

HCL TECHNOLOGIES LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS – AS OF JUNE 30, 2000
AND 2001 AND FOR THE THREE YEARS ENDED JUNE 30, 2001
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS**

INDEPENDENT AUDITORS' REPORT

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, 2000 and 2001, and the related consolidated statements of income, stockholder' equity and comprehensive income, and cash flows for each of the years in the three-year period ended June 30, 2001. 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 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, 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, 200 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

KPMG

New Delhi, India

August 2, 2001

HCL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of June 30,	
	2000	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$39,392	\$91,007
Restricted cash	415	376
Accounts receivable, net of allowances	41,214	53,591
Investment securities, available for sale	168,943	183,567
Due from related parties	427	292
Inventories	2,147	3,268
Short-term loans	323	5,309
Employee receivables	2,132	2,426
Deferred income taxes	2,285	2,403
Other current assets	5,520	13,001
Total current assets	262,798	355,240
Property and equipment, net	17,684	32,182
Intangible assets, net	9,663	7,195
Investments in equity investees	16,925	27,022
Other investments	10,076	13,553
Employee receivables	608	135
Deferred income taxes	1,392	5,378
Other assets	871	1,816
Total assets	\$320,017	\$442,521

See accompanying notes to the consolidated financial statements.

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

	As of June 30,	
	2000	2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	\$171	\$97
Accounts payable	4,475	6,647
Due to related parties	1,333	828
Accrued employee costs	7,616	9,858
Deferred revenue	3,690	4,650
Deferred income taxes	179	662
Taxes payable	4,670	10,415
Other current liabilities	15,694	19,940
Total current liabilities	37,828	53,097
Capital lease obligations	149	72
Deferred income taxes	9	-
Other liabilities	281	25
Total liabilities	38,267	53,194
Minority interest	9	14
Stockholders' equity		
Equity shares, 350,000,000 shares authorized, Issued and outstanding - 279,527,062 and 284,919,708 as of 2000 and 2001 respectively	15,449	15,680
Additional paid-in capital	190,383	212,161
Share application money pending allotment	440	579
Deferred stock compensation	(126)	(17)
Retained earnings	85,831	187,038
Accumulated other comprehensive income	(10,236)	(26,128)
Total stockholders' equity	281,741	389,313
Total liabilities and stockholders' equity	\$320,017	\$442,521

See accompanying notes to the 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	2001
Revenues	\$166,326	\$206,833	\$298,385
Less: Stock based sales incentive	-	2,266	1,733
Net revenues	166,326	204,567	296,652
Cost of revenues (exclusive of depreciation shown separately below)	100,330	106,637	151,304
Sales and marketing expenses	13,538	14,960	17,684
General and administrative expenses	26,638	35,402	38,137
Depreciation and amortization	6,907	6,937	8,944
Foreign exchange gains, net	549	1,447	2,573
Income from operations	19,462	42,078	83,156
Other income (expense), net	(694)	9,818	17,418
Income before income taxes, share of income of equity investees and minority interest	18,768	51,896	100,574
Income tax expense	647	5,885	8,250
Income before share of income of equity investees and minority interest	18,121	46,011	92,324
Share of income of equity investees	3,775	6,151	9,628
Minority interest	222	(52)	(5)
Net income	<u>\$22,118</u>	<u>\$52,110</u>	<u>\$101,947</u>
Earnings per equity share			
Basic	\$0.09	\$0.20	\$0.36
Diluted	\$0.08	\$0.19	\$0.34
Weighted average number of equity shares used in computing earnings per equity share			
Basic	248,960,636	264,438,108	282,409,797
Diluted	<u>263,426,312</u>	<u>280,954,110</u>	<u>296,688,505</u>

See accompanying notes to the consolidated financial statements.

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

	Equity shares	Additional paid-in Capital	Shares subscribed pending allotment	Deferred Stock compensation	Retained earnings	Comprehensive income	Accumulated other Comprehensive income	Total stockholders' equity
	Shares	Amount						
Balances as of June 30, 1998	248,960,636	\$10,240	\$-	\$-	\$16,944	\$-	\$(3,684)	\$25,224
Share of net income of a subsidiary for the three months ended June 30, 1998 due to change in fiscal year end	-	-	-	-	(821)	-	-	(821)
Gain on dilution of interest in a subsidiary	-	-	-	-	251	-	-	251
Distribution to principal shareholder	-	-	-	-	-	-	-	(1,316)
Cash dividend	-	-	-	-	(427)	-	-	(427)
Comprehensive income								
Net income	-	-	-	-	22,118	\$22,118	-	22,118
Other comprehensive income								
Unrealized loss on available for sale securities, net	-	-	-	-	-	(104)	-	-
Translation adjustments	-	-	-	-	-	(688)	-	-
Total other comprehensive income	-	-	-	-	-	(792)	(792)	(792)
Total comprehensive income	-	-	-	-	-	\$21,326	-	-
Balances as of June 30, 1999	248,960,636	\$10,240	\$-	\$-	\$38,065	\$21,326	\$(4,476)	\$44,237

See accompanying notes to the consolidated financial statements.

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

	Equity shares		Additional paid-in Capital	Shares subscribed		Deferred Stock compensation	Retained earnings	Comprehensive income	Accumulated other Comprehensive income	Total stockholders' equity
	Shares	Amount		pending allotment						
Balances as of June 30, 1999	248,960,636	\$10,240	\$408	\$-	\$-	\$38,065	\$ (4,476)	\$44,237		
Issuance of equity shares, net	28,400,000	1,301	181,641	-	-	-	-	182,942		
Issuance of equity shares on exercise of options	2,166,426	99	5,761	-	-	-	-	5,860		
Stock dividend	-	3,809	-	-	-	(3,809)	-	-		
Shares subscribed	-	-	-	440	-	-	-	440		
Repurchase of shares by a subsidiary	-	-	-	-	-	(116)	-	(116)		
Fair value of stock options granted for acquisition of minority interest	-	-	150	-	-	-	-	150		
Compensation related to stock option grants	-	-	301	-	(301)	-	-	-		
Amortization of compensation related to stock option grants	-	-	-	-	175	-	-	175		
Contribution from principal shareholder in the form of stock based sales incentive	-	-	2,266	-	-	-	-	2,266		
Capital transactions 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	-	-	-	-	-	52,110	\$52,110	52,110		
Net income	-	-	-	-	-	-	-	-		
Other comprehensive income	-	-	-	-	-	-	-	-		
Unrealized gain on available for sale securities, net	-	-	-	-	-	-	1,959	1,959		
Translation adjustments	-	-	-	-	-	-	(7,719)	(7,719)		
Total other comprehensive income	-	-	-	-	-	-	(5,760)	(5,760)		
Total comprehensive income	-	-	-	-	-	-	\$46,350	46,350		
Balances as of June 30, 2000	279,527,062	\$15,449	\$190,383	\$440	\$ (126)	\$85,831	\$ (10,236)	\$281,741		

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

	Equity shares	Additional paid-in Capital	Shares subscribed pending allotment	Deferred Stock compensation	Retained earnings	Comprehensive income	Accumulated other Comprehensive income	Total stockholders' equity
	Shares	Amount						
Balances as of June 30, 2000	279,527,062	\$15,449	\$440	\$ (126)	\$85,831		\$ (10,236)	\$281,741
Issuance of equity shares on exercise of options	5,392,646	231	139	-	-	-	-	15,576
Amortization of compensation related to stock option grants	-	-	-	109	-	-	-	109
Contribution from principal shareholder in the form of stock based sales incentive	-	-	-	-	-	-	-	1,733
Capital transactions of equity investee	-	-	-	-	-	-	-	798
Income tax benefit on exercise of stock options of subsidiaries	-	-	-	-	-	-	-	4,041
Cash dividend	-	-	-	-	(740)	-	-	(740)
Comprehensive income	-	-	-	-	101,947	\$101,947	-	101,947
Net income	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	(813)	-	-
Unrealized loss on available for sale securities, net	-	-	-	-	-	(15,079)	-	-
Translation adjustments	-	-	-	-	-	(15,892)	(15,892)	(15,892)
Total other comprehensive income	-	-	-	-	-	\$ 86,055	-	-
Total comprehensive income	-	-	-	-	-	\$ 86,055	-	-
Balances as of June 30, 2001	284,919,708	\$15,680	\$579	\$ (17)	\$ 187,038		\$ (26,128)	\$389,313

See accompanying notes to the consolidated financial statements.

HCL TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended June 30,		
	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$22,118	\$52,110	\$101,947
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	6,907	6,937	8,944
Deferred income taxes	(425)	(158)	97
(Gain) loss on sale of property and equipment	(3)	5	30
Stock based sales incentive	-	2,266	1,733
Amortization of deferred stock compensation expense and other non cash charges	-	175	704
(Profit) loss on sale of investment securities	-	7,061	(7,130)
Write-down of marketable securities, available for sale	228	40	-
Share of income of equity investees	(3,775)	(6,151)	(9,628)
Minority interest	(222)	52	5
Changes in assets and liabilities, net			
Accounts receivable	(1,768)	(6,804)	(13,629)
Other assets	4,464	(4,886)	(21,186)
Accounts payable	62	(1,216)	2,157
Accrued employee costs	2,583	(2,085)	2,358
Other liabilities	1,801	11,151	11,214
Net cash provided by operating activities	<u>31,970</u>	<u>58,497</u>	<u>77,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash	(771)	554	39
Purchase of property and equipment	(5,679)	(11,723)	(22,273)
Proceeds from sale of property and equipment	62	109	158
Purchase of investments	(463)	(241,162)	(184,373)
Proceeds from sale of investments	-	47,671	172,131
Investment in equity investees	-	(750)	(3,069)
Payment for business acquisition, net of cash acquired	(2,754)	(7,000)	-
Loans extended to related parties	(7,060)	-	-
Loans repaid by related parties	<u>11,258</u>	<u>21</u>	<u>-</u>
Net cash used in investing activities	<u>(5,407)</u>	<u>(212,280)</u>	<u>(37,387)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of capital lease obligations	(106)	(340)	(104)
Net proceeds from (repayment of) bank line of credit	(6,873)	(7)	-
Repayment of short term borrowings	(3,682)	(973)	-
Repayment of long term debt	(5,532)	(1,944)	-
Proceeds from issuance of equity shares, net	-	188,802	14,840
Proceeds from subscription of shares pending allotment	-	440	139
Proceeds from issuance of equity shares of subsidiary to minority	352	11	-
Repurchase of equity shares of a subsidiary	-	(469)	-
Liability to principal shareholder	1,469	(5,151)	-
Capital distribution to principal shareholder	(1,316)	(1,117)	-
Payment of dividends	<u>(427)</u>	<u>(419)</u>	<u>(740)</u>
Net cash provided by (used in) financing activities	<u>(16,115)</u>	<u>178,833</u>	<u>14,135</u>
Effect of exchange rate on cash and cash equivalents	(1,230)	(2,576)	(2,749)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$9,218</u>	<u>\$22,474</u>	<u>\$51,615</u>
CASH AND CASH EQUIVALENTS			
Beginning of the year	\$7,840	\$16,918	\$39,392
Net cash activity of subsidiary for three months ended June 30, 1998	(140)		
End of the year	<u>\$16,918</u>	<u>\$39,392</u>	<u>\$91,007</u>

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

	Years ended June 30,		
	1999	2000	2001
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the year for interest	\$1,982	\$3,339	\$1,563
Cash paid during the year for income taxes	\$528	\$3,106	\$4,523
Non-cash investing activities			
Property and equipment acquired under capital lease obligation	\$335	\$-	\$29
Details of acquisitions:			
Fair value of assets acquired	\$11,339	\$8,040	\$-
Fair value of liabilities assumed	\$1,339	\$3,818	\$-

See accompanying notes to the consolidated financial statements.

