

ANNUAL REPORT

2007-2008

PIONEERING PRODUCT INNOVATION

DELIVERING BEST PRACTICES IN SYSTEM INTEGRATION

CREATING MARKETS & EXPANDING GEOGRAPHIES



HCL INFOSYSTEMS LTD.

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Dear Stakeholder,

We live in a world of opportunities and challenges. We are seeing a resurgent India, an India that is on a growth curve. In this era of immense possibilities, your company HCL Infosystems is uniquely positioned to address the opportunities that are being thrown up.

Today, ICT has become a core infrastructure that is critical to the functioning of businesses and governance. We are witnessing an era of convergence in the ICT infrastructure backbone that organisations are setting up to keep all parts of the business connected, to increase productivity levels, and provide information and intelligence “on tap”.

We are also witnessing the convergence of “adjacent technologies” into the core ICT infrastructure with emergence of concepts like integrated security & surveillance solutions, mobile workforce automation solutions, electronic payment gateways, integrated command and control systems, integration of shop floor equipments with centralised MIS etc.

With over three decades of domain expertise in these core technology fields, your company is transforming itself into a powerful system integration & services company. We are gaining momentum especially through our System Integration business while we continue our focus on being pioneers in the Indian ICT products and solutions arena.

Your company continues to be the torchbearer, being the first to bring products based on the power of new technology to Indian consumers. Your company was the first in India and among the first few globally to launch the new product category called the ultra portable laptop, a product that brings to consumers true computing experience while on the move.

The growth and success of any organisation rests on the strong foundation of its people. Your company has built one of the largest multi-technology talent pools in the ICT industry, and has nurtured a mature home grown management team to lead your company to new heights.

Our initiatives in the area of ICT Training, Education and Retail that we took last year received encouraging response and we can proudly say that these are trend setters in the industry and are poised to take your company to new frontiers.

I am proud to state that your company has also taken a leadership position in offering environment friendly products to consumers. HCL laptops, desktops & servers are RoHS compliant and your company has a comprehensive WEEE policy to encourage safe disposal of e-waste.

This year we once again take ahead our brand campaign “Technology that touches lives”; technology that makes a difference to the world we live in. It is our commitment to bring the best value in technology to Indian customers, to deepen the penetration of ICT in our country and do our bit in bridging the digital divide.

I would like to thank you, fellow stakeholders, for your interest and constant support in HCL’s progress and the faith you have reposed in the future of your company.

With warm regards,

Ajai Chowdhry

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Chief Executive Officer

Ajai Chowdhry

Whole-time Director & Chief Operating Officer

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

CHIEF FINANCIAL OFFICER

Sandeep Kanwar

COMPANY SECRETARY

Sushil Kumar Jain

AUDITORS

Price Waterhouse, Gurgaon

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

The Hongkong and Shanghai Banking Corporation Limited

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)

YEAR ENDED JUNE 30	2008	2007	2006	2005	Rs./Crores 2004
Total Revenue	12605	11855	11455	7787	4412
PBIDT	489	454	396	308	238
Interest	40	10	(1)	(3)	9
Depreciation	19	15	12	15	18
Profit before Tax	430	429	385	296	211
Provision for Tax	130	113	105	68	36
Profit after Tax (PAT)	300	316	280	228	175
Profit available for Appropriation	904	792	640	491	352
Equity Dividend	137	135	135	103	68
Basic Earning Per Share (Rs.)*	17.6	18.7	16.7	13.7	10.9
PBIDT (%)	4%	4%	3%	4%	5%
Profit before Tax/Revenue (%)	3%	4%	3%	4%	5%
Return on Net worth (%)	30%	37%	40%	41%	41%
Return on Capital Employed (%) #	34%	40%	48%	46%	44%
Equity Dividend (%)	400% **	400%	400%	310%	210%

* 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. 103 Crores and Rs. 34 Crores respectively

Calculated on "PBIT"

Assets and Liabilities (Consolidated)

AS AT JUNE 30	2008	2007	2006	2005	Rs./Crores 2004
Sources of Funds					
Equity Funds	34	34	34	33	33
Reserves and Surplus	982	826	664	521	390
Loan Funds	354	236	84	82	72
Deferred Tax Liabilities (Net)	7	12	11	7	5
Total	1377	1108	793	643	500
Application of Funds					
Net block	170	151	98	76	66
Investments	215	272	295	143	219
Current Assets	2704	2160	1543	1287	912
Current Liabilities	1712	1475	1143	863	697
Net Current Assets	992	685	400	424	215
Total	1377	1108	793	643	500

OVERVIEW

India is poised to see strong growth in years to come, veiling the current volatile market trends and inflation worries. Large investments are planned across various sectors by private, PSU and government initiatives.

BUSINESS OUTLOOK

This year, IT industry is expected to grow by 20% over 2007, as per IDC, which is amongst the highest rates of growth in the world. With employment to 2.13 crore households already in place, the National e-Governance Plan (NEGP) is surging ahead with investments of Rs. 23,000 crores planned for initial five years, for identified core projects.

The current technology trends in ICT point to increasing convergence of data, voice and networks, so that different devices can be networked/managed onsite and remotely. A computer at the heart of every ICT solution is clearly the emerging trend and is likely to follow for years ahead. Evolving on the media front, India is becoming a hub for creativity and animation. With an anticipated demand of Rs. 2200 crores of broadcasting equipment by 2011, the country is anticipated to ride on the digitisation wave, in all aspects encompassing content creation, broadcasting etc.

The power sector reforms are focusing on rural electrification, substation automation and management of both demand and supply sides through smart metering and audits. India is progressively joining the world forces in adapting to Green practices and energy conservation. The services sector too is bound to accelerate in providing last mile connectivity through Broadband Penetration, Roll Out and Value Added Services.

Infrastructure will continue to pave the way for developing India on a faster scale and investments are planned in several areas, e.g. modernisation 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 signalling etc.

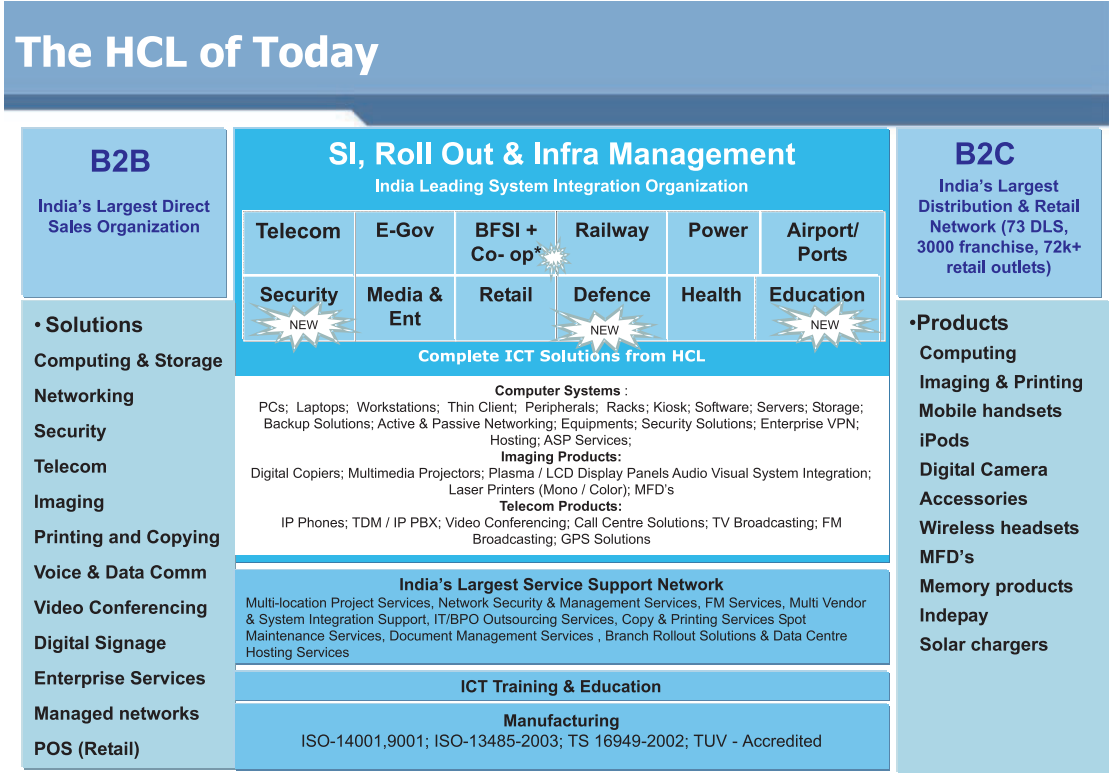
Today, IT has gained an active role in the industry functioning rather than just being the facilitator. It is playing much larger roles in economic reforms and financial inclusion across the country. For BFSI Institutions, IT not only enables them to understand their customer's needs and service them better, but also to automate operations and strengthen systems. Healthcare industry has now embarked upon technology in areas like digitisation of patient records and medical history, 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

HCL over its three decades of leadership in the Indian ICT Market has set new benchmarks and has created newer markets. What began as a dream to build computers for the Indian market around the then newly emerging technology of microprocessor,

HCL today is India's premier information enabling and country's leading ICT system integrator and Distribution Company.



MANAGEMENT DISCUSSION AND ANALYSIS

HCL is leveraging its core ICT competency to harness new opportunities in India. The company has taken a number of new initiatives to strengthen its presence in the previous years newly identified SI verticals. Today, HCL is a leading System Integrator in the country. HCL's system integration and services initiatives saw the Company winning and executing projects in a number of new solutions areas across sectors like telecom, eGovernance, BFSI, power, airports and health.

HCL has developed matured SI capabilities & practices and has delivered to its credit some of the most prestigious large SI projects in the country. HCL has exhibited enterprise in eGovernance vertical with setting up of the state wide area network at the block level as the backbone infrastructure for the state government.

HCL has also executed the setting up of operations & command centre for the country's four major airports. HCL has demonstrated time and again its core capabilities to execute large scale ICT projects in the fields of defence, BFSI, power, telecom, Infrastructure, eGovernance and so on.

In order to strengthen its BFSI System Integration Portfolio, the Company this year acquired a niche Banking Software Product Company. This year, HCL also bagged an international SI contact from Government of India, where HCL will implement IT Infrastructure for prestigious Pan-African e-Network project for tele-education & tele-medicine, also connecting heads-of-the-states of 53 African countries through data, voice and video.

With 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 73 HCL Digilife stores, over 3000 franchisees and more than 100,000 retail outlets in more than 5000 towns and cities of India, HCL has by far the largest value added distribution network in India and it has built up partnership with leading brands such as Apple, Kodak, Toshiba, Nokia, Microsoft, Konica Minolta among others.



HCL Digilife stores, a unique 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.

This unique concept of HCL Digilife stores has become the most awarded retail chain in year 2007-08 after winning six prestigious retail awards from renowned retail industry bodies.

HCL has always had strong internal training systems in place and had created hardware, software and networking professionals over the years. Previous year marked HCL's foray in to high-end **ICT Education & Training** with the launch of HCL Career Development Centers across India. With an objective to meet 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 has seen a very encouraging response to this initiative and today, there are HCL CDCs across the country offering specially designed courses in high-end infrastructure hardware, software, and middleware and networking integration

The leader launches an industry-enriching initiative!

**ANNOUNCING THE
HCL CAREER DEVELOPMENT CENTRE**



A mission to create industry-ready
Computer Hardware & Networking Professionals

The image is a promotional graphic for the HCL Career Development Centre. It features a teal background with white text. At the top, it says "The leader launches an industry-enriching initiative!". Below that, in large, bold, white capital letters, is "ANNOUNCING THE HCL CAREER DEVELOPMENT CENTRE". In the center, there is a photograph of the exterior of an HCL Career Development Centre building, which is a modern, multi-story structure with a prominent HCL logo. Below the photograph, it says "A mission to create industry-ready Computer Hardware & Networking Professionals".

Computer Systems and Related Services

In terms of total commercial desktop PC shipments, HCL yet again leads the market for the financial year 2007-08.

HCL also introduced several new models of desktops and notebooks; India's first notebook with Prism engraved design, notebooks with 250 GB storage.

HCL added a unique technology of 1 GB Turbo memory, in its laptops, which results in more battery life, quicker boot time and unmatched performance. The Company also unveiled a range of laptop accessories, like HCL Leaptop shines, car and USB chargers, Mouse phones, USB TV tuners and mobile printers.

HCL also introduced The HCL WINBee Thin Client that maximizes the performance and in-turn the organizations profitability while providing utmost economy. The Thin Client makes it easy for IT administration and technology migrations, since it is customized to the application it is used for. Its power consumption is very low. Being as secured and robust as it is, it offers better management tools for all business computing networks. HCL WINBee Thin Clients are the pioneers in the Indian Market and have bagged the "Best Thin Client Technology Provider" Award from VARIndia for 3 consequent years.

HCL has retained its position as a premier provider of 360 degree ICT solutions to enterprises in India. Keeping with its commitment to bring the latest in computing technologies from across the world, HCL has tied up with various partners to deliver state of the art products and total solutions to its customers.



HCL leaptops into history
Launches no-frills ultra-portable laptop for below Rs 14,000

Ruchi Hajela
New Delhi, January 15

A LAPTOP FOR just Rs 15K, sounds unbelievable? For several years, there were smartphones that boasted of powerful computing features offered by laptops for a price that computer makers could never manage. But that no longer seems to be the case.

On Tuesday, HCL Infosystems launched its X Series of ultra small laptops starting Rs 13,990.

The laptop sports features just as some other low-cost laptops do — a much smaller display than a regular laptop, single processor and a flash drive amongst others.

"The next generation products will run fit into one's pocket," said Chairman & Chief Executive Officer, HCL Infosystems.

HCL's latest offering runs on a Celeron 400 MHz processor and has a 610 MB DDR II RAM. The base model of

the Vice President Marketing, told reporters.

Although some believe that the latest breed of cheap laptops is closer to being high-end organisers than being lower end laptops, it could still make a compelling buy for first timers.

In December 2007, UK based company ACI had launched its Ethos 7 priced at Rs 14,999 (excluding the four per cent tax). This too has features like a seven-inch display, a 512 MB DDR II RAM, Wi-Fi and a 40 GB HDD. The memory cannot be upgraded. By the end of this month, Asus, a Taiwanese player, plans to launch its Eee PC 4G with similar specs — seven-inch screen, Linux OS and a flash memory. The device is expected to be priced around Rs 16,000.

Leading PC vendor Acer's cheapest laptop costs Rs 19,999 (taxes extra) and has a 14.1-inch display whereas the entry level laptop from HP costs Rs 27,000 and features a Celeron 400 MHz processor.

Chairman and CEO, HCL Infosystem Ajai Chowdhry launches the MLeap series of ultraportable laptops in New Delhi on Tuesday

In January 2008, HCL introduced the next generation, ultra portable, sub Rs. 14K laptops for the first time in India. The new range of Leaptops are sleek and light weight, yet offers a full PC functionality with true internet experience, heralding in a new product category which holds the promise of being the future of personal mobile computing.

Taking forward its offerings for the market for rack server, HCL introduced innovative products like 'The New Data Centre in a box' solution based on latest Xeon and Quad Core technology. HCL also unveiled its new Quad-Socket

HCL High-End Enterprise server IGL 4700 FC based on Intel's latest 7300 series of Quad core Xeon MP Processors. The new server packs extreme performance in a dense package, with 16 computing cores in a mere 7-inch (4U) form factor that delivers significantly higher performance.

Designing and launching the computing solutions, customised as per the domestic market requirements, continues to be the Company's strength. Among these solutions is the launch of Professional Workstation 2008 Series for MCAD and DCC Professionals. Based on New Intel Platform, Core Micro architecture Processors and next generation Nvidia Quadro FX370, the new workstation takes application performance to new levels by featuring industry's first unified architecture. The workstation is specifically designed and targeted towards professionals in the field of digital content creation, Mechanical computer aided design.

HCL products are customised for various user verticals which are being manufactured and tested specially for Indian conditions. HCL's multi-

SIMPLY REVOLUTIONARY

HCL's revolutionary "Datacenter in a Box" is not only easy to deploy, maintain and upgrade but also is very cost effective & delivers exceptional value

HCL's "Datacenter in a Box"... nothing gets simpler, when it comes to managing IT in your enterprise

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IT & BUSINESS ENTERPRISE | IT & BUSINESS PROFESSIONAL | OPERATIONS IN 16 COUNTRIES

HCL

MANAGEMENT DISCUSSION AND ANALYSIS

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 strengths of the company are Pan India support network, technology leadership, trusted vendors & customers, differentiation and innovation in products.

Threat to the Company is Indian market gaining priority focus for Global Vendors.

Telecommunication and Office Automation Products

During the year under review, HCL has further consolidated its position in the distribution of Nokia Cellular Phones & Digital Lifestyle products. India will be entering a second phase of growth with the mobile market beginning to reach into rural India. The mobile market has already grown to be the second largest in the world in terms of subscribers after China, having overtaken USA with 261mn subscribers at the end of March 2008. Over the next five years, BMI forecasts an average annual growth rate of over 30% so that, by the end of 2012, there should be 620mn mobile subscribers in India, representing 51.5% penetration. 3G licensing is expected in 2008, and there could be as many as 5mn 3G subscribers by the end of 2008, with this figure set to grow to 71.5mn by the end of 2012, which would mean 11.5% of all mobile subscribers connected to 3G networks. Another significant growth area in India's telecom market is the use of WiMAX and it is estimated by that there could be as many as 12mn users by the end of 2012.

HCL has plans to do aggressive portfolio additions in memory products, navigation devices and IT accessories. HCL is also looking at getting into tie-ups with players in the field of Gaming consoles, Alternative Power and Content & Services.

On the imaging products, HCL has retained its leadership position in sales of Digital multi-function products and Multimedia projectors. HCL has consolidated its presence in color and high end MFDs, resulting in a growth of 110%, while achieving 60% growth in business volume for networked MFDs. The robust growth in print services area has helped the company to progressively promote "Print Services" as solutions to various government departments, PSUs and Multinationals. HCL is now focusing on growing transactional and security printing areas and has taken steps to address the color graphics segment.

In the Audio Visual System Integration segment, HCL has significantly contributed to government education initiatives and also won several deals from MNC clients as well. HCL is now focusing on creating solutions in allied areas like e-classroom and high end digital signage solutions. Several new tie-ups have been firmed up to offer solutions in the transactional and security printing areas.

HCL with its insatiable desire to provide world class product and services to every person in the country will continue to expand its Office Automation (OA) channel strength. HCL anticipates increasing the channel strength by more than 50% OA products in this fiscal. HCL has enhanced its solutions offering in specialized segments like homeland security, education and fleet management. HCL has explored opportunities in the SME market by bundling SIP based PBX with SIP IP phones to widened its offerings in the telecommunication domain with IP based Voice and Video conferencing solutions. HCL will also target hospitality verticals and green field customers for end to end voice and data solutions. HCL has also established its presence in the area of Media and Entertainment during this period.

Internet and related services

The Company's subsidiary, HCL Ininet offers a complete range of network solutions like Virtual Private Network, Internet, Network Management Services, Data Centre and Co-location Services and Value Added Services like Internet Telephony and Enterprise Mailing Solutions. With multi-homing, fully redundant, carrier agnostic backbone the company has created a reliable network infrastructure which is trusted by customers for supporting critical applications.