

HCL

You don't have more courage when you are young.



YOU HAVE LESS FEAR.

HCL

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HCL Infosystems Ltd.

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CONTENTS

1. Management Discussion and Analysis	4
2. Five Year Financial Overview	11
3. Directors' Report	12
4. Report on Corporate Governance	21
5. Annual Accounts - Parent	
♦ Auditors' Report	27
♦ Balance Sheet	30
♦ Profit and Loss Account	31
♦ Cash Flow Statement	32
♦ Schedules to Accounts	34
♦ Balance Sheet Abstract	54
6. Consolidated Accounts with Auditors' Report	55



Dear Stakeholder,

The greatest rewards await those who take the plunge.

Whenever you travel a path less travelled, there is always someone to tell you that you are wrong. There are always challenges arising that tempt you to believe that your critics were right. To choose a goal for yourself and follow it through requires belief & courage. If you believe that you can make a difference to the world around you, then you have the responsibility to cut the path so that you can make that change.

This year has been a good year for your company. We undertook several landmark initiatives to establish our leadership position in the ICT landscape, by sheer force of self-confidence, bravery and tenacity. This is also the first year when HCL Infosystems has crossed the \$1 billion mark and registered a total revenue of over \$1.7 billion. One of the most significant events this year has been the launch of HCL PC for India, a fully functional PC priced at Rs.9990.

This year has also been special for HCL Infosystems, as it has given us quite a few industry recognitions such as being rated as the No.1 Desktop PC Company by IDC and by the DATAQUEST' DQTOP-20. We received the highest ratings of Five Star in the recently released 'Dataquest-IDC Best Employers Survey'. In the field of Office Automation, PMA Q1 '05 & IDC 04-05 have ranked us No.1 in Toshiba & Infocus projectors and in Toshiba laser Multi Functional Devices respectively.

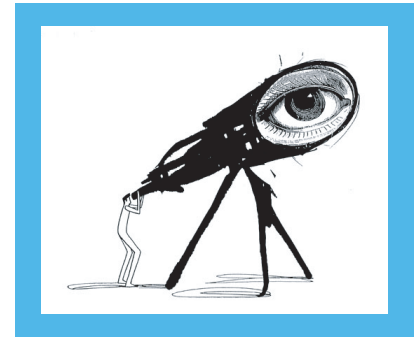
We have truly emerged as a leader in the ICT market space including computers, office automation and communication products & services.

I would like to thank you all for your unstinted support and look forward to a mutually enriching relationship in the years to come.

Finally, I would like to close with a few words of wisdom from Sir Winston Churchill ~ "Success is never final. Failure is never fatal. It is courage that counts."

Regards

Ajai Chowdhry



Brand HCL:

“Courage – Guts – Fearlessness”

Beginning FY'05, HCL kicked off many initiatives as part of Project Heartbeat-its strategy to reinvent HCL as a valuable global technology and IT brand which has not missed a single heartbeat in the ever changing, dynamic IT landscape.

HCL is India's original IT start up founded by Shiv Nadar, Ajai Chowdhry, and other entrepreneurs in 1976, 3 decades ago. It has grown to become a \$2.5 billion enterprise by 30th June, 2005. In fact HCL's total revenues have crossed Rs.11, 000 cr. pitch forking it into the big league of Indian corporates. All this in an industry that a generation ago would never have been seen IT as an area of Indian strength.

At a time when India was closed to the outside world it took HCL's extraordinary vision to have not only taken the bold courageous steps into the future but also to have ridden the IT wave. This is symbolized in a sense of “fearlessness”, which has found expression in the “Courage – Guts – Fearlessness” campaign launched this year. As HCL commences its 30th year of business on 11th August, 2005 we wish to remind our target audience that within a large 3 decade old organization with many firsts there exists all the virtues of youth, courage, guts, and fearlessness.

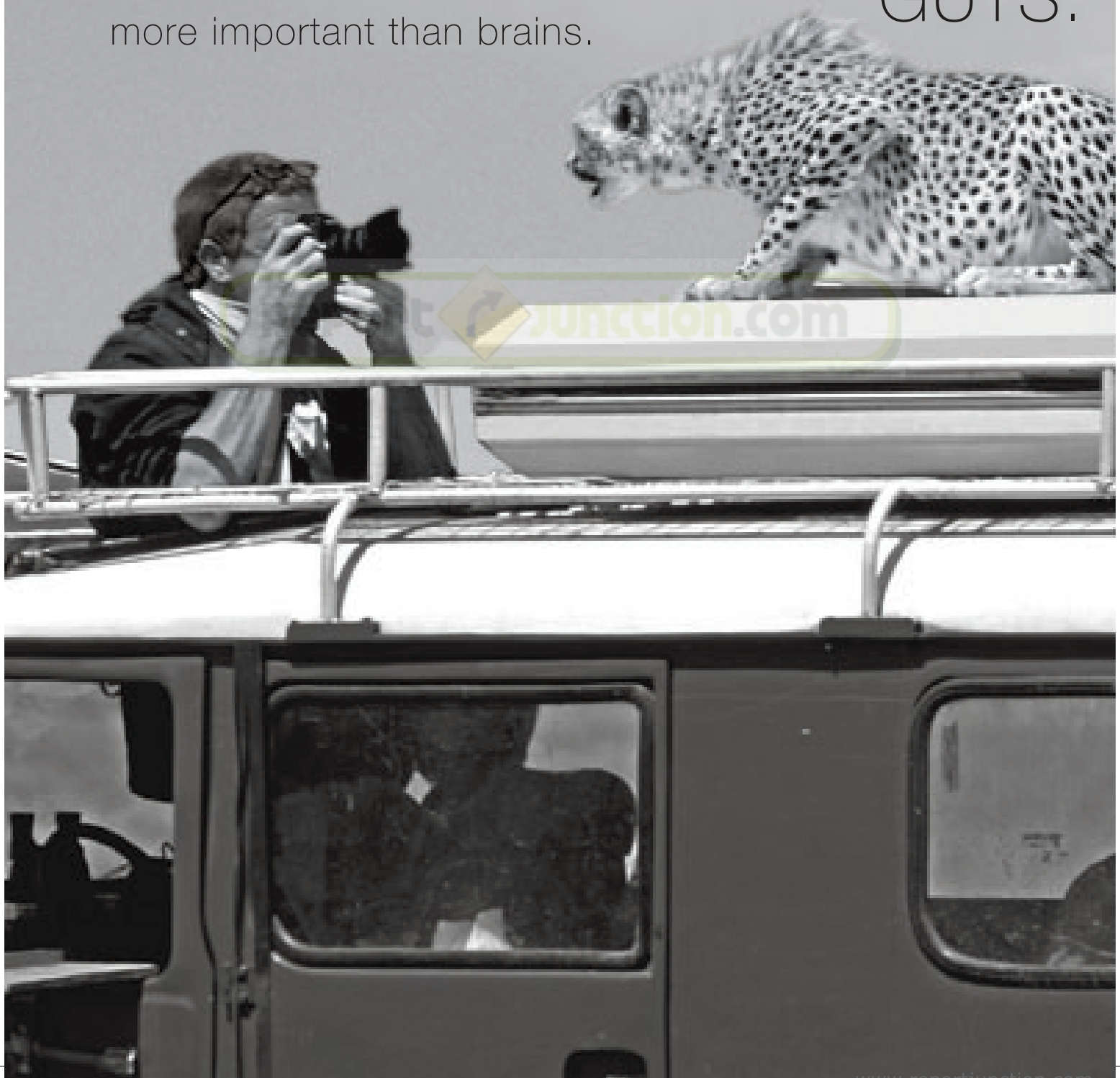
The genesis of this campaign is primarily a simple one – to inform and provoke HCL's key stakeholders (customers, employees, investors, and the Indian and international community) to recognize one of the iconic Indian brands that symbolizes the spirit of a resurgent India.

Today, HCL is uniquely positioned in the IT space with offerings straddling software and BPO services as well as IT hardware, system integration and distribution of technology and telecom products. The HCL enterprise operates through two entities listed in India- HCL Technologies and HCL Infosystems. While HCL Technologies is the IT and BPO service arm of HCL, HCL Infosystems is the IT hardware and system integration arm operating in the domestic market.

Going forward the brand will be anchored in its core values of Leading, Inventing, and Re-inventing the Technology and IT space. Ultimately HCL aspires to become one of India's truly recognizable global brands.

At HCL there's only one thing
more important than brains.

GUTS.



MANAGEMENT DISCUSSION AND ANALYSIS

The Year 2004-05 has been a landmark year, with the company having crossed USD 1 Billion in revenue during the course of the year. The Company has consolidated its position as the market leader in the various product segments it operates in. Further it has taken several initiatives in opening new markets, partnering with global leaders to offer additional products, and increasing its sales and support reach in the ICT space.

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

Info Processing Business

HCL Infosystems is one of the very few organizations that cater to the IT products, infrastructure & services needs of customers over the entire spectrum of users ranging from Large Enterprises, Government, Banking, Financial services, Education & Research, SME, SoHo & Home. The Company has built a large & loyal customer base in each of the above segments across the country.

During the last year the PC & Server range saw volumes grow. The Company retained its leadership position in the Commercial PC segment for the fifth year in a row. It increased its market share to 14.2 %, with the IDC rating it as the largest selling PC brand of the country. The year saw introduction of several new models both in PCs and Servers. The Company maintained its track record of launching new technology products in India at the same time as they were released worldwide.

Some of the new innovative products launched in the commercial space were the 6 in 1 PC, a product that provides six users simultaneously an independent secure computing experience on one PC. The company released a secure PC for the ITES segment, a product specifically designed to reduce the incidence of data theft in an ITES environment. On the server front the company released rack server products typically required by high density users, in addition to the launch of a number of programs towards adoption of servers by enterprises in the mid market segment. Some of them are the ISV Partner programs, the program for certification of servers by leading software vendors etc.

The Company augmented its support network, which now has 2000+ trained engineers and a direct presence at 300+ locations. The Company has improved processes to ensure faster and accurate deliveries to customers across the country, to meet up with the growing numbers.

The year saw the Company acquire a large number of new customers. The Company continues to bag large prestigious orders from our existing clients like the State Bank of India, Canara Bank, ACC, Department of Posts, Sun Pharmaceuticals, Seimens, Hindustan Aeronautics Ltd, HDFC Standard Life Insurance etc.

The initiatives on the System Integration front saw the Company successfully commission and handover the country's largest internet backbone network to M/s. BSNL Limited. Another major project executed and handed over was the School computerization project from the "Department of School Education", Government of Punjab. HCL did a turnkey job of supplying, installing and commissioning computers and related infrastructure in 1287 schools across rural and urban Punjab. The Company has won several prestigious projects on solutions around Oracle, SAP, Broad Vision, Filenet, among others. The Company today is addressing a number of opportunities in the system integration space by leveraging its understanding of multiple technologies and the domain knowledge of various customer businesses.

In the consumer PC segment, the Company emerged as the most preferred PC brand, increasing its market share from 4.9% in 2003 to 12.8% in 2004. The Company broke the PC price barrier by launching EzeeBee Pride at Rs. 12990/-, making branded PCs more affordable than ever before. The company launched another first in the Indian Market, a PC on EMI scheme @ Rs. 499/-. Taking a leadership role it worked with the banking and finance industry in bringing out such a scheme, to address the latent potential among the middle-income group consumers. Other initiatives include launch of HCL-BSNL Broadband PC, Govt. Aided PC Purchase Program (GAPP). In a strategic tie up with leading technology partners the Company launched for state governments, a low cost HCL Ezeebee with Operating system for Rs. 18000/-.

In addition to this, the Company also introduced digital cameras, MP3 players and inkjet printers for its Home/SoHo users. As lifestyle are getting more digital, these products will increasingly find acceptance amongst the customers. HCL Ezeebee, the value PC launched last year, notched up good volumes this year, indicating high acceptance at the customer level.

Going forward, the Company is targeting newer segments like retail and rural to capitalize on the emerging opportunities. Continuing its innovative strategy, the Company launched RP2 system for the semi urban & rural areas, a solution for providing uninterrupted power for four to six hours for a computer user in areas with power shortage.

On the whole, the Company will endeavor to continue to offer leading-edge technology and provide best value for money products & services to its customers.

Imaging & Communications Business

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

On the Imaging front, the Company was ranked No. 1 in India for the Toshiba A3 Multi Functional products it takes to

market. The Company also maintained its leadership position in digital projectors, for the Infocus & Toshiba range of multimedia projectors that it markets. The Company cornered a market share of 35% of the total market with these two products.

The Company introduced new products like Konica Minolta printers, LCD TVs and Audio Visual System Integration (AVSI) solutions. The introduction of AVSI solutions met with encouraging response from customers. The Company bagged major orders from HDFC, Deccan Aviation, Tamil Nadu Police, Reliance Petro, Lafarge, Ranbaxy, Chennai Police, Essar, DHL, Hutch, Bharti Infotel, Aviva & ONGC.

In corporate networking and managed networks segment, the Company continued to add more customers for its range of solutions and services. The Company services prestigious clients from different business verticals across the country. The Company has invested in infrastructure and services that ensures a consistent level of service delivery to each of its customers, thereby keeping up its commitment of maximizing customer satisfaction. During the course of the year the Company launched a complete End-to-End enterprise IP telephony and Global IP VPN services for its customers in India in partnership with Virtela. The Company added some prestigious customers like Royal Airways, Millennium Care, Balmer & Lawrie, Suzlon to name a few.

On the telecom front, the Company consolidated its position as a trusted provider of communication equipments for Enterprise connectivity. In Telecom Services business, the Company in partnership with Ericsson launched a slew of products for Business Conferencing, Broadband and Mini Link Radio. The Company emerged as a major player in video conferencing business in the country.

The Company formally handed over the largest EPABX installation in the country at IIT Kharagpur, which consists of 14000 lines providing traditional telephony, IP telephony & ADSL broadband connectivity to the entire campus. On the Telecom System Integration space the Company executed orders for integrated voice & data solution (Police Dial 100) for the Police Force – a solution that helps the Police force to deploy its resources in a timely and more efficient manner and in turn enable it to serve the citizens better.

The Company ramped up its sales & distribution network and support infrastructure to service the growth in customer demand for GSM telephones. The Company leveraged its distribution network strength to introduce a slew of new handset models at various price points based on different technologies. All this contributed to the increase in market share of Nokia GSM phones.

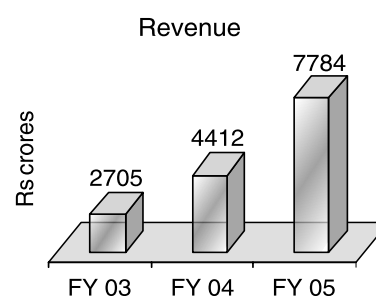
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FINANCIAL PERFORMANCE

1. Gross Revenue:

Revenue grew by 76% from Rs. 4412 crores in the previous year to Rs. 7784 crores in the current year.

Revenue for the Parent Company grew by 29% from Rs. 1522 crores in the previous year to Rs. 1967 crores in the current year.



2. Other Income:

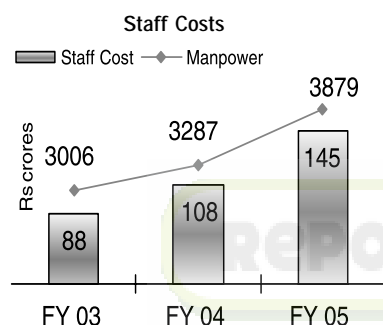
Other income for the current year is Rs. 51 crores as against Rs. 29 crores in the previous year. It includes income from investment in Mutual Funds Rs. 11 crores (Previous Year Rs. 12 crores), interest income Rs. 12 crores (Previous Year Rs. 9 crores) and gains from foreign exchange fluctuation Rs. 14 crores (Previous Year Rs. 4 crores).

3. Gross Margins:

Gross margins for the current year are at Rs. 603 crores as against Rs. 445 crores in the previous year.

Gross margins for the Parent Company are at Rs. 332 crores as against Rs. 282 crores in the previous year.

4. Personnel Costs:



Staff cost for the current year increased to Rs. 145 crores from Rs. 108 crores in the previous year. Manpower increased from 3287 as at June 2004 to 3879 as at June 2005. Staff cost is 1.9% of sales for the current year as against 2.5% in the previous year.

Staff cost for the Parent Company for the current year is Rs. 102 crores as against Rs. 78 crores in the previous year.

#FY 03 exclude discontinued Software business

5. Administrative, Selling, Distribution and Others:

Expenses amounted to Rs. 190 crores, as against Rs. 127 crores in the previous year. The expenses as a % to sales declined to 2.4% from 3.0%.

Expenses for the Parent Company amounted to Rs. 105 crores, as against Rs. 80 crores in the previous year.

6. Operating Profit (EBIDT):

Operating profit excluding 'Other income' grew by 28% from Rs. 209 crores in the previous year to Rs. 268 crores.

7. Finance Charges:

Finance charges for the year is Rs. 8 crores as against Rs. 9 crores in the previous year.

8. Profit Before Tax:

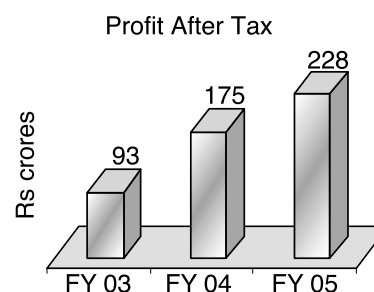
PBT grew by 40% from Rs. 212 crores in the previous year to Rs. 296 crores in the current year.

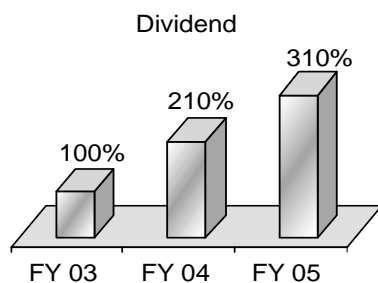
PBT for Parent Company grew by 16% from Rs. 128 crores in the previous year to Rs. 149 crores in the current year.

9. Profit After Tax:

Profit after tax grew by 30% from Rs. 175 crores in the previous year to Rs. 228 crores. The profits for the current year are after a provision for Rs. 65 crores for current tax expense, Rs. 2 crores for deferred tax expense and Rs. 1 crore for Fringe Benefit Tax applicable from April 05.

Profit after tax for the Parent Company grew by 10% from Rs. 121 crores in the previous year to Rs. 133 crores.





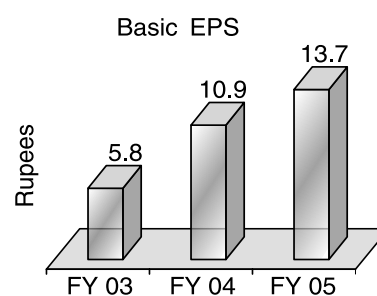
10. Dividend:

The Company continued with the practice of declaring quarterly dividends. Accordingly, it distributed dividends @ 70% in each of the first three quarters. The company proposes to pay a final dividend of 100% per fully paid up equity share of Rs. 2/- each. The interim dividends paid together with proposed final dividend total to 310% for the current year, entailing an outflow of Rs. 117 crores, including distribution tax.

11. Earning Per Share:

Consolidated Basic EPS grew from Rs. 10.9 in the previous year to Rs. 13.7 in the current year. Diluted EPS grew from Rs. 10.2 in the previous year to Rs. 12.9 in the current year.

Basic EPS of the Parent Company grew from Rs. 7.5 in the previous year to Rs. 8.0 in the current year. Diluted EPS grew from Rs. 7.0 in the previous year to Rs. 7.5 in the current year.



Calculated on equity shares of Rs. 2/- each



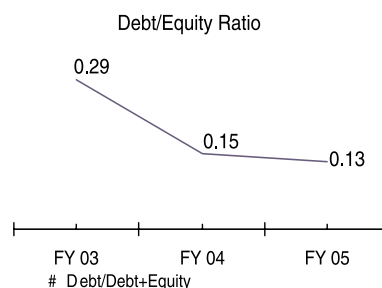
FINANCIAL CONDITIONS

- 1. Net Worth/Shareholders Funds:** Net Worth as on 30th June 2005 is Rs. 555 crores. Share capital as at 30th June, 2005 is Rs. 33.4 crores divided into 16.7 crores shares of Rs. 2/- each. Reserves & surplus as at 30th June 2005 is Rs. 521 crores after appropriating Rs 117.3 crores for three quarterly interim and final dividends.

Net worth of the Parent Company is Rs. 435 crores. The book value per Rs. 2/- share of the Parent Company increased from Rs. 24 as on 30th June 2004 to Rs. 26 as on 30th June 2005.

During the year, the Company allotted 5.46 lakh shares of Rs. 10/- each (sub divided into 27.32 lakh shares of Rs. 2/- each) under the Employee Stock Options realizing Rs. 21.5 crores. The increase in share capital on account of ESOP is Rs. 0.5 crores and increase in reserves is Rs. 21.0 crores.

- 2. Borrowings:** Year-end loan balances marginally increased from Rs. 72 crores as on 30th June 2004 to Rs. 81 crores as on 30th June 2005. The Debt:Equity dropped from 15% to 13%.



- 3. Fixed Assets:** Net block as on 30th June 2005 is Rs. 76 crores. During the current year, the Company made capital expenditure of Rs. 27 crores mainly for acquisition of Land in Uttaranchal, expanding customer support network, one time license fee to DOT for Internet Business and additions to Plant & Machinery. The Company retired various assets with a Gross block of Rs. 25 crores and a net book value of Rs. 0.1 crores.

Net block of Parent Company as on 30th June 2005 is Rs. 53 crores.

- 4. Inventories:** Inventories increased from Rs. 280 crores as on 30th June 2004 to Rs. 349 crores as on 30th June 2005. The inventory turn over on sales grew from 15.7 times in the previous year to 22.3 times in the current year.

Inventories of Parent Company increased from Rs. 161 crores as on 30th June 2004 to Rs. 188 crores as on 30th June 2005. The inventory turn over on sales grew from 9.4 times in the previous year to 10.5 in the current year.

- 5. Debtors:** Debtors increased from Rs. 416 crores as on 30th June 2004 to Rs. 532 crores as on 30th June 2005. Debtors as number of days of sale stands reduced to 25 days as on 30th June 2005 from 34 days as on 30th June 2004.

Debtors of Parent Company increased from Rs. 295 crores as on 30th June 2004 to Rs. 370 crores as on 30th June 2005. Debtors as number of days of sale stands reduced to 69 days as on 30th June 2005 from 71 days as on 30th June 2004.

- 6. Liquid Assets (Investment in Mutual Funds and Fixed Deposits with Banks):** Liquid Assets as on 30th June 2005 are at Rs. 253 crores as against Rs. 254 crores as on 30th June 2004. These exclude cash in hand & balances with bank in collection and disbursement accounts.

- 7. Other Current Assets including Loans and Advances:** Other current assets increased from Rs. 70 crores as on 30th June 2004 to Rs. 154 crores as on 30th June 2005.

Other current assets of the Parent Company increased from Rs. 40 crores as on 30th June 2004 to Rs. 111 crores as on 30th June 2005. Lease rent recoverable as on 30th June 2005 is Rs. 60 crores.

- 8. Current Liabilities & Provisions:** Current liabilities and provisions increased from Rs. 697 crores as on 30th June 2004 to Rs. 863 crores as on 30th June 2005.

Current liabilities and provisions of the Parent Company increased from Rs. 398 crores as on 30th June 2004 to Rs. 468 crores as on 30th June 2005.

- 9. Cash Flow:** The cash generation from operating activities in the current year is Rs. 127 crores.

The cash generation of Parent Company from operating activities in the current year is Rs. 27 crores.

The consolidated financial results include the results of the company's 100% subsidiary, HCL Infinet Ltd.