings are listed below :

- Annual operating plans, budgets and all updates.
- Capital budgets and all updates
- Quarterly results for the Company and its operating divisions or business segments.
- Minutes of meetings of audit committee and other committee of the Board.
- The information on recruitment and remuneration of senior officers below the board level, including appointment of the Company Secretary of the Company.
- Show Cause, Demand, Prosecution notices and penalty notices if any, which are materially important.
- Sale of material nature, of investment, subsidiaries, assets, which is not in the normal course of business.
- Quarterly details of foreign exchange exposures and 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.
- Review of operations of subsidiary company.
- Amalgamation of certain businesses of the subsidiary with the Company.
- Employee Stock Option Scheme and matters related thereto.
- Review of related party transactions.
- To review operations including key result areas.
- Review of statutory compliances.
- To note risk management procedures.

### 3. ACCOUNTS & AUDIT COMMITTEE :

- (i) The Accounts and Audit Committee of the Company was constituted in August, 1998 in line with the provisions of Clause 49 of the Listing Agreements with the Stock Exchanges read with Section 292A of the Companies Act, 1956. The Company Secretary acts as Secretary of the Committee.
- (ii) The primary objective of the Committee is to monitor and effectively supervise the Company's financial reporting process with a view to provide accurate, timely and proper disclosures and ensure the integrity and quality of financial reporting and internal controls.
- (iii) The composition, powers, roles and the terms of reference of the Committee are in terms of the requirement of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement. All the committee members have reasonable knowledge of finance and accounting and two members possess financial and accounting expertise.
- (iv) The Composition of the Accounts and Audit Committee and details of meetings attended by its members are given below:

Name	Category	No of meetings	
		Held	Attended
Mr. E.A. Kshirsagar (Chairman)	Independent, Non Executive	4	4
Mr. S. Bhattacharya (Member)	Independent, Non Executive	4	4
Mr.R .P. Khosla (Member)	Independent, Non Executive	4	4
Mr. Ajai Chowdhry (Ex-Officio)	Non Independent, Executive	4	4

- (v) The Audit Committee met 4 times during the financial year 2005-06 on the following dates: August 17, 2005, October 19, 2005, January 24, 2006 and April 24, 2006.
- (vi) The previous Annual General Meeting of the Company was held on October 20, 2005 and it was attended by Mr. E.A. Kshirsagar, the Chairman of the Committee.

### 4. EMPLOYEE COMPENSATION AND EMPLOYEE SATISFACTION COMMITTEE :

- (i) The Employees Compensation & Employees Satisfaction Committee was constituted in August 1998 to recommend/review remuneration of executive Directors and other employees based on their performance and defined assessment criteria and other matters relating to employees.

## REPORT ON CORPORATE GOVERNANCE

- (ii) The Committee met 4 times during the financial year 2005-2006 on the following dates: August 17 2005, October 19 2005, January 24 2006 and April 24 2006.
- (iii) The composition of the Employees Compensation & Employees Satisfaction Committee and the details of meetings attended by its members are given below:

Name	Category	No of meetings	
		Held	Attended
Ms.Anita Ramachandran(Chairperson)	Independent, Non Executive	4	3
Mr. Ajai Chowdhry (Member)	Non-Independent, Executive	4	4
Mr. S. Bhattacharya (Member)	Independent, Non Executive	4	4
Mr. R. P. Khosla (Member)	Independent, Non Executive	4	4

- (iv) Compensation policy for Non-Executive Directors (NEDs): -  
Within the ceiling of 1% of the net profits of the Company computed under the applicable provisions of the Companies Act, 1956 and approved by the shareholders at the Annual General Meeting held in November, 2003, the non executive directors (other than Promoter Directors) are paid a commission, the amount whereof is determined by the Board. The basis of determining the specific amount of commission payable to these director is related to his attendance at meetings, contribution at meetings as perceived by the Chairman and the extent of consultations with them outside the meetings .The Independent Directors are also paid sitting fees at the rate of Rs. 20,000 for attending each meeting of the Board.
- (v) Details of remuneration paid / payable to all the Directors for the period from 1/7/2005 to 30/6/2006:

(Rs./Lacs)

Name of Director	Salary & Allowances	Perquisites	Performance linked bonus	Commission	Sitting Fees
Mr. Ajai Chowdhry	65.04	25.63	160.00	-	-
Mr. J.V. Ramamurthy*	16.65	6.15	40.00	-	-
Mr. Ravi Thumboochetty*	3.07	1.35	-	-	-
Mr. R.P. Khosla	-	-	-	2.85	0.80
Mr. S. Bhattacharya	-	-	-	3.98	0.80
Mr. D.S. Puri	-	-	-	-	-
Mr. E.A. Kshirsagar	-	-	-	2.10	0.80
Ms. Anita Ramachandran	-	-	-	1.95	0.60
Mr.T.S.Purushothaman*	16.43	6.99	-	25.00	-
Mr. Narasimhan Jegadeesh	-	-	-	0.68	0.40
Mr. V.N.Koura	-	-	-	0.23	0.20

During the year Mr. Ajai Chowdhry, Mr. Ravi. Thumboochetty and Mr. T. S. Purushothaman were paid Performance Linked Bonus of Rs. 125 lacs, 15 lacs and Rs. 85 lacs respectively pertaining to the year 2004-05.

The above remuneration excludes reimbursement of expenses on actual to Directors for attending meetings of the Board/Committees.

\*Mr. T.S. Purushothaman, Mr.Ravi Thumboochetty and Mr. J.V. Ramamurthy were granted 40000, 30000 and 27500 options respectively under Employee Stock Option Plan 2000. Mr. J.V. Ramamurthy has also been granted 7500 options under Employee Stock Option Plan 2005.

- (vi) Period of contract of Executive Directors
- (a) Mr. Ajai Chowdhry, Chairman & C.E.O:
- 5 Years from April 1, 2004.
  - The contract may be terminated by either party giving the other party three months notice or the Company paying three months salary in lieu thereof
  - There is no separate provision for payment of Severance Fees.
- (b) Mr. J.V. Ramamurthy, Whole Time Director:
- 5 Years from August 11, 2005.
  - The contract may be terminated by either party giving the other party three months notice or the Company paying three months salary in lieu thereof.
  - There is no separate provision for payment of Severance Fees
- (vii) There were no other pecuniary relationship or transactions of the Non executive Directors vis –a –vis the Company.

## REPORT ON CORPORATE GOVERNANCE

(viii) Details of Shares of the Company held by the non-executive Directors as on June 30, 2006 are as below:

SI No.	Name of the Director	No. of Shares
1	Mr. D.S. Puri	95678
2	Mr.T.S. Purushothaman	5455
3	Mr. Narasimhan Jegadeesh	2000

The Company has not issued any convertible instruments.

### 5. SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE :

- (i) The Board has constituted Shareholders'/Investors' Grievance Committee to oversee and review all matters connected with the transfer of Shares of the Company and redressal of Shareholders /investors' complaints.
- (ii) The composition of the Shareholders' / Investors' Grievance Committee and the details of meeting attended by its members are given below:

Name	Category	No of meetings	
		Held	Attended
Mr. R. P. Khosla (Chairman)	Independent, Non Executive	4	4
Mr.E.A. Kshirsagar	Independent, Non Executive	4	4
Mr.S. Bhattacharya	Independent, Non Executive	4	4
Mr. Ajai Chowdhry (Ex- Officio)	Non Independent, Executive	4	4

- (iii) The Committee met 4 times during the financial year 2005-2006 on the following dates: August 18, 2005; October 19, 2005; January 24, 2006 and April 24, 2006.

- (iv) Name, designation and address of Compliance Officer :

Mr. Sushil Kumar Jain  
Company Secretary  
HCL Infosystems Limited  
E- 4, 5, 6, Sector 11, Noida  
Tel: 0120-2526490  
Fax: 0120-2525196

- (v) During the year the Company received 12 complaints from SEBI/ stock exchanges / MCA. All complaints were redressed to the satisfaction of the shareholder. No complaints were pending either at beginning or at the end of the year. There were no shares pending for transfer as on 30<sup>th</sup> June, 2006.

### 6. CODE OF BUSINESS CONDUCT AND ETHICS FOR DIRECTORS AND SENIOR MANAGEMENT

The company has adopted a comprehensive Code of Conduct for its Directors and Senior Management, which lays the standard of business conduct, ethics and governance.

The Code has been circulated to all the members of the Board and Senior Management and they have affirmed compliance of the same.

The declaration signed by the Chairman & CEO is given below:

I hereby confirm that:

The company has obtained from all the members of the Board and Senior Management affirmation that they have complied with the Code of Conduct for Directors and senior management in respect of the financial year 2005-06.

Ajai Chowdhry  
Chairman & CEO

### 7. UNLISTED MATERIAL SUBSIDIARY COMPANY:

The Company has one unlisted wholly owned material subsidiary namely HCL Infinet Limited, which was incorporated on 3<sup>rd</sup> February 2000.

Mr. S. Bhattacharya, an independent Director of the Company is also a Director of HCL Infinet Limited. The Minutes of the Board Meetings of the subsidiary company are regularly placed before the Board.

## REPORT ON CORPORATE GOVERNANCE

### 8. GENERAL BODY MEETINGS :

i) The last three Annual General Meetings were held as under:

Financial Year	Date	Time	Location
2004-05	20/10/2005	10.00 A.M	FICCI Auditorium, 1, Tansen Marg, New Delhi-110001
2003-04	21/10/2004	10.00 A.M	FICCI Auditorium, 1, Tansen Marg, New Delhi-110001
2002-03	25/11/2003	10.00 A.M	FICCI Auditorium, 1, Tansen Marg, New Delhi-110001

ii) Postal Ballot:

During the year no resolution has been passed through postal ballot.

iii) Special Resolutions passed at last three AGMs:

- (a) At the AGM held on 20<sup>th</sup> October 2005, Special Resolution was passed for delisting of Shares from Calcutta Stock Exchange.
- (b) At the AGM held on 21<sup>st</sup> October 2004 Special Resolutions were passed for :
  - (i) Delisting of securities from Delhi Stock Exchange Association Limited and Madras Stock Exchange Limited
  - (ii) Amendment of Exercise /Pricing Formula in respect of Employees Stock Option Scheme.
- (c) At the AGM held on 25<sup>th</sup> November 2003 the Special Resolution was passed in respect of remuneration to Non-Executive Directors.

### 9. DISCLOSURES

- i) There are no materially significant related party transactions of the Company, which have potential conflict with the interests of the company at large.
- ii) The Company has complied with the requirements of the stock Exchanges/SEBI/any Statutory Authority on all matters related to capital markets during the last three years. There are no penalties or strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authorities relating to the above.
- iii) A qualified Practicing Company Secretary carried out a secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.
- iv) The company has voluntarily appointed M/s Siddiqui & Associates, Practicing Company Secretary, to conduct Secretarial Audit of the Company for the financial year ended June 30, 2006, who has submitted his report confirming the compliance with all the applicable provisions of the various corporate laws.
- v) The Company has fulfilled the following non-mandatory requirements as prescribed in Annexure 1D to Clause 49 of the Listing Agreement with the Stock Exchanges:
  - (a) The Company has set up an Employees Compensation & Employees Satisfaction Committee. Please see para 4 for further details.
  - (b) The statutory financial statements of the Company are unqualified.

### 10. MEANS OF COMMUNICATION

- a) The quarterly, half yearly and annual results are published in English and Hindi Newspapers and the results are also displayed on the website of the Company – 'www.hclinfosystems.in'
- b) Quarterly financial results along with a message from the Chairman are sent to each shareholder.
- c) Press releases made by the company from time to time and the presentation made to the institutional investors and analysts are displayed on the Company's web site.
- d) The Management Discussion and Analysis Report forms part of the Company's Annual Report.

# REPORT ON CORPORATE GOVERNANCE

## 11. GENERAL SHAREHOLDERS' INFORMATION

- i) Annual General Meeting  
Date : Thursday, October 19, 2006  
Time : 10.00 A.M.  
Venue : FICCI Auditorium, 1, Tansen Marg, New Delhi-110 001.
- ii) Financial Calendar (Tentative Calendar for the financial year 2006-2007)  
Adoption of Results for the quarter ending September 30, 2006 : October 18, 2006  
Adoption of Results for the quarter ending December 31, 2006 : January 24, 2007  
Adoption of Results for the quarter ending March 31, 2007 : April 25, 2007  
Adoption of Results for the quarter ending June 30, 2007 : August 22, 2007
- iii) Date of Book Closure : October 26, 2006 to October 27, 2006 (both days inclusive)
- iv) Dividend payment date : The Final Dividend if declared shall be paid on or before November 18, 2006
- v) Listing on Stock Exchanges : National Stock Exchange of India Limited  
: Bombay Stock Exchange Limited  
: Calcutta Stock Exchange Association Limited
- vi) Stock Codes/Symbol  
National Stock Exchange of India Ltd. : HCL-INSYS  
The Bombay Stock Exchange Ltd. : Physical Form – 179  
Electronic Form-500179
- vii) Market price data (Rs.)

Month	Company's Share Price		S & P CNX NIFTY Index	
	High (Rs.)	Low (Rs.)	High	Low
July, 2005	229.00	152.23	2332.55	2171.25
August, 2005	275.00	197.15	2426.65	2294.25
September, 2005	268.30	230.40	2633.90	2382.90
October, 2005	256.00	223.70	2669.20	2307.45
November, 2005	266.90	237.00	2727.05	2366.80
December, 2005	279.00	236.50	2857.00	2641.95
January, 2006	276.90	233.00	3005.10	2783.85
February, 2006	273.00	145.50	3090.30	2928.10
March, 2006	233.05	145.00	3433.85	3064.00
April, 2006	191.50	145.00	3598.95	3290.35
May, 2006	174.00	130.20	3774.15	2896.40
June, 2006	164.00	116.00	3134.15	2595.65

viii) Registrar and Share transfer agents

Name & Address : Intime Spectrum Registry Limited  
W-40, Okhla Industrial Area, Phase II  
New Delhi-110 020  
Phone No. : 011 – 41406149-50;  
Fax No : 011 – 41709884  
E-Mail : delhi@intimespectrum.com

ix) Share Transfer System

Transfer of dematerialized shares is done through the depositories with no involvement of the Company. As regards transfer of shares held in physical form, the transfer documents can be lodged with Intime Spectrum Registry Limited at their address mentioned above. Transfer of shares in physical form are normally processed within 10-15 days from the date of receipt, If the documents are complete in all respects.



## REPORT ON CORPORATE GOVERNANCE

x) Shareholders' Referencer

The shareholders' referencer is available on the Company's website. Any shareholder who wishes to obtain copy of the same can send his request to the Company Secretary.

xi) Distribution of Shareholding as on June 30, 2006:

No. of Equity shares	Shareholders		Total Shares	
	Number	%	Number	%
Upto 500	37013	97.73	10083795	5.98
501-1000	476	1.26	1713108	1.02
1001-2000	192	0.50	1394079	0.83
2001-3000	62	0.16	764647	0.45
3001-4000	23	0.06	420681	0.25
4001-5000	15	0.04	344429	0.20
5001-10000	22	0.06	715237	0.42
10000 and above	71	0.19	153293279	90.85
<b>Total</b>	<b>37874</b>	<b>100.00</b>	<b>168729255</b>	<b>100.00</b>

xii) Shareholding pattern as on June 30, 2006:

Category Code	Category of Shareholder	Number of Shareholders	Total No. of Shares	Number of shares held in dematerialized form	Total Shareholding as a percentage of (A+B)	Total as a Shareholding as a percentage of (A+B+C)
<b>(A)</b>	<b>Shareholding of Promoters and Promoter Group</b>					
(1)	Indian					
(a)	Individuals/Hindu Undivided Family	23	575613	491563	0.34	0.34
(b)	Central Government/State Government(s)	-	-	-	-	-
(c)	Bodies Corporate	11	91860304	90531054	54.44	54.44
(d)	Financial Institutions/Banks	-	-	-	-	-
(e)	Any Other	-	-	-	-	-
	<b>Sub-Total (A)(1)</b>	<b>34</b>	<b>92435917</b>	<b>91022617</b>	<b>54.78</b>	<b>54.78</b>
(2)	Foreign					
(a)	Individuals (Non-Resident Individuals/ Foreign Individuals)	-	-	-	-	-
(b)	Bodies Corporate	-	-	-	-	-
(c)	Institutions	-	-	-	-	-
(d)	Any Other	-	-	-	-	-
	<b>Sub-Total (A)(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)</b>	<b>34</b>	<b>92435917</b>	<b>91022617</b>	<b>54.78</b>	<b>54.78</b>
<b>(B)</b>	<b>Public Shareholding</b>					
(1)	Institutions					
(a)	Mutual Funds/UTI	18	7249404	7236654	4.30	4.30
(b)	Financial Institutions/Banks	20	4847569	4839069	2.87	2.87
(c)	Central Government/State Government(s)	-	-	-	-	-
(d)	Venture Capital Funds	-	-	-	-	-
(e)	Insurance Companies	-	-	-	-	-
(f)	Foreign Institutional Investors	39	44505556	44502056	26.38	26.38
(g)	Foreign Venture Capital Investors	-	-	-	-	-
(h)	Any Other	-	-	-	-	-
	<b>Sub-Total (B)(1)</b>	<b>77</b>	<b>56602529</b>	<b>56577779</b>	<b>33.55</b>	<b>33.55</b>

## REPORT ON CORPORATE GOVERNANCE

Category Code	Category of Shareholder	Number of Shareholders	Total No. of Shares	Number of shares held in dematerialized form	Total Shareholding as a percentage of (A+B)	Total as a percentage of (A+B+C)
(2)	Non Institutions					
(a)	Bodies Corporate	1040	4767216	4645836	2.83	2.83
(b)	Individuals	-	-	-	-	-
(I)	Individual shareholders holding nominal share capital up to Rs. 1 Lac	36343	13652088	11381643	8.09	8.09
(II)	Individual shareholders holding nominal share capital in excess of Rs 1 Lac.	7	651600	564975	0.39	0.39
(c)	Any Other					
	Non Resident Indians	370	547280	538030	0.32	0.32
	Overseas Corporate Bodies	3	72625	72625	0.04	0.04
	<b>Sub- total (B)(2)</b>	37763	19690809	17203109	11.67	11.67
	<b>Total Public Shareholding (B)=(B)(1)+(B)(2)</b>	37840	76293338	73780888	45.22	45.22
	<b>TOTAL (A)+(B)</b>	37874	168729255	164803505	100.00	100.00
(C)	Shares held by Custodians and against which Depository Receipts have been issued	-	-	-	-	-
	<b>GRAND TOTAL (A)+(B)+(C )</b>	37874	168729255	164803505	100.00	100.00

### xiii) Dematerialisation of shares

The shares of the Company are compulsorily traded in dematerialised form and are available for trading on both the depositories in India i.e. NSDL & CDSL. As on June 30, 2006, 97.67% equity shares of the Company are held in dematerialised form.

The Company's shares are regularly traded on the NSE and the BSE in electronic form.

Under the Depository system, the International Securities Identification Number (ISIN) allotted to the Company's shares is INE 236A01020

### xiv) The Company has not issued any GDRs/ADRs/Warrants or Convertible instruments.

### xv) Plant locations

- R.S. Nos: 34/4 to 34/7 and part of 34/1, Sedarapet, Pondicherry-605 111.
- R.S. Nos: 107/5, 6 & 7, Sedarapet Main Road, Sedarapet, Pondicherry-605 111.
- Plot No 78, South Phase, Ambattur Industrial Estate, Chennai-600 058.
- SPL. A2, Industrial Estate, Thattanchavadi, Pondicherry-605 009.
- Plot Nos. 1, 2, 27 & 28, Sector 5, 11E-Pantnagar, Rudrapur, Distt, U.S. Nagar, Uttaranchal.

### xvi) Address for Correspondence

The shareholders may address their communication/suggestions/grievances/queries to the Registrar and Share Transfer Agents at the address mentioned above, or to:

The Company Secretary  
HCL Infosystems Ltd.  
E – 4, 5, 6, Sector – XI,  
NOIDA (U.P.) – 201 301.  
Tel. No.: 0120-2526490,  
Fax: 0120-2525196  
Email: [cosec@hcl.in](mailto:cosec@hcl.in)

### xvii) Company Website

The Company has its website namely [www.hclinfosystems.in](http://www.hclinfosystems.in). This provides detailed information about the Company, its products and services offered, locations of its corporate office and various sales offices etc. It also contains updated information of the financial performance of the Company and procedures involved in completing various investors related transactions expeditiously. The quarterly results, annual reports and shareholding distributions etc. are updated on the website of the company from time to time.

## **Auditors' Certificate regarding compliance of conditions of Corporate Governance**

To the Members of HCL Infosystems Limited

We have examined the compliance of conditions of Corporate Governance by HCL Infosystems Limited, for the year ended June 30, 2006, as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with stock exchange(s) in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination was carried out in accordance with the Guidance Note on Certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement), issued by the Institute of Chartered Accountants of India and 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.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement(s).

We 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.

Place: New Delhi  
Date: August 23, 2006

V. Nijhawan  
Partner  
Membership No: F 87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

## MANAGEMENT DISCUSSION AND ANALYSIS

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The year 2005-06 has been a landmark one, with the Company having crossed Rs. 10,000 crores in revenue during the course of the year. The Company has further consolidated its position as market leader in several of the product segments it operates in. It has taken many initiatives in opening new markets, partnering with global leaders to offer additional products and increasing its sales and support reach in the ICT space.

As the adoption of IT and Communication becomes more prevalent in business and daily use, the Company with these new initiatives is poised to harness the same.

### Computer systems and related services

As per IDC, the IT industry including Laptops, Desktops and Servers grew at a healthy average of 26% per annum. The current low IT penetration, together with other factors like deployment of broadband service by Telcos across the country and development of local language content by the ecosystem should provide impetus for the adoption of computers in our country. With the evolution of technology, Laptops have become more affordable and this will be a growing segment in the period ahead.

**India PC Shipments by Form Factor**

	<b>Year-on-Year Growth (April 2005 - March 2006)</b>
Consumer Desktops	33%
Commercial Desktops	15%
Desktop PC Total	21%
Notebooks	168%

In terms of total desktop PC shipments, HCL led the market in the financial year 2005-06.

In the business of providing Computing and networking solutions to enterprises in India, today HCL is an established leader in its space. HCL serves the market with its brand of PCs and Servers and associated products and has been acknowledged as the largest PC vendor for the 5<sup>th</sup> year in a row. It has tied up with various partners to deliver state-of-the-art products and total solutions to its customers.

World over one is seeing a growing market for Laptops. The year gone by has seen the Company announce its entry into the Laptop space with its range of “HCL Leaptops” to complement the successful Toshiba brand. These products customized for various user verticals, are being manufactured and tested specially for Indian conditions.

The year also saw the Company announce its entry into the High End Server space with the release of 8 processors (and above) range of servers. This product, based on the Open Architecture Intel Itanium 2 processor is revolutionary as it provides customers an option of breaking free from proprietary RISC Architecture and taking benefit of the Open Standards based Architecture.

HCL's multi technology, multi product offering to customers ensures that they have the convenience and benefit of sourcing their IT products and solutions from a single source. Also HCL's ability to offer roll out services through its direct support infrastructure across the country saw it win a number of large IT contracts. The Company has also expanded its scope of services beyond support to include Infrastructure Design and Facilities management support.

Designing and launching computing solutions customized to domestic market requirements continues to be its strength. Among these are solutions with SD2 & EC2 technology, the Uday PC for rural market, the multilingual POS systems, customized Kiosks and terminals and various Security & Surveillance solutions for the enterprise.

In the consumer computing space the Company offers products like new generation Media Center PC, and gaming PC. It has expanded its partner sales & support network for increased coverage of the market. The Company has become the largest selling brand in the consumer PC space.

### Telecommunication and Office Automation Products

The year saw your Company rapidly increase its customer base by offering new products and solutions.

In order to increase the distribution product range, the Company has added products of the digital lifestyle range into its fold, namely the Apple iPod and Dish Direct to your Home (DTH) set top boxes.

The Company continued to grow the Nokia Business. It has strengthened its distribution network by establishing a chain of 31 ISO certified service centers to cater to the needs of the Nokia mobile phone customers.

During the year, your Company and Nokia jointly announced a long-term distribution strategy for further developing the

## MANAGEMENT DISCUSSION AND ANALYSIS

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rapidly growing Indian mobile phone market. As per the revised arrangement, Nokia would add certain areas for direct billing by them so as to ultimately maintain a balanced channel mix, for GSM handsets. As a part of this announcement, your Company's distribution agreement with Nokia has been extended for the next several years.

On the imaging products front, the Company consolidated its market share in Digital Multifunction products and Multimedia Projectors. The Company was able to bag several prestigious projects in the field of AV system Integration from multiple clients. The Company also consolidated its position as the trusted provider of equipment for Enterprise communication.

During the year, the Company has enhanced its products offerings by adding several new products in Projectors, Plasma, LCD TVs, Video conferencing products and solutions, Laser printers & Ericsson IP-PBX categories.

### **Internet and related services**

On the Internet & Networking Services front, the Company has achieved 96% growth in EBT through its continuous effort on acquiring corporate customers and reducing cost of operations. The Company has consolidated its Internet and Network services portfolio and is currently offering a breadth of services covering VPN, Wireless broadband services for Business, unified IP Contact center solutions and Enterprise IP communication services.

### **Internal Control Systems and their adequacy**

The Company has in place adequate systems of internal control commensurate with its size and the nature of its operations. These have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, complying with applicable statutes, safeguarding assets from unauthorized use or losses, executing transactions with proper authorization and ensuring compliance of corporate policies.

The Company has a well defined delegation of power with authority limits for approving revenue as well as capital expenditure. Processes for formulating and reviewing annual and long term business plans have been laid down. The Company's IT systems to record data for accounting and management information purposes and connects to different locations for efficient exchange of information.

The Internal audit is based on an Audit Plan, which is reviewed each year in consultation with the Audit Committee. The Internal Audit process is designed to review the adequacy of internal control checks in the system and covers all significant areas of the Company's operations such as software, accounting and finance, procurement, employee engagement, travel, insurance, IT processes, safeguarding of assets and their protection against unauthorized use.

The Company has an Audit Committee, the details of which have been provided in the Corporate Governance Report. The Audit Committee reviews Reports submitted by the Internal Auditors. Suggestions for improvement are considered by the Management and the Audit Committee follows up on the implementation of corrective actions.

### **Employee Relations and Development**

During the last year, a number of initiatives on the Human Resources front were made. The company strengthened its employee force from 3879 in 2005 to 4323 in 2006. The HCL Education program has been in the forefront of an effective campus recruitment programme for young talented engineers.

The Company's People Practices, Policies, Systems and Processes, are aligned to effectively support business objectives by maintaining a strong focus on the customer, for the creation of an organisation that continually encourages entrepreneurship.

The Company employees are motivated and perform to the best of their potential through Individual Training Plans, Job Rotations, Training and Development Programmes, Seminars and Workshops for staff at various levels, both internally as well as at various renowned institutes. The performance culture is further encouraged by the presence of a well-organized and equitable reward and recognition mechanism.

Employee Engagement remains a key focus of HR initiatives that have been undertaken by the Company. To maintain the quality of work life and a balance of personal/ professional life, recreational activities like sports@work, festivities@work, and get-togethers@work are organized in all regions. Cultural Calendar planned every year, enables employees and their families to celebrate various festivals together.

We continue to promote Indian traditions and recognize talent in diverse areas, through HCL Concert Series - a tribute to excellence in human endeavour.



**CONSOLIDATED FINANCIAL PERFORMANCE**

Rs crores

Particulars	2006	2005	Growth
<b>Gross Business Income</b>	<b>11455</b>	<b>7787</b>	<b>47%</b>
Less: Excise Duty	87	39	
<b>Net Business Income</b>	<b>11368</b>	<b>7748</b>	
Total Expenditure			
Cost of Sales	10589	7143	
Staff cost	181	149	
Administration, Selling and Others	221	189	
Depreciation	12	15	
<b>Operating Profit</b>	<b>365</b>	<b>252</b>	<b>45%</b>
Exchange Fluctuation Gain/(Loss) (Net)	(14)	14	
Other Income	34	26	
Interest Income (Net)	1	3	
<b>Profit Before Tax</b>	<b>385</b>	<b>296</b>	<b>30%</b>
Tax Expense	105	68	
<b>Net Profit after tax</b>	<b>280</b>	<b>228</b>	<b>23%</b>

**Gross Business Income:**

Revenue grew by 47% from Rs. 7787 crores in the previous year to Rs. 11455 crores in the current year. The Compounded Annual Growth Rate (CAGR) for five years is 70%.

Revenue for the Parent Company grew by 21% from Rs. 1971 crores in the previous year to Rs. 2381 crores in the current year. The five year CAGR is 17%.

**Gross Margins:**

Gross margins for the current year are Rs. 779 crores as against Rs. 605 crores in the previous year.

Gross margins for the Parent Company are Rs. 376 crores as against Rs. 334 crores in the previous year.

**Personnel Costs:**

Staff costs for the current year are Rs. 181 crores as against Rs. 149 crores in the previous year. Manpower increased from 3879 as at June 2005 to 4323 as at June 2006. Staff costs as a % to sales has declined to 1.6% from 1.9%.

Staff costs for the Parent Company for the current year are Rs. 127 crores as against Rs. 104 crores in the previous year.

**Administrative, Selling and Other Expenses:**

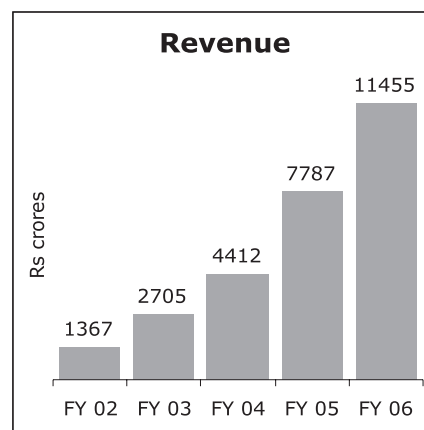
Expenses for the current year are Rs. 221 crores as against Rs. 189 crores in the previous year. The expenses as a % to sales declined to 1.9% from 2.4%.

Expenses for the Parent Company are Rs. 111 crores as against Rs. 105 crores in the previous year. The expenses as a % to sales declined to 4.7% from 5.3%.

**Operating Profit:**

Operating profit grew by 45% from Rs. 252 crores in the previous year to Rs. 365 crores in the current year.

Operating profit of the Parent Company grew by 11% from Rs. 118 crores in the previous year to Rs. 130 crores in the current year.



### Other Income:

Other income for the current year is Rs. 34 crores as against Rs. 26 crores in the previous year.

Other income of the Parent Company for the current year is Rs. 17 crores as against Rs. 20 crores in the previous year.

### Finance Costs (Net):

Net Finance income for the current year is Rs. 1 crore as against income of Rs. 3 crores in the previous year.

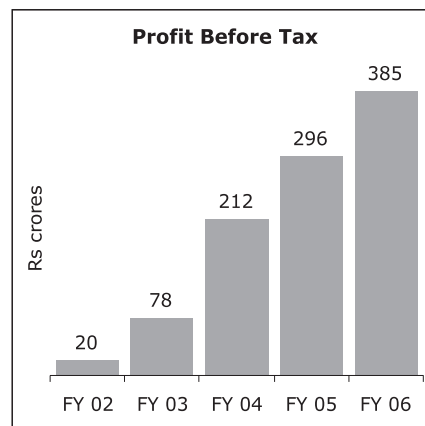
Net Finance cost for the Parent Company for the current year is Rs. 5 crores as against Rs. 1 crore in the previous year.

### Profit Before Tax:

PBT grew by 30% from Rs. 296 crores in the previous year to Rs. 385 crores in the current year. The five year CAGR is 109%.

PBT for Parent Company for the current year is Rs. 132 crores as against Rs. 149 crores in the previous year. The five year CAGR is 26%.

Exchange Fluctuations are accounted for in accordance with AS 11. Rupee has been sharply volatile during the year, resulting in exchange loss of Rs. 14 crores including unrealised loss of Rs. 7 crores. Exchange gain in the previous year was Rs. 14 crores.

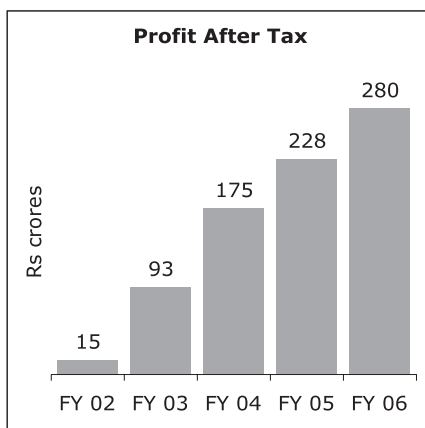


### Profit After Tax:

Profit after tax grew by 23% from Rs. 228 crores in the previous year to Rs. 280 crores. The five year CAGR is 107%.

The profits for the current year are after a provision for Rs. 99 crores for current tax expense, Rs. 3 crores for deferred tax expense and Rs. 3 crores for Fringe Benefit Tax.

Profit after tax for the Parent Company for the current year is Rs. 113 crores as against Rs. 133 crores in the previous year. The five year CAGR is 25%.

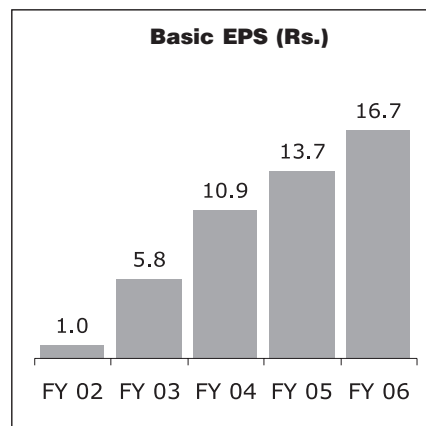
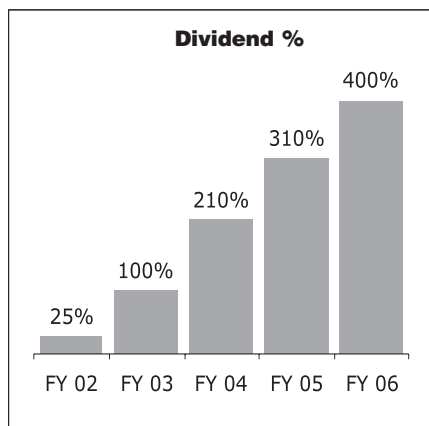


### Dividend:

The Company distributed interim dividends @ 100% in each of the first three quarters. The company proposes to pay a final dividend of 100% per fully paid up equity share of Rs. 2/- each. The interim dividends paid together with proposed final dividend total to 400% for the current year, entailing an outflow of Rs.154 crores, including distribution tax.

### Earning Per Share:

Consolidated Basic EPS grew from Rs. 13.7 in the previous year to Rs. 16.7 in the current year. Diluted EPS grew from Rs. 13.5 in the previous year to Rs. 16.5 in the current year.



calculated on Equity share of Rs 2/- each

## CONSOLIDATED

### FINANCIAL CONDITIONS

#### Net worth/ Shareholders Fund:

Net Worth as on June 30, 2006 is Rs. 698 crores. Share capital as at the year end is Rs. 34 crores divided into 16.9 crores shares of Rs. 2/- each. Reserves & surplus as at year end are Rs. 664 crores after appropriating Rs. 154 crores for interim and proposed final dividend.

Net worth of the Parent Company is Rs. 411 crores.

During the year, the Company allotted 15.5 lakh equity shares under the Employee Stock Options realizing Rs. 16.3 crores.

#### Borrowings:

Consolidated position: Growth has been largely financed through internal accruals, which have adequately covered the working capital requirements. The short term working capital movements have been met by way of structured products like commercial papers, structured short term borrowings, Buyer's credit etc. Year-end loan balances marginally increased from Rs. 82 crores as on June 30, 2005 to Rs. 85 crores as on June 30, 2006. The Debt:Equity ratio dropped from 13% to 11%.

#### Fixed assets:

Net block as on June 30, 2006 is Rs. 98 crores.

Net block of Parent Company as on June 30, 2006 is Rs. 80 crores.

During the current year, capital expenditure amounting to Rs. 43 crores has been made mainly for Manufacturing, Office Infrastructure & Training facilities and additions to Plant & Machinery.

#### Inventories:

Inventories increased from Rs. 349 crores as on June 30, 2005 to Rs. 470 crores as on June 30, 2006. The inventory turn over on sales is 24.4 times in the current year as against 22.3 times in previous year.

Inventories of Parent Company increased from Rs. 188 crores as on June 30, 2005 to Rs. 240 crores as on June 30, 2006. The increase in inventory levels is to cater to the increased volume of operations.

#### Debtors:

Debtors increased from Rs. 532 crores as on June 30, 2005 to Rs. 705 crores as on June 30, 2006. Debtors as number of days of sale stands reduced to 22 days as on June 30, 2006 from 25 days as on June 30, 2005.

Debtors of Parent Company increased from Rs. 370 crores as on June 30, 2005 to Rs. 511 crores as on June 30, 2006, to cater to growth in business.

#### Liquid Assets (Investment in Mutual Funds and Fixed Deposits with Bank):

Liquid Assets as on June 30, 2006 is Rs. 354 crores as against Rs. 253 crores as on June 30, 2005.

#### Other Current Assets including Loans and Advances:

Other current assets decreased marginally from Rs. 154 crores as on June 30, 2005 to Rs. 153 crores as on June 30, 2006.

Other current assets of the Parent Company increased marginally from Rs. 112 crores as on June 30, 2005 to Rs. 113 crores as on June 30, 2006.

#### Current Liabilities & Provisions:

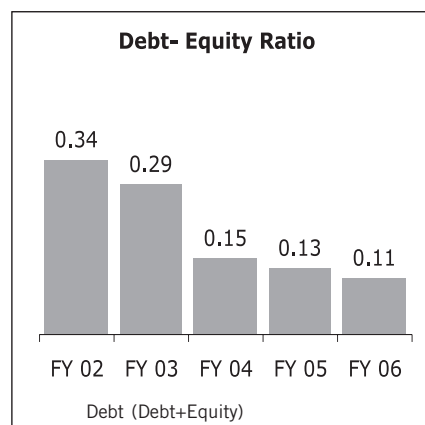
Current liabilities and provisions increased from Rs. 863 crores as on June 30, 2005 to Rs. 1143 crores as on June 30, 2006. Deferred revenues as at June 30, 2006 are Rs. 131 crores.

Current liabilities and provisions of the Parent Company increased from Rs. 468 crores as on June 30, 2005 to Rs. 606 crores as on June 30, 2006.

#### Cash Flow:

The cash generation from operating activities in the current year is Rs. 279 crores.

The cash generation of Parent Company from operating activities in the current year is Rs. 69 crores.

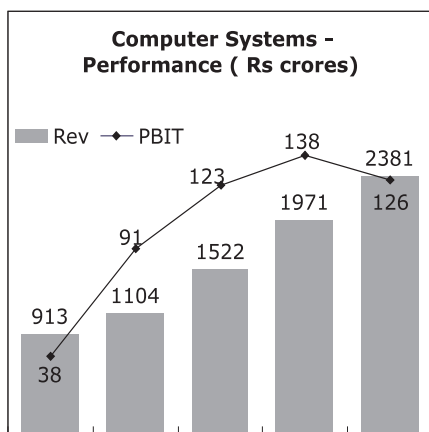


The consolidated financial results include the results of HCL Infosystems Ltd. (the parent Company) and its 100% subsidiary HCL Infinet Ltd.

## SEGMENT PERFORMANCE

Computer Systems and related products & services, Telecommunication & Office Automation and Internet & related services are the three primary segments.

### Computer Systems and Related Products & Services:



comprehensive maintenance services.

Revenue of the segment for the current year grew by 57% from Rs. 5779 crores in the previous year to Rs. 9050 crores. The PBIT grew by 66% from Rs. 147 crores in the previous year to Rs. 244 crores in the current year. Capital Employed in the segment is negative Rs. 1.2 crores as on June 30, 2006 as against Rs. 39 crores as on June 30, 2005.

### Internet & Related services:

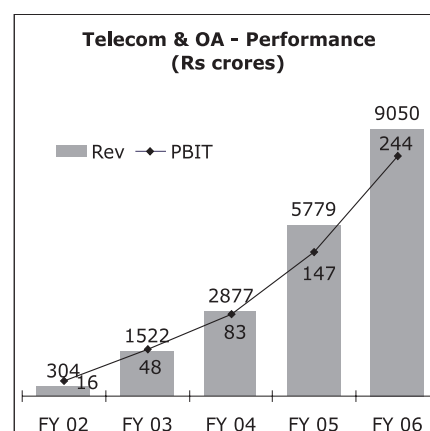
The segment provides Virtual Private Network, Internet Access services and other connectivity services. Revenue of the segment for the current year is Rs. 37 crores and PBIT is Rs. 4 crores. The segment achieved significant growth in its profitability through continuous efforts on acquiring new customers and reducing cost of operations.

The segment operations comprise of sale of computer hardware and system integration products and providing a comprehensive range of IT services including system maintenance, facilities management etc in different industries.

Segment revenue grew by 21% from Rs. 1971 crores in the previous year to Rs. 2381 crores in the current year. Segment results (PBIT) for the current year is reported at Rs. 126 crores. Capital Employed in the segment is Rs. 387 crores as on June 30, 2006 as against Rs. 298 crores as on June 30, 2005. Return on Capital Employed is 32%.

### Telecommunication & Office Automation:

The segment operations comprise of distribution of telecommunication products, office automation products and related



## AUDITORS' REPORT

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To

**The Members of HCL Infosystems Limited**

1. We have audited the attached Balance Sheet of HCL Infosystems Ltd, as at June 30, 2006, 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, 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 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, 2006 and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2006 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, 2006;
    - (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.

Place: New Delhi  
Date: August 23, 2006

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

## ANNEXURE TO AUDITORS' REPORT

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**[Referred to in paragraph 3 of the Auditors' Report of even date to the members of HCL Infosystems Ltd on the financial statements for the year ended June 30, 2006]**

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 of by the Company during the year.
2. (a) The inventory excluding stocks with third parties has been physically verified by the management during the year. In respect of inventory lying with third parties, these have substantially been confirmed by them. 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. The Company has neither granted nor taken any loans, secured or unsecured, to 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. 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, commenting on transactions made in pursuance of such contracts or arrangements does not arise.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. We have broadly reviewed the books of account maintained by the Company in respect of products where, pursuant to the Rules made by the Central Government of India, the maintenance of cost records has been prescribed under clause (d) of sub-section (1) of Section 209 of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
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 generally 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, the particulars of dues of income-tax, sales-tax, as at June 30, 2006 which have not been deposited on account of a dispute, are as follows -

## ANNEXURE TO AUDITORS' REPORT

S. No	Name of the statute	Nature of the dues	Amount (Rs./Crores)	Amount deposited under protest (Rs./Crores)	Period to which the amount relates	Forum where dispute is pending
1.	U.P. Sales Tax	Sales Tax (including interest)	0.08	0.06	2002-2003	Joint Commissioner (Appeals) of Sales Tax
		Sales Tax (including interest)	0.47	0.07	2003-2004	Joint Commissioner (Appeals) of Sales Tax
		Sales Tax (including interest)	2.27	0.18	2004-2005	Joint Commissioner (Appeals) of Sales Tax
2.	Delhi Sales Tax	Sales Tax	0.26	-	1999-2000	Assistant Commissioner of Sales Tax
		Sales Tax	0.30	0.30	2002-2003	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.03	-	2003-2004	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.51	-	2004-2005	Deputy Commissioner (Appeals) of Sales Tax
3.	Tamil Nadu Sales Tax	Sales Tax	0.04	0.03	1998-1999	Tamil Nadu Tribunal, Chennai
		Sales Tax	0.02	0.01	1999-2000	Tamil Nadu Tribunal, Chennai
		Sales Tax	0.30	-	2002-2003	AAC
		Sales Tax	0.06	-	2003-2004	AAC
4.	Kochi Sales Tax	Sales Tax	0.07	0.03	2000-2001	Deputy Commissioner (Appeals) of Sales Tax
5.	Rajasthan Sales Tax	Sales Tax	0.01	0.35	2001-2002	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.02	-	2001-2002	Deputy Commissioner (Appeals) of Sales Tax
	<b>Sub Total (a)</b>		<b>4.44</b>	<b>1.03</b>		
	Income Tax Act 1961	Income Tax (Representative Assessee)	0.37	-	1989-1990	High Court, Delhi
		Income Tax (Representative Assessee)	0.16	-	1990-1991	High Court, Delhi
	<b>Sub Total (b)</b>		<b>0.53</b>	<b>-</b>		
	<b>Total (a) + (b)</b>		<b>4.97</b>	<b>1.03</b>		

10. The Company has no accumulated losses as at June 30, 2006 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.



## ANNEXURE TO AUDITORS' REPORT

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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 terms and conditions of the guarantees given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.
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, there are no funds raised on a short-term basis which have been used for long-term investment.
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.
21. Clauses (xix) of paragraph 4 of the Companies (Auditor's Report) Order 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, 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.

Place: New Delhi  
Date: August 23, 2006

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

## BALANCE SHEET AS AT 30TH JUNE

	<u>Schedule</u>	<u>As at 30.06.2006 Rs./Crores</u>	<u>As at 30.06.2005 Rs./Crores</u>
<b>Sources of Funds:</b>			
<b>Shareholders' Funds :</b>			
Capital	1	33.75	33.44
Reserves and Surplus	2	377.59	401.91
<b>Loan Funds:</b>			
Secured Loans	3	44.49	55.75
Unsecured Loans	4	151.15	26.10
Deferred Tax Liabilities (Net)	21(5)	11.54	6.81
		<u>618.52</u>	<u>524.01</u>
<b>Application of Funds:</b>			
<b>Fixed Assets:</b>			
	5		
Gross Block		111.09	95.27
Less: Depreciation		<u>47.77</u>	<u>42.89</u>
Net Block		63.32	52.38
Capital Work-In-Progress		<u>16.38</u>	<u>0.91</u>
(Including Capital Advances)		79.70	53.29
<b>Investments</b>	6	135.39	122.77
<b>Current Assets, Loans &amp; Advances:</b>			
Inventories	7	240.31	188.10
Sundry Debtors	8	511.26	369.92
Cash and Bank Balances	9	145.29	146.32
Other Current Assets	10	74.97	79.42
Loans and Advances	11	<u>37.87</u>	<u>32.08</u>
		1009.70	815.84
<b>Less: Current Liabilities &amp; Provisions</b>			
	12		
Current Liabilities		556.66	417.22
Provisions		<u>49.61</u>	<u>50.67</u>
		606.27	467.89
<b>Net Current Assets</b>		<u>403.43</u>	<u>347.95</u>
		<u>618.52</u>	<u>524.01</u>
<b>Significant Accounting Policies</b>			
<b>Notes to Accounts</b>			
	20		
	21		

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

V.NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place : New Delhi  
Dated : 23<sup>rd</sup> August, 2006

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

For and on behalf of the Board of Directors

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

SUSHIL KUMAR JAIN  
Company Secretary

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	<u>Schedule</u>	<u>Year ended 30.06.2006 Rs./Crores</u>	<u>Year ended 30.06.2005 Rs./Crores</u>
<b>Income</b>			
Business Income	13	2381.36	1970.94
Less : Excise Duty		86.66	39.28
Other Income	14	17.01	32.25
		<u>2311.71</u>	<u>1963.91</u>
<b>Expenditure</b>			
Cost of Sales and Services	15	1919.11	1598.17
Personnel	16	127.22	104.49
Administration, Selling, Distribution and Others	17	118.53	100.91
Repairs and Maintenance	18	4.01	4.01
Finance Charges	19	4.57	0.96
Depreciation		6.80	6.55
Less : Transfer from Revaluation Reserve		0.05	0.05
		<u>2180.19</u>	<u>1815.04</u>
Profit before Tax		131.52	148.87
Tax expense	21 (5)		
-Current [Wealth tax Rs. 0.02 Crores (2005 - Rs.0.02 Crores)]		11.61	11.88
-Fringe Benefit		1.96	0.48
-Deferred		4.73	3.74
		<u>18.30</u>	<u>16.10</u>
Profit after Tax		113.22	132.77
Balance in Profit and Loss Account brought forward		241.03	238.84
Profit available for appropriation		<u>354.25</u>	<u>371.61</u>
<b>Appropriations:</b>			
Proposed Dividend		33.75	33.47
Corporate Dividend Tax on Proposed Dividend		4.74	4.69
Interim Dividend		100.93	69.75
Corporate Dividend Tax on Interim Dividend		14.15	9.39
Transfer to General Reserve		11.32	13.28
Balance Carried Over		189.36	241.03
		<u>354.25</u>	<u>371.61</u>
<b>Earning per equity share (in Rs.)</b>			
Basic (of Rs. 2/- each)	21 (21)	6.74	8.01
Diluted (of Rs. 2/- each)	21 (21)	6.64	7.87
<b>Significant Accounting Policies</b>	20		
<b>Notes to Accounts</b>	21		

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

V.NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place : New Delhi  
Dated : 23<sup>rd</sup> August, 2006

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

For and on behalf of the Board of Directors

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

SUSHIL KUMAR JAIN  
Company Secretary

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

		2006 Rs./Crores	2005 Rs./Crores
<b>1. Cash Flow from Operating Activities</b>			
<b>Profit before Tax</b>		131.52	148.87
<b><u>Adjustments for:</u></b>			
Depreciation	6.75	6.50	
(Profit)/Loss on sale of Fixed Assets (Net)	0.04	(0.14)	
(Profit)/Loss on disposal of			
(Others) Investments (Net)	(5.82)	(8.31)	
Interest on borrowings	14.86	7.13	
Interest and Dividend income	(4.68)	(4.14)	
Unrealised (Gain)/Loss on Foreign			
Exchange Fluctuation (Net)	4.24	(0.19)	
Provision for Doubtful Debts	0.03	0.50	
Income Tax Provision for earlier years written back	(4.97)	—	
Provisions/Liabilities no longer required written back	(1.34)	(6.44)	
Prior period expenses (Allowances)	—	0.62	
Fixed Assets written off	0.00	0.05	
Provision for Warranty Liability	7.42	3.57	
Provision for Gratuity and other Employee Benefits	2.28	18.81	2.36
<b>Operating profit before Working Capital Changes</b>		150.33	150.38
<b><u>Adjustments for:</u></b>			
Trade and Other Receivables	(141.66)	(145.10)	
Inventories	(52.21)	(26.84)	
Trade Payables and Other Liabilities	130.26	(63.61)	57.03
<b>Cash generated from Operation</b>		86.72	35.47
Direct Tax (paid)/Refund (Net)		(17.48)	(8.71)
(Including Interest)			
<b>Cash from Operating activities</b>		69.24	26.76
<b>Net Cash from Operating activities (A)</b>		69.24	26.76
<b>2 Cash Flow from Investing Activities</b>			
Interest and Dividend Received (Gross)	4.46	0.93	
Purchase of Fixed Assets	(18.08)	(10.67)	
Sale of Fixed Assets	0.74	1.00	
Purchase of Investments	(659.92)	(530.76)	
Disposal/Redemption of Investments	653.12	654.90	
Redemption of Bonds/Purchase Consideration			
received from Subsidiary	—	42.00	
Capital Work-in-Progress (Net)	(15.47)	(0.79)	
<b>Net cash from/(used in) Investing activities (B)</b>		(35.15)	156.61

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

		2006 Rs./Crores	2005 Rs./Crores
<b>3 Cash Flow from Financing Activities</b>			
Share Capital Issued		0.31	0.55
Interest Paid		(12.67)	(8.91)
Share Premium Received		16.08	20.97
Secured Loans - Short Term Received/(Paid)		(17.23)	16.95
Secured Loans - Long Term Received		6.00	—
Secured Loans - Long Term (Paid)		—	(30.27)
Unsecured Loans Received / (Paid)		125.05	23.77
Dividend Paid (including dividend tax)		(152.66)	(104.74)
<b>Net cash from Financing Activities</b>	<b>(C)</b>	<b>(35.12)</b>	<b>(81.68)</b>
Opening Balance of Cash and Cash Equivalents		146.32	44.63
Closing Balance of Cash and Cash Equivalents		145.29	146.32
[(Includes Exchange Rate Fluctuation of Rs. 0.31 Crores (2005-Rs. {-0.01} Crores)]			
[Includes unclaimed dividend of Rs. 2.05 Crores (2005-Rs. 1.46 Crores)]			
<b>Net Increase /(Decrease) in Cash and Cash Equivalents</b>		<b>(1.03)</b>	101.69
<b>Total (A)+(B)+(C)</b>		<b>(1.03)</b>	101.69

Note -

The above Cash Flow Statement has been prepared under the indirect method set out in AS-3 issued by Institute of Chartered Accountants of India.

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

For and on behalf of the Board of Directors

V.NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

Place : New Delhi  
Dated : 23<sup>rd</sup> August, 2006

SUSHIL KUMAR JAIN  
Company Secretary

## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As At 30.06.2005 Rs./Crores
<b>1- Capital</b>		
(Schedule-21, Note 18)		
<b>Authorised:</b>		
40,00,00,000 (2005 - 40,00,00,000) Equity Shares of Rs. 2/- each	80.00	80.00
5,00,000 (2005 - 5,00,000) Preference Shares of Rs. 100/- each	5.00	5.00
	<b>85.00</b>	<b>85.00</b>
<b>Issued, Subscribed and Paid up:</b>		
16,87,29,255 Equity shares of Rs.2/- each, fully paid up. (2005 -16,71,81,770 Equity shares of Rs. 2/- each, fully paid up)	33.75	33.44
Add : Shares Forfeited [Represents Rs. 1000 (2005 - Rs. 1000)]	0.00	0.00
	<b>33.75</b>	<b>33.44</b>

Notes:-

- Paid up share capital includes :
  - 5,04,47,295 Equity Shares of Rs. 2/- each (2005 - 5,04,47,295 Equity Shares of Rs. 2/- each) issued pursuant to contract without payment being received in cash.
  - 5,31,82,765 Equity Shares of Rs. 2/- each (2005- 5,31,82,765 Equity Shares of Rs. 2/- each) bonus shares issued from Securities Premium Account.
  - 91,81,960 Equity Shares of Rs. 2/- each (2005 - 76,34,475 Equity Shares of Rs. 2/- each) issued pursuant to the exercise of options granted under ESOP Scheme 2000.
- Of the above subscribed shares, 7,46,51,388 Equity Shares of Rs. 2/- each (2005 - 8,30,19,205 Equity Shares of Rs. 2/- each) are held by HCL Corporation Limited.

<b>2- Reserves and Surplus</b>	As At 01.07.2005 Rs./Crores	Additions Rs./Crores	Deductions Rs./Crores	As At 30.06.2006 Rs./Crores
Capital Reserve [Represents Rs. 37135 (2005 - Rs. 37135)]	0.00 (0.00)	- ( - )	- ( - )	0.00 (0.00)
Securities Premium Account	88.37 (67.40)	16.08 (20.97)	- ( - )	104.45 (88.37)
General Reserve	69.50 (56.22)	11.32 (13.28)	- ( - )	80.82 (69.50)
Revaluation Reserve (Adj.)	3.01 (3.06)	- ( - )	0.05 (0.05)	2.96 (3.01)
Profit and Loss Account	241.03 (238.84)	- (2.19)	51.67 ( - )	189.36 (241.03)
	<b>401.91</b> (365.52)	<b>27.40</b> (36.44)	<b>51.72</b> (0.05)	<b>377.59</b> (401.91)

Note:- Previous year's figures are given in brackets

## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As At 30.06.2005 Rs./Crores
<b>3- Secured Loans</b>		
<b>Loans and Advances from Banks:</b>		
- Interest accrued and due	-	0.05
- Cash Credits	-	5.79
- Foreign Currency loan		
External Commercial Borrowings	13.49	5.54
Others	-	4.37
- Term Loan		
Others	31.00	40.00
	<b>44.49</b>	<b>55.75</b>

Notes:-

- 1) Cash Credits along with non-fund based facilities from Banks are secured by way of hypothecation of stock-in-trade, book debts as first charge and by way of second charge on all the immovable and movable assets of the Company. The charge ranks pari-passu amongst Bankers.
- 2) Term loan from a Bank is secured by way of hypothecation of all movable current assets. The charge ranks pari-passu with company's bankers.
- 3) Amount payable within one year from the Balance Sheet date is Rs. 38.49 Crores (2005 - Rs. 49.96 Crores)

### 4- Unsecured Loans

(Schedule-21, Note 20)

<b>Public Deposits</b>	<b>0.09</b>	0.10
Interest accrued and due	0.01	0.02
<b>Loans and Advances from Subsidiaries</b>	<b>111.00</b>	-
<b>Short Term Loans and Advances:</b>		
- From Banks -Commercial Paper	40.00	25.00
<b>Other Loans and Advances:</b>		
- From a Financial Institution	0.04	0.60
<b>Deferred Lease Obligations</b>	<b>0.01</b>	0.38
	<b>151.15</b>	<b>26.10</b>

Notes:-

- 1) Amount payable within one year Rs. 151.04 Crores (2005-Rs. 25.93 Crores)
- 2) Public Deposits represent matured deposits.



## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

### 5- Fixed Assets

(Schedule -21, Note 1)

Rs./Crores

	Gross Block				Depreciation				Net Block	
	As at 01.07.2005	Additions/ during the year	Deductions/ Adjustments/ Retired during the year	As at 30.06.2006	As at 01.07.2005	Additions during the year	Deductions during the year	As at 30.06.2006	As at 30.06.2006	As at 30.06.2005
<b>Tangible :</b>										
Land - Leasehold	6.51	-	-	6.51	0.30	0.09	-	0.39	6.12	6.21
Land - Freehold	3.20	1.81	-	5.01	-	-	-	-	5.01	3.20
Buildings	37.73	8.45	0.60	45.58	9.24	1.03	-	10.27	35.31	28.49
Plant & Machinery and Air Conditioners	17.29	3.92	0.39	20.82	9.59	2.22	0.38	11.43	9.39	7.70
Furniture, Fixtures & Office Equipment	28.22	3.52	0.72	31.02	22.24	3.14	0.64	24.74	6.28	5.98
Vehicles	2.32	-	0.99	1.33	1.52	0.23	0.90	0.85	0.48	0.80
<b>Intangible :</b>										
Acquired Software	-	0.82	-	0.82	-	0.09	-	0.09	0.73	-
<b>TOTAL</b>	<b>95.27</b>	<b>18.52</b>	<b>2.70</b>	<b>111.09</b>	<b>42.89</b>	<b>6.80</b>	<b>1.92</b>	<b>47.77</b>	<b>63.32</b>	<b>52.38</b>
Previous Year	109.47	10.71	24.91	95.27	60.36	6.55	24.02	42.89		
Capital Work-In-Progress									16.38	0.91
[Including Capital advances of Rs. 7.18 Crores (2005-Rs.0.51 Crores)]									79.70	53.29

### Notes :

1. Land - Freehold and Building at Ambattur amounting to Rs. 0.57 Crores (2005 - Rs. 0.57 Crores) and building at Mumbai amounting to Rs. 0.44 Crores (2005 - Rs. 0.44 Crores) are pending registration in the name of the Company.

### 6- Investments

(Schedule -21, Note 14)

	As at 30.06.2005 Units	As at 30.06.2006 Units	Face Value Rs.	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>Unquoted (Others) Current :</b>					
<b>Growth Options</b>					
Birla Floating Rate Fund - Long Term Plan	4183930	3191338	10	3.50	4.50
DSPML Liquidity Fund	-	24315	1000	2.51	-
DSPML Floating Rate Fund	7681674	880475	10	1.00	8.25
Grindlays Cash Fund	7978267	-	10	-	10.00
Grindlays Fixed Maturity Plan	-	12768365	10	12.77	-
Grindlays Floating Rate - Long Term Plan	11934925	-	10	-	12.05
Grindlays Floating Rate - Short Term Plan	446030	446030	10	0.50	0.50
HSBC Income Fund - Short Term Plan	4526398	-	10	-	5.15
HSBC Cash Fund	3100088	13463187	10	15.00	3.50
HDFC Floating Rate Fund - Short Term Plan	4589908	-	10	-	5.04
JM Floater Fund - Long Term Plan	994085	-	10	-	1.00

## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

### Unquoted (Others) - Current

	As at 30.06.2005 Units	As at 30.06.2006 Units	Face Value Rs.	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
Kotal Floating Rate Fund - Short Term Plan	-	890274	10	1.00	-
Pru ICICI Floating Rate Plan	10119035	3809140	10	3.96	10.65
Prudential ICICI Liquid Plan	6930529	13091297	10	23.00	11.48
Prudential ICICI Short Term Plan	4481353	-	10	-	5.65
Prudential ICICI Blended Plan - B	5000000	5000000	10	5.00	5.00
Reliance Fixed Maturity Fund	2517039	2001834	10	2.00	2.52
Reliance Floating Rate Fund	992349	-	10	-	1.00
Standard Chartered Liquidity Manager Plus	-	246636	1000	25.00	-
Templeton Floating Rate Income Fund - Long Term Plan	10362168	12224031	10	12.64	11.97
Templeton India Treasury Management Account	-	72382	1000	8.00	-
Templeton India Short Term Fund	40932	-	10	-	5.00
				115.88	103.26
<b>Unquoted (Trade) : Long Term</b>					
<b>In Subsidiary Company</b>					
HCL Infinet Limited - Equity Shares	19506757	19506757	100	19.51	19.51
				135.39	122.77

Note :- Net asset value of Unquoted (Others) Current Investments in Mutual Funds as on 30.06.2006 is Rs. 118.32 Crores (2005 - Rs. 106.93 Crores)

## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>7- Inventories</b>		
[Schedule-21, Note 8(b)]		
Raw materials and Components (Including in Transit)	63.49	77.94
Stores and Spares	37.13	29.87
Finished Goods (Including in Transit)	133.74	72.45
Work-in-Progress	5.95	7.84
	<u>240.31</u>	<u>188.10</u>
<b>8- Sundry Debtors - Unsecured</b>		
Debts outstanding for a period exceeding six months :		
- Considered Good	68.62	60.24
- Considered Doubtful	0.47	1.34
	<u>69.09</u>	<u>61.58</u>
Other debts - Considered Good	442.65	309.68
	<u>511.74</u>	<u>371.26</u>
Less : Provision for Doubtful Debts	0.48	1.34
	<u>511.26</u>	<u>369.92</u>
	<u>511.26</u>	<u>369.92</u>
<b>9- Cash and Bank Balances</b>		
Cash in Hand and in Transit	0.20	0.20
Cheques in Hand	18.57	28.96
Balances with Scheduled Banks:		
-On Current Account	66.83	42.53
Less :- Money held in Trust	0.01	0.01
	<u>66.82</u>	<u>42.52</u>
- On Dividend Account	2.05	1.46
- On Margin Account	0.40	0.39
- On Fixed Deposits	57.59	73.14
Less :- Money held in Trust	0.34	0.35
	<u>57.25</u>	<u>72.79</u>
	<u>145.29</u>	<u>146.32</u>
<b>10-Other Current Assets</b>		
(Schedule-21, Notes 3(c), 16 and 19)		
Deposits	13.80	10.38
Prepaid Expenses	11.95	8.86
Lease Rental Recoverable	47.90	60.18
Unbilled Revenue	1.32	-
	<u>74.97</u>	<u>79.42</u>

## SCHEDULES TO THE BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>11-Loans and Advances</b> (Schedule-21, Note 20)		
<b>Unsecured Considered Good</b>		
- Amounts recoverable in cash or in kind or for value to be received	29.06	27.23
- Advances and Loans to Subsidiaries	2.16	2.19
- Advance Income Tax (Net of Provision for Income Tax of Rs. 47.23 Crores)	0.94	-
- Balances with Customs, Port Trust, Excise and Sales Tax Authorities	5.71	2.66
	<u>37.87</u>	<u>32.08</u>
<b>12-Current Liabilities and Provisions</b> (Schedule-21, Notes 4,6 and 20)		
<b>Current Liabilities:</b>		
Acceptances	235.69	195.55
Sundry Creditors		
- Due to Subsidiaries	1.17	0.42
- Due to SSI undertakings	1.97	1.30
- Others	<u>156.26</u>	<u>111.30</u>
Sundry Deposits	1.49	2.02
Interest accrued but not due:		
- On Secured Loans	0.16	0.05
- On Unsecured Loans from Subsidiaries	2.14	-
Investor Education and Protection Fund :		
- Unclaimed Dividend *	2.05	1.46
Advances from Customers	8.23	7.42
Deferred Revenue	106.11	69.56
Other Liabilities	41.39	28.14
	<u>556.66</u>	<u>417.22</u>
<b>Provisions:</b>		
Proposed Dividend	33.75	33.47
Corporate Dividend Tax on Proposed Dividend	4.74	4.70
Provision for Income Tax [2005 Net of Advance Income Tax of Rs. 35.49 Crores]]	-	3.14
For Warranty Liability	2.46	1.81
For Gratuity and Other Employee Benefits	<u>8.66</u>	<u>7.55</u>
	<u>49.61</u>	<u>50.67</u>
	<u>606.27</u>	<u>467.89</u>

\* There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at 30th June, 2006. These amounts shall be credited and paid to the fund as and when due.

## SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	Year ended 30.06.2006 Rs./Crores	Year ended 30.06.2005 Rs./Crores
<b>13- Business Income</b>		
[Schedule-21, Note 8 (b)]		
Sales and Related Income	2239.86	1849.89
Services	141.50	121.05
	<u>2381.36</u>	<u>1970.94</u>
<b>14- Other Income</b>		
Interest :		
- Refund from Income Tax Authority	0.17	1.50
- Others	0.09	0.06
Dividend from (Others) Current Investments	0.01	0.12
Insurance Claims	0.24	0.21
Income Tax Provision for earlier years written back	4.97	-
Provisions/Liabilities no longer required written back	1.34	6.44
Profit on Sale of Fixed Assets (Net)	-	0.14
Profit on disposal of (Others) Current Investments (Net)	5.82	8.31
Profit on Foreign Exchange Fluctuation (Net)	-	12.27
Miscellaneous Income	4.37	3.20
	<u>17.01</u>	<u>32.25</u>
<b>15- Cost of Sales and Services</b>		
[Schedule-21, Notes 8(b), 9,10 & 17]		
Raw Materials and Components Consumed	1210.77	980.49
Purchase of Finished Goods and Services (Net)	640.14	518.22
Stores and Spares Consumed	18.03	13.16
Power and Fuel	1.41	1.22
Labour and Processing Charges	1.96	2.80
Royalty (Net)	106.20	88.80
	<u>1978.51</u>	<u>1604.69</u>
(Increase)/Decrease in Stocks of Finished Goods and Work-In-Progress :		
Closing Stock		
- Finished Goods (Including in Transit)	133.74	72.45
[Including excise duty of Rs. 3.53 Crores (2005 - Nil)]		
- Work-In-Progress	5.95	7.84
	<u>139.69</u>	<u>80.29</u>
Opening Stock		
- Finished Goods (Including in Transit)	72.45	65.06
[Including excise duty Rs. Nil (2005 - Nil)]		
- Work-In-Progress	7.84	8.71
	<u>80.29</u>	<u>73.77</u>
	<u>(59.40)</u>	<u>(6.52)</u>
	<u>1919.11</u>	<u>1598.17</u>
<b>16- Personnel</b>		
Salaries, Wages, Allowances, Bonus and Gratuity	122.53	100.27
Contribution to Provident Fund and Other Funds	4.57	3.87
Staff Welfare Expenses	3.12	2.85
Prior period expenses (Allowances)	-	0.62
	<u>130.22</u>	<u>107.61</u>
Less : Operating Cost Recovered	3.00	3.12
	<u>127.22</u>	<u>104.49</u>

## SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	Year ended 30.06.2006 Rs./Crores	Year ended 30.06.2005 Rs./Crores
<b>17- Administration, Selling, Distribution and Others</b>		
[Schedule-21, Note 19 (b)]		
Rent	5.06	5.05
Rates and Taxes	3.08	3.10
Printing and Stationery	2.40	2.30
Communication	5.90	5.22
Travelling and Conveyance	15.65	12.95
Packing, Freight and Forwarding	30.81	24.11
Legal and Professional	8.10	6.92
Training and Conference	1.42	1.25
Office Electricity and Water	3.17	2.82
Insurance	3.55	2.99
Advertisement, Publicity and Entertainment (Net of Reimbursements)	9.28	9.68
Hire Charges	0.34	0.40
Commission on Sales	6.29	7.15
Bank Charges	6.26	6.79
Provision for Doubtful Debts	0.03	0.50
Loss on Sale of Fixed Assets (Net)	0.04	-
Fixed Assets Written Off	-	0.05
Loss on Foreign Exchange Fluctuation (Net)	11.15	-
Miscellaneous	8.51	11.91
	<b>121.04</b>	<b>103.19</b>
Less : Operating Cost Recovered	2.51	2.28
	<b>118.53</b>	<b>100.91</b>

### 18- Repairs and Maintenance

Plant and Machinery	0.24	0.24
Buildings	0.21	0.52
Others	3.75	3.46
	<b>4.20</b>	<b>4.22</b>
Less : Operating Cost recovered	0.19	0.21
	<b>4.01</b>	<b>4.01</b>

### 19- Finance Charges

(Schedule-21, Notes 19(a))

Interest paid :				
- On Fixed Loans	7.43		2.26	
- On Others	7.43	14.86	4.87	7.13
Less : Interest received :				
- On Lease Rental	4.17		3.71	
- On Fixed Deposits	4.39		2.42	
[TDS Rs.0.54 Crores (2005 - Rs.0.48 Crores)]				
- On Other Loans and Advances	0.02		0.04	
- On Others	1.71	10.29	-	6.17
	<b>4.57</b>			<b>0.96</b>

# SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

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## SCHEDULE 20 - SIGNIFICANT ACCOUNTING POLICIES

### 1. BASIS OF ACCOUNTING

The financial statements are prepared on mercantile basis under the historical cost convention in accordance with the Generally Accepted Accounting Principles in India and comply with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

### 2. FIXED ASSETS

Fixed Assets including in-house capitalisation and Capital Work-in-Progress are stated at cost except those which are revalued from time to time on the basis of current replacement cost/value to the Company, net of depreciation.

Assets taken on finance lease on or after 1.4.2001 are stated at fair value of the assets or present value of minimum lease payments whichever is lower.

Intangible Assets are stated at cost net of amortization.

### 3. DEPRECIATION

(i) Depreciation has been calculated under Straight Line Method on:

- a) Buildings capitalised prior to 1.5.1986 at the rates computed in the respective years of acquisition of those assets as per Section 205(2)(b) of the Companies Act, 1956.
- b) Assets acquired on or after 1.5.1986 and before 16.12.93 on a prorata basis at the rates specified in Schedule XIV of the Companies (Amendment) Act, 1988. These assets are subject to annual technical evaluation for their economic useful life and additional depreciation is charged if there is any reduction in economic useful life as re-evaluated.
- c) Assets acquired on and after 16.12.1993 on a prorata basis based on economic useful life determined by way of periodical technical evaluation. Economic useful lives which are not exceeding those stipulated in Schedule XIV of the Companies Act, 1956 are as under:

Plant and machinery	4-6	years
Building - Factory	25-28	years
- Others	50-58	years
Furniture & Fixture	4-6	years
Air Conditioners	3-6	years
Vehicles	4-6	years
Office Equipment	3-6	years
Computers	3-5	years

(d) The assets taken on finance lease on or after April 1, 2001 over their expected useful lives.

(ii) Leasehold land, premises and improvements are amortised over the primary lease period.

(iii) Intangible Assets are amortised over a period of 1-3 years.

### 4. INVESTMENTS

Long-term investments are stated at cost of acquisition inclusive of expenditure incidental to acquisition. Any decline in the value of the said investment, other than a temporary decline, is recognised and charged to Profit and Loss Account.

Current Investments are carried at lower of cost or fair value.

### 5. INVENTORIES

Raw Materials and components held for use in the production of inventories and Work-in-progress are valued at cost if the finished goods in which they will be incorporated are expected to be sold at or above cost. If there is a decline in the price of materials/components and it is estimated that the cost of finished goods will exceed the net realisable value, the materials/components/Work-in-progress are written down to net realisable value measured on the basis of their replacement cost.

Finished Goods are valued at lower of cost and net realisable value.



## **SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT**

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Cost of Finished Goods and Work-in-Progress includes direct labour and proportionate overhead expenses. Cost is determined on the basis of weighted average.

Stores and Spares are valued at lower of cost and net realisable value. Adequate adjustments are made to the carrying value for obsolescence.

Goods in Transit are valued inclusive of custom duty, where applicable.

### **6. FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transactions.

Foreign currency monetary assets and liabilities are restated at the exchange rates prevailing at the year end and the overall net gain/loss including those arising out of fluctuations in exchange rates on settlement during the period is adjusted to the Profit and Loss Account, except in cases of liabilities relating to acquisition of fixed assets which are adjusted in the cost of respective assets.

Foreign currency monetary assets and liabilities covered by forward contracts are stated at the forward contract rates and the difference between the forward rate and the exchange rate at the inception of the forward contract is recognised in the Profit and Loss Account over the life of the contract, except in cases of liabilities relating to acquisition of fixed assets which are adjusted in the cost of respective assets.

### **7. RETIREMENT BENEFITS TO EMPLOYEES**

- a) 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.
- b) Company's contributions towards recognised Provident Fund and Superannuation Fund are accounted for on accrual basis.

### **8. REVENUE RECOGNITION**

- a) Sales, net of discount, are inclusive of excise duty and the related revenue is recognised (after providing for expenses to be incurred connected to such sale) on transfer of all significant risks and rewards of ownership to the customer and when no significant uncertainty exists regarding realisation of the consideration.
- b) 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.
- c) Service income includes income
  - i) From maintenance of products and facilities under maintenance agreements and extended warranty, which is recognised upon creation of contractual obligations rateably over the period of contract, where no significant uncertainty exists regarding realisation of the consideration.
  - ii) From software services
    - (a) The revenue from time and material contracts is recognised based on the time spent as per the terms of contracts.
    - (b) In case of fixed priced contracts revenue is recognised on percentage of completion basis. Foreseeable losses, if any, on contract completion are recognised immediately.

### **9. GOVERNMENT GRANTS**

Revenue grants, where reasonable certainty exists that the ultimate collection will be made are recognized on a systematic basis in profit and loss statement over the periods necessary to match them with the related cost which they are intended to compensate.

### **10. LEASES**

- a) Lease transactions entered into prior to April 1, 2001:
  - i) Assets leased out are stated at cost and amortised over the primary lease period.

## **SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT**

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- ii) Lease rentals in respect to the assets taken/given on lease are recognised in the Profit and Loss Account on accrual basis.
- b) Lease transactions entered into on or after April 1, 2001:
  - i) Assets taken under leases where the Company has substantially all the risks and rewards of ownership are classified as Finance leases. Such assets are capitalised at the inception of the lease at the lower of fair value or the present value of minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on outstanding liability for each period.
  - ii) Assets taken on leases where significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the Profit and Loss account on straight-line basis over the lease term.
  - iii) Profit on sale and leaseback transactions is recognised over the period of the lease.
  - iv) Assets given under finance lease are recognised as receivables at an amount equal to the net investment in the lease. Inventories given on finance lease are recognised as deemed sale at fair value. Lease income is recognised over the period of the lease so as to yield a constant rate of return on the net investment in the lease.
  - v) Assets leased out under operating leases are capitalised. Rental income is recognised on accrual basis over the lease term.
  - vi) Initial direct costs relating to the finance lease transactions are included as part of the amount capitalised as an asset under the lease.

### **11. 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.

### **12. 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.

### **13. EMPLOYEE STOCK OPTION SCHEME**

The Company calculates the employee stock compensation expense based on the intrinsic value method wherein the excess of market price of underlying equity shares as on the date of the grant of options over the exercise price of the options given to employees under the Employee Stock Option Scheme of the Company, is recognised as deferred stock compensation expense and is amortised over the vesting period on the basis of generally accepted accounting principles in accordance with the guidelines of Securities and Exchange Board of India.

### **14. BORROWING COSTS**

Borrowing costs to the extent related /attributable to the acquisition/construction of assets that necessarily take substantial period of time to get ready for their intended use are capitalised along with the respective fixed asset up to the date such asset is ready for use. Other borrowing costs are charged to the Profit and Loss Account.

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### SCHEDULE 21 - NOTES TO ACCOUNTS

- Land and Buildings and certain Plant and Machinery were revalued by registered valuers' after considering depreciation upto that date on the governing principle of current replacement cost/value to the Company. The amounts added/reduced on aforesaid revaluation were as under:

	<u>Rs./Crores</u>
Land	4.44
Buildings	6.44
Plant & Machinery	(1.01)
Total	<u>9.87</u>
Less : Goodwill	<u>5.70</u>
Transferred to Revaluation Reserve	4.17
Less:	
-Expenditure incurred on acquisition of business in 1992	0.86
-Loss on sale of Land	<u>0.15</u>
	3.16

- Estimated value of contracts remaining to be executed on capital account and not provided for (net of advances) are Rs 1.10 Crores (2005 - Rs. 0.59 Crores)

- Contingent Liabilities:

- Claims not acknowledged as debts for:

	<u>2006</u>	<u>2005</u>
	<u>Rs./Crores</u>	<u>Rs./Crores</u>
Sales Tax*	4.23	4.09
Excise*	-	0.64
Income Tax*	0.54	0.54
Industrial Disputes, Civil Suits and Consumer Disputes	5.48	5.35

\* Includes sum of Rs. 1.30 Crores (2005 - Rs. 1.11 Crores) deposited by the Company against the above.

- Corporate Guarantee of Rs. 324.50 Crores (2005 - Rs. 274.50 Crores) was given to Banks for working capital facilities sanctioned to the 100% subsidiary, against which total amount utilized is Rs. 279.69 Crores (2005 - Rs. 197.30 Crores).
  - During the year company has transferred Financial Assets (Lease Rental Recoverable) of Rs. 47.62 Crores (2005 - Rs. Nil) to a bank under a financing arrangement. The transfer of these Financial Assets is with recourse on the Company.
- The company has the following warranty provision in the books of accounts:

	<u>2006</u>	<u>2005</u>
	<u>Rs./Crores</u>	<u>Rs./Crores</u>
Opening Balance as on 1 <sup>st</sup> July	1.81	5.59
Additions during the year	7.42	3.57
Utilised/Reversed during the year	6.77	7.35
Closing Balance as on 30 <sup>th</sup> June	2.46	1.81

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

The cost for warranty to be provided beyond one year will be accounted for as and when the related warranty revenue amounting to Rs. 57.80 Crores (2005 - Rs. 33.64 Crores) is recognized.

- Taxation:

- Provision for taxation has been computed by applying the Income Tax Act, 1961 to the profit for the financial year ended 30<sup>th</sup> June, 2006, 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 31<sup>st</sup> March.
- The significant components and classification of deferred tax asset and liability on account of timing differences are as follows:

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

Deferred tax assets	2006 Rs./Crores		2005 Rs./Crores	
Allowances for doubtful debts	0.41		0.38	
Demerger Scheme Expenses	0.07		0.14	
Expense accruals	3.96	4.44	3.20	3.72
<b>Deferred tax liabilities</b>				
Depreciation	3.38		3.45	
Lease adjustments	8.03		4.12	
Other timing differences	4.57	15.98	2.96	10.53
<b>Deferred tax liability (Net)</b>		<b>11.54</b>		<b>6.81</b>

6. There are no Small Scale Industrial Undertakings to whom the Company owes money where the dues are outstanding for more than 30 days from the mutually agreed due dates as at the Balance Sheet date.

7. Expenditure on Research and Development:

	2006 Rs./Crores	2005 Rs./Crores
Capital	0.02	0.07
Revenue	0.46	0.76
Total	<b>0.48</b>	<b>0.83</b>

8. a) Particulars of goods manufactured:

Class of Product		Installed capacity	Actual Production
Computers/Micro processor Based systems	Nos.	<b>1150000</b> (600000)	<b>581805</b> (448121)
Data Graphic/Display Monitor/Terminals, Hubs etc	Nos.	<b>250000</b> (250000)	<b>267326</b> (259617)

Note: Installed capacity being a technical matter has been certified by the management.

b) The Ministry of Company Affairs, Government of India vide its Order No. 46/79/2006-CL-III dated 2<sup>nd</sup> May, 2006 issued under section 211(4) of the Companies Act, 1956 has exempted the Company from disclosure of quantitative details in the Profit and Loss Account for the financial year ended 30<sup>th</sup> June 2006, under Para 3(ii)(d) of Part-II, Schedule-VI to the Companies Act, 1956 as amended vide Notification No. GSR494(E), dated 30<sup>th</sup> October, 1973.

9. Value of imported and indigenous raw materials and components consumed during the year (excluding value of consumption of stores and spares which is not readily ascertainable) classified on the basis of ratio between purchase of imported and indigenous raw materials and components during the year:

	2006		2005	
	Rs./Crores	% of Consumption	Rs./Crores	% of Consumption
Imported	920.07	75.99	708.40	72.25
Indigenous	290.70	24.01	272.09	27.75
Total	<b>1210.77</b>	<b>100.00</b>	<b>980.49</b>	<b>100.00</b>

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### 10. Value of Imports calculated on CIF basis:

	2006	2005
	Rs./Crores	Rs./Crores
a) Raw materials & components	984.04	751.38
b) Stores and spares	2.67	3.16
c) Capital goods	0.66	1.32
d) Traded items	314.73	171.77
Total	1302.10	927.63

### 11. Expenditure in Foreign Currency:

(On actual payment basis)

	2006	2005
	Rs./Crores	Rs./Crores
a) Travel	0.30	0.24
b) Royalty (Net of tax)	90.69	70.52
c) Interest	0.33	0.44
d) Others	1.63	0.68
Total	92.95	71.88

### 12. Earnings in Foreign Currency:

	2006	2005
	Rs./Crores	Rs./Crores
a) Commission	0.13	0.64
b) FOB value of exports (including deemed exports)	62.78	33.17
c) Others (including reimbursement of expenses)	15.69	13.20
Total	78.60	47.01

### 13. Remuneration to Auditor:

	2006	2005
	Rs./Crores	Rs./Crores
a) As Auditor*	0.31	0.25
b) In Other Capacity:		
Tax Audit*	0.09	0.09
Certification*	0.01	0.01
Out-of-Pocket Expenses	0.03	0.03
Total	0.44	0.38
* Excluding service tax		

### 14. Details of Investments purchased, reinvested and sold on various dates within the financial year are as follows.

Name of the Fund	Face Value Rs. per unit	* No. of Units	Cost Rs./Crores
<b>Growth Options</b>			
DSPML Liquidity Fund	10	14244690	24.00
HDFC Liquid Fund - Premium Plan	10	46818626	65.00
Prudential ICICI Liquid Plan - Installment	10	1172072	2.00
Tata Floating Rate ST Installment Plan	10	5456924	5.75
Grindlays Floating Rate ST- Installment.	10	4927830	5.50
Grindlays Cash Fund - Super. Inst	10	31827179	35.00
Grindlays Cash Fund	10	18597587	2.40
Reliance Liquid Fund – Treasury Plan	10	607851	1.00
SBI Magnum Debt Series- 180 days	10	1000000	0.10
Grindlays Fixed Maturity Plan	10	1000000	1.00
Standard Chartered Liquidity Manager Plus	10	9927	1.00
Reliance Fixed Maturity Fund-Series II Monthly Plan	10	1000553	1.00

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

Name of the Fund	Face Value Rs. per unit	* No. of Units	Cost Rs./Crores
<b>Dividend Options</b>			
Tata Floating Rate ST Installment Plan	10	5744141	5.75
Reliance Liquid Fund – Treasury Plan	10	1309149	2.00

\* Represents total of transactions on account of renewals and reinvestments.

### 15. Managerial Remuneration :

#### (I) Computation of net profit under Section 349 of the Companies Act, 1956.

	2006 Rs./Crores	2005 Rs./Crores
Profit before Taxation	<b>131.52</b>	148.87
Add:		
Directors Remuneration Paid/payable	<b>4.07</b>	3.31
Depreciation	<b>6.75</b>	6.50
Provision for Doubtful Debts	<b>0.03</b>	0.50
	<b>10.85</b>	10.31
	<b>142.37</b>	159.18
Less:		
Depreciation under Section 350 of the Companies Act, 1956	<b>6.75</b>	6.50
Profit on Disposal of (Other) Investments (Net)	<b>5.82</b>	8.31
Profit/(Loss) on sale of Fixed Assets (Net)	<b>(0.04)</b>	0.14
	<b>12.53</b>	14.95
Net Profit under Section 349	<b>129.84</b>	144.23
Calculation of Commission under Section 309 of the Companies Act, 1956 @ 1%	<b>1.30</b>	1.44
Restricted to	<b>0.37</b>	0.11
(II) Paid/payable to the Wholetime Directors		
a) Salaries, Allowances & Bonus	<b>3.26</b>	2.72
Contribution to Provident and Superannuation Funds	<b>0.12</b>	0.17
Perquisites	<b>0.28</b>	0.28
	<b>3.66</b>	3.17
b) Directors' Sitting Fees	<b>0.04</b>	0.03
Commission to Non Wholetime Directors	<b>0.37</b>	0.11
Managerial remuneration under Section 198 of the Companies Act, 1956	<b>4.07</b>	3.31

16. Unaccrued forward exchange cover as on 30<sup>th</sup> June 2006 of Rs. 0.16 Crores (2005 - Rs. 0.01 Crores) has been included in prepaid expenses.

17. Duty drawback recognized during the year of Rs. 2.14 Crores (2005 – Rs. 5.76 Crores) has been adjusted against cost of sales and services.

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

The Company has established Employee Stock Option Scheme 2000 and Employee Stock Based Compensation Plan 2005, for a total grant of 31,90,200 and 33,35,487 options respectively to the employees of the Company and its subsidiary. These options vest over a period of 42 and 60 months respectively from the date of grant and are to be exercised within a maximum period of 5 years from the date of vesting.

The Board of Directors/Committee approves the grant of options, including for lapsed options.

Each option confers on the employee a right to five equity shares of Rs. 2/- each.

Exercise Price is market price as specified in the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI").

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### Details of Grants made under Employee Stock Option Plan 2000

Date of grant	Exercise price	Options outstanding at the beginning of the year	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options expired during the year	Options outstanding at the end of the year	Options exercisable at the end of the year
10-Aug-00	289.00	84894 (401506)	- (-)	- (-)	36327 (316612)	600 (-)	47967 (84894)	47967 (84894)
28-Jan-04	538.15	987304 (1438524)	- (-)	62202 (215999)	226373 (229869)	7118 (5352)	691611 (987304)	278366 (154028)
25-Aug-04	603.95	171758 (-)	- (226118)	- (-)	30817 (-)	24849 (54360)	116092 (171758)	18886 (-)
18-Jan-05	809.85	272950 (-)	- (291860)	13596 (18910)	15480 (-)	- (-)	243874 (272950)	63645 (-)
15-Feb-05	809.30	8400 (-)	- (23920)	3080 (15520)	500 (-)	- (-)	4820 (8400)	2020 (-)
15-Mar-05	834.40	57416 (-)	- (60216)	4896 (2800)	- (-)	- (-)	52520 (57416)	16361 (-)
15-Apr-05	789.85	23384 (-)	- (23384)	4672 (-)	- (-)	- (-)	18712 (23384)	6151 (-)
14-May-05	770.15	17400 (-)	- (17400)	8160 (-)	- (-)	- (-)	9240 (17400)	2772 (-)
15-Jun-05	756.15	18400 (-)	- (20960)	4800 (2560)	- (-)	- (-)	13600 (18400)	4080 (-)
15-Jul-05	978.75	- (-)	27440 (-)	1280 (-)	- (-)	- (-)	26160 (-)	- (-)
13-Aug-05	1144.00	- (-)	33310 (-)	6080 (-)	- (-)	- (-)	27230 (-)	- (-)
15-Sep-05	1271.25	- (-)	13620 (-)	- (-)	- (-)	- (-)	13620 (-)	- (-)
							<b>1265446</b> (1641906)	<b>440248</b> (238922)

Note: Previous year's figures are given in brackets.

### Details of Grant made under Employee Stock Based Compensation Plan 2005

Date of grant	Exercise price	Options outstanding at the beginning of the year	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options expired during the year	Options outstanding at the end of the year	Options exercisable at the end of the year
13-Aug-05	1144.00	-	3196840	375060	-	-	2821780	-
19-Oct-05	1157.50	-	107010	24690	-	-	82320	-
15-Nov-05	1267.75	-	51810	4430	-	-	47380	-
15-Dec-05	1348.25	-	56200	7200	-	-	49000	-
14-Jan-06	1300.00	-	59140	4920	-	-	54220	-
15-Feb-06	1308.00	-	10940	1310	-	-	9630	-
16-Mar-06	1031.00	-	47840	1500	-	-	46340	-
17-Apr-06	868.75	-	35260	1500	-	-	33760	-
15-May-06	842.50	-	38100	-	-	-	38100	-
15-Jun-06	620.50	-	54740	-	-	-	54740	-
							<b>3237270</b>	<b>-</b>

The fair value of each stock option granted under Employee Stock Option Plan 2000 and Employee Stock Based Compensation Plan 2005, as on the date of grant has been computed using Black- Scholes Option Pricing Formula and the model inputs are given as under:



## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

	Employee Stock Option Plan 2000	Employee Stock Based Compensation Plan 2005
Volatility	49% to 68%	47% to 62%
Risk free rate	4.57% to 6.81%	6.49% to 7.49%
Exercise Price	538.15 to 1271.25	620.50 to 1348.25
Time to Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	11% to 21%	10% to 23%
Life of options	8.5 Years	10 Years
Fair Value of options as At the grant date	Rs. 735.77 to Rs. 2035.28	Rs. 841.25 to Rs. 2256.95

### Notes:

1. Volatility: Based on historical volatility in the share price movement of the Company.
2. Risk Free Rate: Being the interest rate applicable for maturity equal to the expected life of options based on yield curve for Government Securities.
3. Time to Maturity: Vesting period and volatility of the underlying equity shares have been considered for estimation.
4. Dividend Yield: Based on historical dividend payouts.

The impact on the profit of the Company for the year ended June 30, 2006 and the basic and diluted earnings per share had the Company followed the fair value method of accounting for stock options is set out below:

	Rs./Crores
Profit/(Loss) after tax as per Profit and Loss Account (a)	113.22
Add: Employee Stock Compensation Expense as per Intrinsic Value Method	-
Less: Employee Stock Compensation Expense as per Fair Value Method (Net of amount attributable to employees of subsidiaries Rs. 5.73 Crores)	14.63
Profit/(Loss) after tax recomputed for recognition of employee stock compensation expense under fair value method (b)	98.59
Earning Per Share based on earnings as per (a) above: (Refer Note 21)	
- Basic	6.74
- Diluted	6.64
Earning Per Share had fair value method been employed for accounting of employee stock options:	
- Basic	5.87
- Diluted	5.78

### 19. Leases:

#### a) Finance Leases:

- (i) Assets acquired under Sale and Leaseback arrangements comprises of Computers. There are no exceptional/restrictive covenants in the lease agreements.
- (ii) The Company has given on finance lease certain Assets/Inventories, which comprise of computers etc. These leases have a primary period, which are fixed and non-cancelable. There are no exceptional/ restrictive covenants in the lease agreements.
- (iii) The gross investment in the assets given on finance leases as at 30<sup>th</sup> June, 2006 and its present value as at that date are as follows [Refer Note 3(c)]:

	Total minimum lease payments receivable  Rs./Crores	Interest included in minimum lease payments receivable  Rs./Crores	Present value of minimum lease payments receivable  Rs./Crores
Not later than one year	<b>15.89</b> (16.49)	<b>(2.67)</b> (3.40)	<b>13.22</b> (13.09)
	<b>38.61</b>	<b>3.93</b>	<b>34.68</b>
Later than one year and not later than five years	(54.33)	(7.24)	(47.09)
Total	<b>54.50</b> (70.82)	<b>6.60</b> (10.64)	<b>47.90</b> (60.18)

[Includes minimum sub lease receivable Rs. Nil (2005 – Rs. 0.22 Crores)]

Note: Previous year's figures are given in brackets.

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

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### B) Operating Leases:

- (i) The Company has taken various residential /commercial premises under cancelable operating leases. These leases are normally renewable on expiry.
- (ii) The rental expense in respect of operating leases is Rs.5.06 Crores (2005 - Rs 5.05 Crores)

### 20. Disclosure of related parties and related party transactions.

#### a) Company having substantial interest:

HCL Corporation Ltd. due to substantial interest in the voting power

#### b) List of Parties where control exists/existed:

##### Subsidiaries:

HCL Infinet Ltd., a wholly owned subsidiary

Microcomp Ltd., a wholly owned subsidiary of HCL Infinet Ltd. acquired during the year

#### c) Other related parties with whom transactions have taken place during the year and/or where balances exist:

- HCL Technologies Ltd
- HCL Comnet Ltd.
- HCL Technologies BPO services Ltd.\*
- HCL Technologies (Mumbai) Ltd.\*
- DSL Software Ltd.\*
- Shipara Technologies Ltd\*
- HCL Technologies (Malaysia) Sdn Bhd
- Infosystems (Europe) Ltd.
- HCL Singapore Pte. Limited
- HCL Peripherals Ltd
- HCL Infosolutions Ltd.

\* Amalgamated with HCL Technologies Ltd. during the year.

#### Others (where significant influence exist):

SSN College of Engineering

OWNHCL Trust (Dissolved during the year)

Note: Parties with whom transactions are more than 10% of the total value have been disclosed separately.

### Key Management Personnel

#### i) Directors:

Mr. Ajai Chowdhry

Mr. T.S. Purushothaman\*

Mr. Ravi Thumboochetty\*\*

Mr. J. V. Ramamurthy\*\*\*

\* Ceased to be whole time director w.e.f. 20<sup>th</sup> July 05

\*\* Ceased to be whole time director w.e.f. 10<sup>th</sup> August 05

\*\*\* Appointed as whole time director w.e.f. 11<sup>th</sup> August 05

#### ii) Other Key Management Personnel:

Mr. George Paul

Mr. Hari Bhaskaran

Mr. K.R.Radhakrishnan\*

Mr. Manohar Lal Taneja\*\*

Mr. Rajeev Asija

Mr. Rajendra Kumar

Mr. Rakesh Mehta

Mr. Sandeep Kanwar

Mr. S. Pattabiraman

Mr. Suman Ghose Hazra

\* Ceased to be Company Secretary w.e.f. 30<sup>th</sup> April 06

\*\* Retired w.e.f. 1<sup>st</sup> July 06

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### d) Summary of Related Party disclosures

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

Related Party Transactions for the year ended 30th June 2006 and Balances as on that date

A. Transactions	Company having		Subsidiaries		Others		Key Management		(Rs./Crores)	
	Substantial interest						Personnel		Total	
	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05
<b>Sales &amp; Related Income</b>	<b>0.23</b>	0.16	<b>2.78</b>	2.44	<b>52.61</b>	39.73			<b>55.62</b>	42.33
- HCL Technologies Ltd.					<b>36.24</b>	30.59				
- HCL Technologies BPO Services Ltd.					<b>8.54</b>	4.73				
- HCL Comnet Ltd.					<b>5.95</b>	3.44				
Services			<b>0.32</b>	0.31	<b>4.48</b>	3.04			<b>4.80</b>	3.35
- HCL Technologies Ltd.					<b>3.56</b>	2.62				
Other Income			<b>0.03</b>		<b>1.00</b>	0.99			<b>1.03</b>	0.99
- HCL Technologies Ltd.					<b>0.96</b>	0.99				
Purchase of Goods			<b>8.78</b>	2.04	<b>0.32</b>	0.07			<b>9.10</b>	2.11
Purchase of Services			<b>0.85</b>	0.77	<b>3.45</b>	8.78			<b>4.30</b>	9.55
- HCL Technologies Ltd.					<b>1.73</b>	3.14				
- HCL Comnet Ltd.					<b>1.30</b>	5.22				
Loans & Advances Taken			<b>111.00</b>						<b>111.00</b>	
Interest Expense			<b>2.76</b>						<b>2.76</b>	
Bad Debts written off					<b>0.13</b>	0.04			<b>0.13</b>	0.04
- HCL Technologies Ltd.					<b>0.10</b>	0.02				
- HCL Technologies BPO Services Ltd.					<b>0.03</b>	0.03				
- HCL Comnet Ltd.						(0.02)				
Assets Purchased			<b>0.07</b>	0.08					<b>0.07</b>	0.08
Assets Sold				0.03						0.03
Assets (Capital work-in-progress) Sold at cost					<b>11.92</b>				<b>11.92</b>	
- HCL Technologies Ltd.					<b>11.92</b>					
Remuneration							<b>7.58</b>	6.50	<b>7.58</b>	6.50
Reimbursements towards expenditure										
a) Received	<b>0.04</b>	0.03	<b>5.73</b>	5.71	<b>0.19</b>	0.58			<b>5.96</b>	6.32
b) Made	<b>0.05</b>	0.02			<b>0.29</b>	0.01			<b>0.34</b>	0.03
- HCL Technologies Ltd.					<b>0.27</b>					
- Network Ltd.						0.01				
<b>B. Amount due to / from related parties</b>										
	Company having		Subsidiaries		Others		Key Management		Total	
	Substantial interest						Personnel			
	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05
Investment			<b>19.51</b>	19.51					<b>19.51</b>	19.51
Accounts Receivables	<b>0.17</b>	0.14	<b>1.41</b>	0.67	<b>9.72</b>	4.01			<b>11.30</b>	4.82
Loans & Advances & Other Recoverables			<b>2.16</b>	2.19	<b>1.04</b>	0.63			<b>3.20</b>	2.82
Unsecured Loans			<b>111.00</b>						<b>111.00</b>	
Creditors			<b>1.17</b>	0.42	<b>0.59</b>	0.83			<b>1.76</b>	1.25
Interest accrued but not due			<b>2.14</b>						<b>2.14</b>	
Other Payables	<b>0.01</b>	0.00			<b>0.87</b>	0.42		0.08	<b>0.88</b>	0.50

### 21. Earnings per share (EPS)

The earnings considered in ascertaining the Company's EPS represent profit for the year after tax. Basic EPS is computed and disclosed using the weighted average number of equity shares outstanding during the 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.

## SCHEDULES TO THE BALANCE SHEET & PROFIT AND LOSS ACCOUNT

Calculation of EPS:

Particulars	30.06.2006	30.06.2005
Profit after tax (Rs./ Crores)	113.22	132.77
<b>Weighted average number of shares considered as outstanding in computation of Basic EPS</b>	<b>1,68,003,132</b>	<b>1,65,774,340</b>
Add dilutive impact of stock options:		
- Exercised	305,092	643,166
- Lapsed	81,881	192,410
- Issued for no consideration	2,088,028	2,049,190
<b>Weighted average number of shares outstanding in computation of Diluted EPS</b>	<b>1,70,478,133</b>	<b>1,68,659,106</b>
Basic EPS (of Rs 2/- each)	Rs. 6.74	Rs 8.01
Diluted EPS (of Rs 2/- each)	Rs. 6.64	Rs 7.87

22. The Company is significantly operating in a single segment, hence segment reporting is not applicable.
23. As approved by the Board of Directors through resolution dated 26<sup>th</sup> July ,2006, in partial modification of earlier resolution, the Company is in the process of merging the subsidiary HCL Infinet Ltd., comprising of Telecommunication and Office Automation segment, with the company with effect from April 1, 2006, through a Composite Scheme of Arrangement, subject to the requisite approvals and sanction by Hon'ble High Court of Delhi.

**24. Additional disclosure as per Clause 32 of the Listing Agreement**

**Disclosure of amounts at the year end and the maximum amount of loans/advances/investments outstanding during the year ended 30<sup>th</sup> June, 2006.**

**A. Loans and Advances in the nature of Loans to Subsidiary.**

a. Name.	Nil
b. Balance outstanding at the year end	Nil
c. Maximum amount outstanding during the year ended 30th June, 2006	Nil

**B. Loans and Advances in the nature of loans to Fellow Subsidiaries**

a. Name	Nil
b. Balance outstanding at the year end	Nil
c. Maximum amount outstanding during the year ended 30th June, 2006	Nil

**C. Loans and Advances in the nature of loans where no interest or interest below Section 372 A of Companies Act is charged - Nil.**

Loans given to employees under various schemes of the Company have been considered to be out of purview of disclosure requirement.

**D. Loans and Advances in the nature of loans to firms/Companies in which directors are interested- Nil.**

**E. Disclosure of Investment in the Company's own shares**

a. Name of the Loanee	Nil
b. Balance outstanding at the year end	Nil
c. Maximum amount outstanding during the year ended 30th June, 2006	Nil
d. Investments made by the loanee	Nil
e. Maximum amount of Investment during the year ended 30th June, 2006	Nil

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

# BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

## Registration Details

Registration No.

0 2 3 9 5 5

State Code

5 5

Balance Sheet Date

3 0 0 6 2 0 0 6

D D M M Y Y Y Y

## Capital Raised During the Year (Amount in Rs. Thousands)

Public Issue

N I L

Rights Issue

N I L

Bonus Issue

N I L

Private Issue

N I L

## Position of Mobilisation and Deployment of funds (Amount in Rs. Thousands)

Total Liabilities

6 1 8 5 2 6 8

## Sources of Funds

Paid-up Capital

3 3 7 4 6 1

Secured Loans

4 4 4 8 7 8

Total Assets

6 1 8 5 2 6 8

Reserves and Surplus

3 7 7 6 0 1 2

Unsecured Loans

1 5 1 1 5 0 4

## Application of Funds

Net Fixed Assets

7 9 7 0 3 4

Net Current Assets

4 0 3 4 3 0 7

Accumulated Losses

N I L

Investments

1 3 5 3 9 2 7

Misc. Expenditure

N I L

## Performance of Company

Turnover

2 3 1 1 7 1 0 9

Profit/ Loss before Tax

+ 1 3 1 5 2 4 0

Earning Per Share in Rs.

6 . 7 4

Total Expenditure

2 1 8 0 1 8 6 9

Profit/ Loss After Tax

+ 1 1 3 2 2 7 4

Dividend Rate (%)

4 0 0

## Generic Name of Three Principal Products/ Services of Company (as per monetary terms.)

Item Code No. (ITC Code)

8 4 7 1 0 0

Product Description

C O M P U T E R S

Item Code No. (ITC Code)

8 4 7 1 6 0

Product Description

C O M P U T E R P E R I P H E R A L S

## AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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### Report of the Auditors' to the Board of Directors of HCL Infosystems Limited on the Consolidated Financial Statements of HCL Infosystems Limited and its Subsidiaries.

1. We have audited the attached consolidated Balance Sheet of HCL Infosystems Limited and its subsidiaries, as at June 30, 2006 and the consolidated Profit and Loss Account and 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 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 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 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 a subsidiary, whose financial statements reflect total assets of Rs. 1.82 Crores as at June 30, 2006 and total revenue of Rs. 0.02 Crores for the year ended on that date considered in the consolidated financial statements. These financial statements and other information 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 the subsidiary, is based solely on the reports of other auditors.
4. We report that the consolidated financial statements have been prepared by HCL Infosystems Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.
5. In our opinion and to the best of our information and explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in case of the Consolidated Balance Sheet, of the consolidated state of affairs of the HCL Infosystems Limited and its subsidiaries as at June 30, 2006;
  - (b) in case of the Consolidated Profit and Loss Account, of the profits for the year ended on that date; and
  - (c) in the case of the Consolidated Cash Flow Statement, of the Cash Flows for the year ended on that date.

Place: New Delhi  
Date: 23<sup>rd</sup> August, 2006

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

# CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	<u>Schedule</u>	<u>As at 30.06.2006 Rs./Crores</u>	<u>As at 30.06.2005 Rs./Crores</u>
<b>Sources of Funds:</b>			
<b>Shareholders' Funds :</b>			
Capital	1	33.75	33.44
Reserves and Surplus	2	663.93	521.11
<b>Loan Funds:</b>			
Secured Loans	3	44.49	55.75
Unsecured Loans	4	40.15	26.10
Deferred Tax Liabilities (Net)	21 (5)	10.76	7.35
		<u>793.08</u>	<u>643.75</u>
<b>Application of Funds:</b>			
<b>Fixed Assets:</b>	5		
Gross Block		167.83	152.15
Less: Depreciation		87.55	77.19
Net Block		<u>80.28</u>	<u>74.96</u>
Capital Work-In-Progress (Including Capital Advances)		18.11	1.06
		<u>98.39</u>	76.02
<b>Investments</b>	6	294.96	143.46
<b>Current Assets, Loans &amp; Advances:</b>			
Inventories	7	469.61	349.39
Sundry Debtors	8	705.30	532.39
Cash and Bank Balances	9	214.92	251.27
Other Current Assets	10	97.25	108.12
Loans and Advances	11	55.49	45.69
		<u>1542.57</u>	<u>1286.86</u>
<b>Less: Current Liabilities &amp; Provisions</b>	12		
Current Liabilities		1086.70	808.01
Provisions		56.14	54.58
		<u>1142.84</u>	<u>862.59</u>
<b>Net Current Assets</b>		<u>399.73</u>	<u>424.27</u>
		<u>793.08</u>	<u>643.75</u>
<b>Consolidated Significant Accounting Policies</b>	20		
<b>Consolidated Notes to Accounts</b>	21		

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

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place : New Delhi  
Dated : 23<sup>rd</sup> August, 2006

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

For and on behalf of the Board of Directors

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

SUSHIL KUMAR JAIN  
Company Secretary

# CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

			Year ended 30.06.2006 Rs./Crores	Year ended 30.06.2005 Rs./Crores
	Schedule			
<b>Income</b>				
Business Income	13	11454.97	7787.17	
Less : Excise Duty		86.66	39.28	7747.89
Other Income	14	33.85		40.69
		11402.16		7788.58
<b>Expenditure</b>				
Cost of Sales and Services	15	10587.98		7140.97
Personnel	16	180.91		148.82
Administration, Selling, Distribution and Others	17	228.00		181.82
Repairs and Maintenance	18	6.99		7.03
Finance Charges	19	(0.88)		(2.92)
License fees	20 (10)	1.47		1.61
Depreciation		12.48	15.29	
Less : Transfer from Revaluation Reserve		0.05	0.05	15.24
		11016.90		7492.57
<b>Profit before Tax</b>		385.26		296.01
Tax Expense	21 (5)			
- Current [Wealth tax Rs. 0.02 Crores (2005 - Rs.0.02 Crores)]		98.53	65.11	
- Fringe Benefit		2.96	0.84	
- Deferred		3.41	2.36	68.31
<b>Profit after Tax</b>		280.36		227.70
Balance in Profit and Loss Account brought forward		360.22		263.10
<b>Profit available for Appropriation</b>		640.58		490.80
<b>Appropriations:</b>				
Proposed Dividend		33.75		33.47
Corporate Dividend Tax on Proposed Dividend		4.74		4.69
Interim Dividend		100.93		69.75
Corporate Dividend Tax on Interim Dividend		14.15		9.39
Transfer to General Reserve		11.32		13.28
Balance Carried over		475.69		360.22
<b>Earning per equity share (in Rs.)</b>				
Basic (of Rs.2/- each)	21 (12)	16.69		13.74
Diluted (of Rs.2/- each)	21 (12)	16.45		13.50
<b>Consolidated Significant Accounting Policies</b>	20			
<b>Consolidated Notes to Accounts</b>	21			

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

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

Place : New Delhi  
Dated :23<sup>rd</sup> August, 2006

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

For and on behalf of the Board of Directors

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

SUSHIL KUMAR JAIN  
Company Secretary



# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

		2006 Rs./Crores	2005 Rs./Crores
<b>1. Cash Flow from Operating Activities</b>			
<b>Profit before Tax</b>		<b>385.26</b>	<b>296.01</b>
<b>Adjustments for:</b>			
Depreciation	12.43	15.24	
(Profit)/Loss on sale of Fixed Assets(Net)	0.05	(0.16)	
(Profit)/Loss on disposal of Investments (Net)	(6.18)	(8.50)	
Interest on borrowings	13.26	7.76	
Interest and Dividend income	(11.62)	(6.88)	
Unrealised (Gain) / Loss on Foreign Exchange Fluctuation (Net)	6.50	(0.55)	
Prior period expenses (Allowances)	-	0.62	
Provision for Doubtful Debts	0.72	1.44	
Income Tax Provision for earlier years written back	(4.97)	-	
Provision/Liabilities no longer required written back	(9.48)	(8.40)	
Diminution in the value of Current Investments	0.03	0.01	
Fixed Assets written off	0.00	0.05	
Provision for Warranty Liability	7.77	3.69	
Provision for Gratuity and other Employee Benefits	3.31	11.82	7.54
<b>Operating profit before Working Capital Changes</b>		<b>397.08</b>	<b>303.55</b>
<b>Adjustments for:</b>			
Trade and Other Receivables	(172.47)	(199.34)	
Inventories	(120.22)	(68.97)	
Trade Payables and Other Liabilities	275.95	156.16	(112.15)
<b>Cash generated from Operation</b>		<b>380.34</b>	<b>191.40</b>
Direct Tax (paid)/ refund ( Net ) (Including Interest)		(101.71)	(64.65)
<b>Cash from Operating activities</b>		<b>278.63</b>	<b>126.75</b>
<b>Net Cash from Operating Activities</b>	<b>(A)</b>	<b>278.63</b>	<b>126.75</b>
<b>2. Cash Flow from Investing Activities</b>			
Interest and Dividend Received ( Gross)	11.43	3.62	
Purchase of Fixed Assets	(25.38)	(26.78)	
Sale of Fixed Assets	8.03	1.07	
Purchase of Investments	(2101.82)	(1675.66)	
Disposal/Redemption of Investments	1956.46	1759.80	
Capital Work-in-Progress (Net)	(17.05)	0.19	
<b>Net cash from / (used in) Investing activities</b>	<b>(B)</b>	<b>(168.33)</b>	<b>62.24</b>

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

	2006 Rs./Crores	2005 Rs./Crores
<b>3. Cash Flow from Financing Activities</b>		
Share Capital Issued	0.31	0.55
Interest Paid	(13.20)	(9.54)
Share Premium Received	16.08	20.97
Secured Loans-Short Term Received/(Paid)	(17.23)	16.95
Secured Loans-Long Term Received	6.00	0.00
Secured Loans-Long Term (Paid)	-	(30.27)
Unsecured Loans Received / (Paid)	14.05	23.13
Dividend Paid (including dividend tax)	(152.66)	(104.74)
<b>Net cash from Financing activities (C)</b>	<b>(146.65)</b>	<b>(82.95)</b>
Opening Balance of Cash and Cash Equivalents	251.27	145.23
Closing Balance of Cash and Cash Equivalents	214.92	251.27
[(Includes Exchange Rate Fluctuation of Rs.0.31 Crores (2005-Rs.{-0.01} Crores)]		
[Includes unclaimed dividend of Rs.2.05 Crores (2005-Rs.1.46 Crores)]		
<b>Net Increase /(Decrease) in Cash and Cash Equivalents</b>	<b>(36.35)</b>	106.04
<b>Total (A)+(B)+(C)</b>	<b>(36.35)</b>	106.04

Note -

The above Cash Flow Statement has been prepared under the indirect method set out in AS-3 issued by Institute of Chartered Accountants of India.

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

For and on behalf of the Board of Directors

V. NIJHAWAN  
Partner  
Membership Number F-87228  
For and on behalf of  
Price Waterhouse  
Chartered Accountants

AJAI CHOWDHRY  
Chairman and  
Chief Executive Officer

S. BHATTACHARYA  
Director

Place : New Delhi  
Dated : 23<sup>rd</sup> August, 2006

SUSHIL KUMAR JAIN  
Company Secretary

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>1- Capital</b>		
(Schedule-21, Note 6)		
<b>Authorised:</b>		
40,00,00,000 (2005 - 40,00,00,000) Equity shares of Rs. 2/- each	80.00	80.00
5,00,000 (2005 - 5,00,000) Preference Shares of Rs. 100/- each	5.00	5.00
	<b>85.00</b>	<b>85.00</b>
<b>Issued, Subscribed and Paid up:</b>		
16,87,29,255 Equity shares of Rs. 2/- each, fully paid up. (2005 - 16,71,81,770 Equity shares of Rs. 2/- each, fully paid up)	33.75	33.44
Add : Shares Forfeited [Represents Rs. 1,000 (2005- Rs. 1,000)]	0.00	0.00
	<b>33.75</b>	<b>33.44</b>

Notes:-

- 1 Paid up share capital includes :
  - a) 5,04,47,295 Equity Shares of Rs. 2/- each (2005 - 5,04,47,295 Equity Shares of Rs. 2/- each) issued pursuant to contract without payment being received in cash.
  - b) 5,31,82,765 Equity Shares of Rs. 2/- each (2005 - 5,31,82,765 Equity Shares of Rs. 2/- each) Bonus shares issued from Securities Premium Account.
  - c) 91,81,960 Equity Shares of Rs. 2/- each (2005 - 76,34,475 Equity Shares of Rs. 2/- each) issued pursuant to the exercise of options granted under ESOP Scheme 2000.
- 2 Of the above subscribed shares, 7,46,51,388 Equity Shares of Rs. 2/- each (2005 - 8,30,19,205 Equity Shares of Rs. 2/- each) are held by HCL Corporation Limited.

<b>2- Reserves and Surplus</b>	As At 01.07.2005 Rs./Crore	Additions/ Adjustments Rs./Crore	Deductions/ Adjustments Rs./Crore	As At 30.06.2006 Rs./Crore
Capital Reserve [Represents Rs. 37135 (2005 - Rs. 37135)]	0.00 (0.00)	- ( - )	- ( - )	0.00 (0.00)
Securities Premium Account	88.37 (67.40)	16.08 (20.97)	- ( - )	104.45 (88.37)
General Reserve	69.50 (56.22)	11.32 (13.28)	0.00 ( - )	80.82 (69.50)
Revaluation Reserve (Adj.)	3.01 (3.06)	- ( - )	0.05 (0.05)	2.96 (3.01)
Profit and Loss Account	360.23 (263.10)	115.47 (97.13)	- ( - )	475.70 (360.23)
	<b>521.11</b> (389.78)	<b>142.87</b> (131.38)	<b>0.05</b> (0.05)	<b>663.93</b> (521.11)

Note: Previous year's figures are given in brackets.

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>3- Secured Loans</b>		
<b>Loans and Advances from Banks:</b>		
- Interest accrued and due	—	0.04
- Cash Credits	—	5.79
- Foreign Currency Loan		
External Commercial Borrowings	13.49	5.55
Others	—	4.37
- Term Loan		
Others	31.00	40.00
	<b>44.49</b>	<b>55.75</b>

Notes:-

- 1) Cash Credits along with non-fund based facilities from Banks are secured by way of hypothecation of stock-in-trade, book debts as first charge and by way of second charge on all the immovable and movable assets of the Company. The charge ranks pari-passu amongst Bankers.
- 2) Term loan from a Bank is secured by way of hypothecation of all movable current assets. The charge ranks pari-passu with company's bankers.
- 3) Amount payable within one year from the Balance Sheet date is Rs.38.49 Crores (2005- Rs.49.96 Crores)

### 4- Unsecured Loans

Public Deposits	0.09	0.10
Interest accrued and due	0.01	0.02
<b>Short Term Loans and Advances:</b>		
- From Banks -Commercial Paper	40.00	25.00
<b>Other Loans and Advances:</b>		
- From a Financial Institution	0.04	0.60
<b>Deferred Lease Obligations</b>	0.01	0.38
	<b>40.15</b>	<b>26.10</b>

Notes:-

- 1) Amount payable within one year is Rs. 40.04 Crores (2005 - Rs. 25.93 Crores )
- 2) Public Deposits represent matured deposits.

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

### 5- Fixed Assets

(Schedule - 21, Note 2)

Rs./Crores

	Gross Block				Depreciation				Net Block	
	As at 01.07.2005	Additions/Adjustments during the Year	Deductions/Adjustments/ Retired during the Year	As at 30.06.2006	As at 01.07.2005	Additions/ Adjustments during the Year	Deductions during the Year	As at 30.06.2006	As at 30.06.2006	As at 30.06.2005
<b>Tangible:</b>										
Land-Leasehold	6.51	-	-	6.51	0.30	0.09	-	0.39	6.12	6.21
Land-Freehold	3.20	1.81	-	5.01	-	-	-	-	5.01	3.20
Buildings	38.20	10.27	0.60	47.87	9.26	1.07	-	10.33	37.54	28.94
Plant & Machinery and Air Conditioners	54.75	8.51	0.39	62.87	37.18	6.58	0.13	43.63	19.24	17.57
Furniture, Fixtures and Office Equipment	34.88	4.46	0.73	38.61	26.19	4.44	0.65	29.98	8.63	8.69
Vehicles	2.38	-	0.99	1.39	1.56	0.25	0.90	0.91	0.48	0.82
<b>Intangible :</b>										
Goodwill	-	0.02	-	0.02	-	-	-	-	0.02	-
Acquired Software	2.23	0.82	-	3.05	2.23	0.08	-	2.31	0.74	-
License Fees	10.00	-	7.50	2.50	0.47	-	0.47	-	2.50	9.53
<b>TOTAL</b>	<b>152.15</b>	<b>25.89</b>	<b>10.21</b>	<b>167.83</b>	<b>77.19</b>	<b>12.51</b>	<b>2.15</b>	<b>87.55</b>	<b>80.28</b>	<b>74.96</b>
Previous Year	150.40	26.76	25.01	152.15	85.95	15.29	24.05	77.19		
Capital Work-In-Progress									18.11	1.06
									98.39	76.02

[Including Capital Advances of Rs.7.18 Crores (2005-Rs.0.51 Crores)]

#### Notes :

- Land-Freehold and Building at Ambattur amounting to Rs. 0.57 Crores (2005-Rs. 0.57Crores) and Building at Mumbai amounting to Rs. 0.91 Crores (2005-Rs. 0.91 Crores) are pending registration in the name of the Group.
- Addition to Plant and Machinery includes Rs. Nil (2005-Rs. 0.01 Crores) representing restatement of assets during the year due to exchange rate fluctuation.
- Additions to Gross Block and Accumulated Depreciation include Rs. 1.81 Crores (2005-Rs. Nil) and Rs. 0.03 Crores (2005-Rs. Nil) respectively, on account of assets acquired on acquisition of Microcomp Ltd.

### 6- Investments

	As at 30.06.2005 Units	As at 30.06.2006 Units	Face Value Rs.	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>Unquoted (Others) Current :</b>					
<b>Growth Options</b>					
Birla Floating Rate Fund - Long Term Plan	4183930	3191338	10	3.50	4.50
DSPML Liquidity Fund	-	24315	1000	2.51	-
DSPML Floating Rate Fund	7681674	880475	10	1.00	8.25
Grindlays Cash Fund	7978267	-	10	-	10.00
Grindlays Fixed Maturity Plan	-	12768365	10	12.77	-
Grindlays Floating Rate - Long Term Plan	11934925	-	10	-	12.06
Grindlays Floating Rate - Short Term Plan	446030	446030	10	0.50	0.50
HSBC Income Fund - Short Term Plan	4526398	-	10	-	5.15
HSBC Cash Fund	3100088	13463187	10	15.00	3.50
HDFC Floating Rate Fund - Short Term Plan	4589908	-	10	-	5.04
JM Floater Fund - Long Term Plan	994085	-	10	-	1.00
Kotal Floating Rate Fund - Short Term Plan	-	890274	10	1.00	-
Pru ICICI Floating Rate Plan	10119035	3809140	10	3.96	10.65
Prudential ICICI Liquid Plan	6930529	13091297	10	23.00	11.49
Prudential ICICI Short Term Plan	4481353	-	10	-	5.65
Prudential ICICI Blended Plan - B	5000000	5000000	10	5.00	5.00
Reliance Fixed Maturity Fund	2517039	2001834	10	2.00	2.52
Reliance Floating Rate Fund	992349	-	10	-	1.00
Standard Chartered Liquidity Manager Plus	-	246636	1000	25.00	-
Templeton Floating Rate Income Fund - Long Term Plan	10362168	12224031	10	12.64	11.97
Templeton India Treasury Management Account	-	72382	1000	8.00	-
Templeton India Short Term Fund	40932	-	10	-	5.00

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2005 Unit	As at 30.06.2006 Units	Face Value Rs.	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>Dividend Options</b>					
Grindlays Cash Fund	14830755	6962854	10	7.15	15.12
DSP Merrill Lynch Liquidity Fund	-	151872	1000	15.19	-
Templeton India Treasury Management Account	50083	149990	10	15.02	5.01
HDFC Liquid Fund	-	20183427	10	25.08	-
Deutsche Insta Cash Plus Fund	-	15047136	10	15.16	-
Principal Cash Management Liquid Fund	10007519	15135838	10	15.14	10.01
HSBC Cash Fund	-	25022723	10	25.05	-
ABN AMRO Cash Fund	10045467	25259200	10	25.26	10.04
Prudential ICICI Floating Rate Plan - C	-	10297217	10	10.30	-
ABN AMRO Floating Rate Fund	-	10279253	10	10.28	-
Grindlays Floating Rate-Short Term Plan - C	-	10252543	10	10.31	-
DSP Merrill Lynch Floating Rate Fund	-	51376	1000	5.14	-
				<b>294.96</b>	143.46

Note :- Net asset value of Unquoted (Others) Current Investment in Mutual Funds as on 30.06.2006 is Rs. 297.49 Crores (2005 - Rs. 147.12 Crores)

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>7- Inventories</b>		
Raw Materials and Components (Including in Transit)	63.49	77.94
Stores and Spares	52.55	43.16
Finished Goods (Including in Transit)	347.62	220.45
Work-In-Progress	5.95	7.84
	<b>469.61</b>	349.39

### 8- Sundry Debtors - Unsecured

Debts outstanding for a period exceeding six months :

- Considered Good	73.96	63.61
- Considered Doubtful	1.17	2.27
	<b>75.13</b>	65.88
Other debts		
- Considered Good	631.34	468.78
- Considered Doubtful	-	0.01
	<b>706.47</b>	534.67
Less : Provision for Doubtful Debts	1.17	2.28
	<b>705.30</b>	532.39
	<b>705.30</b>	532.39

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores		As at 30.06.2005 Rs./Crores
<b>9- Cash and Bank Balances</b>			
Cash in hand and in Transit		0.26	0.26
Cheques in hand		24.02	32.63
Balances with Scheduled Banks :			
- On Current Account	130.33		108.13
Less :- Money held in Trust	0.40	129.93	0.76
- On Dividend Account		2.05	1.46
- On Margin Account		0.41	0.39
- On Fixed Deposits	58.59		109.51
Less :- Money held in Trust	0.34	58.25	0.35
		214.92	251.27

Note:- Fixed Deposit includes Rs.0.07 Crores (2005 - Rs.0.07 Crores) under lien as margin money on bank guarantee.

### 10- Other Current Assets

(Schedule-21, Notes 3(c), 7 and 8)

Deposits	18.81	13.90
Prepaid Expenses	14.60	16.30
Lease Rental Recoverable	62.52	77.92
Unbilled Revenue	1.32	-
	97.25	108.12

### 11- Loans and Advances

#### Unsecured Considered Good

- Amounts recoverable in cash or in kind or for value to be received	46.81	40.05
- Balances with Customs, Port Trust, Excise and Sales Tax Authorities	8.68	5.64
	55.49	45.69

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	As at 30.06.2006 Rs./Crores	As at 30.06.2005 Rs./Crores
<b>12- Current Liabilities and Provisions</b>		
[Schedule -21, Notes 4(a) and (b)]		
<b>Current Liabilities:</b>		
Acceptances	283.64	241.80
Sundry Creditors :		
- Due to SSI Undertakings	1.96	1.30
- Others	594.52	408.79
Sundry Deposits	2.46	2.71
Interest accrued but not due :		
- On Secured Loans	0.16	0.05
- On Unsecured Loans	-	-
Investor Education and Protection Fund :		
- Unclaimed Dividend *	2.05	1.47
Advances from Customers	14.63	12.47
Deferred Revenue	131.49	96.58
Other Liabilities	55.79	42.84
	<b>1086.70</b>	<b>808.01</b>
<b>Provisions:</b>		
Proposed Dividend	33.75	33.47
Corporate Dividend Tax on Proposed Dividend	4.74	4.69
Provision for Income Tax [Net of Advance Income Tax of Rs.197.12 Crores (2005 - Rs.100.21 Crores)]	3.00	3.40
For Warranty Liability	2.82	2.97
For Gratuity and other Employee Benefits	11.83	10.05
	<b>56.14</b>	<b>54.58</b>
	<b>1142.84</b>	<b>862.59</b>

\* There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at 30th June, 2006. These amounts shall be credited and paid to the fund as and when due.



## SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	Year ended 30.06.2006 Rs./Crores	Year ended 30.06.2005 Rs./Crores
<b>13- Business Income</b>		
Sales and Related Income	11180.90	7548.77
Services	274.07	238.40
	<u>11454.97</u>	<u>7787.17</u>
<b>14- Other Income</b>		
Interest :		
- Refund from Income Tax Authority	0.17	1.50
- On Others	0.09	0.06
Dividend from (Others) Current Investments	6.40	2.37
Insurance Claims	0.40	0.37
Income Tax Provision for earlier years written back	4.97	-
Provisions/Liabilities no longer required written back	9.48	8.40
Profit on Sale of Fixed Assets (Net)	-	0.16
Profit on disposal of (Others) Current Investments (Net)	6.18	8.50
Profit on Foreign Exchange Fluctuation (Net)	-	14.50
Miscellaneous Income	6.16	4.83
	<u>33.85</u>	<u>40.69</u>
<b>15- Cost of Sales and Services</b>		
[Schedule-21 , Note 9]		
Raw Materials and Components Consumed	1210.77	980.48
Purchase of Finished Goods and Services (Net)	9358.48	6089.65
Stores and Spares Consumed	32.47	23.60
Power and Fuel	1.41	1.22
Labour and Processing Charges	3.93	4.42
Royalty (Net)	106.20	88.80
	<u>10713.26</u>	<u>7188.17</u>
(Increase)/Decrease in stocks of Finished Goods and Work - In - Progress :		
Closing Stock		
- Finished Goods (Including in Transit)	347.62	220.45
[Includes excise duty of Rs.3.53 Crores (2005 - Nil)]		
- Work - In - Progress	5.95	7.84
	<u>353.57</u>	<u>228.29</u>
Opening stock		
- Finished Goods (Including in Transit)	220.45	172.39
[Includes excise duty of Rs.Nil (2005 - Nil)]		
- Work - In - Progress	7.84	8.70
	<u>228.29</u>	<u>181.09</u>
	<u>(125.28)</u>	<u>(47.20)</u>
	<u>10587.98</u>	<u>7140.97</u>

# SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	Year ended 30.06.2006 Rs./Crores	Year ended 30.06.2005 Rs./Crores
<b>16- Personnel</b>		
Salaries, Wages, Allowances, Bonus and Gratuity	169.62	138.84
Contribution to Provident Fund and Other Funds	6.35	5.41
Staff Welfare Expenses	4.94	3.95
Prior period expenses (Allowances)	-	0.62
	<u>180.91</u>	<u>148.82</u>
<b>17- Administration, Selling, Distribution and Others</b> [Schedule-21, Notes 7(b)]		
Rent	9.76	8.90
Rates and Taxes	10.61	16.47
Printing and Stationery	3.47	3.40
Communication	8.60	7.64
Travelling and Conveyance	21.76	18.64
Packing, Freight and Forwarding	42.49	31.36
Legal and Professional	10.06	8.96
Training and Conference	4.13	3.34
Office Electricity and Water	5.96	5.13
Insurance	13.21	12.07
Advertisement, Publicity and Entertainment (Net of Reimbursements)	40.61	25.36
Hire Charges	1.28	0.86
Commission on Sales	16.10	14.70
Bank Charges	7.35	7.83
Provision for Doubtful Debts	0.72	1.44
Loss on Sale of Fixed Assets (Net)	0.05	-
Fixed Assets Written Off	-	0.05
Loss on Foreign Exchange Fluctuation (Net)	14.44	-
Diminution in value of Current Investment	0.03	0.01
Miscellaneous	17.37	15.66
	<u>228.00</u>	<u>181.82</u>
<b>18- Repairs and Maintenance</b>		
Plant and Machinery	1.05	1.28
Buildings	0.21	0.53
Others	5.73	5.22
	<u>6.99</u>	<u>7.03</u>
<b>19- Finance Charges</b> [Schedule-21, Note 7]		
Interest paid :		
- On Fixed Loans	7.44	2.25
- On Others	5.82	5.51
	<u>13.26</u>	<u>7.76</u>
Less : Interest received :		
- On Lease Rental	7.47	7.73
- On Fixed Deposits	4.92	2.91
[TDS Rs. 0.64 Crores (2005 - Rs. 0.56 Crores)]		
- On Other Loans and Advances	0.04	0.04
- On Others	1.71	
	<u>14.14</u>	<u>10.68</u>
	<u>(0.88)</u>	<u>(2.92)</u>

# SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

## SCHEDULE 20 - CONSOLIDATED SIGNIFICANT ACCOUNTING POLICIES

### 1. BASIS OF ACCOUNTING AND CONSOLIDATION

The Consolidated Financial Statements of HCL Infosystems Ltd and its subsidiary are prepared under historical cost convention in accordance with generally accepted accounting principles applicable in India and Accounting Standard 21 on Consolidation of Financial Statements issued by the Institute of Chartered Accountants of India to the extent possible in the same format as that adopted by the Parent Company (HCL Infosystems Ltd) for its separate financial statements.

Intra-group balances and intra-group transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intra-group transactions are also eliminated unless cost can be recovered.

### 2. FIXED ASSETS

Fixed Assets including in-house capitalisation and Capital Work-in-Progress are stated at cost except those which are revalued from time to time on the basis of current replacement cost / value to the Company, net of depreciation.

Assets taken on finance lease on or after 1.4.2001 are stated at fair value of the assets or present value of minimum lease payments whichever is lower.

Intangible Assets are stated at cost net of amortization.

### 3. DEPRECIATION

Depreciation has been calculated under Straight Line Method on:

- (i) a) Buildings capitalised prior to 1.5.1986 at the rates computed in the respective years of acquisition of those assets as per Section 205(2)(b) of the Companies Act, 1956.
- b) Assets acquired on or after 1.5.1986 and before 16.12.93 on a prorata basis at the rates specified in Schedule XIV of the Companies (Amendment) Act, 1988. These assets are subject to annual technical evaluation for their economic useful life and additional depreciation is charged if there is any reduction in economic useful life as re-evaluated.
- c) Assets acquired on and after 16.12.1993 on a prorata basis based on economic useful life determined by way of periodical technical evaluation. Economic useful lives which are not exceeding those stipulated in Schedule XIV of the Companies Act, 1956 are as under:

Plant and machinery	4-6	years
Building - Factory	25-28	years
- Others	50-58	years
Furniture & Fixture	4-6	years
Air Conditioners	3-6	years
Vehicles	4-6	years
Office Equipment	3-6	years
Networking equipment	3-6	years
Computers	3-5	years

- d) The assets taken on finance lease on or after 1<sup>st</sup> April, 2001 over their expected useful lives.

- (ii) Leasehold land, premises and improvements are amortised over the primary lease period.

- (iii) Intangible Assets are amortised over a period of 1-3 years.

- (iv) The one-time licence fee capitalised is amortised equally over the balance period of license from the date of payment of license fee.

### 4. INVESTMENTS

Current Investments are carried at lower of cost or fair value.

### 5. INVENTORIES

Raw Materials and components held for use in the production of inventories and Work-in-progress are valued at cost if the finished goods in which they will be incorporated are expected to be sold at or above cost. If there is a decline in the price of materials / components and it is estimated that the cost of finished goods will exceed the net realisable value, the materials / components / Work-in-progress are written down to net realisable value measured on the basis of their replacement cost.

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

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Finished Goods are valued at lower of cost and net realisable value.

Cost of Finished Goods and Work in Progress includes direct labour and proportionate overhead expenses. Cost is determined on the basis of weighted average.

Stores and Spares are valued at lower of cost and net realisable value. Adequate adjustments are made to the carrying value for obsolescence.

Goods in Transit are valued inclusive of custom duty, where applicable.

### 6. FOREIGN CURRENCY

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transactions.

Foreign currency monetary assets and liabilities are restated at the exchange rates prevailing at the year end and the overall net gain/loss including those arising out of fluctuations in exchange rates on settlement during the period is adjusted to the Profit and Loss Account, except in cases of liabilities relating to acquisition of fixed assets which are adjusted in the cost of respective assets.

Foreign currency monetary assets and liabilities covered by forward contracts are stated at the forward contract rates and the difference between the forward rate and the exchange rate at the inception of the forward contract is recognised in the Profit and Loss Account over the life of the contract, except in cases of liabilities relating to acquisition of fixed assets which are adjusted in the cost of respective assets.

### 7. RETIREMENT BENEFITS TO EMPLOYEES

- a) 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.
- b) The contributions towards recognised Provident Fund and Superannuation Fund are accounted for on accrual basis.
- c) The Group has no further obligations beyond the yearly provisions and contributions.

### 8. REVENUE RECOGNITION

- a) Sales, net of discount, are inclusive of excise duty and the related revenue is recognised (after providing for expenses to be incurred connected to such sales) on transfer of all significant risks and rewards to the customer and when no significant uncertainty exists regarding realisation of the consideration.
- b) 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.
- c) Service income includes income
  - i) From maintenance of products and facilities under maintenance agreements, and extended warranty, which is recognised upon creation of contractual obligations rateably over the period of contract, where no significant uncertainty exists regarding realisation of the consideration.
  - ii) From software services
    - (a) The revenue from time and material contracts is recognised based on the time spent as per the terms of contracts.
    - (b) In case of fixed priced contracts revenue is recognised on percentage of completion basis. Foreseeable losses, if any, on contract completion are recognised immediately.
  - iii) Internet Access services: Revenue is recognised on the basis of actual usage of hours by the customer or over the period of the validity of the pack based on the customer agreements.
  - iv) Virtual private networks: Revenue is recognised on proportionate basis over the period of contract with the customer. One time charges recovered from the customers are recognised as revenue at the commencement of service.
  - v) Technical help desk: The Group is engaged in providing technical and administrative help desk support to its various customers through the Web. Revenue for the same has been recognised based on fulfilling obligations as contracted in the respective agreements.

## **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT**

### **9. GOVERNMENT GRANTS**

Revenue grants where reasonable certainty exists that the ultimate collection will be made are recognized on a systematic basis in profit and loss statement over the periods necessary to match them with the related cost which they are intended to compensate.

### **10. LICENCE FEES – REVENUE SHARE**

With effect from December 16th, 2004 the variable licence fee computed at prescribed rate of revenue share is being charged to the Profit and Loss Account in the year in which the related revenue from the Company's Networking and Internet related products and services segment arises.

### **11. LEASES**

- a) Lease transactions entered into prior to April 1, 2001 by the parent and its Indian subsidiary:
  - i) Assets leased out are stated at cost and amortised over the primary lease period.
  - ii) Lease rentals in respect to the assets taken/given on lease are recognised in the Profit and Loss Account on accrual basis.
- b) Other lease transactions
  - i) Assets taken under leases where the Company has substantially all the risks and rewards of ownership are classified as Finance leases. Such assets are capitalised at the inception of the lease at the lower of fair value or the present value of minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on outstanding liability for each period.
  - ii) Assets taken on leases where significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the Profit and Loss Account on straight line basis over the lease term.
  - iii) Profit on sale and leaseback transactions is recognised over the period of the lease.
  - iv) Assets given under finance lease are recognised as receivables at an amount equal to the net investment in the lease. Inventories given on finance lease are recognised as deemed sale at fair value. Lease income is recognised over the period of the lease so as to yield a constant rate of return on the net investment in the lease.
  - v) Assets leased out under operating leases are capitalised. Rental income is recognised on accrual basis over the lease term.
  - vi) Initial direct costs relating to the finance lease transactions are included as part of the amount capitalised as an asset under the lease.

### **12. SEGMENT ACCOUNTING**

The segment accounting policy is in accordance with the policies consistently used in the preparation of financial statements of the Group. The basis of reporting is as follows: -

- a) Revenue and expenses distinctly identifiable to a segment are recognised in that segment. Identified expenses include direct material, labour, overheads and depreciation on Fixed Assets. Expenses that are identifiable with/ allocable to segments have been considered for determining segment results.

Allocated expenses include support function costs which are allocated to the segments in proportion of the services rendered by them to each of the business segments. Depreciation on Fixed Assets is allocated to the segments on the basis of their proportionate usage.
- b) Unallocated expenses/income are enterprise expenses/income, which are not attributable or allocable to any of the business segment.
- c) Assets and liabilities which arise as a result of operating activities of the segment are recognised in that segment. Fixed Assets which are exclusively used by the segment or allocated on a reasonable basis are also included.
- d) Unallocated assets and liabilities are those which are not attributable or allocable to any of the segments and includes liquid assets like Investments, Bank Deposits and Investments in assets given on finance lease.
- e) Segment revenue resulting from transactions with other business segments is accounted on the basis of transfer price which is at par with the prevailing market price.

## **SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT**

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### **13. BORROWING COSTS**

Borrowing costs to the extent related /attributable to the acquisition/construction of assets that necessarily take substantial period of time to get ready for their intended use are capitalised along with the respective fixed asset up to the date such asset is ready for use. Other borrowing costs are charged to the Profit and Loss Account.

### **14. 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.

### **15. 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.

### **16. EMPLOYEE STOCK OPTION SCHEME**

The Company calculates the employee stock compensation expense based on the intrinsic value method wherein the excess of market price of underlying equity shares as on the date of the grant of options over the exercise price of the options given to employees under the Employee Stock Option Scheme of the Company, is recognised as deferred stock compensation expense and is amortised over the vesting period on the basis of generally accepted accounting principles in accordance with the guidelines of Securities and Exchange Board of India.

# SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

## SCHEDULE 21 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The Consolidated Financial Statements have been prepared in accordance with the Accounting Standard (AS) 21- "Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

The subsidiaries (which along with HCL Infosystems Ltd., the parent, constitutes the Group), considered in preparation of Consolidated Financial Statements is as under: -

Name of the Subsidiary Company	Country of Incorporation	Extent of holding (%) as at 30 <sup>th</sup> June	
		2006	2005
HCL Infinet Ltd.	India	100	100
Microcomp Ltd.*	India	100	—

\* A wholly owned subsidiary of HCL Infinet Ltd., acquired during the year.

- Estimated value of contracts remaining to be executed on capital account and not provided for (net of advances) are Rs.1.37 Crores (2005 - Rs 0.73 Crores)
- Contingent Liabilities:

a) Claims not acknowledged as debts for:

	2006 Rs./Crores	2005 Rs./Crores
Sales Tax*	6.29	15.42
Excise*	-	0.64
Income Tax*	0.54	0.54
Industrial Disputes, Civil Suits and Consumer Disputes	6.58	6.09

\*Against the above, the Company has deposited a sum of Rs.1.58 Crores (2005- Rs.1.33 Crores)

- Corporate Guarantee of Rs 324.50 Crores (2005 - Rs.274.50 Crores) was given to Banks for working capital facilities sanctioned to the 100% subsidiary, against which total amount utilized is Rs.279.69 Crores (2005 - Rs.197.30 Crores).
  - During the year the company has transferred Financial Assets (Lease Rental Recoverable) of Rs.47.62 Crores (2005 – Rs.Nil) to a bank under a financing arrangement. The transfer of these Financial Assets is with recourse on the Company.
- The company has the following provisions involving substantial estimation:

(a) Warranty Provision:

	2006 Rs./Crores	2005 Rs./Crores
Opening Balance as on 1 <sup>st</sup> July	2.97	6.61
Additions during the year	7.77	3.69
Utilised / Reversed during the year	7.92	7.33
Closing Balance as on 30 <sup>th</sup> June	2.82	2.97

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

The cost for warranty to be provided beyond one year will be accounted for as and when the related warranty revenue amounting to Rs. 60.23 Crores (2005 - Rs. 35.08 Crores) is recognized.

(b) Sales Schemes Provision

	2006 Rs./Crores	2005 Rs./Crores
Opening Balance as on 1 <sup>st</sup> July	7.55	-
Additions during the year	36.34	23.13
Utilised / Reversed during the year	25.42	15.58
Closing Balance as on 30 <sup>th</sup> June	18.47	7.55

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### 5. Taxation:

The significant components and classification of deferred tax asset and liability on account of timing differences as at 30<sup>th</sup> June are as follows:

Deferred tax assets	2006 Rs./Crores		2005 Rs./Crores	
Allowances for doubtful debts	0.64		0.64	
Demerger Scheme Expenses	0.08		0.13	
Expense accruals	5.05		3.90	
Other timing differences	0.05	5.82	0.08	4.75
<b>Deferred tax liabilities</b>				
Depreciation/Amortisation	0.61		7.58	
Lease adjustments	11.39		1.56	
Other timing differences	4.58	16.58	2.96	12.10
<b>Deferred tax liability (Net)</b>		<b>10.76</b>		<b>7.35</b>

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

The Company has established Employee Stock Option Scheme 2000 and Employee Stock Based Compensation Plan 2005, for a total grant of 31,90,200 and 33,35,487 options respectively to the employees of the Company and its subsidiary. These options vest over a period of 42 and 60 months respectively from the date of grant and are to be exercised within a maximum period of 5 years from the date of vesting.

The Board of Directors/Committee approves the grant of options, including for lapsed options.

Each option confers on the employee a right to five equity shares of Rs. 2/- each.

Exercise Price is market price as specified in the Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by the Securities and Exchange Board of India ("SEBI").

#### Details of Grants made under Employee Stock Option Scheme 2000.

Date of grant	Exercise price	Options outstanding at the beginning of the year	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options expired during the year	Options outstanding at the end of the year	Options exercisable at the end of the year
10-Aug-00	289.00	84894	-	-	36327	600	47967	47967
		(401506)	(-)	(-)	(316612)	(-)	(84894)	(84894)
28-Jan-04	538.15	987304	-	62202	226373	7118	691611	278366
		(1438524)	(-)	(215999)	(229869)	(5352)	(987304)	(154028)
25-Aug-04	603.95	171758	-	-	30817	24849	116092	18886
		(-)	(226118)	(-)	(-)	(54360)	(171758)	(-)
18-Jan-05	809.85	272950	-	13596	15480	-	243874	63645
		(-)	(291860)	(18910)	(-)	(-)	(272950)	(-)
15-Feb-05	809.30	8400	-	3080	500	-	4820	2020
		(-)	(23920)	(15520)	(-)	(-)	(8400)	(-)
15-Mar-05	834.40	57416	-	4896	-	-	52520	16361
		(-)	(60216)	(2800)	(-)	(-)	(57416)	(-)
15-Apr-05	789.85	23384	-	4672	-	-	18712	6151
		(-)	(23384)	(-)	(-)	(-)	(23384)	(-)
14-May-05	770.15	17400	-	8160	-	-	9240	2772
		(-)	(17400)	(-)	(-)	(-)	(17400)	(-)
15-Jun-05	756.15	18400	-	4800	-	-	13600	4080
		(-)	(20960)	(2560)	(-)	(-)	(18400)	(-)
15-Jul-05	978.75	-	27440	1280	-	-	26160	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
13-Aug-05	1144.00	-	33310	6080	-	-	27230	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
15-Sep-05	1271.25	-	13620	-	-	-	13620	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
							<b>1265446</b>	<b>440248</b>
							(1641906)	(238922)

Note: Previous year's figures are given in brackets.



## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### Details of Grant made under Employee Stock Based Compensation Plan 2005.

Date of grant	Exercise price	Options outstanding at the beginning of the year	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options expired during the year	Options outstanding at the end of the year	Options exercisable at the end of the year
13-Aug-05	1144.00	-	3196840	375060	-	-	2821780	-
19-Oct-05	1157.50	-	107010	24690	-	-	82320	-
15-Nov-05	1267.75	-	51810	4430	-	-	47380	-
15-Dec-05	1348.25	-	56200	7200	-	-	49000	-
14-Jan-06	1300.00	-	59140	4920	-	-	54220	-
15-Feb-06	1308.00	-	10940	1310	-	-	9630	-
16-Mar-06	1031.00	-	47840	1500	-	-	46340	-
17-Apr-06	868.75	-	35260	1500	-	-	33760	-
15-May-06	842.50	-	38100	0	-	-	38100	-
15-Jun-06	620.50	-	54740	0	-	-	54740	-
							<b>3237270</b>	

The fair value of each stock option granted under Employee Stock Option Scheme 2000 and Employee Stock Based Compensation Plan 2005, as on the date of grant has been computed using Black- Scholes Option Pricing Formula and the model inputs are given as under:

	Employee Stock Option Plan 2000	Employee Stock Based Compensation Plan 2005
Volatility	49% to 68%	47% to 62%
Risk free rate	4.57% to 6.81%	6.49% to 7.49%
Exercise Price	538.15 to 1271.25	620.50 to 1348.25
Time to Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	11% to 21%	10% to 23%
Life of options	8.5 Years	10 Years
Fair Value of options as at the grant date	Rs 735.77 to Rs 2035.28	Rs 841.25 to Rs 2256.95

#### Notes:

1. Volatility: Based on historical volatility in the share price movement of the Company.
2. Risk Free Rate: Being the interest rate applicable for maturity equal to the expected life of options based on yield curve for Government Securities.
3. Time to Maturity: Vesting period and volatility of the underlying equity shares have been considered for estimation.
4. Dividend Yield: Based on historical dividend payouts.

The impact on the profit of the Company for the year ended June 30, 2006 and the basic and diluted earnings per share had the Company followed the fair value method of accounting for stock options is set out below:

	Rs./Crores
Profit/(Loss) after tax as per Profit and Loss Account (a)	280.36
Add: Employee Stock Compensation Expense as per Intrinsic Value Method	-
Less: Employee Stock Compensation Expense as per Fair Value Method	20.36
Profit/(Loss) after tax recomputed for recognition of employee stock compensation Expense under fair value method (b)	260.00
Earning Per Share based on earnings as per (a) above: (Refer Note 12)	
- Basic	16.69
- Diluted	16.45
Earning Per Share had fair value method been employed for accounting of employee stock options:	
- Basic	15.48
- Diluted	15.25

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### 7. Leases :

#### (a) Finance Leases:

- (i) Assets acquired under sale and leaseback arrangements comprise mainly computers and office equipment. There are no exceptional/ restrictive covenants in the lease agreements.
- (ii) The Group has given on finance lease certain assets/inventories. These comprise computers and office equipment. These leases have a primary period, which are fixed and non-cancelable. There are no exceptional/ restrictive covenants in the lease agreements.
- (iii) The gross investment in the assets given on finance lease as at 30<sup>th</sup> June, 2006 and its present value as at that date are as follows [Refer Note 3(c)]:

	Total minimum lease payments receivable Rs./Crores	Interest included in minimum lease payments receivable Rs./Crores	Present value of minimum lease payments receivable Rs./Crores
Not later than one year	<b>25.45</b> (26.49)	<b>5.00</b> (6.81)	<b>20.45</b> (19.68)
Later than one year and not later than five years	<b>47.43</b> (68.66)	<b>5.36</b> (10.42)	<b>42.07</b> (58.24)
Total	<b>72.88</b> (95.15)	<b>10.36</b> (17.23)	<b>62.52</b> (77.92)

[includes minimum sub lease receivable Rs.0.07 Crores (2005 – Rs.0.77 Crores)]

Note: Previous year's figures are given in brackets.

#### (b) Operating Leases:

##### (i) Cancelable Operating leases

- (a) The Group has taken various residential/ commercial premises under cancelable operating leases. These leases are normally renewable on expiry.
- (b) The rental expense in respect of operating leases is Rs.9.76 Crores (2005 - Rs.8.90 Crores).

##### (ii) Non- cancelable leases

(a) The future minimum lease payments under non- cancelable operating leases are:	<b>Rs./Crores</b>
Not later than one year	<b>2.35</b> (0.23)
Later than one year and not later than five years	<b>6.22</b> (0.92)
Total	<b>8.57</b> (1.15)
(b) Lease Payments recognized in the Profit & Loss Account for the year ended 30 <sup>th</sup> June, 2006.	
Minimum Lease Payments	<b>0.60</b> (0.18)
Contingent Rents	-

Note: Previous year's figures are given in brackets.

8. Unaccrued forward exchange cover as on 30<sup>th</sup> June 2006 of Rs.0.24 Crores (2005 - Rs.0.03 Crores) has been included in prepaid expenses.
9. Duty drawback recognized during the year of Rs.2.14 Crores (2005 - Rs.5.76 Crores) has been adjusted against cost of sales and services.
10. Disclosure of related parties/ related party transactions.

#### (i) Company having substantial interest:

HCL Corporation Ltd. due to substantial interest in the voting power

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### (ii) Related parties with whom transactions have taken place during the year and/or where balances exist

- HCL Technologies Ltd
- HCL Comnet Ltd.
- HCL Technologies BPO services Ltd.\*
- HCL Technologies (Mumbai) Ltd.\*
- DSL Software Ltd.\*
- Shipara Technologies Ltd\*
- HCL Technologies (Malaysia) Sdn Bhd
- Infosystems (Europe) Ltd.
- HCL Singapore Pte. Limited
- HCL Peripherals Ltd
- HCL Infosolutions Ltd.
- HCL Comnet Systems and Services Ltd.
- HCL Office Automation Limited.

\* Amalgamated with HCL Technologies Ltd. during the year.

#### Others (where there is significant influence):

SSN College of Engineering

OWNHCL Trust (Dissolved during the year)

Note: Parties with whom transactions are more than 10% of the total value have been disclosed separately.

### (iii) Key Management Personnel

#### a) Directors:

Mr. Ajai Chowdhry

Mr. T.S. Purushothaman\*

Mr. Ravi Thumboochetty\*\*

Mr. J. V. Ramamurthy\*\*\*

\* Ceased to be whole time director w.e.f. 20<sup>th</sup> July 05

\*\* Ceased to be whole time director w.e.f. 10<sup>th</sup> August 05

\*\*\* Appointed as whole time director w.e.f. 11<sup>th</sup> August 05

#### b) Other Key Management Personnel:

Mr. George Paul

Mr. Hari Bhaskaran

Mr. J. V. Ramamurthy

Mr. K. R. Radhakrishnan\*

Mr. Manohar Lal Taneja\*\*

Mr. Rajeev Asija

Mr. Rajendra Kumar

Mr. Rakesh Mehta

Mr. Sandeep Kanwar

Mr. S. Pattabiraman

Mr. Suman Ghose Hazra

\* Ceased to be Company Secretary w.e.f. 30<sup>th</sup> April 06

\*\* Retired w.e.f. 1<sup>st</sup> July 06

### (iv) Summary of Related party disclosures

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

# SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

## Summary of Consolidated Related Party Disclosures

A. Transactions	(Rs./Crores)							
	Company having Substantial interest		Associates & Others		Key Management Personnel		Total	
	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05
Sales & Related Income	0.40	0.54	55.79	43.95			56.19	44.49
- HCL Technologies Ltd.			38.81	34.70				
- HCL Technologies BPO Services Ltd.			8.54	4.73				
- HCL Comnet Ltd.			6.07	3.48				
Services	0.00	0.01	7.64	9.52			7.64	9.53
- HCL Technologies Ltd.			6.41	8.72				
Other Income			1.00	0.99			1.00	0.99
- HCL Technologies Ltd.			0.96	0.99				
Purchase of Goods			0.32	0.30			0.32	0.30
- HCL Technologies Ltd.			0.32	0.07				
Purchase of Services			4.80	9.83			4.80	9.83
- HCL Technologies Ltd.			2.38	3.83				
- HCL Comnet Ltd.			1.71	5.39				
Bad Debts written off			0.16	0.04			0.16	0.04
- HCL Technologies Ltd.			0.13	0.02				
- HCL Technologies BPO Services Ltd.			0.03	0.03				
- HCL Comnet Ltd.				(0.02)				
Assets (Capital work-in-progress) Sold at cost			11.92				11.92	
- HCL Technologies Ltd.			11.92					
Remuneration					7.63	6.50	7.63	6.50
Reimbursements towards expenditure								
a) Received	0.04	0.03	0.19	0.64			0.23	0.67
- HCL Technologies Ltd.			0.14	0.54				
- HCL Comnet Ltd.			0.05	0.09				
b) Made	0.05	0.02	0.29	0.01			0.34	0.03
- HCL Technologies Ltd.			0.27					
- Network Ltd.				0.01				
<b>B. Amount due to / from related parties</b>								
	Company having Substantial interest		Associates & Others		Key Management Personnel		Total	
	June-06	June-05	June-06	June-05	June-06	June-05	June-06	June-05
Accounts Receivables	0.17	0.54	10.43	4.95			10.60	5.49
Loans & Advances & Other Recoverables			1.04	0.63			1.04	0.63
Creditors			0.99	1.38			0.99	1.38
Other Payables	0.01	0.00	1.35	0.57		0.08	1.36	0.65

## 11. Segment Reporting

The Group recognizes the following segments as its primary segments.

- The operations of Product & Related Services consists of sale of Computer Hardware & system integration products and providing a comprehensive range of IT services, including system maintenance and facility management in different industries.
- The businesses of Telecom products, Office Automation and services consist of sale of telecommunication products, office equipment products and related comprehensive maintenance services.
- Internet & Related Services include Internet related products & services consist of Internet Access services, Virtual Private Network, other connectivity services and sale of related hardware.

Secondary segmental reporting is based on the geographical location of the customers. Details of secondary segments are not disclosed as more than 90% of the Company's revenues, results and assets relate to the domestic market.

# SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

Consolidated Segment wise performance for the year ended 30th June, 2006

Rs./ Crores

	Primary Segments	Products & Related Services		Internet & Related Services	Inter-segment Elimination	Total
		Computer Systems & Other Related Products	Tele-commu-nication & Office Automation			
(i)	<b>Revenue</b>					
	External Revenue	2378.26	9040.76	35.95		<b>11454.97</b>
		(1968.26)	(5776.98)	(41.93)		(7787.17)
	Intersegment Revenue	3.10	9.05	1.18	-13.33	
		(2.68)	(2.32)	(1.30)	(-6.30)	
	Total Gross Revenue	2381.36	9049.81	37.13	-13.33	<b>11454.97</b>
		(1970.94)	(5779.30)	(43.23)	(-6.30)	(7787.17)
	Less: Excise Duty	86.66				<b>86.66</b>
		(39.28)				(39.28)
	Total Net Revenue	2294.70	9049.81	37.13	-13.33	<b>11368.31</b>
		(1931.66)	(5779.30)	(43.23)	(-6.30)	(7747.89)
(ii)	<b>Results</b>	125.50	243.96	4.47		<b>373.93</b>
		(137.82)	(146.53)	(1.66)		(286.01)
	Less: Unallocable Expenditure					<b>8.79</b>
						(9.45)
	Operating Profit					<b>365.14</b>
						(276.56)
	Add: Other Income (Excluding Operational Income)					<b>19.24</b>
						(16.53)
	Less: Interest (Net)					<b>-0.88</b>
						(-2.92)
	Profit Before Tax					<b>385.26</b>
						(296.01)
	Less: Tax Expense					
	- Current Tax					<b>98.53</b>
						(65.11)
	- Deferred Tax					<b>3.41</b>
						(2.36)
	- Fringe Benefit Tax					<b>2.96</b>
						(0.84)
	Profit After Tax					<b>280.36</b>
						(227.70)
(iii)	<b>Segment Assets</b>	950.62	518.30	20.71		<b>1489.63</b>
		(722.73)	(420.17)	(24.14)		(1167.04)
	Unallocated Corporate Assets					
	a) Liquid Assets					<b>353.55</b>
						(253.01)
	b) Others (including investment in assets given on finance lease)					<b>92.75</b>
						(86.29)
	<b>Total Assets</b>					<b>1935.93</b>
						(1506.34)
(iv)	<b>Segment Liabilities</b>	563.93	519.53	16.10		<b>1099.56</b>
		(424.68)	(381.37)	(14.32)		(820.37)
	Unallocated Corporate Liabilities					
	a) Current Liabilities					<b>43.28</b>
						(42.22)
	b) Deferred Tax Liabilities					<b>10.76</b>
						(7.35)
	c) Loan Funds					<b>84.64</b>
						(81.86)
	<b>Total Liabilities</b>					<b>1238.24</b>
						(951.80)
(v)	<b>Capital Expenditure</b>	15.71	5.75	1.67		<b>23.13</b>
		(10.70)	(2.68)	(13.37)		(26.75)
(vi)	<b>Depreciation</b>	6.37	2.37	3.42		<b>12.16</b>
		(6.27)	(1.98)	(7.09)		(15.34)
(vii)	<b>Other Non Cash Expenses</b>	16.61	8.07	1.33		<b>26.01</b>
		(4.48)	(0.69)	(1.50)		(6.67)

Note: Previous year's figures are given in brackets

## SCHEDULES TO THE CONSOLIDATED BALANCE SHEET & PROFIT AND LOSS ACCOUNT

### 12. Earnings per share (EPS)

The earnings considered in ascertaining the Group's earnings per share comprise net profit for the year after tax. Basic earnings per share are computed and disclosed using the weighted average number of equity shares outstanding during the 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:

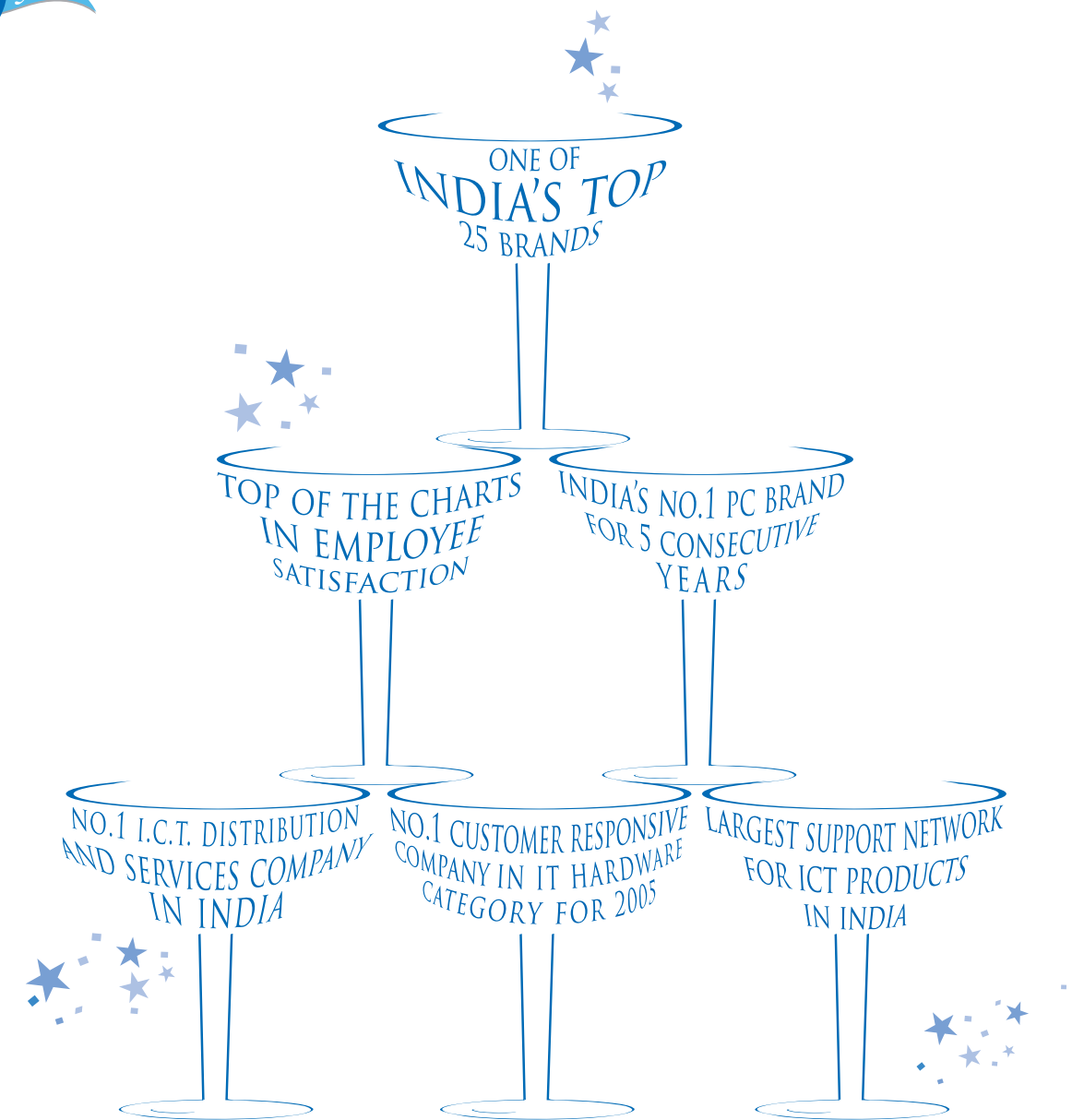
Particulars	30.06.2006	30.06.2005
Profit after tax (Rs./ Crores)	280.36	227.70
<b>Weighted average number of shares considered as outstanding in computation of Basic EPS</b>	<b>1,68,003,132</b>	1,65,774,340
Add dilutive impact of stock options:		
- Exercised	305,092	643,166
- Lapsed	81,881	192,410
- Issued for no consideration	2,088,028	2,049,190
<b>Weighted average number of shares outstanding in computation of Diluted EPS</b>	<b>1,70,478,133</b>	1,68,659,106
Basic EPS (of Rs 2/- each)	Rs.16.69	Rs.13.74
Diluted EPS (of Rs 2/- each)	Rs.16.45	Rs.13.50

13. As approved by the Board of Directors through resolution dated 26<sup>th</sup> July, 2006, in partial modification of earlier resolution, the Company is in the process of merging the subsidiary HCL Infinet Ltd., comprising of Telecommunication and Office Automation segment, with the company with effect from April 1, 2006, through a Composite Scheme of Arrangement, subject to the requisite approvals and sanction by Hon'ble High Court of Delhi.

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

**Financial Summary of HCL Infinet Limited, a wholly owned subsidiary as at 30th June, 2006**

<b>Particulars</b>	<b>Amount in Rs. 2005-06</b>
Share Capital	195067570
Reserves	2870698006
Total Assets	3065765576
Total Liabilities	3065765576
Details of investment (including investment of Rs. 1.68 Cr in subsidiary)	1807532377
Turnover	91098893367
Profit before taxation	2540003736
Provision for taxation/Deferred Tax Charge/(credit)	866005822
Profit After Taxation	1673997914
Proposed Dividend	-



**Celebrating 30 years of success**

**HCL**

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