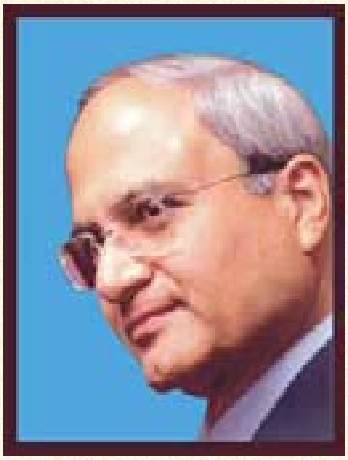
HCL INFOSYSTEMS LTD.

ANNUAL REPORT 2006-07

TECHNOLOGY
that touches ***lives.***

HCL



Dear Stakeholder,

I wish everyone a very happy 60th year of independence ….

15th August 1947, the day when India eventually achieved its long cherished freedom from the British. And today 60 years hence, we are still a developing country. It is definitely high time that we became a developed nation. The time has come that we recognize the power of Information & Communication Technology (ICT) in transforming our country.

ICT is virtually the life line that will comprehensively chart the growth of our country and its people. ICT has the potential & power to transform the life of the common man of this country. Today ICT is accelerating the spread of education & literacy, delivering better governance & creating employment opportunities. Beyond this, ICT forms the core of almost all industries, across verticals, which will enable India achieve its super power dream.

Right from our inception, HCL has been committed to accelerating the growth of ICT in the country. Enroute our journey of over three decades, we have created markets and entrepreneurs, created relationships, accomplished path-breaking milestones in technology, and created some of the biggest brands in India.

While doing so, your Company today has created the **largest distribution & retail network** of the country and our wide range of ICT offerings and domain knowledge of multi-technologies drawn over the years has enabled us to be the leaders in **Systems Integration and high end ICT Consulting Services.** I am proud to share with you that your Company is **India's largest direct sales organization** aptly backed by the **nation's most extensive & wide spread direct service support network.**

Our branding campaign **'*Technology that Touches Lives',*** further reaffirms our commitment to deepen the penetration of ICT in the country, technology that bridges the remotest parts of India, technology that imparts training and education to make Indians future ready for the ICT environment of tomorrow, technology that brings the best in global brands to the Indian customers.

The last year saw HCL 'Leaptops' leaping to the top amongst the top three brands in the **mobile computing segment.** Our holistic approach towards ICT leadership has come full circle with the launch of **HCL Career Development Centers** to create highly skilled IT professionals to meet the growing demand in the IT sector across the country.

I appreciate your unstinted support in our grit and determination to lead this quest for building the nation.

With warm regards,

Ajai Chowdhry

CORPORATE INFORMATION

BOARD OF DIRECTORS	**Chairman & Chief Executive Officer** Ajai Chowdhry **Whole-time Director** J.V. Ramamurthy **Directors** S. Bhattacharya D.S. Puri R.P. Khosla E.A. Kshirsagar Anita Ramachandran T.S. Purushothaman Narasimhan Jegadeesh V.N. Koura
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, Puducherry - 605 111. ♦ R.S. Nos: 107/5, 6 & 7, Main Road, Sedarapet, Puducherry - 605 111. ♦ Plot No 78, South Phase, Ambattur Industrial Estate, Chennai - 600 058. ♦ Plot No SPL. A2, Thattanchavadi, Industrial Area, Puducherry - 605 009. ♦ Plot Nos. 1, 2, 27 & 28, Sector 5, 11E, Rudrapur, Distt. - Udham Singh Nagar, Uttarakhand - 263 145.

FIVE YEAR FINANCIAL OVERVIEW

Revenue and Profitability (Consolidated)

Rs/Crores

YEAR ENDED JUNE 30	**2007**	2006	2005	2004	2003
Total Revenue	**11855**	11455	7787	4412	2705
PBIDT	**454**	396	308	238	137
Interest	**10**	(1)	(3)	9	7
Depreciation	**15**	12	15	18	18
Effect of Impairment	**0**	0	0	0	34
Profit before Tax	**429**	385	296	211	78
Provision for Tax	**113**	105	68	36	(15)
Profit after Tax (PAT)	**316**	280	228	175	93
Profit available for Appropriation	**792**	640	491	352	220
Equity Dividend	**135**	135	103	68	32
Basic Earning Per Share (Rs.)*	**18.7**	16.7	13.7	10.9	5.8
PBIDT (%)	**4%**	3%	4%	5%	5%
Profit before Tax/Revenue (%)	**4%**	3%	4%	5%	3%
Return on Net worth (%)#	**37%**	40%	41%	41%	31%
Return on Capital Employed (%)#	**40%**	48%	46%	44%	21%
Equity Dividend (%)	**400 ****	400	310	210	100

*** Based 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 "PBIT"

Assets and Liabilities (Consolidated)

Rs./Crores

AS AT JUNE 30	**2007**	2006	2005	2004	2003
Sources of Funds					
Equity Funds	**34**	34	33	33	32
Reserves and Surplus	**826**	664	521	390	265
Loan Funds	**236**	84	82	72	118
Deferred Tax Liabilities (Net)	**12**	11	7	5	(10)
Total	**1108**	793	643	500	405
Application of Funds					
Net block	**151**	98	76	66	66
Investments	**272**	295	143	219	219
Current Assets	**2160**	1543	1287	912	676
Current Liabilities	**1475**	1143	863	697	556
Net Current Assets	**685**	400	424	215	120
Total	**1108**	793	643	500	405

To the Members,

Your Directors have pleasure in presenting their Twenty First Annual Report together with the Audited Accounts for the financial year ended 30th June, 2007.

Financial Highlights

(Rs. in Crores)

Particulars		Consolidated		Parent Company	
		2006-07	2005-06	**2006-07**	2005-06
Net Sales and other income		**11735.78**	11402.16	**11696.85**	2311.71
Profit before Interest, Depreciation and Tax		**454.02**	396.81	**453.09**	142.84
Finance Charges		**10.50**	(-) 0.88	**10.55**	4.57
Depreciation		**14.81**	12.43	**12.55**	6.75
Profit before Tax		**428.71**	385.26	**429.99**	131.52
Provision for Taxation:	Current	**105.90**	98.53	**105.90**	11.61
	Fringe Benefit	**4.15**	2.96	**4.03**	1.96
	Deferred	**2.71**	3.41	**2.21**	4.73
Net Profit after Tax		**315.95**	280.36	**317.85**	113.22
Profit available for appropriation		**791.64**	640.58	**777.10**	354.25
Appropriations					
Interim Dividend (includes tax on dividend)		**116.61**	115.08	**116.61**	115.08
Proposed Dividend (includes tax on dividend)		**39.67**	38.49	**39.67**	38.49
Transfer to General Reserve		**31.79**	11.32	**31.79**	11.32
Balance of Profit carried forward to next year		**603.57**	475.69	**589.03**	189.36

Scheme of Arrangement

During the year under review, a composite Scheme of Arrangement u/s 391/394 of the Companies Act 1956, (the Scheme) for demerger of the Networking business of HCL Infinet Limited, the wholly owned subsidiary, into Microcomp Limited and amalgamation of HCL Infinet Limited, with its residual Telecommunication and Office Automation business with the Company was approved by the Hon'ble High Court of Delhi vide its order dated March 20, 2007, which came into effect from closing business hours on March 31, 2007 from the appointed date i.e. April 1, 2006.

Accordingly, the results of the Company on standalone basis (in Parent Company) for the year ended June 30, 2007 includes the results of Telecommunication and Office Automation business, for the 15 months period from April 1, 2006 to June 30, 2007 and are not comparable with those of the previous year. Please also refer to 'Note 24' on Scheme of Arrangement given in Notes to Accounts in this report.

Performance

The consolidated net revenue of the Company was Rs. 11735.78 crores as against Rs. 11402.16 crores in the previous year. The consolidated profit before tax was Rs. 428.71 crores as against Rs. 385.26 crores in the previous year.

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 30th June, 2007. During the first nine months, three interim (quarterly) dividends of 100% each were declared taking the total dividend for the year 2006-07 to 400%.

Operations

A review of operations of the businesses of your Company for the year ended June 30, 2007 is provided in the attached Management Discussion and Analysis Report.

Quality Initiatives

During the year, there have been several achievements on the quality initiatives front.

HCL fared very well in customer satisfaction surveys as it scored high on factors like customer orientation, product quality, sales & marketing, product pricing & commercials, delivery & order fulfillment and prompt after sales service & support at critical times etc.

The survey also highlighted that HCL is strongly associated with "Comprehensive end to end service offerings as per ICT needs" and "The company that values customer's time". Also HCL has emerged as the top vendor on all the parameters for vendor selection of hardware supply and hardware support services.

In terms of brand disposition vis-à-vis the competitors, HCL emerged as the strongest brand.

Puducherry Manufacturing Organisation facilities recertified for QMS – ISO 9001-2000 and EMS – ISO 14001-2004.

Uttarakhand Manufacturing Organisation facilities certified for QMS – ISO 9001-2000 and EMS – ISO 14001-2004.

Awards

During the year HCL was awarded '**IMM Top Organization Award 2007**' for excellence by Institute of Marketing & Management; **'India's Most Preferred Personal Computer Brand'** by CNBC Awaaz Consumer Awards; **'Amity Corporate Excellence Award 2007'** for its distinct vision, innovation, competitiveness and sustenance by Amity Business School, **'Channels Choice Award 2007'** for Relationship Management and After Sales Support by IDC DQ Channels based on the IDC channel satisfaction survey. HCL featured amongst the **'Top 3 IT Hardware Companies'** in India's 100 Most Valuable Brands by Planman Consulting & ICMR Research, **'Brand of Excellence Award'** in the VARIndia IT Forum – 2007, **'Top 3 Most**

Preferred Brands' in CNBC Awaaz Survey; Recognized as winners in '**Top 500 Fastest Growing Technology Companies in Asia Pacific 2006'**, '**Top 50 Fastest Growing Technology Companies in India 2006'** by Deloitte & Touche; **'Top Performance In The Computer Hardware & Peripherals Sector'** by Dun & Bradstreet Awards 2006.

Employee Stock Option Plan

Employees Stock Option Plan 2000

Pursuant to the approval of the shareholders at the Extra-Ordinary General Meeting held on 25th 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. Each option confers on the employee a right for five equity shares of Rs. 2/- each.

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.

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, 2007, 43 depositors whose deposits amounting to Rs. 6.17 Lacs had become due for repayment did not claim their deposits. During the year, fixed deposits amounting to Rs. 0.20 Lacs, including interest of Rs. 0.07 Lacs, have been repaid to the depositors. Deposits amounting to Rs. 3.26 Lacs, including interest of Rs. 0.50 Lacs, have been transferred to Investment Education and Protection Fund pursuant to the provisions of Section 205A of the Companies Act, 1956.

De-listing of Equity Shares

The shares of the Company have been de-listed from Calcutta Stock Exchange Association Limited, Kolkata. The shares have already been delisted from 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, Mumbai.

Directors

In accordance with the Articles of Association of the Company, Mr. T.S. Purshothaman, Mr. J.V. Ramamurthy and Mr. R.P. Khosla, 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:

a. in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;

b. appropriate accounting policies have been selected and applied consistently and that the judgments 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, 2007 and of the profit of the Company for the said period;

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; and

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 overall third rank in IDC- Dataquest Best Employer Survey 2006 by obtaining the second highest employee satisfaction score.

Your company successfully participated in Best Companies Survey 2006, conducted by BT, Mercer & TNS and was short-listed as one of the top 25 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

Projects undertaken through affiliations with various NGOs continue to bring help and happiness to the lives of under privileged children and elderly.

Various events have been undertaken including sponsorship & participation in fund raising events, blood donation camps, donation of computers to deserving students etc.

Initiatives like participating in exclusive job fairs for people with disabilities, providing additional facilities and support have been undertaken to promote employment of people with disabilities.

- 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 shrine of India. HCL has implemented ICT infrastructure services & solutions like 24X7 call centre with multi language call support, touch screen kiosks at 13 locations providing all the necessary information pertaining to the temple, accommodation available status, darshan seva status facilitating easy information access for the pilgrims. Apart from these, HCL has provided bio-metric cards for all the employees of the temple. The card which also has the photo of their family, can be used for all multiple purposes like identification, attendance and also for availing free medical services. Also, HCL has deployed 42 surveillance cameras at the temple for security and better vigilance of the shrine.

At Tiruchendur, HCL has computerized the ticketing process, the lodging facility at the temple, wait list status etc. thus facilitating the pilgrims visiting the temple.

- **Environment Management Initiatives**

HCL under its eSafe policy has formulated an EMS (Environment Management System) with the aim to identify, develop and sustain the maintenance of an environment management process at corporate level thereby assuring our commitment in delivering quality products, solutions and services to our customers.

The HCL eSafe comprehensively covers the company's e-waste management policy for internal and external e-waste management, its policy on 'Restricted Materials' under RoHS and integration of environment management processes in manufacturing facilities for energy conservation and protection of natural resources.

The program also covers customer and employee awareness initiatives for e-waste management to facilitate the process of recovery, safe recycling and disposal of e-waste.

Your company has pioneered a number of initiatives in environment management which include:

- Being the first company in India to have **ISO 14001 compliance.**
- **First company in India to have a comprehensive policy on WEEE** (Waste of Electrical and Electronic Equipment) for end-of-life products to be recovered and recycled in an environment friendly manner. To dispose/recycle e-waste generated either at HCL facilities or at the customer end, your company has tied up with government authorized recyclers for e-waste recovery and recycling in an environmentally safe manner.
- **First company in India to launch RoHS compliant laptops**. All HCL Laptops are RoHS compliant and your company will shortly be announcing HCL range of desktops that are fully RoHS compliant.
- Your company is actively encouraging its suppliers to restrict other hazardous chemicals such as PVC & BFR and is closely following up technological developments in this area.
- **HCL's "Best Assured" campaign** is targeted against the counterfeit industry and import of secondhand components that is adding to India's e-waste problems.
- Your company has a well defined customer awareness program through which users are informed/updated about the various environment management processes.

- **HCL Mindia ™**

'Mindia' is HCL's unique inimitable tribute to the prowess of the Indian Mind. At HCL, we believe that it is the great Indian mind that is responsible for our country's standing and growth, today. To celebrate the prowess of the Indian Mind, HCL has enunciated the concept of Mindia.

- HCL Mind Conclaves

The HCL Mind Conclaves aim to bring on an interactive platform where illustrious minds of India share their perspective about the greatness & distinctness of the Indian Mind. HCL Mind Conclaves are a series of events organized across the country to propagate the thought 'Mindia'. The Conclave has already covered 22 cities across the country since its initiation in January 2004.

This year HCL Mind Conclaves saw talks by eminent personalities of Ludhiana, Guwahati and Patna from the fields of Defence, Research & Corporate World. Some of the prominent speakers at HCL Mind Conclaves this year were Dr. S.K. Salwan, Vice Chancellor, Punjab Technical University, Mr. V.K. Goyal, Chief Executive, Vardhaman Spinning & General Mills Ltd, Mr. M.C. Munjal, Managing Director, Majestic Auto Ltd., Dr. Gautam Baruah, Director IIT, Guwahati, Mr. D. N. Bezbaruah, Editor 'The Sentinel', Dr. Abhya Anand, ADG Police, Patna, Mr. Shyam Sharma, Ex Principal - Patna Arts College. The events were very well received by the audience.

- **HCL Concert Series**

HCL Concert Series is yet another initiative of HCL, conceived in 1998 in association with India Habitat Centre, Delhi. By virtue of this initiative HCL promotes and encourages Indian performing arts and provides a platform to renowned as well as upcoming talents of the country.

It was a proud moment last year when 'HCL Concert Series' was taken to South India and was launched in Chennai in association with The Music Academy, Madras. Ever since then, one program per month is held at the Music Academy. Very recently we organized the 'HCL Expressions of the Mind', a special program of HCL Concert Series in Chennai too. The event was a grand success. The 'HCL Expressions of the Mind', New Delhi, held on 17th August 2007, coincided with the country's 60th year of independence celebrations & was a grand sucess.

The series have featured the finest names like Sonal Mansingh, Madhavi Mudgal, Bharati Shivaji, Madhup Mudgal, Padmashri Raja & Radha Reddy and Rita Ganguly to name a few.

- **Affirmative Action by HCL**

As a company with presence in more than 360 locations across India, we believe that equal opportunity in employment for all sections of society and diversity of workforce is a key component of growth and competitiveness. We recruit talented young people from every part of the country including from B/C cities and rural areas. Campus recruitments that form a large proportion of our total recruitments are not restricted to only major cities or Engineering Colleges but also include remote locations and Diploma Institutes. Rigorous induction training including technical knowledge & communication skills, further encourages the enhancement of capabilities and competitive skills.

As a result of these initiatives, of a large sample taken, more than one-fifth of candidates selected by the company in the year 2006-2007 were observed to be from SC / ST / OBC.

The inclusive work culture at HCL encourages performance through empowerment providing equal opportunities of growth for all employees.

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 Company (Disclosure of Particulars in the Report of the Board of Directors) Rules,1988, is appended to and forms part of this report.

Particulars of subsidiaries

On the Scheme of Arrangement becoming effective, Microcomp Limited and Stelmac Engineering Private Limited (the wholly owned subsidiaries of the erstwhile HCL Infinet Limited) have become wholly owned subsidiaries of the Company.

The name of the Microcomp Limited has been changed to HCL Infinet Limited.

A Scheme of Amalgamation of Stelmac Engineering Private Limited, the wholly owned subsidiary, with the Company has been filed u/s 391-394 of the Companies Act, 1956 with Hon'ble Delhi High Court. As directed by the Hon'ble Court, the Court convened meetings of secured and unsecured creditors of the Company to approve the Scheme shall be held on September 22, 2007. The Scheme on its sanction by creditors, the Hon'ble High Court and after other necessary approvals shall be effective from April 1, 2007.

The Company has obtained permission from the Ministry of Company Affairs, Government of India, vide their letter No. 47/196/2007-CL-III dated May 11, 2007 for not annexing the accounts of HCL Infinet Limited and Stelmac Engineering Private Limited, the wholly owned subsidiaries of the Company.

The detailed annual accounts of the subsidiaries 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 wishes to place on record its gratitude to the valued Customers, Members and Investing public for the continued support and confidence reposed in the Company.

On behalf of the Board of Directors

AJAI CHOWDHRY
Chairman and Chief Executive Officer.

August 23, 2007

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

Under HCL eSafe policy, energy conservation has been a key area of work to reduce power consumption in products and employing measures in manufacturing of products to minimize energy consumption.

HCL eSafe Policy clearly recognizes the importance of products that are energy efficient and help customers cut costs of ownership and attain broader goals of protecting the environment. All our products have been incorporated with Green PC features and ACPI mode for power saving. Apart from this all HCL products are 'Energy star' compliant that makes products conserve and optimize use of energy.

All our manufacturing facilities practice various measures to reduce power consumption by using natural light during daytime, installing different capacity DG sets that consume optimum amount of diesel as per required load.

1. Made S3 as the default sleep state in all the products shipped with Microsoft Windows OS, so that the product automatically enters into standby state after specified amount of system in-activity.
2. Use of displacement ventilation, minimizing Air-conditioning usage.
3. Compliance for MPR-II certification for CRT monitors.
4. Compliance for TCO'03 certification for LCD monitors.
5. Organization has gone for Energy star certification for all it desktop / notebook products.
6. Initiated actions for moving to SMPS with active or passive power factor correction.
7. Initiated actions for moving to 80plus high efficiency SMPS as option.
8. Adopting new generation Intel's low power consuming CPU's.
9. Adopted DDR2 memories in almost all the products lowering the power consumption.
10. Periodic energy audit for optimum utilization of power consumption.
11. Use of pull cord switch for lights for individual control.
12. Rain water harvesting.
13. Using of natural light during daytime for general lighting, thereby reducing energy consumption.
14. Artesian borewell is used to draw water from 260 ft below, without use of electricity.
15. Sourcing cabinets in SKD form and assembling inhouse, allowed us to increase the number of units per pallet, which translated into less energy requirement to ship each cabinet.
16. Except special products, all the product manuals moved to e-manual in CDROM, reducing paper consumption.
17. Display devices shipments shifted from cathode ray tube (CRT) monitors to flat panel displays has significantly led to less material use per unit. Flat panel display typically uses 40 to 50% less (by weight) materials when compared to conventional CRT screen and requires approximately 60% less energy in use.

B. Research & Development:

1. Product Innovation and Engineering :

The company 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, Ezeebee, Infiniti Powerlite and BeePOS.

The Company also added new product range to the home segment including models like Beanstalk Lyfestyle, Beanstalk Nano etc., which offers rich digital media experience at home.

Quad core processor based servers were launched by your Company, which support latest technologies like VT, RAS features, SAS & FBDIMM. A new 4way server was released with SAS storage too.

A new storage interface SAS was introduced in the latest servers & workstations.

The Company launched a new range of notebook computers featuring the revolutionary 'Embedded Continuity & Control' (EC2) technology named the 'HCL Non Stop Series', the new EC2-enabled notebooks are self-healing computers that are able to recover all data in less than a minute, in case of a system crash or accidental loss of data by the user.

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

The range of Windows Vista based lifestyle 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.

A laptop with EC2 technology automatically stores and updates a complete image of its own working state at regular intervals. This image is a complete record of all data, including software and user data, residing inside the computer at any given point of time. In case of a system crash, malfunction or accidental loss of data, a user can simply reload the previously recorded image and thus have the computer working exactly like it was when the image was recorded. EC2 takes less than 60 seconds to reload the complete image; therefore the computer never has a downtime of more than a minute, no matter how grave the fault was.

Servers launched with latest technologies like VT, Hi-end RAS features etc benefited the Company to address the enterprise customer needs.

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 creation of new segments.

3. Expenditure on R & D :

	(Rs./Crores)
Capital	0.17
Revenue	3.30
Total	3.47

C. Technology absorption, adaptation and innovation

The company has been constantly innovating and introducing new technologies. Reiterating its commitment as a complete ICT solutions provider, a series of new models in notebooks, servers and desktops were introduced during the year.

A new series of notebooks called the 'HCL Non Stop Series' of leaptops featuring the revolutionary 'Embedded Continuity & Control' (EC2) technology were introduced, wherein in case of a system crash or accidental loss of data by the user, these notebooks are able to recover all data in less than a minute. Notebooks supporting Core 2 Duo and Santa Rosa technology were released. HCL also launched a complete line-up of eco-efficient and environment friendly consumer and business notebooks. 'Delivering value beyond GHz', HCL leaptops offers a range of security features like HCL device lock, wireless lock, cable lock etc., to offer complete peace of mind against physical and data theft.

Latest servers based on Xeon and Quad Core technology were introduced. Server based innovations like 'Data Centre in a Box' was launched with a focused target of simplifying IT infrastructure solutions for the Small and Medium Enterprises and emerging businesses. HCL has also initiated an ISV programme where different Independent Software Vendors are working along with HCL to help SMEs build and deploy their business and infrastructure solutions on HCL's GL server platforms. Last year also saw HCL being a part of ESAA alliance, where HCL servers are validated to work with various industries' leading enterprise applications and hardware.

Desktops platforms using Core 2 Duo have been introduced. HCL also introduced India's first one terabyte PC with special focus towards professionals and consumers who use and store multimedia content. HCL also introduced desktops powered with Intel vPro Technology that delivers next generation desktop management by enabling "Out of Band Management" capabilities on desktops. It helps IT of any organization to take inventory remotely even when a PC is shut down, helps to troubleshoot problems remotely by remote installation of patches / upgrades, ensures compliance to agents (like anti-virus) by users and guards network from virus attacks by remote isolation of an infected PC.

HCL was also among the first PC vendors to launch PCs with Intel Core 2 Duo processors in India and was also among the first vendors to ship PCs pre-loaded with new Microsoft Operating System 'Windows Vista'.

For home users, HCL launched Beanstalk 2007 Collection – and once again, changed the meaning of what 'computers' can deliver. Unleashing a range of four new HCL Beanstalk digilife-enablers, this range endeavors to transform a personal computer from being a workstation to being the epicenter of 'digital lifestyle' in one's living room. HCL's Beanstalk series includes: HCL Beanstalk Nano- the super compact model which offers superb mobility and the choice to place it horizontally or vertically as per the user's needs, HCL Beanstalk Lyfestyle, HCL Beanstalk Dominator - the gaming PC, HCL Beanstalk Slim - with ultra-slim cabinet and the TFT LCD monitor.

D. Foreign exchange earnings and outgo

During the period under review, the Company's earnings in foreign currency (including deemed exports) were Rs 86.91 Crores (Previous Year Rs. 78.60 Crores). The expenditure in foreign currency including imports during the year amounted to Rs. 1955.88 Crores (Previous year Rs. 1395.05 Crores).

The details of the options granted under the HCL Infosystems Ltd., Employee Stock Option Schemes as on 30th June, 2007 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 devided 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	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 Option 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.	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 (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.
Options vested	The options granted on 10/08/2000 have already been vested.	The options have vested as under:

Scheme 2000

(i) The vesting for other options is as under

Date of Grant	Option Vested
28/01/2004	7,42,013
25/08/2004	93,628
18/01/2005	1,53,554
15/02/2005	4,116
15/03/2005	30,907
15/04/2005	10,824
14/05/2005	5,544
15/06/2005	7,632
15/07/2005	13,882
13/08/2005	16,002
15/09/2005	8,172

(ii) The vesting schedule for options granted on 15/03/2007 is as follows:-
30%-12 Months after the grant date
30%- 24 Months after the grant date
40%- 42 Months after the grant date

Scheme 2005

Date of Grant	Option Vested
13/08/2005	5,54,490
19/10/2005	15,234
15/11/2005	5,588
15/12/2005	6,454
14/01/2006	7,300
15/02/2006	1,558
16/03/2006	8,148
17/04/2006	3,640
15/05/2006	6,030
15/06/2006	6,246

The vesting schedule for the rest of the grants are as follows:-
20%-12 Months after the grant date
20%- 24 Months after the grant date
20%- 36 Months after the grant date
20%- 48 Months after the grant date
20%- 60 Months after the grant date

Options exercised

Date of Grant	Options Exercised.
10/08/2000	13,41,053
28/01/2004	5,25,701
25/08/2004	37,737
18/01/2005	16,080
15/02/2005	500

Not Yet Exercised

Total number of shares arising as a result of exercise of options.

96,05,355 equity shares of Rs. 2/- each.

Not Applicable

Options lapsed (including forfeiture)

The Details of options lapsed during the year are as under

Date of Grant	Options lapsed	Grant Price (Rs.)
10/08/2000	5072	289.00
28/01/2004	61394	538.15
25/08/2004	19553	603.95
18/01/2005	17924	809.85
15/02/2005	1320	809.30
15/03/2005	8032	834.40
15/04/2005	4864	789.85
14/05/2005	0	770.15
15/06/2005	1760	756.15
15/07/2005	7776	978.75
13/08/2005	1600	1144.00
15/09/2005	0	1271.25
15/03/2007	0	648.75

Date of Grant	Options lapsed	Grant Price (Rs.)
13/08/2005	391120	1144.00
19/10/2005	14980	1157.50
15/11/2005	24452	1267.75
15/12/2005	23740	1348.25
14/01/2006	22466	1300.00
15/02/2006	2256	1308.00
16/03/2006	6400	1031.00
17/04/2006	18360	868.75
15/05/2006	7950	842.50
15/06/2006	23230	620.50
17/07/2006	9740	673.75
15/03/2007	14000	648.75

Variance of terms of options

The pricing formula has been amended 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 means 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

Money realized by exercise of options

Rs. 70,66,88,609.30

Not Applicable

Total number of options in force

Date of Grant	Options in force	Grant price (Rs.)
10/08/2000	35195	289.00
28/01/2004	560758	538.15
25/08/2004	89619	603.95
18/01/2005	225350	809.85
15/02/2005	3500	809.30
15/03/2005	44488	834.40
15/04/2005	13848	789.85
14/05/2005	9240	770.15
15/06/2005	11840	756.15
15/07/2005	18384	978.75
13/08/2005	25630	1144.00
15/09/2005	13620	1271.25
15/03/2007	158000	648.75

Date of Grant	Options in force	Grant price (Rs.)
13/08/2005	2430660	1144.00
19/10/2005	67340	1157.50
15/11/2005	22928	1267.75
15/12/2005	25260	1348.25
14/01/2006	31754	1300.00
15/02/2006	7374	1308.00
16/03/2006	39940	1031.00
17/04/2006	15400	868.75
15/05/2006	30150	842.50
15/06/2006	31510	620.50
17/07/2006	36380	673.75
15/03/2007	431100	648.75

Employee-wise details of options granted to-	Name	No. of options	Name	No. of options
(i) Senior Management	Mr. T.S. Purushothaman (ceased to be Whole- time Director w.e.f. 20th July 2005)	40,000	Mr. J.V. Ramamurthy	7,500
			Mr. Sandeep Kanwar	7,500
			Mr. Rajendra Kumar	7,500
	Mr. J.V. Ramamurthy	45,500	Mr. Hari Baskaran	7,500
	Mr. Sandeep Kanwar	42,000	Mr. George Paul	7,500
	Mr. Rajendra Kumar	41,000	Mr. Rajiv Asija	7,500
	Mr. Hari Baskaran	31,000	Mr. Rakesh Mehta	7,500
	Mr. George Paul	30,000	Mr. Suman Ghose Hazra	7,500
	Mr. Rajiv Asija	30,000	Mr. Sushil Kumar Jain	2,500
	Mr. Rakesh Mehta	30,000		
	Mr. Suman Ghose Hazra	18,500		
(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 'Earning Per Share'	Rs. 18.68			

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 Option

The impact of this difference on profits and on EPS of the Company.

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

The impact on the profit of the Company for the year ended June 30, 2007 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:

	2007 Rs./Crore	2006 Rs./Crore
Profit /(Loss) after tax as per Profit and Loss account (a)	317.85	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 the employees of Subsidiaries Rs. 0.14 Crores)	11.25	14.63
	Profit/(Loss) after tax recomputed for recognition of employee stock compensation Expense under fair value method (b)	306.60	98.59
	Earning per share based on earnings as per (a) above : (Refer Note 21)		
	- Basic	18.82	6.74
	- Diluted	18.68	6.64
	Earning Per Share had fair value method been Employed for accounting of employee stock options:		
	- Basic	18.15	5.87
	- Diluted	18.02	5.78
Weighted average exercise price of options granted. (Rs.)	435.08	1079.64	
Weighted average fair value of options granted. (Rs.)	743.96	1226.99	
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		

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:

	Employee Stock Option Plan 2000	**Employee Stock Based Compensation Plan 2005**
Volatility	45% to 68%	47% to 62%
Risk free rate	4.57% to 7.99%	6.49% to 7.98%
Exercise Price	Rs. 538.15 to Rs. 1271.25	Rs. 620.50 to Rs. 1348.25
Time to Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	9% to 21%	10% to 23%
Life of options	8.5 Years	10 Years
Fair Value of options as at the grant date	Rs.653.45 to Rs.1436.09	Rs.667.98 to Rs.1562.97

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.

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

Camp : Bangkok
Date: August 23, 2007

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE :

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

The Company's activities are carried out in accordance with good corporate governance practices and company is constantly striving to improve them and adopt best practices.

The Company is in compliance with the requirement of the revised guidelines on corporate governance stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges.

2. BOARD OF DIRECTORS :

(i) The Company has an Executive Chairman and the number of Independent Directors being 60% and Non-Executive Directors (NEDs) being 80%, 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/she is a Director. Necessary disclosures regarding Committee position in other public companies as at June 30, 2007 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 19, 2006	No of Directorships 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	5	5	Yes	1	2	-	2
Mr. J.V. Ramamurthy (Whole-time Director)	Executive Director	5	5	Yes	-	1	-	-
Mr. R.P. Khosla	Independent & Non-Executive Director	5	4	No	-	1	-	-
Mr. S. Bhattacharya	Independent & Non-Executive Director	5	5	Yes	-	6	4	2
Mr. D.S. Puri	Promoter & Non-Executive Director	5	4	Yes	-	1	-	-
Mr. E.A. Kshirsagar	Independent & Non-Executive Director	5	5	Yes	-	3	2	1
Ms. Anita Ramachandran	Independent & Non-Executive Director	5	2	Yes	-	3	-	1
Mr. T.S. Purushothaman	Non independent & Non-Executive Director	5	5	Yes	-	-	-	-
Mr. Narasimhan Jegadeesh	Independent & Non-Executive Director	5	3	No	-	-	-	-
Mr. V.N. Koura	Independent & Non-Executive Director	5	4	No	-	4	-	1

(iv) Five 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:
23rd August 2006, 18th October 2006, 24th January 2007, 27th April 2007 and 7th June 2007.

(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.
- Show Cause, Demand, Prosecution notices and penalty notices if any, which are materially important.
- Foreign exchange exposures and steps taken by management to limit the risks of adverse exchange rate movement, if material.
- Review of operations of subsidiary companies.
- Scheme of Arrangement with and Amalgamation of the subsidiary with the Company.
- Review of related party transactions.
- To review operations.
- Review of statutory compliances.
- To note risk management procedures.
- Review of Investment policy.
- Non–compliance of any regulatory, statutory nature or listing requirements and shareholders service such as non–payment of dividend, delay in share transfer etc.
- Approval of payment of enhanced remuneration to Whole-time Directors.
- Approval of issue of corporate guarantee.
- Approval of contribution for charitable purposes.
- Acquisition of properties.
- Change in RTA.
- To adopt policy on acquisition of immovable property.

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 2006-07 on the following dates:
22nd August 2006, 18th October 2006, 24th January 2007 and 27th April 2007.

(vi) The previous Annual General Meeting of the Company was held on October 19, 2006 and it was attended by Mr. E.A. Kshirsagar, the Chairman of the Committee.

4. EMPLOYEES COMPENSATION AND EMPLOYEES 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.

(ii) The Committee met 4 times during the financial year 2006-2007 on the following dates:
10th August 2006, 18th October 2006, 24th January 2007and 26th April 2007.

(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	4
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 directors is related to their 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 1/7/2006 to 30/6/2007:

(Rs./Lacs)

Name of Director	Salary & Allowances	Perquisites	Performance linked bonus	Commission	Sitting Fees
Mr. Ajai Chowdhry	79.40	19.59	180.00	-	-
Mr. J.V. Ramamurthy*	25.25	4.25	47.00	-	-
Mr. R.P. Khosla	-	-	-	3.34	0.80
Mr. S. Bhattacharya	-	-	-	5.12	1.00
Mr. D.S. Puri	-	-	-	-	-
Mr. E.A. Kshirsagar	-	-	-	3.00	1.00
Ms. Anita Ramachandran	-	-	-	1.73	0.40
Mr. T.S. Purushothaman*	-	-	-	25.00	-
Mr. Narasimhan Jegadeesh	-	-	-	1.88	0.60
Mr. V.N. Koura	-	-	-	1.50	0.80

During the year Mr. Ajai Chowdhry and Mr. J.V. Ramamurthy were paid Performance Linked Bonus of Rs. 160 lacs and Rs.40 lacs respectively pertaining to the year 2005-06.

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

*Mr. T.S. Purushothaman and Mr. J.V. Ramamurthy were granted 40000 and 45500 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.

(viii) Details of Shares of the Company held by the non-executive Directors as on June 30, 2007 are as below:

Sl No.	Name of the Director	No. of Shares
1	Mr. D.S. Puri	48000
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 2006-2007 on the following dates:
22nd August 2006, 18th October 2006, 24th January 2007and 27th April 2007.

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

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

(v) During the year the Company received 9 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 30th June, 2007.

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 2006-07

Ajai Chowdhry
Chairman & CEO

7. UNLISTED SUBSIDIARY COMPANIES:

The Company has two unlisted wholly owned subsidiaries namely HCL Infinet Limited (formerly known as Microcomp Limited), which was incorporated on 15th September, 1975 and Stelmac Engineering Private Limited (Stelmac), which was incorporated on 13th October, 1964. Stelmac became a subsidiary of the Company during the year under review.

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 companies are regularly placed before the Board.

8. GENERAL BODY MEETINGS :

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

Financial Year	Date	Time	Location
2005-06	19/10/2006	10.00 A.M	FICCI Auditorium, 1, Tansen Marg, New Delhi-110001
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

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 19th October 2006, Special Resolutions were passed for:

- Alteration in Articles of Association with regard to increase in Authorised Capital.
- To maintain register of members, the index of members and copies of annual returns at the office of Company's Registrar and Share Transfer Agents, i.e. M/s Intime Spectrum Registry Limited (RTA) or any other RTA who may be appointed in their place.

(b) At the AGM held on 20th October 2005, Special Resolution was passed for delisting of Shares from Calcutta Stock Exchange.

(c) At the AGM held on 21st October 2004 Special Resolutions were passed for:

- Delisting of securities from Delhi Stock Exchange Association Limited and Madras Stock Exchange Limited.
- Amendment of Exercise /Pricing Formula in respect of Employees Stock Option Scheme.

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 a practicing Company Secretary, to conduct Secretarial Audit of the Company for the financial year ended June 30, 2007, 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. The Highlights of the 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 website.

d. The Management Discussion and Analysis Report forms part of the Company's Annual Report.

11. GENERAL SHAREHOLDERS' INFORMATION:

i) Annual General Meeting

Date : Tuesday, October 23, 2007

Time : 10.00 A.M.

Venue : FICCI Auditorium, 1, Tansen Marg, New Delhi-110 001.

ii) Financial Calendar (Tentative Calendar for the financial year 2007-2008)

Adoption of Results for the quarter ending September 30, 2007	: October 22, 2007
Adoption of Results for the quarter ending December 31, 2007	: January 24, 2008
Adoption of Results for the quarter ending March 31, 2008	: April 24, 2008
Adoption of Results for the quarter ending June 30, 2008	: August 21, 2008

iii) Date of Book Closure : November 1 to November 2, 2007 (both days inclusive)

iv) Dividend payment date : The Final Dividend if declared shall be paid on or before November 22, 2007

v) Listing on Stock Exchanges : National Stock Exchange of India Limited
: Bombay Stock Exchange Limited

vi) Stock Codes/Symbol

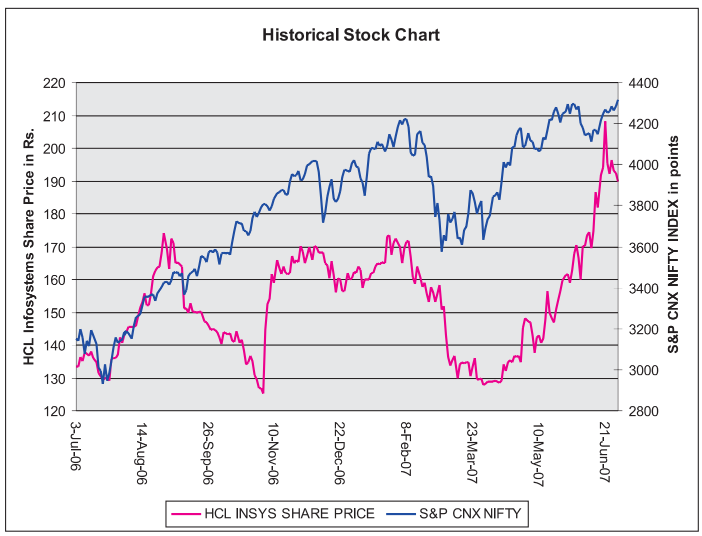
National Stock Exchange of India Ltd. : HCL-INSYS

The Bombay Stock Exchange Ltd. : Physical Form – 179
Electronic Form-500179

vii) Market price data (Rs.)

Month	High	Low
July, 2006	144.45	127.50
August, 2006	177.70	138.00
September, 2006	185.00	144.00
October, 2006	147.00	128.00
November, 2006	179.80	125.00
December, 2006	174.65	155.00
January, 2007	176.40	156.05
February, 2007	174.90	132.00
March, 2007	160.80	123.60
April, 2007	154.70	126.55
May, 2007	165.00	136.00
June, 2007	213.50	157.10

(Source : The National Stock Exchange of India Ltd.)



viii) Registrar and Share transfer agents

Name & Address : M/s Alankit Assignments Limited
Alankit House,
2E/21, Jhandewalan Extension,
New Delhi – 110 055

Phone No. : 011-23541234

Fax No. : 011-42541967

E Mail : rta@alankit.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 M/s Alankit Assignments 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.

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, 2007:

	Shareholders		Total Shares	
No. of Equity shares	**Number**	**%**	**Number**	**%**
Upto 500	28027	84.09	3984250	2.35
501-1000	2726	8.18	2169250	1.28
1001-2000	1417	4.25	2084096	1.23
2001-3000	510	1.53	1285870	0.76
3001-4000	145	0.43	517141	0.31
4001-5000	132	0.40	619732	0.37
5001-10000	189	0.57	1370265	0.81
10000 and above	185	0.55	157122046	92.89
Total	33331	100.00	169152650	100.00

xii) Shareholding pattern as on June 30, 2007:

Category	No. of shares	Percentage (%)
Promoters / Promoters Group	92,199,864	54.51
Mutual Funds/ UTI	4,916,100	2.91
Financial Institutions /Banks	4,486,996	2.65
Foreign Institutional Investors	52,368,469	30.96
Bodies Corporate	1,773,572	1.05
NRIs/OCBs	474,454	0.28
Indian Public	12,933,195	7.64
GRAND TOTAL	**169,152,650**	**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 & CDSIL. As on June 30, 2007, 97.76% 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, Puducherry - 605 111.
- R.S. Nos: 107/5, 6 & 7, Main Road, Sedarapet, Puducherry - 605 111.
- Plot No 78, South Phase, Ambattur Industrial Estate, Chennai - 600 058.
- Plot No SPL. A2, Thattanchavadi, Industrial Area, Puducherry - 605 009.
- Plot Nos. 1, 2, 27 & 28, Sector 5, 11E, Rudrapur, Distt. - Udham Singh Nagar, Uttarakhand - 263 145.

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

xvii) Company Website

The Company has its website namely 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, 2007, 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.

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

Camp : Bangkok
Date : August 23, 2007

OVERVIEW

India is likely to see strong domestic growth in the years to come. Large investments are planned across various sectors by private players, PSUs and Government.

BUSINESS OUTLOOK

IT investments in India are expected to grow at 19% CAGR, as per IDC, which is amongst the highest rates of growth in the world. As per the National eGovernance Plan (NEGP), investments of Rs. 23,000 crores are planned for next five years, for identified core projects.

Technology trends point to increasing convergence, so that different devices can be networked/managed, with a computer at the heart of every ICT solution. Reforms in Power sector are focusing on Substation Automation and Management of both Demand and Supply sides. India is becoming a hub for creativity and animation, with increased set up of Media & Entertainment stations across the country. There is Digitization in all aspects encompassing content creation, broadcasting etc. Broadband Penetration, Roll Out and Value Added Services are seeing more accelerated growth.

Infrastructure investments in the country are planned in several areas, e.g. modernization of Airports with the latest ICT equipments being deployed for Security and Vigilance, Baggage Clearance, Flight arrival and Departure Systems, Passenger and Luggage Check in systems. The Ministry of Railways has formally announced the plans for technology upgradation in Railways in areas like Passenger Information System, Automatic Train Controls, and Signaling etc.

Today, IT is playing a much larger role across the industry for e.g. the BFSI Institutions, are using IT not only to understand their customer's needs and service them better, but also to automate operations and strengthen systems. Initial steps have also been taken in the field of Health in terms of Digital Records creation, Hospital Information systems, Picture archival and control systems and tele medicine.

With consumers enjoying higher purchasing power and lifestyle preferences, these investments are creating opportunities for Technology Equipments, Digital Lifestyle products and System Integration.

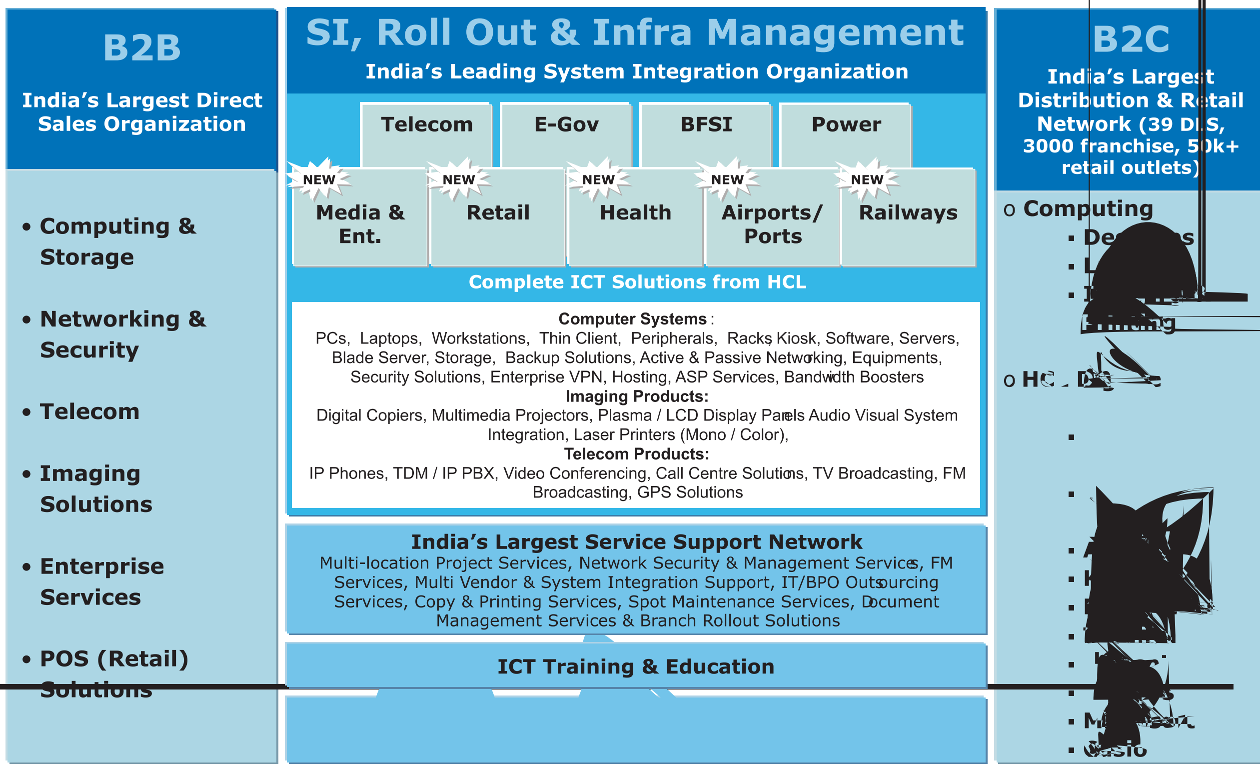
THE HCL OF TODAY

This August saw HCL completing three decades of leadership in the Indian IT Market by setting new benchmarks and creating newer markets.

HCL is today an organization that offers the full spectrum of Information Technology, Office Automation and Communication technology (ICT) products and services to its customers. HCL has been consistently ranked as a market leader in India for various product categories both its own and those of its partners. The company over the last three decades has built the country's largest multi-technology ICT Products & Services Network with a direct presence in over 360 locations across the country and an equally strong franchisee service network. Further HCL is today India's largest vertically integrated ICT manufacturing house with its state-of the-art manufacturing facilities at Rudrapur, Chennai and Puducherry.

The Company intends to leverage its core ICT competency, sales and support reach and existing account relationships to harness new opportunities in India. The Company is a leading System Integrator in Telecom, eGovernance, BFSI and Power verticals. The company has also identified new verticals for SI focus, namely Media & Entertainment, Retail, Health, Airports/Ports and Railways.

Therefore to address the growing opportunities in India and to derive more value from the assets of the company, HCL has created a new blueprint for its growth in the coming years. This is clearly articulated and represented below.



Evolving with the changing nature of ICT products and the emergence of digital lifestyle products as a new market over the last decade, HCL has built India's largest distribution and retail chain for such products. On a network of 40 HCL Digilife stores, over 3000 franchisees and more than 50,000 retail outlets in more than 5000 towns and cities of India, HCL is by far the largest value added distribution network in partnership with leading brands such as Apple, Casio, Kodak, Toshiba, Nokia, Microsoft, Konica Minolta among others. HCL Digilife stores, a new concept in our country, are a one-stop window for ICT consumers to experience a comprehensive range of digital lifestyle products, including Notebooks, PC's, digital cameras, MP3 Players, mobile phones, LCD's, Plasma TV's and related accessories.

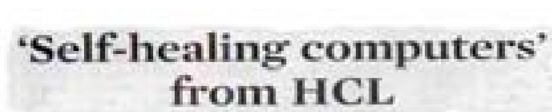
HCL has built strong internal training systems and created Hardware, Software and Networking professionals over the years. This year also marked HCL's foray into **ICT Education & Training** with the launch of HCL Career Development Centers across India. With the objective of meeting the increasing demand for skilled professionals, HCL CDCs impart students real world practical training on enterprise-wide ICT deployment and integration assignments to transform them into industry-ready professionals. HCL CDCs offer specially designed courses in high-end infrastructure hardware, middleware and networking integration.

Computer Systems and Related Services

In terms of total commercial desktop PC shipments, HCL leads the market for the financial year 2006-07.

The market for laptops has grown manifold. HCL introduced its range of laptops last year and achieved a market share of 7.4% within 12 months of launch, as per IDC Q1 07 PC QMR. This, in addition to our successful relationship with Toshiba for laptops, has created a strong product range.

The Company addressed the market for rack server, and introduced innovative products like 'Data Centre in a box' solution based on latest Xeon and Quad Core technology.


'Self-healing computers' from HCL

Designing and launching computing solutions customized as per the domestic market requirements, continues to be a strength. Among these solutions are desktops, HCL leaptops with EC2 technology, India's first PCs with one terabyte storage capacity, PCs with Windows Vista and eco-efficient and environment friendly laptops.

HCL products are customized for various user verticals which are being manufactured and tested specially for Indian conditions. 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 roll out services through its direct support infrastructure across the country saw it win, support and maintain large IT contracts. HCL products come with the HCL 'Best-Assured' seal, that assures customers that only new, original and highest quality parts and components have been used in the manufacturing.

The year also saw the inauguration of a state-of the-art HCL manufacturing facility at Rudrapur. The plant has ready capability to manufacture a wide range of ICT products - including desktops, notebooks, TFT LCD monitors and more. The plant complies with ISO 9001 and 14001 standards.

Telecommunication and Office Automation Products

During the last financial year the Company has further consolidated its position in the distribution of Nokia Cellular Phones & Digital Lifestyle products, adding Apple iPods and accessories, Kodak and Casio digital cameras and memory devices.

The year saw continued strong momentum in the growth of the GSM Mobile base. The GSM Mobile subscriber base continues to grow at the current rate of over 5 million additions per month.

On imaging products, the company retained its leadership position in sales of Digital Multifunction Products and Multimedia Projectors.

The company has enhanced its solution offering in new areas such as High Speed Printing, Document Management Solutions, Digital Signage Solutions and Fire, Security and Surveillance solutions.

Internet and related services

The Company's subsidiary, HCL Infinet Ltd. has consolidated its offerings by providing corporate networking services like Virtual Private Network, Broadband Internet Access, Internet Telephony Hosting & Co-location Services, designing and deploying Disaster Recovery solutions, Application Services managed security services & NOC services over its state-of-the-art IP/MPLS network and end-to end Contact Centre Solutions.

RISKS & CONCERNS AND RISK MITIGATION

We have a Process of tracking business risks in all areas of operation by the respective business heads. The key business risks are monitored for mitigation plan at logically defined review frequencies. Some of the key risks are mentioned hereunder.

Technology obsolescence is the key risk in the ICT industry & therefore strong inventory control mechanisms and road map tracking of all technology vendors is required. Change in the pace of overall economic growth could slow down investments in ICT and adjacent technology areas. Attrition at top levels is one of the major risks which organizations are facing today. Management of dollar vs Rupee fluctuation is also a business risk. Further, the market continues to be competitive with presence of large international players.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company has in place adequate systems for internal control that are 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 polices.

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.

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 accounting and finance, procurement, employee engagement, travel, insurance, IT processes, safeguarding of assets and their protection against unauthorized use, among others.

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.

HUMAN RESOURCE DEVELOPMENT

Many initiatives have been implemented in the past year to effectively support business objectives by maintaining a strong focus on the employee, and creating an organization that continually encourages entrepreneurship. The number of employees increased from 4323 in 2006 to 5000 in 2007. The company's strong and innovative People Practices, Policies, Systems and Processes, are aligned to enable business by initiatives that empower and engage people.

Processes like recruitment have been streamlined through comprehensive assessment techniques, while many training initiatives continue to encourage growth and development. The performance culture is further encouraged by the presence of a transparent, equitable reward and recognition mechanism.

Employee engagement remains a key focus of HR initiatives that have been undertaken by the company. Along with recreational activities, get-togethers, celebrations, many program have been organized to bring people and families together to help the underprivileged and also enjoy quality time with family. Keeping in mind the increased health risks, a comprehensive **Wellness Programme** including various initiatives like Preventive Health Check-ups, Yoga classes by experts, Healthy living Campaign has been launched. Third year running that the company has been ranked as one of the top IT Employers in India, by DQ Top 20 Best Employer Survey

DISCLAIMER

Certain statements made in this report relating to the Company's objectives, projections, outlook, estimates, etc. may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such estimates or projections etc., whether expressed or implied. Several factors including but not limited to economic conditions affecting demand and supply, government regulations and taxation, input prices, exchange rate fluctuations, etc., over which the Company does not have any direct control, could make a significant difference to the Company's operations. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned not to place undue reliance on any forward looking statements. The MD&A should be read in conjunction with the Company's financial statements included herein and the notes thereto. Information provided in this MD&A pertains to HCL Infosystems Limited and its subsidiaries on a consolidated basis, unless otherwise stated.

CONSOLIDATED FINANCIAL PERFORMANCE

Highlights:

Rs. crores

Particulars	2007	2006
Gross Business Income	**11855**	**11455**
Less: Excise Duty	170	87
Net Business Income	**11685**	**11368**
Total Expenditure		
Cost of Sales (Net)	10801	10589
Staff cost	227	181
Administration, Selling and Others	253	221
Depreciation	15	12
Operating Profit	**389**	**365**
Exchange Fluctuation Gain/(Loss) (Net)	19	(14)
Other Income	31	34
Less: Interest (Net)	10	(1)
Profit Before Tax	**429**	**385**
Tax Expense	113	105
Net Profit After Tax	**316**	**280**

Gross Business Income:

Consolidated Revenue for the year grew to Rs. 11855 crores.

Services revenue grew by 31%, from Rs. 274 crores to Rs. 360 crores in the current year.

The Compounded Annual Growth Rate (CAGR) for the preceding five years is 45%.

Gross Margins:

Gross margins for the current year are Rs. 884 crores, as against Rs. 779 crores in the previous year. Gross margin % grew from 6.8% in the previous year to 7.5% in the current year.

Personnel Costs:

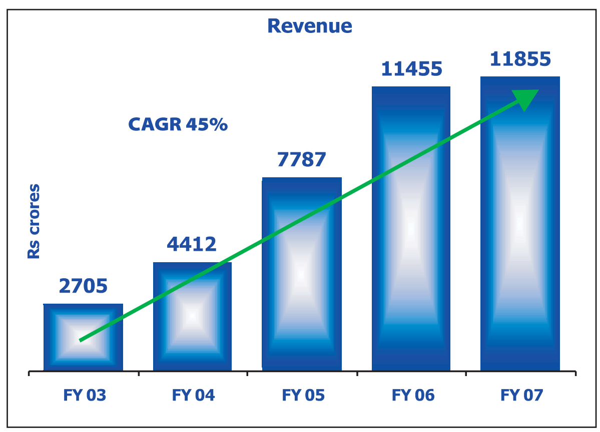
Staff costs for the current year are Rs. 227 crores, as against Rs. 181 crores in the previous year. Permanent staff strength increased from 4323 as at June 2006 to 5082 as at June 2007. The increase in staff costs is mainly due to increase in headcount and increase in compensation package.

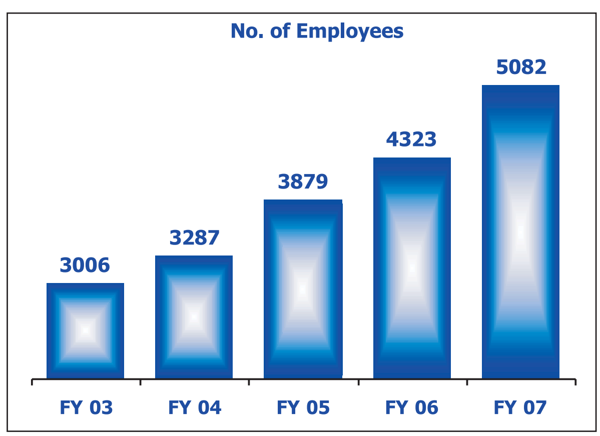
Administrative, Selling and Other Expenses:

Expenses for the current year are Rs. 253 crores, as against Rs. 221 crores in the previous year. Expenses as a % to sales marginally increased from 1.9% to 2.1%. Expenses for the current year include Brand spend.

Operating Profit:

Operating profit for the current year is Rs. 389 crores. Operating profit as a % to sales increased from 3.2% to 3.3%.





Other Income:

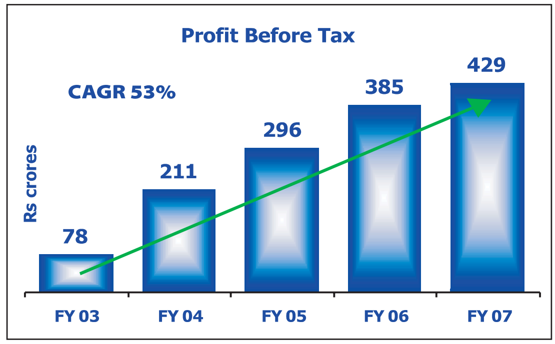
Other income for the current year is Rs. 31 crores, as against Rs. 34 crores in the previous year.

Exchange Fluctuation Gains:

The rupee witnessed sharp appreciation during the year. Exchange Fluctuation Gains for the current year are Rs. 19 crores, as against exchange loss of Rs. 14 crores in the previous year.

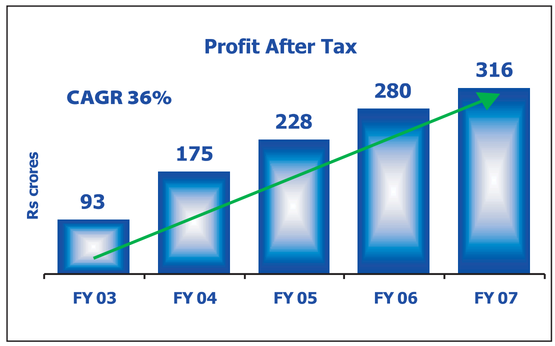
Finance Costs (Net):

Net finance cost for the current year is Rs. 10 crores, as against Net finance income of Rs. 1 crore in the previous year. This is mainly on account of increased borrowing levels to cater to growth in Computing Business including System Integration, and overall hike in interest rates both in global and domestic markets.



Profit Before Tax:

PBT grew by 11% from, Rs. 385 crores in the previous year to Rs. 429 crores in the current year. The Compounded Annual Growth Rate (CAGR) for the preceding five years is 53%.



Profit After Tax:

Profit after tax grew by 13%, from Rs. 280 crores in the previous year to Rs. 316 crores. The Compounded Annual Growth Rate (CAGR) for the preceding five years is 36%.

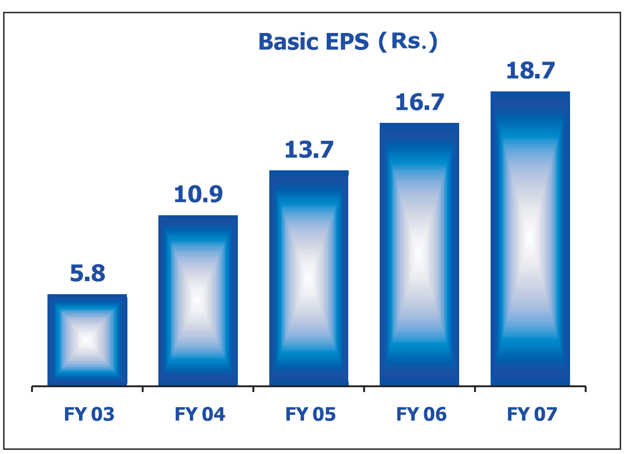
Profits for the current year are after a provision for Rs. 106 crores for current tax expense, Rs. 3 crores for deferred tax expense and Rs. 4 crores for Fringe Benefit Tax.

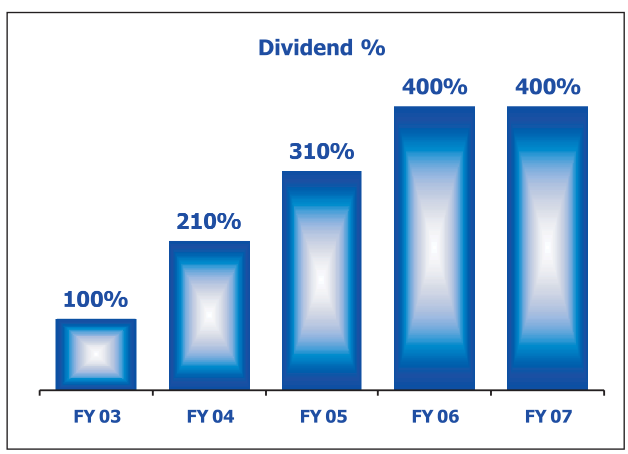
Earning Per Share:

Basic EPS grew from Rs. 16.7 in the previous year to Rs. 18.7 in the current year. Diluted EPS grew from Rs. 16.5 in the previous year to Rs. 18.6 in the current year.

Dividend:

The Company distributed dividends @ 100% per share in each of the first three quarters of the current year. 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. 156 crores, including distribution tax.



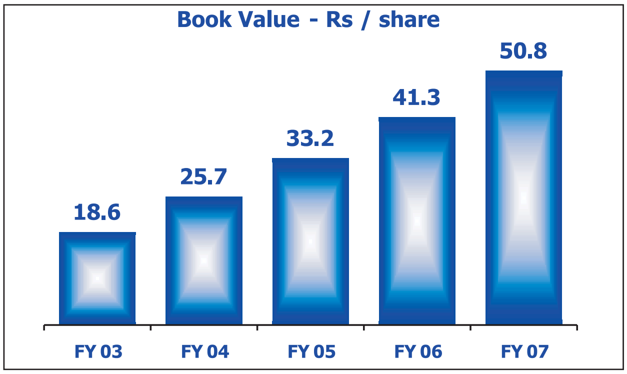


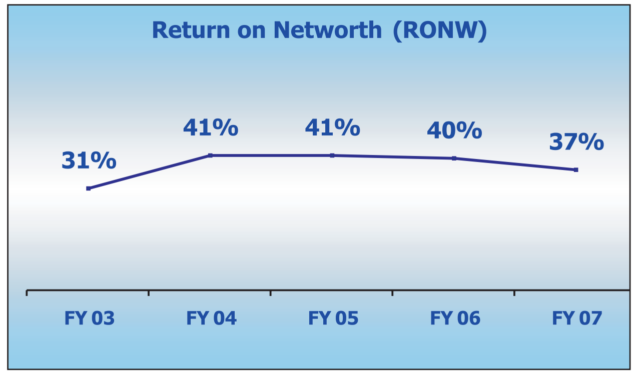
FINANCIAL CONDITIONS

Net worth/ Shareholders Fund:

Net Worth grew from Rs. 698 crores as at previous year-end to Rs. 860 crores as on June 30, 2007. Share capital as at year-end is Rs. 34 crores divided into 16.9 crores shares of Rs. 2/- each. Reserves & surplus as at year-end are Rs. 826 crores after appropriating Rs 156 crores for dividends. Book value per share grew from Rs. 41.3 as at June 30, 2006 to Rs. 50.8 as at June 30, 2007.

During the year, the Company allotted 4.2 lakh shares under Employee Stock Option Scheme realizing Rs. 4.4 crores.





Borrowings:

Year-end loan balances increased from Rs. 85 crores as on June 30, 2006 to Rs. 236 crores as on June 30, 2007. The increase in loan balances was mainly to fund growth in Computing Business including System Integration. Debt-Equity ratio [Debt/(Debt+Equity)] is 22%.

Fixed assets:

Net block grew from Rs. 98 crores to Rs. 151 crores as on June 30, 2007.

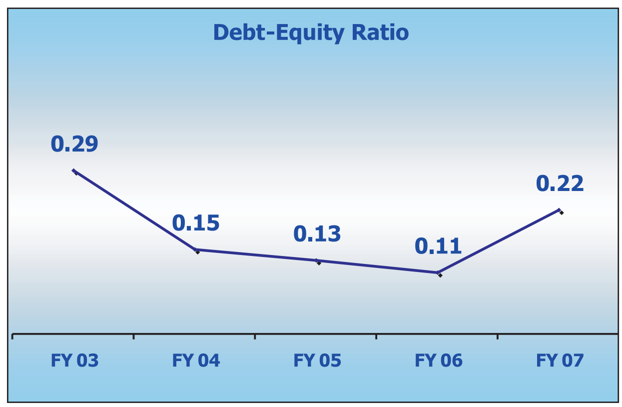
During the current year, capital expenditure amounting to Rs. 68 crores has been made mainly in office infrastructure, manufacturing and office equipment.

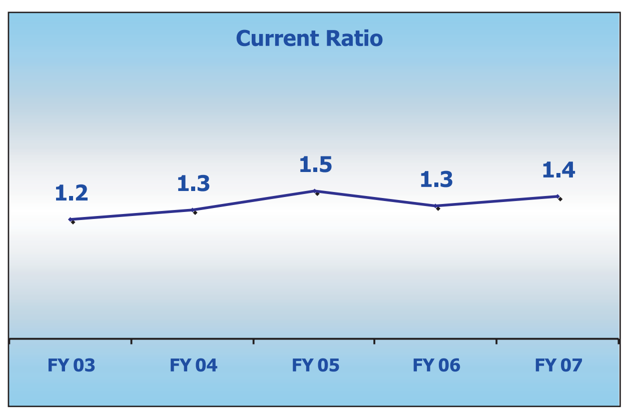
Inventories:

Inventories increased from Rs. 470 crores as on June 30, 2006 to Rs. 792 crores as on June 30, 2007. The inventory turn over on sales is 15 times in the current year as against 24.4 times in previous year. The increase in inventory level is to cater to the increased volume of operations.

Debtors:

Debtors increased from Rs. 705 crores as on June 30, 2006 to Rs. 1005 crores as on June 30, 2007. Debtors as number of days of sale stands increased to 31 days as on June 30, 2007 from 22 days as on June 30, 2006.





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

Liquid Assets as on June 30, 2007 are Rs. 288 crores, as against Rs. 354 crores as on June 30, 2006. This excludes cash in hand & balances with bank in collection and disbursement accounts.

Other Current Assets including Loans and Advances:

Other current assets increased from Rs. 153 crores as on June 30, 2006 to Rs. 166 crores as on June 30, 2007.

Current Liabilities & Provisions:

Current liabilities and provisions increased from Rs. 1143 crores as on June 30, 2006 to Rs. 1475 crores as on June 30, 2007.

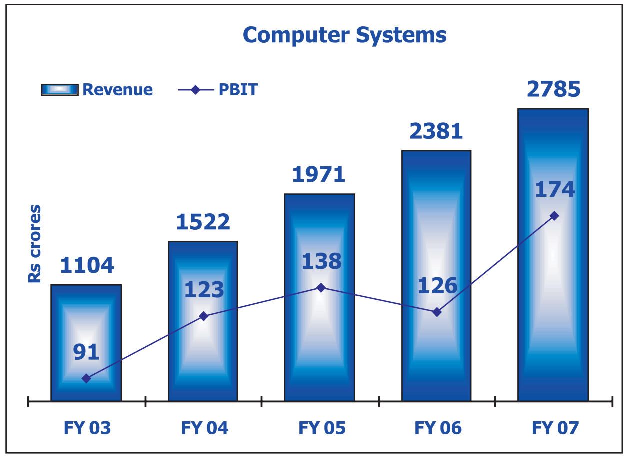
Segment Performance

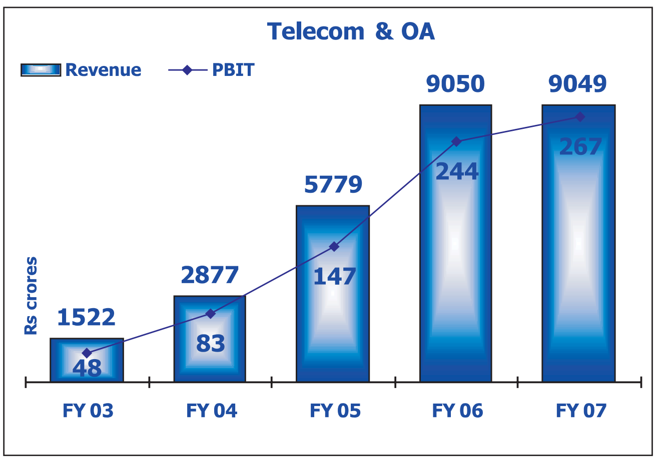
Computer Systems and related products & services, Telecommunication & Office Automation and Internet & related services are the three primary segments.

Computer Systems and Related Products & Services:

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

Segment revenue grew 17%, from Rs. 2381 crores in the previous year to Rs. 2785 crores in the current year. Segment results (PBIT) for the current year grew 39% from Rs. 126 crores to Rs. 174 crores. Capital Employed in the segment is Rs. 654 crores as on June 30, 2007 as against Rs. 387 crores as on June 30, 2006. Return on Capital Employed is 27%





Telecommunication & Office Automation:

The segment operations comprise of distribution of telecommunication products, office automation products and related comprehensive maintenance and allied services.

Revenue of the segment for the current year closed at Rs. 9049 crores. PBIT grew by 9% from Rs. 244 crores in the previous year to Rs. 267 crores in the current year. Capital Employed in the segment is Rs. 125 crores as on June 30, 2007.

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. 40 crores.

To

The Members of HCL Infosystems Limited

1. We have audited the attached Balance Sheet of HCL Infosystems Limited, as at June 30, 2007, 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 the Annexure referred to in paragraph 3 above, we report that:

   (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   (c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   (d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act;

   (e) On the basis of written representations received from the directors, as on June 30, 2007 and taken on record by the Board of Directors, none of the directors is disqualified as on June 30, 2007 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, 2007;

      (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.

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

Camp : Bangkok
Date : August 23, 2007

[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, 2007]

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, excise duty, and cess as at June 30, 2007 which have not been deposited on account of a dispute, are as follows -

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. Trade Tax Act, 1948.**	Sales Tax (including interest)*	1.05	0.34	2002-2003	Trade Tax Tribunal, Noida.
		Sales Tax (including interest)*	1.96	0.13	2003-2004	Trade Tax Tribunal, Noida.
		Sales Tax (including interest)	2.52	0.18	2004-2005	Joint Commissioner (Appeals) of Sales Tax
		Sales Tax (including interest)*	0.83	0.07	2004-2005	Joint Commissioner (Appeals) of Sales Tax
		Sales Tax (including Penalty)*	0.01	0.01	2005-2006	Joint Commissioner (Appeals) of Sales Tax
		Sales Tax (including Penalty)*	0.05	0.05	2006-2007	Joint Commissioner (Appeals) of Sales Tax
2.	Delhi Sales Tax Act, 1975**	Sales Tax	0.26	–	1999-2000	Additional Commissioner of Sales Tax
		Sales Tax	0.30	0.30	2002-2003	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.04	–	2003-2004	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax*	0.17	–	2003-2004	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.51	0.05	2004-2005	Additional Commissioner of Sales Tax
		Sales Tax*	0.56	0.03	2004-2005	Deputy Commissioner (Appeals) of Sales Tax
3.	Tamil Nadu General Sales Tax Act, 1959.**	Sales Tax	0.04	0.04	1998-1999	Commercial Tax Officer
		Sales Tax	0.02	0.02	1999-2000	Commercial Tax Officer
		Sales Tax	0.01	0.01	2000-2001	Commercial Tax Officer
		Sales Tax	0.07	0.07	2001-2002	Commercial Tax Officer
		Sales Tax	0.44	0.24	2002-2003	Assistant Appellate Commissioner
		Sales Tax	0.07	0.04	2003-2004	Assistant Appellate Commissioner
		Sales Tax	0.18	-	2004-2005	Commercial Tax Officer
4.	West Bangal Sales Tax Act, 1994.**	Sales Tax	0.02	0.02	2000-2001	Joint Commissioner (Appeals) of Sales Tax
5.	Assam General Sales Tax, 1993.**	Sales Tax	0.01	-	2001-2002	Superintendent, Slaes Tax
		Sales Tax	0.03	-	2002-2003	Superintendent, Slaes Tax

6.	Rajasthan Sales Tax Act, 1994.**	Sales Tax	0.04	0.01	1998-1999; 2000-2001; 2001-2002; 2003-2004.	Deputy Commissioner (Appeals) of Sales Tax
7.	Kerala General Sales Tax Act, 1963.**	Sales Tax	0.05	0.02	2000-2001	Deputy Commissioner (Appeals) of Sales Tax
		Sales Tax	0.22	0.10	2001-2002	Deputy Commissioner (Appeals) of Sales Tax
8.	Maharashtra Sales Tax Act, 1969.**	Sales Tax	0.01	0.01	2003-2004	Deputy Commissioner (Appeals) of Sales Tax
9.	Himachal Pradesh General Sales Tax* Act, 1969.**	Sales Tax (Including Penalty)*	0.08	0.08	2006-2007	Additional Commissioner of Sales Tax
10.	Karnataka Sales Tax Act, 1957.**	Sales Tax*	0.20	-	2006-2007	Assessing Officer
11.	Andhra Pradesh Sales Tax Act, 1957**	Sales Tax*	0.09	0.09	2002-2003	Commissioner Appeals
	Sub Total (a)		**9.84**	**1.91**		
12.	Central Excise Act, 1944.	Excise Duty (Including Penalty)	0.95	-	2002-2003; 2003-2004	Commissioner (Appeals)
		Excise Duty (Including Penalty)	0.42	-	2002-2003	Commissioner (Appeals)
		Excise Duty	0.50	-	2006-2007	Commissioner (Appeals)
		Excise Duty (Including Penalty)	3.24	0.60	1980-1981; 1981-1982; 1982-1983; 1983-1984	CESTAT
		Excise Duty (Including Penalty)	1.98	-	January 2004 to August 2005	CESTAT
		Excise Duty (Including Penalty)	2.24	-	January 2004 to December 2005	CESTAT
		Excise Duty (Including Penalty)	1.14	-	January 2006 to September 2006	Commissioner (Appeals)
	Sub Total (b)		**10.47**	**0.60**		
13.	Income Tax Act 1961	Income Tax (Representa-tive Assessee)	0.37	-	1989-1990	High Court, Delhi
		Income Tax (Representa-tive Assessee)	0.16	0.16	1990-1991	High Court, Delhi
	Sub Total (c)		**0.53**	**0.16**		
	Total (a)+(b)+(c)		**20.84**	**2.67**		

*Includes balances transferred under 'Scheme of Arrangement' (refer note 24 of Schedule 21 of the Financial Statements)

** Including balances under Central Sales Tax Act, 1956 with relevant rules of respective states.

10. The Company has no accumulated losses as at June 30, 2007 and it has not incurred any cash losses in the financial year ended on that date or in the immediately preceding financial year.

11. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the balance sheet date.

12. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

13. The provisions of any special statute applicable to chit fund/nidhi/mutual benefit fund/societies are not applicable to the Company.

14. In our opinion, the Company is not a dealer or trader in shares, securities, debentures and other investments.

15. In our opinion and according to the information and explanations given to us, the 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.

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

Camp : Bangkok
Date : August 23, 2007

BALANCE SHEET AS AT 30TH JUNE

	Schedule		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
Sources of Funds:					
Shareholders' Funds :					
Capital	1		**33.83**		33.75
Reserves and Surplus	2		**811.38**		377.59
Loan Funds:					
Secured Loans	3		**12.02**		44.49
Unsecured Loans	4		**223.87**		151.15
Deferred Tax Liabilities (Net)	21(5)		**12.48**		11.54
			1093.58		618.52
Application of Funds:					
Fixed Assets:	5				
Gross Block		**162.31**		111.09	
Less: Depreciation		**63.83**		47.77	
Net Block		**98.48**		63.32	
Capital Work-in-Progress		**21.36**		16.38	
(Including Capital Advances)			**119.84**		79.70
Investments	6		**279.78**		135.39
Current Assets, Loans and Advances:					
Inventories	7	**791.73**		240.31	
Sundry Debtors	8	**1002.51**		511.26	
Cash and Bank Balances	9	**193.94**		145.29	
Other Current Assets	10	**95.94**		74.97	
Loans and Advances	11	**67.72**		37.87	
		2151.84		1009.70	
Less : Current Liabilities and Provisions	12				
Current Liabilities		**1376.78**		556.66	
Provisions		**81.10**		49.61	
		1457.88		606.27	
Net Current Assets			**693.96**		403.43
			1093.58		618.52
Significant Accounting Policies	20				
Notes to Accounts	21				

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

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

For and on behalf of the Board of Directors

V. NIJHAWAN
Partner
Membership Number F-87228
For and on behalf of
Price Waterhouse
Chartered Accountants
Camp : Bangkok
Date : August 23, 2007

AJAI CHOWDHRY
Chairman and
Chief Executive Officer

S. BHATTACHARYA
Director

SUSHIL KUMAR JAIN
Company Secretary

Place : New Delhi
Date : August 23, 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	Schedule		Year ended 30.06.2007 Rs./Crores		Year ended 30.06.2006 Rs./Crores
Income					
Business Income	13	**11818.25**		2381.36	
Less : Excise Duty		**170.13**	**11648.12**	86.66	2294.70
Other Income	14		**48.73**		17.01
			11696.85		2311.71
Expenditure					
Cost of Sales and Services	15		**10781.80**		1919.11
Personnel	16		**217.73**		127.22
Administration, Selling, Distribution and Others	17		**234.51**		118.53
Repairs and Maintenance	18		**9.72**		4.01
Finance Charges (Net)	19		**10.55**		4.57
Depreciation		**12.59**		6.80	
Less : Transfer from Revaluation Reserve		**0.04**	**12.55**	0.05	6.75
			11266.86		2180.19
Profit before Tax			**429.99**		131.52
Tax expense	21 (5)				
- Current [Wealth tax Rs.0.02 Crores (2006 - Rs.0.02 Crores)]		**105.90**		11.61	
- Fringe Benefit		**4.03**		1.96	
- Deferred		**2.21**	**112.14**	4.73	18.30
Profit after Tax			**317.85**		113.22
Balance in Profit and Loss Account brought forward			**189.36**		241.03
Profit and Loss Account brought forward on scheme of arrangement (refer note 24 of schedule 21)					
- as on April 1, 2006			**223.29**		-
- for the period April 1, 2006 to June 30, 2006			**46.60**		-
Profit available for appropriation			**777.10**		354.25
Appropriations:					
Proposed Dividend			**33.91**		33.75
Corporate Dividend Tax on Proposed Dividend			**5.76**		4.74
Interim Dividend			**101.39**		100.93
Corporate Dividend Tax on Interim Dividend			**15.22**		14.15
Transfer to General Reserve			**31.79**		11.32
Balance Carried over			**589.03**		189.36
			777.10		354.25
Earning per equity share (in Rs.)					
Basic (of Rs.2/- each)	21 (21)		**18.82**		6.74
Diluted (of Rs.2/- each)	21 (21)		**18.68**		6.64
Significant Accounting Policies	20				
Notes to Accounts	21				

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

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

For and on behalf of the Board of Directors

V. NIJHAWAN
Partner
Membership Number F-87228
For and on behalf of
Price Waterhouse
Chartered Accountants
Camp : Bangkok
Date : August 23, 2007

AJAI CHOWDHRY
Chairman and
Chief Executive Officer

S. BHATTACHARYA
Director

SUSHIL KUMAR JAIN
Company Secretary

Place : New Delhi
Date : August 23, 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

			2007		2006
			Rs./Crores		Rs./Crores
1.	**Cash Flow from Operating Activities**				
	Profit before Tax		**429.99**		131.52
	Adjustments for:				
	Depreciation	**12.55**		6.75	
	(Profit)/Loss on sale of Fixed Assets(Net)	**0.06**		0.04	
	(Profit)/Loss on disposal of (Others) Investments (Net)	**(5.87)**		(5.82)	
	Interest on borrowings	**21.45**		14.86	
	Interest and Dividend income	**(12.77)**		(4.68)	
	Unrealised (Gain)/Loss on Foreign Exchange Fluctuation (Net)	**(9.96)**		4.24	
	Provision for Doubtful Debts	**0.15**		0.03	
	Income Tax Provision for earlier years written back	**-**		(4.97)	
	Provisions/Liabilities no longer required written back	**(6.40)**		(1.34)	
	Diminution in the value of Current Investments	**0.36**		-	
	Provision for Warranty Liability	**12.61**		7.42	
	Provision for Gratuity and other Employee Benefits	**4.90**	**17.08**	2.28	18.81
	Operating profit before Working Capital Changes		**447.07**		150.33
	Adjustments for:				
	Trade and Other Receivables	**(318.69)**		(141.66)	
	Inventories	**(322.03)**		(52.21)	
	Trade Payables and Other Liabilities	**301.21**	**(339.51)**	130.26	(63.61)
	Cash generated from Operation		**107.56**		86.72
	Direct Tax (paid)/Refund (Net) (Including Interest)		**(88.88)**		(17.48)
	Cash from Operating activities		**18.68**		69.24
	Net Cash from Operating activities (A)		**18.68**		69.24
2	**Cash Flow from Investing Activities**				
	Interest and Dividend Received (Gross)	**14.44**		4.46	
	Purchase of Fixed Assets	**(39.56)**		(18.08)	
	Sale of Fixed Assets	**0.12**		0.74	
	Purchase of Investments	**(1785.09)**		(659.92)	
	Disposal/Redemption of Investments	**1813.98**		653.12	
	Purchase of Investment in Subsidiary	**(16.76)**		-	
	Capital Work-in-Progress (Net)	**(4.39)**		(15.47)	
	Net cash from/(used in) Investing activities (B)		**(17.26)**		(35.15)

		Year Ended 30.06.2007 Rs./Crores	Year Ended 30.06.2006 Rs./Crores
3 Cash Flow from Financing Activities			
Share Capital Issued		**0.08**	0.31
Interest Paid		**(21.61)**	(12.67)
Share Premium Received		**4.34**	16.08
Secured Loans - Short Term Received/(Paid)		**(7.47)**	(17.23)
Secured Loans - Long Term Received		**-**	6.00
Secured Loans - Long Term (Paid)		**(25.00)**	-
Unsecured Loans Received/(Paid)		**183.72**	125.05
Dividend Paid (including dividend tax)		**(154.61)**	(152.66)
Net cash from Financing Activities	**(C)**	**(20.55)**	(35.12)
Opening Balance of Cash and Cash Equivalents		**145.29**	146.32
Cash and Cash Equivalents of erstwhile HCL Infinet Ltd. as on June 30, 2006.(Refer note 2 below)		**67.78**	-
Closing Balance of Cash and Cash Equivalents [(Includes Exchange Rate Fluctuation of Rs.0.01 Crores (2006 - Rs.0.31 Crores)] [Includes unclaimed dividend of Rs.2.54 Crores (2006 - Rs.2.05 Crores)]		**193.94**	145.29
Net Increase /(Decrease) in Cash and Cash Equivalents		**(19.13)**	(1.03)
Total (A)+(B)+(C)		**(19.13)**	(1.03)

Notes :-

1. The above Cash Flow Statement has been prepared under the indirect method set out in AS-3 issued by The Institute of Chartered Accountants of India.
2. Assets / (Liabilities) of erstwhile HCL Infinet Ltd. comprising of Telecommunication and office automation business acquired under the scheme of arrangement have not been considered as cash flows, rather their net impact has been taken as “Cash and Cash Equivalents of erstwhile HCL Infinet Ltd. as on June 30, 2006" (refer note 24 of schedule 21). The results of the said business for the period from April 1, 2006 to June 30, 2006 have been adjusted to the profit and loss account forming part of reserves.

This is the Consolidated 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
Camp : Bangkok
Date : August 23, 2007

AJAI CHOWDHRY
Chairman and
Chief Executive Officer

S. BHATTACHARYA
Director

SUSHIL KUMAR JAIN
Company Secretary

Place : New Delhi
Date : August 23, 2007

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
1- Capital		
[Schedule-21, Notes 18 and 24]		
Authorised:		
55,00,00,000 (2006 - 40,00,00,000) Equity Shares of Rs. 2/- each	**110.00**	80.00
5,00,000 (2006 - 5,00,000) Preference Shares of Rs. 100/- each	**5.00**	5.00
	115.00	85.00
Issued, Subscribed and Paid up:		
16,91,52,650 (2006 - 16,87,29,255) Equity shares of Rs.2/- each, fully paid up.	**33.83**	33.75
Add : Shares Forfeited [Represents Rs.1000 (2006 - Rs.1000)]	**0.00**	0.00
	33.83	33.75

Notes:-

1. Pursuant to the Scheme of Arrangement approved by Hon'ble Delhi High Court (refer note 24 of schedule 21), the authorised equity share capital of the Company stands increased by Rs.30 Crores being part of the authorised equity share capital of HCL Infinet Ltd., the erstwhile wholly owned subsidiary which was amalgamated with the Company.
2. Paid up share capital includes :
   a) 5,04,47,295 (2006 - 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 (2006 - 5,31,82,765) Equity Shares of Rs.2/- each Bonus shares issued from Securities Premium Account.
   c) 96,05,355 (2006 - 91,81,960) Equity Shares of Rs.2/- each issued pursuant to the exercise of options granted under ESOP Scheme 2000.
3. Of the above subscribed shares, 7,46,51,388 (2006 - 7,46,51,388) Equity Shares of Rs.2/- each are held by HCL Corporation Limited.

2- Reserves and Surplus [Schedule-21, Notes 23 and 24]	As at 01.07.2006 Rs./Crores	Additions/ Adjustments Rs./Crores	Deductions/ Adjustments Rs./Crores	**As at 30.06.2007 Rs./Crores**
Capital Reserve	**0.00**	**-**	**-**	**0.00**
[Represents Rs. 37135 (2006 - Rs. 37135)]	(0.00)	(-)	(-)	(0.00)
Securities Premium Account	**104.45**	**4.34**	**-**	**108.79**
	(88.37)	(16.08)	(-)	(104.45)
General Reserve	**80.82**	**31.79**	**1.97**	**110.64**
	(69.50)	(11.32)	(-)	(80.82)
Revaluation Reserve (Adj.)	**2.96**	**-**	**0.04**	**2.92**
	(3.01)	(-)	(0.05)	(2.96)
Profit and Loss Account	**189.36**	**399.67**	-	**589.03**
	(241.03)	(-)	(51.67)	(189.36)
	377.59	**435.80**	**2.01**	**811.38**
	(401.91)	(27.40)	(51.72)	(377.59)

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

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
3- Secured Loans		
Loans and Advances from Banks:		
- Cash Credits	**3.14**	0.00
- Short Term Foreign Currency loan External Commercial Borrowings	**2.88**	13.49
- Long Term Loan		
From others	**6.00**	31.00
	12.02	44.49

Notes:-

1) Cash Credits along with non-fund based facilities from Banks (External Commercial Borrowings) 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.

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
4- Unsecured Loans [Schedule-21, Note 20]		
Public Deposits	**0.06**	0.09
Interest accrued and due	**0.01**	0.01
Loans and Advances from Subsidiaries	**-**	111.00
Short Term Loans and Advances:		
- From Banks - Commercial Paper	**70.00**	40.00
- Others	**25.00**	-
Foreign Currency loan		
- External Commercial Borrowings	**17.22**	-
Other Loans and Advances:		
- From a Financial Institution	**0.01**	0.04
- From Others	**111.57**	-
Deferred Lease Obligations	**-**	0.01
	223.87	151.15

Notes:-

1) Amount payable within one year is Rs.201.47 Crores (2006 - Rs.151.04 Crores)

2) Public Deposits represent matured deposits.

5- Fixed Assets

[Schedule-21, Notes 1, 19(b) and 24] Rs./Crores

	Gross Block				Depreciation				Net Block	
	As at 01.07.2006	Additions/ Adjustments during the year	Deductions/ Adjustments/ Retired during the year	**As at 30.06.2007**	As at 01.07.2006	Additions/ Adjustments during the year	Deductions/ Adjustments during the year	**As at 30.06.2007**	**As at 30.06.2007**	As at 30.06.2006
Tangible :										
Land - Leasehold	6.51	1.41	-	**7.92**	0.39	0.09	-	**0.48**	**7.44**	6.12
Land - Freehold	5.01	-	-	**5.01**	-	-	-	**-**	**5.01**	5.01
Buildings	45.58	12.00	0.03	**57.55**	10.27	1.43	0.01	**11.69**	**45.86**	35.31
Plant & Machinery and Air Conditioners	20.82	20.82	0.59	**41.05**	11.43	8.16	0.54	**19.05**	**22.00**	9.39
Furniture, Fixtures and Office Equipment	31.02	19.58	2.37	**48.23**	24.74	8.95	2.31	**31.38**	**16.85**	6.28
Vehicles	1.33	0.34	0.19	**1.48**	0.85	0.16	0.15	**0.86**	**0.62**	0.48
Intangible :										
Acquired Software	0.82	0.25	-	**1.07**	0.09	0.28	-	**0.37**	**0.70**	0.73
TOTAL	**111.09**	**54.40**	**3.18**	**162.31**	**47.77**	**19.07**	**3.01**	**63.83**	**98.48**	63.32
Previous Year	95.27	18.52	2.70	111.09	42.89	6.80	1.92	47.77		
Capital Work-in-Progress									**21.36**	16.38
[Including capital advances of Rs.1.60 Crores (2006 - Rs.7.18 Crores)]									**119.84**	79.70

Notes :

1. Land-Freehold and Building at Ambattur amounting to Rs.0.57 Crores (2006 - Rs.0.57 Crores) and Building at Mumbai amounting to Rs.0.44 Crores (2006 - Rs.0.44 Crores) are pending registration in the name of the company.
2. Additions to gross block and depreciation reserve include Rs.13.15 Crores and Rs.5.82 Crores respectively on account of transfer of fixed assets of the amalgamating company as on April 1, 2006 & Rs.1.35 Crores and Rs.0.66 Crores respectively for the period from April 1, 2006 to June 30, 2006.

6- Investments

[Schedule-21, Notes 14, 20, 24 and 25]

	As at 30.06.2006 Units	As at 30.06.2007 Units	Face Value Rs.	**As at 30.06.2007 Rs./Crores**	As at 30.06.2006 Rs./Crores
Unquoted (Others) Current :					
Growth Options					
Birla Floating Rate Fund - Long Term Plan	3191338	-	10	**-**	3.50
Birla Fixed Maturity Plan	-	3565062	10	**4.00**	-
DSPML Liquidity Fund	24315	-	1000	**-**	2.51
DSP Merrill Lynch Floating Rate Fund	880475	-	10	**-**	1.00
Grindlays Fixed Maturity Plan	12768365	-	10	**-**	12.77
Grindlays Floating Rate - Short Term Plan	446,030	-	10	**-**	0.50
HDFC Fixed Maturity Plan	-	5000000	10	**5.00**	-
HSBC Cash Fund	13463187	-	10	**-**	15.00
Kotak Fixed Maturity Plan	-	4000000	10	**4.00**	-
Kotak Floating Rate Fund - Short Term Plan	890274	-	10	**-**	1.00
Prudential ICICI Floating Rate - Long Term	3809140	-	10	**-**	3.96
Prudential ICICI Liquid Plan	13091297	-	10	**-**	23.00
Prudential ICICI Blended Plan - B	5000000	-	10	**-**	5.00
Reliance Fixed Maturity Fund	2001834	-	10	**-**	2.00
Standard Chartered Liquidity Manager Plus	246636	-	1000	**-**	25.00
Templeton Floating Rate Income Fund - Long Term Plan	12224031	-	10	**-**	12.64
Templeton India Treasury Management Account	72382	-	1000	**-**	8.00
				13.00	115.88

	As at 30.06.2006 Units	As at 30.06.2007 Units	Face Value Rs.	**As at 30.06.2007 Rs./Crores**	As at 30.06.2006 Rs./Crores
Dividend Options					
DSP Merrill lynch Liquidity Fund	-	200081	1000	**20.02**	-
HDFC Liquid Fund	-	12242390	10	**15.28**	-
HSBC Cash Fund	-	35656946	10	**35.71**	-
HSBC Fixed Term Series	-	5215431	10	**5.21**	-
Prudential ICICI Liquid Plan	-	36887901	10	**43.96**	-
Principal Cash Management Liquid Fund	-	50106372	10	**50.14**	-
Standard Chartered Liquidity Manager Plus	-	467270	1000	**46.75**	-
Templeton India Treasury Management Account	-	312474	1000	**31.27**	-
				248.34	-
Unquoted (Trade) : Long Term					
In Subsidiary Company					
HCL Infinet Ltd. - Equity Shares (erstwhile)	19506757	-	100	**-**	19.51
HCL Infinet Ltd. - Equity Shares (formerly known as Microcomp Ltd.)	-	1701810	100	**1.68**	-
Stelmac Engineering Private Ltd. - Equity Shares	-	600	1000	**16.76**	-
				18.44	19.51
				279.78	135.39

Note :- Net asset value of Unquoted (Others) Current Investments in Mutual Funds as on June 30, 2007 is Rs.262.18 Crores (2006 - Rs.118.32 Crores)

		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
7- Inventories [Schedule-21, Notes 8(b) and 24]				
Raw materials and Components (Including in Transit)		**110.89**		63.49
Stores and Spares		**56.18**		37.13
Finished Goods (Including in Transit)		**623.43**		133.74
Work-in-Progress		**1.23**		5.95
		791.73		240.31
8- Sundry Debtors - Unsecured [Schedule-21, Note 24]				
Debts outstanding for a period exceeding six months :				
- Considered Good	**128.47**		68.62	
- Considered Doubtful	**0.60**		0.47	
	129.07		69.09	
Other debts - Considered Good	**874.04**		442.65	
	1003.11		511.74	
Less : Provision for Doubtful Debts	**0.60**	**1002.51**	0.48	511.26
		1002.51		511.26
9- Cash and Bank Balances [Schedule-21, Note 24]				
Cash balance on hand		**0.42**		0.20
Cheques in Hand		**33.71**		18.57
Balances with Scheduled Banks:				
- On Current Account	**143.07**		66.83	
Less :- Money held in Trust	**0.40**	**142.67**	0.01	66.82
- On Dividend Account		**2.54**		2.05
- On Margin Account		**0.56**		0.40
- On Fixed Deposits	**14.36**		57.59	
Less :- Money held in Trust	**0.32**	**14.04**	0.34	57.25
		193.94		145.29
10- Other Current Assets [Schedule-21, Notes 3(c), 16, 19(a) and 24]				
Deposits		**21.55**		13.80
Prepaid Expenses		**27.62**		11.95
Lease Rental Recoverable		**46.04**		47.90
Unbilled Revenue		**0.73**		1.32
		95.94		74.97

		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
11- Loans and Advances				
[Schedule-21, Note 20]				
Unsecured Considered Good				
- Amounts recoverable in cash or in kind or for value to be received		**54.66**		29.06
- Advances and Loans to Subsidiaries		**5.22**		2.16
- Advance Income Tax (2006-Net of Provision for Income Tax of Rs.47.23 Crores)		**-**		0.94
- Balances with Customs, Port Trust, Excise and Sales Tax Authorities		**7.84**		5.71
		67.72		37.87
12- Current Liabilities and Provisions				
[Schedule-21, Notes 4, 6, 20, 23 and 24]				
Current Liabilities:				
Acceptances		**313.92**		235.69
Sundry Creditors				
- Due to Subsidiaries	**0.42**		1.17	
- Due to Small Scale Industrial Undertakings	**1.50**		1.97	
- Others	**819.25**	**821.17**	156.26	159.40
Sundry Deposits		**3.90**		1.49
Interest accrued but not due:				
- On Secured Loans		**0.01**		0.16
- On Unsecured Loans - Subsidiaries		**-**		2.14
- Others		**0.54**		-
Investor Education and Protection Fund :				
- Unclaimed Dividend *		**2.54**		2.05
Advances from Customers		**21.60**		8.23
Deferred Revenue		**137.88**		106.11
Other Liabilities		**75.22**		41.39
		1376.78		556.66
Provisions:				
Proposed Dividend		**33.91**		33.75
Corporate Dividend Tax on Proposed Dividend		**5.76**		4.74
Provision for Income Tax (Net of Advance Income Tax of Rs.285.13 Crores)		**20.11**		-
For Warranty Liability		**3.80**		2.46
For Gratuity and Other Employee Benefits		**17.52**		8.66
		81.10		49.61
		1457.88		606.27

* There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at June 30, 2007. These amounts shall be credited and paid to the fund as and when due.

	Year ended 30.06.2007 Rs./Crores	Year ended 30.06.2006 Rs./Crores
13- Business Income		
[Schedule-21, Notes 8(b) and 24]		
Sales and Related Income	**11496.00**	2239.86
Services	**322.25**	141.50
	11818.25	2381.36
14- Other Income		
Interest :		
- Refund from Income Tax Authority	**-**	0.17
- Others	**-**	0.09
Dividend from (Others) Current Investments	**10.84**	0.01
Insurance Claims	**0.48**	0.24
Income Tax Provision for earlier years written back	**-**	4.97
Provisions/Liabilities no longer required written back	**6.40**	1.34
Profit on disposal of (Others) Current Investments (Net)	**5.87**	5.82
Profit on Foreign Exchange Fluctuation (Net)	**18.95**	-
Miscellaneous Income	**6.19**	4.37
	48.73	17.01
15- Cost of Sales and Services		
[Schedule-21, Notes 8(b), 9, 10, 17 and 24]		
Raw Materials and Components Consumed	**1097.52**	1210.77
Purchase of Finished Goods and Services (Net)	**9790.90**	640.14
Stores and Spares Consumed	**41.26**	18.03
Power and Fuel	**1.64**	1.41
Labour and Processing Charges	**4.29**	1.96
Royalty (Net)	**117.18**	106.20
	11052.79	1978.51
(Increase)/Decrease in Stocks of Finished Goods and Work-in-Progress :		
Closing Stock		
-Finished Goods (Including in Transit)	**623.43**	133.74
[Including excise duty of Rs.3.77 Crores (2006 - Rs.3.53 Crores)]		
- Work-In-Progress	**1.23**	5.95
	624.66	139.69
Opening Stock		
- Finished Goods (Including in Transit)	**133.74**	72.45
[Including excise duty Rs.3.53 Crores (2006 - Nil)]		
- Work-In-Progress	**5.95**	7.84
	139.69	80.29
Finished Goods (Including in Transit) of erstwhile HCL Infinet Ltd. as on June 30, 2006	**213.98**	-
	(270.99)	(59.40)
	10781.80	1919.11
16- Personnel		
[Schedule-21, Note 23]		
Salaries, Wages, Allowances, Bonus and Gratuity	**203.91**	122.53
Contribution to Provident Fund and Other Funds	**7.76**	4.57
Staff Welfare Expenses	**6.06**	3.12
	217.73	130.22
Less : Operating Cost Recovered	**-**	3.00
	217.73	127.22

	Year ended 30.06.2007 Rs./Crores	Year ended 30.06.2006 Rs./Crores
17- Administration, Selling, Distribution and Others [Schedule-21, Note 19(b)]		
Rent	**12.64**	5.06
Rates and Taxes	**7.78**	3.08
Printing and Stationery	**4.02**	2.40
Communication	**10.32**	5.90
Travelling and Conveyance	**25.22**	15.65
Packing, Freight and Forwarding	**43.49**	30.81
Legal and Professional	**20.03**	8.10
Training and Conference	**3.71**	1.42
Office Electricity and Water	**5.41**	3.17
Insurance	**7.97**	3.55
Advertisement, Publicity and Entertainment (Net of Reimbursements)	**44.68**	9.28
Hire Charges	**1.50**	0.34
Commission on Sales	**17.36**	6.29
Bank Charges	**8.64**	6.26
Provision for Doubtful Debts	**0.15**	0.03
Loss on Sale of Fixed Assets (Net)	**0.06**	0.04
Loss on Foreign Exchange Fluctuation (Net)	**-**	11.15
Diminution in the value of current investments	**0.36**	-
Miscellaneous	**21.17**	8.51
	234.51	121.04
Less : Operating Cost Recovered	**-**	2.51
	234.51	118.53

	Year ended 30.06.2007 Rs./Crores	Year ended 30.06.2006 Rs./Crores
18- Repairs and Maintenance		
Plant and Machinery	**0.29**	0.24
Buildings	**0.56**	0.21
Others	**8.87**	3.75
	9.72	4.20
Less : Operating Cost Recovered	**-**	0.19
	9.72	4.01

		Year ended 30.06.2007 Rs./Crores		Year ended 30.06.2006 Rs./Crores
19- Finance Charges [Schedule-21, Note 19(a)]				
Interest paid :				
- On Fixed Loans	**14.25**		7.43	
- On Others	**7.20**	**21.45**	7.43	14.86
Less : Interest received :				
- On Lease Rental	**6.04**		4.17	
- On Fixed Deposits	**1.91**		4.39	
[TDS Rs.0.54 Crores (2006 - Rs.0.54 Crores)]				
- On Other Loans and Advances	**0.02**		0.02	
- On Others	**2.93**	**10.90**	1.71	10.29
		10.55		4.57

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, relevant provisions of The Companies Act, 1956 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 amortisation.

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 16.12.1993 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 1.4.2001 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 where fair value for mutual funds is based on net asset 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. Cost is determined on the basis of weighted average.

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

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.

The Company uses foreign exchange forward contracts to hedge for some of its exposure to movements in foreign exchange rates. The premium or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract. Exchange differences on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognised as income or expense for the period.

The foreign branch of the Company is considered integral to the Company's operations. The transactions of the branch have been translated as if they were transactions of the Company itself.

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. Gains/losses arising out of actuarial valuation are recognised immediately in the profit and loss account as income/expense.

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

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

8. REVENUE RECOGNITION

(a) 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 contact completion are recognised immediately.

9. GOVERNMENT GRANTS

Revenue grants, where reasonable certainty exists that the ultimate collection will be made are recognised 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

(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 including fringe benefit tax 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 recognised 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. USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Examples of such estimates include estimate of cost expected to be incurred to complete performance under composite arrangements, income taxes, provision for warranty, employment retirement benefit plans, provision for doubtful debts and estimated useful life of the fixed assets. The actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

14. 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.

15. 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.

16. SEGMENT ACCOUNTING

The segment accounting policy is in accordance with the policies consistently used in the preparation of financial statements. 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.

SCHEDULE 21 - NOTES TO ACCOUNTS

1. 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 in 1992 and 2003 were as under:

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

2. Estimated value of contracts remaining to be executed on capital account and not provided for (net of advances) are Rs.1.69 Crores (2006 - Rs.1.10 Crores)

3. Contingent Liabilities:

   a) Claims not acknowledged as debts for:

	2007	2006
	Rs./Crores	Rs./Crores
Sales Tax*	**9.64**	4.23
Excise*	**10.47**	-
Income Tax*	**0.54**	0.54
Industrial Disputes, Civil Suits and Consumer Disputes	**7.09**	5.48

   * Includes sum of Rs.4.18 Crores (2006 - Rs.1.30 Crores) deposited by the Company against the above.

   b) Consequent to the amalgamation of erstwhile HCL Infinet Ltd., Corporate Guarantee of Rs.324.50 Crores (amount utilised as on June 30, 2006 - Rs.279.69 Crores) given to Banks in earlier years for working capital facilities stands cancelled. (Refer note 24)

   c) The Company has transferred Financial Assets (Lease Rental Recoverable) of Rs.Nil (2006 – Rs.47.62 Crores) to a bank under a financing arrangement. Balance outstanding with the bank as on June 30, 2007 is Rs.39.64 Crores (2006 – Rs.47.62 Crores). The transfer of these Financial Assets is with recourse to the Company.

4 The company has the following provisions in the books of accounts:

	2007	2006
	Rs./Crores	Rs./Crores
Opening Balance as on July 1	**2.46**	1.81
Additions during the year	**12.61**	7.42
Utilised/Reversed during the year	**11.27**	6.77
Closing Balance as on June 30	**3.80**	2.46

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.

5. Taxation:

   a) Provision for taxation has been computed by applying the Income Tax Act, 1961 to the profit for the financial year ended June 30, 2007, although the actual tax liability of the Company has to be computed each year by reference to the taxable profit for each fiscal year ended March 31.

   b) The significant components and classification of deferred tax asset and liability on account of timing differences are as follows:

	2007 Rs./Crores		2006 Rs./Crores	
Deferred tax assets				
Allowances for doubtful debts	**0.67**		0.41	
Demerger Scheme Expenses	**0.01**		0.07	
Expense accruals	**4.86**		3.96	
Impact of Revised AS-15	**1.00**		-	
Other timing differences	**0.08**	**6.62**	-	4.44
Deferred tax liabilities				
Depreciation	**1.68**		3.38	
Lease adjustments	**12.84**		8.03	
Other timing differences	**4.58**	**19.10**	4.57	15.98
Deferred tax liability (Net)		**12.48**		11.54

6. The names of 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 are M/s Shakhti Data Cables and M/s Bajaj Printer & Packers. The Company is in the process of identifying the Micro, Small and Medium Enterprises as defined under "The Micro, Small and Medium Enterprises Development Act, 2006". However based on the information so far available with the Company, liability for delay in payments, if any, is not likely to be significant.

7. Expenditure on Research and Development:

	2007 Rs./Crores	2006 Rs./Crores
Capital	**0.17**	0.08
Revenue	**3.30**	3.83
Total	**3.47**	3.91

8. a) Particulars of goods manufactured:

Class of Product		Installed capacity	Actual Production
Computers/Micro processor Based systems	Nos.	**1400000**	**619216**
		(1150000)	(581805)
Data Graphic/Display Monitor/Terminals, Hubs etc.	Nos.	**450000**	**512717**
		(250000)	(267326)

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. 46/255/2006-CL-III dated February 20, 2007 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 June 30, 2007, under Para 3(ii)(d) of Part-II, Schedule-VI to the Companies Act, 1956 as amended vide Notification No. GSR494(E), dated October 30, 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:

	2007		2006	
	Rs./Crores	**% of Consumption**	Rs./Crores	% of Consumption
Imported	**838.26**	**76.38**	920.07	75.99
Indigenous	**259.26**	**23.62**	290.70	24.01
Total	**1097.52**	**100.00**	1210.77	100.00

10. Value of Imports calculated on CIF basis:

		2007 Rs./Crores	2006 Rs./Crores
a)	Raw materials & components	**1032.05**	984.04
b)	Stores and spares	**45.89**	2.67
c)	Capital goods	**2.07**	0.66
d)	Traded items	**766.69**	314.73
	Total	**1846.70**	1302.10

11. Expenditure in Foreign Currency:
(On actual payment basis)

		2007 Rs./Crores	2006 Rs./Crores
a)	Travel	**0.49**	0.30
b)	Royalty (Net of tax)	**104.07**	90.69
c)	Interest	**0.67**	0.33
d)	Others	**3.95**	1.63
	Total	**109.18**	92.95

12. Earnings in Foreign Currency:

		2007 Rs./Crores	2006 Rs./Crores
a)	Commission	**0.12**	0.13
b)	FOB value of exports (including deemed exports)	**81.65**	62.78
c)	Others (including reimbursement of expenses)	**5.14**	15.69
	Total	**86.91**	78.60

13. Remuneration to Auditor:

		2007 Rs./Crores	2006 Rs./Crores
a)	As Auditor *	**0.80**	0.31
b)	In Other Capacity		
	Tax Audit *	**0.17**	0.09
	Certification *	**0.02**	0.01
	Out-of-Pocket Expenses	**0.03**	0.03
	Total	**1.02**	0.44

* 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
Growth Options			
HDFC Liquid Fund - Premium Plan	10	7049974	10.00
Prudential ICICI Liquid Plan	10	5619524	10.00
Dividend Options			
ABN AMRO Cash Fund	10	51025039	51.03
ABN AMRO Floating Rate Fund	10	10443807	10.44
DBS Chola Liquid Institutional Plus	10	8409976	10.00
DWS Money Plus Regular Plan	10	4941590	5.00
Grindlays Cash Fund	10	99933383	102.66
Grindlays Floating Rate Fund -Short Term - Plan C	10	10388681	10.45
HDFC Cash Management Fund	10	4743008	5.04
ICICI Prudential Floating Rate Fund	10	10464092	10.47
ICICI Prudential FMP Series 32	10	10155300	10.00

Name of the Fund	Face Value Rs. per unit	* No. of Units	Cost Rs./Crores
ICICI Prudential FMP Series 34	10	20748854	20.30
JM High Liquidity Fund	10	4365097	5.00
Standard Chartered Fixed Maturity	10	10000000	10.00
UTI Liquid Cash Plan - Institutional Plan	1000	539926	55.00

* 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.

		2007 Rs./Crores		2006 Rs./Crores
Profit before Taxation		**429.99**		131.52
Add:				
Directors Remuneration Paid/payable	**3.75**		4.07	
Depreciation	**12.55**		6.75	
Provision for Doubtful Debts	**0.15**		0.03	
		16.45		10.85
		446.44		142.37
Less:				
Depreciation under Section 350 of the Companies Act, 1956	**12.55**		6.75	
Profit on Disposal of (Other) Investments (Net)	**5.87**		5.82	
Profit/(Loss) on sale of Fixed Assets (Net)	**(0.06)**		(0.04)	
		18.36		12.53
Net Profit under Section 349		**428.08**		129.84
Calculation of Commission under Section 309 of the Companies Act, 1956 @ 1%		**4.28**		1.30
Restricted to		**0.43**		0.37
(II) Paid/payable to the Wholetime Directors				
a) Salaries, Allowances & Bonus		**2.92**		3.26
Contribution to Provident and Superannuation Funds		**0.13**		0.12
Perquisites		**0.24**		0.28
		3.29		3.66
b) Directors' Sitting Fees		**0.04**		0.04
Commission to Non Wholetime Directors		**0.42**		0.37
Managerial remuneration under Section 198 of the Companies Act, 1956		**3.75**		4.07

16. Unaccrued forward exchange cover as on June 30, 2007 of Rs.1.94 Crores (2006 - Rs.0.16 Crores) has been included in prepaid expenses.

17. Duty drawback recognised during the year of Rs.Nil (2006 – Rs.2.14 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 subsidiaries. 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 Plan 2000

Date of grant	Exercise price of the option for five equity shares of Rs. 2/- each	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	47967	-	-	7700	5072	35195	35195
		(84894)	(-)	(-)	(36327)	(600)	(47967)	(47967)
28-Jan-04	538.15	691611	-	50552	69459	10842	560758	193000
		(987304)	(-)	(62202)	(226373)	(7118)	(691611)	(278366)
25-Aug-04	603.95	116092	-	12480	6920	7073	89619	47073
		(171758)	(-)	(23104)	(30817)	(1745)	(116092)	(18886)
18-Jan-05	809.85	243874	-	13048	600	4876	225350	132598
		(272950)	(-)	(13596)	(15480)	(-)	(243874)	(63645)
15-Feb-05	809.30	4820	-	-	-	1320	3500	2296
		(8400)	(-)	(3080)	(500)	(-)	(4820)	(2020)
15-Mar-05	834.40	52520	-	5440	-	2592	44488	27835
		(57416)	(-)	(4896)	(-)	(-)	(52520)	(16361)
15-Apr-05	789.85	18712	-	3136	-	1728	13848	9096
		(23384)	(-)	(4672)	(-)	(-)	(18712)	(6151)
14-May-05	770.15	9240	-	-	-	-	9240	5544
		(17400)	(-)	(8160)	(-)	(-)	(9240)	(2772)
15-Jun-05	756.15	13600	-	1760	-	-	11840	7632
		(18400)	(-)	(4800)	(-)	(-)	(13600)	(4080)
15-Jul-05	978.75	26160	-	6048	-	1728	18384	12154
		(-)	(27440)	(1280)	(-)	(-)	(26160)	(-)
13-Aug-05	1144.00	27230	-	1120	-	480	25630	15522
		(-)	(33310)	(6080)	(-)	(-)	(27230)	(-)
15-Sep-05	1271.25	13620	-	-	-	-	13620	8172
		(-)	(13620)	(-)	(-)	(-)	(13620)	(-)
15-Mar-07	648.75	-	158000	-	-	-	158000	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
							1209472	**496117**
							(1265446)	(440248)

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 of the option for five equity shares of Rs. 2/- each	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	2821780	-	335898	-	55222	2430660	499270
		(-)	(3196840)	(375060)	(-)	(-)	(2821780)	(-)
19-Oct-05	1157.50	82320	-	13830	-	1150	67340	14084
		(-)	(107010)	(24690)	(-)	(-)	(82320)	(-)
15-Nov-05	1267.75	47380	-	22666	-	1786	22928	3802
		(-)	(51810)	(4430)	(-)	(-)	(47380)	(-)
15-Dec-05	1348.25	49000	-	22930	-	810	25260	5404
		(-)	(56200)	(7200)	(-)	(-)	(49000)	(-)
14-Jan-06	1300.00	54220	-	22138	-	328	31754	6972
		(-)	(59140)	(4920)	(-)	(-)	(54220)	(-)

15-Feb-06	1308.00	9630	-	2224	-	32	7374	1526
		(-)	(10940)	(1310)	(-)	(-)	(9630)	(-)
16-Mar-06	1031.00	46340	-	6240	-	160	39940	7988
		(-)	(47840)	(1500)	(-)	(-)	(46340)	(-)
17-Apr-06	868.75	33760	-	18360	-	-	15400	3640
		(-)	(35260)	(1500)	(-)	(-)	(33760)	(-)
15-May-06	842.50	38100	-	7950	-	-	30150	6030
		(-)	(38100)	(-)	(-)	(-)	(38100)	(-)
15-Jun-06	620.50	54740	-	23230	-	-	31510	6246
		(-)	(54740)	(-)	(-)	(-)	(54740)	(-)
17-Jul-06	673.75	-	46120	9740	-	-	36380	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
15-Mar-07	648.75	-	445100	14000	-	-	431100	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
							3169796	**554962**
							(3237270)	(-)

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

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:

	Employee Stock Option Plan 2000	**Employee Stock Based Compensation Plan 2005**
Volatility	45% to 68%	47% to 62%
Risk free rate	4.57% to 7.99%	6.49% to 7.98%
Exercise Price	Rs.538.15 to Rs.1271.25	Rs.620.50 to Rs.1348.25
Time to Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	9% to 21%	10% to 23%
Life of options	8.5 Years	10 Years
Fair Value of options as at the grant date	Rs.653.45 to Rs.1436.09	Rs.667.98 to Rs.1562.97

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, 2007 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:

	2007 Rs./Crores	2006 Rs./Crores
Profit/(Loss) after tax as per Profit and Loss Account (a)	**317.85**	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.0.14 Crores)	**11.25**	14.63
Profit/(Loss) after tax recomputed for recognition of employee stock compensation expense under fair value method (b)	**306.60**	98.59
Earning Per Share based on earnings as per (a) above: (Refer note 21)		
- Basic	**18.82**	6.74
- Diluted	**18.68**	6.64
Earning Per Share had fair value method been employed for accounting of employee stock options:		
- Basic	**18.15**	5.87
- Diluted	**18.02**	5.78

19. Leases:

a) Finance Leases:

(i) The Company has given on finance lease certain assets/inventories, which comprise of computers and office equipments etc. These leases have a primary period, which are fixed and non-cancelable. There are no exceptional/ restrictive covenants in the lease agreements.

(ii) The gross investment in the assets given on finance leases as at June 30, 2007 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	**23.65**	**4.01**	**19.64**
	(15.89)	(2.67)	(13.22)
Later than one year and not later than five years	**28.81**	**2.41**	**26.40**
	(38.61)	(3.93)	(34.68)
Total	**52.46**	**6.42**	**46.04**
	(54.50)	(6.60)	(47.90)

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

b) Operating Leases:

(i) Cancelable Operating leases

(a) The Company 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.12.64 Crores (2006 – Rs.5.06 Crores).

(ii) Non-Cancelable Operating leases

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

	Rs./Crores
Not later than one year	0.30
Later than one year and not later than five years	-
Total	**0.30**

(b) Minimum Lease Payments recognised in the Profit & Loss Account for the year ended June 30, 2007 was Rs.0.30 Crores.

(c) The gross carrying amount, accumulated depreciation and depreciation expense in respect of office automation products i.e. photocopying machines given on operating lease are as below:

	Rs./Crores
Gross Carrying Amount	5.33
Accumulated Depreciation	0.64
Depreciation Expense	0.52

(d) The company has given photocopying machines on non-cancelable operating leases, the future minimum lease receipts in respect of which are:

	Rs./Crores
Not later than one year	0.02
Later than one year and not later than five years	0.01
Total	**0.03**

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:

Subsidiaries:

HCL Infinet Ltd.(formerly known as Microcomp Ltd.), a wholly owned subsidiary
Stelmac Engineering Private Ltd., a wholly owned subsidiary 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 Comnet Systems and Services Ltd.
HCL Peripherals Ltd.
HCL Infosolutions Ltd.
Universal Office Automation Ltd. (formerly known as HCL Office Automation Ltd.)

Others (where significant influence exist):

SSN College of Engineering
Shri Sivasubramaniya Nadar Educational and Charitable Trust.

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. J. V. Ramamurthy

ii) Other Key Management Personnel:

Mr. D. Veeraraghavan
Mr. George Paul
Mr. Hari Bhaskaran
Mr. Rajeev Asija
Mr. Rajendra Kumar
Mr. Rakesh Mehta
Mr. Sandeep Kanwar
Mr. S. Pattabiraman*
Mr. Suman Ghose Hazra
Mr. Sushil Kumar Jain
Mr. Vivek Punekar
* Resigned w.e.f. June 1, 2007

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 2007 and Balances as on that date

(Rs./Crores)

A. Transactions	**Company having Substantial interest**		**Subsidiaries**		**Others**		**Key Management Personnel**		**Total**	
	June-07	June-06	**June-07**	June-06*	**June-07**	June-06	**June-07**	June-06	**June-07**	June-06
Sales & Related Income	**1.41**	0.23	**0.45**	2.78	**87.07**	52.61	**0.00**		**88.93**	55.62
- HCL Technologies Ltd.					**80.21**	44.78				
Services	**0.00**		**0.89**	0.32	**4.80**	4.48			**5.69**	4.80
- HCL Technologies Ltd.					**4.34**	3.56				
- HCL Infinet Ltd.			**0.89**							
Other Income				0.03	**0.93**	1.00			**0.93**	1.03
- HCL Technologies Ltd.					**0.93**	0.96				
Purchase of Goods				8.78	**0.24**	0.32			**0.24**	9.10
- HCL Technologies Ltd.					**0.24**	0.32				
Purchase of Services			**1.36**	0.85	**5.23**	3.45			**6.59**	4.30
- HCL Technologies Ltd.					**3.75**	1.73				
- HCL Comnet Ltd.					**0.66**	1.30				
- HCL Infinet Ltd.			**1.36**							
Purchase of Investment			**16.76**						**16.76**	
- Stelmac Engineering Private Ltd.			**16.76**							
Loans & Advances Taken				111.00						111.00
Loans & Advances Given			**5.12**						**5.12**	
- Stelmac Engineering Private Ltd.			**5.12**							
Donations Given					**0.96**				**0.96**	
- Shri Sivasubramaniaya Nadar Educational & Charitable Trust					**0.96**					
Interest Expense				2.76						2.76
Bad Debts written off			**0.00**		**0.18**	0.13			**0.18**	0.13
- HCL Technologies Ltd.					**0.05**	0.13				
Assets Purchased				0.07	**0.22**				**0.22**	0.07
- HCL Technologies Ltd.					**0.22**					
Assets (Capital work-in-progress) Sold at cost						11.92				11.92
- HCL Technologies Ltd.						11.92				
Remuneration							**6.90**	7.58	**6.90**	7.58
Reimbursements towards expenditure										
a) Received	**0.04**	0.04	**0.00**	5.73	**0.07**	0.19			**0.11**	5.96
- HCL Technologies Ltd.					**0.04**					
- HCL Comnet Ltd.					**0.03**					
b) Made	**0.05**	0.05	**0.02**		**0.68**	0.29			**0.75**	0.34
- HCL Technologies Ltd.					**0.67**	0.27				

B. Amount due to / from related parties

	Company having Substantial interest		**Subsidiaries**		**Others**		**Key Management Personnel**		**Total**	
	June-07	June-06	**June-07**	June-06	**June-07**	June-06	**June-07**	June-06	**June-07**	June-06
Investment			**18.44**	19.51					**18.44**	19.51
Accounts Receivables	**0.45**	0.17	**0.62**	1.41	**17.23**	9.72			**18.30**	11.30
Loans & Advances & Other Recoverables			**5.22**	2.16	**0.82**	1.04			**6.05**	3.20
Unsecured Loans				111.00						111.00
Creditors			**0.42**	1.17	**0.30**	0.59			**0.72**	1.76
Interest accrued but not due				2.14						2.14
Other Payables	**0.01**	0.01			**0.69**	0.87			**0.70**	0.88

*Represents transactions with erstwhile HCL Infinet Ltd.

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.

Calculation of EPS:

Particulars	**30.06.2007**	30.06.2006
Profit after tax (Rs./Crores)	**317.85**	113.22
Weighted average number of shares considered as outstanding in computation of Basic EPS	**1,68,923,402**	1,68,003,132
Add dilutive impact of stock options:		
- Exercised	**71,822**	305,092
- Lapsed	**65,530**	81,881
- Issued for no consideration	**1,098,004**	2,088,028
Weighted average number of shares outstanding in computation of Diluted EPS	**1,70,158,758**	1,70,478,133
Basic EPS (of Rs.2/- each)	**Rs.18.82**	Rs.6.74
Diluted EPS (of Rs.2/- each)	**Rs.18.68**	Rs.6.64

22. Segment Reporting

The Company recognises the following segments as its primary segments.

a) 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.

b) The businesses of Telecom products, Office Automation and services consist of sale of telecommunication products, office equipment products and related comprehensive maintenance services.

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.

Segment wise performance for the year ended June 30, 2007 **Rs./Crores**

	Primary Segments	**Computer Systems & Other Related Products**	**Telecommunication & Office Automation**	**Inter-segment Elimination**	**Total**
(i)	**Revenue**				
	External Revenue	2776.87	9041.38		**11818.25**
	Intersegment Revenue	7.71	8.18	-15.89	-
	Total Gross Revenue	2784.58	9049.56	-15.89	**11818.25**
	Less: Excise Duty	170.04	0.09		**170.13**
	Total Net Revenue	2614.54	9049.47	-15.89	**11648.12**
(ii)	**Results**	174.33	267.13		**441.46**
	Less: Unallocable Expenditure				**20.12**
	Operating Profit				**421.34**
	Add: Other Income (Excluding Operational Income)				**19.20**
	Less: Interest (Net)				**10.55**
	Profit Before Tax				**429.99**
	Less: Tax Expense				
	- Current Tax				**105.90**
	- Deferred Tax				**2.21**
	- Fringe Benefit Tax				**4.03**
	Profit After Tax				**317.85**
(iii)	**Segment Assets**	1464.15	709.38		**2173.53**
	Unallocated Corporate Assets				
	a) Liquid Assets				**275.78**

	b) Others (including investment in assets given on finance lease)			**102.15**
	Total Assets			**2551.46**
(iv)	**Segment Liabilities**	810.32	584.55	**1394.87**
	Unallocated Corporate Liabilities			
	a) Current Liabilities			**63.01**
	b) Deferred Tax Liabilities			**12.48**
	c) Loan Funds			**235.89**
	Total Liabilities			**1706.25**
(v)	**Capital Expenditure**	30.33	9.56	**39.89**
(vi)	**Depreciation**	8.61	3.57	**12.18**
(vii)	**Other Non Cash Expenses**	16.79	1.05	**17.84**

Note: The Company was operating in single segment i.e. Computer systems and other related products in the Previous year. Hence Segment reporting under AS 17 issued by The Institute of Chartered Accountants of India was not applicable.

23. Effective July 01, 2006, the Company adopted the revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligation of the Company amounted to Rs.1.97 Crores (net of deferred tax of Rs.1.00 Crores). As required by the standard, the obligation has been adjusted against opening balance of revenue reserves.

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

A. Defined Contribution Plans

a) Provident Fund

a) Superannuation Fund

During the year the Company has recognised the following amounts in the Profit and Loss account:

	Rs./Crores
Employers Contribution to Provident Fund	2.70
Employers Contribution to Superannuation Fund	0.81

B. State Plans
a) Employee State Insurance
b) Employee’s Pension Scheme 1995

During the year the Company has recognised the following amounts in the Profit and Loss account:

	Rs./Crores
Employers contribution to Employee State Insurance	1.35
Employers contribution to Employee’s Pension Scheme 1995	2.60

C. Defined Benefit Plans
a) Gratuity
b) Leave Encashment/Compensated Absence

The discount rate assumed is 7.50% p.a. which is determined by reference to market yield at the Balance Sheet date on government bonds. The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

		Rs./Crores
	Gratuity	**Leave Encashment**
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:		
Present value of obligation at period beginning*	8.07	3.50
Current service cost	1.93	3.34
Interest cost	0.64	0.35
Actuarial (gain)/loss	0.81	0.91
Benefits paid	(0.69)	(1.34)
Present value of obligation at period end	10.76	6.76

*Includes balances of erstwhile HCL Infinet Limited.

	Gratuity	Leave Encashment
		Rs./Crores
Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets:		
Present value of the obligation as at period end	10.76	6.76
Fair value of plan assets at period end	-	-
Assets/(Liabilities) recognised in the Balance Sheet	(10.76)	(6.76)
Cost recognised for the period (included under Salaries, Wages, Allowances, Bonus and Gratuity)		
Current service cost	1.93	3.34
Interest cost	0.64	0.35
Actuarial (gain)/loss	0.81	0.91
Net cost recognised for the period	3.38	4.60

24. A Scheme of Arrangement ("Scheme") under sections 391 to 394 of the Companies Act, 1956 sanctioned by Hon'ble High Court of Delhi vide order dated March 20, 2007 has come into effect on March 31, 2007 from the appointed date of April 1, 2006.

The Scheme has helped in consolidating the Office Automation and Telecommunication Products and Services business under one Company 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 to keep the licensed businesses (Networking business) of erstwhile subsidiary in a separate company for better focus, control and management.

Pursuant to the Scheme:

a. The Networking business of HCL Infinet Ltd., an erstwhile wholly owned subsidiary, has been demerged and stands transferred to and vested with Microcomp Ltd., a wholly owned subsidiary of erstwhile HCL Infinet Ltd.

b. HCL Infinet Limited, with the residual Telecommunication and Office Automation business stands amalgamated with the Company. Accordingly, HCL Infinet Ltd. stands dissolved without winding up.

c. The name of Microcomp Ltd. was changed to HCL Infinet Ltd. w.e.f. April 27, 2007.

d. HCL Infinet Ltd. (formerly known as Microcomp Ltd.) has allotted 16,96,810 equity shares of Rs.100/- each credited as fully paid up to the Company pursuant to the Scheme of Arrangement.

e. On the Scheme becoming effective, HCL Infinet Ltd. (formerly known as Microcomp Ltd.) and Stelmac Engineering Private Ltd., (a company acquired by erstwhile HCL Infinet Ltd. during the year) the wholly owned subsidiaries of erstwhile HCL Infinet Ltd., have become wholly owned subsidiaries of the Company.

f. The amalgamation of erstwhile HCL Infinet Ltd. has been accounted for under the 'pooling of interest method', in the manner specified in the Scheme and in accordance with the various pronouncements issued by the Institute of Chartered Accountants of India and the following balances as at April 1, 2006 of the Telecommunication and Office Automation business of erstwhile HCL Infinet Ltd. have been adjusted with the profit and loss account forming part of reserves of the Company:

	Rs./Crores
Assets	
Fixed assets (net) (including capital work-in-progress Rs.0.43 Crores)	7.76
Investments	53.80
Deferred Tax Assets/(Liabilities)	0.13
Debtors	208.74
Inventories	245.31
Cash & Bank balances	81.56
Other Current Assets and Loans and Advances	160.11
Total	**757.41**
Liabilities	
Current Liabilities & Provisions	514.61
Total	**514.61**
Net assets acquired on amalgamation	**242.80**
Transfer of balances of Amalgamated Company	
Profit and Loss balance	223.29
Less:-	
Adjustment for cancellation of Company's investment in Transferor Company	19.51
Shortfall arising on Amalgamation	-

g. The transactions including income and expenses for the period from July 1, 2006 to March 31, 2007, in respect of Telecommunication and Office Automation business, when these businesses were being run and managed in trust by erstwhile HCL Infinet Ltd., have also been incorporated in these accounts. The results of the said business for the period from April 1, 2006 to June 30, 2006 have been adjusted to the profit and loss account forming part of reserves. The accounts of the Company for the year ended June 30, 2007 include the results of said business. Consequently, revenue and profit before tax for the year are higher by Rs.9033.67 Crores and Rs.268.83 Crores respectively.

25. A Scheme of Amalgamation for merging the wholly owned subsidiary, Stelmac Engineering Private Ltd. with the Company w.e.f. April 1, 2007, the appointed date, has been filed with the Hon'ble High Court of Delhi. The Hon'ble High Court has directed for convening of the meeting of the secured and unsecured creditors of the Company on September 22, 2007 to approve the scheme.

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

		2007 **Rs./Crores**	2006 Rs./Crores
Disclosure of amounts at the year end and the maximum amount of loans/advances/investments outstanding during the year ended June 30, 2007.			
A.	**Loans and Advances in the nature of Loans to Subsidiary.**		
a.	Name	**Stelmac Engineering Private Ltd.**	Nil
b.	Balance outstanding at the year end	**5.12**	Nil
c.	Maximum amount outstanding during the year ended June 30, 2007	**5.12**	Nil
B.	**Loans and Advances in the nature of loans to Fellow Subsidiaries**		
a.	Name	**Nil**	Nil
b.	Balance outstanding at the year end	**Nil**	Nil
c.	Maximum amount outstanding during the year ended June 30, 2007	**Nil**	Nil
C.	**Loans and Advances in the nature of Loans where no repayment is schedule.**		
a.	Name	**Stelmac Engineering Private Ltd.**	Nil
b.	Balance outstanding at the year end	**5.12**	Nil
c.	Maximum amount outstanding during the year ended June 30, 2007	**5.12**	Nil
D.	**Loans and Advances in the nature of loans where no interest or interest below Section 372A of Companies Act is charged**		
a.	Name	**Stelmac Engineering Private Ltd.**	Nil
b.	Balance outstanding at the year end	**5.12**	Nil
c.	Maximum amount outstanding during the year ended June 30, 2007	**5.12**	Nil

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

E.	**Loans and Advances in the nature of loans to firms/companies in which directors are interested**	**Nil**	Nil
F.	**Disclosure of Investment in the Company's own shares**		
a.	Name of the Loanee	**Nil**	Nil
b.	Balance outstanding at the year end	**Nil**	Nil
c.	Maximum amount outstanding during the year ended June 30, 2007	**Nil**	Nil
d.	Investments made by the Loanee	**Nil**	Nil
e.	Maximum amount of Investment during the year ended June 30, 2007	**Nil**	Nil

27. The current year figures include those relating to the amalgamating company (Refer note 24) for the year ended June 30, 2007 and therefore, the figures of the previous year are not comparable with those of the current year.

28. 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.	State Code
	023955	55
	Balance Sheet Date	
	30 06 2007 (DD MM YYYY)	

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

	Public Issue	Rights Issue
	NIL	NIL
	Bonus Issue	Private Placement
	NIL	NIL

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

	Total Liabilities	Total Assets
Sources of Funds	10935800	10935800
	Paid-up Capital	Reserves and Surplus
	338306	8113843
	Secured Loans	Unsecured Loans
	120216	2238665
Application of Funds	Net Fixed Assets	Investments
	1198364	2797812
	Net Current Assets	Misc. Expenditure
	6939624	NIL
	Accumulated Losses	
	NIL	
Performance of Company	Turnover	Total Expenditure
	116968393	112668498
(Please tick Appropriate box	Profit/ Loss before Tax	Profit/ Loss After Tax
+ for Profit, - for Loss)	+ 4299895	+ 3178535
	Earning Per Share in Rs.	Dividend Rate (%)
	18.82	400

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

Item Code No. (ITC Code)	847100
Product Description	COMPUTERS
Item Code No. (ITC Code)	852500
Product Description	TELECOMMUNICATION PRODUCTS
Item Code No. (ITC Code)	900900
Product Description	OFFICE AUTOMATION PRODUCTS

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2007 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.21.82 Crores as at June 30, 2007, considered in the consolidated financial statements. Attention is invited to Note 16 of Notes to accounts (Schedule 21) regarding the subsidiary whose financial statements are unaudited, the impact of which is not likely to be material.

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 On the basis of the information and explanations given to us in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   a. in case of the Consolidated Balance Sheet, of the consolidated state of affairs of HCL Infosystems Limited and its subsidiaries as at June 30, 2007;

   b. in case of the Consolidated Profit and Loss Account, of the consolidated results for the year ended on that date; and

   c. in the case of the Consolidated Cash Flow Statement, of the Consolidated Cash Flows of HCL Infosystems Limited and its subsidiaries for the year ended on that date.

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

Camp : Bangkok
Date : August 23, 2007

CONSOLIDATED BALANCE SHEET AS AT 30TH JUNE

	Schedule		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
Sources of Funds:					
Shareholders' Funds :					
Capital	1		**33.83**		33.75
Reserves and Surplus	2		**825.85**		663.93
Loan Funds:					
Secured Loans	3		**12.02**		44.49
Unsecured Loans	4		**223.87**		40.15
Deferred Tax Liabilities (Net)	21 (5)		**12.48**		10.76
			1108.05		793.08
Application of Funds:					
Fixed Assets:	5				
Gross Block		**228.71**		167.83	
Less: Depreciation		**99.37**		87.55	
Net Block		**129.34**		80.28	
Capital Work-in-Progress (Including Capital Advances)		**21.88**	**151.22**	18.11	98.39
Investments	6		**271.59**		294.96
Current Assets, Loans & Advances:					
Inventories	7	**791.88**		469.61	
Sundry Debtors	8	**1005.23**		705.30	
Cash and Bank Balances	9	**197.65**		214.92	
Other Current Assets	10	**97.95**		97.25	
Loans and Advances	11	**67.82**		55.49	
		2160.53		1542.57	
Less:Current Liabilities & Provisions	12				
Current Liabilities		**1394.41**		1086.70	
Provisions		**80.88**		56.14	
		1475.29		1142.84	
Net Current Assets			**685.24**		399.73
			1108.05		793.08
Consolidated Significant Accounting Policies	20				
Consolidated Notes to Accounts	21				

This is the Consolidated 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

Camp : Bangkok
Date : August 23, 2007

The schedules referred to above form an integral part of the Consolidated 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

Place : New Delhi
Date : August 23, 2007

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

	Schedule		Year ended 30.06.2007 Rs./Crores		Year ended 30.06.2006 Rs./Crores
Income					
Business Income	13	**11855.43**		11454.97	
Less : Excise Duty		**170.13**	**11685.30**	86.66	11368.31
Other Income	14		**50.48**		33.85
			11735.78		11402.16
Expenditure					
Cost of Sales and Services	15		**10799.54**		10587.98
Personnel	16		**227.17**		180.91
Administration, Selling, Distribution and Others	17		**242.45**		228.00
Repairs and Maintenance	18		**11.03**		6.99
Finance Charges (Net)	19		**10.50**		(0.88)
License fees	20 (10)		**1.57**		1.47
Depreciation		**14.85**		12.48	
Less : Transfer from Revaluation Reserve		**0.04**	**14.81**	0.05	12.43
			11307.07		11016.90
Profit before Tax			**428.71**		385.26
Tax Expense	21 (5)				
- Current [Wealth tax Rs.0.02 Crores (2006 - Rs.0.02 Crores)]		**105.90**		98.53	
- Fringe Benefit		**4.15**		2.96	
- Deferred		**2.71**	**112.76**	3.41	104.90
Profit after Tax			**315.95**		280.36
Balance in Profit and Loss Account brought forward			**475.69**		360.22
Profit available for Appropriation			**791.64**		640.58
Appropriations:					
Proposed Dividend			**33.91**		33.75
Corporate Dividend Tax on Proposed Dividend			**5.76**		4.74
Interim Dividend			**101.39**		100.93
Corporate Dividend Tax on Interim Dividend			**15.22**		14.15
Transfer to General Reserve			**31.79**		11.32
Balance Carried over			**603.57**		475.69
Earning per equity share (in Rs.)					
Basic (of Rs.2/- each)	21 (12)		**18.70**		16.69
Diluted (of Rs.2/- each)	21 (12)		**18.57**		16.45
Consolidated Significant Accounting Policies	20				
Consolidated Notes to Accounts	21				

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

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

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

SUSHIL KUMAR JAIN
Company Secretary

Camp : Bangkok
Date : August 23, 2007

Place : New Delhi
Date : August 23, 2007

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

		Year ended 30.06.2007 Rs./Crores		Year ended 30.06.2006 Rs./Crores
1. Cash Flow from Operating Activities				
Profit before Tax		**428.71**		385.26
Adjustments for:				
Depreciation	**14.81**		12.43	
(Profit)/Loss on sale of Fixed Assets (Net)	**0.06**		0.05	
(Profit)/Loss on disposal of Investments (Net)	**(5.88)**		(6.18)	
Interest on borrowings	**21.46**		13.26	
Interest and Dividend income	**(13.41)**		(11.62)	
Unrealised (Gain)/Loss on Foreign Exchange Fluctuation (Net)	**(9.99)**		6.50	
Provision for Doubtful Debts	**0.92**		0.72	
Income Tax Provision for earlier years written back	**–**		(4.97)	
Provision/Liabilities no longer required written back	**(7.37)**		(9.48)	
Diminution in the value of Current Investments	**0.36**		0.03	
Provision for Warranty Liability	**12.26**		7.77	
Provision for Gratuity and other Employee Benefits	**5.00**	**18.22**	3.31	11.82
Operating profit before Working Capital Changes		**446.93**		397.08
Adjustments for:				
Trade and Other Receivables	**(315.88)**		(172.47)	
Inventories	**(322.27)**		(120.22)	
Trade Payables and Other Liabilities	**311.22**	**(326.93)**	275.95	(16.74)
Cash generated from Operation		**120.00**		380.34
Direct Tax (paid)/refund (Net) (Including Interest)		**(93.53)**		(101.71)
Cash from Operating Activities		**26.47**		278.63
Net Cash from Operating Activities (A)		**26.47**		278.63
Cash Flow from Investing Activities				
Interest and Dividend Received (Gross)	**15.20**		11.43	
Purchase of Fixed Assets	**(63.68)**		(25.38)	
Sale of Fixed Assets	**0.16**		8.03	
Purchase of Investments	**(1805.82)**		(2101.82)	
Disposal/Redemption of Investments	**1834.72**		1956.46	
Capital Work-in-Progress (Net)	**(3.77)**		(17.05)	
Net cash from/(used in) Investing activities (B)		**(23.19)**		(168.33)

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH JUNE

		Year ended 30.06.2007 Rs./Crores		Year ended 30.06.2006 Rs./Crores
Cash Flow from Financing Activities				
Share Capital Issued	**0.08**		0.31	
Interest Paid	**(21.61)**		(13.20)	
Share Premium Received	**4.34**		16.08	
Secured Loans - Short Term Received/(Paid)	**(7.47)**		(17.23)	
Secured Loans - Long Term Received	**–**		6.00	
Secured Loans - Long Term (Paid)	**(25.00)**		–	
Unsecured Loans Received/(Paid)	**183.72**		14.05	
Dividend Paid (including dividend tax)	**(154.61)**		(152.66)	
Net cash from Financing activities (C)		**(20.55)**		(146.65)
Opening Balance of Cash and Cash Equivalents		**214.92**		251.27
Closing Balance of Cash and Cash Equivalents [(Includes Exchange Rate Fluctuation of Rs.0.01 Crores (2006 - Rs.0.31 Crores)] [Includes unclaimed dividend of Rs.2.54 Crores (2006 - Rs.2.05 Crores)]		**197.65**		214.92
Net Increase/(Decrease) in Cash and Cash Equivalents		**(17.27)**		(36.35)
Total (A)+(B)+(C)		**(17.27)**		(36.35)

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

This is the Consolidated 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
Camp : Bangkok
Date : August 23, 2007

AJAI CHOWDHRY
Chairman and
Chief Executive Officer

S. BHATTACHARYA
Director

SUSHIL KUMAR JAIN
Company Secretary

Place : New Delhi
Date : August 23, 2007

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
1- Capital		
[Schedule-21, Notes 6 and 14]		
Authorised:		
55,00,00,000 (2006 - 40,00,00,000 Equity shares of Rs.2/- each)	**110.00**	80.00
5,00,000 (2006 - 5,00,000) Preference Shares of Rs.100/- each	**5.00**	5.00
	115.00	85.00
Issued, Subscribed and Paid up:		
16,91,52,650 (2006 - 16,87,29,255) Equity shares of Rs.2/- each, fully paid up.	**33.83**	33.75
Add : Shares Forfeited [Represents Rs.1000 (2006 - Rs.1000)]	**0.00**	0.00
	33.83	33.75

Notes:-

1 Pursuant to the Scheme of Arrangement approved by Hon'ble Delhi High Court (refer note 14 of schedule 21), the authorised equity share capital of the Company stands increased by Rs.30 Crores being part of the authorised equity share capital of HCL Infinet Ltd., the erstwhile wholly owned subsidiary which was amalgamated with the Company.

2 Paid up share capital includes :
   a) 5,04,47,295 (2006 - 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 (2006 - 5,31,82,765) Equity Shares of Rs.2/- each Bonus shares issued from Securities Premium Account.
   c) 96,05,355 (2006 - 91,81,960) Equity Shares of Rs.2/- each issued pursuant to the exercise of options granted under ESOP Scheme 2000.

3 Of the above subscribed shares, 7,46,51,388 (2006 - 7,46,51,388) Equity Shares of Rs.2/- each are held by HCL Corporation Limited.

2- Reserves and Surplus [Schedule-21, Notes 13 and 14]	As at 01.07.2006 Rs./Crores	Additions/ Adjustments Rs./Crores	Deductions/ Adjustments Rs./Crores	**As at 30.06.2007 Rs./Crores**
Capital Reserve	**0.00**	**-**	**-**	**0.00**
[Represents Rs.37135 (2006 - Rs.37135)]	(0.00)	(-)	(-)	(0.00)
Securities Premium Account	**104.45**	**4.34**	**-**	**108.79**
	(88.37)	(16.08)	(-)	(104.45)
General Reserve	**80.82**	**31.79**	**2.04**	**110.57**
	(69.50)	(11.32)	(-)	(80.82)
Revaluation Reserve (Adj.)	**2.96**	**-**	**0.04**	**2.92**
	(3.01)	(-)	(0.05)	(2.96)
Profit and Loss Account	**475.70**	**127.87**	**-**	**603.57**
	(360.23)	(115.47)	(-)	(475.70)
	663.93	**164.00**	**2.08**	**825.85**
	(521.11)	(142.87)	(0.05)	(663.93)

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

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
3- Secured Loans		
Loans and Advances from Banks:		
- Cash Credits	**3.14**	–
- Short Term Foreign Currency Loan		
External Commercial Borrowings	**2.88**	13.49
- Long Term Loan		
From others	**6.00**	31.00
	12.02	44.49

Notes:-

1) Cash Credits along with non-fund based facilities from Banks (External Commercial Borrowings) 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.

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
4- Unsecured Loans		
Public Deposits	**0.06**	0.09
Interest accrued and due	**0.01**	0.01
Short term Loans and Advances:		
- From Banks -Commercial Paper	**70.00**	40.00
- From Banks - Others	**25.00**	-
Foreign Currency loan:		
- External Commercial Borrowings	**17.22**	-
Other Loans and Advances:		
- From a Financial Institution	**0.01**	0.04
- Others	**111.57**	-
Deferred Lease Obligations:	**0.00**	0.01
	223.87	40.15

Notes:-

1) Amount payable within one year is Rs.201.47 Crores (2006 - Rs.40.04 Crores)

2) Public Deposits represent matured deposits.

5- Fixed Assets

[Schedule-21, Notes 7(b) and 14]

Rs./Crores

	Gross Block				Depreciation				Net Block	
	As at 01.07.2006	Additions/ Adjusments during the Year	Deductions/ Adjustments/ Retired during the Year	**As at 30.06.2007**	As at 01.07.2006	Additions/ Adjustments during the Year	Deductions during the Year	**As at 30.06.2007**	**As at 30.06.2007**	As at 30.06.2006
Tangible:										
Land - Leasehold	6.51	1.40	-	**7.91**	0.39	0.09	-	**0.48**	**7.43**	6.12
Land - Freehold	5.01	0.00	-	**5.01**	-	-	-	**-**	**5.01**	5.01
Buildings	47.87	33.26	0.04	**81.09**	10.33	1.43	0.01	**11.75**	**69.34**	37.54
Plant & Machinery and Air Conditioners	62.87	14.74	0.64	**76.97**	43.63	7.14	0.54	**50.23**	**26.74**	19.24
Furniture, Fixtures and Office Equipment	38.61	14.15	2.40	**50.36**	29.98	5.66	2.33	**33.31**	**17.05**	8.63
Vehicles	1.39	0.28	0.19	**1.48**	0.91	0.12	0.15	**0.88**	**0.60**	0.48
Intangible :										
Goodwill	0.02	0.06	-	**0.08**	-	-	-	**-**	**0.08**	0.02
Acquired Software	3.05	0.26	-	**3.31**	2.31	0.29	-	**2.60**	**0.71**	0.74
License Fees	2.50	-	0.00	**2.50**	0.00	0.12	0.00	**0.12**	**2.38**	2.50
TOTAL	**167.83**	**64.15**	**3.27**	**228.71**	**87.55**	**14.85**	**3.03**	**99.37**	**129.34**	80.28
Previous Year	152.15	25.89	10.21	167.83	77.19	12.51	2.15	**87.55**		
Capital Work-in-Progress									**21.88**	18.11
[Including Capital Advances of Rs.1.60 Crores (2006 - Rs.7.18 Crores)]									**151.22**	98.39

Notes :

1. Land - Freehold and Building at Ambattur amounting to Rs.0.57 Crores (2006 - Rs.0.57 Crores) and Building at Mumbai amounting to Rs.0.44 Crores (2006 - Rs.0.91 Crores) are pending registration in the name of the Group.
2. Additions to Gross Block include Rs.21.73 Crores on account of assets acquired on acquisition of Stelmac Engineering Private Ltd.
3. Previous year additions to Gross Block and Accumulated Depreciation include Rs.1.81 Crores and Rs.0.03 Crores respectively, on account of assets acquired on acquisition of Microcomp Ltd.

6- Investments

	As at 30.06.2006 Units	As at 30.06.2007 Units	Face Value Rs.	**As at 30.06.2007 Rs./Crores**	As at 30.06.2006 Rs./Crores
Unquoted (Others) Current :					
Growth Options					
Birla Floating Rate Fund - Long Term Plan	3191338	-	10	**-**	3.50
Birla Fixed Maturity Plan	-	3565062	10	**4.00**	-
DSPML Liquidity Fund	24315	-	1000	**-**	2.51
DSP Merrill Lynch Floating Rate Fund	880475	-	10	**-**	1.00
Grindlays Fixed Maturity Plan	12768365	-	10	**-**	12.77
Grindlays Floating Rate Fund - Short Term Plan	446030	-	10	**-**	0.50
HDFC Fixed Maturity Plan	-	5000000	10	**5.00**	-
HSBC Cash Fund	13463187	-	10	**-**	15.00
Kotak Fixed Maturity Plan	-	4000000	10	**4.00**	
Kotak Floating Rate Fund - Short Term Plan	890274	-	10	**-**	1.00
Prudential ICICI Floating Rate - Long Term	3809140	-	10	**-**	3.96
Prudential ICICI Liquid Plan	13091297	-	10	**-**	23.00
Prudential ICICI Blended Plan - B	5000000	-	10	**-**	5.00
Reliance Fixed Maturity Fund	2001834	-	10	**-**	2.00
Standard Chartered Liquidity Manager Plus	246636	-	1000	**-**	25.00
Templeton Floating Rate Income Fund - Long Term Plan	12224031	-	10	**-**	12.64
Templeton India Treasury Management Account	72382	-	1000	**-**	8.00
				13.00	115.88
Dividend Options					
ABN AMRO Floating Rate Fund	10279253	-	10	**-**	10.28
ABN Cash Fund	25259200	-	10	**-**	25.26
Deutsche Insta Cash Plus Fund	15047136	-	10	**-**	15.16
DSP Merrill Lynch Floating Rate Fund	51376	-	1000	**-**	5.14

(Contd.)

	As at 30.06.2006 Unit	As at 30.06.2007 Units	Face Value Rs.	**As at 30.06.2007 Rs./Crores**	As at 30.06.2006 Rs./Crores
DSP Merrill lynch Liquidity Fund	151872	200081	1000	**20.02**	15.19
Grindlays Cash Fund	6962854	-	10	**-**	7.15
Grindlays Floating Rate - Short Term Plan - C	10252543	-	10	**-**	10.31
HDFC Liquid Fund	20183427	12242390	10	**15.28**	25.08
HSBC Cash Fund	25022723	35656946	10	**35.71**	25.05
HSBC Fixed Term Series	-	5215431	10	**5.21**	-
Prudential ICICI Liquid Plan	-	36887901	10	**43.96**	-
Prudential ICICI Floating Rate Plan - C	10297217	-	10	**-**	10.30
Principal Cash Management Liquid Fund	15135838	50106372	10	**50.14**	15.14
Standard Chartered Liquidity Manager Plus	-	467270	1000	**46.75**	-
Templeton India Treasury Management Account	149990	312474	1000	**31.27**	15.02
Grindlays Cash Fund - Daily Dividend	-	9685301	10	**10.25**	-
				258.59	179.08
				271.59	294.96

Note :- Net asset value of Unquoted (Others) Current Investments in Mutual Funds as on June 30, 2007 is Rs. 272.42 Crores (2006 - Rs.297.49 Crores)

	As at 30.06.2007 Rs./Crores	As at 30.06.2006 Rs./Crores
7- Inventories		
Raw Materials and Components (Including in Transit)	**110.89**	63.49
Stores and Spares	**56.18**	52.55
Finished Goods (Including in Transit)	**623.58**	347.62
Work-in-Progress	**1.23**	5.95
	791.88	469.61

8- Sundry Debtors - Unsecured

		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
Debts outstanding for a period exceeding six months :				
- Considered Good	**128.53**		73.96	
- Considered Doubtful	**1.36**		1.17	
	129.89		75.13	
Other Debts :				
- Considered Good	**876.70**		631.34	
	1006.59		706.47	
Less : Provision for Doubtful Debts	**1.36**	**1005.23**	1.17	705.30
		1005.23		705.30

		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
9- Cash and Bank Balances				
Cash balance on hand		**0.42**		0.26
Cheques in hand		**35.13**		24.02
Balances with Scheduled Banks :				
- On Current Account	**143.88**		130.33	
Less :- Money held in Trust	**0.40**	**143.48**	0.40	129.93
- On Dividend Account		**2.54**		2.05
- On Margin Account		**0.56**		0.41
- On Fixed Deposits	**15.84**		58.59	
Less :- Money held in Trust	**0.32**	**15.52**	0.34	58.25
		197.65		214.92

Note:- Fixed Deposit includes Rs.0.07 Crores (2006 - 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	**22.40**	18.81
Prepaid Expenses	**28.78**	14.60
Lease Rental Recoverable	**46.04**	62.52
Unbilled Revenue	**0.73**	1.32
	97.95	97.25

11- Loans and Advances		
Unsecured Considered Good		
- Amounts Recoverable in cash or in kind or for value to be received	**59.34**	46.81
- Balances with Customs, Port Trust, Excise and Sales Tax Authorities	**8.48**	8.68
	67.82	55.49

		As at 30.06.2007 Rs./Crores		As at 30.06.2006 Rs./Crores
12- Current Liabilities and Provisions [Schedule-21, Notes 4(a) and (b)]				
Current Liabilities:				
Acceptances		**313.93**		283.64
Sundry Creditors :				
- Due to Small Scale Industrial Undertakings	**1.49**		1.96	
- Others	**828.36**	**829.85**	594.52	596.48
Sundry Deposits		**3.90**		2.46
Interest accrued but not due :				
- On Secured Loans		**0.01**		0.16
- On Unsecured Loans - Others		**0.54**		–
Investor Education and Protection Fund :				
- Unclaimed Dividend *		**2.54**		2.05
Advances from Customers		**24.98**		14.63
Deferred Revenue		**141.14**		131.49
Other Liabilities		**77.52**		55.79
		1394.41		1086.70
Provisions:				
Proposed Dividend		**33.91**		33.75
Corporate Dividend Tax on Proposed Dividend		**5.76**		4.74
Provision for Income Tax [Net of Advance Income Tax of Rs.290.65 Crores (2006 - Rs.197.12 Crores)]		**19.52**		3.00
For Warranty Liability		**3.80**		2.82
For Gratuity and other Employee Benefits		**17.89**		11.83
		80.88		56.14
		1475.29		1142.84

* There is no amount due and outstanding to be credited to Investor Education and Protection Fund as at June 30, 2007. These amounts shall be credited and paid to the fund as and when due.

	Year ended 30.06.2007 Rs./Crores	Year ended 30.06.2006 Rs./Crores
13- Business Income		
Sales and Related Income	**11495.59**	11180.90
Services	**359.84**	274.07
	11855.43	11454.97
14- Other Income		
Interest :		
- Refund from Income Tax Authority	**–**	0.17
- On Others	**–**	0.09
Dividend from (Others) Current Investments	**11.42**	6.40
Insurance Claims	**0.47**	0.40
Income Tax Provision for earlier years written back	**–**	4.97
Provisions/Liabilities no longer required written back	**7.37**	9.48
Profit on disposal of (Others) Current Investments (Net)	**5.88**	6.18
Profit on Foreign Exchange Fluctuation (Net)	**18.96**	-
Miscellaneous Income	**6.38**	6.16
	50.48	33.85
15- Cost of Sales and Services [Schedule-21, Note 9]		
Raw Materials and Components Consumed	**1097.52**	1210.77
Purchase of Finished Goods and Services (Net)	**9808.88**	9358.48
Stores and Spares Consumed	**41.26**	32.47
Power and Fuel	**1.64**	1.41
Labour and Processing Charges	**4.30**	3.93
Royalty (Net)	**117.18**	106.20
	11070.78	10713.26
(Increase)/Decrease in stocks of Finished Goods and Work-in-Progress :		
Closing Stock		
- Finished Goods (Including in Transit) [Includes excise duty of Rs.3.77 Crores (2006 - Rs.3.53 Crores)]	**623.58**	347.62
- Work-in-Progress	**1.23**	5.95
	624.81	353.57
Opening stock		
- Finished Goods (Including in Transit) [Includes excise duty of Rs.3.53 Crores (2006 - Nil)]	**347.62**	220.45
- Work-in-Progress	**5.95**	7.84
	353.57	228.29
	(271.24)	(125.28)
	10799.54	10587.98

	Year ended 30.06.2007 Rs./Crores	Year ended 30.06.2006 Rs./Crores
16- Personnel		
Salaries, Wages, Allowances, Bonus and Gratuity	**212.74**	169.62
Contribution to Provident Fund and Other Funds	**8.06**	6.35
Staff Welfare Expenses	**6.37**	4.94
	227.17	180.91
17- Administration, Selling, Distribution and Others [Schedule-21, Note 7(b)]		
Rent	**13.89**	9.76
Rates and Taxes	**7.80**	10.61
Printing and Stationery	**4.08**	3.47
Communication	**9.57**	8.60
Travelling and Conveyance	**26.21**	21.76
Packing, Freight and Forwarding	**43.51**	42.49
Legal and Professional	**20.54**	10.06
Training and Conference	**3.83**	4.13
Office Electricity and Water	**6.92**	5.96
Insurance	**8.07**	13.21
Advertisement, Publicity and Entertainment (Net of Reimbursements)	**44.81**	40.61
Hire Charges	**3.46**	1.28
Commission on Sales	**17.54**	16.10
Bank Charges	**8.69**	7.35
Provision for Doubtful Debts	**0.92**	0.72
Loss on Sale of Fixed Assets (Net)	**0.06**	0.05
Loss on Foreign Exchange Fluctuation (Net)	**–**	14.44
Diminution in value of Current Investment	**0.36**	0.03
Miscellaneous	**22.19**	17.37
	242.45	228.00
18- Repairs and Maintenance		
Plant and Machinery	**0.96**	1.05
Buildings	**0.56**	0.21
Others	**9.51**	5.73
	11.03	6.99
19- Finance Charges [Schedule-21, Note 7]		
Interest paid :		
- On Fixed Loans	**14.26**	7.44
- On Others	**7.20**	5.82
	21.46	13.26
Less : Interest received :		
- On Lease Rental	**6.04**	7.47
- On Fixed Deposits [TDS Rs.0.56 Crores (2006 - Rs.0.64 Crores)]	**1.97**	4.92
- On Other Loans and Advances	**0.02**	0.04
- On Others	**2.93**	1.71
	10.96	14.14
	10.50	(0.88)

SCHEDULE 20 - CONSOLIDATED SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF ACCOUNTING AND CONSOLIDATION

The Consolidated Financial Statements of HCL Infosystems Ltd and its subsidiaries are prepared under historical cost convention in accordance with Generally Accepted Accounting Principles applicable in India, relevant provisions of The Companies Act, 1956 and Accounting Standard 21 on Consolidated 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 amortisation.

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 16.12.1993 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 1.4.2001 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 where fair value for mutual funds is based on net asset 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. Cost is determined on the basis of weighted average.

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

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.

The Company uses foreign exchange forward contracts to hedge for some of its exposure to movements in foreign exchange rates. The premium or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract. Exchange differences on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognised as income or expense for the period.

The foreign branch of the Company is considered integral to the Company's operations. The transactions of the branch have been translated as if they were transactions of the Company itself.

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. Gains/losses arising out of actuarial valuation are recognised immediately in the profit and loss account as income/expense.

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

(c) The Company makes defined contribution to a superannuation trust established for the purpose. The Company has no further obligations beyond its monthly 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.

9. GOVERNMENT GRANTS

Revenue grants where reasonable certainty exists that the ultimate collection will be made are recognised 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 16, 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

(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.

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 including fringe benefit tax 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 recognised 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. USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Examples of such estimates include estimate of cost expected to be incurred to complete performance under composite arrangements, income taxes, provision for warranty, employment retirement benefit plans, provision for doubtful debts and estimated useful life of the fixed assets. The actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

17. 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.

SCHEDULE 21 - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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. (Refer note 14):

Name of the Subsidiary Company	Country of Incorporation	Extent of holding (%) as at 30th June	
		2007	2006
HCL Infinet Ltd.	India	**100**	100
(formerly known as Microcamp Ltd.)			
Slelmac Engineering Private Ltd.*	India	**100**	–

   * A wholly owned subsidiary of erstwhile HCL Infinet Ltd., acquired during the year. The results of Stelmac Engineering Private Ltd. are not material.

2. Estimated value of contracts remaining to be executed on capital account and not provided for (net of advances) are Rs.2.57 Crores (2006 – Rs.1.37 Crores)

3. Contingent Liabilities:

   a) Claims not acknowledged as debts for:

	2007 Rs./Crores	2006 Rs./Crores
Sales Tax*	**9.73**	6.29
Excise*	**10.47**	-
Income Tax*	**0.54**	0.54
Industrial Disputes, Civil Suits and Consumer Disputes	**7.29**	6.58

   *Against the above, the Company has deposited a sum of Rs.4.28 Crores (2006- Rs.1.58 Crores)

   b) Consequent to the amalgamation of erstwhile HCL Infinet Ltd., Corporate Guarantee of Rs.324.50 Crores (amount utilised as on June 30, 2006 - Rs.279.69 Crores) given to Banks in earlier years for working capital facilities stand cancelled.(Refer note 14)

   (c) The Company has transferred Financial Assets (Lease Rental Recoverable) of Rs.Nil (2006 – Rs.47.62 Crores) to a bank under a financing arrangement. Balance outstanding with the bank as on June 30, 2007 is Rs.39.64 Crores (2006 – Rs.47.62 Crores). The transfer of these Financial Assets is with recourse on the Company.

4. The company has the following provisions involving substantial estimation:

   (a) Warranty Provision:

	2007 Rs./Crores	2006 Rs./Crores
Opening Balance as on July 1	**2.82**	2.97
Additions during the year	**12.26**	7.77
Utilised / Reversed during the year	**11.28**	7.92
Closing Balance as on June 30	**3.80**	2.82

   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.

5. Taxation:

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

	2007 Rs./Crores		2006 Rs./Crores	
Deferred tax assets				
Allowances for doubtful debts	**0.67**		0.64	
Demerger Scheme Expenses	**0.01**		0.08	
Expense accruals	**4.86**		5.05	
Impact of Revised AS-15	**1.00**		-	
Other timing differences	**0.08**	**6.62**	0.05	5.82

Deferred tax liabilities				
Depreciation/Amortisation	**1.68**		0.61	
Lease adjustments	**12.84**		11.39	
Other timing differences	**4.58**	**19.10**	4.58	16.58
Deferred tax liability (Net)		**12.48**		10.76

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 subsidiaries. These options vest over a period of 42 and 60 months respectively from the date of grant and are to be exercised with in 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 for five equity Shares of Rs. 2/- each	Options outstanding at the beginning of the year	Options granted during the year year	Options forfeited during the year year	Options exercised during the year	Options expired during the year	Options outstanding at the end of the	Options exercisable at the end of the
10-Aug-00	289.00	47967	-	-	7700	5072	35195	35195
		(84894)	(-)	(-)	(36327)	(600)	(47967)	(47967)
28-Jan-04	538.15	691611	-	50552	69459	10842	560758	193000
		(987304)	(-)	(62202)	(226373)	(7118)	(691611)	(278366)
25-Aug-04	603.95	116092	-	12480	6920	7073	89619	47073
		(171758)	(-)	(23104)	(30817)	(1745)	(116092)	(18886)
18-Jan-05	809.85	243874	-	13048	600	4876	225350	132598
		(272950)	(-)	(13596)	(15480)	(-)	(243874)	(63645)
15-Feb-05	809.30	4820	-	-	-	1320	3500	2296
		(8400)	(-)	(3080)	(500)	(-)	(4820)	(2020)
15-Mar-05	834.40	52520	-	5440	-	2592	44488	27835
		(57416)	(-)	(4896)	(-)	(-)	(52520)	(16361)
15-Apr-05	789.85	18712	-	3136	-	1728	13848	9096
		(23384)	(-)	(4672)	(-)	(-)	(18712)	(6151)
14-May-05	770.15	9240	-	-	-	-	9240	5544
		(17400)	(-)	(8160)	(-)	(-)	(9240)	(2772)
15-Jun-05	756.15	13600	-	1760	-	-	11840	7632
		(18400)	(-)	(4800)	(-)	(-)	(13600)	(4080)
15-Jul-05	978.75	26160	-	6048	-	1728	18384	12154
		(-)	(27440)	(1280)	(-)	(-)	(26160)	(-)
13-Aug-05	1144.00	27230	-	1120	-	480	25630	15522
		(-)	(33310)	(6080)	(-)	(-)	(27230)	(-)
15-Sep-05	1271.25	13620	-	-	-	-	13620	8172
		(-)	(13620)	(-)	(-)	(-)	(13620)	(-)
15-Mar-07	648.75	-	158000	-	-	-	158000	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
							1209472	**496117**
							(1265446)	(440248)

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

Details of Grant made under Employee Stock Based Componsation Plan 2005.

Date of grant	Exercise price of the option for five equity Shares of Rs. 2/- each	Options 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	2821780	-	335898	-	55222	2430660	499270
		(-)	(3196840)	(375060)	(-)	(-)	(2821780)	(-)
19-Oct-05	1157.50	82320	-	13830	-	1150	67340	14084
		(-)	(107010)	(24690)	(-)	(-)	(82320)	(-)
15-Nov-05	1267.75	47380	-	22666	-	1786	22928	3802
		(-)	(51810)	(4430)	(-)	(-)	(47380)	(-)
15-Dec-05	1348.25	49000	-	22930	-	810	25260	5404
		(-)	(56200)	(7200)	(-)	(-)	(49000)	(-)
14-Jan-06	1300.00	54220	-	22138	-	328	31754	6972
		(-)	(59140)	(4920)	(-)	(-)	(54220)	(-)
15-Feb-06	1308.00	9630	-	2224	-	32	7374	1526
		(-)	(10940)	(1310)	(-)	(-)	(9630)	(-)
16-Mar-06	1031.00	46340	-	6240	-	160	39940	7988
		(-)	(47840)	(1500)	(-)	(-)	(46340)	(-)
17-Apr-06	868.75	33760	-	18360	-	-	15400	3640
		(-)	(35260)	(1500)	(-)	(-)	(33760)	(-)
15-May-06	842.50	38100	-	7950	-	-	30150	6030
		(-)	(38100)	(-)	(-)	(-)	(38100)	(-)
15-Jun-06	620.50	54740	-	23230	-	-	31510	6246
		(-)	(54740)	(-)	(-)	(-)	(54740)	(-)
17-Jul-06	673.75	-	46120	9740	-	-	36380	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
15-Mar-07	648.75	-	445100	14000	-	-	431100	-
		(-)	(-)	(-)	(-)	(-)	(-)	(-)
							3169796	**554962**
							(3237270)	(-)

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

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	45% to 68%	47% to 62%
Risk free rate	4.57% to 7.99%	6.49% to 7.98%
Exercise Price	Rs.538.15 to Rs.1271.25	Rs.620.50 to Rs.1348.25
Time to Maturity (years)	2.20 to 5.50	2.50 to 7.00
Dividend Yield	9% to 21%	10% to 23%
Life of options	8.5 Years	10 Years
Fair Value of options as at the grant date	Rs.653.45 to Rs.1436.09	Rs.667.98 to Rs.1562.97

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, 2007 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:

	2007 Rs./Crores	2006 Rs./Crores
Profit/(Loss) after tax as per Profit and Loss Account (a)	**315.95**	280.36
Add: Employee Stock Compensation Expense as per Intrinsic Value Method	**–**	–
Less: Employee Stock Compensation Expense as per Fair Value Method	**11.39**	20.36
Profit/(Loss) after tax recomputed for recognition of employee stock compensation expense under fair value method (b)	**304.56**	260.00
Earning Per Share based on earnings as per (a) above: (Refer note 12)		
- Basic	**18.70**	16.69
- Diluted	**18.57**	16.45
Earning Per Share had fair value method been employed for accounting of employee stock options:		
- Basic	**18.03**	15.48
- Diluted	**17.90**	15.25

7. Leases :

(a) Finance Leases:

(i) 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.

(ii) The gross investment in the assets given on finance lease as at June 30, 2007 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	**23.65**	**4.01**	**19.64**
	(25.45)	(5.00)	(20.45)
Later than one year and not later than five years	**28.81**	**2.41**	**26.40**
	(47.43)	(5.36)	(42.07)
Total	**52.46**	**6.42**	**46.04**
	(72.88)	(10.36)	(62.52)

[includes minimum sub lease receivable Rs.0.07 Crores (2006 – Rs.0.07 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.13.89 Crores (2006 - Rs.9.76 Crores).

(ii) Non- cancelable leases

(a) The Company has taken computer systems, routers and networking equipments on non-cancelable operating leases, the future minimum lease payments in respect of which are:

	2007 Rs./Crores
Not later than one year	**2.43**
	(2.35)
Later than one year and not later than five years	**4.47**
	(6.22)
Total	**6.90**
	(8.57)

(b) Minimum Lease Payments recognised in the Profit & Loss Account for the year ended June 30, 2007 was Rs.2.20 Crores (2006 – Rs.0.60 Crores)

(c) The gross carrying amount, accumulated depreciation and depreciation expense in respect of office automation products i.e. photocopying machines given on operating lease basis are as below.

Minimum Lease Payments	Rs./Crores
Gross carrying amount	**5.33**
	(-)
Accumulated depreciation	**0.64**
	(-)
Depreciation expense	**0.52**
	(-)

(d) The company has given photocopying machines on non-cancelable operating leases, the future minimum lease receipts in respect of which are:

	Rs./Crores
Not later than one year	**0.02**
	(-)
Later than one year and not later than five years	**0.01**
	(-)
Total	**0.03**
	(-)

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

8. Unaccrued forward exchange cover as on June 30, 2007 of Rs.1.93 Crores (2006 - Rs.0.24 Crores) has been included in prepaid expenses.
9. Duty drawback recognised during the year of Rs.Nil (2006 - Rs.2.14 Crores) has been adjusted against cost of sales and services.
10. Disclosure of related parties/related party transactions.

(a) Company having substantial interest:
HCL Corporation Ltd. due to substantial interest in the voting power

(b) **Related parties with whom transactions have taken place during the year and/or where balances exist**
HCL Technologies Ltd.
HCL Comnet Ltd.
HCL Comnet Systems and Services Ltd.
HCL Peripherals Ltd.
HCL Infosolutions Ltd.
Universal Office Automation Ltd. (formerly known as HCL Office Automation Ltd.)
Others (where there is significant influence):
SSN College of Engineering
Shri Sivasubramaniya Nadar Educational and Charitable Trust
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. J.V. Ramamurthy

ii) Other Key Management Personnel:
Mr. D. Veeraraghavan
Mr. George Paul
Mr. Hari Bhaskaran
Mr. Rajeev Asija
Mr. Rajendra Kumar
Mr. Rakesh Mehta
Mr. Sandeep Kanwar
Mr. S. Pattabiraman*
Mr. Suman Ghose Hazra
Mr. Sushil Kumar Jain
Mr. Vivek Punekar
*Resigned w.e.f. June 1,2007

(c) Summary of Related party disclosures
Note: All transactions with related parties have been entered into in the normal course of business except otherwise stated.

Summary of Consolidated Related Party Disclosures

(Rs./Crores)

A. Transactions	**Company having Substantial interest**		**Others**		**Key Management Personnel**		**Total**	
	June-07	June-06	**June-07**	June-06	**June-07**	June-06	**June-07**	June-06
Sales & Related Income	**1.41**	0.40	**87.07**	55.79			**88.48**	56.19
- HCL Technologies Ltd.			**80.21**	47.35				
Services	**0.00**	0.00	**6.60**	7.64			**6.60**	7.64
- HCL Technologies Ltd.			**6.04**	6.41				
Other Income			**0.93**	1.00			**0.93**	1.00
- HCL Technologies Ltd.			**0.93**	0.96				
Purchase of Goods			**0.24**	0.32			**0.24**	0.32
- HCL Technologies Ltd.			**0.24**	0.32				
Purchase of Services			**5.66**	4.80			**5.66**	4.80
- HCL Technologies Ltd.			**4.07**	2.38				
- HCL Comnet Ltd.			**0.77**	1.71				
Donations Given			**0.96**				**0.96**	
- Shri Sivasubramaniaya Nadar Educational & Charitable Trust			**0.96**					
Bad Debts written off			**0.20**	0.16			**0.20**	0.16
- HCL Technologies Ltd.			**0.07**	0.16				
Assets Purchased			**0.22**				**0.22**	
- HCL Technologies Ltd.			**0.22**					
Assets (Capital work-in-progress) Sold at cost				11.92				11.92
- HCL Technologies Ltd.				11.92				
Remuneration					**6.90**	7.63	**6.90**	7.63
Reimbursements towards expenditure								
a) Received	**0.04**	0.04	**0.07**	0.19			**0.11**	0.23
- HCL Technologies Ltd.			**0.04**	0.14				
- HCL Comnet Ltd.			**0.03**	0.05				
b) Made	**0.05**	0.05	**0.69**	0.29			**0.74**	0.34
- HCL Technologies Ltd.			**0.68**	0.27				

B. Amount due to / from related parties	**Company having Substantial interest**		**Others**		**Key Management Personnel**		**Total**	
	June-07	June-06	**June-07**	June-06	**June-07**	June-06	**June-07**	June-06
Accounts Receivables	**0.45**	0.17	**17.33**	10.43			**17.78**	10.60
Loans & Advances & Other Recoverables			**0.82**	1.04			**0.82**	1.04
Creditors			**0.67**	0.99			**0.67**	0.99
Other Payables	**0.01**	0.01	**0.72**	1.35			**0.73**	1.36

11. Segment Reporting

The Group recognises the following segments as its primary segments.

a) 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.

b) The businesses of Telecom products, Office Automation and services consist of sale of telecommunication products, office equipment products and related comprehensive maintenance services.

c) Internet & Related Services include Internet related products & services consisting 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.

Consolidated Segment wise performance for the year ended June 30, 2007 **Rs. Crores**

	Primary Segments	Products & Related Services		Internet & Related Services	Inter-segment Elimination	Total
		Computer Systems & Other Related Products	Telecommunication & Office Automations			
(i)	**Revenue**					
	External Revenue	2775.56	9041.35	38.52		**11855.43**
		(2378.26)	(9040.76)	(35.95)		(11454.97)
	Intersegment Revenue	9.02	8.21	1.35	-18.58	
		(3.10)	(9.05)	(1.18)	(-13.33)	
	Total Gross Revenue	2784.58	9049.56	39.87	-18.58	**11855.43**
		(2381.36)	(9049.81)	(37.13)	(-13.33)	(11454.97)
	Less: Excise Duty	170.04	0.09			**170.13**
		(86.66)				(86.66)
	Total Net Revenue	2614.54	9049.47	39.87	-18.58	**11685.30**
		(2294.7)	(9049.81)	(37.13)	(-13.33)	(11368.31)
(ii)	**Results**	174.33	267.13	-1.86		**439.60**
		(125.50)	(243.96)	(4.47)		(373.93)
	Less: Unallocable Expenditure					**20.19**
						(8.79)
	Operating Profit					**419.41**
						(365.14)
	Add: Other Income (Excluding Operational Income)					**19.80**
						(19.24)
	Less: Interest (Net)					**10.50**
						(-0.88)
	Profit Before Tax					**428.71**
						(385.26)
	Less: Tax Expense					
	- Current Tax					**105.90**
						(98.53)
	- Deferred Tax					**2.71**
						(3.41)
	- Fringe Benefit Tax					**4.15**
						(2.96)
	Profit After Tax					**315.95**
						(280.36)
(iii)	**Segment Assets**	1464.15	709.38	21.21		**2194.74**
		(950.62)	(518.30)	(20.71)		(1489.63)
	Unallocated Corporate Assets					
	a) Liquid Assets					**287.51**
						(353.55)
	b) Others (including investment in assets given on finance lease)					**101.10**
						(92.75)
	Total Assets					**2583.35**
						(1935.93)
(iv)	**Segment Liabilities**	810.32	584.55	18.80		**1413.67**
		(563.93)	(519.53)	(16.10)		(1099.56)
	Unallocated Corporate Liabilities					
	a) Current Liabilities					**61.62**
						(43.28)
	b) Deferred Tax Liabilities					**12.48**
						(10.76)
	c) Loan Funds					**235.88**
						(84.64)
	Total Liabilities					**1723.65**
						(1238.24)
(v)	**Capital Expenditure**	30.33	9.56	2.51		**42.40**
		(15.71)	(5.75)	(1.67)		(23.13)
(vi)	**Depreciation**	8.61	3.57	2.30		**14.48**
		(6.37)	(2.37)	(3.42)		(12.16)
(vii)	**Other Non Cash Expenses**	16.79	1.05	0.87		**18.71**
		(16.61)	(8.07)	(1.33)		(26.01)

Note: Previous year's figures are given in brackets
Figures for previous year have been regrouped and rearranged to conform with the relevant current period classification.

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	**30.06.2007**	30.06.2006
Profit after tax (Rs./Crores)	**315.95**	280.36
Weighted average number of shares considered as outstanding in computation of Basic EPS	**1,68,923,402**	1,68,003,132
Add dilutive impact of stock options:		
- Exercised	**71,822**	305,092
- Lapsed	**65,530**	81,881
- Issued for no consideration	**1,098,004**	2,088,028
Weighted average number of shares outstanding in computation of Diluted EPS	**1,70,158,758**	1,70,478,133
Basic EPS (of Rs.2/- each)	**Rs.18.70**	Rs.16.69
Diluted EPS (of Rs.2/- each)	**Rs.18.57**	Rs.16.45

13. Effective July 1, 2006, the Company adopted the revised accounting standard on employee benefits. Pursuant to the adoption, the transitional obligation of the Company amounted to Rs.2.04 Crores (net of deferred tax of Rs.1.00 Crores). As required by the standard, the obligation has been adjusted against opening balance of revenue reserves.

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

A. Defined Contribution Plans
   a) Provident Fund
   b) Superannuation Fund

During the year the Company has recognised the following amounts in the Profit and Loss account:

	Rs./Crores
Employers Contribution to Provident Fund	2.80
Employers Contribution to Superannuation Fund	0.83

B. State Plans
   a) Employee State Insurance
   b) Employee's Pension Scheme 1995

During the year the Company has recognised the following amounts in the Profit and Loss account:

	Rs./Crores
Employers contribution to Employee State Insurance	1.40
Employers contribution to Employee's Pension Scheme 1995	2.73

C. Defined Benefit Plans
   a) Gratuity
   b) Leave Encashment/Compensated Absence

The discount rate assumed is 7.50% p.a. which is determined by reference to market yield at the Balance Sheet date on government bonds. The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

		Rs./Crores
	Gratuity	**Leave Encashment**
Reconciliation of opening and closing balances of the present value of the defined benefit obligation:		
Present value of obligation at period beginning*	8.24	3.59
Current service cost	1.97	3.50
Interest cost	0.65	0.37
Actuarial (gain)/loss	0.77	0.96
Benefits paid	(0.70)	(1.46)
Present value of obligation at period end	10.93	6.96

*Includes balances of erstwhile HCL Infinet Limited.

	Gratuity	Leave Encashment
		Rs./Crores
Reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets:		
Present value of the obligation as at period end	10.93	6.96
Fair value of plan assets at period end	-	-
Assets/(Liabilities) recognised in the Balance Sheet	(10.93)	(6.96)
Cost recognised for the period (included under Salary, Wages, Allowances, Bonus and Gratuity)		
Current service cost	1.97	3.50
Interest cost	0.65	0.37
Actuarial (gain)/loss	0.77	0.96
Net cost recognised for the period	3.39	4.83

14. A Scheme of Arrangement ("Scheme") under sections 391 to 394 of the Companies Act, 1956 sanctioned by Hon'ble High Court of Delhi vide order dated March 20, 2007 has come into effect on March 31, 2007 from the appointed date of April 1, 2006.

The Scheme has helped in consolidating the Office Automation and Telecommunication Products and Services business under one Company 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 to keep the licensed businesses (Networking business) of erstwhile subsidiary in a separate company for better focus, control and management.

Pursuant to the Scheme:

a. The Networking business of HCL Infinet Ltd., an erstwhile wholly owned subsidiary, has been demerged and stands transferred to and vested with Microcomp Ltd., a wholly owned subsidiary of erstwhile HCL Infinet Ltd.

b. HCL Infinet Limited, with the residual Telecommunication and Office Automation business stands amalgamated with the Company. Accordingly, HCL Infinet Ltd. stands dissolved without winding up.

c. The name of Microcomp Ltd. was changed to HCL Infinet Ltd. w.e.f. April 27, 2007.

d. HCL Infinet Ltd. (formerly known as Microcomp Ltd.) has allotted 16,96,810 equity shares of Rs.100/- each credited as fully paid up to the Company pursuant to the Scheme of Arrangement.

e. On the Scheme becoming effective, HCL Infinet Ltd. (formerly known as Microcomp Ltd.) and Stelmac Engineering Private Ltd., (a company acquired by erstwhile HCL Infinet Ltd. during the year) the wholly owned subsidiaries of erstwhile HCL Infinet Ltd., have become wholly owned subsidiaries of the Company.

f. The amalgamation of erstwhile HCL Infinet Ltd. has been accounted for under the 'pooling of interest method', in the manner specified in the Scheme in accordance with the various pronouncements issued by the Institute of Chartered Accountants of India and is enumerated below:

	Rs./Crores
Assets	
Fixed assets (net) (including capital work in progress Rs.0.43 Crores)	7.76
Investments	53.80
Deferred Tax Assets/ (Liabilities)	0.13
Debtors	208.74
Inventories	245.31
Cash & Bank balances	81.56
Other Current Assets and Loans and Advances	160.11
Total	**757.41**
Liabilities	
Current Liabilities & Provisions	514.61
Total	**514.61**
Net assets acquired on amalgamation	**242.80**
Transfer of balances of Amalgamated Company	
Profit and Loss balance	
	223.29
Less:-	
Adjustment for cancellation of Company's investment in Transferor Company	19.51
Shortfall arising on Amalgamation	**-**

g. The demerger of Networking business of erstwhile HCL Infinet Ltd. has been given effect to in the account of HCL Infinet Ltd. (formerly known as Microcomp Ltd.) in the manner specified in the Scheme and in accordance with the various pronouncements issued by the Institute of Chartered Accountants of India and is enumerated below:

	Rs./Crores
Assets	
Fixed assets (net) (including capital work in progress Rs.0.81Crores)	8.08
Investments	10.13
Debtors	3.94
Inventories	0.14
Cash & Bank balances	2.04
Other Current Assets and Loans and Advances	8.37
Total	**32.70**
Liabilities	
Current Liabilities & Provisions	15.73
Total	**15.73**
Net assets transferred on demerger	16.97

15. A Scheme of Amalgamation for merging the wholly owned subsidiary, Stelmac Engineering Private Ltd. with the Company w.e.f. April 1, 2007, the appointed date, has been filed with the Hon'ble High Court of Delhi. The Hon'ble High Court has directed for convening of the meeting of the secured and unsecured creditors of the Company on September 22, 2007 to approve the scheme.

16. The profit after tax of Stelmac Engineering Private Ltd. has been taken on the basis of unaudited financial statements for the financial year ended June 30, 2007. It is unlikely that the audited results would be materially different from unaudited results.

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

Financial Summary of HCL Infinet Limited (formerly known as Microcomp Limited), a wholly owned subsidiary as at March 31, 2007

Particulars	Amount in Rs
Share Capital	170181000
Reserves	12968544
Total Assets	183149544
Total Liabilities	183149544
Details of investment	101476000
Turnover	413191194
(Loss) before taxation	(545531)
Provision for taxation (Current/FBT)	2543586
(Loss) After Taxation	(3090117)
Proposed Dividend	NIL

Financial Summary of Stelmac Engineering Private Limited, a wholly owned subsidiary as at March 31, 2007

Particulars	Amount in Rs
Share Capital	600000
Reserves	170285486
Total Assets	221610041
Total Liabilities	221610041
Details of investment	NIL
Turnover	NIL
(Loss) before taxation	(86683)
Provision for taxation	NIL
(Loss) After Taxation	(86683)
Proposed Dividend	NIL

Notice

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

NOTICE is hereby given that the Twenty First Annual General Meeting of the Company will be held on Tuesday, the 23rd October, 2007 at FICCI Auditorium, 1, Tansen Marg, New Delhi-110 001 at 10.00 A.M. to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 30th June, 2007, the Profit and Loss Account for the financial year ended on that date and the Report of the Directors' and Auditors' thereon.

2. To declare Dividend.

3. To appoint a Director in place of Mr. T.S. Purushothaman who retires by rotation and being eligible, offers himself for re-appointment.

4. To appoint a Director in place of Mr. J.V. Ramamurthy who retires by rotation and being eligible, offers himself for re-appointment.

5. To appoint a Director in place of Mr. R.P. Khosla who retires by rotation and being eligible, offers himself for re-appointment.

6. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration. M/s. Price Waterhouse, Chartered Accountants, the retiring Auditors, being eligible offer themselves for reappointment.

SPECIAL BUSINESS:

7. To consider and if thought fit, to pass, with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED that pursuant to Sections 198, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, approval of the Company be and is hereby accorded for payment of enhanced remuneration to Mr. Ajai Chowdhry, Chairman and Chief Executive Officer, with effect from July 1, 2007 for the remaining tenure of his office as whole-time Director i.e till March 31, 2009 as set out in the explanatory statement attached to the notice of this Annual General Meeting."

8. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED that pursuant to the provisions of Sections 198, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, approval of the Company be and is hereby accorded for payment of enhanced remuneration to Mr. J.V. Ramamurthy, whole-time Director, as set out in the explanatory statement attached to the notice of this Annual General Meeting for the period from 1st July, 2007 to 30th June 2008."

By Order of the Board
for HCL Infosystems Ltd.

New Delhi
August 23, 2007

Sushil Kumar Jain
Company Secretary

Notes :

1. The explanatory statement, pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under items 7 & 8 is attached hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. A BLANK PROXY FORM IS ENCLOSED FOR THE USE BY MEMBERS, IF REQUIRED, WHICH MUST BE SUBMITTED WITH THE COMPANY'S REGISTERED OFFICE AT LEAST 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
3. The Register of Members and the Share Transfer Books of the Company shall remain closed from Thursday, the 1st day of November 2007 to Friday, the 2nd day of November, 2007 (both days inclusive) for the purpose of payment of Dividend.
4. Dividend when declared will be paid to the Members whose names appear in the Register of Members on the 31st day of October, 2007 and the beneficial owners as on 31st day of October, 2007 as furnished by NSDL/CDSL.
5. All correspondence with regard to share transfers/dividends and matters related therewith may directly be addressed to the Company's Share Registrar and Transfer Agents (RTA) at the address given below:

   M/s. Alankit Assignments Ltd.
   Alankit House,
   2E/21, Jhandewalan Extension,
   New Delhi – 110 055
   Ph: 011-23541234
   Fax 011-42541967
   Email: rta@alankit.com
   Website : www.alankit.com
6. Members are requested to lodge/notify the transfer deeds, communication for change of address, Bank details, ECS details, wherever applicable and mandates (if any) with the Company's RTA for shares held in physical mode.

   Shareholders holding shares in electronic form are requested to lodge the above details with their depository participants and not with the Company or RTA of the Company as the Company is obliged to use only the data provided by the Depositories while making payment of dividend.
7. Members/Proxy holders are requested to produce at the entrance of the auditorium the enclosed admission slip duly completed and signed.
8. The certificate from the Auditors of the Company certifying that the Employees Stock Option Schemes of the Company are being implemented in accordance with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and in accordance with the resolution passed by members shall be placed at the AGM.
9. Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend declared for the financial year 1999-2000, which remains unpaid and unclaimed for a period of seven years will be due for transfer to the Investor Education and Protection Fund (Fund) of the Central Government on December 7, 2007. Shareholders who have not encashed the dividend warrant(s) are requested to return the unpaid dividend warrant(s) for revalidation or write to the Company at the above address to obtain duplicate dividend warrant immediately. Please note that after such transfer no claims shall lie against the Fund or the Company in respect of individual amounts and no payment shall be made in respect of any such claims.
10. Information under the Listing Agreement of the Directors proposed to be re-appointed:

    (1) Directors retiring by rotation:

    (i) **Mr. Mr. T.S. Purushothaman,** aged 67 years, is an Engineer from Trichur Government Engineering College with over 42 years experience. He is currently a Director of the Company and has been associated with the Company for many years.

    He is not holding directorship in any other company.

    The shareholding of Mr. T.S. Purushothaman in the Company is 5455.

    (ii) **Mr. J.V. Ramamurthy,** aged 54 years, is an Engineer from Madras University and a post-graduate in Applied Electronics from Madras Institute of Technology, Madras. He has experience of over 28 years and long outstanding association.

    He is currently a Whole Time Director of the Company and has been associated with the Company for many years.

    He is a Director in the following other Companies:

Sl No	Name of the Company	Nature of Interest
1	HCL Infinet Ltd.	Whole Time Director

He is Chairman/Member of the committees of the Boards of the following Companies:

Sl No	Name of the Company	Name of the Committee	Chairman/Member
1	HCL Infinet Ltd.	Committee of Directors (Operations)	Chairman
2	HCL Infosystems Ltd.	Committee of Directors (Operations)	Member
		Board Sub-Committee on Customer Satisfaction	Member

The Shareholding of Mr. J.V. Ramamurthy in the Company is 10885.

(iii **Mr. R.P. Khosla,** aged 77 years is a Graduate from Emmanuel College, Cambridge (U.K.)

He is currently a Director of the Company and has been associated with the Company for many years.

He is a Director in the following other Companies:

Sl No	Name of the Company	Nature of Interest
1	Deewan Housing Financial Corporation Ltd.	Director

He is Chairman/Member of the committees of the Boards of the following Companies:

Sl No	Name of the Company	Name of the Committee	Chairman/Member
1	Deewan Housing Financial Corporation Ltd.	Remuneration Committee	Member
2.	HCL Infosystems Ltd.	Shareholders/Investors Grievances Committee	Chairman
		Committee of Directors (Share allotment)	Chairman
		Accounts and Audit Committee Employees Compensation and Employees Satisfaction Committee	Member Member
		Board Sub-Committee on Customer Satisfaction	Member

The Shareholding of Mr. R.P. Khosla in the Company as on June 30, 2007 is NIL

11. The Company has obtained permission from the Ministry of Company Affairs, Government of India, vide their letter No: 47/196/2007-CL-III dated May 11, 2007 for not annexing the accounts of HCL Infinet Ltd. and Stelmac Engineering Pvt. Ltd., the wholly owned subsidiaries of the Company.

    The accounts of the subsidiaries are available at the Registered Office of the Company for inspection on any working day to the shareholders of the Company requiring such information.

12. The Company has obtained permission from the Ministry of Company Affairs, Government of India, vide their letter No: 46/255/2006-CL-III dated February 20, 2007 for not disclosing the quantitative details in compliance of para 3(ii)(d) of Part-II, Schedule-VI to the Companies Act, 1956 for the year ended 30th June, 2007.

EXPLANATORY STATEMENT

PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 7

At the Annual General Meeting held on October 21, 2004, the shareholders of the Company had accorded their consent to reappointment of Mr. Ajai Chowdhry as whole-time Director of the Company for a period of five years effective from April 1, 2004 and also approved the remuneration payable to Mr. Chowdhry w.e.f. July 1, 2004.

Mr. Chowdhry, aged 57 years, is a graduate in Electronics and Telecommunication with over 35 years experience in computer industry in India and abroad.

It is proposed to enhance the remuneration of Mr. Chowdhry, w.e.f. 1st July 2007 for the remaining tenure of his office as whole-time Director i.e. till March 31, 2009.

Basic Salary: from Rs. 3,10,000/- per month to Rs. 4,50,000/- per month – with increase of Rs. 50,000/- per month on yearly basis.

Consolidated Allowance: Rs.20,000/- per month.

City Compensatory Allowance: @ 12% of Basic Salary

Performance Linked Bonus: Annually payable as approved by the Board of Directors/Board Committee.

Perquisites:

Part A:

Company Leased Accommodation / House Rent allowance, Electricity, Gas, Water and Hard and Soft Furnishings, Medical Re-imbursement, Leave Travel Assistance, Club Fee, Medical Insurance, House Repairs/ distemper Expenses, Security Guards and Domestic help at residence : As per the scheme of the Company applicable to the whole - time Directors.

Part B:

Contribution to Provident fund, Superannuation Fund or Annuity Fund:

As per the rules of the Company, which shall be limited to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

Gratuity: Which shall be limited to half a month's salary for each completed year of service, as per the scheme of the Company.

Part C:

Use of own or Company's car with driver and reimbursement of related expenses on running, maintenance, etc., and telephone at the residence.

Provided that consequent upon the increase in the basic salary, the perquisites and other allowances related to basic salary shall also stand revised. There shall be no change in other terms and conditions of appointment of Mr. Ajai Chowdhry.

Provided further that the aggregate of the aforesaid salary, perquisites and other benefits, as per the scheme of the Company applicable to the whole- time Directors, shall not exceed five percent of Company's net profit for the whole - time Director and the aggregate of remuneration to all whole - time Directors shall not exceed ten percent of the Company's net profits as provided under the provisions of section 198, 309, schedule XIII, of the Companies Act ,1956 and other applicable provisions, if any.

Minimum Remuneration

The remuneration as set out above may be paid as the minimum remuneration to Mr. Ajai Chowdhry, Chairman and Chief Executive Officer, in the absence or inadequacy of profits in any financial year, provided that the total remuneration by way of salary, perquisites and any other allowance shall not exceed the ceiling of Rs. 24,00,000/- per annum or Rs. 2,00,000/- per month and the perquisites provided in Section II of Part II of Schedule XIII of the said Act or such other amount and perquisite as may be provided in the said Schedule XIII as may be amended from time to time or an equivalent statutory re-enactment thereof.

The payment of enhanced remuneration to Mr. Ajai Chowdhry is subject to the approval of the Shareholders.

The Directors recommend the resolution set out at item No. 7 for your approval.

Except Mr. Chowdhry, none of the Directors of the Company are interested in this resolution.

This should also be treated as an abstract of the terms of appointment of the aforesaid whole-time Director and the memorandum of interest of the Director in the said appointment, as contemplated under Section 302 of the Companies Act, 1956.

Item No. 8

At the Annual General Meeting held on October 19, 2006, the shareholders had approved the remuneration to Mr. Ramamurthy for the year July 1, 2006 to June 30, 2007.

Mr. J.V. Ramamurthy, aged 54 years is an Engineer from Madras University and a post graduate in Applied Electronics from Madras Institute of Technology, Madras. He has over 28 years experience and a long association with electronic industry.

It is proposed to enhance the remuneration of Mr. Ramamurthy for the period from July 1, 2007 to June 30, 2008 as under:

Basic Salary: from Rs. 90,000/- per month to Rs. 150,000/- per month

Consolidated Allowance: from Rs. 12,000/- per month to Rs. 25,000/- per month

City Compensatory Allowance: @ 12% of Basic Salary

Performance Linked Bonus: Annually payable as approved by the Board of Directors/Board Committee.

Perquisites:

Part A:

Company Leased Accommodation / House Rent allowance, Electricity Gas, Water and Hard and Soft Furnishings, Medical Re-imbursement, Leave Travel Assistance, Club Fee, Medical Insurance, House Repairs/distemper Expenses, Security Guards and Domestic help at residence : As per the scheme of the Company applicable to Whole Time Directors.

Part B:

Contribution Provident Fund, Superannuation Fund or Annuity Fund:

As per the rules of the Company, which shall be limited to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

Gratuity: Which shall be limited to half a month's salary for each completed year of service, as per the scheme of the Company.

Part C:

Use of own or Company's car with driver and reimbursement of relate expenses on running, maintenance, etc., and telephone at the residence.

The limit of remuneration being paid to Mr. J.V. Ramamurthy for reimbursement of expenses on running and maintenance of own or company's car, driver salary, security guard and domestic help at residence, gas, electricity, water, club fee, soft furnishing, house repairs and LTA shall stand increased from existing Rs. 9,00,000/- per annum to Rs. 9,75,000/- per annum.

Provided that consequent upon the increase in the basic salary, the perquisites and other allowances related to basic salary shall also stand revised. There shall be no change in other terms and conditions of appointment of Mr. J.V. Ramamurthy.

Provided further that the aggregate of the aforesaid salary, perquisites and other benefits, as per the scheme of the Company applicable to the whole-time Director, shall not exceed five percent of the Company's net profit for the whole-time Director and the aggregate of remuneration to all whole-time Directors shall not exceed ten percent of the Company's net profits as provided under the provisions of Section 198, 309, Schedule XIII, of the Companies Act and other applicable provisions, if any.

Minimum Remuneration

The remuneration as set out above may be paid as the minimum remuneration to Mr. J.V. Ramamurthy, whole-time Director, in the absence or inadequacy of profits in any financial year, provided that the total remuneration payable by way of salary, perquisites and any other allowance shall not exceed the ceiling of Rs.24,00,000/- per annum or a Rs.2,00,000/- per month and the perquisite provided in Section II of part II of Schedule XIII of the said Act or such other amount and perquisite may be provided in the said Schedule XIII as may be amended from time to time or an equivalent statutory re-enactment thereof.

The payment of enhanced remuneration to Mr. J.V. Ramamurthy is subject to the approval of the Shareholders.

The Directors recommend the resolution set out at item No. 8 for your approval.

Except Mr. Ramamurthy, none of the Directors of the Company are interested in this resolution.

This should also be treated as an abstract of the terms of appointment of the aforesaid whole-time Director and the memorandum of interest of the Director in the said appointment, as contemplated under Section 302 of the Companies Act, 1956.

By Order of the Board
for HCL Infosystems Ltd.

New Delhi **Sushil Kumar Jain**
August 23, 2007 **Company Secretary**

HCL INFOSYSTEMS LTD.

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

ATTENDANCE SLIP

21st Annual General Meeting - October 23, 2007

DP ID NO. ____________________ **CLIENT ID NO.** ________________ **FOLIO NO.** ____________________

(Electronic Mode) *(Electronic Mode)* *(Physical Mode)*

(Please mention both DP ID & Client ID Nos.) *(Please mention the Folio No.)*

I certify that I am a registered Member/Proxy of the registered Member of the Company.

I hereby record my presence at the 21st ANNUAL GENERAL MEETING of the Company held on Tuesday, October 23, 2007 at FICCI Auditorium, 1, Tansen Marg, New Delhi-110 001 at 10.00 A.M.

____ ________________________

Member's/Proxy's name in BLOCK LETTERS Member's/Proxy's Signature

Note : Please fill in this attendance slip and hand over at the entrance of the Meeting Hall.

FOR THE KIND ATTENTION OF SHAREHOLDERS
NO GIFTS WOULD BE DISTRIBUTED AT THE AGM

HCL INFOSYSTEMS LTD.

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

PROXY FORM

21st Annual General Meeting - October 23, 2007

DP ID NO. ____________________ **CLIENT ID NO.** ________________ **FOLIO NO.** ____________________

(Electronic Mode) *(Electronic Mode)* *(Physical Mode)*

(Please mention both DP ID & Client ID Nos.) *(Please mention the Folio No.)*

I/We ____ of ____________________________________ being a Member/Members of the above named Company, hereby appoint ____ of ____ or failing him ____ of ____ ____ as my/our proxy to vote for me/us on my/our behalf at the 21st ANNUAL GENERAL MEETING of the Company to be held on Tuesday, October 23, 2007 at FICCI Auditorium, 1, Tansen Marg, New Delhi-110 001 at 10.00 A.M. and at any adjournment thereof.

Affix Re. 1 Revenue Stamp

Signed this ________________ day of ________________ 2007

Signature of Proxy ______________________ Signature of the Member ________________________________

Note : The proxy form in order to be effective must be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.

NO GIFTS WOULD BE DISTRIBUTED AT THE AGM

HCL INFOSYSTEMS LTD
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Thomson Press