

HCL TECHNOLOGIES LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS - AS OF JUNE 30, 1998 AND
1999 AND FOR THE THREE YEARS ENDED JUNE 30, 1999
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS**



Independent auditors' report

To the Board of Directors and Stockholders

HCL Technologies Limited

We have audited the accompanying consolidated balance sheets of HCL Technologies Limited and its subsidiaries as of June 30, 1998 and 1999 and the related statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 1999. 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 audits. We did not audit the financial statements of HCL Perot Systems, NV (a 50% owned investee company) as of and for the years ended March 31, 1998 and June 30, 1999. The Company's investment in HCL Perot Systems, NV as of June 30, 1998 and 1999 was \$1,946,000 and \$7,896,000, respectively, and its equity in earnings of HCL Perot Systems, NV was \$1,089,000 and \$4,258,000 for the years ended June 30, 1998 and 1999, respectively. The financial statements of HCL Perot Systems, NV as of and for the years ended March 31, 1998 and June 30, 1999 were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HCL Perot Systems, NV, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HCL Technologies Limited and subsidiaries as of June 30, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 1999, in conformity with accounting principles generally accepted in the United States.

KPMG
Mumbai, India
October 4, 1999

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>As of June 30,</u>	
	<u>1998</u>	<u>1999</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,038	\$ 17,887
Accounts receivable, net	26,335	32,379
Accounts receivable from related parties	4,034	1,614
Inventories	3,394	1,440
Short-term loans	299	1,040
Short-term loans to related parties	3,988	-
Unbilled receivables	439	965
Unbilled receivables from related parties	40	119
Other amounts due from related parties	1,057	328
Marketable securities, available for sale	467	62
Employee receivables	567	994
Deferred income taxes	2,306	1,913
Receivable from principal shareholder	1,004	-
Other current assets	<u>2,976</u>	<u>2,572</u>
Total current assets	54,944	61,313
Property and equipment, net	12,436	10,892
Intangible assets, net	2,664	10,875
Investments in equity investees	3,860	7,896
Deferred income taxes	1,540	2,973
Employee receivables, net of current portion	539	595
Other assets	<u>662</u>	<u>793</u>
Total assets	\$ <u>76,645</u>	\$ <u>95,337</u>

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30,	
	<u>1998</u>	<u>1999</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank line of credit	\$ 7,099	\$ 7
Accounts payable	2,747	3,927
Accounts payable to related parties	3,660	2,577
Accrued employee costs	6,672	9,826
Current portion of long-term debt	3,178	871
Current portion of capital lease obligations	197	288
Short-term borrowings	5,258	1,558
Short-term borrowings from related parties	-	614
Deferred revenue	1,228	2,876
Deferred revenue from related parties	-	588
Deferred income taxes	142	107
Liability to principal shareholder	-	5,151
Acquisition of minority interest	-	7,000
Other amounts due to related parties	1,331	113
Other current liabilities	8,324	8,756
Taxes payable	<u>1,020</u>	<u>1,387</u>
Total current liabilities	40,856	45,646
Long-term debt	5,047	1,080
Capital lease obligations	618	389
Other liabilities	309	276
Liability to principal shareholder	2,615	-
Deferred credit, net	-	316
Deferred income taxes	<u>139</u>	<u>15</u>
Total liabilities	<u>49,584</u>	<u>47,722</u>
Minority interest	2,484	2,093
Stockholders' equity		
Equity shares,		
187,500,000 shares authorized as of 1998 and 1999;		
Issued and outstanding - 124,480,318 shares as of 1998 and 1999	10,240	10,240
Additional paid-in capital	1,724	408
Retained earnings	16,297	39,350
Accumulated other comprehensive income	<u>(3,684)</u>	<u>(4,476)</u>
Total stockholders' equity	<u>24,577</u>	<u>45,522</u>
Total liabilities and stockholders' equity	<u>\$ 76,645</u>	<u>\$ 95,337</u>

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years ended June 30,		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Revenues	\$ 73,267	\$ 118,768	\$ 166,326
Cost of revenues	<u>45,678</u>	<u>72,723</u>	<u>100,330</u>
Gross profit	27,589	46,045	65,996
Operating expenses			
Sales and marketing	7,205	12,760	13,538
General and administrative	14,786	17,941	26,638
Depreciation and amortization	<u>3,252</u>	<u>4,580</u>	<u>7,023</u>
Total operating expenses	<u>25,243</u>	<u>35,281</u>	<u>47,199</u>
Income from operations	2,346	10,764	18,797
Interest expense	3,703	3,236	2,198
Interest and other income, net	<u>2,054</u>	<u>2,003</u>	<u>2,053</u>
Income before income taxes,			
share of income of equity investees and			
minority interest	697	9,531	18,652
Income tax expense (benefit)	<u>(147)</u>	<u>250</u>	<u>647</u>
Income before share of income of equity			
investees and minority interest	844	9,281	18,005
Share of income (loss) of equity investees	(2,114)	1,516	3,891
Minority interest	<u>416</u>	<u>251</u>	<u>222</u>
Net income (loss)	\$ (854)	\$ 11,048	\$ 22,118
Basic and diluted net income (loss) per share	\$ <u>(0.01)</u>	\$ <u>0.09</u>	\$ <u>0.18</u>
Weighted average number of common shares	<u>116,984,428</u>	<u>124,480,318</u>	<u>124,480,318</u>

The accompanying notes are an integral part of these consolidated financial statements.



HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except number of shares)

	<u>Equity shares</u>		Additional	Retained	Notes	Comprehen	Accumulated	Total
	<u>No. of shares</u>	<u>Amount</u>	<u>paid-in</u>	<u>earnings</u>	<u>receivable</u>	<u>-sive</u>	<u>other</u>	<u>stockholders'</u>
			<u>capital</u>		<u>from</u>	<u>income</u>	<u>comprehen-</u>	<u>equity</u>
					<u>shareholder</u>		<u>sive income</u>	
Balances as of June 30, 1996	112,480,318	\$ 9,344	\$ -	\$ 3,728	\$ (261)		\$ (883)	\$ 11,928
Issuance of equity shares for acquisition of technology division	12,000,000	896	2,781					3,677
Net loss				(854)		\$ (854)		(854)
Gain on dilution of interest in a subsidiary				3,179				3,179
Distribution to shareholders			(1,057)	(96)				(1,153)
Cash dividend paid				(315)				(315)
Notes received from shareholder					261			261
Other comprehensive income								
Translation adjustments						(150)		
Other comprehensive income						(150)	(150)	(150)
Comprehensive income						(1,004)		
Balances as of June 30, 1997	124,480,318	\$ 10,240	\$ 1,724	\$ 5,642	\$ -		\$ (1,033)	\$ 16,573
Gain on dilution of interest in a subsidiary				77				77
Net income				11,048		11,048		11,048
Distribution to shareholders				(35)				(35)
Cash dividend paid				(435)				(435)
Other comprehensive income								
Unrealized gain on available for sale securities						104		
Translation adjustments						(2,755)		
Other comprehensive income						(2,651)	(2,651)	(2,651)
Comprehensive income						8,397		
Balances as of June 30, 1998	124,480,318	\$ 10,240	\$ 1,724	\$ 16,297	\$ -		\$ (3,684)	\$ 24,577

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except number of shares)

	<u>Equity Shares</u>		Additional	Retained	Notes	Comprehen	Accumulated	Total
	<u>No. of shares</u>	<u>Amount</u>	paid-in	<u>Earnings</u>	receivable	-sive	other	stockholders'
			capital		from	income	comprehen-	Equity
					shareholder		sive income	
Balances as of June 30, 1998	124,480,318	\$ 10,240	\$ 1,724	\$ 16,297	\$ -		\$ (3,684)	\$ 24,577
Equity in net income of equity investee for the three months ended June 30, 1998 due to change in fiscal year end (Note 2)				647				647
Share of net income of a subsidiary for the three months ended June 30, 1998 due to change in fiscal year end (Note 2)				464				464
Gain on dilution of interest in a subsidiary				251				251
Net income				22,118		22,118		22,118
Distribution to shareholders			(1,316)					(1,316)
Cash dividend paid				(427)				(427)
Other comprehensive income								
Unrealized gain (loss) on available for sale securities						(104)		
Translation adjustments						(688)		
Other comprehensive income						(792)	(792)	(792)
Comprehensive income						21,326		
Balances as on June 30, 1999	124,480,318	\$ 10,240	\$ 408	\$ 39,350	\$ -		\$ (4,476)	\$ 45,522

The accompanying notes are an integral part of these consolidated financial statements.

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	<u>Years ended June 30,</u>		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (854)	\$ 11,048	\$ 22,118
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,252	4,580	7,023
Deferred income taxes	(1,126)	(1,037)	(425)
(Gain) loss on sale of property and equipment	(3)	(3)	(3)
Write-down of marketable securities, available for sale			228
Share of (income) loss of equity investees	2,114	(1,516)	(3,891)
Minority interest	(416)	(251)	(222)
Changes in assets and liabilities, net			
Accounts receivable	(7,035)	(11,761)	(1,741)
Other assets	(1,153)	(4,110)	4,437
Accounts payable	1,453	3,037	62
Accrued employee costs	2,829	3,228	2,583
Other liabilities	<u>1,786</u>	<u>4,661</u>	<u>1,801</u>
Net cash provided by operating activities	<u>847</u>	<u>7,876</u>	<u>31,970</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(4,913)	(5,397)	(5,428)
Proceeds from sale of property and equipment	21	1,095	(189)
Purchase of investments	(4,454)	(1,291)	(463)
Payment for business acquisition, net of cash acquired	-	-	(2,754)
Loans extended to related parties	(9,201)	-	(7,060)
Loans repaid by related parties	<u>7,237</u>	<u>-</u>	<u>11,258</u>
Net cash used in investing activities	<u>(11,310)</u>	<u>(5,593)</u>	<u>(4,636)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of capital lease obligations	(219)	(891)	(106)
Net proceeds from bank line of credit	5,183	824	(6,873)
Increase (decrease) in short term borrowings, net	(4,814)	7,346	(3,682)
Proceeds from long term debt	6,575	-	-
Repayment of long term debt	(196)	(2,343)	(5,532)
Proceeds from issuance of common stock	261	-	-
Proceeds from issuance of common stock of subsidiary to minority	6,092	193	352
Liability to principal shareholder	111	551	1,469
Capital distribution to shareholders	(1,151)	(33)	(1,316)
Payment of dividend to minority in subsidiary	(49)	(31)	-
Payment of dividends	<u>(315)</u>	<u>(435)</u>	<u>(428)</u>
Net cash provided from (used by) financing activities	<u>11,478</u>	<u>5,181</u>	<u>(16,116)</u>
Effect of exchange rate on cash and cash equivalents	81	(1,825)	(1,229)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 1,096</u>	<u>\$ 5,639</u>	<u>\$ 9,989</u>
CASH AND CASH EQUIVALENTS			
Beginning of the year	\$ 1,303	\$ 2,399	\$ 8,038
Net cash activity of subsidiary for three months ended June 30, 1998 (Note 2)			(140)
End of the year	<u>\$ 2,399</u>	<u>\$ 8,038</u>	<u>\$ 17,887</u>
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the year for interest	\$ 2,206	\$ 2,725	\$ 1,982
Cash paid during the year for income taxes	\$ 785	\$ 898	\$ 335
Property and equipment acquired under capital lease obligation	\$ 1,576	\$ 659	\$ 335
Details of acquisitions:			
Fair value of assets acquired	\$ 3,788	\$ -	\$ 11,339
Fair value of liabilities assumed	\$ 109	\$ -	\$ 1,339
Common stock issued	\$ 3,679	\$ -	\$ -