

HCL TECHNOLOGIES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS - AS OF JUNE 30, 1999 AND
2000 AND FOR THE YEARS THEN ENDED
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 subsidiaries as of June 30, 1999 and 2000 and the related statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of HCL Perot Systems, NV (a 50% owned investee company). The Company's investment in HCL Perot Systems, NV as of June 30, 1999 and 2000 was \$7,896,000 and \$15,875,000, respectively, and its equity in earnings of HCL Perot Systems, NV was \$4,258,000 and \$6,224,000 for the years June 30, 1999 and 2000, respectively. The financial statements of HCL Perot Systems, NV 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, 1999 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

KPMG
New Delhi, India

July 25, 2000

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>As of June 30,</u>	
	<u>1999</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$17,887	\$ 39,807
Accounts receivable, net	33,344	41,214
Marketable securities, available for sale	62	168,943
Due from related parties	2,061	427
Inventories	1,440	2,147
Short-term loans	1,040	323
Employee receivables	994	2,132
Deferred income taxes	1,913	2,285
Other current assets	2,572	5,520
Total current assets	61,313	262,798
Property and equipment, net	10,892	17,684
Intangible assets, net	10,875	10,185
Investments in equity investees	7,896	15,875
Other investments	-	10,826
Deferred income taxes	1,688	1,392
Employee receivables	595	608
Other assets	793	871
Total assets	\$ 94,052	\$ 320,239

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands, except number of shares)

	<u>As of June 30,</u>	
	<u>1999</u>	<u>2000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 1,558	\$ -
Current portion of long-term debt	871	-
Current portion of capital lease obligations	288	171
Accounts payable	3,927	4,475
Due to related parties	3,892	1,333
Liability to principal shareholder	5,151	-
Accrued employee costs	9,826	7,616
Deferred revenue	2,876	3,690
Deferred income taxes	107	179
Acquisition of minority interest	7,000	-
Other current liabilities	8,763	15,694
Taxes payable	1,387	4,670
Total current liabilities	45,646	37,828
Long-term debt	1,080	-
Capital lease obligations	389	149
Other liabilities	276	281
Deferred credit, net	316	222
Deferred income taxes	15	9
Total liabilities	47,722	38,489
Minority interest	2,093	9
Stockholders' equity		
Equity shares,		
187,500,000 shares authorized as of 1999 and 2000;		
Issued and outstanding - 124,480,318 shares as of 1999 and		
139,763,531 shares as of 2000	10,240	15,449
Additional paid-in capital	408	191,144
Shares subscribed pending allotment	-	440
Deferred stock compensation	-	(582)
Retained earnings	38,065	85,526
Accumulated other comprehensive income	(4,476)	(10,236)
Total stockholders' equity	44,237	281,741
Total liabilities and stockholders' equity	\$ 94,052	\$ 320,239

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

HCL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except number of shares and per share data)

	Years ended June 30,	
	1999	2000
Revenues	\$ 166,326	\$ 206,833
Less: Stock based sales incentive	-	2,266
Net revenues	166,326	204,567
Cost of revenues	100,330	106,637
Gross profit	65,996	97,930
Operating expenses		
Sales and marketing	13,538	14,960
General and administrative	26,638	35,402
Depreciation and amortization	7,023	7,010
Total operating expenses	47,199	57,372
Income from operations	18,797	40,558
Interest expense	2,198	757
Interest and other income, net	2,053	12,022
Income before income taxes,		
share of income of equity investees and minority interest	18,652	51,823
Income tax expense	647	5,885
Income before share of income of equity investees and		
minority interest	18,005	45,938
Share of income of equity investees	3,891	6,224
Minority interest	222	(52)
Net income	\$ 22,118	\$ 52,110
Earnings per equity share		
Basic	\$ 0.18	\$ 0.39
Diluted	\$ 0.17	\$ 0.37
Weighted average number of equity shares		
Basic	124,480,318	132,219,054
Diluted	131,713,156	140,477,055

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)

	Equity shares No. of shares	Amount	Additional paid-in capital	Shares subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Total stockholders' equity
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 fiscal year end	-	-	-	-	-	647		-	647
Share of net income of a subsidiary for the three months ended June 30, 1998 due to change in fiscal year end	-	-	-	-	-	464		-	464
Gain on dilution of interest in a subsidiary	-	-	-	-	-	251		-	251
Distribution to principal shareholder	-	-	(1,316)	-	-	-		-	(1,316)
Cash dividend	-	-	-	-	-	(427)		-	(427)
Comprehensive income	-	-	-	-	-			-	
Net income	-	-	-	-	-	22,118	\$ 22,118	-	22,118
Other comprehensive income	-	-	-	-	-			-	
Realized loss on available for sale securities, net of	-	-	-	-	-			-	
translation adjustments	-	-	-	-	-	-	(104)	-	-
Other comprehensive income	-	-	-	-	-	-	(688)	-	-
Comprehensive income	-	-	-	-	-	-	(792)	(792)	(792)
Balances as of June 30, 1999	124,480,318	10,240	408	-	-	39,350	\$ 21,326	(4,476)	45,522
Prior period adjustment related to change in fiscal year end of a subsidiary (Note 30)	-	-	-	-	-	(1,285)		-	(1,285)
Balances as of June 30, 1999, restated	124,480,318	\$ 10,240	\$ 408	\$ -	\$ -	\$ 38,065		\$ (4,476)	\$ 44,237

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)

	Equity shares	Shares			Comprehensive income			Total stockholders' equity	
	No. of shares	Amount	Additional paid-in capital	subscribed pending allotment	Deferred stock compensation	Retained earnings	Comprehensive income	Accumulated other comprehensive income	Total stockholders' equity
Balances as of June 30, 1999, restated	124,480,318	\$ 10,240	\$ 408	\$ -	\$ -	\$ 38,065		\$ (4,476)	\$ 44,237
Issuance of equity shares, net	14,200,000	1,301	181,641	-	-	-	-	-	182,942
Issuance of equity shares on exercise of options	1,083,213	99	6,066	-	-	-	-	-	6,165
Stock dividend	-	3,809	-	-	-	(3,809)	-	-	-
Shares subscribed	-	-	-	440	-	-	-	-	440
Repurchase of shares and vested stock options by subsidiary	-	-	-	-	-	(421)	-	-	(421)
Fair value of stock options granted for acquisition	-	-	-	-	-	-	-	-	-
Minority interest	-	-	150	-	-	-	-	-	150
Compensation related to stock option grant	-	-	301	-	(301)	-	-	-	-
Mortization of compensation related to stock option grant	-	-	-	-	175	-	-	-	175
Compensation related to stock based sales incentive	-	-	2,722	-	(2,722)	-	-	-	-
Mortization of compensation related to stock based sales incentive	-	-	-	-	2,266	-	-	-	2,266
Share in stock compensation of equity investee	-	-	305	-	-	-	-	-	305
Income tax benefit on exercise of stock options of subsidiaries	-	-	668	-	-	-	-	-	668
Distribution to principal shareholder, net	-	-	(1,117)	-	-	-	-	-	(1,117)
Cash dividend	-	-	-	-	-	(419)	-	-	(419)
Comprehensive income	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	52,110	\$ 52,110	-	52,110
Other comprehensive income	-	-	-	-	-	-	-	-	-
Realized gain on available for sale securities, net of	-	-	-	-	-	-	121	-	-
Change in unrealized gain on available for sale securities, net of taxes, of equity investee	-	-	-	-	-	-	1,838	-	-
Translation adjustments	-	-	-	-	-	-	(7,719)	-	-
Other comprehensive income	-	-	-	-	-	-	(5,760)	(5,760)	(5,760)
Comprehensive income	-	-	-	-	-	-	\$ 46,350	-	-
Balances as of June 30, 2000	139,763,531	\$ 15,449	\$ 191,144	\$ 440	\$ (582)	\$ 85,526		\$ (10,236)	\$ 281,741

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

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

	Years ended June 30,	
	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 22,118	\$ 52,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,023	7,010
Deferred income taxes	(425)	(158)
(Gain) loss on sale of property and equipment	(3)	5
Stock based sales incentive	-	2,266
Amortization of deferred stock compensation expense	-	175
Loss on sale of investment securities	-	7,061
Write-down of marketable securities, available for sale	228	40
Share of income of equity investees	(3,891)	(6,224)
Minority interest	(222)	52
Changes in assets and liabilities, net		
Accounts receivable	(1,768)	(6,804)
Other assets	4,464	(4,886)
Accounts payable	62	(1,216)
Accrued employee costs	2,583	(2,085)
Other liabilities	1,801	11,151
Net cash provided by operating activities	31,970	58,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,679)	(11,723)
Proceeds from sale of property and equipment	62	109
Purchase of investments	(463)	(241,912)
Proceeds from sale of investments	-	47,671
Payment for business acquisition, net of cash acquired	(2,754)	(7,000)
Loans extended to related parties	(7,060)	-
Loans repaid by related parties	11,258	21
Net cash used in investing activities	(4,636)	(212,834)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of capital lease obligations	(106)	(340)
Repayment of bank line of credit	(6,873)	(7)
Decrease in short term borrowings, net	(3,682)	(973)
Repayment of long term debt	(5,532)	(1,944)
Proceeds from issuance of equity shares, net	-	189,107
Proceeds from subscription of shares pending allotment	-	440
Proceeds from issuance of equity shares of subsidiary to minority	352	11
Repurchase of equity shares and stock options of a subsidiary	-	(774)
Payment of liability to principal shareholder	1,469	(5,151)
Capital distribution to principal shareholder	(1,316)	(1,117)
Payment of dividends	(428)	(419)
Net cash (used in) provided by financing activities	(16,116)	178,833
Effect of exchange rate on cash and cash equivalents	(1,229)	(2,576)
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 9,989	\$ 21,920
CASH AND CASH EQUIVALENTS		
Beginning of the year	\$ 8,038	\$ 17,887
Net cash activity of subsidiary for three months ended June 30, 1998	(140)	
End of the year	\$ 17,887	\$ 39,807
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 1,982	\$ 3,339
Cash paid during the year for income taxes	\$ 528	\$ 3,106
Non-cash investing activities		
Property and equipment acquired under capital lease obligation	\$ 335	\$ -
Details of acquisitions:		
Fair value of assets acquired	\$ 11,339	\$ -
Fair value of liabilities assumed	\$ 1,339	\$ -

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