



Celebrating 30 years of success

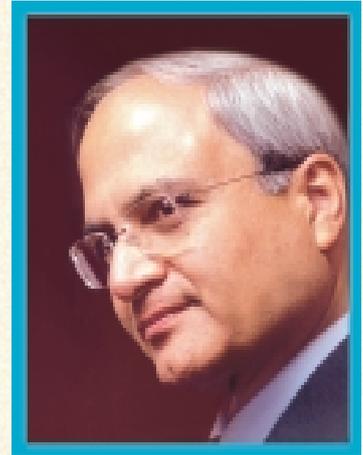
HCL

HCL INFOSYSTEMS LTD

ANNUAL REPORT 2005 - 2006

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Dear Stakeholder,

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

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

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

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

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

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

With warm regards,

Ajai Chowdhry

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Chief Executive Officer

Ajai Chowdhry

Whole-time Director

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

Directors

R.P. Khosla

S.Bhattacharya

D.S. Puri

E.A. Kshirsagar

Anita Ramachandran

T.S. Purushothaman

Narasimhan Jegadeesh (appointed from 24.01.2006)

V.N. Koura (appointed from 24.01.2006)

COMPANY SECRETARY

Sushil Kumar Jain

AUDITORS

Price Waterhouse, New Delhi

BANKERS

State Bank of India

Canara Bank

HDFC Bank Ltd.

ICICI Bank Ltd.

Societe Generale

Standard Chartered Bank

State Bank of Patiala

State Bank of Saurashtra

REGISTERED OFFICE

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

CORPORATE OFFICE

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

WORKS

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

FIVE YEAR FINANCIAL OVERVIEW

Revenue and Profitability (Consolidated)

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

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

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

Calculated on "PAT"

Assets and Liabilities (Consolidated)

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

DIRECTORS' REPORT

To the Members,

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

Financial Highlights

(Rs. in Crores)

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

Performance

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

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

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

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

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

Operations

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

Quality Initiatives

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

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

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

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

Scheme of Arrangement

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

DIRECTORS' REPORT

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

Sub-division of Equity Shares

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

Employee Stock Option Plan

Employees Stock Option Plan 2000

Pursuant to the approval of the shareholders at the Extra-Ordinary General Meeting held on 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.

Employees Stock Based Compensation Plan 2005

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

Credit Ratings

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

Fixed Deposits

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

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

De-listing of Equity Shares

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

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

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

Directors

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

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

Corporate Governance Report and Management Discussion and Analysis Statement.

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

Directors' Responsibility Statement

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

- 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 judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at June 30, 2006 and of the profit of the Company for the said period;

DIRECTORS' REPORT

- c. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d. the annual accounts have been prepared on a going concern basis.

Auditors & Auditors' Report

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

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

Personnel

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

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

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

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

Community Service / Corporate Social Responsibility

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

- Community Support Programmes

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

- Response to national calamities

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

- ICT enabled services implemented for Tirupati and Tiruchendur Devasthanams

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

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

- Environment support programmes

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

- Mindia™

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

DIRECTORS' REPORT

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

- The HCL Concert Series

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

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

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

Particulars of subsidiary company

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

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

Acknowledgement

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

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

On behalf of the Board of Directors

AJAI CHOWDHRY
Chairman and Chief Executive Officer.

August 23, 2006

ANNEXURE TO DIRECTORS' REPORT

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

A. Conservation of Energy

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

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

B. Research & Development:

1. Product Innovation and Engineering.

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

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

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

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

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

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

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

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