Contents

Board of Directors

Atul K. Nishar
Executive Chairman

Rusi Brij
Vice-Chairman & CEO

Dr. K. K. Anand
Director

L. S. Sarma
Director

A. P. Kurian
Director

P. G. Kakodkar
Director

Dr. (Mrs.) Alka A. Nishar
Director

P. K. Sridharan
President & Executive Director

Mark F. Dzialga
Director

Dr. Bakul Dholakia
Director

Shailesh V. Haribhakti
Director

Chief Finance Officer

Rajesh B. Ghonasgi

Company Secretary

Naishadh P. Desai

Auditors

M/s. Deloitte Haskins & Sells
Chartered Accountants

Bankers

IDBI Bank, Bank of India, Citi Bank,
Kotak Mahindra Bank

Registered Office

152, Millennium Business Park,
Sector - III, `A' Block, TTC Industrial Area,
Mahape, Navi Mumbai - 400 710.

Registrars and Transfer Agents

Sharepro Services (India) Private Limited
Unit: Hexaware Technologies Limited
3rd Floor, Satam Estate, Cardinal Gracious Road,
Andheri (East), Mumbai - 400 099.
Tel. : 2821 5168-69
Fax : 2837 5646.

DIRECTORS' REPORT

To the Members,
Your Directors have great pleasure to present their Thirteenth Report on the business and operations of Hexaware Technologies Limited (hereafter referred to as 'Hexaware') together with Audited Accounts for the financial year ended December 31, 2005.

Financial Performance :

Global Operations :

Year ended December 31,	2005 Rs. million	2004 Rs. million	Growth%
Income from Operations	**6,786.62**	5,458.91	24.32
Other Income	**145.74**	116.35	25.26
Total Income from Operations	**6,932.36**	5,575.26	24.34
Profit before Depreciation & Tax	**1,222.23**	884.65	38.16
Less: Depreciation	**209.90**	161.07	30.32
Profit before taxation	**1,012.33**	723.58	39.91
Less: Provision for taxation	**98.48**	86.22	14.22
Net Profit after tax	**913.85**	637.36	43.38
Income Tax – Earlier Years	**(1.11)**	5.10	(121.76)
Net Profit after Tax and Share of Profit in Associate	**914.96**	632.26	44.71

India Operations :

Year ended December 31,	2005 Rs. million	2004 Rs. million	Growth%
Income from Operations	**3,557.93**	2,540.42	40.05
Other Income	**142.96**	124.11	15.19
Total Income from Operations	**3,700.89**	2,664.52	38.90
Profit before Depreciation & Tax	**971.68**	594.17	63.54
Less: Depreciation	**177.27**	142.47	24.43
Profit before taxation	**794.41**	451.70	75.87
Less: Provision for taxation	**19.01**	14.00	35.78
Net Profit after tax	**775.40**	**437.70**	77.15
Income Tax – earlier years	**–**	4.36	
Add: Balance b/f from previous year	**392.41**	141.59	
Balance available for appropriation	**1,167.81**	574.93	103.12
Appropriation			
Transfer to/(from) General Reserve	**100.00**	50.00	
Interim Dividend	**71.00**	–	
Proposed Dividend on Equity Shares	**71.61**	117.21	
Tax on Dividends	**21.14**	15.30	
Balance carried to Balance Sheet	**904.06**	392.42	

Results of Operations

a) Global operations

Your Company recorded consolidated income (as per Indian GAAP) of Rs. 6,932.36 million in 2005 compared to Rs. 5,575.26 million in 2004. The revenue from software business grew 24.32% to Rs. 6,786.62 million in 2005 from Rs. 5,458.91 million in 2004. The profit after tax increased by 43.38% to Rs. 913.85 million in 2005 from Rs. 637.36 million in 2004.

During 2005, Hexaware expanded its business based on its extended global reach into new markets; a strengthened capability position on its domain expertise; the addition of new high-value and niche business verticals; a healthy addition of new accounts; and most importantly, its ability to nurture and sustain relationships with its existing top 40 customers.

Your Company made encouraging inroads into new markets within Europe, Asia Pacific and the Americas. It won large new orders and repeat business from its existing base of clients. It acquired 39 new clients and strengthened its total active customer base to 134. In addition, your Company displayed a strong capability in capturing sizeable deals: the number of customers with whom the Company accomplished an annual billing of more than USD 10 million rose to 4 (from 2 in the previous year); the count of customers with an annual billing between USD 5 - 10 million annually stood at 4 (from 3 in the previous year); while the number of clients with an annual billing of USD 1 - 5 million increased to 30 (from 20 in the previous year).

The diversity of the Company's customer list, service offerings and geographies also continued to be healthy: for the financial year 2005, it serviced around 134 clients, with each of whom the Company's annual billing exceeded US$ 1 million through 9 distinct service verticals across all markets in Europe, USA and Asia.

Your Company also displayed efficient and effective operations and delivery management, resulting in steady improvements in resource utilisation and cost rationalisation. It continues to be perceived as one of the best Companies to work for; and successfully carried out significant additions to its people and facility infrastructure across 3 cities in India.

b) India operations

Your Company recorded a total income of Rs. 3,700.89 million in 2005 compared to Rs. 2,664.52 million in 2004, demonstrating a growth of 38.90%. The revenue from the Software business grew by 40.05% to Rs. 3,557.93 million in 2005 from Rs. 2,540.42 million in the previous year. The profit after tax grew by 77.55% over previous year to Rs. 775.40 million in 2005, from Rs. 437.70 million last year.

Your Company's strengths in HR solutions and Enterprise Applications are increasingly attracting interest from large Indian and multinationals corporates in India, which is the primary reason for the growth experienced during financial year 2005.

Dividend

During the year 2005, your Company paid an interim dividend @ 30% (Re. 0.60 per share on par value of Rs. 2). The Directors recommend a final dividend of 30% i.e. Re. 0.60 per share on par value of Rs. 2/- subject to the approval by the shareholders at the ensuing Annual General Meeting. The total dividend declared was @60% (i.e. Rs. 1.20 per share on par value of Rs. 2/- each) for the financial year ended December 31, 2005 (previous year 50% i.e Rs. 5/- per share on par value of Rs. 10/-). The total cash outgo on account of total dividend (including Interim Dividend) and tax thereon amounts to Rs. 163.75 million.

The final dividend, if approved, will be paid to those members whose names appear in the Register of Members as on the date of the Annual General Meeting.

As per Investor Education and Protection Fund (Awareness and Protection Investor) Rules, 2001, an amount of Rs. 253,257/- (for the financial year 1996) towards unpaid/unclaimed dividends was transferred during the year to the Investor Education and Protection Fund.

Stock split & Share capital

- At the Twelfth Annual General Meeting held on the April 4, 2005, the Shareholders, approved the sub-division of Equity Shares in the ratio of 5 (five) Equity Shares of Rs. 2/- (Rupees two only) each for every 1 (one) Equity Share of Rs. 10/- (Rupees ten only) each.

  The trading in the sub-divided shares commenced from May 4, 2005 in the Stock Exchanges i.e., the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE).

  During the year 2005, the paid-up Share Capital of your Company increased to Rs. 238.72 million from Rs. 233.04 million comprising of 119,358,695 equity shares of Rs. 2/- each. This increase was on account of the exercise of 758,235 equity shares of Rs. 2/- each and 2,082,435 equity shares of Rs. 2/ - each under Employee Stock Option Scheme 1999 and Employee Stock Plan - 2002 respectively issued by your Company.

  During the current year 2006, the paid-up Share Capital of your Company increased to Rs. 1,760.71 million from Rs. 238.72 million, comprising of

130,374,850 equity shares of Rs. 2/- each aggregating to Rs. 260.75 million and 1,055,570 Series `A' Redeemable and/or Optionally Convertible Preference Shares aggregating to Rs. 1,499.96 million.

- **Preferential Allotment**
  Pursuant to the approval of the members at the Extraordinary General Meeting held on April 13, 2006 and in furtherance to the Investment Agreement dated April 12, 2006 with GA Global Investments Limited where GA Global Investments Limited, a Cyprus entity, invested Rs. 3,002.00 million (USD 67.1 million) through a preferential allotment. The proceeds of the allotment will be utilised to create infrastructural assets, enable suitable acquisitions and to meet working capital needs of the Company, resulting in the long term sustained growth and also help the Company to realise new growth opportunities. The following are the salient features of the proposed investments by GA Global Investments Limited in your Company :
- Rs. 3,002.00 million (USD 67.6 million) investment would be through preferential allotment i.e. 14.99% equity stake post conversion.
- The allotment made is in the form of 10.57 million Equity Shares and 1.056 million. Optionally Convertible Preference Shares amounting to Rs. 1,502.00 million (USD 33.83 million) and Rs. 1,500.00 million (USD 33.78 million) respectively.
- The Preference Shares will carry a coupon rate of 2.95% for the first eighteen months. In case the conversion option is not exercised, the said shares shall carry a coupon rate of 5% per annum thereafter.

The Capital Issue Committee at its meeting Issued and Allotted 10,569,790 Equity Shares at Rs. 142.10/- each (i.e face value Rs. 2/- and premium of Rs. 140.10/- per share) and 1,055,570 Series 'A' Redeemable and/or Optionally Convertible Preference Shares of Rs. 1,421/- each.

Pursuant to the execution of deal i.e. post-investment the market capitalization of your Company crossed above Rs. 20,000 million (USD 450 million).

Investment

During the year, your Company made an investment of Rs. 15 million in Caliber Point Business Solutions Limited, a wholly owned subsidiary, carrying on business in the Business Process Outsourcing (BPO) domain. This investment is designed to align and position your Company to take advantage of the growing global demand for integrated IT and BPO services.

Infrastructure

When competing for larger deals, size is paramount to the comfort level of a customer who would more easily give the order to a service provider with scale. The Company's pursuit of larger deals has demonstrated the importance of scale to win large orders. In its endeavour to build scale for winning bigger orders, the Company took major steps to increase its dimension and capacity on two fronts : people and facilities.

People :

In the early part of the year, Hexaware initiated programs to induct superior talent from leading engineering and business schools across the country, and made a significant campus recruitment commitment to ensure sufficient talent scale-up for anticipated business. Even though the Company has the ability to ramp up its human resources with minimum lead time, the campus recruitment exercise was a deliberate step to reduce the lag time between order intake and commencement of order execution.

Facilities :

Hexaware's backbone is its world-class infrastructure with flexible delivery models. In line with its anticipated growth, the Company further expanded its physical presence and commenced work on what will be one of India's largest campuses in Siruseri, Chennai. Designed by a leading Singapore-based architect firm, this campus promises to be a environment-friendly, world-class facility. Housed on more than 27 acres of land, the Hexaware campus will have a built-up area of 1.2 million sq. ft. for which the Company is set to invest a total outlay of Rs. 3,500 million. The first phase, which is expected to be completed within twelve to thirteen months, will cover a 450,000 sq. ft. built up area and will house over 3,000 employees. The remaining two phases is planned to be completed within five years and will cover a built up area of 350,000 sq. ft. each. At its peak, the Campus will have a capacity for 11,000 software professionals. This campus has also received an approval from the Union Ministry of Commerce granting the facility an SEZ status. The Company has commenced its operations in Pune with 250 seats capacity and also plans to include new development centere in Gurgaon, New Delhi in the near future.

During the year, the Company's new 550 people facility in Millennium Business Park, Navi Mumbai, became fully functional. A new facility in Chennai, with a seating capacity of 285 people, also commenced operation during the year.

Business

In 2005, your Company made significant progress in successfully shaping the new business platforms that were launched during 2004. In addition, your Company continued to leverage its leadership position in the Enterprise Applications space through the acquisition of new clients in the HR-IT, SAP, PeopleSoft and Oracle Applications practices.

For the year under review, your Company transferred its India Service Center (ISC) located at Bangalore to Oracle India Private Limited which was acquired under the terms of a Built Operate and Transfer agreement between Hexaware and PeopleSoft (which was acquired by Oracle in January 2005). Your Company had entered into this Built Operate Transfer Agreement with PeopleSoft in April, 2003. This demonstrated your Company's ability in structuring flexible and versatile business models and partnership ventures, giving it a key a typical differentiator in today's global business climate.

During the year, your Company achieved various milestones, some of which are listed below :

Business Portfolio enhancement and differentiated offerings :

- Your Company launched Leasing & Mortgage Solutions to cater to the growing segment of asset financing business worldwide.
- Your Company also introduced Asset Management Solutions and Integrated Wealth Management Solutions to deepen and strengthen its Portfolio of Financial Services offerings.
- To further innovation initiatives and to align with the growing trend towards Service Oriented Architecture, your Company invested into product based solutions in the Banking segment.
- Your Company gained inroads into the Travel segment by acquiring clients in Trainways (non-Airline segment where Hexaware already enjoys market leadership position).
- After the transfer of the PeopleSoft India Software Center, the Company successfully derisked its platform concentration by establishing successful growth in the Enterprise Solutions portfolio. Through the addition of SAP, Oracle, Business Intelligence, and Content Management offerings, your Company is now well positioned as a leading multi-platform application services vendor.

Service delivery excellence :

- Your Company acquired sizeable new orders in early-stage competencies in Testing and Oracle Applications.
- It initiated the annual Technology Summit, a forum focused on technology innovation to promote interaction with industry through leaders.

Drive towards accelerated Globalisation :

- Your Company opened new offices in Australia, Netherlands, and France, reinforcing its position as a leading global solution provider. In all these regions, your Company successfully acquired new clients and demonstrated a sturdy ability to scale up business.
- Continuing on a fast track growth path, your Company was amongst the fastest growing India based IT Company in the Industry in 2005.

Operations

In keeping with the significant improvement in the overall business scenario for off-shoring, your Company reported significant growth for the year 2005. Your Company's outstanding financial performance in 2005 resulted from various aspects of your Company's operations. Some of the key drivers for fuelling Hexaware's growth are :

Readiness to Adapt

Your Company's business model is pivoted on sound leadership and its ability to manage change. Our leadership is linked to our vision and our ability to re-invent the 'strategic wheel' in response to accelerated change. Change has created several new opportunities for technology-intensive Indian IT vendors. Specifically for Hexaware, the new paradigm provides opportunities to build on the business capabilities developed over the years and align services with the business roadmap of clients, thereby delivering real business impact and value. Your Company is adept in identifying current trends and opportunities, and capitalising upon them. It is especially successful in identifying underserved but scalable market segments as new opportunities: these are market spaces that are not targeted by the larger IT vendors, making it relatively easier to become a best-of-breed player. The Company invests upfront into these identified areas to create a market leadership position, yielding the highest quality deals at the most profitable rates. Your Company's current focus on offering integrated IT and BPO services and developing a global delivery model are additional examples of its willingness to adapt to the changing needs and demands of the market place.

Enhanced Business Portfolio

The Company's core business philosophy has always focused on the customer. The Company's customer orientation centers on 'committing correctly but delivering more'. This committed approach has enhanced customer delight and fulfillment levels – a crucial success determinant in the broad-based IT industry. Your Company introduced key new business verticals that have widened the Company's service offerings, permitting it to get a better wallet-share of existing and new clients.

Strong and broad based Relationships

Your Company practices a culture of building value based relationships with all its clients and stakeholders. By aggressively building customer relationships, the Company is able to grow its revenue through its key clients by cross-selling other application services. Your Company took initiatives to further strengthen its standing with its top 40 customers, which were responsible for more than 86% of the growth that your Company experienced.

These initiatives involved a more focused approach to account management and alignment of sales and marketing resources.

Geographic coverage

The need to enter new markets, cost and value arbitrage is leading to new outsourcing paradigms across several industries, specifically in services industries. Leveraging its strengths in its principal verticals, your Company has widened its reach through its own physical presence into new and tough markets across the globe. In 2005, your Company has also successfully demonstrated its ability to establish presence and succeed in new markets such as Japan, Canada and Australia.

Multi-platform and Impacting Solutions

Your Company is increasingly engineering platform-lead growth rather than product-lead growth. In doing so, it is experiencing a general improvement across its entire portfolio of enterprise solutions. Your Company is also delivering outsourcing solutions with an objective to provide business impact to clients, which in turn creates value for them : by offering high business impact solutions through new offerings such as Business Analytics and Technology Consulting.

Committed to Quality and Security

Your Company achieved new milestones in process quality protocols and in information security with the successful completion of the SAS 70 Type 1 audit across development centres.

It also implemented Six Sigma standards for strict quality control, and was assessed at Level 5 of the Maturity capability models (CMMI and CMM). Your Company also achieved the BS7799 certification for information security standards for enforcing data privacy and protection practices. Through these measures, your Company has taken a committed stance on managing information security to ensure Confidentiality, Integrity and Availability of organizational and customer assets.

Thrust areas for 2006 include SEI-PCMM standards. Going forward, your Company's initiatives in SEI-PCMM is to further improve workforce practices. Your Company's current focus is also on enhancing the process of automation and internal systems to improve its process efficiency and performance.

Talent Management :

During 2005, your Company was ranked by the DQ-IDC 2005 survey as one of the top ten "Best IT Employers" in the country; and 6th in terms of employee satisfaction. This confirmed the reasons behind your Company's low attrition rate in comparison to the industry, which has given your Company a reputation for representing continuity and efficient execution of business.

Corporate Social Responsibility (CSR)

Your Company has consistently responded to various community initiative programs and understands the larger role that it can play in social development. It has always endeavoured to harness its resources to help the community in times of natural disasters and calamities. During the year under review, your Company made following contributions:

1. Blood Donation camps in both Chennai and Mumbai. Mumbai collected 131 units of blood. Further, now onwards it will be a half-yearly exercise across both the centres.
2. Hexaware Chennai's Community programme called H30 or Helping Hands from Hexaware took its first step in initiating a programme for the underprivileged children. Educational materials and footwear to street children attending Transit schools were donated. H3O has also extended help to South India Scheduled Tribes Association which is a home for gypsy, tribal and destitute children, situated in Saidapet. There are nearly 150 inmates and the focus is on enabling education through direct or indirect means and both in Tamil and English. Vocational training is also available for desiring candidates. H3O has approved an aid of Rs. 0.50 million towards improvement of the infrastructure. An initial amount of Rs. 0.15 million has already been paid to start the work.
3. H3O had organised a Health Check-Up Camp for the children of Arunodhaya, Centre for Street and Working Children. The camp was held on February 10, 2006 at the Arunodhaya field office in Korukkupet. The Camp benefited a total of 202 children. The common ailments noted were common cold, cough, worm infestation and scabies.
4. Hexaware Mumbai has associated itself with Hellen Keller institute in Mahape. 'Discovering the sense of touch' was initiated on February 14th, 2006 wherein Mumbai office volunteers spend a day with the Blind and Deaf children at the institute. Also, edible items, daily requirements were also donated.
5. Mumbai Marathon - Hexaware Mumbai participated in Mumbai marathon in January, 2006. The money collected was donated to United Way for social causes.
6. Hexaware also donated 94 computers to Sparsh, a NGO dedicated in empowering underprivileged children with IT knowledge.
7. Hexaware also sponsored Cyber Safety Week conducted by Mumbai Police. This Week was aimed at creating awareness and preventing cyber crime.

Outlook

Your Company believes that the premise on which its new business initiatives will be built on is the creation of an extended customer relationship by becoming true "partners" in delivering them business impact. Bolstered by excellent customer reviews and feedback, and solid performance based track record, your Company expects to increase its growth rate on three strategic dimensions – proactive customer acquisition, aggressive customer retention and value based partnerships. With improved customer fulfillment and customer care planning, your Company is well poised to offset challenges and capitalise on the opportunities of tomorrow.

Besides generating healthy revenues from its major customer accounts, Hexaware's key revenue streams for fiscal year 2006 is expected to come from the BFSI, Transportation industry segments, HR-IT solutions and the horizontal segment of PeopleSoft. These business platforms continue to be the foundations of your Company, on which new verticals and horizontal services will be built upon. Based on the solid infrastructure expansions carried out through 2005 and the coming fiscal period, your Company aspires to be a front-runner for winning major turnkey IT projects that typically tend to go to larger players.

Your Company's focus on developing delivery capability in emerging regions such as China, Eastern Europe and South America should further strengthen your Company's ability to compete better against global players. Your Company plans to make fresh investments in 2006 to further strengthen its presence in Australia, Netherlands, Canada and South America. By focusing on expanding management bandwidth, coupled with a judicious onsite-offshore mix, the Company is looking towards maintaining its strong rate of growth. Your Company also plans to capitalize on the growing trend of integrated IT/BPO and integrated IT/RFID solutions to cater to the growing market for this service. Combined with the BPO arm, your Company is poised to become one of the leading providers to offer integrated business technology outsourcing solutions.

Thanks to its sustained efforts in 2005, your Company has built up a formidable order book. This should support in planning infrastructure development and people investments with greater precision to produce sustained profitability.

With a firm commitment to multiplying shareholder value, your Company is confident of further strengthening its business in terms of volume, client base, geographies, verticals and horizontal services. Through its sustained performance ethics and a stable business model, your Company is now well poised to travel forward on to the next stage of persistent growth.

Corporate Governance and Management Discussion and Analysis

Your Company has been practicing the principles of good corporate governance over the years. The Board of Directors supports and adheres the principles of corporate governance as these principals generate a sound corporate culture resulting in more accountability in all its transactions. In addition to the basic governance issues, the Board lays strong emphasis on transparency, accountability and integrity.

A report on Corporate Governance including the relevant Auditors' Certificate regarding compliance with the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with stock exchanges is annexed.

Directors' Responsibility Statement

As required under Section 217(2AA) of the Companies Act, 1956, your Directors hereby state and confirm that:

(i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures;

(ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

(iii) the Directors have taken proper and sufficient care 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;

(iv) the Directors have prepared the annual accounts on a going concern basis.

Employee Stock Option Plans (ESOP)

During the year under review, your Company allotted 2,840,670 Equity Shares of Rs. 2/- each on exercise of Stock Warrants/Options.

Pursuant to the approval of the shareholders, your Company had instituted the Employee Stock Option Scheme, 1999 and the Employee Stock Option Plan, 2002 for all eligible Directors (excluding Promoter Directors), employees of the Company and employees of its subsidiaries. Both the Plans are administered by the Remuneration & Compensation Committee of the Board and provide for the issuance of 18,000,000 Warrants and 11,049,145 Options respectively.

The details of the Warrants/Options granted under the 1999 and 2002 plans are given as under :

Disclosures in compliance with the Guidance Note on Accounting for Employee Share-based Payments

Sr. No.	Description	ESOP - 1999		ESOP - 2002	
1	Method used for accounting of the employee share-based payment plans	Intrinsic value method		Intrinsic value method	
2	If Intrinsic value method is used, impact for the accounting period had the fair value method been used on the following -				
	Net results		4,973,337		18,255,096
	Earnings per Share (EPS)				
	- Basic		7.57		7.57
	- Diluted		7.33		7.33
3	Description of each type of employee share-based payment plan that existed at any time during the period including the following -				
	Total number of options/warrants under the plan		18,000,000		11,049,145
	Vesting Requirements	Vesting 25% on each successive anniversary of the grant date or as per the discretion of the Committee		Vesting 25% on each successive anniversary of the grant date or as per the discretion of the Committee	
	Maximum term of options/warrants granted		10 years		7 years
4.	Number and weighted average exercise prices of stock options/warrants for each of the following groups of options/warrants	Number of warrants/	Weighted Average Exercise Price (Rs.)	Number of options/	Weighted Average Exercise Price (Rs.)
	- Outstanding at the beginning of the period	4,236,285	9.00	7,455,290	31.50
	- Granted during the period	–	–	1,214,000	145.00
	- *Forfeited / expired during the period	196,410	9.00	789,840	72.26
	- Exercised during the period	2,274,705	9.00	2,082,435	70.92
	- Outstanding at the end of the period and	1,765,170	9.00	5,797,015	83.30
	- Exercisable at the end of the period	1,481,320	9.00	1,514,690	31.80
5	Number of options/warrants vested	1,481,320		1,514,690	
6	Total number of shares arising as a result of exercise		758,235		2,082,435
7	Money realised by exercise of options/warrants		Rs. 6,824,115		Rs. 29,179,873

Sr. No.	Description	ESOP - 1999		ESOP - 2002	
8	Employeewise details of options/warrants granted to - - Senior management personnel - Employees holding 5% or more of the total number of warrants/options granted during the year - Identified employees who were granted warrant/option, during the year equal to or exceeding 1% of the issued capital (excluding outstanding options/warrants and conversions) of the Company at the time of grant.	Nil Nil Nil		Nil Nil Nil	
9	For stock options/warrants exercised during the period the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the weighted average share price during the period.	As disclosed in point 4 above			
10	For stock options/warrants outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life (vesting period + exercise period). If the range of the exercise prices is wide, the outstanding options should be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and cash that may be received upon exercise of those options.	Range of exercise Prices (Rs.)	Weighted average contractual life (months)	Range of exercise Prices (Rs.)	Weighted average contractual life (months)
		9.00	90	9 to 25	112
				70.6 to 73.6	128
				80.4 to 101	134
11	For stock options/warrants granted during the the period, the weighted average fair value of those options at the grant date and information on how the fair value was measured including the following -	No grants made during current period.			
	Option pricing model used			Black Scholes Options Pricing Model	
	- Inputs to that model including - weighted average share price			144.90	
	exercise price			145.00	
	expected volatility			Vest 1	33.61%
				Vest 2	41.48%
				Vest 3	44.98%
				Vest 4	50.27%
	option life (comprising vesting period + exercise period)			4.5 years	
	expected dividends			1.10%	
	risk-free interest rate			Vest 1	6.08%
				Vest 2	6.16%
				Vest 3	6.24%
				Vest 4	6.31%
	any other inputs to the model including the method used and the assumptions made to incorporate the effects of expected early exercise.				
	- Determination of expected volatility, including explanation to the extent expected volatility was based on historical 'volatility.			Based on historical volatility.	
	- Any other features of the option grant were incorporated into the measurement of the fair value, such as market conditions.			–	

Sr. No.	Description	ESOP - 1999	ESOP - 2002
12	For other instruments granted during the period (i.e., other than stock options) - - Number and weighted average fair value of those instruments at the grant date - Fair Value determination in case - (a) fair value not measured on the basis of an observable market price (b) whether and how expected dividends were incorporated (c) whether and how any other features were incorporated	Not Applicable	Not Applicable
13	For employee share-based payment plans that were modified during the period - - Explanation of those modifications - Incremental fair value granted (as a result of those modifications) - Information on how incremental fair value granted was measured, consistently with the requirements set out in points 7 and 8 above.	No modifications were made to the Scheme during the year	No modifications were made to the Scheme during the year
14	Total expense recognised for the period for employee share-based payment plans	Nil	Nil
15	Separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled employee share-based payment plans	Nil	Nil
16	For liabilities arising from employee share-based payment plans - Total carrying amount at the end of the period - Total intrinsic value at the end to the period for which the right of the employee to cash or other assets had vested by the end of the period.	Nil	Nil

Post split the basic earnings per share was Rs. 7.76 and Rs. 5.51 for the financial year ended December 31, 2005 and December 31, 2004 respectively and the diluted earnings per share was Rs. 7.52 and Rs. 5.03 for the financial year ended December 31, 2005 and December 31, 2004 respectively.

Fixed deposits

During the year under review, your Company did not accept or invite any deposits from the public.

Insurance

All the properties of the your Company are adequately insured and safeguarded.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The information relating to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo required under Section 217(1)(e) of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is annexed hereto and forms part of this Report.

Subsidiaries

1. **Hexaware Technologies Inc. USA**

   During the year under review, the total income of the Company was Rs. 2,990.53 million for 2005 against Rs. 2,584.06 million in 2004 and the profit was Rs. 81.41 million against a profit of Rs. 50.95 million in 2004.

2. **Hexaware Technologies Canada Limited, Canada**

   During the year under review, the total income of the Company was Rs.61.21 million for 2005 against Rs. 36.50 million in 2004 and the profit was Rs. 3.07 million against a profit of Rs. 2.64 million in 2004.

3. **Hexaware Technologies UK Limited, UK**

During the year under review, the total income of the Company was Rs. 617.21 million for 2005 against Rs. 610.88 million in 2004 and the profit was Rs. 56.42 million against a profit of Rs. 151.96 million in 2004.

4. **Hexaware Technologies GmbH, Germany**

During the year under review, the total income of the Company was Rs. 968.09 million for 2005 against Rs. 780.06 million in 2004 and the profit was Rs. 14.55 million against a profit of Rs. 3.34 million in 2004.

5. **Hexaware Technologies Asia-Pacific Pte. Limited, Singapore**

During the year under review, the total income of the Company was Rs. 66.93 million for 2005 against Rs. 44.42 million in 2004 and the profit was Rs. 4.44 million against a profit of Rs. 3.58 million in 2004.

6. **Caliber Point Business Solutions Limited, India**

During the year under review, the total income of the Company was Rs. 183.86 million for 2005 against Rs. 55.85 million in 2004 and the profit was Rs. 23.54 million against a profit of Rs. 13.25 million in 2004.

7. **Specsoft Consulting India Limited, India**

W.e.f. January 3, 2006, Specsoft Consulting Inc., USA was merged with Hexaware Technologies Inc., USA. The merger will help Sepcsoft in nurturing its capabilities effectively under the Hexaware Brand and in leveraging a larger sales organisation. The merger is expected to bring down the administrative cost to a considerable extent.

As per the provisions laid down in Section 212 of the Companies Act, 1956 your Company is required to attach the Directors' Report, Balance Sheet and Profit and Loss Account of the subsidiaries to its Balance Sheet. As per the requirements under Section 212 (8) of the Companies Act, 1956, your Company had applied for the necessary application to the Central Government which has been conferred the power to grant exemption from the aforesaid requirement. In this regard your Company has received an approval from the Government of India, Ministry of Company Affairs, vide their letter no. 47/268/2005-CL-III dated October 20, 2005 granting an exemption from attaching the audited accounts of the subsidiaries to this Annual Report for the financial year ended December 31, 2005. Audited Accounts of all subsidiaries of the Company are available at the Registered Office of the Company for inspection by members. The Company will make available these documents upon request by any member of the Company.

A Statement as directed by the ministry of furnishing particulars of the subsidiaries is available at the Registered Office of the Company for inspection by members. The Company will make available the said document upon request by any member of the Company.

Directors

In accordance with the Articles of Association of the Company, Mr. L. S. Sarma and Mr. A.P. Kurian, Directors of the Company, retire by rotation at this Annual General Meeting and, being eligible, offer themselves for re-appointment at the ensuing Annual General Meeting.

Your Directors are pleased to inform you that with effect from May 25, 2006, Mr. Mark F. Dzialga, Dr. Bakul Dholakia and Mr. Shailesh V. Haribhakti has been inducted in the Board as Directors of the Company in terms of Articles of Associations of the Company. Mr. Mark F. Dzialga, Dr. Bakul Dholakia and Mr. Shailesh V. Haribhakti holds office upto the date of ensuing Annual General Meeting. As required by Section 257 of the Companies Act, 1956, the Company has received notices in writing along with the requisite deposit from member(s) proposing their candidature for the office of Director.

Dr. K.K. Anand due to his health reasons vacated his office as a Director w.e.f. May 25, 2006. The Board takes on record the immense contribution made by Dr. K.K. Anand during his tenure with the Company.

The shareholders information as necessitated in Clause 49 of the Listing Agreement pertaining to brief resume, expertise in functional areas, names of companies etc. in which Mr. Mark F. Dzialga, Dr. Bakul Dholakia and Mr. Shailesh V. Haribhakti is a Director is being provided separately in the Annexure provided on page nos. 29 & 30 of the Corporate Governance Report section of this Annual Report. Members are requested to refer the said section of the Corporate Governance Report.

Auditors

Pursuant to the recommendation of the Audit Committee at their meeting held on May 25, 2006, for re-appointment of M/s. Deloitte Haskins & Sells as Statutory Auditors of the Company, for the financial year 2006, the Board of Directors have, at their meeting held on May 25, 2006, approved the re-appointment of M/s. Deloitte Haskins & Sells as the Statutory Auditors of the Company for the financial year 2006 and to hold office till the conclusion of the next Annual General Meeting scheduled to be held in 2007. In terms of provisions of Section 224 of the Companies Act, 1956, M/s. Deloitte Haskins & Sells retire at this Annual General Meeting and being eligible, offer themselves for re-appointment. In terms of provisions of Section 224(1B) of the Companies Act, 1956, M/s. Deloitte Haskins & Sells have furnished a certificate that their appointment, if made, will be within the limits prescribed under the said Section of the Act.

Particulars of employees

The particulars of employees, required to be furnished under Section 217(2A) of Companies Act, 1956, read with the Companies (Particular of Employees) Rules, 1975 is annexed hereto and forms part of this Report.

Acknowledgement

Our teams across the Company through their competence, hard work, dedication and team sprit, have stretched incessantly to achieve impressive results for year 2005 and over the years has made your Company a great place to work with. The Board wishes to place on record its sincere appreciation of the effort put in by your Company's senior management team, executives and consultants at all levels, with your wishes and trust we endeavour to deliver long-term shareholders value.

Your Directors would like to thank all investors, customers, Financial Institutions, vendors, Banks, Government Authorities, the registrars, share transfer agents, business/alliance and Technology Partners for their support.

Your Directors thank the Government of India and various Government Agencies for their support during the year, and look forward to their continued support in the future.

For and on behalf of the Board of Directors

Atul K. Nishar
Executive Chairman

Place : Mumbai
Date : May 25, 2006

ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION RELATING TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, RESEARCH AND DEVELOPMENT AND FOREIGN EXCHANGE EARNINGS AND OUTGO FORMING PART OF DIRECTORS REPORT IN TERMS OF SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, AND RULES MADE THEREUNDER.

CONSERVATION OF ENERGY:

As a responsible corporate citizen, Hexaware lays emphasis on the conservation of energy and requires minimal energy consumption for its operations. Every endeavour has been made to ensure the optimal use of energy, avoid wastage and conserve energy as far as possible. All possible measures have been taken to conserve energy through automation, (i.e. using timers, automatic level controllers, etc.); and by incorporating energy-efficient equipment.

TECHNOLOGY ABSORPTION:

In its endeavour to obtain and deliver the best, your Company has entered into alliances / tie-ups with major global players in the I.T. Industry, to harness and tap the latest and the best of technology in its field, upgrade itself in line with the latest technology in the world and deploy / absorb technology wherever feasible, relevant and appropriate. At the same time, Hexaware has also attached tremendous significance to indigenous development and up gradation of technology through its extensive Research and Development operations and the benefits derived form the said process are phenomenal and has improved the quality of our world class services. It has also helped in diversifying the services portfolio along with cost efficiency.

RESEARCH & DEVELOPMENT :

Hexaware has a state-of-the-art Research and Development wing carrying on Research and Development activities. This is in line with the Company's philosophy of maintaining and sustaining leadership status and the management team of your Company recognises the fact that in the long run, R & D will be a crucial differentiator from the other peer Companies. The total expenditure incurred on Research and Developement by your Company for the year 2005 was Rs. 17.49 million. This expenditure accounts 0.49% of the total revenue of your Company.

FOREIGN EXCHANGE EARNINGS AND OUTGO:

The details of Foreign Exchange Earnings and Outgo are mentioned in Point No. 19 of Para III & IV of Schedule 13(B) of Notes to Accounts, forming part of the Balance Sheet.

For and on behalf of the Board of Directors

Atul K. Nishar
Executive Chairman

Place : Mumbai
Date : May 25, 2006

REPORT ON CORPORATE GOVERNANCE :

The detailed report on Corporate Governance, for the Financial year January 1, 2005 to December 31, 2005 as per the format prescribed by SEBI and incorporated in Clause 49 of the Listing Agreement is set out below:

1. Company's philosophy on code of governance :

Corporate Governance is a set of systems and practices to ensure that the affairs of the Company is being managed in a way which ensures accountability, transparency, fairness in all its transactions in widest sense and meet up its stakeholders aspirations and societal expectations.

The Company has always endeavoured to implement the Corporate Governance process in the most democratic form as maximisation of shareholders wealth is the cornerstone of your Company. For the Company the advent of the revised Clause 49 of the Listing Agreement has paved way for sharing with the stakeholders, the corporate governance practices, which are deeply rooted in the corporate culture of the Company.

Your Company has been committed in adopting and adhering to global recognised standards of corporate conduct towards its employees, clients and the society at large. The management team of your Company exerts the strict adherence to corporate governance practices in order to cover the entire spectrum of governance activities and benchmark its practices with the prevailing guidelines of Corporate Governance.

2. Board of Directors :

2.1 Composition and category of Directors :

The Board of Directors of your Company comprises of ten Directors representing the optimum mix of professionalism, knowledge and experience. Of these, five Directors are non-executive and independent Directors. During the course of the year, Security and Exchange Board of India has made certain significant amendments to the Corporate Governance requirements under Clause 49 of the Standard Listing Agreement, inter-alia, widening the definition of 'Independent Directors' . The said amendments are to be made effective w.e.f. January 1, 2006. The independent Directors are expert in various fields offering a broad spectrum of versatility and rich experience to the Board. The Chairman of the Board is an Executive Chairman.

During the year, the Board has also approved and adopted a Code of Conduct for all Directors and the Senior Management of the Company. All Directors and personnels of the Senior Management are under a requirement to affirm the compliance with the said Code annually beginning from the year 2006 onwards.

The current composition of the Board of Directors of the Company is given below:

Name	Designation	Category
Mr. Atul K. Nishar	Executive Chairman	Executive, non-independent Director
Mr. Rusi Brij	Vice Chairman & CEO	Non-executive, non-independent Director
Mr. P. K. Sridharan	President & Executive Director	Executive, non-independent Director
Dr. (Mrs.) Alka A. Nishar	Director	Non-executive, non-independent Director
Dr. K.K. Anand*	Director	Non-executive, Independent Director
Mr. L.S. Sarma	Director	Non-executive, Independent Director
Mr. A. P. Kurian	Director	Non-executive, Independent Director
Mr. P. G. Kakodkar	Director	Non-executive, Independent Director
Mr. Mark F. Dzialga**	Director	Non-executive, non-independent Director
Dr. Bakul Dholakia**	Director	Non-executive, Independent Director
Mr. Shailesh V. Haribhakti**	Director	Non-executive, Independent Director

* Resigned as Director of the Company w.e.f. May 25, 2006
** Appointed as Additional Director w.e.f. May 25, 2006

2.2 Attendance of each Director at the Board meetings and the last annual general meeting:

The Company holds regular Board Meetings. The detailed agenda along with the explanatory notes is circulated to the Directors well in advance. The Directors can suggest inclusion of any item(s) in the agenda at the Board Meeting.

The Company held eight board meetings during the year ended 31st December, 2005. These were held on 27.01.2005, 21.02.2005, 19.04.2005, 19.07.2005, 12.08.2005, 18.10.2005, 27.10.2005 and 17.12.2005.

The attendance of the Directors at the Board Meeting and the Annual General Meeting held during the year 2005 was as follows:

Directors	Board Meetings Attended during the year	Whether attended last AGM	Other Directorships/ Board Committees (Numbers)	
			Directorships	Board Committee Membership/ (Chairmanship)
Mr. Atul K. Nishar	8	Yes	4	–
Dr. (Mrs.) Alka A. Nishar	5	Yes	2	–
Dr. K.K. Anand	8	Yes	4	–
Mr. L.S. Sarma	8	Yes	4	5 (3)
Mr. A.P. Kurian	4	Yes	5	3
Mr. P.G. Kakodkar	4	Yes	12	6
Mr. Rusi Brij	6	Yes	5	–
Mr. P.K. Sridharan	7	Yes	1	–

Notes:

1. None of the Directors of the Company holds membership of more than ten committees nor is a Chairperson of more than five committees (as specified in Clause 49), across all companies of which he/she is a director.
2. The committees considered for the above purpose are those as specified in existing Clause 49 of the Standard Listing Agreement(s) i.e. audit committee, shareholders'/investors' grievance committee and remuneration committee.

2.3 The details of directorship of the Company's Directors in other companies are given below:

Name of Director	Other directorship details
Mr. Atul K. Nishar	Hexaware Technologies Inc. – USA Hexaware Technologies UK Limited – UK Specsoft Consulting Inc. – USA Flora Projects Consultancy Private Limited
Dr. (Mrs.) Alka A. Nishar	Hexaware Technologies Inc. – USA Hexaware Technologies UK Limited – UK
Dr. K.K. Anand	Anand Consultancy Services Private Limited Cedar Enterprise Solutions Private Limited Anand Health Equipment Private Limited Batliboi and Company Limited
Mr. L.S. Sarma	Granules India Limited Flora Projects Consultancy Private Limited Caliber Point Business Solutions Limited Specsoft Technologies India Limited

Mr. A. P. Kurian	Association of Mutual Fund in India (AMFI) Geojit Financial Services Limited National Stock Exchange of India Limited Muthoot Capital Services Limited Granules India Limited
Mr. P. G. Kakodkar	Goa Carbon Limited Uttam Galva Steels Limited Financial Technologies (I) Limited Sesa Goa Limited Mastek Limited Fomento Resorts & Hotels Limited Centrum Finance Limited Sesa Industries Limited SBI Funds Management Limited Auditime Information Systems Limited Multi Commodity Exchange India Limited IBX Forex Limited
Mr. Rusi Brij	Hexaware Technologies Inc. - USA Specsoft Consulting Inc. - USA DQ Entertainment Limited - India Hexaware Technologies Canada Limited - Canada Caliber Point Business Solutions Limited.
Mr. P. K. Sridharan	Hexaware Technologies Asia-Pacific Pte. Limited - Singapore
Mr. Mark F. Dzialga	General Atlantic LLC and Affiliated Entities Brigade Corporation Creditek, LLC Exult, Inc. Schaller Anderson Incorporated Upromise, Inc. Genpact Webloyalty Daksh
Dr. Bakul Dholakia	Indian Institute of Managment (IIM), Ahmedabad
Mr. Shaliesh V. Haribhakti	Gujrat Ambuja Cement Limited Everest Kanto Cylinder Limited IDBI Capital Market Services Limited Morarjee Textiles Limited Pantaloon Retail (India) Limited Bihar Caustics and Chemicals Limited Blue Star Limited Indian Petrochemicals Corporation Limited (IPCL) Jindal Southwest Holdings Limited Mahindra Gesco Developers Limited BOBCARDS Limited JBF Industries Limited Kotak Mahindra Pvt. Equity Trustee Limited SIDBI Venture Capital Limited Fortune Financial Services (India) Limited

2.4 Information provided to the Board:

The Board of the Company is presented with all information under the following heads, whenever applicable and materially significant. These are submitted either as part of the agenda papers well in advance of the Board Meetings or are tabled in the course of the Board Meetings. This, inter-alia, include:

1. Annual operating plans of businesses, capital budgets, updates.
2. Quarterly results of the Company and its operating divisions or business segments.
3. Minutes of the Audit Committee and other committees.
4. Information on recruitment and remuneration of senior officers just below the Board level.
5. Materially important litigations, show cause, demand, prosecution and penalty notices.
6. Fatal or serious accidents.
7. Any material default in financial obligations to and by the Company or substantial non-payment for services rendered by the Company.
8. Details of any joint venture or collaboration agreement or new client wins.
9. Any issue, which involves possible public liability claims of substantial nature, including any judgment or order which, may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company.
10. Transactions that involve substantial payment towards good-will, brand equity, or intellectual property.
11. Significant development in the human resources front.
12. Sale of material nature of investments, subsidiaries, assets which is not in the normal course of business.
13. Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement.
14. Quarterly update on the return from deployment of surplus funds.
15. Non-compliance of any regulatory or statutory provisions or listing requirements as well as shareholder services as non-payment of dividend and delays in share transfer.

2.5 Brief resume of Directors who will be retiring by rotation at this Annual General Meeting of the Company:

Mr. L.S. Sarma, aged 77 years, has been the Director of Hexaware Technologies Limited since last six years. Mr. Sarma is an expert in International Finance and Trade. He was General Manager, IDBI (one of India's largest financial institution).

Mr. A.P. Kurian, aged 72 years, has been the Director of Hexaware Technologies Limited since last five years . Mr. Kurian is also Executive Chairman of Association of Mutual Funds in India and a Board Member of National Stock Exchange India Limited.

Your Directors are pleased to inform you that Mr. Mark F. Dzialga, Dr. Bakul Dholakia and Mr. Shailesh V. Haribhakti have been inducted in the Board as Directors of the Company in terms of Articles of Associations of the Company.

The shareholders information as necessitated in Clause 49 of the Listing Agreement pertaining to brief resume, expertise in functional areas, names of companies in which he is a Director etc. is being provided separately in Annexure on page nos. 29 & 30 of the Corporate Governance Report section of this Annual Report. Members are requested to refer the said section of the Corporate Governance Report.

3. Audit Committee

The primary objective of the Audit Committee is to monitor and provide effective supervision of the management's financial reporting progress with a view to ensuring accurate, timely and proper disclosures and transparency, integrity and quality of financial reporting.

The Committee oversees the work carried out by the management, internal auditors on the financial reporting process and the safeguards employed by them.

3.1 Broad terms of reference:

The terms of reference of the Audit Committee are as follows:

(a) To oversee the Company's financial reporting process and the disclosure of its financial information and to ensure that the financial statements are correct, sufficient and credible.

(b) To recommend the appointment/removal of external auditors, fixing audit fees and to approve payments for any other services.

(c) To review with management the annual financial statements before submission to the Board, focusing primarily on:

- Any changes in accounting policies and practices
- Major accounting entries based on exercise of judgment by management
- Qualifications in the draft audit report
- Significant adjustments arising out of audit
- The going concern assumption
- Compliance with the accounting standards
- Compliance with Stock Exchanges and legal requirements concerning financial statements
- Any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large

(d) To review and approve annual accounts of the Company and recommend to the Board for consideration or otherwise.

(e) To review with Management, external and internal auditors, and review the efficacy of internal control systems.

(f) To review the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.

(g) To discuss with internal auditors about any significant findings and follow-up thereon.

(h) To review the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

(i) To discuss with external auditors before the audit commences, the nature and scope of audit as well as have post-audit discussions to ascertain any area of concern.

(j) To review the Company's financial and risk management policies.

(k) To look into the reasons for substantial defaults in the payments to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

3.2 Composition, Name of Members and Chairman:

The Audit Committee of the Company currently consists of three non-executive and independent Directors, viz., Mr. L. S. Sarma (Chairman), Dr. K.K. Anand and Mr. A. P. Kurian.

The Audit Committee met 5 (five) times during the year and the attendance record is as per the table given below.

3.3 Meetings and Attendance during the Year 2005:

Name of the Director	Attended
Mr. L.S. Sarma	5
Dr. K.K. Anand	5
Mr. A.P. Kurian	2

4. Remuneration & Compensation Committee

4.1 Brief description and terms of reference:

The Remuneration & Compensation Committee ("Committee") of the Company comprises of Mr. L.S. Sarma (Chairman), Dr. K.K. Anand, Mr. Rusi Brij, Mr. P.K. Sridharan and Mr. Atul Nishar. The scope of this Committee is to determine the compensation of Executive Directors and senior management. The Committee also approves, allocates and administers the Employee Stock Option Schemes and other matters as prescribed by the Listing Agreement from time to time.

4.2 Remuneration Policy:

Hexaware's remuneration policy is based on three tenets: pay for responsibility, pay for performance and potential and pay for growth. The Company's Remuneration & Compensation Committee is vested with all the necessary powers and authority to ensure appropriate disclosure on the remuneration of whole time Directors and to deal with all elements of remuneration package of all such directors. This includes details of fixed components and performance–linked incentives including stock options.

4.3 Meetings and Attendance during the Year 2005:

The Remuneration and Compensation Committee met 4 (four) times during the year. The attendance record is as per the table given below.

Name of the Director	Attended
Mr. L.S. Sarma	4
Dr. K.K. Anand	4
Mr. P.K. Sridharan	3
Mr. Rusi Brij	2
Mr. Atul K. Nishar	2

4.4 Details of Remuneration paid or payable to Directors during the year 2005:

Name of Director	**Mr. Atul K. Nishar –** Executive Chairman Amount in Rupees	**Mr. P. K. Sridharan –** Executive Director Amount in Rupees
Salary & Allowances	2,376,200	6,170,230
Perquisites	710,683	175,534
Contribution to Provident Fund and Other Funds	313,050	284,328
Total	**3,399,933**	**6,630,092**

Employee Stock Option Plan/Sitting Fees/Commission/Notice Period:

Name of the Director	ESOP 1999	ESOP 2002	Sitting Fees for attending Board / Committee Meeting	Commission to Non- Executive Director	Notice Period
	No. of Warrants	No. of Options	Gross Amount in Rupees	Gross Amount in Rupees	
Mr. Atul K. Nishar	–	–	–	–	3 months
Dr. (Mrs.) Alka Nishar	–	–	5,000	–	N.A
Dr. K.K. Anand	–	50,000	95,000	625,000	N.A
Mr. L.S. Sarma	150,000	50,000	110,000	625,000	N.A
Mr. A.P. Kurian	–	25,000	55,000	625,000	N.A
Mr. P.G. Kakodkar	–	25,000	20,000	625,000	N.A
Mr. Rusi Brij	3,300,000	1,100,000	–	–	3 months
Mr. P.K. Sridharan	513,100	930,000	–	–	3 months

i) ESOP - 1999

Every three Warrants entitle the holder to exercise the right to apply for and seek allotment of one Equity Share of Rs. 2/- each at a price of Rs. 9/- per share. The Warrants are to be exercised on specified dates in four equal installments beginning February 1, 2001 in every Calendar Year on or before December 29, 2009 or at the discretion of the Compensation Committee.

ii) ESOP - 2002

Each Option entitles the holder to exercise the right to apply for and seek allotment of one Equity Share of Rs. 2/- each at a price of Rs. 9/-, Rs. 25/-, Rs. 70.60/-, Rs. 73.60/- Rs. 80.40/- Rs. 101/- and Rs. 145/- per share. The Options are to be exercised on specified dates in four equal installments beginning July 23, 2003 onwards in every Calendar Year on or before July 31, 2009 or at the discretion of the Compensation Committee.

5. **Shareholders'/Investors' Grievance Committee**

5.1 **Composition of Committee:**

The composition of the Committee is given below:

Chairman : Mr. A.P. Kurian

Members : Dr. K.K. Anand
Mr. L.S. Sarma
Mr. P.K. Sridharan

5.2 **Scope of Shareholders Grievances Committee's activities:**

The scope of the Shareholders Greivance Committee is to review and address the grievance of the shareholders in respect of share transfers, transmission, non-receipt of Annual Report, non-receipt of dividend etc. and other related activities. In addition, the Committee also looks into matters which can facilitate better investors' services and relations.

5.3 **Meetings and Attendance during the Year 2005:**

The Shareholders Grievance Committee met two times during the year and the attendance record is as per the table given below.

Name of the Director	Attended
Mr. A.P. Kurian	2
Dr. K.K. Anand	1
Mr. L.S. Sarma	2
Mr. P.K. Sridharan	1

5.4 **Details of shareholders complaints received, cleared and pending during the year:**

Nature of Complaints	Year 2005		
	Received	Cleared	Pending
Transfer, Transmission etc.	—	—	—
Dividend, Interest & redemption	63	63	—
Annual Report	9	9	—
Others/Miscellaneous	14	14	—
TOTAL	**86**	**86**	**—**

Pending Transfers:

There were 26 (twenty six) transfers, involving 2,000 (two thousand) Equity Shares pending as on December 31, 2005. These transfers have been processed and shares have been dispatched in January 2006.

5.5 **Company Secretary and Compliance officer:**

Name of the Company Secretary and the Compliance Officer	Mr. Naishadh P. Desai
Address	152, Millennium Business Park, Sector- III, "A" Block, TTC Industrial Area, Mahape, Navi Mumbai – 400 710.
Contact telephone	+91 22 67919595
E-mail	naishadd@hexaware.com
Fax	+91 22 67561022

6. **Details of Annual General Meeting**

6.1 **Location, date and time where the Annual General Meetings were held:**

Financial Year	General Meeting	Location	Date	Time
2005	12th Annual General Meeting	M. C. Ghia Hall, 2nd Floor, Bhogilal Hargovinddas Building, 18/20, K Dubhash Marg, Behind Prince of Wales Museum/Kala Ghoda, Mumbai – 400 001.	Monday, 4th April, 2005	11.30 A. M.
2004	11th Annual General Meeting	Yashwantrao Chavan Pratishthan, Mumbai, General Jagannath Bhosale Marg, Opp. Mantralaya, Nariman Point, Mumbai – 400 021.	Wednesday, 9th June, 2004	11.30 A.M.
2003	10th Annual General Meeting	Yashwantrao Chavan Pratishthan, Mumbai, General Jagannath Bhosale Marg, Opp. Mantralaya, Nariman Point, Mumbai – 400 021.	Monday, 21st April, 2003	11.30 A.M.

- During the last three Annual General Meeting, the Shareholders of the Company has approved the Special Resolutions as provided in the notice of the respective Annual General Meetings.

6.2 **Location, date and time where last three Extra-ordinary General Meetings were held:**

Financial Year	General Meeting	Location	Date	Time
2006	Extra-ordinary General Meeting	Patkar Hall, New Marine Lines, Mumbai – 400 020	Thursday, 13th April 2006	11.00 A.M.
2004	Extra-ordinary General Meeting	M. C. Ghia Hall, 2nd Floor, Bhogilal Hargovinddas Building, 18/20, K Dubhash Marg, Behind Prince of Wales Museum/Kala Ghoda, Mumbai – 400 001.	Tuesday, 19th October, 2004	11.30 A.M.
2002	Extra-ordinary General Meeting	Shree Vile Parle Gujarati Mandal, Navinbhai Thakkar Hall, Shradhanand Road, Vile Parle (East), Mumbai – 400 057	Friday, 15th March, 2002	11.30 A.M.

POSTAL BALLOT

During the year the procedure of postal ballot was carried out for the Ordinary Resolution under Section 293(1)(a) of the Companies Act, 1956 for transfer of India Service Center (ISC) an undertaking of the Company situated at Divyashree, White Plot No. 1, EPIP Industrial Area, Bangalore – 560 066 to Oracle India Private Limited. Ms. Preeti Mehta – Partner of M/s. Kanga & Co., was appointed Scrutiniser for conducting the postal ballot process. Notice was sent to the shareholders of the Company with the last date for receiving the postal ballot forms by the Scrutiniser as 19th day of September, 2005 and, till that date, 4,113 forms were received and 4,66,53,790 of the votes casted had been in favour of the resolution (excluding 293 invalid postal ballot forms) and 54,661 of the votes casted were against the Resolution by the shareholders of the Company. The said resolution was approved by the shareholders of the Company with a comprehensive majority of 99.88%.

7. **Disclosures :**

(a) There are no transactions with related parties i.e. with the Promoters, Directors, Management, subsidiaries or relatives that may have potential conflict of interest of the Company at large. Transactions with related parties are disclosed in note no. 6 of schedule 13B to the Accounts of the Company in the Annual Report.

(b) There has been no instance of non compliance by the Company on any matter related to capital markets and hence the question of penalties or strictures being imposed on the Company by the stock exchanges or SEBI or any statutory authority does not arise.

(c) In compliance with the Securities and Exchange Board of India (Prevention of Insider Trading) Regulations 1992, as amended till date, on prevention of Insider Trading, the Company has a comprehensive code of conduct and the same is being strictly adhered by its management, staff and relevant business associates. The code expressly lays down the guidelines and the procedure to be followed and disclosures to be made, while dealing with shares of the Company and cautioning them on the consequences of non-compliance thereof.

The Company follows quiet periods (closure of trading window) prior to its publication of unpublished price sensitive information. During the quiet period, the Company has set up a mechanism where the management and relevant staff and business associates of the Company are informed not to trade in Company's securities.

8. Means of communication :

(a) The quarterly and half yearly results were generally published in The Economic Times, The Hindu Business Line, Business Standard and the Maharashtra Times in Marathi.

(b) The Company's audited and unaudited periodical financial results, press releases and the presentations made to institutional investors and analysts are posted on the Company's web site - www.hexaware.com

(c) The Management Discussion and Analysis (MD&A) report has been included in this Annual Report.

(d) The Company has also posted information relating to its financial results on Electronic Data Information Filing and Retrieval System (EDIFAR) at www.edifar.com as required by the Stock Exchange, Mumbai

9. General Shareholder Information :

9.1. Forthcomming Annual General Meeting

The forthcoming Annual General Meeting of the Company is scheduled to be held on Friday, the 29th day of June, 2006 at 3.00 p.m. at M.C. Ghia Hall, 2nd Floor, Bhogilal Hargovinddas Building, 18/20, K. Dubash Marg, Kala Ghoda, Mumbai – 400 001.

9.2. Financial Calendar for the Year 2006

Financial Year of the Company	:	January 1 to December 31
Financial reporting for the quarter ending (tentative and subject to change)		
March 31, 2006	:	By April 20, 2006
June 30, 2006	:	By July 31, 2006
September 30, 2006	:	By October 31, 2006
December 31, 2006	:	By February 28, 2007
Annual General Meeting for the year ending December 31, 2006	:	By June 30, 2007

9.3. Book Closure Date

The Company's register of members and share transfer books will remain closed from Monday June 26, 2006 to Thursday June 29, 2006 (both days inclusive) to determine the entitlement of shareholders to receive the final dividend as may be declared for the year ended December 31, 2005.

9.4. Registered Office

Buiding No. 152, Sector–III, Millennium Business Park,
Sector III 'A' Block, TTC Industrial Area, Mahape,
Navi Mumbai – 400 710.

9.5. **Listing of Equity Shares on Stock Exchanges**

(A) **The equity shares of the Company are listed on the following Stock Exchanges:**

Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai-400 023

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051.

(B) **Global Depository Receipts (GDRs)**
London Stock Exchange
Old Broad Street,
London EC2N 1HP, United Kingdom

9.6 **Scrip Information:**

Name of the Exchange	Reuters	Bloomberg	Code
The Stock Exchange, Mumbai	HEXT.BO	APTH.IN	532129
National Stock Exchange of India Limited	HEXT.NS	NAPTH.IN	"HEXAWARE"
London Stock Exchange	APHD LI		
ISIN Demat	INE093A01033		

9.7 **Stock Market Data:**

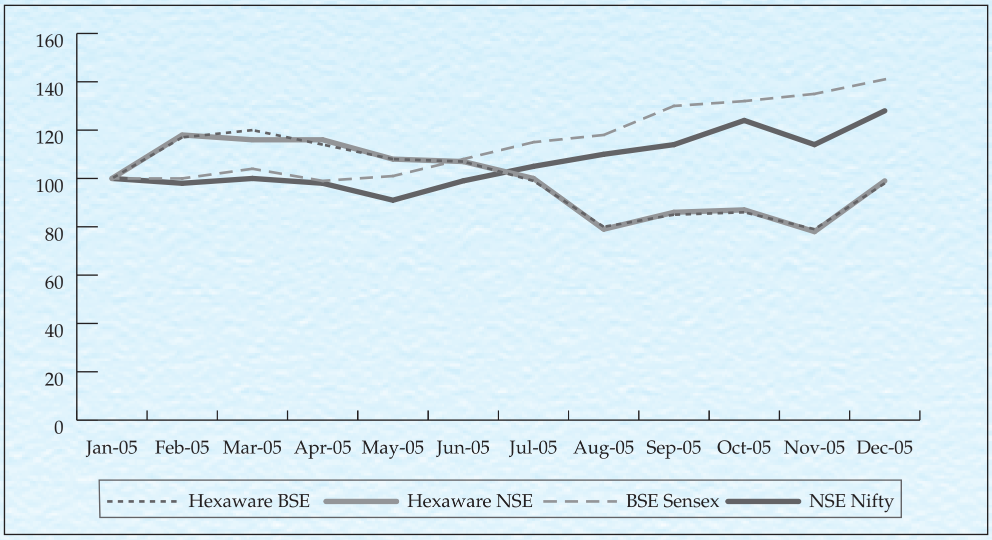
The high/low of the shares of the Company from January 2005 to December 2005 is given below:

Year/ Month	Bombay Stock Exchange (Rs.)		National Stock Exchange (Rs.)	
	High	Low	High	Low
January '05	690.00	449.95	689.00	430.15
February '05	809.00	665.25	809.75	666.00
March '05	825.00	708.00	800.00	695.55
April '05	788.00	608.00	799.00	608.10
May '05*	149.00	127.00	149.00	126.05
June '05	148.00	123.10	148.10	124.50
July '05	136.00	98.00	138.45	98.10
August '05	110.00	95.20	109.45	95.00
September '05	117.90	97.65	117.90	97.10
October '05	118.00	98.50	119.50	96.00
November '05	108.35	99.00	107.90	99.00
December '05	135.60	101.00	135.75	100.50

* Effective from May 4, 2005, the Equity shares of the Company has been sub-divided in the ratio of 5 (five) Equity shares of Rs. 2/- (Rupees two only) each for every 1 (one) Equity shares of Rs. 10/- (Rupees ten only) each.

During the year, there has been no trading of GDRs on London Stock Exchange.

9.8. **Stock Performance: (Indexed)**



9.9 **Stock Performance: For the year 2005**

	In Percentage
Hexaware Technologies Limited	9.66%
BSE Sensex	41.82%
S & P CNX NIFTY	36.37%

9.10 **Registrar and Share Transfer Agents:**

In order to attain speedy processing and disposal of share transfers, the Board has delegated the powers of share transfers to M/s. Sharepro Services (I) Private Limited. Their complete postal address is as follows:

M/s. Sharepro Services (I) Private Limited
Unit: **Hexaware Technologies Limited**
Satam Estate, 3rd Floor,
Cardinal Gracious Road,
Chakala, Andheri (East),
Mumbai - 400 099
Tel. : +91 22 28215168/28215169
Fax : + 91 22 28375646
E-mail : sharepro@vsnl.com

9.11 **Share Transfer system:**

The trading in Equity Shares of the Company is permitted only in dematerialised form w.e.f. December 15, 1998, as per circular issued by Securities and Exchange Board of India (SEBI) on September 24, 1998.

Share Transfers in physical form are registered and returned between 15 to 30 days from the date of receipt, if documents are in order in all respects.

The Committee of Directors (Shareholders/Investors Grievances) usually approves transfer of shares every 15 to 30 days.

9.12 Distribution of Shareholding

	As on December 31, 2005			
No. of Equity Shares held	**No. of Share-holders**	**% of Share-holders**	**Total No. of Shares held**	**% of Share holding**
1-500	82,566	94.957	9,511,293	7.969
501-1000	2510	2.887	1,914,662	1.604
1001-2000	924	1.063	1,379,273	1.156
2001-3000	292	0.336	735,833	0.616
3001-4000	141	0.162	502,518	0.421
4001-5000	118	0.136	557,660	0.467
5001-10000	201	0.231	1,477,464	1.238
10001 and above	199	0.229	103,279,992	86.529
TOTAL	**86,951**	**100.000**	**119,358,695**	**100.000**

9.13 Categories of Shareholding (as on December 31, 2005):

SR. NO.	CATEGORY OF HOLDER	NO. OF SHARES	% OF EQUITY
1.	Promoters Holdings	38,070,664	31.90
2.	Mutual funds/UTI	2,308,333	1.93
3.	Banks/Financial Institutions/Insurance Companies (Central/State Govt. Institutions/ Non Govt. Institutions	5,552,910	4.65
4.	FIIs/GDR	48,483,392	40.62
5.	Others : - Private Corporate Bodies - Indian Public - NRIs/OCBs/Foreign Companies - Trust	 4,173,493 17,511,728 2,852,240 405,935	 3.50 14.67 2.39 0.34
	Sub Total	24,943,396	20.90
	TOTAL	**119,358,695**	**100**

9.14 Dematerialisation of Shares and liquidity:

Procedure for dematerialisation/rematerilisation of scrips

Shareholders are required to submit demat/remat request to the Depository Participants (DP) with whom they maintain a demat account. Depository Participants send requests for demat of shares along with the physical share certificates to Registrars and Transfer Agents (“the Registrar”) of the Company. The Registrar liaisons with DP and National Securities Depository Ltd. (NSDL)/Central Depository Services (India) Ltd. (CDSL) within seven days from date of log in of the demat request in the system and acknowledges receipt of physical shares for demat and verifies the genuineness of share certificates, creates transaction and generates edit list. After verification of edit list and effecting corrections, if any, the Registrar updates the final Demat Register. The Registrar forwards confirmation report of the transaction to NSDL/CDSL or the rejection report, as the case may be. Daily reconciliation and confirmation of capital is done by the Registrar. The Registrar also corresponds with the DP and shareholder in case of rejection.

Over 97% of outstanding shares have been dematerialised upto December 31, 2005.

9.15 Dividend payment date: On or after June 29, 2006.

9.16 Outstanding GDR/Warrants and Convertible bonds, conversion date and likely impact on the equity :

1. Global Depository Receipts (GDR)

   The outstanding GDR as on December 31, 2005 is 188,360.

2. Warrants/Options:

   1. 18,000,000 Warrants allotted under ESOP Scheme 1999 entitles the holder to get allotted one Equity share of Rs. 2/- each in the Company for every 3 warrants at a price of Rs. 9/- per Equity share between one to ten years from the date of allotment and any proportionate bonus entitlement for any bonus shares issued before the right to be entitled to a share by a Warrant holder is exercised.

   2. 11,049,145 Options allotted under ESOP Scheme 2002 entitles the holder to get allotted one Equity share of Rs. 2/- each in the Company at a price of Rs. 9/-, Rs. 25/-, Rs. 70.60/-, Rs. 73.60/- Rs. 80.40/- Rs. 101/- and Rs. 145/- per equity share between one to seven years from the date of allotment and any proportionate bonus entitlement for any bonus shares issued before the right to be entitled to a share by a Warrant holder is exercised.

   Assuming all the Warrants/Options are converted into Equity shares, then the number of Equity shares available for trading in the Indian Stock Exchanges would go up by further 7,562,185 Equity shares of Rs. 2/- each.

9.17 Plant Locations of the Company:

Registered Office & Offshore Development Center	Building No. 152, Sector III, Millennium Business Park, TTC Industrial Area, Mahape, Navi Mumbai – 400 710	Mumbai
Offshore Development Centers	Building No. 1, Sector III, Millennium Business Park, TTC Industrial Area, Mahape, Navi Mumbai – 400 710	Mumbai
	Hexaware Tower 1, 51/3, G.N. Chetty Road, T. Nagar, Chennai - 600 017	Chennai
	Hexaware Tower 2, 115, G.N. Chetty Road, T. Nagar, Chennai - 600 017	Chennai
	Hexaware Tower 3, 53, Greams Road, Chennai - 600 006	Chennai
	Janpriya Crest, 6th & 7th Floor, 96, Pantheon Road Egmore, Chennai - 600 008.	Chennai
	Divyashree White Plot No.1,* EPIP Industrial Area	Bangalore

* Effective from November 2, 2005, transferred to Oracle.

9.18 Transfer of unclaimed dividend to Investor Education and Protection Fund

Pursuant to provisions of Section 205A(5) of the Companies Act, 1956, dividend which remains unpaid or unclaimed for a period of seven years from the date of its transfer to unpaid dividend account, is required to be transferred by the Company to the Investor Education and Protection Fund ('IEPF'), established by the Central Government under the provisions of Section 205C of the Companies Act, 1956. Shareholders are advised to claim the un-cashed dividend lying in the unpaid dividend account of the Company before the due date. Given below are the dates of declaration of dividend and corresponding dates when unclaimed dividends are due for transfer to IEPF.

Date of declaration/ payment of dividend	Dividend for the year	Due date for transfer to IEPF
March 8, 1999	1998	May 24, 2006
April 10, 2000	1999	June 27, 2007
June 19, 2001	2000	August 23, 2008
June 9, 2004	2003	August 14, 2011
April 4, 2005	2004	June 8, 2012

9.19 Investor Correspondence

Shareholders can contact the following officials for secretarial matters of the Company:

Name	E-Mail ID	Telephone Number	Fax No.
Naishadh P. Desai	naishadd@hexaware.com	+91 22 67919595	+91 22 67561022
Shervin Purohit	shervinp@hexaware.com	+91 22 67919595	+91 22 67561022

Shareholders can contact the following Officials for financial related matters :

Name	E-Mail ID	Telephone Number	Fax No.
Rajesh B. Ghonasgi	rajeshg@hexaware.com	+91 22 67919595	+91 22 67919623
Rajesh Kanani	rajeshk@hexaware.com	+91 22 67919595	+91 22 67919623

Following is the address for correspondence

152, Sector III, Millennium Business Park,
'A' Block, TTC Industrial Area,
Mahape, Navi Mumbai – 400 710
E-mail : investor@hexaware.com

Auditors' Certificate on Compliance of conditions of Corporate Governance as per Clause 49 of the Listing Agreement of the Stock Exchange

To the Members of Hexaware Technologies Limited

We have examined the compliance of conditions of Corporate Governance by Hexaware Technologies Limited, for the year ended on 31st December 2005, as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied in all material respect with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as certified by the share transfer agents of the Company, based on the records maintained by them.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner

Membership No. 15291

Date : May 25, 2006

Annexure

Details of the Directors seeking appointment/re-appointment at the Annual General Meeting (in pursuance of Clause 49 (VI)(G) of the Listing Agreement.

At the ensuing Annual General Meeting, Mr. L.S. Sarma and Mr. A.P. Kurian, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment in the ensuing General Meeting. Mr. Mark F. Dzialga, Dr. Bakul Dholakia and Mr. Shailesh V. Haribhakti have been appointed on the Board as an Additional Director(s) of the Comapny with effect from May 25, 2006. The brief resume, experience and functional expertise and the membership on various Boards and Committees, of Directors proposed to be appointed/re-appointed at serial nos. 3 and 4 of Notice, as per the revised Corporate Governance code defined under Clause 49 of the Listing Agreement are furnished below :

Name of the Director	Mr. L.S. Sarma	Mr. A.P. Kurian	Mr. Mark F. Dzialga	Dr. Bakul Dholakia	Mr. Shailesh V. Haribhakti
Date of Birth	October 11, 1928	June 26, 1933	January 10, 1964	July 15, 1947	March 12, 1956
Age	77 yrs.	72 yrs.	42 yrs.	59 yrs.	50 yrs.
Date of Appointment	March 11, 2000	May 9, 2001	May 25, 2006	May 25, 2006	May 25, 2006
Experience in specific functional area	Expert in International Finance and Trade	Financial services over more than three decades	Wide experience in Information Technology Services & Financial Services	Economist and Management Expert	Wide experience across variety of Industries
Qualification	Masters Degree in Commerce (First Class), CAIIB	Masters Degree in Economics and Statistics, First student from Kerala University to be the National Scholar and Research in Economics in the University of Kerala	B.S. degree from Canisius College and an MBA from the Columbia University Graduate School of Business	Doctorate in Economics (Gold Medalist)	Fellow member of the ICAI Cetrified Internal Auditor Certified Financial Planner, Graduate Cost Accountant and Certified Fraud Examiner.
List of Companies in which Directorship held	◆ Caliber Point Business Solutions Limited ◆ Granules India Limited ◆ Flora Projects Consultancy Private Limited ◆ Specsoft Technologies India Limited	◆ Association of Mutual Funds in India (AMFI) ◆ Geojit Financial Services Limited ◆ National Stock Exchange of India Limited ◆ Muthoot Capital Services Limited ◆ Granules India Limited	◆ General Atlantic LLC and Affiliated Entities ◆ Brigade Corporation ◆ Creditek, LLC ◆ Exult, Inc. ◆ Schaller Anders Incorporated ◆ Upromise, Inc. ◆ Genpact ◆ Webloyalty ◆ Daksh	Indian Institute of Management (IIM), Ahmedabad	◆ Gujrat Ambuja Cement Limited ◆ Everest Kanto Cylinder Limited ◆ IDBI Capital Market Services Limited ◆ Morarjee Textiles Limited ◆ Pantaloon Retail (India) Limited ◆ Bihar Caustics and Chemicals Limited ◆ Blue Star Limited ◆ Indian Petrochemicals Corporation Limited (IPCL) ◆ Jindal Southwest Holdings Limited ◆ Mahindra Gesco Developers Limited ◆ BOBCARDS Limited ◆ JBF Industries Limited ◆ Kotak Mahindra Pvt. Equity Trustee Limited ◆ SIDBI Venture Capital Limited ◆ Fortune Financial Services (India) Limited

Name of the Director	Mr. L.S. Sarma	Mr. A.P. Kurian	Mr. Mark F. Dzialga	Dr. Bakul Dholakia	Mr. Shailesh V. Haribhakti
Chairman/ Members of the Committee of the Board of Companies in which he is Director #	Caliber Point Business Solutions Limited ◆ Audit Committee (Member) ◆ Rémunération & Compensation Committee (Member) Granules India Limited Audit Committee (Chairman) ◆ Share Transfer and Shareholders'/ Investors' Grievance Committee (Chairman) ◆ Compensation Committee (Chairman)	Granules India Limited : ◆ Audit Committee (Member) Muthoot Capital Services Limited : ◆ Audit Committee (Member) National Stock Exchange of India Limited : ◆ Audit Committee (Member)	–	–	Gujrat Ambuja Cement Limited ◆ Audit Committee (Chairman) Everest Kanto Cylinder Limited ◆ Audit Committee (Chairman) IDBI Capital Market Services Limited ◆ Audit Committee (Chairman) Morarjee Textiles Limited ◆ Audit Committee (Chairman) Pantaloon Retail (India) Limited ◆ Audit Committee (Chairman) Bihar Caustics and Chemicals Limited ◆ Audit Committee (Member) Blue Star Limited ◆ Audit Committee (Member) Indian Petrochemicals Corporation Limited (IPCL) ◆ Audit Committee (Member) Jindal Southwest Holdings Limited ◆ Audit Committee (Member) Mahindra Gesco Developers Limited ◆ Audit Committee (Member)

The committees considered for the above purpose are those as specified in existing Clause 49 of the Standard Listing Agreement(s) i.e. audit committee, shareholders'/investors' grievance committee and remuneration committee.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview

Treading a differentiated path

Hexaware is at the forefront of a new generation of offshore IT service providers that offer differentiated services and is adept in delivering specific business technology solutions. The Company's strength lies in its innate ability to understand the requirements of its clients and to continuously build the competency and capability to provide integrated IT and BPO solutions , unique to their needs and industries. The Company's position as a leader in the mid-cap segment gives it the financial strength to invest in domains and technology capabilities ahead of the demand curve; to de-risk client engagements; and to differentiate through flexible business models and value added services.

The Company focuses on bringing about business impact for clients by maximizing returns from their investments in IT and Business Process Outsourcing. The Company's unique capabilities, a clear understanding of industry trends, deep knowledge of global business models, key drivers and technology choices allows it to leverage strong partnerships, intrinsic technology innovations and talent to deliver excellence in global service delivery.

The Company has achieved market leadership in the domain areas of HR, Airlines and Leasing as well as strong capabilities in the BFSI segment which are high growth business areas in the outsourcing arena. The Company leverages strategic partnerships with global leaders in technology and business, with the goal of providing clients with end-to-end and standard-setting business solutions.

Recognising the need for scale and capacity in competing for large contracts against much larger players, Hexaware is making substantial investments in expanding its base of people and world class facilities.

Key Business Areas:

- IT services
  - Business Analytics and Business Intelligence
  - Application Services: Technology Strategy Consulting, Legacy Modernisation, Application Development and Maintenance, Workflow solutions, Infrastructure
  - Enterprise Applications: Oracle, SAP, PeopleSoft, Accepta and Siebel
  - HR-IT Services
  - Independent Testing Services
  - Embedded Technology & RFID
- Product Engineering Services
- BPO : HR and Payroll Outsourcing, Claims Processing

Focus Industry Segments are

- Banking and Financial Services
- Insurance
- Leasing
- Travel and Transportation
  ·Healthcare

2. Industry Structure & Developments

According to Gartner, demand for offshore application services continues to grow with global corporations looking for more savings form their technology investments as well as acquiring the right technology talent from across the world. Global sourcing is moving beyond the quick search for cheaper labour and on to more complex deals. The business process outsourcing market is still maturing and continues to attract more providers. The market and competitive landscape have coalesced around the general approach that organisations will favour providers that can deliver solutions making IT integrated and multi-domain BPOs more prevalent. To remain competitive, service providers are seeking new ways to deliver services with greater efficiency to lower costs, be more effective and, in some cases, even transform the way their work gets done.

While the evolving industry shows strong growth trends, it continues to throw up new challenges for its players. Even though a record number of deals went through in 2005, the overall deal sizes are getting smaller. With a maturing market place, transactions have more complex terms-and-conditions with extremely intricate sourcing strategies. More and more companies from other business segments are converging with IT service providers, blurring the line between business segments. Today, users' technology strategies, globalisation strategies as well as business strategies are now coming together to create a requirement for unique delivery execution from suppliers. Global services industries continue to invest in Technology while other industries such as Retail and Manufacturing are quickly catching up.

a. **The Rise of Software as a Service:**

The evolution towards deploying software-as-a-service is another significant change taking shape. More users are accepting "good enough" software creating a revival in business for Application Service Providers (ASPs). Hexaware's business model is based on outsourcing services that are an extension to several "best in class" function-specific software platforms. It is based on establishing multiyear relationships involving the supply of ongoing application services as an external service provider (ESP). The deliverables include a combination of people, processes, tools and methodologies for managing, enhancing, maintaining, and supporting custom and packaged software applications. The Company's application outsourcing contracts comprise a broad portfolio of services, such as application development, integration, deployment and support services, as well as consulting and advisory services. The Company has clearly secured a well deserved position amongst the elite global ESPs evolving in the market place.

A recent study by Gartner classified offshore IT service providers across the world as Leaders, Challengers, Visionaries or Niche Players, depending upon their unique capabilities and strengths in the market place. In this study, Hexaware is recognised as a strong player amongst a few in a niche segment, with demonstrated capabilities in packaged enterprise application management in general and PeopleSoft in particular; application services specific to the overall HR domain; legacy application management; and having a strong ability to penetrate Europe, including difficult and advanced markets such as Germany.

b. **Broadening Capabilities:**

In 2005, the Company demonstrated a good assessment of its opportunities and a focused approach to diversify and quickly grow its business into a variety of software packages and selected custom applications.

The Company plans to broaden the custom application service capabilities even further, to move into higher-end development of BFSI and Transportation assignments where clients have invested into both new product development and reusable platforms. Some of the value added products developed by the Company include Collection Systems, Wealth Management Systems and Operational Risk Management Systems. This approach will further the Company's competitive position and its ability to participate in higher value added segments of the business.

The Company intends to invest in strategic partnerships for developing new and cutting edge technology competencies. This partnering strategy, which includes leading players such as Microsoft, Oracle and SAP, is aimed at differentiating the Company further by co-developing highly innovative solutions for its clients.

c. **Global Delivery Model:**

In the applications space, any competitive parity will require a sound strategy on global delivery. Risk-adjusted cost comparisons are driving some organizations to pursue options closer to home, showing a rise in near-shoring. This implies that service providers today need to have global delivery capabilities which leverage local skills and talent in order to provide appropriate business value to its clients. Hence, the trend towards developing a global delivery base of technology skills is on the increase. Higher user sophistication and shifting industry economics are compelling IT services vendors to ramp up their global delivery models to deliver low-cost solutions to clients locally, wherever the client happens to be, using consistent processes. Recognising these trends, the Company is determined to initiate and develop delivery capabilities from emerging supply base regions such as China, Eastern Europe and South America. It aims to be amongst the few players in the industry to take serious steps for adopting a global delivery model.

3. Global Presence

Hexaware provides services to clients in North America, Europe and the Asia Pacific regions. While the Company's largest market is North America, it has a significant presence in Europe and Asia Pacific regions. The healthy growth in revenues from Europe and Asia Pacific reflect an enhanced global presence. The Company has added sales capabilities globally, seeding six new sales territories, three in North America (SE, SW and Canada), Scandinavia, Netherlands and Japan.

Virtually all of these regions have quickly created a healthy pipeline of prospects for the Company.

Many of the Company's vertical business practices are receiving respectable market response. The Company's business in Banking Solutions such as Eagle, Asset Management and Leasing are all gaining a strong foothold globally. In the Travel and Transportation area, the Company has added large clients in Rail and Airport segments in 2005.

The Company also expects to continue to grow its business in the area of Business Analytics, Independent Testing and HR-IT/Enterprise Applications to make strong inroads into consulting on technology strategy and certain vertical solutions.

a. North America:

The Company operates in North American through 6 offices, located in Atlanta, Jamesburg, Chicago, Boston, San Jose, and Toronto. On the whole, the market scenario in this region has been very conducive for the Company's growth and plays a key role in formulating the Company's growth objectives. In this region, global companies and product innovators are increasingly adopting global delivery models and ramping up their offshore capabilities. As shown by market statistics and as experienced by the Company, the movement towards adopting a Global Development Model has led to increasing competition from international services companies with legacy relationships. This market trend is also being associated with solutions becoming even higher value in nature, permitting fewer capable players to compete against each other. Your Company has anticipated and handled these market conditions competently and has leveraged them to its advantage.

Some of the key outsourcing trends in this region relate to the areas of Business Analytics, Application Modernisation, HR, Infrastructure, BPO, and Enterprise Solutions. Services industries and verticals such as the Banking and Financial, Insurance and Manufacturing continue to lead the IT spend. The Company is well equipped to respond to these trends with a high degree of comfort.

b. Europe:

Hexaware's European operations are based in the UK, Germany, France, Belgium, and Netherlands. The Company commenced operations in Scandinavia in late 2005. Overall, the Company displayed strong performance and increased its market penetration in this region. In the European market, there has been an inclination towards strategic sourcing with off-shoring figuring high on the list. Generally, BPO is also a growing area of interest in the European countries. Hexaware is well positioned to leverage on both these trends. With an overall improvement in capital expenditure and an increased momentum in tactical spending, European prospects seem very favourable for the Company. Acknowledging that this market poses challenges in responding to sophisticated and demanding buyers, which often involve prolonged sales cycles, the Company has plans to adopt appropriate sales and partnership strategies for making deeper inroads into this lucrative market.

c. Asia Pacific:

With a rebounding economy in this region, revenues in IT services in the Asia Pacific region is expected to grow at a rapid rate through to 2008. Local exchange rates remain a key factor impacting business in this segment. Australia and Japan, in the Asia Pacific region, are Hexaware's new focus areas where the Company sees large opportunities for capitalising underserved markets.

The Indian IT services market is mobilised on a high-growth trajectory and the Company expects to capitalise on business opportunities with multinationals in India, leveraging its strengths in HR solutions and Enterprise Applications such as Oracle, PeopleSoft, SAP, and Business Intelligence suites.

4. Opportunities & Strengths

a. Opportunities:

As a multifaceted technology outsourcing service provider with a growing portfolio of vertical solutions, Hexaware has identified several key business opportunity areas which will drive the Company's organic growth for the foreseeable future. Some of these growth drivers are:

1. Geographies

The Company's strategy for growth includes expanding market reach by increasing focus on new regions globally. In Europe, it is paying special attention to deepened presence in Germany and building new client relationships in France, Netherlands and Scandanavia. For Asia Pacific, the Japan and Australian markets are being built up. In the Americas, the Company has initiated fresh inroads into the Latin territories. Initial response from all these new markets have been encouraging, and are expected to evolve into solid business opportunities.

2. **Service Portfolio Enhancement**

In continuance to its strategy of identifying high value segments of the business, the Company is further enhancing and strengthening its service portfolio through investment and marketing of newly introduced services. These new businesses include Business Analytics, Independent Testing, Asset Management, Leasing and Mortgage, and "Eagle" Solutions. Each of these new businesses represents invigorating growth opportunities for the Company.

3. **New Sales**

The Company continues its sales thrust in areas of industry verticals in which it has built significant competitive strength, which are also the mainstay business of the Company. These segments include high-growth global industries with a track record of heavy investments in information technology such as Travel and Transportation, Banking and Financial Services, Insurance and Healthcare. These large segments continue to present the Company with ample opportunity for increasing its market share and business volumes.

4. **Integrated IT and BPO Services**

Today, clients are demanding integrated outsourcing deals for better reliability and service levels. Recognising this trend, the Company's strategy has been to offer BPO services as an integrated extension of its IT business in all its focus domains. A market segment in which heavy investments are being made into the development of back office capabilities, the Company, along with its BPO subsidiary, perceives immense potential for integrated IT-BPO offerings. Hexaware enjoys a competitive advantage in offering integrated IT and BPO services due to its prior experience in providing an integrated delivery structure in the Health Claims processes and HR/Payroll processing segments. The Company plans to extend this model to other vertical areas where the BPO trend is growing. Generating 2.64% of total revenues for 2005, this segment of the Company's business represents a promising future.

5. **Account Growth**

The Company has realigned its sales enhancing efforts into groups that adopt, what the Company calls, the "hunting" and "farming" methods.

Through its "farming" approach, special focus is being placed on improving the wallet share of the top 40 accounts of the Company. The global delivery model of outsourcing is increasingly becoming accepted as a strategic imperative by more organizations today than ever before. Hexaware's customer base, including Fortune/Global 500 companies, offer significant scope for expanding its share of their IT budgets and this is indicative of the potential for growth. Most importantly, the Company is leveraging its capability as an end-to-end solutions provider, with appropriate technology expertise and domain knowledge, to deepen its relationships with its clients.

Coupled with wider horizontal offerings, the "hunting" line of attack is also enabling the acquisition of new customers who wish to get more done with fewer, more focused and technologically astute vendors, such as Hexaware. These factors are presenting the Company as the partner of choice to its existing and potential customers, contributing to significant possibilities for Hexaware to grow both new and the existing accounts rapidly.

b. **Strengths:**

1. **Optimised Operational Performance:**

Hexaware's strength lies in its consultative, responsive and result-oriented approach to extracting optimum results from its operational activities. The Company is dedicated to achieving world-class delivery services through a resolute focus on continuous enhancements. It has attained high standards of process maturity, which have helped to deliver a strong business performance in 2005.

The Company observes further opportunities in improving margins through the following holistic measures:

- Continuing Operating Leverage
- Reducing SG&A to under 20% levels
- Improving utilisation
- Raising offshore volumes
- Reducing delivery costs through addition of entry level engineers
- Pricing high value-added, new services at a better premium
- Mining of large customers to improve sales productivity
- Plan technologies and strengthen AMC capabilities to compete for layer deals in what is a generic marketplace.

2. **Business Portfolio enhancement and differentiated offerings:**

During the year, the Company took several steps to enhance its business portfolio in high-value segments. These included:

- Business Analytics: To make further inroads into business-IT consulting
- Asset Management Solutions: to deepen the portfolio of Financial service offerings
- Solutions for the Banking and Financial segment: to further innovate and align with the growing trend towards a Service Oriented Architecture
- Transportation: to gain inroads into the Travel segment by acquiring clients in non-Airline segment, where Hexaware enjoys a market leadership position
- Leasing & Mortgage Solutions: to cater to the growing segment of the leasing and financing segment worldwide

These introductions have widened the Company's service offerings, allowing it to seek a larger share of the IT spend of its top base of clients, and to add new clients altogether. Hexaware anticipates significant traction in several of its recently launched service offerings, particularly in independent Testing services, Business Analytics, and Asset Management.

3. **Embedded Client Relationships:**

Hexaware's client-centric philosophy, based on building and nurturing long-term customer relationships, provides the building blocks for sustainable, predictable and unwavering growth. The fact that around 90% of business comes from repeat orders from existing clients, is testimony to the relationship building ethos of the Company. Moreover, the business with the top 5 accounts of the Company grew by more than 30%. As a result, despite a recent report from Gartner which found that most application outsourcing contracts were valued at less than $10 million, the Company's million dollar clients grew to 29 in number, of which 5 generated more than $ 5million, and 4 more that $10 million. The streamlining of the Company's selling procedure also resulted in an improved approach to acquiring new customers. As the Company establishes more meaningful client relationships and loyalties, it is further strengthening its position against competition. This tactical approach to building business has led to significant improvement in the Company's offshore volumes, which was generated by some of its larger clients with whom the Company has had contracts with for sometime.

4. **Broadening the client base :**

During 2005, Hexaware restructured its business development organisation to strengthen its focus on maximizing opportunities within its top 40 accounts. Apart from targeting a larger share of the IT spend of its top 10 clients, the Company also focused on broadening its client base to accelerated and sustainable growth. Apart from the top 10 accounts of the Company, the remaining 25 accounts actually exhibited stronger growth than the top 10 accounts. As a result, the Company's average revenue per client improved by more than 10% during the year.

5. **Reduced Cyclicity through a larger Maintenance business :**

As the Company enjoys a large portion of its business from implementation activities, it faces the risk of cyclicity. However, by growing the Maintenance and post implementation services business to almost three quarters of the packaged implementation based revenue, the Company has reduced the cyclical nature of the business.

6. **Passionate about Quality and Security :**

The Company has adopted the highest levels of security and quality standards in the industry, providing clients with a sense of comfort and reliability with respect to precision and protection. The Company achieved new milestones in process quality and information security and successfully implemented the SAS-70 Type 1 across development centers in 2005. It also implemented Six Sigma standards for strict quality control, and was assessed at Level 5 of the Maturity capability models (CMMI and CMM). The Company also achieved the BS7799 certification for information security standards for enforcing data privacy and protection practices.

7. **Domain expertise :**

The Company has demonstrated comprehensive proficiency in Enterprise Packaged Applications, Legacy Modernisation and Management, and Human Resource technology management as well as in the focus verticals. Through its domain expertise, it has established the ability to penetrate difficult markets such as Germany, where entry barriers are very high.

Leveraging the strengths and capabilities that have given it premier positioning in its mainstay verticals, the Company has identified several new business opportunities that should deepen its global market presence in 2006. Hexaware's domain expertise and reduced learning curves have enabled significant compression in time-to-value deliverables, yielding optimal productivity in even the most complex assignments. The Company continued on an accelerated growth path, and was the fastest growing India-based IT company in the Industry in 2005.

8. **Flexible Alliance Models :**

During the year 2005, the Company successfully consummated the first complete B-O-T deal in India, with the sale of the PeopleSoft India Service Center to Oracle Corporation. This demonstrated the Company's ability to offer flexible business models and partnership ventures, which are a differentiator in today's global business climate. Ongoing business development based on innovative arrangements will allow the Company to further establish mutually beneficial and value-driven relationships through inventive structuring of alliances and partnerships.

9. **Multi-platform based Solutions :**

Hexaware's business model is based on outsourcing services that are centred on several competing and complementary software platforms. It has been particular in ensuring that there are no sides taken when choosing platforms, and that it is in a position to deliver solutions based on an application that is best preferred by its clients. A platform-neutral approach to this business has ensured that Company is not locked out of opportunities and offers the Company a bigger market place to operate within. Increasingly, the Company is trying to move from product-led solutions to a more platform-led growth. It is experiencing a general improvement in the entire portfolio of the enterprise solutions, with 14 clients other than PeopleSoft in this category, including SAP, Oracle, Siebel, Filenet, and other enterprise solutions. Even after the sale of the ISC business to Oracle in 2005, the Company was able to reduce the impact of reduced revenues resulting from the sale by adding significant other orders based on multiple platforms.

10. **Nurturing and retaining Talent :**

The Company places great importance on nurturing and retaining the best skills in the industry. Moreover, it is careful in aligning the needs of the Company with aspirations of its employees. As indication to these efforts, Hexaware was ranked by the DQ-IDC 2005 survey as one of the top ten "Best IT Employers" in the country; and 6th in terms of overall employee satisfaction. The Company facilitates and supports a number of key initiatives that provide an enabling environment to enrich employee experience and enhance performance. This has ensured that the Company enjoys one of the lowest attrition rates in the industry which has translated into a strong competitive advantage based on a reputation for continuity and efficient execution of business.

11. **Scalability :**

When competing for larger deals, size is paramount to the comfort level of a customer who would more easily give the order to a service provider with scale. The Company's pursuit of larger deals has demonstrated the importance of scale to win large orders. In its endeavour to build scale for winning bigger orders, the Company took major steps to increase its dimension and capacity on two fronts: people and facilities.

People : In the early part of the year, Hexaware initiated programs to induct superior talent from leading engineering and business schools across the country, and made a significant campus recruitment commitment to ensure sufficient talent scale-up for anticipated business. Even though the Company has the ability to ramp up its human resources with minimum lead time, the campus recruitment exercise was a deliberate step to reduce the lag time between order intake and commencement of order execution. Hexaware increased its headcount to 3646 as on December 31, 2005 from 3094 employees as on December 31, 2004 (excluding transfer of employees from ISC to Oracle India Pvt. Ltd.).

Facilities: Hexaware's backbone is its world-class infrastructure with flexible delivery models. In line with its anticipated growth, the Company further expanded its physical presence and commenced work on what will be one of India's largest campuses in Siruseri, Chennai. Designed by a leading Singapore-based architect firm, this campus promises to be an environment-friendly, world-class facility. Housed on more than 27 acres of land, the Hexaware campus will have a built-up area of 1.2 million sq. ft. for which the Company is set to invest a total outlay of Rs. 350 crore. The first phase, which is expected to be completed within twelve to thirteen months, will cover a 450,000 sq. ft. built up area and will house over 3000 employees. The remaining two phases is planned to be completed within five years and will cover a built up area of 350,000 sq. ft. each. At its peak, the Campus will have a capacity for 11,000 software professionals. This campus has also received approval from the Union Ministry of Commerce granting the facility an SEZ status. The Company's plans also include new development centers in Pune and New Delhi in the near future.

During the year, the Company's new 550 people facility in Millennium Business Park, Navi Mumbai, became fully functional. The India Service Center operations in Bangalore moved to its own dedicated campus in Whitefield. A new facility in Chennai, with a seating capacity of 285 people, also commenced operation during the year.

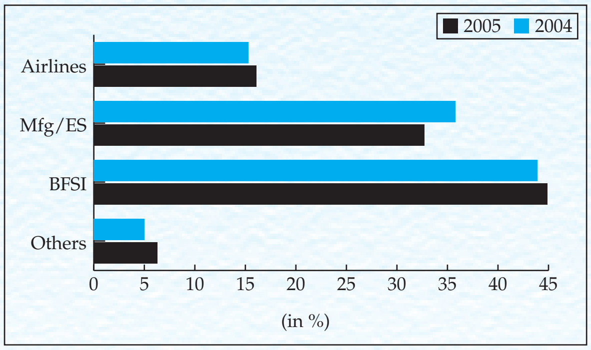
Given the aggressive stance taken on the expansion scale and people bandwidth, the Company is confident of elevating itself to compete effectively for larger sized deals in competition with more substantial players.

5. Business Segment Performance Review

The Company's proportion of revenue across all its business segments/verticals, are shown below:

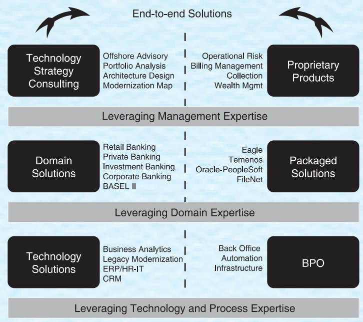
Business Segment/ Verticals	Proportion of Revenue in FY05	Proportion of Revenue in FY04
Banking and Financial Services and Insurance (BFSI)	44.9%	43.9%
Enterprise Solutions/ Manufacturing/	32.7%	35.8%
Travel & Transportation	16.1%	15.3%
Others	6.3%	5.0%

The performance of each of these vertical for the year 2005 compared to Year 2004 is shown below:



a. Banking, Financial Services and Insurance (BFSI):

The impact of technology and advances in communication systems has a very high impact on the Banking Industry ecosystem. These trends have resulted in accelerated globalisation, deregulation, cross-selling and consolidations in the Banking world today, which has created a demand for global, integrated banking solutions to remain competitive. Companies in this sector are investing heavily in to enhance their IT infrastructure and systems in all business areas to provide superior service to their



BFSI Business Model

customers and boost their bottom-line. Banking and Financial service companies worldwide require appropriate IT solutions for providing reliable and enhanced customer services, personalised to their customers' needs. The Insurance business, with multiple products and solutions, has also developed into a complex industry, offering a wide array of services including life, health, property, casualty and re-insurance. IT solutions designed around core spheres of insurance, continue to play a central part in the competitive strategies of players globally.

BFSI is the principal business segment of Hexaware, contributing to more than 45% of its revenues in 2005. With more than 14 years of experience in state-of-the-art technology solutions for the BFSI segment, the Company is exceptionally adept in handling large multi-million dollar, multi-year engagements. Long standing relationship with top Banks and Financial Institutions across the world, including industry leaders has developed strong domain credibility. Having deep knowledge in the Banking, Securities, Financial, Leasing and Insurance verticals, the Company has 35+ clients, 200+ projects and 1500+ resources in this vertical.

Hexaware's business model for this segment is to offer "end-to-end" solutions, which leverages the Company's strengths in domain, technology and business process expertise. It provides business solutions in Basel II, Operational Risk, Wealth Management, Collections and Leasing utilising IT outsourcing,

Back Office and Package Solutions services. Hexaware's IT solutions for the Insurance industry covers key processes such as claims management, underwriting policy management, agency compensation and claims administration.

b. Travel & Transportation :

With the world becoming one market place and globalisation becoming synonymous with trade, travel and transportation has become an integral part of the commercial world. To be competitive, it has become imperative for the transportation industry to focus on reducing cost to endure.

As one of the few players in this segment, Hexaware is well positioned in enabling transportation companies to achieve their competitive edge, through the use of innovative technology solutions. Over the years, the Company has developed a business model that integrates IT and BPO solutions providing engagement stability, responsiveness, flexibility and tailored solutions to their customers. Robust relationships with IBM and Unisys to provide best of breed solutions have made Hexaware one of the leading IT solution providers to this sector. An important segment of its business, the Travel & Transportation business segment constitutes 16% of the Company's annual revenue.

Hexaware's deep domain knowledge and a focus on delivering business impact, has made it the number 1 service provider for the Airline Segment and has become a partner of choice for 8 of the top 10 global Airliners. For this segment, the Company also implements services such as e-ticketing, Cargo Management, logistics and customer management systems. Services for large outsourcing initiatives include Process Consulting, Transition Management, Transactions Processing, and Shared Services Creation. In addition to these, the Company is establishing BPO solutions in Airlines back-office, F&A outsourcing services, HRO services, and Enterprise Data Management for this segment.

c. HR-IT :

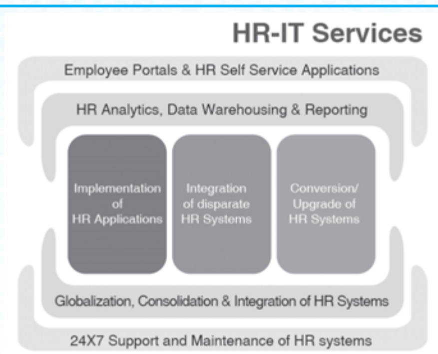
Global sourcing of labour and material resources has brought about the need to connect employees in multiple locations across the globe, bridge business processes, cultures and languages in order to deliver organisational excellence. This has enabled management of workforces across multiple locations, while allowing for implementation of a uniform, global, corporate HR strategy.

According to leading analysts HR outsourcing is increasing with companies spending about $1,600-$2,000 per employee per annum, resulting in a 10% increase in efficiency.

The HR-IT vertical is the enablement platform for Hexaware's strategy in this space. It covers all the systems and processes that support employee management and "Recruit to Retire" functions within the organisation. Increased adoption of HR-IT has enabled companies to set up global shared services centres and outsourcing of HR processes. Recently, the Company's HR-IT vertical has gained significance since most organisations have started using technology to transform HR, increase HR productivity, and improve employee experience. Most of all, by aligning their skills, activities, and incentives with business objectives and strategies, HR-IT solutions are being used to maximise the value of an enterprise's most important asset - its employees.

This segment is increasingly becoming an important part of Hexaware's business, contributing 6% of its total revenue. The Company leads in providing HR-IT services in India with over 500 projects implemented for over 25 Fortune 500 clients.

Recognising the importance of enabling a company's HR to better align with an ever increasing business role has led Hexaware to cover end-to-end service solutions for a company's HR functions. Covering "Recruit to Retire" HR functions, the Company's service range is designed to serve as a bridge between HR strategy, processes and technologies. Payroll Application, HR Application Outsourcing, Enterprise Learning Management, Portal Implementation/ Integration and HR Analytics are key components of the solution set.



The Company's comprehensible capabilities in managing multi country roll-outs with durable methodologies for consolidation of multiple HR-IT systems in over 120 countries, and its capability to offer end to end HR Outsourcing solutions makes it stand out as a global leader in this segment. The Company's superior HR process expertise has enabled it to currently implement one of the largest HR consolidations executed globally.

d. Manufacturing/Enterprise Solutions :

Hexaware has emerged as one of the leaders in the Enterprise Applications space today, moving quickly from being the number one PeopleSoft service provider in India towards becoming one of the leading providers of ERP Solutions across multiple applications. The Company has acquired immense breadth and depth in the Enterprise Application space, successfully adding competencies and clients in leading applications such as SAP, Oracle Applications, and Siebel.

ERP services are provided across a wide range of industrial that includes :

- Manufacturing
- Banking and Financial services
- Insurance
- Travel and Transportation
- Healthcare

e. Other Verticals :

PeopleSoft

Hexaware continues to dominate the PeopleSoft space, and is the # 1 PeopleSoft service provider in India, a position acknowledged by experts such as Forrester Research. Highlights of this practice include :

- Strong, global relationship with PeopleSoft for over 8 years.
- Establishment of the PeopleSoft India Services Center : One of the largest product development/global support centers to be established by an India vendor and acquired by Oracle in end 2005.

SAP

Hexaware has penetrated the SAP market successfully through the SAP HR route, and currently provides solutions across several verticals. The Practice comprises a blend of Technical Capital including trained and certified professionals, robust and secure SAP

Global Solution Centre infrastructure and accelerators that guarantee a huge Reduction in project costs and timelines.

Oracle Applications

Hexaware provides Oracle Applications services globally in domains such Oracle HRMS, Financials, CRM, Supply Chain, CMRO and Lease Management. The Oracle center at Hexaware comprises specialists in Implementation, Upgrade and Global Support.

CRM

In line with the growing market for CRM and Customer Analytics services, Hexawares CRM Practice has also grown rapidly with the successful delivery of several global implementations for key clients in the Airline, Banking and Manufacturing segments. The Company provides solutions across Siebel, PeopleSoft, SAP and Oracle CRM suites.

f. **Business Analytics :**

Business Analytics (BA) helps our customers to leverage integrated analytics to derive actionable insight into their businesses. The following are the ways through which we provide the insight of BA :

- We bring deep understanding of what the strategic and tactical questions confront the executives and how analytics can help answer those questions and to that end, we bring extensive understanding of business; a comprehensive framework to deliver connected and consistent analytics and a global delivery capability to deliver the solutions leveraging the proven tools, technologies and solutions.
- We partner with leading solution providers for industry specific solutions
- We have translated our domain understanding into industry specific artifacts (like Data models, computations, algorithms, metrics, hierarchies, common reports, dashboards) that significantly jump-start the process and in turn effectively reduce the time and costs to market for our customers. Our global delivery capability will help our customers to implement these solutions in the technology/platform of their choice in a highly cost-effective way
- Our Industry focus:
  - Financial services (Retail banking, corporate banking, Asset management, Private banking and wealth management, Retail lending and leasing, Commercial lending and leasing, Cards and payments, Risk including Basel II, SOX)
  - Insurance (mostly P&C)
  - HR-Analytics (Workforce, Compensation, Performance management, Attrition and retention analysis, Learning and professional development)
  - Healthcare ecosystem (Healthcare providers, pharmaceuticals, pharmacies and pharmacy benefits)
  - We provide a unique and proven architecture to build integrated analytics. Our architecture provides a framework to manage the definitional and data consistency; reduce mart proliferation and provide connectedness and accuracy of the metrics. We follow a set of highly proven guiding principles to ensure the solution evolves with time on a strategic architecture to ensure the connectedness. We have translated our experience into a comprehensive methodology to guide us through the challenges of designing, developing and implementing analytical solutions leveraging the Data warehouses.
  - We have partnerships with all the leading tools and technology vendors in the areas of Data warehousing and built dedicated centers of excellence around each focus area where we build best practices, develop tool-kits and incubate/train talent. We also focus exclusively on addressing some of the most pressing problems in building and managing data warehouses including creation, management and monitoring the marts; active metadata; automatic reconciliation with sources during ETL and work with leading tool vendors for innovative solutions

- Our experiences include:
  - Developing strategies to tier customers for more effective targeting and pricing for a leasing company in NA; we built the strategy; identified the key metrics and algorithms; developed the Data warehouse to provide the clean data at aggregated and atomic levels and helped the business users to be self-sufficient in identifying the trends; Eventually used the Data warehouse as the modeling test bed for scoring and profitability models where hypothesis were built and validated and passed back to the campaign management solution for more effective targeted campaigning
  - Developing an integrated HR-analytics solution for workforce; compensation; attrition, retention and performance management for all of the Americas geography (more than 20 countries) and diverse set of definitions and rules. Defined the strategy, road-map and are currently implementing the analytics Data warehouse
  - Developing the Sales effectiveness analytics leading to optimal call planning of its sales force for a large Healthcare company in North America. Solution includes the assessment of current state, help define the business needs and develop and implement the solution
  - More than 200 resources with a combination of domain experts; consultants; architects and tool and technology specialists

6. Outlook

With continuing strong global demand for the Company's services and solutions and new capacities in terms of people and facilities coming on stream in Navi Mumbai and Chennai, the FY 2006 proposes to be a promising one for Hexaware. The reasons for this outlook are as follows:

- Global trends in customer needs and demands from the IT industry remain strong, and are well matched to the product mix that Hexaware has across all its business verticals and horizontal services.
- The Company is nurturing its relationships expansively with its existing top 40 clients for extended business opportunities, which represents a key driver for its growth. The Company also expects to add new significant clients in 2006 to further improve the Company's revenue performance.
- The Company is receiving strong client interest for its newly launched service offerings, in particularly Independent Testing Services, Business Analytics, and Asset Management Solutions, and expecting respectable breakthroughs in 2006.
- The Company is well positioned and plans to capitalise on the growing trend of IT/BPO and IT/RFID integrated solutions to cater to the growing market for this service. Combined with its BPO arm, Hexaware is poised to become one of the leading players to offer integrated business technology outsourcing.
- Based on getting a strong foothold in the ERP sector during 2005, the Company is pushing for larger projects in this space. The company's on-going and aggressive up-scaling of its infrastructure gives it a fairer chance of winning large orders against its more significant adversaries.

Outlook for the Second Quarter 2006

In view of a strong pipeline of strategic prospects and a robust order book, the Company's outlook for the second quarter ending June 30, 2006 is as follows:

- Estimated Revenue of US$ 42.5 million, a growth of 7% over Q1'06,.
- Estimated Net Profit of US$ 6.0 million.

7. Risks & Concerns

The risks discussed herein are those identified within the purview of the current business areas and business model of the Company. As with any other business, these are susceptible to uncertainties and the Company's risk management approach would also depend on changes in the business climate. Stakeholders are requested to exercise their own judgements in assessing risks associated with the Company.

The global software industry continues to witness major consolidation inertia from time to time, which can slow down business momentum momentarily for affected players. Year 2005 also saw an increasing momentum in the global IT off-shoring trend, with India continuing to retain its position as the most favoured offshore destination. Nevertheless, many companies from a variety of countries are investing heavily into entering and becoming part of the mainstream supply market for IT solutions, posing more competition for Indian IT players in due course of time. For now, the Company is in a supply-constrained market, which also places pressure on the industry's delivery engine. The capabilities required to staff new projects, to manage delivery, to plan manpower as a resource, are expected to be a challenge for mid sized players. In the light of the continuation of intense competition, strong account management capabilities can be a decisive differentiator. All round capabilities in delivering value added services to clients and in pursuing excellence in service delivery through a global sourcing model are critical success factors for the players in this industry.

Hexaware has an effective, scalable organisation structure, systems and procedures in place to proactively manage risk. These systems and procedures become more significant with regard to the Company's global operations. The Board of Directors is responsible for monitoring risk levels on various parameters and the management team ensures implementation of risk mitigation measures, wherever required.

8. Report on Risk Management:

Hexaware firmly believes that building and sustaining long-term customer relationships provide the building blocks for sustainable, predictable and stable growth. The Company has systems and procedures in place to proactively manage risk. These systems and procedures become even more significant given the challenges of managing global operations.

The Board of Directors is responsible for monitoring risk levels on various parameters and the management team ensures implementation of risk mitigation measures, wherever required.

Risk Governance: Your Company has implemented a management structure that encompasses the Customer, business units, service delivery and global competencies. The Board of Directors, and the Executive Council is responsible for identifying and managing risks at the corporate level.

The business units are structured into Customer Business Units (CBU's), where the head of the Customer Unit and the respective account managers are responsible for managing transactional risks.

The Company's business objectives are:

- Financial performance
- Deliver superior Customer Experience
- Achieve further market focus: To become a leading vendor in select markets such as HR solutions, product engineering, transportation, insurance, et al.
- Create an effective organisation: To become amongst the top "employers of choice" in our key markets by 2007, enabling a richer employee experience by broadening technology skill sets and embracing a culture of hi-performance
- Manage operations & alliances in all key markets – N. America, Germany, UK, France, China, Australia, Japan, India & Asean

In relation to these objectives, the Company has identified environmental and internal risk factors and taken the necessary steps to mitigate them. Some of these risks and mitigation strategies are discussed herein.

(a) Revenue Concentration Risks

(i) Service concentration

Your Company has invested on broadening the service portfolio and reduced dependency on any select service category. The table below illustrates the percentage of revenue from the current service mix.

Service offerings	FY 05	FY 04	FY 03
Application Services	42	42	46
Embedded & RFID	2	3	6
Packaged Application Services	41	40	29
HR IT	6	3	3
Others	9	12	16

- The Company added Technology Consulting and Business Analytics to the solution portfolio, and also launched services for the Leasing Vertical in 2005.
- The Testing Services launched in 2004 experienced high growth with several new client acquisitions in 2005.

(ii) Client concentration

The Company reduced client concentration significantly in 2005 thereby successfully managing high exposures to large clients. The Company added 39 new clients, thereby enlarging the client base and reducing client concentration. The table below provides information on the current client concentration.

Parameters	2005	2004	2003
Billed clients	134	107	93
Clients added during the year	39	38	28
% of revenue form the largest client	10.70%	12.40%	12.50%
% of revenue from top 5 clients	40.70%	42.50%	46.30%
% of revenue from top 10 clients	57.60%	57.70%	64%
No. of million dollar clients (USD)	30	25	16
No. of 5 -10 million dollar clients (USD)	4	3	4
Over 10 million dollar Cilents (USD)	4	2	0

(iii) Geographic concentration

Geographical concentration of business in a particular country or region exposes the Company to a higher risk in your business. A high level of concentration in a particular business and in a particular geographical region could potentially lead to risk from overexposure to that specific region's political and economic volatility.

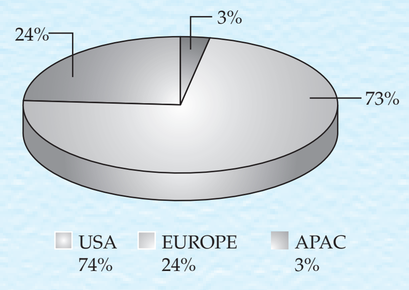
Hexaware continues to explore new markets, which also increases the total revenues. During this period, the Company has ventured into new markets such as Canada, South America, Japan, Australia, Scandinavia, the Netherlands, and France. The Company has added Sales force in existing Geographies such as Germany.

The Company has established leadership in the German market and expects to leverage this position further in 2006.

With continued and accelerated adoption of the Global Sourcing Model and India as a favoured off-shoring destination, we expect more global companies to turn to IT outsourcing as a growth enabler and the Company plans to continue to deepen presence worldwide.

The geography distribution of the Company's revenue is shown below (%):

Geography	FY 05	FY 04	FY 03
USA	73	70	69
Europe	23	24	25
Rest of the world	4	6	6



(b) Financial risks

(i) Foreign Currency risk

Over the last year, the Indian Rupee has depreciated by 4.55 percent. The Rupee depreciation has marginally improved operations both by way of margin and translation profits.

Your Company proposes to mitigate the impact of appreciation of the Rupee in future by appropriately hedging the Rupee against various currencies and reducing translation losses.

(ii) Liquidity risk

Poor liquidity arising out of long receivables and high overheads could affect the Company's reputation, which is essential in creating corporate goodwill.

Your Company has adequate liquidity. Year ending 2005, cash and bank balances accounted for 20.78% of the Company's total assets and a substantial amount of its funds were invested in mutual funds, which accounted for 10.87% of the Company's total assets.

(c) Legal and statutory risks

There is a growing concern in some of the developed countries on the security-related aspects, specifically in regards to data protection and intellectual property rights. The Company has international operations in USA, Canada, UK, Germany, France, Singapore, Australia and Japan. The International Operations are subject to various risks, which could adversely affect those operations or the business as a whole including:

- Compliance with local laws of respective countries.
- Difficulties in managing and staffing of international operations.
- Protection of Intellectual Property Rights

Your Company has world-class security and data protection practices in place.

The Company follows a structured approach in handling its staff across all countries, which has resulted in successfully mitigating risks relating to managing and staffing. The Company has also engaged reputed legal consultants, which ensure effective compliance with all local laws of the country and protection of Intellectual Property Rights.

The Company takes the required steps to comply with all statutory requirements. All of the positions and actions are based on advice received from expert legal counsel and from the management team. Hexaware is also adequately structured to advise the Board on legal issues.

(d) Disaster risk

In the event of any unforeseen disaster, the IT systems might be disrupted. Customers could lose their data, jeopardising their ability to compete in their respective markets.

To minimise the possibility of a disruption of the Company's IT system, Hexaware has been certified in the current year as per the BS7799, the British Standard that addresses information security management. This international standard for data, personnel and infrastructure information security was developed as a result of industry, government and commerce demand for a common framework to enable companies to develop, implement and measure effective security management practices. Its purpose is to ensure business continuity and rationalise the business damage by preventing and minimising the impact of security incidents.

9. Internal Control System & their adequacy

The Company's internal control systems are well established. An Audit Committee comprising of the Company's Directors is at the foundation of the system, and any change recommended in the internal control is studied and implemented. The Company also has an information technology system that supports the organisation and ensures adequate information flow across the Company's location.

10. Financial Performance:

The financial statements comply with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India.

a. Balance Sheet movements

1. Share capital

The authorised share capital of your Company is Rs. 650 million. The share capital saw an increase from Rs. 233.04 million in 2004 to Rs. 238.72 million in 2005. This increase is attributed to the issue and allotment of 2,840,670 equity shares of Rs. 2/- each as fully paid-up as per the Employee Stock Option scheme of your Company.

During the year, pursuant to the approval of the members of your Company on their meeting held on April 4, 2005 there was a sub division of equity shares in the ratio of 5 (five) equity shares of Rs. 2/- (Rs. Two only) each for every 1 (one) equity shares of Rs. 10/- (Rs. Ten only) each.

2. Reserves and surplus

Your Company's global Reserves increased by 33.06% from Rs. 2,430.99 million to Rs. 3,234.64 million. This growth is due mainly to a transfer of profits and premium on exercise of equity shares by employees under various ESOP's schemes, to the reserves.

3. Loan funds

Your Company's secured loans increased by Rs. 9.52 million from Rs. 52.14 million in 2004 to Rs. 61.66 million in 2005. Mainly, the proceeds from secured loans were used for the purchase of building by a subsidiary company and for purchase of computers and laptops by your Company. These loans are mortgaged/ hypothecated to the banks/financial institutions as security for the amounts borrowed.

4. Fixed Assets

The capital expenditure for the year is Rs. 346.66 million. This expenditure was primarily incurred for the expansion of existing facilities in India and for the creation of new facility at Navi Mumbai. In order to keep pace with the expansion plans of your Company, state-of-art facilities were developed in Navi Mumbai and Chennai.

5. Investments

Investments increased from Rs. 392.94 million in 2004 to Rs. 652.98 million in 2005 mainly on account of increase in investment in Mutual Funds of Rs. 258.54 million.

6. **Cash and Cash Equivalents**

During the year, your Company generated a net cash flow of Rs. 679.25 million from the operating activities. From this amount, the net cash flow was used to finance the capital expenditure (including capital work-in-progress) Rs. 239.38 million and payment of dividends Rs. 212.88 million.

7. **Sundry Debtors**

In 2005, sundry debtors amounted to Rs. 1,835.65 million as against Rs. 1,360.76 million in the previous year. During 2005, your Company made provisioning of Rs. 24.01 million for the doubtful debtors. The increase in debtors was primarily on account of increase in business operations and couple of clients payment received in January 2006.

8. **Loans and Advances**

During the year, Loans and Advances amounted to Rs. 717.83 million as against Rs. 682.77 million in the previous year. Mainly increase in loans and advances is due to increase in advances from Rs. 185.57 million to Rs. 200.14 million in 2005 and increase in advance tax from Rs. 159.45 million to Rs. 191.04 million in 2005.

9. **Current Liabilities and Provisions**

The current liability and provisions have increased from Rs. 1,144.53 million in 2004 to Rs. 1,169.89 million in 2005. This is mainly on account of increase in provision for taxation from Rs. 146.91 million to Rs. 168.52 million in 2005 and provision for fringe benefit tax (net of advances) from nil to Rs. 5.39 million in 2005.

10. **Deferred Tax Assets & Deferred Tax Liability**

Your Company accounts for deferred tax in compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India. Your Company has recognised the deferred tax asset of Rs. 36.76 million in 2005 as Rs. 67.41 million in 2004 after reviewing virtual certainty of the assets. Your Company has recognised the deferred tax liability of Rs. 7.12 million in 2005 as compared to Rs. 0.68 in 2004 towards accumulated depreciation of wholly-owned subsidiary of your Company.

b. **Results of operations**

1. **Income**

Your Company recorded consolidated global revenue of Rs. 6,786.62 million and a net consolidated profit after tax of Rs. 913.85 million in 2005. These results favourably compare with consolidated revenues of Rs. 5,458.91 million in 2004, representing a growth of 24.32% and net consolidated profit after tax of Rs. 637.36 million in the previous year recording a growth of 43.38% in profits in the current year.

The increased consolidated global turnover resulted in the Income from Indian operations increasing from Rs. 2,540.42 million in the previous year to Rs. 3,557.93 million in the current year, an increase of 40.05 percent. The profits after tax increased from Rs. 437.70 million in 2004 to Rs. 775.40 million in 2005, an increase of 77.15%.

During 2005, your Company strengthened its focus to offer technology-intensive solutions in fewer market segments and select geographies, emerging as a reputable service provider in these chosen segments. As a result, your Company added 39 clients in 2005, translating into multi-million and multi-year contracts. These new contracts provide your Company with a steady increase in offshore revenues as a percentage of total income and a corresponding cost reduction.

Other income

Other Global Income was reported at Rs. 145.74 million as compared to Rs. 116.35 million the previous year, (including gain on transfer of India Service Centre, Bangalore to Oracle) a growth of 25.26%. The other income was mainly from rent of Rs. 25.95 million, interest income of Rs. 11.70 million, and dividend earned from investment in Mutual Funds of Rs. 10.60 million.

2. **Expenditure**

Software Development expenses

Your Company's Software and Development expenses increased from Rs. 815.36 million in 2004 to Rs. 1,036.01 million in 2005, a growth of 27.06%. The increase was attributed to consultant and related expenses, which increased from Rs. 335.51 million in 2004 to Rs. 469.02 million in 2005.

Employment expenses

Global Employment expenses increased from Rs. 3,123.71 million in 2004 to Rs. 3,737.62 million, in 2005, an increase of 19.65%. As a percentage of software revenues, employment expenses decreased to 55.07% for the year 2005 from 57.22% in 2004.

Administration and other expenses

Global Administration expenses increased from Rs. 748.37 million in 2004 to Rs. 929.32 million in 2005. This increase is due mainly to increased business and added costs due to new software development centres and offices. As a percentage of software revenues, administrative and other expenses decreased marginally to 13.69% for the year 2005 from 13.71% in 2004.

3. **Operating margin**

Global Operating profit (EBITDA) increased from Rs. 887.81 million to Rs. 1,229.40, a substantial increase of 38.48% over the previous year. The increase was largely due to increased in productivity, better billing rates and cost rationalisation measures.

4. **Depreciation**

Depreciation for 2005 increased to Rs. 209.90 million from Rs. 161.07 in 2004, an increase of Rs. 48.83 million. During the year, the increase was largely due to transfer of assets pertaining to India Service Centre, Bangalore as per BOT agreement to Oracle, impairment loss in accordance with the requirements of Accounting Standard-28 "impairment of assets" on account of technological obsolescence and addition to fixed assets during year.

5. **Provision for Taxation**

Provision for taxation for the current year increased to Rs. 98.48 million in 2005 from Rs. 86.23 million in 2004. These increases are primarily due to MAT, increase in fringe benefit tax and increase in the quantum of taxable profits in overseas countries. Your Company has recognised the deferred tax of Rs. 38.96 million during the year as compared to Rs. 59.98 million in 2004.

6. **Dividend**

Your Company declared a dividend (including interim dividend of 30%) of 60% for the current year as compared to 50% in 2004. The total gross amount of dividend for the year 2005 is Rs. 142.61 million as against Rs. 117.21 million for the previous year. The tax on distributed profits, payable by your Company would amount to Rs. 21.14 million as compared to Rs. 15.30 million in 2004.

7. **Transactions in which the Management is interested in their personal capacity**

There are no materially significant related party transactions during the year 2005 that may have potential conflict with the interest of your Company. Refer Note No. 9 in Notes to Accounts.

Cautionary Statement

Statements in this Management Discussion and Analysis describing your Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed and implied. Important development that could affect your Company's operations included a downtrend in the international market, fall in onsite, offshore rate and significant changes in political and economic environment, environment standards, tax laws, and litigation and labour relations.

Statement Pursuant to Section 212 of the Companies Act, 1956 Relating to Subsidiary Companies

(Amount in Rupees)

1. Name of the Subsidiary	Hexaware Technologies Inc., USA	Specsoft Consulting Inc., USA	Hexaware Technologies GmbH, Germany	Hexaware Technologies UK Limited, UK	Hexaware Technologies Asia Pacific Pte. Ltd., Singapore	Hexaware Technologies Canada Limited, Canada	Caliber Point Business Solutions Limited, India
2. The Financial Year of the Company ended on	31st December, 2005	31st December, 2005	31st December, 2005	31st December, 2005	31st October, 2005	31st December, 2005	31st December, 2005
3. Holding Company	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India	Hexaware Technologies Limited, India
4. Holding Company's Interest	100%	100%	100%	100%	100%	100%	100%
5. Shares held by the holding Company in the Subsidiary	22,450 Common Stock at no par value	2,461,254 Common Stock at no par value	3,618 equity shares of Euro 50 each	3,067,000 equity shares of GBP 1 each	500,000 equity shares of S$ 1 each	1 Common Stock of no par value	8,400,000 equity shares of Rs. 10/- each
6. Capital	295,275,970	54,543,403	7,570,241	218,870,286	12,476,000	727,800	84,000,000
7. Reserves	25,204,437	(8,885,117)	18,407,666	(16,616,226)	880,663	6,392,625	36,792,242
8. Total Assets	1,382,527,244	137,365,435	456,685,757	334,207,482	39,538,779	19,235,446	196,993,565
9. Total Liabilities	1,062,046,837	91,707,149	430,707,850	131,953,422	26,182,116	12,115,021	76,201,323
10. Details of Investments	36,077,040	500,610	NIL	NIL	NIL	NIL	NIL
11. Turnover	2,990,538,525	157,754,812	968,094,804	617,213,655	66,927,798	61,209,755	183,862,859
12. Profit/(Loss) Before Taxation	138,211,480	(48,283,122)	24,288,840	57,743,179	6,797,180	4,652,339	31,085,462
13. Provisions for Taxation	56,796,847	136,090	9,731,246	1,323,621	2,354,962	1,582,895	7,545,572
14. Profit/(Loss) After Taxation	81,414,633	(48,419,212)	14,557,594	56,419,558	4,442,218	3,069,444	23,539,890
15. Proposed Dividend, if any	NIL	NIL	NIL	NIL	NIL	NIL	NIL
16. Material change between the end of the Financial Year of the subsidiary Company and the Company's Financial Year ended December 31, 2005							
a. Fixed Assets	NIL	NIL	NIL	NIL	NIL	NIL	NIL
b. Investments	NIL	NIL	NIL	NIL	NIL	NIL	NIL
c. Money Lent	NIL	NIL	NIL	NIL	NIL	NIL	NIL
d. Money borrowed other than those for meeting Current Liabilities	NIL	NIL	NIL	NIL	NIL	NIL	NIL

Note : 1. There has been no change in holding Company's interest in the subsidiaries between the end of financial year or the last of the financial years of subsidiary and the end of the holding Company's financial year.

2. With effect from January 3, 2006, Specsoft Consulting Inc., USA merged with Hexaware Technologies Inc., USA.

For and on behalf of the Board

Atul K. Nishar
Executive Chairman

Place : Mumbai
Date : May 25, 2006

ANNEXURE TO THE DIRECTORS' REPORT

Particulars of employees pursuant to Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees Rules) 1975 and forming part of the Directors' Report for the year ended 31st December, 2005

S. No.	Name	Age (Years)	Designation/ Nature of Duties	Gross Remuneration Received (Rs.)	Qualification & Experience (Years)	Date of Commencement of employment	Last Employment held Period (Years)
A	Employed throughout the year						
1	Atul K Nishar	51	Executive Chairman	3,399,933	B.Com., ACA.	1-Jan-04	Founder
2	P K Sridharan	57	President & Executive Director	6,630,092	M.Tech., 32 Years	1-Apr-01	Hexaware Technologies Ltd. 3 Yrs - 2 Months
3	Baalasundaram K	55	Senior Vice President - HR	3,599,302	B.A., 33 Years	1-Apr-01	Hexaware Technologies Ltd. 3 Yrs - 2 Months
4	Ramanan R V	41	Senior Vice President	4,569,595	M.Tech., 17 Years	21-Oct-02	Orbitech Solutions India Limited., 1 Year
5	Avijit Bardhan	47	Senior Vice President	3,747,188	B.Sc., M.Sc., PGDCM 23 Years	1-Apr-01	Hexaware Technologies Ltd., 5 Yrs - 4 Months
6	P K Venkateshwaran	51	Vice President	3,580,080	B.E., M.Tech., 27 Years	17-Jun-02	SCM Micro Systems Pvt. Ltd., 1 Year - 6 Months
7	K N Narayanan	47	Senior Vice President	3,933,533	B.E., 25 Years	1-Apr-01	Hexaware Technologies Inc., 1 Year
8	Moorthi Chokkanathan	45	Senior Vice President	4,550,783	B.E., MBA., 24 Years	2-Apr-01	DSQ Software Ltd., 1 Year
9	Rajesh B Ghonasgi	44	Chief Financial Officer	3,431,447	B.Com., F.C.A., A.C.S., I.C.W.A.I. 19 Years	8-Jul-02	ICICI Venture Funds Mgmt. Co. Lts., 1 Year
10	Sulochana Ganeshan	56	Sr. Vice President-Quality	3,167,400	B.A. (Hons.) 21 Years	1-Apr-01	Hexaware Technologies Ltd., 2 Years - 9 Months
11	R Subramaniam	54	Vice President	2,790,141	B.Sc., M.Sc. 31 Years	1-Apr-01	Hexaware Technologies Ltd., 2 Years - 9 Months
12	Narendra Sharma	44	Vice President, Centre Head Mumbai	3,100,396	M.Sc., M.B.A, 20 Years	26-Dec-01	Internal Solutions Ltd., 1 Year
13	Jyotirmoy Das Gupa	52	Vice President, Director - Specsoft Tech. India Ltd.	3,018,053	BE., M.S., 30 Years	21-Dec-98	Patni Computer Systems Ltd., 5 Years - 5 Months
14	P N Sridharan	49	Vice President	2,559,441	B.Sc., B.Tech.,M.S, Ph.D., 26 Years	5-Sep-03	Cognizant Technology Solutions, 6 Years
15	K Senthinlnayagam	42	Associate Vice President	2,844,649	B.Com., I.C.W.A.I., 16 Years	26-Sep-03	Gecadital International Services, 1 Year - 3 Months
16	Uday Kumar Reddy	42	Vice President	2,963,995	B.A., MCA., 17 Years	3-Nov-03	Polaris Software Lab Ltd., 3 Years
17	Prem Tilak Iyer	46	Vice President	3,001,620	B.Sc.,M.B.A. 17 Years	28-Jan-05	Polaris Software Labs Ltd., 1 Year 8 Months
18	Janaki S	48	Vice President	2,643,663	B.Sc.,M.Sc., PGDM 24 Years	7-Feb-05	Satyam Computer Services Ltd., 7 Years - 6 Months
19	Aditya Gurtu	40	Assistant Vice President	2,698,641	B.Tech., 18 Years	17-Aug-98	Air India Limited, 10 Years
20	K Baskaran	44	Associate Vice President	2,618,709	B.Com., I.C.W.A.I., 22 Years	3-Nov-03	Keane India Ltd., 1 Years
B	Employed for part of the Year						
1	Srinivasan Panchapekesan	37	Assistant Vice President	1,688,240	B.Sc., PGDM, 15 Years	16-Dec-98	Ramco Systems Pvt. Ltd., 7 Years
2	M T Lakshmanan	38	Assistant Vice President	1,192,984	M.A., 14 Years	5-Feb-99	Videsh Sanchar Nigam Ltd., 6 Years
3	Yogendra Shah	52	Sr. Vice President-Asia Pacific	1,890,063	M-Tech., 25 Years	1-Jan-05	Hexaware Technologies Inc. 4 Years - 9 Months
4	Ramasubramaniam S	46	Assistant Vice President	1,640,205	B Com., AICWA, 25 Years	11-Dec-02	Cholamandalam Investments & Finance Co. Ltd., 7 Years - 9 Months
5	Srinivasan Prakash	51	Vice President	2,688,772	B.E., M.Tech., 16 Years	6-Mar-03	Unisys Asia Pacific, 1 Year - 6 Months
6	Mahesh Kulkarni	45	Assistant Vice President	1,403,387	D.E.E., 20 Years	1-Aug-00	Mahindra Biritish Telecom ltd., 2 Years - 8 Months
7	Subrata Kar	42	Associate Vice President	1,755,533	B.Sc., 20 Years	5-Apr-04	Ramco Systems Pvt. Ltd., 10 Years

Notes:

1 Remuneration Includes Salary, Company's Contribution to Provident and Superannuation Fund and taxable Value of Perquisites and allowances as per Income Tax Act, 1961 and rules made thereunder.

2 All appointments are non-contractual and terminable by notice on either side.

3 None of the above employee is related to any Director of the Company except Mr. Atul K Nishar and Mr. Sridharan P K who are Directors of the Company during the Year.

4 Project Directors are not part of the Board of Directors.

For and on behalf of the Board

Atul K. Nishar

Executive Chairman

Place : Mumbai

Date : May 25, 2006

AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF HEXAWARE TECHNOLOGIES LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF HEXAWARE TECHNOLOGIES LIMITED AND ITS SUBSIDIARIES

1. We have audited the attached Consolidated Balance Sheet of Hexaware Technologies Limited ("the Company") and its subsidiaries as at 31st December, 2005, and the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto.

2. 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 audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs. 827,374,323 as at 31st December, 2005 and total revenues of Rs. 1,661,862,365 and net cash flows amounting to Rs. 140,335,858 for the year then ended. These financial statements have been audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors except in case of one subsidiary, whose accounts are not audited (total assets Rs. 41,626,800 as at 31st December, 2005 and total revenues Rs. 76,551,245 and net cash flows amounting to Rs. 1,158,003 for the year then ended).

4. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS 21), Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiaries included in the consolidated financial statements.

5. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of the Company and its subsidiaries, we are of the opinion that the said consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   (a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at 31st December, 2005;

   (b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Company and its subsidiaries for the year then ended and

   (c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Company and its subsidiaries for the year then ended.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Place : Mumbai
Dated : 2nd February, 2006

CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER, 2005

Particulars	Schedule	As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
SOURCES OF FUNDS					
Share Holders' Funds :					
A) Share Capital	"1"	238,717,390		233,036,050	
B) Share Warrants (Refer Note No. 8(a) of Schedule 13B)		425,155		561,637	
C) Share Application Money		685,596		5,642,597	
D) Reserves and Surplus	"2"	3,234,642,383		2,430,994,440	
			3,474,470,524		2,670,234,724
Loan Funds :					
Secured Loans	"3"		61,659,101		52,142,545
Deferred Tax Liability (Refer Note No. 6 of Schedule 13B)			7,118,251		678,009
Total			3,543,247,876		2,723,055,278
APPLICATION OF FUNDS					
Fixed Assets :	"4"				
A) Gross Block		1,564,296,969		1,401,617,140	
B) Less: Depreciation/Impairment (Refer Note No. 5 of Schedule "4")		633,221,935		541,046,210	
C) Net Block		931,075,034		860,570,930	
D) Capital Work-in-progress		2,049,154		109,332,099	
(Refer Note No. 5 of Schedule "4")			933,124,188		969,903,029
Investments :	"5"		652,979,754		392,942,815
Deferred Tax Asset (Refer Note No. 6 of Schedule 13B)			36,758,786		67,410,453
Current Assets, Loans and Advances :	"6"				
A) Sundry Debtors		1,835,647,612		1,360,757,735	
B) Cash and Bank Balances		534,345,684		391,336,733	
C) Loans and Advances		717,829,662		682,772,269	
D) Other Current Assets		2,455,997		2,461,250	
		3,090,278,955		2,437,327,987	
Less:					
Current Liabilities and Provisions :	"7"				
A) Current Liabilities		759,387,925		771,869,863	
B) Provisions		410,505,882		372,659,143	
		1,169,893,807		1,144,529,006	
Net Current Assets			1,920,385,148		1,292,798,981
Total			3,543,247,876		2,723,055,278
Significant Accounting Policies and Notes Forming Part of Accounts	"13"				

Schedules 1 to 13 form an Integral Part of the Accounts.
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

P. R. Barpande
Partner

Place : Mumbai
Date : 2nd February, 2006

For and on behalf of the Board

Atul K. Nishar *(Executive Chairman)*	**Dr. K. K. Anand** *(Director)*	**L. S. Sarma** *(Director)*	**Dr. (Mrs.) Alka Nishar** *(Director)*
Rusi Brij *(Vice-Chairman & CEO)*	**P. K. Sridharan** *(Executive Director)*	**Rajesh B. Ghonasgi** *(Chief Financial Officer)*	**Naishadh Desai** *(Company Secretary)*

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2005

Particulars	Schedule	For the Year Ended 31st December, 2005 Rupees	Rupees	For the Year Ended 31st December, 2004 Rupees	Rupees
INCOME					
Software and Consultancy		**6,786,616,150**		5,458,905,322	
Other Income	"8"	**145,740,312**		116,350,770	
			6,932,356,462		5,575,256,092
EXPENDITURE					
Software and Development Expenses	"9"	**1,036,006,198**		815,357,611	
Employment Expenses	"10"	**3,737,623,684**		3,123,710,679	
Administration and Other Expenses	"11"	**929,324,228**		748,365,311	
Interest	"12"	**7,171,470**		3,164,479	
Depreciation		**209,898,421**		161,073,360	
			5,920,024,001		4,851,671,440
Profit Before Tax			**1,012,332,461**		723,584,652
Less : Provision for Taxation:					
– Income Tax - Current			**44,667,946**		25,985,592
– Income Tax - Deferred			**38,963,957**		59,978,945
– Fringe Benefit Tax			**14,755,330**		–
– Wealth Tax			**92,120**		257,000
Profit After Tax			**913,853,108**		637,363,115
(Add)/Less: Income Tax - Earlier Years			**(1,109,546)**		5,105,392
Add : Balance brought forward from Previous Year			**483,263,397**		33,515,582
Balance Available for Appropriation			**1,398,226,051**		665,773,305
Appropriations :					
Interim Dividend		**70,996,483**		–	
Proposed Dividend		**71,615,217**		117,211,265	
Dividend Tax		**21,141,528**		15,298,643	
Transfer To General Reserve		**100,000,000**		50,000,000	
			263,753,228		182,509,908
Balance Carried to Balance Sheet			**1,134,472,823**		483,263,397
Earnings Per Share (Refer Note No. 11 of Schedule 13B)					
– Basic			**7.76**		5.51
– Diluted			**7.52**		5.03
Significant Accounting Policies and Notes Forming Part of Accounts	"13"				

Schedules 1 to 13 form an Integral Part of the Accounts.
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

P. R. Barpande
Partner

Place : Mumbai
Date : 2nd February, 2006

For and on behalf of the Board

Atul K. Nishar *(Executive Chairman)*	**Dr. K. K. Anand** *(Director)*	**L. S. Sarma** *(Director)*	**Dr. (Mrs.) Alka Nishar** *(Director)*
Rusi Brij *(Vice-Chairman & CEO)*	**P. K. Sridharan** *(Executive Director)*	**Rajesh B. Ghonasgi** *(Chief Financial Officer)*	**Naishadh Desai** *(Company Secretary)*

CONSOLIDATED CASH FLOW FOR THE YEAR ENDED 31ST DECEMBER, 2005

		For the year Rupees	For the year Rupees	Previous year Rupees
A	**Cash Flow from operating activities**			
	Net Profit before tax	1,012,332,461		723,584,652
	Adjustments for:			
	Depreciation	209,898,421		161,073,360
	Interest Income	(11,701,864)		(6,774,142)
	Miscellaneous expenditure written off	–		1,871,003
	ESOP warrants Cancelled	–		(220,000)
	Dividend Income	(10,601,044)		(18,173,540)
	(Profit)/loss on sale of investments	(1,508,236)		8,188,645
	Provision for impairment loss	10,695,739		–
	Investment written off	299,171		–
	Recoveries on debts previously written off (Refer Note No. 15 of Schedule 13B)	(1,786,263)		–
	Profit on sale of fixed assets (Net)	(8,435,343)		(20,266,627)
	Gain on Transfer/Assignment- Service Centre	(44,960,000)		–
	Interest expense	7,171,470		3,164,479
	Operating profit before working capital changes	1,161,404,512		852,447,830
	Adjustments for:			
	Trade and other receivables	(478,353,358)		(695,440,728)
	Trade and other payables	47,476,280		307,777,286
	Cash generated from operations	730,527,434		464,784,388
	Direct taxes paid	(62,988,472)		(30,033,652)
	Interest received	11,707,117		6,774,142
	Net cash from operating activities		679,246,079	441,524,878
B	**Cash Flow from investing activities**			
	Additions to fixed assets	(239,375,368)		(461,620,258)
	Proceeds from sale of fixed assets	63,995,392		97,240,734
	Purchase of investments	(979,471,225)		(1,175,408,772)
	Proceeds from Sale of investments	722,429,614		1,166,110,255
	Gain on Transfer/Assignment- Service Centre	44,960,000		–
	Income from investments	10,601,044		18,173,540
	Net cash from investing activities		(376,860,543)	(355,504,501)
C	**Cash Flow from financing activities**			
	Proceeds from issue of share capital	30,361,391		30,875,766
	Share application money	685,596		5,642,597
	Interest paid	(7,171,470)		(3,164,479)
	Dividend paid	(212,875,995)		(45,987,825)
	Proceeds of long term and other borrowings (Net)	9,516,556		26,193,911
	Net cash used in financing activities		(179,483,922)	13,559,970
	Net Increase in cash and cash equivalents		122,901,614	99,580,347
	Cash and cash equivalents at the beginning of the year		391,336,733	315,927,291
	Effect of exchange rate change on cash and cash equivalent		20,107,337	(24,170,905)
	Cash and cash equivalents at the end of the year (Refer Note No. 1 below)		534,345,684	391,336,733

Notes:

1. Components of cash and cash equivalents included in the Cash Flow Statement comprise the following:

- Cash and Bank Balances	534,228,232	391,193,792
- Unrealised gain on foreign currency cash and cash equivalents	117,452	142,941
Total cash and cash equivalents	534,345,684	391,336,733

2. Interest income on bank deposits etc. is classified as cash flow from operating activities.
3. Purchase of Fixed Assets (including movements in Capital work in progress) are considered as a part of investing activities.
4. The Cash Flow Statement has been prepared in accordance with the requirements of Accounting Standard (AS 3) "Cash Flow Statement" issued by the Institute of Chartered Accountants of India.

Schedules 1 to 13 form an Integral Part of the Accounts.
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

For and on behalf of the Board

P. R. Barpande
Partner

Atul K. Nishar *(Executive Chairman)*
Dr. K. K. Anand *(Director)*
L. S. Sarma *(Director)*
Dr. (Mrs.) Alka Nishar *(Director)*

Place : Mumbai
Date : 2nd February, 2006

Rusi Brij *(Vice-Chairman & CEO)*
P. K. Sridharan *(Executive Director)*
Rajesh B. Ghonasgi *(Chief Financial Officer)*
Naishadh Desai *(Company Secretary)*

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars	As at 31st December, 2005 Rupees	As at 31st December, 2005 Rupees	As at 31st December, 2004 Rupees	As at 31st December, 2004 Rupees
SCHEDULE "1" : SHARE CAPITAL				
AUTHORISED				
175,000,000 (35,000,000) Equity Shares of Rs. 2/- (Rs. 10/-) each.		**350,000,000**		350,000,000
(As Subdivided - Refer note no. 5 of Schedule 13B) 3,000,000 (3,000,000) Redeemable Preference Shares of Rs. 100/- each.		**300,000,000**		300,000,000
		650,000,000		650,000,000
ISSUED, SUBSCRIBED AND PAID-UP CAPITAL EQUITY :				
119,358,695 (23,303,605) Equity Shares of Rs. 2/- (Rs. 10/- each Fully Paid (As subdivided - Refer Note No. 5 of Schedule 13B)		**238,717,390**		233,036,050
of The Above Equity Shares:-				
1) 11,134,625 (2,226,925) Equity Shares have been allotted as fully paid up without receiving consideration in cash in accordance with the Composite Scheme of reconstruction and arrangement.				
2) 36,188,870 (7,237,774) Equity Shares have been allotted as fully paid up by way of Bonus Share by capitalisation of General Reserve/Securities premium account.				
3) 10,452,965 (2,090,593) Equity Shares of Rs. 2 (Rs. 10/-) each fully paid up have been allotted against Global Depository Receipts issued by the Company.				
4) 50,000,000 (10,000,000) Equity Shares issued to the shareholders of erstwhile Hexaware Technologies Limited ('HTL') without receiving consideration in cash in accordance with the Composite Scheme of Reconstruction and Arrangement.				
5) 3,638,025 (575,958) Equity Shares have been allotted to employees under ESOP 1999.				
6) 5,229,210 (629,355) Equity Shares have been allotted to employees under ESOP 2002.				
7) Particulars of options on unissued share capital (Refer Note No. 8 of the Schedule 13B)				
Total		**238,717,390**		233,036,050
SCHEDULE "2" : RESERVES AND SURPLUS				
Securities Premium Account				
As per last Balance Sheet	**1,719,139,566**		1,692,904,677	
Add : Received during the year	**30,459,130**		26,234,889	
		1,749,598,696		1,719,139,566
Employee Stock Options Outstanding Account				
As per last Balance Sheet	–		2,200,000	
Less : Transferred to General Reserve	–		2,200,000	
		–		–
General Reserve				
As per last Balance Sheet	**263,659,827**		211,459,827	
Add : Transferred from Profit and Loss Account	**100,000,000**		50,000,000	
Add : Transferred from Employee Stock Options Outstanding Account	–		2,200,000	
		363,659,827		263,659,827

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars	As at 31st December, 2005 Rupees	As at 31st December, 2005 Rupees	As at 31st December, 2004 Rupees	As at 31st December, 2004 Rupees
Amalgamation Reserve				
As per Last Balance Sheet		**2,879,812**		2,879,812
Currency Translation Reserve				
As per Last Balance Sheet	**(37,948,162)**		(10,785,626)	
Addition/(Deduction) during the year (Net)	**21,979,387**		(27,162,536)	
		(15,968,775)		(37,948,162)
Surplus in Profit and Loss Account		**1,134,472,823**		483,263,397
Total		**3,234,642,383**		2,430,994,440
SCHEDULE "3" : SECURED LOANS				
Term Loan From a Bank (Secured by equitable mortgage of premises of the Company located at Navi Mumbai. The said loan is also secured by guarantee issued by Hexaware Technologies Limited, the holding company)		**51,000,000**		30,000,000
Loan Under Finance Agreement (Secured by A charge on the specified assets acquired and financed viz. computers and vehicles)		**10,659,101**		22,142,545
Total		**61,659,101**		52,142,545

SCHEDULE "4" : FIXED ASSETS

(Amount in Rupees)

		GROSS BLOCK				DEPRECIATION				Impairment Loss	NETBLOCK	
Sr. No.	Particulars	As At 01.01.2005	Additions	Deductions	As at 31.12.2005	As at 01.01.2005	For the Year	Deductions	As at 31.12.2005	For the Year and as at 31.12.2005	As at 31.12.2005	As at 31.12.2004
A	**Own Assets**											
1	Land - Freehold	153,699	–	–	153,699	–	–	–	–	–	153,699	153,699
	Land - Leasehold	38,988,800	372,820	–	39,361,620	182,115	392,931	–	575,046	–	38,786,574	38,806,685
2	Building (Refer Note No. 1)	327,184,133	100,190,343	–	427,374,476	12,741,729	6,517,058	–	19,258,787	–	408,115,689	314,442,404
3	Plant and Machinery (Includes Computers and Softwares)	755,961,759	172,335,358	170,790,464	757,506,653	451,869,436	151,012,721	111,279,265	491,602,892	–	265,903,761	304,092,323
4	Furniture and Fixtures	220,494,880	63,537,584	7,025,878	277,006,586	60,627,184	35,184,312	6,022,451	89,789,045	–	187,217,541	159,867,696
5	Improvements to Leasehold Premises	3,742,710	837,389	104,350	4,475,749	857,428	768,466	18,749	1,607,145	–	2,868,604	2,885,282
6	Vehicles	41,724,338	9,384,819	6,540,678	44,568,479	9,464,285	12,086,827	3,849,659	17,701,453	–	26,867,026	32,260,053
B	**Leased Assets**											
	Furniture and Fixtures	1,435,687	–	(51,852)	1,487,539	314,056	–	(11,343)	325,399	–	1,162,140	1,121,631
C	**Intangible Assets**											
	Softwares #	11,931,134	–	(431,034)	12,362,168	4,989,977	3,936,106	(378,094)	9,304,177	3,057,991	–	6,941,157
	Current Year	**1,401,617,140**	**346,658,313**	**183,978,484**	**1,564,296,969**	**541,046,210**	**209,898,421**	**120,780,687**	**630,163,944**	**3,057,991**	**931,075,034**	**860,570,930**
	Previous Year	1,165,200,857	354,329,574	117,913,291	1,401,617,140	418,870,621	163,114,773	40,939,184	541,046,210	–	860,570,930	
	Capital Work in Progress				9,686,902					7,637,748	2,049,154	109,332,099
	Total									**10,695,739***	**933,124,188**	**969,903,029**

Internally generated
* Refer Note No. 5 below

Notes:

1 Includes a building having a Gross Block of Rs. 150,209,571/- and accumulated depreciation of Rs. 11,688,188/-, which the Company acquired, along with land from MIDC, at Mumbai, entered into necessary agreements and took possession of the building in an earlier year. The Company is taking steps for the execution of the final agreement in this respect.

2 Depreciation charged Nil (Rs. 2,041,413/-) on Computer and office equipments (included in Plant and Machinery) has been capitalised during the year.

3 Capital Work in Progress in respect of furnishing of building, software under development and includes advances.

4 Deductions include certain assets transferred in accordance with the BOT agreement for India Service Centre (Refer Note 12 of Schedule 13B).

5 Represents impairment loss in accordance with the requirements of Accounting Standard-28 "Impairment of Assets" on Account of Technological obsolescence.

6 Exchange difference on account of translation of fixed assets into INR included under additions/deductions is as follows:

Particulars		Gross Block	Depreciation
Own Assets	Plant and Machinery	1,885,852	1,814,072
	Furniture and Fixtures	(133,367)	(84,704)
	Improvements to Leasehold Premises	(104,350)	(18,749)
Leased Assets	Furniture and Fixtures	51,852	11,343
Intangible Assets	Softwares	431,034	378,094
	Total	**2,131,022**	**2,100,056**

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars		As at 31st December, 2005 Rupees	Rupees		As at 31st December, 2004 Rupees	Rupees
SCHEDULE "5" : INVESTMENTS						
A Long Term						
1. Trade Investments - Quoted (at cost)						
Nil (2,000) Shares of Rs. 10/- each fully paid up in Aptech Limited			–			20,000
2. Trade Investments - Unquoted (At Cost)						
Nil (15,576) equity shares of no par value in CNMP Networks Inc.			–			286,902
3. Non Trade Investments (At Cost)						
Quoted						
2,000 (Nil) shares of Rs. 10/- each fully paid up in Aptech Limited			20,000			–
Unquoted						
Investment in Long Term Capital Gain Bonds	Nos.			Nos.		
(Bond of Rs. 10,000/- each unless otherwise stated)						
National Bank of Agriculture and Rural Development	3,000	**30,000,000**		3,000	30,000,000	
National Housing Bank	2,000	**20,000,000**		2,000	20,000,000	
Rural Electrification Corporation	1,450	**14,500,000**		1,450	14,500,000	
			64,500,000			64,500,000
B Current Investments						
(At cost or fair value, whichever is lower)						
Non Trade Investment (Quoted)						
Ace Aviation Holdings Inc.			**1,786,263**			
2,000 (Nil) Common stock of Ace Aviation Holdings Inc.						
(Refer Note No. 15 of Schedule 13B)						
Non Trade Investment (Unquoted)						
Investment in Mutual Funds						
(Unit of Rs. 10/- each unless otherwise stated)						
Name of Mutual Fund	Units			Units		
Birla Cash Plus Institutional Plan	–	–		2,976,129	32,080,381	
DSP Merrill Lynch - DSP Floating Rate Fund - Weekly Dividend	–	–		3,154	23,232	
Franklin Templeton - Floating Rate Income Fund	12,564,500	**125,974,465**		13,454,684	134,766,772	
HDFC Prudence Fund - HDFC Cash Management Fund	–	–		5,669,338	56,530,446	
ICICI - ICICI Floating Fund	–	–		2,195,344	22,043,665	
JM Floater Fund	–	–		2,600,148	26,068,936	
Kotak - Kotak Floater	–	–		2,304,480	23,021,586	
Principal Asset Management - Cash Management Fund	–	–		3,359,451	33,600,895	
LIC Floating Rate Fund	6,962,076	**70,230,625**		–	–	
Principal Floating Rate Fund FPM	5,027,377	**50,277,293**		–	–	
Institutional Plus Growth	4,308,384	**51,076,331**		–	–	
Reliance Floating Rate Fund	9,935,838	**100,162,100**		–	–	
Reliance Liquidity Fund	1,308,984	**13,128,982**		–	–	
SBI Magnum Instit. Income - Saving Dividend	11,214,081	**112,505,270**		–	–	
UTI Floating Rate Fund - STP	6,282,193	**63,318,425**		–	–	
			586,673,491			328,135,913
Total			**652,979,754**			392,942,815
(i) Aggregate Cost/Fair Value of Quoted Investments			**1,806,263**			20,000
Aggregate Market Value of Quoted Investments			**3,202,609**			152,300
(ii) Aggregate Value of Unquoted Investments			**651,173,491**			392,922,815
			652,979,754			392,942,815

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars	As at 31st December, 2005 Rupees	As at 31st December, 2005 Rupees	As at 31st December, 2004 Rupees	As at 31st December, 2004 Rupees
SCHEDULE "6" : CURRENT ASSETS				
Sundry Debtors (Unsecured)				
Debts Outstanding for a period exceeding six months	62,884,173		70,265,956	
Other Debts	1,796,770,356		1,318,505,094	
	1,859,654,529		1,388,771,050	
Less: Provision for Doubtful Accounts	24,006,917		28,013,315	
		1,835,647,612		1,360,757,735
Sundry Debtors				
Considered Good	1,835,647,612		1,360,757,735	
Considered Doubtful	24,006,917		28,013,315	
	1,859,654,529		1,388,771,050	
Cash and Bank Balances				
Cash in Hand	39,065		502,198	
Balances with Scheduled Banks				
In Fixed Deposit Accounts [Includes Interest Accrued of Rs. 452,997/- (Rs. 219,862/-)] [Includes Deposits of Rs. 3,072,003/- (Rs. 4,209,011/-) Under Lien with banks for guarantees given by bank to various Government Authorities]	4,182,330		11,181,619	
In Exchange Earner's Foreign Currency Account	6,306,323		9,308,299	
In Current Accounts (includes remittance in transit)	83,031,976		76,075,256	
Balances with Non-scheduled Banks				
In Current Accounts	432,329,458		293,251,513	
In Fixed Deposit Accounts	8,456,532		1,017,848	
		534,345,684		391,336,733
Loans and Advances (Unsecured - Considered Good)				
Advances recoverable in cash or in kind or for value to be received.	200,144,186		185,572,666	
Deposits	182,383,457		195,636,573	
Unbilled Services	144,259,771		142,114,693	
Advance Income Tax (Refer Note No. 14 of Schedule 13B)	191,042,248		159,448,337	
		717,829,662		682,772,269
Other Current Assets				
Interest Accrued on Investments		2,455,997		2,461,250
Total		3,090,278,955		2,437,327,987

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars	As at 31st December, 2005 Rupees	As at 31st December, 2005 Rupees	As at 31st December, 2004 Rupees	As at 31st December, 2004 Rupees
SCHEDULE "7" : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
i) Total outstanding dues to Small Scale Industrial undertakings	–		–	
ii) Total outstanding dues to creditors other than Small Scale Industrial undertakings	172,736,854		165,494,330	
Liability for leased assets	579,076		889,821	
Unearned revenues	34,705,069		73,874,665	
Other liabilities	522,063,156		501,618,916	
(Other liabilities include Rs. 1,931,049/- (Rs. 8,898,334/-) being temporarily overdrawn bank balance as per books of account)				
Unclaimed dividend *	6,783,770		5,055,881	
Deposits received for leased premises	22,520,000		24,936,250	
		759,387,925		771,869,863
Provisions				
Provision for Leave Encashment	142,174,325		77,743,183	
Proposed Dividend	71,615,217		117,211,265	
Corporate Tax on Dividend	10,044,034		15,298,643	
Provision for Gratuity	8,254,965		15,500,000	
Provision for Taxation (Refer Note No. 14 of Schedule 13 B)	168,523,914		146,906,052	
Provision for Fringe Benefit Tax (Net of advances)	5,393,427		–	
Other provisions (Refer Note No. 16 of Schedule 13B)	4,500,000		–	
		410,505,882		372,659,143
Total		1,169,893,807		1,144,529,006

* This figure does not include any amount due and outstanding to be credited to Investor Education and Protection Fund.

SCHEDULES TO CONSOLIDATED PROFIT & LOSS ACCOUNT

Particulars	For the year ended 31st December, 2005 Rupees	Rupees	For the year ended 31st December, 2004 Rupees	Rupees
SCHEDULE "8" : OTHER INCOME				
Dividend from current investments		10,601,044		18,173,540
Profit on Sale of Current Investments (Net)		1,508,236		–
Interest Income				
From long term investments	3,255,561		3,466,114	
From others (Tax deducted at source Rs. 1,678,491/- (Rs. 1,835,431/-))	8,446,303		3,308,028	
		11,701,864		6,774,142
Gain on transfer/assignment- service centre (See Note No. 12 of Schedule 13B)		44,960,000		–
Profit on Sale of Fixed Assets (Net)		9,804,603		20,266,627
Exchange rate difference (Net)		–		19,268,426
Rental income (tax deducted at source Rs. 5,552,418/- (Rs. 2,301,780/-))		25,952,580		27,618,523
Miscellaneous Income (Refer Note No. 15 of Schedule 13B)		41,211,985		24,249,512
Total		145,740,312		116,350,770
SCHEDULE "9" : SOFTWARE AND DEVELOPMENT EXPENSES				
Consultant and Related Expenses		469,015,193		335,514,324
Software Expenses		566,991,005		479,843,287
Total		1,036,006,198		815,357,611
SCHEDULE "10" : EMPLOYMENT EXPENSES				
Salary and Other Allowances		3,335,749,858		2,803,893,455
Contribution to Provident and other Funds		283,089,778		235,624,217
Staff Welfare Expenses		118,784,048		84,193,007
Total		3,737,623,684		3,123,710,679
SCHEDULE "11" : ADMINISTRATION AND OTHER EXPENSES				
Rent		160,158,537		127,341,514
Rates and Taxes		8,903,328		6,741,979
Travelling and Conveyance Expenses		181,899,417		170,504,630
Electricity Charges		60,055,597		39,035,887
Communication Expenses		122,535,308		95,023,926
Repairs and Maintenance				
Buildings	9,678,758		10,412,922	
Plant and Machinery	12,316,602		9,741,669	
Others	13,254,873		11,982,667	
		35,250,233		32,137,258
Printing and Stationery		20,075,503		15,734,851
Auditors Remuneration				
Audit Fees	3,454,803		3,618,152	
Audit of US GAAP Accounts (for two years)	5,158,794		–	
Tax Audit Fees	915,980		36,690	
Limited reviews, certification work, taxation matters etc.	1,718,419		553,265	
Out of Pocket Expenses	69,953		58,841	
		11,317,949		4,266,948
Legal and Professional Fees		53,647,559		60,333,545
Advertisement and Publicity		10,723,849		19,673,805
Seminar and Conference Expenses		53,349,592		37,182,970
Bank and Other Charges		17,448,004		11,403,770
Exchange Rate Differences (Net)		50,590,692		–
Directors' Sitting Fees		524,930		468,729
Insurance Premium		28,051,904		19,512,479
Loss on sale of Investment		–		8,188,645
Donation		4,304,751		–

SCHEDULES TO CONSOLIDATED BALANCE SHEET

Particulars	For the year ended 31st December, 2005 Rupees	For the year ended 31st December, 2005 Rupees	For the year ended 31st December, 2004 Rupees	For the year ended 31st December, 2004 Rupees
Fixed assets Written off		**1,369,260**		–
Debts and Advances Written off		**961,098**		6,211,350
Provision for Doubtful Debts		**9,370,968**		7,872,825
(Net of Bad Debts of Rs. 12,233,293/- Written off)				
Provision for Impairment Loss		**10,695,739**		–
Preliminary Expenses Written off		**–**		397,648
Staff Recruitment Expenses		**24,452,055**		32,183,920
Service Charges		**32,543,977**		14,505,425
Investments Written off		**299,171**		–
Miscellaneous Expenses		**30,794,807**		39,643,207
Note : Miscellaneous Expenses include Stamp Duty & Filing Fees, Hiring Charges, Registrar and Share Transfer Expenses, Membership and Subscription, Carriage and Forwarding etc.				
Total		**929,324,228**		748,365,311

SCHEDULE "12" : INTEREST EXPENSES

Particulars	For the year ended 31st December, 2005 Rupees	For the year ended 31st December, 2005 Rupees	For the year ended 31st December, 2004 Rupees	For the year ended 31st December, 2004 Rupees
On Fixed Loans		**6,416,184**		2,704,805
Others		**755,286**		459,674
Total		**7,171,470**		3,164,479

Schedule "13" – Significant Accounting Policies and Notes Forming Part of Consolidated Accounts

A) SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of financial statements

The accompanying consolidated financial statements of Hexaware Technologies Limited ("the holding company") and its wholly owned subsidiaries ("the Company") are prepared under the historical cost convention in accordance with generally accepted accounting principles applicable in India (Indian GAAP), the provisions of the Companies Act, 1956 and the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent possible in the same format as that adopted by the holding company for its separate financial statements.

The financial statements of subsidiaries used in the consolidation are drawn upto the same reporting date as that of the holding company, namely 31st December, 2005.

2. Principles of Consolidation

The financial statements of the holding company and its subsidiaries have been consolidated on a line by line basis by adding together the book value of like items of assets, liabilities, income and expenses, after eliminating intra-group balances, intra-group transactions and any unrealised gain or losses on balances remaining within the group in accordance with the Accounting Standard (AS 21) "Consolidated Financial Statements" issued by Institute of Chartered Accountants of India.

The financial statements of the holding company and its subsidiaries have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

The excess of the cost to the holding company of its investments in each of the subsidiaries over and above the share of equity in the respective subsidiary, on the acquisition date, is recognised in the financial statements as goodwill.

3. Use of Estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles, requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Difference between actual results and estimates are recognised in the period in which the results are known/materialise.

4. Revenue Recognition

i) Revenues from software solutions and consulting services are recognised on specified terms of contract in case of contract for development of software undertaken on time basis. In case of fixed price contracts revenue is recognised using the percentage of completion method of accounting, unless work completed cannot be reasonably estimated. Provisions for estimated losses on such engagements are made during the year in which a loss becomes probable and can be reasonably estimated. Amount received or billed in advance of services performed are recorded as unearned revenue. Unbilled services included in loans and advances represents amount recognised based on services performed in advance of billing in accordance with contract terms.

Revenue from business process outsourcing services arises from unit-priced contracts and engagement services. Such revenue is recognised on completion of the related services and is billed in accordance with the specific terms of the contract with the client. Revenue from per incident services is based on the performance of specific criteria at contracted rates.

ii) Dividend income is recognised when right to receive is established.

5. Fixed Assets

Fixed assets are valued at cost of acquisition less accumulated depreciation, amortisation and impairment if any. Cost includes all expenses incurred for acquisition of assets.

6. Depreciation and Amortisation

Depreciation on fixed assets is provided on straight-line method based on the estimated useful lives of the assets as determined by the management except buildings, which are depreciated over the useful lives as prescribed under Schedule XIV to the Companies Act, 1956.

The management estimates the useful lives for various fixed assets as follows :

Asset Class	Estimated useful Life
Computers and Software (included in Plant and Machinery)	3 years
Office Equipment (included in Plant and Machinery)	5 years
Electrical Fittings (included in Plant and Machinery)	8 years
Furniture and Fixtures (owned and leased)	8 years
Vehicles	4 years
Leasehold Land	Over the lease period
Lease Improvement	Over the lease period
Intangible assets – Software	3 years

7. **Investments**

Long term investments are stated at cost. Provision is made for permanent diminution in the value of long-term investments. Current investments are carried at cost or fair value, whichever is lower.

8. **Foreign Currency Transaction/Translation**

Transactions in foreign currency are recorded at the original rate of exchange in force at the time transactions are effected. Exchange differences arising on repayment of foreign currency liabilities incurred for the purpose of acquiring imported fixed assets are adjusted in the carrying amount of the respective fixed assets. Exchange differences arising on settlement of other transactions are recognised in the Profit and Loss Account.

Monetary items (other than those related to acquisition of imported fixed assets) denominated in foreign currency are restated using the exchange rate prevailing at the date of the Balance Sheet and the resulting net exchange difference is recognised in the Profit and Loss Account. The exchange gain/loss arising on restatement of foreign currency liability relating to imported fixed assets is adjusted in the value of the related fixed assets.

In case of monetary items which are covered by forward exchange contracts, the difference between the exchange rate on the date of such contracts and the year end rate is recognised in the Profit and Loss Account. Any profit or loss arising on cancellation of forward exchange contract is recognised as income or expense of the year. Premium/Discount arising on such forward exchange contracts is amortised as income/expense over the life of contract.

Foreign Branches

In respect of the foreign branches, being integral foreign operations, all revenues and expenses (except depreciation) during the year are reported at average rate. Monetary assets and liabilities are restated at the year-end exchange rate. Non-monetary assets and liabilities are stated at the rate prevailing on the date of the transaction. Balance in 'head office' account whether debit or credit is translated at the amount of the balance in the 'foreign branch' in the books of the head office. Net gain/loss on foreign currency translation is recognised in the Profit and Loss Account.

9. **Translation and Accounting of Financial Statements of Foreign subsidiaries**

The local accounts of the subsidiaries are maintained in local currency of the country of incorporation. The financial statements are translated to Indian Rupees in accordance with the guidance issued by the Institute of Chartered Accountants of India in the background material to AS 21 as follows.

i) All income and expenses are translated at the average rate of exchange prevailing during the year.

ii) Assets and liabilities are translated at the closing rate on the Balance Sheet date.

iii) Share Capital and share application money are translated at historical rate.

iv) The resulting exchange differences are accumulated in currency translation reserve.

10. **Retirement Benefits**

The provision for retirement benefits such as Provident Fund, Gratuity, Superannuation and other funds is made for employees from the date of their respective appointment.

i) Company's contribution to Provident Fund, Superannuation Fund (upto 31st March, 2005) and other funds is charged to Profit and Loss Account.

ii) The amount of Gratuity liability as ascertained on the basis of actuarial valuation and funded through a scheme (Group Gratuity) administered by Life Insurance Corporation of India is charged to Profit and Loss Account.

iii) Provision is made towards liability for leave encashment on the basis of Company's policy in this respect.

11. Borrowing Cost

Borrowing cost attributable to the acquisition or construction of qualifying assets is capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue.

12. Leases

Finance Lease

Assets taken on finance lease are accounted for as fixed assets in accordance with Accounting Standard (AS 19) "Leases" issued by The Institute of Chartered Accountants of India. Accordingly, the assets are accounted at fair value. Lease payments are apportioned between finance charge and reduction in outstanding liability.

Operating Leases

Assets taken on lease under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under operating leases are recognised as expenses on accrual basis in accordance with the respective lease agreements.

Furnished premises leased out under operating lease are capitalised in the books of the Company. Lease income is recognised in Profit and Loss Account over the lease term.

13. Taxes on Income

Income Taxes are accounted for in accordance with Accounting Standard (AS 22) "Accounting for Taxes on Income" issued by The Institute of Chartered Accountants of India. Tax expense comprises both current tax and deferred tax. Current tax is measured at the amount expected to be paid or recovered from the tax authorities using the applicable tax rates. Deferred tax assets and liabilities are recognised for future tax consequence attributable to timing difference between taxable income and accounting income that are measured at relevant enacted or substantively enacted tax rates. At each Balance Sheet date the Company reassesses unrealised deferred tax assets, to the extent they become reasonably certain or virtually certain of realisation, as the case may be.

14. Impairment of fixed assets

At the end of each year, the Company determines whether a provision should be made for impairment loss on fixed assets by considering the indications that an impairment loss may have occurred in accordance with Accounting Standard (AS 28) ''Impairment of Assets'' issued by the Institute of Chartered Accountants of India. Where the recoverable amount of any fixed assets is lower than its carrying amount, a provision for impairment loss on fixed assets is made for the difference.

15. Intangible Assets

Internally generated intangible asset arising from development activity is recognised at cost on demonstration of its technical feasibility, the intention and ability of the Company to complete, use or sell it, only if it is probable that the asset would generate future economic benefit and the expenditure attributable to the said assets during its development can be measured reliably. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

16. Provisions, Contingent Liabilities and Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised, but are disclosed in the notes. Contingent assets are neither recognised nor disclosed in the financial statements.

B) Notes Forming Part of Consolidated Accounts

1. Description of Business

The Company is engaged in the business of providing software, application, development, maintenance, re-engineering, consultancy and business process outsourcing services.

2. Subsidiaries to Consolidation

The consolidated financial statements present the consolidated accounts of Hexaware Technologies Limited with the following subsidiaries

Name of the Subsidiary company	Country of Incorporation	Extent of Holding (%) as on 31.12.2005
Hexaware Technologies Inc.	United States of America	100%
Specsoft Consulting Inc.	United States of America	100%
Hexaware Technologies UK Ltd.	United Kingdom	100%
Hexaware Technologies Asia Pacific Pte Limited.	Singapore	100%
Hexaware Technologies Gmbh.	Germany	100%
Hexaware Technologies Canada Limited.	Canada	100%
Caliber Point Business Solutions Ltd.	India	100%
Specsoft Technologies India Ltd.	India	100%

Note: Subsequent to the year end, Specsoft Consulting Inc. has been merged with Hexaware Technologies Inc. (HTI). (Refer Note No. 13 below)

3. Contingent Liabilities (Amount in Rupees)

	Particulars	As at 31.12.2005	As at 31.12.2004
A	Counter Guarantees outstanding in respect of guarantees given by bank on behalf of the Company	8,348,528	5,927,031
B	Letter of Credit outstanding	2,544,036	686,478
C	Claims against the Company not acknowledged as Debts	54,485,185	13,720,300
D	Income tax disputed in appeal and pending decision, Company is hopeful of getting a favourable decision	3,337,430	1,612,736

4. Estimated amount of contracts remaining to be executed on capital account not provided for (Net of Advances) Rs. 6,830,003/- (Previous year Rs. 70,893,023/-).

5. The shareholders of the Company, at their meeting held on 4th April, 2005 approved the sub-division of present equity shares having nominal face value of Rs. 10/- per share into five equity shares of face value of Rs. 2/- per share. Accordingly , the authorised share capital of the Company after subdivision is 175,000,000 equity shares of Rs. 2/- each aggregating to Rs. 350,000,000/- and 3,000,000 redeemable preference shares of Rs. 100/- each aggregating Rs.300,000,000/- and during the year, has issued capital of 119,358,695 equity shares of Rs. 2/- per share as subdivided.

6. Income Taxes

The breakup of the deferred tax assets and deferred tax liability is as under:

(Amount in Rupees)

Particulars	As at 31.12.2005	As at 31.12.2004
Deferred Tax Assets		
Provision for doubtful accounts	6,350,640	10,171,980
Depreciation	270,240	6,216,210
Provision for Leave Encashment	24,231,520	17,388,000
Alternative Minimum Tax Credit ("AMT")	–	1,260,630
Net operating losses carry forward	681,746	26,766,003
Others	5,224,640	5,607,630
Total	**36,758,786**	**67,410,453**
Deferred Tax Liabilities		
Accumulated depreciation	7,118,251	678,009
Total	**7,118,251**	**678,009**

7. a) The Company takes on lease offices space, accommodation and vehicles for its employees under operating leases for a period ranging between one to five years. The lease rentals recognised in the Profit and Loss Account for the year are Rs. 151,723,011/- (Previous year Rs. 127,341,514/-). The future minimum lease payments and payment profile of non-cancellable operating leases are as follows:

	Total minimum lease payments outstanding as on 31.12.2005 (Rs.)	**Total minimum lease payments outstanding as on 31.12.2004 (Rs.)**
Not later than one year	107,541,520	167,715,053
Later than one year but not later than five years	136,362,789	220,117,855
Total	**243,904,309**	**387,832,908**

b) The Company has taken furniture and fixtures on finance leases, which expire in August 2007. The lease rentals are charged on the basis of agreed terms. The said furniture is capitalized using interest rates determined at the inception of the lease.

The aggregate maturities under these finance leases are as follows:

(Amount in Rupees)

	Total minimum lease Payments outstanding		**Future interest outstanding**		**Present value of minimum lease payments**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Not later than one year	390,724	377,103	30,833	43,992	359,891	333,111
Later than one year but not later than five years	227,922	597,050	14,999	40,340	212,923	556,710
	618,646	974,153	45,832	84,332	572,814	889,821

c) The Company has given furnished premises on operating lease for a period of three years, the income from which amounting to Rs. 25,952,580/- (Previous year Rs. 27,618,523/-) is included in 'Other Income'. Details of assets given on lease is as under :

(Amount in Rupees)

Type of Assets	**Gross block as on 31.12.2005**	**Accumulated depreciation upto 31.12.2005**	**Depreciation provided for the year 2005**
Premises	105,918,975 (105,918,975)	6,442,527 (4,716,048)	1,726,479 (1,132,663)
Plant and Machinery	32,884,672 (32,884,672)	11,282,196 (5,292,908)	5,989,288 (4,602,445)
Furniture and Fixtures	42,589,065 (42,589,065)	10,977,446 (5,479,653)	5,497,793 (4,761,770)

The future minimum lease rentals receivable for non-cancellable operating leases are as follows :

(Amount in Rupees)

	Total minimum lease receivables outstanding as on 31.12.2005	**Total minimum lease receivables outstanding as on 31.12.2004**
Not later than one year	17,521,641	20,716,063
Later than one year but not later than five years	–	14,092,626
	17,521,641	**34,808,689**

8. **ESOP**

(a) 1,417,185 (1,872,126) warrants under Employee Stock Option Scheme–1999 aggregating to Rs. 425,155/- (Rs. 561,637/-) of Rs. 0.30 each were allotted. Each block of 3 warrants entitles the holder to get five equity shares of Rs. 2/- each as sub-divided at a price of Rs. 45/-, within a period of ten years commencing from 1st February, 2001 (exercise period) in accordance with the said scheme. The particulars of warrants granted and lapsed under the Scheme are tabulated below.

(b) 1,163,983 (1,580,470) Options were allotted under Hexaware Technologies Limited – Employee Stock Option Plan–2002 ('the Plan') at an exercise price being the market price on the date of grant of options or average closing price on the primary stock exchanges, whichever is higher or such price that may be determined by the Remuneration and Compensation Committee ('Committee'). Each option entitles the holder to exercise the right to apply for and seek allotment of five equity shares of Rs. 2/- each as sub-divided. The options shall vest in four equal instalments or as determined at the discretion of the Committee. No options shall be granted after 31st March, 2009. The particulars of options granted and lapsed under the Scheme are tabulated below.

	Warrants– 1999 (Warrants)	**Options–2002**
Opening Balance	847,257 (1,616,437)	1,491,058 (1,836,517)
Additions during the year	– (–)	242,800 (254,400)
Exercised during the year	454,941 (759,180)	416,487 (427,297)
Cancelled during the year	39,282 (10,000)	157,968 (172,562)
Closing Balance	353,034 (847,257)	1,159,403 (1,491,058)

Figures for the previous year are given in brackets

9. **Related Parties:**

Names of related parties and description of relationship:

Key Management Personnel

Mr. Atul K. Nishar – Executive Chairman

Mr. Rusi Brij – Vice Chairman and Chief Executive Officer

Mr. P. K. Sridharan – Executive Director

Mr. Ashok Bildikar – President and Executive Director (Caliber Point Business Solutions Ltd.)

Mr. Sunil Surya – Whole Time Director (Hexaware Technologies UK Ltd.)

Mr. Manab Sen – Whole Time Director (Specsoft Consulting Inc.)

Dr. (Mrs.) Alka A. Nishar – Director

Mr. Somnath Ghosh – Whole Time Director (till 2nd July, 2004) (Specsoft Consulting Inc.)

Others (entities in which key management personnel have control and/or significant influence)

Hexaware Technologies Employee Stock Option Trust

(Amount in Rupees)

Sr. No.	Description of Nature of Transaction	Key Management Personnel	Others	Total
1	**Remuneration**			
	Mr. Atul K. Nishar	13,091,926 (6,447,608)	– (–)	13,091,926 (6,447,608)
	Mr. Rusi Brij	23,945,318 (22,487,234)	– (–)	23,945,318 (22,487,234)
	Dr. (Mrs.) Alka A. Nishar	7,600,019 (6,400,016)	– (–)	7,600,019 (6,400,016)
	Mr. P. K. Sridharan	6,630,092 (5,644,648)	– (–)	6,630,092 (5,644,648)
	Mr. Somnath Ghosh	– (5,555,114)	– (–)	– (5,555,114)
	Mr. Ashok Bildikar	4,853,995 (1,157,130)	– (–)	4,853,995 (1,157,130)
	Mr. Sunil Surya	32,697,922 (16,680,184)	– (–)	32,697,922 (16,680,184)
	Mr. Manab Sen	9,885,811 (–)	– (–)	9,885,811 (–)
2	**Loan given**			
	Opening balance as on January 1	5,041,832 (9,225,238)	561,638 (1,080,000)	5,603,470 (10,305,238)
	Add: Given during the year	4,829,584 (259,210)	– (–)	4,829,584 (259,210)
	Less: Repaid during the year	4,902,700 (4,442,616)	136,483 (518,362)	5,039,183 (4,960,978)
	Closing balance as on December 31	4,968,716 (5,041,832)	425,155 (561,638)	5,393,871 (5,603,470)

Figures for the previous year given in brackets.

10. Segments:

(Amount in Rupees)

Primary Segment: Business Segments					
	Airlines and Transport	Finance Banking and Insurance	Manufacturing and Enterprise Solution	Others	Total
Segment Revenue	1,093,560,691 (897,889,858)	2,900,199,284 (2,451,611,890)	2,192,066,374 (1,578,892,807)	600,789,801 (530,510,767)	6,786,616,150 (5,458,905,322)
Segment Results	167,332,303 (162,795,131)	515,317,188 (300,767,459)	368,503,104 (288,271,651)	32,509,445 (19,637,480)	1,083,662,040 (771,471,721)
Less: Unallocable expenses					209,898,421 (161,073,360)
Add: Other Income					145,740,312 (116,350,770)
Less: Interest					7,171,470 (3,164,479)
Profit before tax					1,012,332,461 (723,584,652)
Less: Provision for tax					
- Current income tax/Wealth tax/Fringe benefit tax					59,515,396 (26,242,592)
- Deferred tax					38,963,957 (59,978,945)
(-) Short/Excess provision for tax written back (Net)					1,109,546 (5,105,392)
Profit after tax					914,962,654 (632,257,723)

Other Information - Segment Assets					
	Airlines and Transport	**Finance Banking and Insurance**	**Manufacturing and Enterprise Solution**	**Others**	**Total**
Debtors	230,562,334 (199,593,708)	796,182,973 (634,689,637)	706,030,676 (412,612,686)	102,871,629 (113,861,704)	1,835,647,612 (1,360,757,735)
Secondary Segment – Geographic Segment					
	USA	**Europe**	**India**	**Rest of the World**	**Total**
Revenue attributable to location of customers	4,970,956,676 (3,889,217,518)	1,604,707,423 (1,383,899,258)	93,573,490 (79,545,681)	117,378,561 (106,242,865)	6,786,616,150 (5,458,905,322)
Segment assets based on their locations	1,158,739,052 (1,031,895,349)	785,747,523 (623,252,059)	2,731,576,080 (2,062,053,604)	37,079,028 (29,462,812)	4,713,141,683 (3,746,663,824)
Additions to fixed assets (including capital work in progress)	6,806,424 (22,090,460)	6,931,903 (8,503,100)	334,789,424 (433,049,078)	179,716 (19,035)	348,707,467 (463,661,673)

Notes:

i) The Company has identified business segment as the primary segment. Segments have been identified taking into account the nature of services, differing risks and returns, the organizational structure and the internal reporting system.

ii) Assets (except debtors) and liabilities contracted have not been identified to any of the reportable segments as the assets are used interchangeably between segments and it is not practicable to reasonably allocate the liabilities to individual segments. Accordingly, no disclosure relating to segment assets, except debtors, and segment liabilities are made.

iii) Figures for the previous year are given in brackets.

11. Earnings Per Share (EPS):

The components of basic and diluted earnings per share are as follows:

(Amount in Rupees)

Particulars	**31st December, 2005**	**31st December, 2004**
Net Profit after Tax	913,853,108	637,363,115
(Add)/Less : Income Tax – earlier years	(1,109,546)	5,105,392
Net Income available to equity shareholders	914,962,654	632,257,723
Weighted average outstanding equity shares considered for basic EPS (**Nos.**)	117,835,366	114,658,785
Add: Effect of dilutive issue of stock options (including share application money received on exercise of options) (**Nos.**)	3,849,339	11,022,580
Considered for diluted EPS	121,684,705	125,681,365 (Refer note 5 above)
Earnings Per Share		
Basic	7.76	5.51
Diluted	7.52	5.03 (Refer note 5 above)

EPS as of 31st December, 2004 has been recomputed, considering the subdivision of shares during the year, in accordance with the requirements of Accounting Standard (AS 20) "Earnings per share".

12. The Company, had, in an earlier year entered into an implementation, operation and acquisition agreement ('BOT agreement') with a party for the purpose of setting up of an India Service Center ('ISC') with an option to the said party to acquire such service center at later date. During the year, the party, in terms of the BOT agreement, exercised the option and acquired the ISC on slump sale basis as a going concern. Accordingly, the said party has acquired all rights, title and interest in certain assets as also obligations and liabilities as specified in the agreement on such transfer/assignment on a going concern basis on slump price. The gain on such transfer / assignment under the BOT agreement aggregating to Rs. 44,960,000/- consisting of buyout fees has been credited and disclosed under 'other income' (Refer Schedule No. `4' and '8')

13. Subsequent to year end, Specsoft Consulting Inc. ('SCI'), a subsidiary company of the holding company, merged with another subsidiary company Hexaware Technologies Inc. (HTI). Though SCI had accumulated losses and its networth had eroded, the holding company expects an improvement in the customer base, substantial savings in cost and synergies in operations.

14. Advance income tax paid and provision for taxation, which hitherto, were disclosed on net basis, have during the year been grossed up. Accordingly, advance income tax has been disclosed under 'loans and advances' and provision for taxation has been disclosed under `provisions'. Previous year figures have also been regrouped on that basis.

15. During the year, Hexaware Technologies Inc. a subsidiary company received 2,000 shares of Ace Aviation Holding, Inc. as per the settlement order by court on bankruptcy petition filed by one of the Company's customers in the previous year. The subsidiary company has written off debts due from such customer in the previous year. The subsidiary has accounted such investments in its books at the fair value on the date of allotment and correspondingly recognized such amounts as "Other Income". (Refer Schedules 5 and 8)

16. "Other Provision" includes provision towards expenses in relation to leased premises based on substantial degree of estimation by the management. The details of movement thereof are as under:

(Amount in Rupees)

	2005
Opening provision	–
Provision made during the year	4,500,000
Utilization during the year	–
Closing provision	4,500,000

Actual outflow is expected in the next financial year.

17. The Company has discontinued contribution to Super Annuation Fund from 1st April, 2005 in accordance with the decision taken by the management.

18. Figures for the previous year have been regrouped/rearranged wherever necessary to correspond with the figures of current year and are disclosed in brackets. Amounts and other disclosures for the preceding year are included as an integral part of the current year's financial statements and are to be read in relation to the amounts and other disclosures relating to the current year.

Signature to Schedules 1 to 13
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

For and on behalf of the Board

P. R. Barpande
Partner

Atul K. Nishar *(Executive Chairman)*
Dr. K. K. Anand *(Director)*
L. S. Sarma *(Director)*
Dr. (Mrs.) Alka Nishar *(Director)*

Place : Mumbai
Date : 2nd February, 2006

Rusi Brij *(Vice-Chairman & CEO)*
P. K. Sridharan *(Executive Director)*
Rajesh B. Ghonasgi *(Chief Financial Officer)*
Naishadh Desai *(Company Secretary)*

AUDITORS' REPORT

To the shareholders of Hexaware Technologies Limited

1. We have audited the attached Balance Sheet of Hexaware Technologies Limited as at 31st December, 2005, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. 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 audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. 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 audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:

   a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books;

   c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   e) On the basis of the written representations received from the directors as on 31st December, 2005 and taken on record by the board of directors, we report that none of the directors is disqualified as on 31st December, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the accounting policies and notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2005;

      ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii) in the case of the Cash Flow Statement, of the cash flows for the year ended as on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Place : Mumbai
Dated : 2nd February, 2006

ANNEXURE TO THE AUDITORS' REPORT

Re: Hexaware Technologies Limited
Referred to in Paragraph 3 of our report of even date

i) In respect of its fixed assets:

   a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   b) As per information and explanation given to us, physical verification of fixed assets was carried out by the management during the year and no material discrepancies were noticed by the management on such verification. In our opinion, the frequency of verification is reasonable.

   c) During the year, the Company has disposed off by way of transfer/assignment, a major part of fixed assets pertaining to India Service Center as detailed in note 15 of Schedule 13(b). According to information and explanations given to us, we are of the opinion that the said disposal has not affected the going concern status of the Company.

ii) The activities of the Company and the nature of its business do not involve the use of inventory. Accordingly, clause (ii) of the Companies (Auditor's Report) Order is not applicable.

iii) The Company has not granted or taken any loan secured/unsecured to/from companies, firms or parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, clause (iii) of the Companies (Auditor's Report) Order is not applicable to the Company.

iv) In our opinion, and according to the information and explanations given to us, there is an internal control system commensurate with the size of the Company and nature of its business for purchase of fixed assets and sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. During the course of our audit we have not observed any continuing failure to correct major weaknesses in internal control system.

v) According to the information and explanation given to us, there are no contracts or arrangements referred to in Section 301 of the Companies Act, 1956, that need to be entered in a register required to be maintained under that section. Therefore, the provisions of clause (v) are not applicable to the Company.

vi) The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of Sec. 58A, 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposit) Rules, 1975 with regard to the deposits accepted from the public are not applicable to the Company.

vii) In our opinion, the internal audit functions carried out during the year, by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and nature of its business.

viii) According to the information and explanations given to us, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act. Therefore the provisions of clause (viii) of the Companies (Auditor's Report) Order are not applicable to the Company.

ix) a) The Company has generally been regular in depositing with the appropriate authorities, undisputed statutory dues including provident fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess, Investor Education and Protection Fund and any other material statutory dues applicable to it. According to the information and explanation given to us, no undisputed amounts payable in respect of income tax, wealth tax, service tax, sales tax, customs duty, excise duty and cess were in arrears as at 31st December, 2005 for a period of more than six months from the date they became payable.

   b) According to information and explanations given to us there are no dues of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess, which have not been deposited with the appropriate authorities on account of any dispute except in case of income tax demands amounting to Rs. 1,612,736/- related to assessment year 2001-02 and Rs.1,724,694/- related to assessment year 2002-03 under the Income Tax Act, 1961, which are pending with the Income Tax Appellate Tribunal and the Commissioner of Income Tax (Appeals) respectively.

x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in such financial year and in the immediately preceding financial year.

xi) In our opinion and according to the information and explanations given to us, the Company has not taken any loans from banks and financial institutions and hence the question of default in repayment of dues does not arise.

xii) According to the information and explanations given to us, the Company has not given any loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence the question of maintenance of adequate records for this purpose does not arise.

xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause (xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xv) In our opinion, the terms and conditions on which the Company has given a guarantee for loan taken by a subsidiary company from a bank is not prejudicial to the interest of the Company.

xvi) The Company has not taken any term loan during the year and hence the question of applying term loans for the purpose for which the loans were obtained does not arise.

xvii) According to information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, funds raised on short term basis have, prima-facie, not been used for long term investment.

xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.

xix) The Company has not issued any debentures during the year, hence the question of creation of security or charge in respect of debentures issued does not arise.

xx) The Company has not raised any money by way of public issues during the year.

xxi) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Place : Mumbai
Dated : 2nd February, 2006

BALANCE SHEET AS AT 31ST DECEMBER, 2005

Particulars	Schedule No.	As At 31st December, 2005 Rupees	Rupees	As At 31st December, 2004 Rupees	Rupees
SOURCES OF FUNDS					
Share Holders' Funds:					
A) Share Capital	"1"	238,717,390		233,036,050	
B) Share Warrants (Refer Note No. 4(a) of Schedule 13B)		425,155		561,637	
C) Share Application Money		685,596		5,642,597	
D) Reserves and Surplus	"2"	3,020,199,902		2,378,095,342	
			3,260,028,043		2,617,335,626
Loan Funds :					
Secured Loans	"3"		10,659,101		22,142,545
Total			3,270,687,144		2,639,478,171
APPLICATION OF FUNDS					
Fixed Assets:	"4"				
A) Gross Block		1,259,183,980		1,142,792,304	
B) Less: Depreciation		499,810,548		432,264,715	
C) Net Block		759,373,432		710,527,589	
D) Capital Work-in-progress		—		93,797,000	
			759,373,432		804,324,589
Investments:	"5"		1,059,882,375		791,344,797
Current Assets, Loans and Advances:	"6"				
A) Sundry Debtors		1,384,014,194		885,961,925	
B) Cash and Bank Balances		82,521,353		76,402,389	
C) Loans and Advances		830,451,467		708,384,357	
D) Other Current Assets		2,450,061		2,461,250	
		2,299,437,075		1,673,209,921	
Less:					
Current Liabilities and Provisions:	"7"				
A) Current Liabilities		564,350,054		328,853,208	
B) Provisions		283,655,684		300,547,928	
		848,005,738		629,401,136	
Net Current Assets			1,451,431,337		1,043,808,785
Total			3,270,687,144		2,639,478,171
Significant Accounting Policies and Notes Forming Part of Accounts	"13"				

Schedules 1 to 13 form an Integral Part of the Accounts.
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

P. R. Barpande
Partner

Place : Mumbai
Date : 2nd February, 2006

For and on behalf of the Board

Atul K. Nishar *(Executive Chairman)*
Dr. K. K. Anand *(Director)*
L. S. Sarma *(Director)*
Dr. (Mrs.) Alka Nishar *(Director)*

Rusi Brij *(Vice-Chairman & CEO)*
P. K. Sridharan *(Executive Director)*
Rajesh B. Ghonasgi *(Chief Financial Officer)*
Naishadh Desai *(Company Secretary)*

Hexaware TECHNOLOGIES

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2005

Particulars	Schedule No.	For The Year Ended 31st December, 2005 Rupees	Rupees	For The Year Ended 31st December, 2004 Rupees	Rupees
INCOME					
Software and Consultancy		3,557,934,570		2,540,418,002	
Other Income	"8"	142,958,287		124,105,002	
			3,700,892,857		2,664,523,004
EXPENDITURE					
Software and Development Expenses	"9"	402,986,382		277,599,737	
Employment Expenses	"10"	1,763,960,414		1,373,634,412	
Administration and Other Expenses	"11"	560,653,906		416,140,432	
Interest	"12"	1,613,249		2,981,873	
Depreciation		177,272,128		142,466,794	
			2,906,486,079		2,212,823,248
Profit Before Tax			794,406,778		451,699,756
Less: Provision for Taxation					
– Income Tax - Current		5,050,000		13,745,893	
– Fringe Benefit Tax		13,875,000		—	
– Wealth Tax		83,120		250,000	
			19,008,120		13,995,893
Profit After Tax			775,398,658		437,703,863
Income Tax - Earlier Years			—		4,364,652
Add : Balance brought forward from Previous Year			392,416,137		141,586,834
Balance Available for Appropriation			1,167,814,795		574,926,045
Appropriations :					
Interim Dividend		70,996,483		—	
Proposed Dividend		71,615,217		117,211,265	
Dividend Tax		21,141,528		15,298,643	
Transfer to General Reserve		100,000,000		50,000,000	
			263,753,228		182,509,908
Balance carried to Balance Sheet			904,061,567		392,416,137
Earnings Per Share (Refer Note No. 10 of Schedule 13B)					
– Basic			6.58		3.78
– Diluted			6.37		3.45
Significant Accounting Policies and Notes Forming Part of Accounts	"13"				

Schedules 1 to 13 form an Integral Part of the Accounts.
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

For and on behalf of the Board

P. R. Barpande
Partner

Atul K. Nishar *(Executive Chairman)*
Dr. K. K. Anand *(Director)*
L. S. Sarma *(Director)*
Dr. (Mrs.) Alka Nishar *(Director)*

Place : Mumbai
Date : 2nd February, 2006

Rusi Brij *(Vice-Chairman & CEO)*
P. K. Sridharan *(Executive Director)*
Rajesh B. Ghonasgi *(Chief Financial Officer)*
Naishadh Desai *(Company Secretary)*

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2005

		Current Year Rupees	Current Year Rupees	Previous Year Rupees
A	**Cash Flow from operating activities**			
	Net profit before tax	794,406,778		451,699,756
	Adjustments for:			
	Depreciation	177,272,128		142,466,794
	Dividend income	(10,513,342)		(18,173,540)
	Interest income	(12,782,800)		(16,321,372)
	ESOP warrants cancelled	–		(220,000)
	(Profit)/loss on sale of investments	(1,503,411)		8,188,645
	Gain on Transfer/Assignment- Service Centre	(44,960,000)		–
	Provision for diminution in value of investment in Subsidiary	–		13,405,714
	Profit on sale of fixed assets (net)	(8,897,686)		(20,710,369)
	Interest expense	1,613,249		2,981,873
	Operating profit before working capital changes	894,634,916		563,317,501
	Adjustments for:			
	Trade and other receivables	(609,949,238)		(424,856,730)
	Trade and other payables	263,868,089		86,558,604
	Cash generated from operations	548,553,767		225,019,375
	Direct taxes paid	(25,318,980)		(17,229,489)
	Interest received	12,793,989		16,321,372
	Net Cash from operating activities		536,028,776	224,111,258
B	**Cash Flow from investing activities**			
	Additions to fixed assets	(194,200,236)		(295,688,846)
	Purchase of investments	(940,561,694)		(1,244,408,772)
	Share application money paid	–		(56,212,478)
	Proceeds from sale of investments	673,527,527		1,166,110,255
	Gain on Transfer/Assignment-Service Centre	44,960,000		
	Income from investments	10,513,342		18,173,540
	Proceeds from sale of fixed assets	70,776,950		90,473,337
	Net Cash used in investing activities		(334,984,111)	(321,552,964)
C	**Cash Flow from financing activities**			
	Proceeds from issue of shares	30,361,391		30,875,766
	Share application money	685,596		5,642,597
	Interest paid	(1,613,249)		(2,981,873)
	Dividend paid	(212,875,995)		(45,987,825)
	Repayments of long term and other borrowings	(11,483,444)		(3,806,089)
	Net cash used in financing activities		(194,925,701)	(16,257,424)
	Net Increase/(Decrease) in cash and cash equivalents		6,118,964	(113,699,130)
	Cash and cash equivalents at the beginning of the year		76,402,389	190,101,519
	Cash and cash equivalents at the end of the year (Refer Note No. 1 below)		82,521,353	76,402,389

Notes:

1. Components of cash and cash equivalents included in the Cash Flow Statement comprise the following:

	Current Year Rupees	Previous Year Rupees
– Cash and Bank Balances (Refer Schedule 6 of the Balance Sheet)	82,403,901	76,259,448
– Unrealised gain on foreign currency cash and cash equivalents	117,452	142,941
Total cash and cash equivalents	82,521,353	76,402,389

2. Interest income on bank deposits etc. is classified as cash flow from operating activities.
3. Purchase of Fixed Assets (including movements in Capital work in progress) are considered as a part of investing activities.
4. The Cash Flow Statement has been prepared in accordance with the requirements of Accounting Standard 3 "Cash Flow Statement" (AS 3) issued by the Institute of Chartered Accountants of India.

As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

P. R. Barpande
Partner

Place : Mumbai
Date : 2nd February, 2006

For and on behalf of the Board

Atul K. Nishar	**Dr. K. K. Anand**	**L. S. Sarma**	**Dr. (Mrs.) Alka Nishar**
(Executive Chairman)	*(Director)*	*(Director)*	*(Director)*
Rusi Brij	**P. K. Sridharan**	**Rajesh B. Ghonasgi**	**Naishadh Desai**
(Vice-Chairman & CEO)	*(Executive Director)*	*(Chief Financial Officer)*	*(Company Secretary)*

SCHEDULES TO BALANCE SHEET

Particulars	As At 31st December, 2005 Rupees	Rupees	As At 31st December, 2004 Rupees	Rupees
SCHEDULE "1": SHARE CAPITAL				
AUTHORISED				
175,000,000 (35,000,000) Equity Shares of Rs. 2/- (Rs. 10/-) each.		**350,000,000**		350,000,000
(As subdivided - Refer Note No. 3 of Schedule 13B)				
3,000,000 (3,000,000) Redeemable Preference Shares of Rs. 100/- each.		**300,000,000**		300,000,000
		650,000,000		650,000,000
ISSUED, SUBSCRIBED AND PAID–UP CAPITAL				
EQUITY:				
119,358,695 (23,303,605) Equity Shares of Rs. 2/- (Rs. 10/-) Each Fully Paid (As subdivided - Refer Note No. 3 of Schedule 13B)		**238,717,390**		233,036,050
of the above Equity Shares:-				
1) 11,134,625 (2,226,925) Equity Shares have been allotted as fully paid up without receiving consideration in cash in accordance with the Composite Scheme of Reconstruction and Arrangement.				
2) 36,188,870 (7,237,774) Equity Shares have been allotted as fully paid up by way of Bonus Share by capitalisation of General Reserve/Securities Premium Account.				
3) 10,452,965 (2,090,593) Equity Shares of Rs. 2 (Rs. 10/-) each fully paid up have been allotted against Global Depository Receipts issued by the Company.				
4) 50,000,000 (10,000,000) Equity Shares issued to the Shareholders of erstwhile Hexaware Technologies Limited ('HTL') without receiving consideration in cash in accordance with the Composite Scheme of Reconstruction and Arrangement.				
5) 3,638,025 (575,958) Equity Shares have been allotted to employees under ESOP 1999.				
6) 5,229,210 (629,355) Equity Shares have been allotted to employees under ESOP 2002.				
7) Particulars of options on unissued share capital (Refer Note No. 4 of the Schedule 13B)				
Total		**238,717,390**		233,036,050

SCHEDULES TO BALANCE SHEET

Particulars	As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
SCHEDULE "2": RESERVES AND SURPLUS				
Securities Premium Account				
As Per Last Balance Sheet	**1,719,139,566**		1,692,904,677	
Add: Received during the year	**30,459,130**		26,234,889	
		1,749,598,696		1,719,139,566
Employee Stock Options Outstanding Account				
As Per Last Balance Sheet	–		2,200,000	
Less: Transferred to General Reserve	–		2,200,000	
		–		–
General Reserve				
As Per Last Balance Sheet	**263,659,827**		211,459,827	
Add: Transferred from Profit and Loss Account	**100,000,000**		50,000,000	
Add: Transferred from Employee Stock Options Outstanding Account	–		2,200,000	
		363,659,827		263,659,827
Amalgamation Reserve				
As Per Last Balance Sheet		**2,879,812**		2,879,812
Surplus in Profit And Loss Account		**904,061,567**		392,416,137
Total		**3,020,199,902**		2,378,095,342
SCHEDULE "3": SECURED LOANS				
Loan Under Finance Agreement (Secured by a charge on the specified assets acquired and financed viz. Computers and Vehicles)		**10,659,101**		22,142,545
Total		**10,659,101**		22,142,545

SCHEDULE "4": FIXED ASSETS

(Amount in Rupees)

		GROSS BLOCK				DEPRECIATION				NET BLOCK	
Sr. No.	**Particulars**	**As At 01.01.2005**	**Additions**	**Deductions**	**As At 31.12.2005**	**As At 01.01.2005**	**For The Year**	**Deductions**	**As At 31.12.2005**	**As At 31.12.2005**	**As At 31.12.2004**
1	Land - Freehold	153,699	–	–	153,699	–	–	–	–	153,699	153,699
	Land - Leasehold	38,988,800	372,820	–	39,361,620	182,115	392,931	–	575,046	38,786,574	38,806,685
2	Building (Refer Note No. 1)	252,401,633	90,437,964	–	342,839,597	12,725,031	5,244,344	–	17,969,375	324,870,222	239,676,602
3	Plant & Machinery Includes Computers & Softwares	613,023,499	141,767,823	158,652,262	596,139,060	353,288,762	130,669,753	100,253,270	383,705,245	212,433,815	259,734,737
4	Furniture & Fixtures	198,790,380	46,572,810	6,412,620	238,950,570	56,792,045	29,507,299	5,623,366	80,675,978	158,274,592	141,998,335
5	Vehicles	39,434,293	8,845,819	6,540,678	41,739,434	9,276,762	11,457,801	3,849,659	16,884,904	24,854,530	30,157,531
Current Year		**1,142,792,304**	**287,997,236**	**171,605,560**	**1,259,183,980**	**432,264,715**	**177,272,128**	**109,726,295**	**499,810,548**	**759,373,432**	**710,527,589**
Previous Year		1,037,521,273	201,891,846	96,620,815	1,142,792,304	316,655,769	142,466,794	26,857,848	432,264,715	710,527,589	
Capital Work in Progress (In respect of Building including Capital advances)										–	93,797,000
										759,373,432	**804,324,589**

Notes:

1. Includes a building having a gross block of Rs. 150,209,571/- and accumulated depreciation of Rs. 11,688,188/-, which the Company acquired, along with land from MIDC, at Mumbai, entered into necessary agreements and took possession of the building in an earlier year. The Company is taking steps for the execution of the final agreement in this respect.
2. Additions to Plant & Machinery includes Rs.164,330/- (Rs. Nil) on account of exchange difference.
3. Deductions include certain assets transferred in accordance with the BOT Agreement for India Service Centre (Refer Note 15 of Schedule 13B).

SCHEDULES TO BALANCE SHEET

Particulars	Nos.	As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	Nos.	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
SCHEDULE "5": INVESTMENTS						
A Long Term:						
1 Trade Investments – Quoted (at cost)						
Nil (2,000) Shares of Rs. 10/– each fully paid up in Aptech Limited			–			20,000
2 Trade Investments - Unquoted						
Investment in Subsidiaries (At Cost less provision for Diminution in value of Investment)						
2,461,254 (150,000) common stock at no par value in Specsoft Consulting Inc., U.S.A.		306,020,672			254,808,194	
22,450 (22,450) common stock at no par value in Hexaware Technologies Inc., U.S.A.		295,275,970			295,275,970	
3,067,000 (3,067,000) Shares of 1 GBP each fully paid up in Hexaware Technologies UK Ltd.		218,870,286			218,870,286	
5,00,000 (5,00,000) Shares of Singapore $ 1/- each fully paid up in Hexaware Technologies Asia - Pacific Pte. Ltd., Singapore.		12,476,000			12,476,000	
3,618 (3,618) Shares of face value 50 EURO in Hexaware Technologies GmbH, Germany		7,570,241			7,570,241	
1 (1) common stock at no par value in Hexaware Technologies Canada Limited, Canada		727,800			727,800	
8,400,000 (6,900,000) Shares of Rs. 10/- each in Caliber Point Business Solutions Ltd.		84,000,000			69,000,000	
		924,940,969			858,728,491	
Less: Provision for diminution in value of investments		516,252,085			516,252,085	
			408,688,884			342,476,406
3 Non Trade Investments (At Cost) **Quoted**						
2,000 (Nil) Shares of Rs. 10/- each fully paid up In Aptech Limited			20,000			–
Unquoted	Nos.			Nos.		
Investment In Long Term Capital Gain Bonds (Bonds of Rs. 10,000/- each, unless otherwise stated)						
National Bank of Agriculture and Rural Development	3,000	30,000,000		3,000	30,000,000	
National Housing Bank	2,000	20,000,000		2,000	20,000,000	
Rural Electrification Corporation	1,450	14,500,000		1,450	14,500,000	
			64,500,000			64,500,000

SCHEDULES TO BALANCE SHEET

Particulars		As At 31st December, 2005 Rupees	Rupees		As At 31st December, 2004 Rupees	Rupees
B Current Investments						
Non Trade Investments (Unquoted)						
Investment In Mutual Funds						
(At cost or fair value, whichever is lower)						
(Unit of Rs. 10/- each, unless otherwise stated).						
Name of Mutual Funds	Units			Units		
Birla Cash Plus Inst. Plan	–	–		2,976,129	32,080,381	
DSP Merrill Lynch - DSP Floating Rate Fund - Weekly Dividend				3,154	23,232	
Franklin Templeton - Floating Rate Income Fund	12,564,500	**125,974,465**		13,454,684	134,766,772	
HDFC Prudence Fund - HDFC Cash Management Fund	–	–		5,669,338	56,530,446	
ICICI - ICICI Floating Fund	–	–		2,195,344	22,043,665	
JM Floater Fund	–	–		2,600,148	26,068,936	
Kotak - Kotak Floater	–	–		2,304,480	23,021,586	
Principal Asset Management - Cash Management Fund	–	–		3,359,451	33,600,895	
LIC Floating Rate Fund	6,962,076	**70,230,625**		—	—	
Principal Floating Rate Fund FPM	5,027,377	**50,277,293**		—	—	
Institutional Plus Growth	4,308,384	**51,076,331**		—	—	
Reliance Floating Rate Fund	9,935,838	**100,162,100**		—	—	
Reliance Liquidity Fund	1,308,984	**13,128,982**		—	—	
SBI Magnum Instit. Income - Saving Div	11,214,081	**112,505,270**		—	—	
UTI Floating Rate Fund - STP	6,282,193	**63,318,425**		—	—	
			586,673,491			328,135,913
			1,059,882,375			735,132,319
C Share Application Money Towards Equity Shares of						
Caliber Point Business Solutions Ltd.		–			5,000,000	
Specsoft Consulting Inc.		–			51,212,478	
(Includes Nil (Rs. 23,432,478/-) on Conversion of Loan)			–			56,212,478
(Allotted during the year)						
Total			**1,059,882,375**			791,344,797

SCHEDULES TO BALANCE SHEET

Particulars		As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
(i) Aggregate cost of quoted investments.			**20,000**		20,000
Aggregate market value of Quoted Investments			**277,600**		152,300
(ii) Aggregate value of Unquoted Investments.			**1,059,862,375**		735,112,319
			1,059,882,375		735,132,319
(iii) Details of Investment Purchased and Sold during the Year (Face Value of Rs. 10/- each, unless otherwise stated).					
Mutual Funds	Units		Cost		
Birla Cash Plus Instl. Plan	21,693		282,385		
FT Floating Rate Income Fund	20,556,600		206,031,070		
HDFC Cash Management Fund-Weekly Dividend	118,947		1,193,978		
ICICI Floating Rate Plan	22,550		226,423		
JM Floater Fund	4,570,425		46,017,769		
Kotak Floater	25,211		252,222		
Principle Cash Management Fund - 1	3,985		39,856		
Principle Cash Management Fund - 2	40,912		409,197		
UTI Floating Rate Fund	5,225,558		52,564,287		
Reliance Liquidity Fund	3,676,110		36,871,016		

SCHEDULE "6" : CURRENT ASSETS

Sundry Debtors (Unsecured)				
Debts outstanding for a period exceeding six months	**19,065,162**		6,014,189	
Other debts	**1,371,494,266**		881,410,509	
	1,390,559,428		887,424,698	
Less: Provision for Doubtful Accounts	**6,545,234**	**1,384,014,194**	1,462,773	885,961,925
Sundry Debtors				
Considered Good	**1,384,014,194**		885,961,925	
Considered Doubtful	**6,545,234**		1,462,773	
	1,390,559,428		887,424,698	

Debts due from subsidiaries
Rs. 814,183,222/- (Rs. 629,392,957/-)

SCHEDULES TO BALANCE SHEET

Particulars	As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
Cash And Bank Balances				
Cash in Hand	–		446,167	
Balances with Scheduled Banks				
In Fixed Deposit Accounts	2,520,271		4,651,550	
[Includes Interest accrued of Rs. 345,098/- (Rs. 168,301/-)] [Includes Deposits of Rs. 2,175,173/- (Rs. 3,391,550/-) under lien with banks for guarantees given by bank to various government authorities]				
In Exchange Earner's Foreign Currency Account	2,836,864		3,364,813	
In Current Accounts (includes Remittance in Transit)	67,944,289		61,671,784	
Balances with Non-scheduled Banks				
In Current Accounts - in Foreign Currency				
a) ABN AMRO Bank - Amsterdam [Maximum balance outstanding during the year Rs. 418,901/- (Rs. 418,901/-)]	–		418,901	
b) Union Bank of California, Tokyo - Japan [Maximum balance outstanding during the year Rs. 7,529,372/- (Rs. 4,587,843/-)]	7,528,644		4,412,722	
c) Union Bank of Switzerland - Switzerland [Maximum balance outstanding during the year Rs. 1,106,439/- (Rs. 649,670/-)]	358,430		649,670	
d) Royal Bank of Scotland - United Kingdom [Maximum balance outstanding during the year Rs. 786,782/- (Rs. 786,782/-)]	716,545		786,782	
e) National Australia Bank - Australia [Maximum balance outstanding during the year Rs. 7,367,970/- (Nil)]	616,310		–	
		82,521,353		76,402,389
Loans and Advances (Unsecured - Considered Good)				
Loans and Advances to Subsidiaries	367,720,296		216,828,406	
Advances recoverable in cash or in kind or for value to be received	128,193,841		136,320,785	
Deposits	176,211,121		189,359,842	
Unbilled Services	1,862,088		19,581,344	
Advance Income Tax (Refer Note No. 16 of Schedule 13B)	156,464,121		146,293,980	
		830,451,467		708,384,357
Note : Loans and advances includes loan given to Executive Director Rs. 320,858/- (Rs. 416,474/-) (Loan was granted to him before becoming a director, and is being repaid as per the Company's policy.) (Maximum balance outstanding during the year Rs. 416,474/- (Rs. 512,090/-))				
Other Current Assets				
Interest Accrued on Investments		2,450,061		2,461,250
Total		2,299,437,075		1,673,209,921

SCHEDULES TO BALANCE SHEET

Particulars	As At 31st December, 2005 Rupees	As At 31st December, 2005 Rupees	As At 31st December, 2004 Rupees	As At 31st December, 2004 Rupees
SCHEDULE "7": CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities				
Sundry Creditors				
i) Total outstanding dues to Small Scale Industrial Undertakings		–		–
ii) Total outstanding dues to Creditors other than Small Scale Industrial Undertakings	78,227,891		56,196,037	
Due to subsidiaries	242,227,061		69,687,598	
Deposit Received for Leased Premises	22,520,000		24,936,250	
Unclaimed Dividend *	6,783,770		5,055,881	
Other Liabilities	214,591,332		172,977,442	
		564,350,054		328,853,208
Provisions				
Provision for Leave Encashment	53,116,399		20,272,232	
Provision for Gratuity	8,254,965		15,500,000	
Proposed Dividend	71,615,217		117,211,265	
Corporate Tax on Dividend	10,044,034		15,298,643	
Provision for Taxation (Refer Note No. 16 of Schedule 13B)	131,125,069		132,265,788	
Provision for Fringe Benefit Tax (net of advances)	5,000,000		–	
Other Provisions (Refer Note No. 17 of Schedule 13B)	4,500,000		–	
		283,655,684		300,547,928
Total		848,005,738		629,401,136

* This figure does not include any amount due and outstanding to be credited to Investor Education and Protection Fund.

SCHEDULES TO PROFIT AND LOSS ACCOUNT

Particulars	For the year ended 31st December, 2005 Rupees	Rupees	For the year ended 31st December, 2004 Rupees	Rupees
SCHEDULE "8": OTHER INCOME				
Dividend from Current Investments		**10,513,342**		18,173,540
Profit on sale of Current Investments (net)		**1,503,411**		–
Interest income				
From Long Term Investments	**3,255,561**		3,466,114	
From others (Tax Deducted at Source Rs. 1,666,809/- (Rs. 1,830,603/-))	**9,527,239**		12,855,258	
		12,782,800		16,321,372
Exchange Rate Difference (net)		**–**		18,509,116
Gain on Transfer/Assignment- Service Centre (See Note No. 15 of Schedule 13B)		**44,960,000**		–
Profit on Sale of Fixed Assets (Net)		**9,801,895**		20,710,369
Rental Income (Tax Deducted at Source Rs. 5,552,418/- (Rs. 2,301,780/-)		**25,952,580**		27,394,133
Miscellaneous Income		**37,444,259**		22,996,472
Total		**142,958,287**		124,105,002
SCHEDULE "9" : SOFTWARE AND DEVELOPMENT EXPENSES				
Consultant and Related Expenses		**197,275,792**		154,930,873
Software Expenses		**205,710,590**		122,668,864
Total		**402,986,382**		277,599,737
SCHEDULE "10" : EMPLOYMENT EXPENSES				
Salary and Other allowances		**1,587,936,479**		1,250,569,224
Contribution to Provident and other Funds		**74,745,046**		52,899,577
Staff Welfare Expenses		**101,278,889**		70,165,611
Total		**1,763,960,414**		1,373,634,412

SCHEDULES TO PROFIT AND LOSS ACCOUNT

Particulars	For the year ended 31st December, 2005 Rupees	Rupees	For the year ended 31st December, 2004 Rupees	Rupees
SCHEDULE "11" : ADMINISTRATION AND OTHER EXPENSES				
Rent		123,398,676		72,125,077
Rates and Taxes		5,240,843		3,709,100
Travelling and Conveyance Expenses		76,935,103		83,276,487
Electricity Charges		54,134,540		37,000,100
Communication Expenses		78,267,298		62,498,301
Repairs and Maintenance				
Buildings	9,256,080		10,412,922	
Plant and Machinery	11,010,124		9,404,650	
Others	8,588,966		7,918,025	
		28,855,170		27,735,597
Printing and Stationery		15,256,274		12,743,297
Auditors Remuneration				
Statutory Audit Fees	1,597,900		1,527,707	
Audit of US GAAP Accounts (for two years)	5,158,794		–	
Tax Audit Fees	661,200		–	
Limited reviews, certification work etc.	1,402,833		545,000	
Out of Pocket Expenses	16,042		–	
(Includes Service Tax of Rs. 520,249/- (Rs. 45,500/-)		8,836,769		2,072,707
Legal and Professional Fees		30,178,119		22,556,448
Advertisement and Publicity		1,185,139		501,367
Seminar and Conference Expenses		14,190,686		13,173,489
Bank Charges		8,810,008		5,113,528
Exchange Rate Differences (Net)		39,554,241		–
Directors' Sitting Fees		285,000		375,000
Insurance Premium		10,226,617		3,303,590
Donation		4,304,751		–
Loss on sale of Investment (net)		–		8,188,645
Fixed assets Written off		904,209		–
Bad Debts/Advances Written off		961,098		6,211,350
Provision for Diminution in value of Investment		–		13,405,714
Provision for Doubtful Debts		5,082,461		1,462,773
Staff Recruitment Expenses		18,651,048		24,135,987
Service Charges		26,064,663		13,851,197
Miscellaneous Expenses		9,331,193		2,700,678
Note : Miscellaneous Expenses include Stamp Duty & Filing Fees, Hiring charges Registrar and Share Transfer Expenses, Membership and Subscription etc.				
Total		560,653,906		416,140,432
SCHEDULE "12" : INTEREST				
On Fixed Loans		1,585,629		2,548,455
Others		27,620		433,418
Total		1,613,249		2,981,873

Schedule "13" – Significant Accounting Policies and Notes Forming Part of the Accounts

A) SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention and Concepts

The accompanying financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles, the provisions of the Companies Act, 1956 and the applicable accounting standards issued by the Institute of Chartered Accountants of India.

2. Use of Estimates

The preparation of the financial statements, in conformity with the generally accepted accounting principles, requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Differences between actual results and estimates are recognised in the period in which the results are known/materialise.

3. Revenue Recognition

a) Revenues from software solutions and consulting services are recognised on specified terms of contract in case of contract for development of software undertaken on time basis. In case of fixed price contracts revenue is recognised using the percentage of completion method of accounting, unless work completed cannot be reasonably estimated. Provisions for estimated losses on such engagements are made during the year in which a loss becomes probable and can be reasonably estimated. Amount received or billed in advance of services performed are recorded as unearned revenue. Unbilled services included in loans and advances represents amount recognised based on services performed in advance of billing in accordance with contract terms.

b) Dividend income is recognised when right to receive is established.

4. Fixed Assets

Fixed Assets are valued at cost of acquisition less accumulated depreciation, amortisation and impairment, if any. Cost includes all expenses incurred for acquisition of assets.

5. Depreciation and Amortisation

Depreciation on Fixed Assets is provided on straight-line method based on the estimated useful lives of the assets as determined by the management except buildings, which are depreciated over the useful lives as prescribed under Schedule XIV to the Companies Act, 1956.

The Management estimates the useful lives for various fixed assets as follows:

Asset Class	Estimated useful Life
Computers and Software (included in Plant and Machinery)	3 years
Office Equipment (included in Plant and Machinery)	5 years
Electrical Fittings (included in Plant and Machinery)	8 years
Furniture and Fixtures	8 years
Vehicles	4 years
Leasehold Land	Over the lease period

6. Investments

Long term Investments are stated at cost. Provision is made for permanent diminution in the value of long-term investments. Current investments are carried at cost or fair value, which ever is lower.

7. Foreign Currency Transaction/Translation

Transactions in foreign currency are recorded at the original rate of exchange in force at the time transactions are effected. Exchange differences arising on repayment of foreign currency liabilities incurred for the purpose of acquiring imported fixed assets are adjusted in the carrying amount of the respective fixed assets. Exchange differences arising on settlement of other transactions are recognised in the Profit and Loss Account.

Monetary items (other than those related to acquisition of imported fixed assets) denominated in foreign currency are restated using the exchange rate prevailing at the date of the Balance Sheet and the resulting net exchange difference is recognised in the Profit and Loss Account. The exchange gain/ loss arising on restatement of foreign currency liability relating to imported fixed assets is adjusted in the value of the related fixed assets.

In case of monetary items which are covered by forward exchange contracts, the difference between the exchange rate on the date of such contracts and the year end rate is recognised in the Profit and Loss Account. Any profit/loss arising on cancellation of forward exchange contract is recognised as income or expense of the year. Premium/Discount arising on such forward exchange contracts is amortised as income/expense over the life of the contract.

Foreign Branches

In respect of the foreign branches, being integral foreign operations, all revenues and expenses (except depreciation) during the year are reported at average rate. Monetary assets and liabilities are restated at the year end exchange rate. Non-monetary assets and liabilities are stated at the rate prevailing on the date of the transaction. Balance in 'head office' account whether debit or credit is translated at the amount of the balance in the 'foreign branch' in the books of the head office. Net gain/loss on foreign currency translation is recognised in the Profit and Loss Account.

8. Retirement Benefits

The provision for retirement benefits such as provident fund, gratuity and superannuation is made for employees from the date of their respective appointment.

i) Company's contribution to Provident Fund, Superannuation Fund (upto 31st March, 2005) and other fund is charged to Profit and Loss Account.

ii) The amount of Gratuity liability as ascertained on the basis of actuarial valuation and funded through a scheme (Group Gratuity) administered by Life Insurance Corporation of India is charged to Profit and Loss Account.

iii) Provision is made towards liability for leave encashment as per rules of the Company.

9. Borrowing Cost

Borrowing cost attributable to the acquisition or construction of qualifying assets is capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue.

10. Leases

Finance Lease

Assets taken on finance lease are accounted for as fixed assets in accordance with Accounting Standard (AS 19) "Leases", issued by The Institute of Chartered Accountants of India. Accordingly, the assets are accounted at fair value. Lease payments are apportioned between finance charge and reduction in outstanding liability.

Operating Leases

Assets taken on lease under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under operating leases are recognised as expenses on accrual basis in accordance with the respective lease agreements.

Furnished premises leased out under operating lease are capitalised in the books of the Company. Lease income is recognised in Profit and Loss Account over the lease term.

11. Taxes on Income

Income Taxes are accounted for in accordance with Accounting Standard (AS 22) "Accounting for Taxes on Income", issued by The Institute of Chartered Accountants of India. Tax expense comprises both current tax and deferred tax. Current tax is measured at the amount expected to be paid or recovered from the tax authorities using the applicable tax rates. Deferred tax assets and liabilities are recognised for future tax consequence attributable to timing difference between taxable income and accounting income that are measured at relevant enacted or substantively enacted tax rates. At each Balance Sheet date the Company reassesses unrealised deferred tax assets, to the extent they become reasonably certain or virtually certain of realisation, as the case may be.

12. Impairment of Fixed Assets

At the end of each year, the Company determines whether a provision should be made for impairment loss on fixed assets by considering the indications that an impairment loss may have occurred in accordance with Accounting Standard (AS 28) ''Impairment of Assets'' issued by The Institute of Chartered Accountants of India. Where the recoverable amount of any fixed assets is lower than its carrying amount, a provision for impairment loss on fixed assets is made for the difference.

13. Intangible Assets

Internally generated intangible asset arising from development activity is recognised at cost on demonstration of its technical feasibility, the intention and ability of the Company to complete, use or sell it, only if it is probable that the asset would generate future economic benefit and the expenditure attributable to the said assets during its development can be measured reliably. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

14. Provisions, Contingent Liabilities and Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised, but are disclosed in the notes. Contingent assets are neither recognised nor disclosed in the financial statements.

B) NOTES FORMING PART OF ACCOUNTS

1) Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of advances) Rs. 2,086,185/- (Previous year Rs. 59,405,737/-).

2) Contingent Liabilities in respect of

a) Claims not acknowledged as debt amounts to Rs. 31,965,185/- (Previous Year Rs. 13,720,300/-).

b) (i) Counter Guarantee given to Banks Rs. 2,548,261/- (Previous Year Rs. 3,952,511/-)

(ii) Guarantees given by the Company to a bank on behalf of the Company's wholly-owned subsidiary Rs. 51,000,000/- (Previous Year Rs. 30,000,000/-)

c) Income tax disputed in appeal and pending decision Rs. 3,337,430/- (Previous Year Rs. 1,612,736/-), Company is hopeful of getting a favourable decision

3) The shareholders of the Company, at their meeting held on 4th April, 2005 approved the sub-division of present equity shares having nominal face value of Rs. 10/- per share into five equity shares of face value of Rs. 2/- per share. Accordingly, the authorised share capital of the Company after subdivision is 175,000,000 equity shares of Rs. 2/- each aggregating to Rs. 350,000,000/- and 3,000,000 redeemable preference shares of Rs. 100/- each aggregating Rs. 300,000,000/- and during the year, has issued capital of 119,358,695 equity shares of Rs. 2/- per share as subdivided.

4) ESOP

(a) 1,417,185 (1,872,126) warrants under Employee Stock Option Scheme – 1999 aggregating to Rs. 425,155/- (Rs. 561,637/-) of Re. 0.30 each were allotted. Each block of 3 warrants entitles the holder to get five equity shares of Rs. 2/- each as sub-divided at a price of Rs. 45/-, within a period of ten years commencing from 1st February, 2001 (exercise period) in accordance with the said Scheme. The particulars of warrants granted and lapsed under the Scheme are tabulated below.

(b) 1,163,983 (1,580,470) Options were allotted under Hexaware Technologies Limited – Employee Stock Option Plan – 2002 ('the Plan') at an exercise price being the market price on the date of grant of Options or average closing price on the primary stock exchanges, whichever is higher or such price that may be determined by the Remuneration and Compensation Committee ('Committee').

Each Option entitles the holder to exercise the right to apply for and seek allotment of five equity shares of Rs. 2/- each as sub-divided. The Options shall vest in four equal instalments or as determined at the discretion of the Committee. No Options shall be granted after 31st March, 2009. The particulars of Options granted and lapsed under the Scheme are tabulated below.

	Warrants - 1999 (Warrants)	Options - 2002
Opening Balance	847,257 (1,616,437)	1,491,058 (1,836,517)
Additions during the year	- (-)	242,800 (254,400)
Exercised during the year	454,941 (759,180)	416,487 (427,297)
Cancelled during the year	39,282 (10,000)	157,968 (172,562)
Closing Balance	353,034 (847,257)	1,159,403 (1,491,058)

Figures for the previous year are given in brackets.

5) Income Taxes

Provision for current tax has been made on the basis of minimum alternative tax in accordance with Section 115JB of the Income Tax Act, 1961, No provision has been made for deferred tax in the accounts considering the requirement of certainty/virtual certainty referred to in Accounting Standard (AS 22) "Accounting for Taxes on Income" issued by The Institute of Chartered Accountants of India.

6) Related Parties

The Company has entered into transactions with following related parties

Sr. No.	Name of the Related Parties	Country
	Subsidiaries	
1	Hexaware Technologies Inc.	United States of America
2	Specsoft Consulting Inc.	United States of America
3	Hexaware Technologies UK Ltd.	United Kingdom
4	Hexaware Technologies Asia Pacific Ltd.	Singapore
5	Hexaware Technologies GmbH.	Germany
6	Hexaware Technologies Canada Ltd.	Canada
7	Caliber Point Business Solutions Ltd.	India
8	Specsoft Technologies India Ltd.	India
	Key Management Personnel	
1	Mr. Atul K. Nishar – Executive Chairman	
2	Mr. P. K. Sridharan – President and Executive Director	
3	Mr. Rusi Brij – Chief Executive Officer and Vice Chairman	
	Others	
1	Hexaware Technologies Employee Stock Option Trust	

Transactions with parties are : .

(Amount in Rupees)

Nature of Transactions			Subsidiaries	Key Management Personnel	Others	Total
1)	**Finance (Including loans and equity contributions) in cash or in kind**					
	a)	Loans Given (Including Interest)				
		Balance as at 1st January, 2005	127,248,202 (295,489,294)	416,474 (512,090)	561,637 (1,080,000)	128,226,313 (297,081,384)
		Fresh Loans During the year	8,739,904 (29,737,424)	- (-)	- (-)	8,739,904 (29,737,424)
		Repaid/Adjusted during the year	14,804,328 (197,978,516)	95,616 (95,616)	136,482 (518,363)	15,036,426 (198,592,495)
		Balance as at 31st December, 2005	121,183,778 (127,248,202)	320,858 (416,474)	425,155 (561,637)	121,929,791 (128,226,313)
	b)	Investment in Equity (including share application money)				
		Balance as at 1st January, 2005	914,940,969 (789,728,491)	- (-)	- (-)	914,940,969 (789,728,491)
		Purchased During the year	10,000,000 (125,212,478)	- (-)	- (-)	10,000,000 (125,212,478)
		Sold During the year	- (-)	- (-)	- (-)	- (-)
		Provision for diminution in value of Investment	516,252,085 (516,252,085)	- (-)	- (-)	516,252,085 (516,252,085)
		Balance as at 31st December, 2005	408,688,884 (398,688,884)	- (-)	- (-)	408,688,884 (398,688,884)
	c)	Guarantee and Collateral	51,000,000 (30,000,000)	- (-)	- (-)	51,000,000 (30,000,000)
2)	**Software and Consultancy Income**		1,675,855,003 (1,272,341,246)	- (-)	- (-)	1,675,855,003 (1,272,341,246)
3)	**Software Expenses**		42,704,155 (22,481,865)	- (-)	- (-)	42,704,155 (22,481,865)
4)	**Interest and Other Income**		11,872,265 (11,726,919)	- (-)	- (-)	11,872,265 (11,726,919)
5)	**Reimbursement of Cost**		377,979,274 (277,978,382)	- (-)	- (-)	377,979,274 (277,978,382)
6)	**Receiving of services**		2,345,919 (1,015,401)	10,030,025 (8,964,758)	- (-)	12,375,944 (9,980,159)
7)	**Advances during the year**		235,830,474 (159,682,190)	- (-)	- (-)	235,830,474 (159,682,190)

Nature of Transactions	Subsidiaries	Key Management Personnel	Others	Total
8) **Purchase of Assets**	720,574 (5,656,519)	- (-)	- (-)	720,574 (5,656,519)
9) **Sale of Assets**	- (2,206,411)	- (-)	- (-)	- (2,206,411)
10) **Closing Balances as at 31 st December, 2005**				
Receivables	814,183,222 (629,392,957)	- (-)	- (-)	814,183,222 (629,392,957)
Advances	246,536,518 (89,580,204)	- (-)	- (-)	246,536,518 (89,580,204)
Payable towards services and reimbursement of cost	242,227,061 (69,687,598)	- (-)	- (-)	242,227,061 (69,687,598)

Previous year figures are given in brackets.

Out of the above items transactions with subsidiaries and Key Management Personnel in excess of 10% of the total related party transactions are as under:

(Amount in Rupees)

Transaction		For the year ended 31-12-2005	For the year ended 31-12-2004
a) **Loans given**			
Subsidiaries			
Granted during the year			
- Specsoft Consulting Inc.	-		13,402,164
- Hexaware Technologies Inc.	8,739,904		16,335,260
		8,739,904	**29,737,424**
Repaid/adjusted during the year			
- Hexaware Technologies Inc.	10,936,722		125,773,695
- Specsoft Consulting Inc.	(387,000)		19,274,933
- Hexaware Technologies UK Ltd.	-		52,896,000
- Hexaware Technologies Asia Pacific Pte. Ltd.	4,254,606		33,889
		14,804,328	**197,978,517**
b) **Software and Consultancy Income**			
Subsidiaries :			
- Hexaware Technologies Inc.	820,927,391		683,964,177
- Hexaware Technologies UK Ltd.	235,799,103		163,361,319
- Hexaware Technologies GmbH.	559,354,803		376,161,302
		1,616,081,297	**1,223,486,798**

(Amount in Rupees)

Transaction		For the year ended 31-12-2005	For the year ended 31-12-2004
c) Expenditure			
Outsourcing/Expenses Payable			
Subsidiaries :			
- Hexaware Technologies Inc.– Reimbursement of Cost	366,012,100		265,114,312
- Hexaware Technologies Canada Ltd. – Software Expenses	45,889,914		22,894,550
- Caliber Point Business Solutions Ltd. – Receiving of Services	2,345,919		1,015,401
		414,247,933	**289,024,263**
Purchase of Assets			
Subsidiaries :			
- Specsoft Consulting Inc.	720,574		5,656,519
		720,574	**5,656,519**
Remuneration			
Key Management Personnel			
- Atul K. Nishar	3,399,933		3,320,110
- P. K. Sridharan	6,630,092		5,644,648
		10,030,025	**8,964,758**
d) Income			
Interest and Other Income received			
Subsidiaries :			
- Hexaware Technologies Inc.	8,739,904		12,074,203
- Specsoft Consulting Inc.	3,132,361		–
		11,872,265	**12,074,203**
Sale of Fixed Assets			
Subsidiaries :			
- Caliber Point Business Solutions Ltd.		**–**	**2,206,411**
e) Advances during the year			
Subsidiaries :			
- Hexaware Technologies Inc.	141,013,855		99,076,177
- Hexaware Technologies UK Ltd.	59,310,356		37,191,680
- Hexaware Technologies GmbH	10,362,354		17,414,031
		210,686,565	**153,681,888**
f) Guarantee			
Subsidiaries :			
- Caliber Point Business Solutions Ltd.		**51,000,000**	30,000,000
g) Equity Investment/Share Application Money			
Addition during the year			
Subsidiaries :			
- Specsoft Consulting Inc.	–		51,212,478
- Caliber Point Business Solutions Ltd.	10,000,000		74,000,000
		10,000,000	**125,212,478**

7) Details of Loans and advances in the nature of loans (As required by clause 32 of the listing agreement with the stock exchanges) :

Name of party	Relationship	Amount outstanding as at 31-12-2005	Maximum amount outstanding during the year
Specsoft Consulting Inc.	Wholly Owned Subsidiary	13,512,000	13,786,500
Hexaware Technologies Inc.	Wholly Owned Subsidiary	107,671,778	114,234,343
Hexaware Technologies Asia-Pacific Pte. Ltd.	Wholly Owned Subsidiary	-	4,254,606

Notes

1. The interest rate applicable to the above loans/advances is as follows:

   a) Specsoft Consulting Inc. and Hexaware Technologies Asia-Pacific Pte. Ltd. - NIL

   b) Hexaware Technologies Inc. = LIBOR + 500 basis points

2. These loans/advances are repayable on demand, except loan to Specsoft Consulting Inc., which is repayable on or before 28th December, 2006.

3. Loans to employees as per the Company's policy are not considered.

4. There are no investments by the loanee in the shares of the Company.

5. Reimbursement in nature of advances is not included above.

8) Segments:

The Company has presented data relating to its segments based on its consolidated financial statements, which are presented in the same Annual Report . Accordingly, in terms of the provisions of Accounting Standard (AS 17) "Segment Reporting", no disclosures related to segments are presented in its stand-alone financial statements.

9) The Ministry of Company Affairs, Government of India vide its order no. 47/268/2005-CL-III dated 20th October, 2005 issued under Section 212(8) of the Companies Act, 1956, has exempted the Company from attaching the Balance Sheet and Profit and Loss Account of subsidiaries under Section 212(1) of the Companies Act, 1956. As per the order, key details of each subsidiary are attached along with the statement under Section 212 of the Companies Act, 1956.

10) Earnings Per Share (EPS)

The components of basic and diluted earnings per share were as follows:

(Amount in Rupees)

Particulars	31st December, 2005	31st December, 2004
Net Profit after Tax	775,398,658	437,703,863
Income Tax – earlier years	-	4,364,652
Net Income available to equity shareholders	775,398,658	433,339,211
Weighted average outstanding equity shares considered for basic EPS (Nos.)	117,835,366	114,658,785
Add : Effect of dilutive issue of stock options (including share application money received on exercise of options) (Nos.)	3,849,339	11,022,580
Considered for diluted EPS	121,684,705	125,681,365 (Refer note 3 above)
Earnings Per Share		
Basic	6.58	3.78
Diluted	6.37	3.45 (Refer note 3 above)

EPS as of 31st December, 2004 has been recomputed considering the subdivision of shares during the year in accordance with the requirements of Accounting Standard (AS 20) "Earnings per share".

11) a) Managerial Remuneration:

(Amount in Rupees)

	For the year ended 31-12-2005	For the year ended 31-12-2004
Executive Directors		
- Salaries and allowances	8,925,553	7,334,763
- Contribution to Provident and other funds	597,378	739,990
- Perquisites	507,094	890,005
Total	**10,030,025**	**8,964,758**
Non Executive Directors		
- Commission	2,500,000	2,000,000

Above amount does not include remuneration paid by subsidiary company to the directors aggregating to Rs.41,237,330/- (Previous year Rs. 25,614,733/-)

b) Computation of net profit in accordance with Section 198 read with Section 309 (5) of the Companies Act 1956, and calculation of commission payable to non-whole time directors.

(Amount in Rupees)

Particulars	For the year ended 31-12-2005	For the year ended 31-12-2005	For the year ended 31-12-2004	For the year ended 31-12-2004
Net Profit after tax		775,398,658		437,703,863
Add :				
Remuneration to whole time director	10,030,025		8,964,758	
Directors' Sitting Fees	285,000		375,000	
Loss on sale of Investment (Net)	-		8,188,645	
Provision for doubtful debts	5,082,461		1,462,773	
Depreciation as per books of Account	177,272,128		142,466,794	
Provision for Taxation	18,925,000		13,745,893	
Commission to Non Whole time Director	2,500,000		2,000,000	
Provision for diminution on investment	-		13,405,714	
		214,094,614		190,609,577
Less :				
Profit on sale of Investment (Net)	1,503,411		-	
Gain on Transfer/Assignment – Service Centre	44,960,000		-	
Depreciation as envisaged under Section 350 of the Companies Act	177,272,128		142,466,794	
Profit on sale of Fixed Asset (Net)	9,801,895		20,710,369	
		233,537,434		163,177,163
Net Profit on which commission is payable		**755,955,838**		**465,136,277**
Maximum allowed as per Companies Act, 1956 at 1%		7,559,558		4,651,363
Commission provided for		2,500,000		2,000,000

12) a) The Company takes on lease office space and accommodation for its employees under operating leases cancellable at the option of lessee for a period ranging between one to five years. The lease rentals recognised in the Profit and Loss Account for the year is Rs. 122,323,437/- (Previous year Rs. 72,125,077/-). The future minimum lease payments and payment profile of non-cancellable operating leases are as follows:

(Amount in Rupees)

	Total minimum lease payments outstanding as on 31.12.2005	Total minimum lease payments outstanding as on 31.2.2004
Not later than one year	83,984,667	137,400,918
Later than one year but not later than five years	105,386,911	169,967,947
	189,371,578	**307,368,865**

b) The Company has given furnished premises on operating lease, the income from which amounting to Rs. 25,952,580/- (Previous year Rs. 27,394,133/-) is included in 'Other Income'. Details of leased assets are as follows:

(Amount in Rupees)

Type of Assets	Gross Block as on 31.12.2005	Accumulated Depreciation upto 31.12.2005	Depreciation provided for the year 2005
Premises	105,918,975 (105,918,975)	6,442,527 (4,716,048)	1,726,479 (1,132,663)
Plant and Machinery	32,884,672 (32,884,672)	11,282,196 (5,292,908)	59,89,288 (4,602,445)
Furniture and Fixtures	42,589,065 (42,589,065)	10,977,446 (5,479,653)	5,497,793 (4,761,770)

The future minimum lease rental receivable for non-cancellable operating leases are as follows :

(Amount in Rupees)

	Total minimum lease receivable outstanding as on 31.12.2005	Total minimum lease receivable outstanding as on 31.12.2004
Not later than one year	17,521,641	20,716,063
Later than one year but not later than five years	-	14,092,626
	17,521,641	**34,808,689**

13) The Company has investments (long term) in equity shares of wholly owned subsidiary, Specsoft Consulting Inc. of Rs. 306,020,672/- and amount of Rs. 13,512,000/- is outstanding on account of loan and Rs. 13,549,834/- towards debts as on 31st December, 2005. The accumulated losses of the said subsidiary company have substantially eroded its net worth and the Company had made a provision of Rs. 254,858,583/- towards diminution in the value of such investments, being permanent. Though the said subsidiary's losses have increased during the year, the Company's plan for merger of the said subsidiary with another wholly subsidiary company, Hexaware Technologies Inc, has been approved by the Board effective subsequent to the year end which is expected to improve the customer base, substantial savings in cost and synergise the operations. Consequently, in the opinion of the Company, provision already made in the accounts is adequate and no additional provision is considered necessary towards investments and loans/debts at this stage. The Company expects substantial improvements in the operations of the merged entity, subsequent to merger and the provision made will be reviewed in the next year on that basis.

14) The Company has equity investments (long term) aggregating to Rs. 514,146,256/- in respect of two subsidiary companies namely,

a) Hexaware Technologies Inc.

b) Hexaware Technologies UK Ltd.

In the earlier years, considering the losses and the net worth of said subsidiary companies, provision aggregating to Rs. 261,393,502/- was made in accounts for diminution in value of investments in the said subsidiary companies considering the same to be permanent. The sundry debtors included Rs. 461,618,699/- as at 31st December, 2005 recoverable from the said subsidiary companies and Rs. 107,671,778/- as at 31st December, 2005 being loans recoverable from the said subsidiary companies. The said subsidiary companies have made profits during the year and have positive net worth as at the Balance Sheet date Considering the income from operations of the said subsidiary companies and the future growth plan, in the opinion of the management, no additional provision towards diminution is considered necessary in the accounts and balances of loans and debtors are considered good and recoverable.

15) The Company had, in an earlier year entered into an implementation, operation and acquisition agreement ('BOT agreement') with a party for the purpose of setting up of an India Service Center ('ISC') with an option to the said party to acquire such service center at later date. During the year, the party, in terms of the BOT agreement, exercised the option and acquired the ISC on slump sale basis as a going concern. Accordingly, the said party has acquired all rights, title and interest in certain assets as also obligations and liabilities as specified in the agreement on such transfer/assignment on a going concern basis on slump price. The gain on such transfer/assignment under the BOT agreement aggregating to Rs. 44,960,000/- consisting of buyout fees has been credited and disclosed under 'other income' (Refer Schedules '4' and '8')

16) Advance income tax paid and provision for taxation, which hitherto, were disclosed on net basis, have during the year been grossed up. Accordingly, advance income tax has been disclosed under 'loans and advances ' and provision for taxation has been disclosed under 'provisions'. Previous year figures have also been regrouped on that basis.

17) 'Other Provision' includes provision towards expenses in relation to leased premises based on substantial degree of estimation by the Management. The details of movement thereof are as under:

(Amount in Rupees)

	2005
Opening provision	-
Provision made during the year	4,500,000
Utilisation during the year	-
Closing provision	4,500,000

Actual outflow is expected in the next financial year.

18) The Company has discontinued contribution to Super Annuation Fund from 1st April, 2005 in accordance with the decision taken by management.

19) Additional information pursuant to the provisions of Paragraphs 3, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956 (to the extent applicable).

I. The Company is engaged in providing software solutions and consultancy services. The production procurement and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details as required under paragraphs 3 and 4C of part II of schedule VI of the Companies Act, 1956.

(Amount in Rupees)

	For the year ended 31.12.2005	For the year ended 31.12.2004
II. CIF value of Imports :		
a) Capital Goods	67,666,731	70,129,284
III. Expenditure in Foreign Currency :		
a) Foreign Travelling Expenses	134,249,386	126,006,715
b) Membership and Subscription	482,413	-
c) Business Promotion, Seminar and Conference Expenses	-	332,348
d) Books and Periodicals	-	5,520
e) Legal and Professional Charges	1,728,292	501,884
f) Communication Expenses	3,724,562	3,596,053
g) Training Expenses	2,942,745	-
h) Software Licence Charges	989,659	-
i) Miscellaneous	571,050	1,449,344
IV. Remittance in Foreign Currency on account of Dividend		
The Company has paid dividend in respect of shares held by Non-residents on repatriation basis. This inter-alia includes portfolio investment and direct Investment, where the amount is also credited to Non-Resident External Account (NRE A/c). The exact amount of dividend remitted in foreign currency cannot be ascertained. The total amount remittable in foreign currency in this respect is given herein below:		
	Dividend-2004	**Interim Div-2005**
a) Net amount remitted (Rs.)	1,657,035 (8,000,000)	1,184,294 (-)
b) Number of shares held by non-resident shareholders (Interim Div -2005 : shares as sub divided- Refer Note 3 of Schedule 13B)	331,407 (4,000,000)	1,973,824 (-)
c) Year to which dividend relates	2004 (2003)	2005 (-)
d) Number of Non-resident Shareholders	365 (101)	584 (-)
(Figures for the previous year are given in brackets.)		

(Amount in Rupees)

	For the year ended 31.12.2005	For the year ended 31.12.2004
V. Earnings in Foreign Currency:		
a) Income from Software Solutions and Consulting Services	3,477,768,447	2,436,352,338
b) Interest Income	8,739,904	12,791,360
c) Other Income	31,32,361	-

20) The figure for the previous accounting year have been regrouped/rearranged wherever necessary to correspond with the figures of the current year and are disclosed in brackets. Amounts and other disclosures for the preceeding year are included as an intergral part of the current year financial statement and are to be read in relation to the amounts and other disclosures relating to the current year.

Signature to Schedules 1 to 13
As per our attached Report of even date

For **Deloitte Haskins & Sells,**
Chartered Accountants

P. R. Barpande
Partner

Place : Mumbai
Date : 2nd February, 2006

For and on behalf of the Board

Atul K. Nishar *(Executive Chairman)*	**Dr. K. K. Anand** *(Director)*	**L. S. Sarma** *(Director)*	**Dr. (Mrs.) Alka Nishar** *(Director)*
Rusi Brij *(Vice-Chairman & CEO)*	**P. K. Sridharan** *(Executive Director)*	**Rajesh B. Ghonasgi** *(Chief Financial Officer)*	**Naishadh Desai** *(Company Secretary)*

Balance Sheet Abstract & Company's General Business Profile

I. Registration Details

Registration No.	11-69662
State Code	11
Balance Sheet Date	Date 31, Month 12, Year 2005

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue	NIL
Right Issue	NIL
Bonus Issue	NIL
Private Placement	5681

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	4118693
Total Assets	4118693

Sources of Funds

Subscribed & Paid-up Capital	238717
Share Application Money	686
Reserves & Surplus	3020200
Secured Loans	10659
Unsecured Loans	NIL

Application of Funds

Net Fixed Assets	759373
Investments	1059882
Net Current Assets	1451431
Misc. Expenditure	NIL
Accumulated Losses	NIL

IV. Performance of Company (Amount in Rs. Thousands)

Turnover and Other Income	3700893
Total Expenditure	2906486
Profit Before Tax	79407
Profit After Tax	77399
Earnings Per Share in Rs. - Basic & Diluted	BASIC 6.58; DILUTED 6.37
Dividend Rate %	60

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code)	Product Description
852490	SOFTWARE DEVELOPMENT

For and on behalf of the Board

Atul K. Nishar *(Executive Chairman)*	**Dr. K. K. Anand** *(Director)*	**L. S. Sarma** *(Director)*	**Dr. (Mrs.) Alka Nishar** *(Director)*
Rusi Brij *(Vice-Chairman & CEO)*	**P. K. Sridharan** *(Executive Director)*	**Rajesh B. Ghonasgi** *(Chief Financial Officer)*	**Naishadh Desai** *(Company Secretary)*

Place : Mumbai
Date : 2nd February, 2006

Hexaware TECHNOLOGIES

Notes

HEXAWARE TECHNOLOGIES LIMITED

Registered Office: 152, Millennium Business Park, Sector - III, 'A' Block, TTC Industrial Area, Mahape, Navi Mumbai – 400 710.

PROXY FORM

For Dematted Shares	For Physical Shares
DP ID	**REGD. FOLIO NO.**
CLIENT ID	**NO. OF SHARES HELD**

I/We ____s/o, w/o, d/o_________________________ residing at____

____being member/member(s) of the above named company hereby appoint Mr./Ms. _____________________________________residing at ____________________ ____

____or failing him/her Mr. Ms. ____ residing at _____________________________ ____________________________________as my/our proxy to vote for me/us and on my/our behalf at the **Thirteenth Annual General Meeting** of the Company to be held on Thursday, the 29th day of June, 2006 at 3.00 p.m. at M.C. Ghia Hall, 2nd Floor, Bhogilal Hargovinddas Building, 18/20, K. Dubash Marg, Behind Prince of Wales Museum/ Kala Ghoda, Mumbai – 400 001and at any adjournment thereof, if any.

Signed this ________ day of ______________, 2006.

Affix Re. 1.00 Revenue Stamp

Signature

(Please sign across the Stamp)

Note : This form in order to be valid should be duly stamped, completed and signed and must reach the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.

HEXAWARE TECHNOLOGIES LIMITED

Registered Office : 152, Millennium Business Park, Sector -III, 'A' Block, TTC Industrial Area, Mahape, Navi Mumbai – 400 710.

ATTENDANCE SLIP

For Dematted Shares	For Physical Shares
DP ID	**REGD. FOLIO NO.**
CLIENT ID	**NO. OF SHARES HELD**

I certify that I am a registered shareholder/proxy for the registered shareholder of the Company. I hereby record my presence at the **Thirteenth Annual General Meeting** of the Company held Thursday, the 29th day of June, 2006 at 3.00 p.m. at M. C. Ghia Hall, 2nd Floor, Bhogilal Hargovinddas Building, 18/20, K. Dubash Marg, Behind Prince of Wales Museum/Kala Ghoda, Mumbai – 400 001and at any adjournment thereof, if any.

_______________________________ _______________________________

Member's / proxy's name in BLOCK letters   Member's / proxy's Signature

(Shareholders attending the meeting in person or by proxy are requested to complete the attendance slip and hand over the same at the entrance of the meeting Hall.)

ECS / BANK MANDATE FORM

To
Sharepro Services (India) Private Limited

Unit: : Hexaware Technologies Limited
Satam Estate,
3rd floor,
Above Bank of Baroda,
Cardinal Gracious Road,
Chakala, Andheri (East),
Mumbai – 400 099.

Re: Payment of Dividend through ECS or Incorporation of Bank Account Details on Dividend Warrants.

I wish to participate in the Electronic Clearing Services for payment of dividend to me. Given below are the details of my Bank Account.
I do not wish to opt for Electronic Clearing Services for payment of dividend to me. Given below are the details of my Bank Account to be printed against my name on the dividend warrant.

Name of the Sole / First Shareholder	
Folio No.	
Bank Name	
Branch (Name, Address & Telephone No.)	
Type of Account (Saving or Current)	
Account No. (As appearing in Cheque Book)	
Ledger folio No. (if any) of your Bank Account	
9 Digit MICR No. (as appearing on the Cheque issued by the Bank – Please attach a photocopy of your Cheque Leaf which contains your Bank Account No.	
PAN / GIR No.	

I hereby declare that the above particulars given are correct and complete. If the transaction is delayed or not effected at all for reasons of incomplete or incorrect information for any reasons, I would not hold the Company responsible. I also undertake to advise changes, if any, in the particulars of my account to facilitate updation of records for purposes of credit of dividend amount through ECS.

____
Signature of sole/first shareholder

Date :

Note :

1. Please send us ECS/Bank Mandate form duly filled and signed by June 23, 2006.
2. Please complete the form and send it to Registrar of the Company if you are holding share certificate(s) in physical form.
3. In case your shares are in Dematerialized form, inform/update the Depository Participant (DP) with whom you are maintaining Demat account.
4. In case of more than one Folio, please complete the details on separate sheets.
5. Shareholders are also requested to note that changes directly intimated to the Registrar or its Company will not be considered in respect of Demat accounts.
6. In case there is a change in address/Bank A/c./Bank Branch, inform/update the Company/DP immediately.