MEGASOFT LIMITED

3rd Annual Report 2002

MEGASOFT

Solution-Driven Services Worldwide

Board of Directors

Ravindra Sannareddy, *Chairman*

S Rajagopal Reddy, *Whole-time Director*

D Sudhakar Reddy, *Whole-time Director*

LS Venkataramanan

P Mukunda Reddy

General Manager & Company Secretary

GP Srinath

Auditors

Bharat S Raut & Co.

Chartered Accountants

Chennai

Bankers

Bank of India

Global Trust Bank Limited

HDFC Bank Limited

ICICI Bank Limited

Registered Office

96, Dr Radhakrishnan Salai

Mylapore

Chennai - 600 004

Development Centres

96, Dr Radhakrishnan Salai

Mylapore

Chennai - 600 004

85, Kutchery Road

Mylapore

Chennai - 600 004

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MEGASOFT

Solution-Driven Services Worldwide

Building Value
through
Execution Excellence

3rd Annual Report 2002

Profile

Introduction

Megasoft Limited is one of the leading providers of IT services worldwide. Headquartered in Chennai, the Company has been serving as a prime source of comprehensive IT services for a rapidly expanding global customer base. Our services range from upstream business applications consulting, development and maintenance of software applications, set-up and administration of systems and product development through providing systems integration and enterprise-wide solutions. Thus, our services cover every aspect of a system life cycle, from strategy and design to development and implementation, and, ultimately, to maintenance and support. Because of our unique organisational structure and business model we have been able to provide a range of skills and quality services.

Our business philosophy aims at integrating leading edge Technology and superior customer service to deliver contemporary and innovative solutions that significantly reduce development costs and provide quality. We have nurtured long term relationships with most of our clients covering fortune 500 organisations in USA, Europe, Asia Pacific, etc., covering industries spanning Manufacturing, Insurance, Banking, Finance, Telecom, Transportation, etc.

Domain Expertise

Megasoft has identified its expertise to target the following industry specific areas.

- **Manufacturing**: Manufacturing Industries Management Systems
- **e-Pharma:** Clinical trials, Hospital Management, Designer Work Bench, Electronic Document Management System and Image management applications, Bio-informatics
- **Insurance:** Life and Non Life Insurance Management Systems
- **Financial Services**: Banking, investment, Portfolio Management, Risk Management, Credit Bureau and Related Financial Applications
- **Telecom:** Personal wireless communication, desktop video conferencing, computer integrated telephony and voice response systems and network management systems
- **Logistics & Transportation**: Ground Transportation, Freight Forwarding and Supply Chain Management.

Service Offerings

As a Total Solutions Provider, Megasoft has earned a reputation of providing cost-effective cutting edge solutions to its clients. To deliver targeted, market-specific solutions, we provide services through several practice areas that are organised to leverage our team's technical knowledge, domain expertise, and use of standard and emerging methodologies. We are well equipped to cater to diverse requirements, such as Internet-based applications, industry-specific solutions, global outsourcing and IT staffing assistance.

Megasoft offers solution driven services for the complete range of IT services to meet the diverse information needs of its clients, including the following:

- Custom Application Development
- ERP Consulting and Implementation
- e-Commerce & Internet Solutions
- Testing Services
- Application Maintenance and Support
- SCM Solutions
- Network Solutions

ERP Consulting and Implementation

Megasoft undertakes consulting and implementation of ERP projects for large as well as medium size organisations. We have the experience, expertise and the ability to ensure our clients gain a distinct competitive advantage in their market place when the ERP engagement is complete. Strong functional knowledge of financial systems and core business processes for procurement, manufacturing, delivery and distribution have been our strengths. By implementing several mission-critical ERP projects across various industries, we have been able to gain in-depth understanding of all technical aspects of ERP implementation. Our technical expertise can also provide:

- Data Migration from Legacy system to ERP systems
- Enhancement to the applications by developing additional requirements and integrating them with the ERP application
- Interfacing with external feeder systems
- Database Administration expertise on various operating systems

CRM Consulting and Implementation

Megasoft has extensive experience in implementing CRM solutions for customers worldwide and adopts the best practices in this field. The CRM implementation framework comprises a series of steps that we employ to assist clients in reaching their organisational goals.

- Formulation of a CRM Strategy and Vision
- Alignment of the CRM Strategy and objectives
- Consolidation and segmentation of customer data
- Personalising the customer interactions
- Identification of appropriate technology

SCM Solutions

Megasoft undertakes consulting and implementation of Supply Chain Management solutions, which includes Warehousing, Distribution & Logistics, Transport Management and Freight Forwarding.

Our strength lies in quickly understanding the customers' requirement and providing "need-based" solution.

By taking advantage of our domain expertise in SCM our customers can be sure to move ahead of competition.

e-Commerce and Internet Solutions

Megasoft is completely geared to offer customers, solutions they need to overcome the challenges posed by e-commerce and enable them take advantage of the opportunities in the Internet age. Megasoft is equipped to provide services required to manage the increasing number of elements found in e-Business. Customers have the freedom to choose whatever combination they need, with the assurance that these solutions will work together effectively. Our web-enabled automation systems have provided our clients a significant competitive advantage by improving customer service and convenience, streamlining business processes, expanding global reach and a quicker order conversion.

Most importantly, our solutions provide security, including intrusion detection, administration, authentication and authorisation and development of custom encryption and decryption algorithms.

Network Solution Services

For most organisations, IT infrastructure isn't just critical; it is the very lifeline of the business. Our focus is to help organisations leverage their infrastructure to deliver high quality of application service in a safe and secure environment. To meet this objective, the Network Solutions Group of Megasoft provides services that are a unique combination of strategy and technology under one framework, covering consulting, implementation and ongoing management.

Our Network Solutions Group provides services in the following practice areas:

- IT Network Strategy Management Solutions
- Infrastructure Audit & Design Implementation Services
- Enterprise Network Management Solutions
- Security Solutions
- Mail Services solutions

Our highly qualified team of technical and business experts provides autonomous solutions spanning various technologies and processes. Our vendor independent approach allows us to tailor customised solutions that meet specific requirements of our clients. We can thus be a single point contact for complete mission-critical, network infrastructure management requirements.

Testing Services

Megasoft Software Reliability Services render services in software testing (Validation and Verification), business analysis and documentation. The team works with the latest automation testing tools and has experts experienced in planning and executing test automation.

Megasoft Software Reliability Services adds value to the software it tests by:

- Identification of functionality gaps in the tested applications, through business-analytical review and thus unearthing all "common logical" errors
- Adopting simulated "business scenarios based testing", to ensure end-to-end integration of the application tested
- Applying knowledge acquired over testing several applications to identify error-prone areas
- Risk identification for Project Managers regarding security lapses in the software and their impact
- Testing the software from the customer's perspective and identifying all errors including usability errors

Vertical Markets Served

- Telecommunications
- Medical & Healthcare
- Logistics
- Federal, State & Local Governments
- Banking, Financial Services & Insurance
- Utility Companies
- Manufacturing & Retail

Consulting

Megasoft undertakes consulting assignments that involve development business and IS processes and systems. Megasoft also undertakes development of IS strategies for migration to client/server, deployment of new Technology and enterprise networking design.

Letter to the Shareholders

Dear Shareholder

It gives me great pleasure to present your Company's Third Annual Report.

The year 2001-02 was a difficult one for the Indian economy and more particularly the Information Technology Industry. The sentiments in the industry were depressed and many companies were facing a tough time to stay in the race. Although the industry was able to better its overall performance, the fact remains that a lot of good companies were faced with the challenge of surviving and generating revenues.

Performance

The Company's performance during the last year was to a large extent affected by the happenings in the world IT markets. Although we were able to post higher sales, we could not finish the year with the same kind of performance like in the previous year. Sales increased by 80% as compared with last year and stood at Rs.3818 lacs. However, the profit for the year was significantly lower at Rs.11 lacs due to pressure on margins and overall sluggishness in the market. We are confident that the industry will see revival and the fortunes of all the good and competitive companies would improve. Efforts are already in place to improve the performance without waiting for the markets to improve.

Your Company focussed on specific verticals during the year like Banking, Insurance and Transportation. As in the past the growth drivers were the BFSI verticals. We have been able to add to our clientele a large multinational insurance company. We have also been able to add few banking projects to our projects portfolio. We expect that projects in these verticals will be the growth drivers of the Company in the coming years.

Alliances

During the year ProLease, a Business Process Outsourcing (BPO) major through its investment arm, InterPro Scribe Limited, an OCB, took up a stake of 13.5% in your Company. ProLease is a leading BPO Service Provider in the US and also has a significant presence in India. We have entered into a long-term partnership arrangement with ProLease and we believe that this will pay rich dividends to both of us. This partnership although being relatively new has already resulted in Megasoft executing large projects for ProLease.

Quality Initiatives

The quality initiatives of your Company have been progressing as planned. We are constantly upgrading our system models and delivery capabilities to ensure that the quality of our work and deliverables offered is of the highest standard, which will satisfy the customers. As you are aware, we already have the ISO Quality certification and now we are aiming for CMM Level 4 certification in the first half of 2003 and Level 5/5i by 2004.

Acquisition plans

During the current fiscal, your Company is planning to acquire Megasoft Consultants, Inc. (MCI), a US based Software Solutions Company, in operation since 1994. MCI's turnover in the last fiscal was around US$ 15 million and is ranked as one of the fastest growing companies in the US by Inc 500 magazine and other rating agencies. With this acquisition, your Company's client base would increase substantially and result in higher revenues and profits from North America and open up more business opportunities in Europe and Asia Pacific through MCI's subsidiaries at UK, Germany, The Netherlands, Australia and New Zealand.

The Future

We have been taking several steps to chart a course for the future of the Company. Our objective and goal is to be a "Total Solutions Provider". To achieve this desired objective and goal we plan to concentrate more on newer verticals, which would be the revenue generator for all software companies across the industry. We will continue to specialise in certain niche areas where development of a project can, in itself, be a step towards evolution of a new vertical.

Our vision

It is our vision to make Megasoft a leading provider of Information Technology Solutions in all the spheres. We hope to be among the top line software companies in the next three years. Our Company's focus for the current year is to consolidate the initiatives taken during the last year, strengthen the teams' competencies to handle projects in emerging technologies and augment all processes and systems to provide optimum solutions, on time to all our customers. We believe great work is not done by strength alone, but by hardwork and perseverence. We are also simultaneously enhancing our delivery capabilities in all respects to offer end-to-end solutions to customers in the true sense, and thus be able to establish Megasoft as a leading "Software Powerhouse" in the Global market.

I thank you for being a part of Megasoft. I'm confident that you will continue to be a part of our family and stand by us in the years to come.

Yours sincerely

Ravindra Sannareddy
Chairman

Forward-looking statements contained in this Annual Report should be read in conjunction with the following cautionary statements: Certain expectations and projections regarding future performance of the Company referenced in this Annual Report are forward-looking statements. These expectations and projections are based on currently available information along with the Company's operating plans and are subject to certain future events and uncertainties, that could cause actual results to differ materially from those that may be indicated by such statements.
Some of the data referred to in this Annual Report are consolidated numbers of the Megasoft's Associate / Affiliate Companies world-wide.

Notice

Notice is hereby given that the Third Annual General Meeting of the Members of Megasoft Limited will be held on Friday the 20th day of December 2002 at 3.00 PM at Mowbrays Inn, 303, TTK Road, Alwarpet, Chennai – 600 018 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 30th June 2002 and the Profit and Loss Account for the period ended on that date together with the Report of the Auditors and Directors thereon.
2. To appoint a Director in place of Mr LS Venkataramanan, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr D Sudhakar Reddy, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s MC Ranganathan & Co. and M/s TN Rajendran & Co. Chartered Accountants as the Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company, on such remuneration as agreed upon by the Board of Directors and the Auditors, in addition to reimbursement of all out of pocket expenses in connection with the audit of the Accounts of the Company.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution:**

   RESOLVED *that pursuant to the provisions of Section 81(1A) of the Companies Act, 1956 (including any amendment thereto or re-enactment thereof for the time being in force) and in accordance with the provisions of Memorandum and Articles of Association of the Company and the regulations / guidelines, prescribed by the Securities and Exchange Board of India or any other relevant authority, from time to time, and in modification of the resolutions passed at the Second Annual General Meeting of the Company held on 26th July 2001, and subject to such approvals, consents, permissions and sanctions, the Board of Directors of the Company (hereinafter referred to as "the Board") which term shall be deemed to include any Committee, be and is hereby authorised on behalf of the Company to extend the Option Plan of the Company as per existing Stock Purchase Plan viz. ESPP 1999 Scheme to eligible employees (including Directors whether Whole-time Directors or not) of the subsidiary companies of the Company on the terms and conditions as may be decided from time to time.*

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution:**

   RESOLVED *that subject to the provisions of the Companies Act, 1956, (including any statutory modification(s) or re-enactments thereof for the time being in force), Securities Contracts (Regulation) Act, 1956, and the Rules framed there under, Listing Agreements, and all other applicable laws, rules, regulations and guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any authority while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as 'the Board', which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by the Resolution), the consent of the Company be and is hereby accorded to the Board to de-list the equity shares of the Company from the Stock Exchanges at Ahmedabad and / or Hyderabad.*

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution:**

> ***RESOLVED*** *that in accordance with the FEMA (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 or any other applicable law, and subject to the approval of the Central Government and Reserve Bank of India, if required, the consent of the Company be and is hereby accorded for investment by Foreign Institutional Investors, in the equity share capital of the Company, either by direct investment or purchase or otherwise by acquiring from the market under portfolio investment scheme on repatriation basis, up to 100% of the paid-up equity share capital of the Company or such other limits as may be prescribed from time to time by the Central Government and / or Reserve Bank of India or any other related authority.*
>
> ***RESOLVED FURTHER*** *that Board be and is hereby authorised to do all such acts, deeds, matters and things as may be necessary, proper or expedient for the purpose of giving effect to this resolution and for matters connected therein or incidental thereto.*

By order of the Board of Directors
For **Megasoft Limited**

Chennai
8th November 2002

GP Srinath
General Manager & Company Secretary

Notes

1 An Explanatory Statement relating to the Special Business pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto.

2 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and to vote on a poll instead of himself and the proxy need not be a member of the Company.

3 The instrument appointing the proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.

4 Members / Proxies should bring duly filled in Attendance Slip sent herewith for attending the Meeting.

5 The Register of Members and Share Transfer Books will remain closed from Wednesday the 18th December 2002 to Friday the 20th December 2002 (both days inclusive).

6 Members are requested to address all their correspondence including share transfer matters and change in their addresses to:

Investors Service Cell
Megasoft Limited
96, Dr Radhakrishnan Salai, Mylapore
Chennai-600 004
Tel: 044-8476655
Fax: 044-8471516
email: investors@megasoft.com

Cameo Corporate Services Limited
“Subramanian Building”
1, Club House Road
Chennai-600 002
Tel: 044-8460390
Fax: 044-8460129
email: cameosys@satyam.net.in

Explanatory Statement
(Pursuant to Section 173(2) of the Companies Act, 1956)

Item No.5

The Company had obtained the approval of the members at the Second Annual General Meeting of the Company held on 26th July 2001 for issue of Shares under the Company's Employees Stock Purchase Plan (ESPP) Scheme 1999. The Scheme is now sought to be amended so as to include employees of the subsidiary companies for participation in the Scheme. As per SEBI Guidelines for issue of Stock Options, approval of the shareholders by way of special resolution is required for any modification of the original scheme. Accordingly, approval is sought from the Members for extending the ESPP 1999 Scheme to the employees of the subsidiary companies.

Your Directors recommend the Special Resolution for approval of the Members.

None of the Directors of the Company are, in any way, concerned or interested in the resolution.

Item No.6

Presently, the Company's securities are listed at the following four Stock Exchanges in India:

(i) Madras Stock Exchange Limited, Chennai (the Regional Stock Exchange)
(ii) The Stock Exchange, Mumbai
(iii) The Stock Exchange, Ahmedabad
(iv) Hyderabad Stock Exchange Limited, Hyderabad

With the extensive networking of The Stock Exchange, Mumbai (BSE) and with extension of the BSE terminals to other cities, investors have access to online dealings in the Company's securities across the country. The bulk of the trading in the Company's equity shares takes place on the BSE and the depth and liquidity of trading in the Company's securities on the other Stock Exchanges are lower. The Company's Equity Shares are one of the scrips, which the Securities and Exchange Board of India (SEBI) has specified for settlement only in dematerialised form by all investors. The listing fee paid to the other Stock Exchanges is disproportionately higher compared to the volume of shares traded at these Exchanges. The trading volumes and liquidity are far lower compared to the MSE and BSE. The relevant statistics for trading volumes on the various exchanges during the fifteen months period ended 30th June 2002 are set out hereunder:

Stock Exchange	Number of Shares
Madras Stock Exchange Limited	2,400
The Stock Exchange, Mumbai	9,738
The Stock Exchange, Ahmedabad	Nil
Hyderabad Stock Exchange Limited	Nil

As a part of its cost reduction measures, the Company has proposed this resolution, which will enable it to de-list its equity shares from The Stock Exchange, Ahmedabad and / or Hyderabad Stock Exchange Limited at an appropriate time in future. The actual timing of such a move will depend upon future developments regarding integration of Stock Exchanges across the country, growth in volume of trading on different exchanges, etc.

In line with the SEBI regulations and approval, if any required, members' approval is being sought by a Special Resolution for enabling voluntary de-listing of its Securities from the said Stock Exchanges. The Company is also separately giving Special Notice of the proposed enabling resolution for the said de-listing in one National Newspaper on all India basis.

The proposed de-listing of the Company's securities from The Stock Exchange, Ahmedabad and / or the Hyderabad Stock Exchange Limited, as and when the same takes place, will not adversely affect the investors. The Company's securities will continue to be listed on the Madras Stock Exchange Limited (the Regional Stock Exchange) and the BSE, Mumbai. The de-listing will take effect after all approvals, permissions and sanctions are received. The exact date on which de-listing will take effect will be suitably notified at that time.

Your Directors recommend the Special Resolution for approval of the Members.

None of the Directors of the Company are, in any way, concerned or interested in the resolution.

Item No.7

The investment in the Equity Shares of Indian Companies by Foreign Institutional Investors (FIIs), has been raised by the Reserve Bank of India, in consultation with the Central Government. The sectoral cap for the software industry as per the latest amendment is 100%. This however, is subject to the approval of the Board of Directors and the approval of the shareholders of the Company by way of special resolution. The Board of Directors of the Company are of the view that the increase in the stake by Foreign Institutional Investors (FIIs) in the paid-up equity share capital of the Company, would be in the interest of the Company in the long term. The Board recommends the resolution for increasing the maximum limit of FII investment in the Company to 100% of the paid-up equity share capital of the Company.

None of the Directors of the Company are, in any way, concerned or interested in the resolution.

By order of the Board of Directors
For **Megasoft Limited**

Chennai
8th November 2002

GP Srinath
General Manager & Company Secretary

Additional Information on Directors seeking re-appointment at the Annual General Meeting

Following is the biographical data about the Directors seeking re-appointment as a Director:

Mr LS Venkataramanan, aged 43, is a Fellow Member of The Institute of Chartered Accountants of India and an Associate Member of The Institute of Company Secretaries of India. He is a practising Chartered Accountant for over fifteen years and has handled corporate, internal and bank audits. Other areas handled include project finance, company law matters & income tax cases.

Mr Venkataramanan was co-opted to the Board as an additional director at the Meeting of the Board of Directors held on 22nd December 1999. This appointment was formalised at the first Annual General Meeting of the Company held on 31st January 2000. Mr Venkataramanan is also the Chairman of the Audit and Remuneration / Compensation Committees of the Board. He is also a member of the Share Transfer / Investors' Grievance Committee.

Mr LS Venkataramanan is also a Director on the Board of ilabs Limited.

Mr Venkataramanan does not hold any committee membership in any Company apart from your Company.

Mr Venkataramanan is being paid professional fee as per Sections 309(1) and 314(1) of the Companies Act, 1956. The Company had taken approval from the Members at the last Annual General Meeting for this payment.

Mr D Sudhakar Reddy, aged 44, is a Fellow Member of The Institute of Chartered Accountants of India and was in practice for over fifteen years. He has extensively travelled overseas in connection with the export business of his clients. His audit experiences include Public Limited Companies & Banks. He is now looking after Finance, Accounts and Administration related activities.

Mr Sudhakar was co-opted to the Board as an additional director at the Meeting of the Board of Directors held on 6th March 2000. He was later appointed as a Whole-time Director effective 1st September 2000 at the Meeting of the Board of Directors held on 24th August 2000. His co-option to the Board and his appointment as Whole-time Director were formalised at the Second Annual General Meeting of the Company held on 26th July 2001. He is also a member of the Share Transfer / Investors' Grievance Committee of the Board.

Mr Sudhakar Reddy does not hold any committee membership in any Company apart from your Company.

Directors' Report

To the Members

Your Directors are pleased to present their report on the business and operations of your Company for the fifteen months period ended 30th June 2002.

Financial Highlights

The financial highlights of the Company for the extended period of fifteen months, i.e. from 1st April 2001 to 30th June 2002 are given below:

Rs in lakhs

Particulars	Period ended 30th June 2002 (15 months)	Period ended 31st March 2001 (15 months)
Sales & Other Income	3877	2185
Total Expenditure	3354	1686
Operating Profit (EBIDTA)	523	499
Finance Cost	249	71
Depreciation & Amortisation	262	107
Profit before tax	12	321
Provision for income-tax / deferred tax	1	—
Profit after tax	11	321

Operations

Your Company's turnover for the extended period of fifteen months ended 30th June 2002 stood at Rs.3818 lakhs as compared to Rs.2123 lakhs for the comparative period last year. Profits for the same period was Rs.12 lakhs as against Rs.321 lakhs.

Revenues during the current fiscal grew by 80% and profits were lower at Rs.12 lakhs as against Rs.321 lakhs due to the continued recession in the global IT Industry. However, your Company was able to cut down on the cost considerably, mainly due to timely corrective steps taken by the Management. Finance cost during the period was higher as compared to last year due to increased borrowings (unsecured) in the current fiscal for meeting the working capital requirements of the Company. Most of the borrowings made during the year were replaced by the Rights Issue proceeds in June 2002.

Dividend

In view of the lower profits your Directors are unable to recommend any Dividend for the year.

Future outlook

The slowdown in the IT industry continued during the year. Companies were facing the challenge of procuring new clients in this recessionary period and in the face of stiff competition. However, there are indications that the worst is getting over and the Software and IT industry will start gaining its lost ground.

Your Company has taken various proactive steps to improve performance in the future. The Company has identified new verticals where there is a huge growth potential. The Company has also been able to procure projects in verticals like Banking, Insurance and Financial Services sector. Your Directors are confident that with a better marketing set-up, the Company would be able to secure new projects both in the overseas markets and in India. Efforts are already in place to concentrate more in the upcoming markets. Your Directors believe that these efforts will start paying dividends to the Company and help in improving its bottom line.

Rights Issue of Shares

During the year, your Company came out with a Rights Issue of Equity Shares. The Company issued 4,260,200 equity shares of Rs.10 each at a premium of Rs.15 per share in the ratio of two shares for every five shares held in the Company as on 26th February 2002 (record date) aggregating to Rs.106,505,000. The Rights issue opened for subscription on 30th March 2002 and closed on 28th May 2002. The Shares were allotted on 12th June 2002 and the basis of allotment was approved by the Regional Stock Exchange i.e. Madras Stock Exchange Limited. These shares were listed during June / July 2002 on all the Stock Exchanges where the Company's existing Equity shares are listed viz. Chennai, Mumbai, Ahmedabad and Hyderabad.

Preferential Issue of Shares

Your Company obtained the approval of the Members at the Extra-ordinary General Meeting held on 14th August 2002 for issue of equity shares on preferential basis to an Overseas Corporate Body (OCB) viz. InterPro Scribe Limited. The Company has taken approval for issue of 1,400,000 equity shares through this preferential issue at a price of Rs.70 each including the premium (as per SEBI Guidelines).

On 4th October 2002 the Company allotted 207,075 equity shares of par value of Rs.10 each at Rs.70 per share on receipt of US$ 300,000 equivalent to Rs.14,495,250 towards first tranch of investment consequent to the above-mentioned approval. InterPro's holding in the Company increases to 13.51% after this preferential issue.

Employees Stock Purchase / Option Plan

Your Company has not made any grants or issued shares under the ESOP / ESPP plans during the current fiscal year. The Company is in the process of implementing the Scheme in line with the SEBI Guidelines. The Company will be making application for listing of the shares on its allotment. It is also proposed to extend the Stock Purchase Plan 1999 to the employees of subsidiary companies of the Company. The necessary resolutions are being placed before the members in the ensuing Annual General Meeting.

Subsidiaries

The Company has established wholly owned subsidiaries at Singapore, Malaysia and Hong Kong over last two years and these subsidiaries have commenced their operations. The accounts of these subsidiaries have been attached to this Report and have been included in the consolidated financial statements.

There are losses in these subsidiaries during their initial periods mainly on account of the initial operating expenses and expenses incurred in establishing the business. The subsidiaries were incorporated with the idea of making them the marketing arm of the Company for sourcing projects from the Asia-Pacific region. Your Directors are confident that these subsidiaries will turnaround in the coming years and will start earning profits thereby generating income to the Company.

Explanation to Qualifications by Auditors in their Report

The Statutory Auditors of the Company have made some qualifications in their report on the accounts of the Company for the fifteen month period ended 30th June 2002. The explanation of the Management to each of the qualification is as follows:

- *Clause (g)*
  The Company has conducted technical and marketing study about the products, which are being developed and carried on in the work-in-progress as at 30th June 2002. Further, the Company is also having at its disposal sufficient resources to customise these products and market the same within India and Overseas by patenting them. The Management of the Company is also working with some prospective clients for selling these products on project basis with full rights to them to further customise and market in their own name. Hence, the Company's Management is confident of recovering these costs and making profits out of these in future.

- *Clause (h)*
  Your Directors are of the opinion that the outstanding debts would be recovered in the next few months. The delay in sales realisation is mainly on account of the tight financial situation across the globe and the slow down in the IT industry continuing over last two years. The Chairman of the Company has been in continuous touch with eCogNito's CEO, who has given assurances for clearing of the debts in due course. Further, the Company has received Rs.102.66 lakhs from eCogNito against their debts outstanding subsequent to 30th June 2002.

Further, with regard to the amounts carried on in work-in-progress, the client has given assurances that they would be picking up these costs also as per the contract entered into with the Company. We also understand that eCogNito is in the final stages of tying up their finances for marketing this high security product. In addition to this, the Company is also exploring marketing of this product to other prospective customers in case eCogNito is unable to pay the debts and honour the contract in full for realising the balance cost carried on in work-in-progress. This intention of the Company has also been communicated to the client informally and they too have agreed to forego the rights for the product in case of their non-payment. This high security product can also be used as part of a future project for a new client. Hence, your Directors are of the view that the billing would be made for sale of the work-in-progress and the debt outstanding would also be realised in full.

- *Clause (i)*
  The Company has set up wholly owned subsidiaries at Singapore, Malaysia and Hong Kong in the recent past to take advantage of these local markets. These subsidiaries have accumulated losses on account of the initial set-up costs. The slow down in the IT industry has also affected the Company's plans of setting up and running the business profitably in a short period. But, over the last few months, these subsidiaries have started generating revenues. Further, Company's subsidiaries have some orders on hand which is in the process of being executed. On account of these developments, your Directors are quite confident that these losses are only a short term phenomena and temporary in nature and the subsidiaries would soon start making sufficient profits, which would cover up the accumulated losses and start paying returns on the investments from India.

- *Clause (j)*
  As regards advance of Rs. 1,680,720 to the subsidiary at Singapore, it may be recalled that the Company had advanced this amount to meet the subsidiary's short-term working capital requirements. The subsidiary has started making profits recently. It has also got some new orders and is in the process of executing the same. On account of this, your Directors are confident of recovering this advance in the coming months and hence no provision has been made in the financial statements for the period ended 30th June 2002.

  A debt of Rs.2,598,059 from the subsidiaries are represented by the debts collectible from its clients. The subsidiaries have taken steps to recover their debts. The delay in realisation of debts by the subsidiaries is again on account of the general slow down across the world. Other software companies are also finding it difficult in realising their debts on time. Hence, your Directors are of the opinion that these debts would be realised in due course and no provision has been made in the financial statements for the period ended 30th June 2002.

- *Clause (12) of the Annexure to the Auditors' Report*
  The delays in the remittance of the statutory dues were mainly on account of the critical financial position of the Company for most part of the year. Severe liquidity crunch during the last year on account of the increase in receivables turnover due to the continued slow down in the IT industry resulted in remittances on due dates difficult. However, all the dues have been paid in full now.

Consolidated Financial Statements

In accordance with Accounting Standard AS-21 on Consolidated Financial Statements, the accounts of Megasoft Group form part of this Annual Report. The accounts of the Group have been prepared on the basis of the audited financial statements received from the subsidiary companies, as approved by the respective Boards.

The qualifications by the Auditors' in the report on Consolidated Financial Statements have already been addressed by the Board in their explanations to the parent Company's Auditors' Report.

Proposed acquisition of an overseas company

Your Company has obtained the necessary approval under FEMA during early part of October 2002, for acquisition of Megasoft Consultants, Inc, USA (MCI). The Company had taken the approval of the Members' at the last Annual General Meeting for this acquisition. After this acquisition MCI will become a wholly-owned subsidiary of your Company. In addition to this, all the subsidiaries of MCI located across the world in countries viz. UK, Germany, The Netherlands, Australia and New Zealand will also become the subsidiaries of your Company.

Your Directors had approved the acquisition of MCI for a consideration of USD 0.6 million, at their Meeting held on 19th July 2002. The acquisition process has already begun and your Directors are confident of bringing MCI and all its subsidiaries under its fold soon. The acquisition would help the Company leverage the benefits of MCI's strong marketing set-up along with its technical resources.

Quality

Your Company's Quality initiatives are on track after being accredited with the ISO 9001 certification in early 2001. The Company has also successfully been through three surveillance audits.

Your Company's CMM initiatives are progressing as planned. The Company hopes to achieve Level 4 by early 2003 and Level 5/5i by 2004.

The Company has implemented best practices for planning, engineering and managing development and maintenance of IT related activities. These are tailored to satisfy the maturity needs of an organisation as envisioned by SEI CMM on a continuous basis. These key practices and processes are designed and implemented to improve our ability to meet goals for cost, schedule, functionality and product quality. The goal is to improve efficiency, return on investment, effectiveness, exceed product quality and to ensure customer satisfaction.

Corporate Governance

As per Clause 49 of the Listing Agreement with Stock Exchanges, a report on Corporate Governance along with the Auditors' Certificate for compliance, has been given separately in the Corporate Governance section which forms part of this Report.

Management Discussion and Analysis

A detailed discussion on the performance of the Company, industry structure, threats and opportunities and risks have been given separately in the Management Discussion and Analysis section which forms part of this Report.

De-listing of Company's Equity Shares

The Equity Shares of your Company are now listed on the Stock Exchanges at Chennai, Mumbai, Ahmedabad and Hyderabad. The Shares are not being actively traded on the Stock Exchanges at Ahmedabad and Hyderabad, since shareholders in Gujarat and Andhra Pradesh region trade their shares through online trading with Bombay Stock Exchange (BSE). Hence, it is proposed to de-list the shares from these Stock Exchanges. The Special Resolution seeking the members approval has been included in the Notice convening the Annual General Meeting along with the Explanatory Statement.

Increase in Foreign Institutional Investors' limits

The investment in the Equity Shares of Indian companies by Foreign Institutional Investors (FIIs), has been raised by the Reserve Bank of India, and the current sectoral cap for the software industry is 100%. This however, is subject to the approval of the Board of Directors and the approval of the members of the Company by way of special resolution. The Board of Directors of the Company are of the view that the increase in the stake by Foreign Institutional Investors (FIIs) in the paid-up equity share capital of the Company, would be in the interest of the Company in the long term. The necessary resolutions are being placed before the members in the ensuing Annual General Meeting.

Disclosure as per the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

In terms of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, your Directors furnish the required details below:

(a) Conservation of Energy: The nature of the Company's operations require a very low level of energy consumption.

(b) Research and Development (R&D): The Company is actively into the research and development of Software.

(c) Technology Absorption: The Company has not imported any technology during the year.

(d) Foreign Exchange Earnings and Outgo: During the period under review, your Company earned foreign exchange amounting to Rs.3021 lakhs. The Foreign Exchange outgo during the period was Rs.1807 lakhs.

Fixed Deposits

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as at the Balance Sheet date.

Directors

Mr LS Venkataramanan and Mr D Sudhakar Reddy, Directors of the Company, retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-appointment. A brief profile of Mr LS Venkataramanan and Mr D Sudhakar Reddy is given along with the Notice convening the Meeting.

Auditors

Your Company has received letter from M/s Bharat S Raut & Co., Chartered Accountants, Chennai, wherein they have expressed their inability to continue as Auditors and are not seeking re-appointment. Your Directors thank them for their invaluable services rendered and for the suggestions given by them during their audit.

Your Directors propose the appointment of M/s MC Ranganathan & Co. and M/s TN Rajendran & Co., Chartered Accountants, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting till the conclusion of next Annual General Meeting. The Company has received letters from them stating that, if appointed, it will be within the limits specified under Section 224(1B) of the Companies Act, 1956.

Particulars of Employees

There were no employees who were in receipt of salary beyond the limits prescribed by Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

Directors' responsibility statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors hereby confirm that they have:

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

(ii) 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 of the Company for that period;

(iii) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

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

Acknowledgements

Your Directors thank the clients, vendors, investors and bankers for their continued support to your Company's growth. Your Directors place on record their appreciation of the contribution made by the Associates at all levels, who, through their competence, hard work, solidarity, co-operation and support, have enabled the Company to achieve rapid growth.

Your Directors thank the Government of India, in particular the Ministry of Information and Technology, the Customs and Excise Departments, Software Technology Park – Chennai, the Ministry of Commerce, the Reserve Bank of India, VSNL, BSNL and other Government Agencies for their support during the period, and look forward to their continued support in the future.

For and on behalf of the Board of Directors

Chennai
8th November 2002

Ravindra Sannareddy
Chairman

Corporate Governance

1. Company's philosophy on code of governance

Good Corporate Governance is the very basis for any organisation to survive in this competitive world. It is the essence, which enhances the confidence of the shareholders in the company, improves the goodwill of the company and ensures better participation by all the persons associated with the company for creation of wealth.

Your Company is committed to good corporate governance and has benchmarked itself against best global practices. The Company believes that Good Corporate Governance not merely means following the guidelines / conditions as mentioned in Clause 49 of the Listing Agreement, but in upholding and maintaining the fundamental principles of Good Governance in true spirit.

Your Management is convinced that good Corporate Governance is the end result of good and sound Management of the affairs of the Company. It is the endeavour of your Management to follow the fundamental principles of Corporate Governance.

Your Company provides detailed information on various issues concerning the Company's business and financial performance. The Company respects the inalienable rights of its shareholders to information on the performance of the Company and considers itself a trustee of its shareholders.

2. Board of Directors

The Board of your Company comprise five Directors, of whom two are Executive Directors. During the year the Board met fourteen times, the dates of which are as follows:

April 19, June 8, July 18, 31, September 28, October 31 in 2001 and January 31, March 6, 19, 28, April 26, 30, May 13, June 12 in 2002.

Composition of the Board as on 30th June 2002 and related information is given below:

Name of Director	Category	No. of Meetings held	No. of Meetings attended	Attendance at last AGM	No. of other Directorships held
Ravindra Sannareddy, *Chairman*	P	14	10	Yes	—
S Rajagopal Reddy	P/WD	14	13	Yes	—
LS Venkataramanan	ID	14	14	Yes	2
D Sudhakar Reddy	WD	14	14	Yes	1
P Mukunda Reddy	ID	14	11	Yes	—

Legend: P- Promoter, WD - Whole-time Director, ID - Independent

Note: Other Directorships of Directors is given as per the definition of Section 275 of the Companies Act, 1956

None of the Directors hold any Committee membership other than in your Company.

The Company has a practice of circulating the Agenda papers for Board Meetings in advance before the Meeting. All the Directors actively participate in the discussions at the Board Meeting.

There were no circular resolutions of the Board passed during the year. The Company has granted Leave of Absence to Directors from attending Board Meetings after due requisitions from them.

3. Audit committee

The Company set up an independent Audit Committee on 24th January 2001. The Committee met three times during the year on June 7 and October 31 in 2001 and March 6 in 2002.

Composition of the Audit Committee as on 30th June 2002 and related information is given below:

Director	No of Meetings held	No of Meetings attended
LS Venkataramanan, *Chairman*	3	3
P Mukunda Reddy	3	3
Ravindra Sannareddy	3	3

Mr D Sudhakar Reddy, Whole-time Director and both the Internal and Statutory Auditors of the Company attend audit committee meetings to brief the Members. The Committee also invites various Business and Departmental Heads, on matters concerning their business / departments, as and when it deems necessary.

The objectives, scope and role of the Audit Committee of the Board cover all the functions as suggested under Clause 49 of the Listing Agreement with the Stock Exchanges and provisions of Section 292A of the Companies Act, 1956. The terms of reference to the Committee include, amongst other things, the following:

- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment / removal of Statutory and Internal Auditors, fixation of audit fee and also approve payment for any other services.
- Reviewing the financial statements with the Management before submission to the Board.
- Review with the Management, Internal and Statutory Auditors about the adequacy of the internal control system adopted and followed by the Company.
- Review the findings of the Internal and Statutory Auditors with the Management.
- Review the difficulties, if any, faced by the Auditors of the Company in carrying out their work, getting information required for the Audit.
- Compliance with the various accounting standards as prescribed by the ICAI and as made mandatory by SEBI.
- Review the findings of the Auditors, and status and follow up action on the same and on any recommendations made by them.
- Periodical reporting of the above activities to the Board of Directors.

4. Remuneration / Compensation Committee

The Company set up an independent Remuneration / Compensation Committee on 24th January 2001. The Committee met on June 7, 2001 to determine the salary of a whole-time director Mr D Sudhakar Reddy.

Composition of the Remuneration / Compensation Committee as on 30th June 2002 and related information is given below:

Director	No of Meetings held	No of Meetings attended
LS Venkataramanan, *Chairman*	1	1
P Mukunda Reddy	1	1
Ravindra Sannareddy	1	1

The mandate of this Committee is to institute such compensation and benefits for Board members, as well as for the Senior Management personnel. The Committee rewards the employees of the Company based on their performance, experience, qualification and the value addition. It is also the policy of the Company to compensate adequately along with stock options so as to retain senior personnel of the Company.

The details of remuneration paid to whole-time directors of the Company during the period is given below:

Director	Salary (Rs)	Notice period	Severance fee	Stock options
S Rajagopal Reddy	336,000	As per company rules	Not specified	Nil
D Sudhakar Reddy	776,910	As per company rules	Not specified	Nil

The details of remuneration paid to non-executive directors of the Company during the period is given below:

Director	Sitting fees * Board Meetings (Rs)	Sitting fees * Committee meetings (Rs)
Ravindra Sannareddy	1,250	750
LS Venkataramanan #	1,500	1,500
P Mukunda Reddy	750	1,500

* The Company has discontinued payment of sitting fee with effect from 31st October 2001. Sitting fee paid represent fee paid for attendance at Board and Committee Meetings held till that date.

Mr LS Venkataramanan was paid an amount of Rs.75,000 as professional fee during the year. Approval of the Central Government under Section 309 of the Companies Act, 1956 obtained vide their letter No.6/17/2001-CL.VII dated 18th October 2001 for payment of fee for professional services.

5. Share Transfer / Investors' Grievance Committee

The Committee oversees the share transfers and takes care of investor grievances as well. The Committee met six times during the year on April 12, May 16, September 3 in 2001 and January 23, February 11 and 26 in 2002.

Composition of the Share Transfer / Investors' Grievance Committee as on 30th June 2002 and related information is given below:

Director	No of Meetings held	No of Meetings attended
P Mukunda Reddy, *Chairman*	6	6
D Sudhakar Reddy	6	6
LS Venkataramanan	6	6

The process of share transfer is assigned to Cameo Corporate Services Limited, the Registrars & Share Transfer Agent of the Company for taking care of the share transfer formalities on an ongoing basis.

There were no complaints from the shareholders during the period. There are no transfers pending.

All requests for transfers are generally completed within a period of fifteen working days.

6. Compliance Officer

Mr GP Srinath, General Manager & Company Secretary was appointed as the Compliance Officer of the Company at the Meeting of the Board of Directors held on 24th January 2001. His contact details are:

Tel : 044-8476655
Fax : 044-8471516
email : investors@megasoft.com

7. General body meetings

The details of the last two Annual General Meetings are given below:

Meeting No. / Financial year/period ended	Date	Time	Venue
Second 31st March 2001	26th July 2001	11.00 AM	Le Royal Meridian Chennai 1, GST Road, St Thomas Mount Chennai – 600 016
First 31st December 1999	31st January 2000	10.30 AM	96, Dr Radhakrishnan Salai Mylapore, Chennai – 600 004

- **Postal Ballot**

  The Company passed three Special Resolutions through postal ballot in the previous financial year at the Second Annual General Meeting held on 26th July 2001. The resolutions pertained to mortgage of Company's movable and immovable properties as per Section 293(1)(a), acquisition of Megasoft Consultants, Inc and Inter Corporate Loans, Investments and Guarantees as per Section 372A of the Companies Act, 1956. The Resolutions were passed with absolute majority. The Company had appointed Mr Kousik Ganesh, a Practising Chartered Accountant of repute as the scrutineer for the postal ballot.

  There are no resolutions which need to be passed through postal ballot for this year.

8. Disclosures

- **Related party transactions**

  The details of related party transactions are given in item No.5 in the Notes to Accounts of the Financial Statements.

- **Statutory Compliance, Penalties and Strictures**

  The Company has complied with the requirements of the Stock Exchanges / SEBI / statutory authorities on all matters related to capital market during the last three years. There were no penalties or strictures imposed on the Company by Stock Exchanges / SEBI / any statutory authority relating to the above.

9. Means of communication

The quarterly financial results are forwarded to the Stock Exchanges and are generally published in one of the leading English dailies and in one vernacular newspaper. The quarterly financial statements are posted on the Company's website **www.megasoft.com**. The Company has not made any presentation to the Institutional Investors or Analysts.

10. Shareholders' information

- **Annual General Meeting**
  At 3.00 PM on Friday the 20th December 2002 at Mowbrays Inn, 303, TTK Road, Alwarpet, Chennai - 600 018

- **Financial calendar**
  1st July to 30th June
  Unaudited quarterly results for 2002-03
    First quarter – last week of October 2002
    Second quarter – last week of January 2003
    Third Quarter – last week of April 2003
  Annual results for the year ending 30th June 2003 – August / September 2003
  Annual General Meeting for the year ending 30th June 2003 – October / November 2003

- **Date of Book Closure**
  18th to 20th December 2002 (both days inclusive)

- **Listing on Stock Exchanges**
  The shares of the Company are listed on the Stock Exchanges at Chennai, Mumbai, Ahmedabad and Hyderabad. The Company has paid Listing Fee to all the Stock Exchanges where shares are listed for the year 2001-02 and 2002-03.

- **Stock code**
  MSE – MSFT; BSE – 532408 (Electronic Trading); ASE – 36352; HSE – MGT

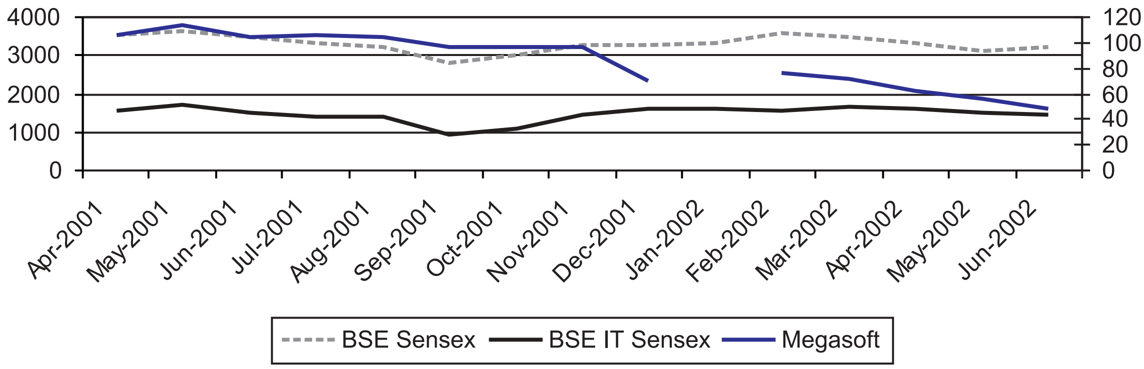
- **Registrars and transfer agents**
  Cameo Corporate Services Limited
  Registrars & Share Transfer Agents
  "Subramanian Building"
  1, Club House Road
  Chennai – 600 002, India
  Tel.: +91-44-8460390
  Fax: +91-44-8460129
  Email: cameosys@satyam.net.in

- **Share transfer system**
  Shares sent for transfer in physical form are generally registered and returned within a period of 15 days from the date of receipt, if the documents are clear in all respects. The share transfer committee of the Company meets as often as required.

  The total number of shares transferred in physical form during the fifteen month period was thirty-one (previous period - one).

- **Stock market data**

Months	The Stock Exchange, Mumbai			The Madras Stock Exchange Ltd		
	High Rs	Low Rs	Volume Nos	High Rs	Low Rs	Volume Nos
2001						
April	109.00	98.00	2,600	104.00	83.00	2,100
May	114.20	98.00	80	77.00	73.00	200
June	105.10	105.00	350	78.00	78.00	100
July	105.75	100.00	600	—	—	—
August	105.90	104.50	160	—	—	—
September	99.00	96.15	70	—	—	—
October	98.00	96.00	200	—	—	—
November	96.00	90.00	210	—	—	—
December	88.35	70.00	325	—	—	—
2002				—	—	—
January	—	—	—	—	—	—
February	76.00	58.00	2,411	—	—	—
March	90.00	61.65	1,152	—	—	—
April	65.35	59.00	379	—	—	—
May	67.00	56.00	9	—	—	—
June	71.00	43.00	1,192	—	—	—



- **Distribution of shareholding as on 30th June 2002**

No of shares held	No of ShareHolders	% of ShareHolders	No of Shares *	% of Share holding
1-500	1,631	87.55	176,927	1.19
501-1000	98	5.26	220,980	1.48
1001-2000	31	1.66	247,019	1.66
2001-3000	13	0.70	155,040	1.04
3001-4000	7	0.38	170,300	1.14
4001-5000	10	0.54	48,720	0.33
5001-10000	20	1.07	392,481	2.63
10001 & above	53	2.84	13,499,233	90.53
Total	**1,863**	**100.00**	**14,910,700**	**100.00**

* Of the above a total of 3,084,112 shares representing 20.68% of the paid-up share capital of the Company are in dematerialised form.

- **Categories of shareholders as on 30th June 2002**

Category	No of Shareholders	No of Shares held	% Holding
Promoters	149	7,762,098	52.07
OCB / NRI	2	3,506,150	23.51
Public – Corporates	12	194,497	1.30
Public – Individuals	1,700	3,447,955	23.12
Total	**1,863**	**14,910,700**	**100.00**

- **Dematerialisation of shares**

  The Equity Shares of the Company can be traded only in dematerialised form at all the Stock Exchanges where the Shares have been listed viz. Chennai, Mumbai, Ahmedabad and Hyderabad.

- **Equity History**

Date of Allotment	Shares issued (Nos)	Face value (Rs)	Equity Capital (Rs) (cumulative)	Remarks
29/06/1999	800	10	8,000	Subscriber
29/12/1999	1,130,000	10	11,308,000	Allotted to Promoters
31/12/1999	169,200	10	13,000,000	Allotted to Promoters
31/12/1999	500,000	10	18,000,000	Allotted to Megasoft Employees Welfare Trust as part of ESOP / ESPP
14/01/2000	3,700,000	10	55,000,000	Allotted to OCB / NRI
24/08/2000	5,150,500	10	106,505,000	Allotted to Indus e-Solutions Limited shareholders in the ratio of 1:1 consequent to the merger
12/06/2002	4,260,200	10	149,107,000	Allotment of Shares on Rights Basis

Auditors' Certificate on Corporate Governance

To the Members of Megasoft Limited

We have examined the compliance of conditions of Corporate Governance by Megasoft Limited ("the Company") for the 15-month period ended on June 30, 2002, as stipulated in clause 49 of the Listing Agreement of the said Company with the Madras Stock Exchange, the Bombay Stock Exchange, the Ahmedabad Stock Exchange and the Hyderabad Stock Exchange.

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 with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreements.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders / Investors Grievance Committee.

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 **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
November 8, 2002

Auditors' Report

To the Members of Megasoft Limited

We have audited the attached balance sheet of Megasoft Limited ("the Company") as at June 30, 2002 and the profit and loss account of the Company for the fifteen-month period 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.

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.

As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of section 227 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.

Further to our comments in the Annexure referred to 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 purpose of the 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 and profit and loss account dealt with by this report are in agreement with the books of account;

d) in our opinion, the balance sheet and profit and loss account comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable;

e) the corresponding comparative figures as at and for the previous fifteen-month period ended March 31, 2001, have not been audited by us. Accordingly, we express no opinion or any other form of assurance on such comparative figures;

f) on the basis of written representations received from the directors of the Company as at June 30, 2002 and taken on record by the Board of Directors, we report that no director is disqualified from being appointed as director of the Company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

g) As explained in note no. B (6) to Schedule 17 – Significant Accounting Policies and Notes to Accounts, the carrying value of work in progress of the Company relating to product development expenditure amounting to Rs 19,173,784 is based upon management's representation that technical feasibility of the relevant products has been demonstrated, and that it has intention as well as adequate resources to complete and market these products, and that the current and future development costs on the products together with expected selling and administration costs are likely to be more than covered by related future revenues / benefits. As the validity of the management representation is dependent on a number of uncertain future events, we are unable to comment on the appropriateness of carrying forward the work in progress amounting to Rs 19,173,784;

h) Sundry debtors and Work in Progress include amounts recoverable from and expenditure incurred on projects undertaken on behalf of eCogNito.net Inc., USA amounting to Rs 38,910,307 and Rs 40,708,516, respectively. In the absence of audited financial statements of that company or subsequent recovery of a majority of the outstanding balances, we are unable to comment on whether such balances are recoverable;

i) As explained in note no. A (5) to Schedule 17 - Significant Accounting Policies and Notes to Accounts, the Company has not provided for any diminution in the value of long-term investments in subsidiaries amounting to Rs 7,713,642 based upon management's best estimates of the expected benefits of the investment to the Company. The exact quantum of such benefits is dependent on a number of uncertain future events. We are therefore unable to comment on the carrying value of the long-term investments;

j) *The Company has not provided for advances to a subsidiary amounting to Rs 1,680,720 and debts due from subsidiaries amounting to Rs 2,598,059 based on their understanding that these would be recovered from the customers of the subsidiaries. As the Company has not received any firm commitment in respect of the above, we are unable to comment on the realisability of the advances and debts due from subsidiaries;*

k) *Any adjustments that might be required in respect of investments, work in progress, sundry debtors, loans and advances described above would have the impact of reducing the profit after taxation amounting to Rs 1,085,970 including turning of the reported profit of the Company into a loss for the period and reducing the corresponding amounts in the balance sheet of reserves and surplus, investments, work in progress, sundry debtors, and loans and advances.*

l) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts, *subject to the effect of any adjustments that might be required in respect of our observations referred to in paragraph (k) above*, give the information required by the Companies Act, 1956 in a 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 June 30, 2002; and

   (ii) in the case of the profit and loss account, of the profit for the fifteen-month period ended on that date.

We have examined the Cash Flow Statement ("the Statement") of the Company for the fifteen-month period ended June 30, 2002. The Statement has been prepared in accordance with the requirements of clause 32 of the Listing Agreements entered into with the Stock Exchanges in India.

for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
September 30, 2002

Annexure referred to in the Auditors' Report to the Members of Megasoft Limited as of and for the fifteen-month period ended June 30, 2002

With reference to the annexure referred to in the Auditors' report to the members of Megasoft Limited ("the Company"), we report that:

1. The provisions of sub-paragraphs 4(C) and 4(D) and clauses (iii), (iv), (v), (vi), (xii), (xiv), (xvi) and (xx) of sub-paragraph 4(A) the Manufacturing and Other Companies (Auditor's Report) Order, 1988 are not applicable.

Internal controls

2. In our opinion, and according to the information and explanations given to us, and having regard to the fact that certain items purchased are of a special nature in respect of which suitable alternative sources do not exist for obtaining comparative quotations, there are adequate internal control procedures commensurate with the size of the Company and nature of its business for the purchase of computer hardware and software, plant and machinery, equipment and other assets. The activities of the Company do not involve sale of goods.

3. In our opinion, the Company has an internal audit function, commensurate with its size and the nature of its business.

4. In our opinion, for the service activities, the Company has, commensurate with the size and nature of its business, a reasonable system of:

   - allocating man-hours utilized to relative jobs; and
   - authorization at proper levels and control over the allocation of labour to relative jobs.

   Further, the service activities of the Company are such that they do not involve the receipt, issue and consumption of materials and stores.

Fixed assets

5. The Company has maintained proper records of fixed assets showing full particulars including quantitative details and location. The Company has a regular programme of physical verification of its fixed assets which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, management has physically verified certain fixed assets during the period and no discrepancies were identified on such verification.

6. None of the fixed assets of the Company have been revalued during the period.

Loans and advances

7. The Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 or from companies under the same management as defined under section 370(1B) of the Companies Act, 1956, the rate of interest and terms and conditions of which are, prima facie, prejudicial to the interests of the Company.

8. The Company has not granted any loans, secured or unsecured to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 or to companies under the same management as defined under section 370(1B) of the Companies Act, 1956, the rate of interest and other terms and conditions of which are, prima facie, prejudicial to the interests of the Company.

9. The parties to whom interest free loans or interest free advances in the nature of loans have been given by the Company are generally regular in repaying the principal amounts as stipulated except for an interest free advance of Rs 2,670,159 disbursed to one of its employees, for which reasonable steps are being taken for recovery.

Related parties

10. There are no transactions for purchase of goods and materials and sale of goods, materials and services aggregating to Rs 50,000 or more with the parties listed in the register maintained under section 301 of the Companies Act, 1956.

Fixed deposits

11. The Company has not accepted any deposits from the public and hence, the provisions of section 58A of the Companies Act, 1956, and the rules framed thereunder are not applicable.

Staff welfare

12. *Provident Fund/Employees' State Insurance dues have not been regularly deposited with the appropriate authorities and there have been significant delays in a large number of cases.*

13. On the basis of the examination of the books of account carried out by us in accordance with generally accepted auditing practices, and according to the information and explanations given to us, no personal expenses of employees or directors were charged to the profit and loss account other than those payable under contractual obligations or in accordance with generally accepted business practice.

Taxation

14. According to the information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty which are outstanding as at June 30, 2002 for a period of more than six months from the date they became payable.

for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
September 30, 2002

Balance Sheet as at 30th June 2002

	Schedule	30 June 2002 Rs	31 March 2001 Rs
Source of Funds			
Shareholders' Funds			
Share Capital	1	149,107,000	106,487,500
Reserves & Surplus	2	87,896,620	34,132,004
		237,003,620	**140,619,504**
Loan Funds			
Secured Loans	3	41,642,929	47,093,127
Unsecured Loans	4	72,400,000	78,700,000
		114,042,929	**125,793,127**
		351,046,549	**266,412,631**
Application of Funds			
Fixed Assets	5		
Gross Block		92,294,486	84,817,664
Less: Depreciation		24,697,956	6,834,618
Net Block		**67,596,530**	**77,983,046**
Investments	6	7,713,642	2,631,405
Current Assets, Loans & Advances			
Work in progress	7	68,594,863	41,365,426
Sundry Debtors	8	151,040,531	129,083,331
Cash & Bank balances	9	45,982,912	6,428,258
Loans & Advances	10	30,906,462	27,550,429
		296,524,768	204,427,444
Less: Current Liabilities & Provisions	11	23,517,523	35,202,019
Net Current Assets		**273,007,245**	**169,225,425**
Deferred tax liability		(3,290,453)	—
Miscellaneous Expenditure *(to the extent not written-off or adjusted)*	12	6,019,585	16,572,755
		351,046,549	**266,412,631**
Significant Accounting policies & Notes to Accounts	17		

The Schedules referred to above and Notes thereon form an integral part of the Balance Sheet.

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
30th September 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager & Company Secretary

Profit & Loss Account for the period ended 30th June 2002

	Schedule	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
Income			
Sales / Services			
Exports		302,133,392	195,182,078
Domestic		79,706,467	17,165,349
Other Income	13	5,847,799	6,170,531
		387,687,658	**218,517,958**
Expenditure			
Software development expenses	14	282,004,661	113,184,274
Administration & Other expenses	15	53,349,065	55,418,823
Finance charges	16	24,894,592	7,122,224
Depreciation		18,293,879	6,775,347
Deferred Revenue Expenses written-off		7,499,416	3,503,343
Preliminary expenses written-off		441,221	441,221
		386,482,834	**186,445,232**
Profit before tax		1,204,824	32,072,726
Tax expense			
Current		—	—
Deferred tax benefit / (expense)		(118,854)	—
Profit after tax		1,085,970	32,072,726
Less: Prior period adjustments		(4,459,818)	—
Balance brought forward		33,396,034	1,323,308
Less: Transitional adjustment on adoption of new accounting standard on taxes on income		(3,171,599)	—
Balance carried over		**26,850,587**	**33,396,034**
Earnings per share			
(equity shares, par value Rs.10 each)			
Basic & Diluted (before prior period adjustments)		0.08	2.45
Basic & Diluted (after prior period adjustments)		(0.25)	2.45
No of shares used in computing Earnings Per Share			
Basic & Diluted		13,469,379	13,100,115
Significant Accounting policies & Notes to Accounts	17		

The Schedules referred to above and Notes thereon form an integral part of the Profit & Loss Account.

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
30th September 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager & Company Secretary

Schedules to the Balance Sheet

	30 June 2002 Rs	31 March 2001 Rs
1 Share Capital		
Authorised		
20,000,000 (previous period 11,000,000) equity shares of Rs.10 each	200,000,000	110,000,000
Issued, Subscribed & Paid-up		
14,910,700 (previous period 10,650,500) equity shares of Rs.10 each	149,107,000	106,505,000
Less: Calls in arrears (others)	—	17,500
	149,107,000	**106,487,500**
2 Reserves & Surplus		
General Reserve		
As per last Balance Sheet	735,970	—
On amalgamation of Indus e-Solutions Limited	—	735,970
	735,970	**735,970**
Securities Premium		
On Rights Issue	63,903,000	—
Less: Preliminary Expenses write-off	(2,612,533)	—
Less: Rights Issue expenses write-off	(980,404)	—
	60,310,063	**—**
(Refer Note No.22 of Schedule 17(B) - Notes to Accounts)		
Profit & Loss Account balance	26,850,587	33,396,034
	87,896,620	**34,132,004**
3 Secured Loans		
Term loans from Bank	18,509,562	20,000,000
Working Capital loans from Banks	20,550,274	26,045,913
Hire purchase	2,583,093	1,047,214
	41,642,929	**47,093,127**
(Refer Note No.23 of Schedule 17(B) - Notes to Accounts)		
4 Unsecured Loans		
Loans from a Director	—	6,200,000
Others	72,400,000	72,500,000
	72,400,000	**78,700,000**

5 Fixed Assets

Particulars	Gross Block				Depreciation				Net Block	
	Cost as at 1 April 2001 Rs	Additions Rs	Deletions Rs	Cost as at 30 June 2002 Rs	As at 1 April 2001 Rs	For the period Rs	On Deletions Rs	Total Rs	As at 30 June 2002 Rs	As at 31 March 2001 Rs
Plant & Machinery	12,021,156	566,719	(114,097)	12,473,778	406,174	805,280	(7,114)	1,204,340	11,269,438	11,614,982
Computer systems & Software	41,565,050	3,168,805	—	44,733,855	5,399,367	13,894,743	—	19,294,110	25,439,745	36,165,683
Furniture & Fittings	29,791,642	1,786,262	(218,210)	31,359,694	922,300	2,513,862	(17,823)	3,418,339	27,941,355	28,869,342
Vehicles	1,439,816	4,466,806	(2,179,463)	3,727,159	106,777	1,079,994	(405,604)	781,167	2,945,992	1,333,039
Total	**84,817,664**	**9,988,592**	**(2,511,770)**	**92,294,486**	**6,834,618**	**18,293,879**	**(430,541)**	**24,697,956**	**67,596,530**	**77,983,046**
Previous period	4,098,337	80,719,327	—	84,817,664	59,271	6,775,347	—	6,834,618	77,983,046	4,039,066

Note: Vehicles are purchased under hire purchase.

Schedules to the Balance Sheet (continued)

		30 June 2002 Rs	31 March 2001 Rs
6	**Investments**		
	Trade (Unquoted) - at cost		
	In wholly-owned subsidiaries		
	Megasoft Consultants Pte Ltd A company incorporated in Singapore 100,000 ordinary shares of Sing $1 each fully paid	2,631,405	2,631,405
	Megasoft Consultants Sdn Bhd A company incorporated in Malaysia 400,000 ordinary shares of MR 1 each fully paid	5,019,941	—
	Megasoft (HK) Limited A company incorporated in Hong Kong 10,000 ordinary shares of HK $1 each fully paid	62,296	—
		7,713,642	**2,631,405**
7	**Work-in-progress**		
	At Cost	**68,594,863**	**41,365,426**
8	**Sundry Debtors**		
	Unsecured, considered good		
	Debts outstanding for more than six months	49,117,062	44,956,713
	Others	101,923,469	84,126,618
		151,040,531	129,083,331
	Unsecured, considered doubtful	3,809,619	—
		154,850,150	129,083,331
	Less: Provision for doubtful debts	(3,809,619)	—
		151,040,531	**129,083,331**
9	**Cash & Bank balances**		
	Cash in hand	37,859	116,939
	Balance with Scheduled Banks:		
	In Current Accounts	2,486,275	313,060
	In Short Term Deposit Accounts	292,974	3,104,259
	In EEFC Accounts	4,174,398	2,114,068
	Balance with non-scheduled Banks:		
	In Current Accounts		
	United Bank, Virginia, USA	38,259,256	779,932
	Alliance Bank, Virginia, USA	732,150	—
		45,982,912	**6,428,258**
	Maximum balance held in non-scheduled Banks during the period:		
	In Current Accounts		
	United Bank, Virginia, USA	38,259,256	9,835,591
	Alliance Bank, Virginia, USA	744,002	—

Schedules to the Balance Sheet (continued)

		30 June 2002 Rs	31 March 2001 Rs
10	**Loans & Advances**		
	(Unsecured, considered good)		
	Advances recoverable in cash or in kind or for value to be received	22,945,204	21,064,513
	Deposits	4,423,879	5,916,040
	Advance Income-tax (TDS)	3,537,379	569,876
		30,906,462	**27,550,429**
11	**Current Liabilities & Provisions**		
	Sundry Creditors		
	- for goods / services	7,425,406	25,683,482
	- for accrued salaries and benefits	6,597,312	1,253,763
	Other Liabilities		
	- withholding and other taxes payable	1,137,079	3,254,076
	- provision for expenses	3,602,669	4,662,587
	- provision for staff benefits	2,708,550	—
	- others	1,262,349	203,111
	Advance received from customers	406,000	145,000
	Interest accrued but not due	378,158	—
		23,517,523	**35,202,019**
12	**Miscellaneous Expenditure**		
	(to the extent not written-off or adjusted)		
	Preliminary Expenses	—	3,053,754
	Deferred Revenue Expenses	6,019,585	13,519,001
		6,019,585	**16,572,755**

(Refer Note No.1 of Schedule 17(B) - Notes to Accounts)

Schedules to the Profit & Loss Account

		For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
13	**Other Income**		
	Interest received (Gross)	269,029	2,567,013
	[tax deducted at source Rs.17,068/- (previous period Rs.569,876/-)]		
	Net Foreign Exchange Gain	5,578,770	3,603,518
		5,847,799	**6,170,531**
14	**Software Development Expenses**		
	Salaries & Bonus including overseas staff expenses	122,318,798	55,544,961
	Contribution to Provident & Other Funds	7,526,815	3,823,408
	Employees Welfare Expenses	3,707,466	8,014,850
	Software Development Expenses	166,238,507	80,600,763
	Communication expenses	9,442,512	6,565,718
		309,234,098	154,549,700
	Less: Increase / (Decrease) in Work-in-progress	(27,229,437)	(41,365,426)
		282,004,661	**113,184,274**
15	**Administration & Other Expenses**		
	Rent	8,292,580	6,903,056
	Rates & Taxes	620,001	381,633
	Travel & Conveyance	18,471,091	25,750,931
	Insurance	2,356,116	2,439,742
	Power & Fuel	5,026,035	2,898,299
	Repairs & Maintenance		
	- Machinery	1,150,565	1,423,793
	- Others	3,263,390	2,562,274
	Printing & Stationery	2,270,373	3,096,749
	Provision for doubtful debts	3,809,619	—
	Loss on sale of Fixed Assets	906,397	—
	Advertisement & Business Promotion	830,285	4,641,213
	Legal & Professional Expenses	2,489,973	2,835,585
	Auditors' remuneration	1,061,000	80,263
	Directors' remuneration	1,112,910	622,160
	Miscellaneous Expenses	1,688,730	1,783,125
		53,349,065	**55,418,823**
16	**Finance Charges**		
	Interest on Term Loans	5,591,046	—
	Interest on Working Capital Loans	6,798,076	1,463,033
	Interest on Other Loans	11,893,935	4,526,600
	Other Finance Charges	611,535	1,132,591
		24,894,592	**7,122,224**

Schedules to the Balance Sheet and Profit & Loss Account

17 Significant Accounting policies & Notes to Accounts

A Significant Accounting Policies

1 Basis for preparation

The financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting in accordance with the Generally Accepted Accounting Principles ("GAAP") and comply with the mandatory accounting standards and statements issued by The Institute of Chartered Accountants of India ("ICAI") and the Companies Act, 1956. These accounting policies have been consistently applied.

The Company has adopted accounting standards ("AS") on segment reporting, related party disclosures, leases, earnings per share and accounting for taxes on income issued by the ICAI that became mandatory effective accounting periods commencing on or after 1st April 2001.

2 Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of carrying value of work in progress, provision for doubtful debts and useful life of fixed assets. Actual results could differ from estimates.

3 Revenue Recognition

Revenue from software development on the time and material basis is recognised based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognised based on the milestones achieved as specified in the contracts, on the percentage of completion basis. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current estimates.

4 Fixed Assets & Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation. Direct costs such as freight, installation costs, duties and taxes are included in the cost of the asset until the assets are ready to be put to use. Assets acquired under hire purchase / leases are capitalised and the corresponding liability is recorded at an amount equal to the fair value of the hired / leased asset or the present value of the minimum hire / lease payments, whichever is lower, at the inception of the lease / hire purchase. Initial costs incurred in connection with specific leasing / hire purchase activities directly attributable to activities performed by the Company for a finance lease / hire purchase are included as part of the amount recognised as an asset under the lease / hire purchase.

Depreciation on fixed assets other than computer systems & software is provided using the straight line method in accordance with the rates specified under Schedule XIV to the Companies Act,1956. Depreciation on computer systems & softwares is provided on the basis of estimated useful life of four years. Individual assets costing less than Rs.5,000 are depreciated fully in the year of purchase. Depreciation is charged on a pro-rata basis on fixed assets purchased / sold during the period. Depreciation on assets acquired under finance lease / hire purchase is provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset.

5 Investments

Investments in subsidiary companies are classified as long-term investments and are stated at cost with provision for diminution being made to recognise a decline, other than temporary, in their value. Such diminution is determined for each investment individually on the basis of its expected benefits to the Company. The exact quantum of such benefits is dependent on a number of uncertain future events. No provision for decrease in value of investments has been made on the basis of Management's best estimate.

6 Work in progress

Work in progress stated at cost represents the amount of expenditure incurred by the Company on projects in progress and on product development. These expenses comprise direct expenses such as salaries incurred on projects / product development and certain direct overheads absorbed on the basis of man hours spent on the projects / product development.

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

A Significant Accounting Policies (continued)

7 Foreign Currency transactions

Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transaction or at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at Balance Sheet date. All resulting gains or losses are recognised in the Profit and Loss account. Foreign exchange gains or losses relating to the acquisition of fixed assets are adjusted to the cost of the asset.

Non-monetary items are translated using the exchange rates at the date of the transaction in the case of foreign branches. Fixed assets are translated using the exchange rates at the date of acquisition. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is computed.

Net exchange difference resulting from the translation of items in the financial statements of foreign branches is recognised as income / expense for the period, except to the extent adjusted in the carrying amount of the related fixed asset as stated above.

8 Retirement benefits

Provident Fund

The employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer each make monthly contributions to the plan equal to 12% of the covered employee's basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity

In accordance with the Payment of Gratuity Act, 1972, the Company provides for gratuity, a non-funded, defined benefit retirement plan (the "Gratuity Plan") covering all employees. The plan, subject to the provisions of the Act, provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the Company. The Company estimates its liability as of each balance sheet date based on an actuarial valuation.

Leave encashment

Leave encashment cost which is a defined benefit, is accrued based on actuarial valuation at the balance sheet date carried out by an independent actuary, and is charged to Profit & Loss Account.

9 Miscellaneous expenditure

Miscellaneous Expenditure comprising preliminary and deferred revenue expenses (market development and other expenses) are amortised over a period of ten and five years respectively.

10 Deferred taxation

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonable / virtual certainty (as the case may be) to be realised.

The break-up of major components of the deferred tax assets and liabilities as at 30th June 2002 have been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing laws.

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts

1 Changes in Accounting Policies

During the current period, the Company has re-assessed the benefits of carrying forward certain items of deferred revenue expenses (market development and other expenses) amounting to Rs.3,188,900 (in addition to the amortisation during the period) and has charged off the same as Deferred Revenue Expenses written off in the Profit and Loss account as against the practice of amortising these expenses over a period of five years. Had the policy of amortising these expenses over a period of five years been continued, the Profit for the period, Miscellaneous Expenditure (to the extent not written-off or adjusted) and Reserves and Surplus as at 30th June 2002 would have been higher by Rs.3,188,900.

The Company has written-off preliminary expenses amounting to Rs.2,612,533 (in addition to the amortisation during the period) against the securities premium received on its rights offering as against the practice of amortising these expenses over a period of ten years. Had the Company continued following the policy of amortising these expenses over a period of ten years, Miscellaneous Expenditure (to the extent not written-off or adjusted) and Reserves and Surplus as at 30th June 2002 would have been higher by Rs.2,612,533.

2 Deferred Taxation

As per the requirement of AS 22 - Accounting for Taxes on Income, the effect of deferred tax upto 31st March 2001 amounting to Rs.3,171,599 has been adjusted against the opening balance of the Profit & Loss Account. The effect of deferred tax in the current period, being a deferred tax liability amounting to Rs.118,854 has also been adjusted in the Profit and Loss Account on account of which the profit for the period is lower by the equivalent amount.

Deferred tax comprise	**As at 30 June 2002 Rs**
Fixed Assets	(3,290,453)
Net deferred tax asset / (liability)	(3,290,453)

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

3 Segment Reporting

The Company's operations predominantly relate to providing information technology services to customers operating in various industry segments. Accordingly, revenues represented by industry classes comprise the primary basis of segmental information. The secondary segment is geographical, determined based on the location of the customer who is invoiced or in relation to which the revenue is otherwise recognised. Fixed assets used in the Company's business and liabilities contracted have not been identified to the primary reportable segment, as the fixed assets and services are used interchangeably between segments.

Certain expenses such as Administration & Other Expenses, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosures to these costs and expenses and accordingly these expenses are separately disclosed as "unallocated" and adjusted only against the total income of the Company.

Primary Segment: Industry classes

	Development	**Consulting**	**Others**	**Total**
	Rs	Rs	Rs	Rs
Revenues	163,251,980	214,063,488	4,524,391	381,839,859
Less: Identifiable operating expenses	(85,779,909)	(182,284,150)	—	(268,064,059)
Less: Allocated expenses	(4,980,007)	(1,755,244)	(143,939)	(6,879,190)
Segmental operating income	72,492,064	30,024,094	4,380,452	106,896,610
Less: Unallocable expenses				(78,704,356)
Operating income				28,192,254
Add/(Less): Other income / (expense) net				(26,987,430)
Net profit before taxes				1,204,824
Deferred tax benefit / (expense)				(118,854)
Net profit after taxes				1,085,970

Secondary Segment: Geographical

	India	**North America**	**Rest of the World**	**Total**
	Rs	Rs	Rs	Rs
Revenues	79,522,921	282,551,097	19,765,841	381,839,859
Carrying amount of segment assets / liabilities				
(determined based on location)				
Segment Assets	270,379,551	89,911,394	—	360,290,945
Investments	7,713,642	—	—	7,713,642
Bank Deposits	292,974	—	—	292,974
Other Assets	3,537,379	—	—	3,537,379
Total Assets	281,923,546	89,911,394	—	371,834,940
Segment Liabilities	137,072,062	488,390	—	137,560,452
Addition to Fixed Assets	9,988,592	—	—	9,988,592
Depreciation	18,244,154	49,725	—	18,293,879

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

4 Leases / Hire purchase

(a) Leases / Hire purchase - Capital

The Company has entered into leasing / hire purchase arrangements with banks and financial institutions for the hire / lease of motor vehicles ("the leased asset") for a period of upto 60 months. During the lease / hire period, the Company has agreed to hypothecate and create an exclusive charge on the vehicle in favour of the bank / financial institution and repay the principal amount of the loan along with interest thereon by way of instalments as agreed upon. The charge / security created in favour of the bank / financial institution shall remain in force until such time all the dues under the agreement are fully discharged.

Pending lease / hire purchase obligations comprising minimum lease / hire payments:

	As at 30 June 2002 Rs
Not later than one year	1,174,188
Later than one year and not later than five years	1,408,905
Total	2,583,093
Less: Amounts representing interest	(306,741)
Present value of minimum lease payments	2,276,352
Less: Amount due not later than one year	(970,848)
Amounts due later than one year and not later than five years	1,305,504

(b) Operating Lease

The operating lease arrangements relate to rented premises and transit / guest house which are cancellable at the option of the Company.

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

5 Related party transactions

The Company has transactions with the following related parties:

Subsidiaries: Megasoft Consultants Pte Ltd, Singapore, Megasoft Consultants Sdn Bhd, Malaysia, and Megasoft (HK) Limited, Hong Kong

Associates: Megasoft Consultants Inc., USA, Megasoft Consultants Ltd, UK, Megasoft Consultants GmbH, Germany, Megasoft Australia Pty Ltd, Australia and Capricorn Holdings Pvt Ltd.

Directors: Mr Ravindra Sannareddy, Mr D Sudhakar Reddy, Mr S Rajagopal Reddy, Mr LS Venkataramanan & Mr P Mukunda Reddy

Key Management Personnel: Mr GK Rao & Mr GP Srinath

	For the fifteen month period ended 30 June 2002 Rs	Balance as at 30 June 2002 Rs
Subsidiaries		
Sales / Receivables	2,560,919	2,598,059
Loans advanced / due	1,680,720	1,680,720
Investments	5,082,237	7,713,642
Associates		
Sales / Receivables	33,150,733	29,524,522
Outsourcing / Payables	161,251,036	(4,367,946)
Lease rentals & other expenses / Payables	2,150,625	(2,271,151)
Directors		
Loans received / due	20,057,000	—
Interest paid on Loans	2,796,669	—
Remuneration to Whole-time Directors	1,112,910	—
Professional fees to Non-Executive Director	75,000	—
Sitting fees to Non-Executive Directors	7,250	—
Shares allotted in Rights Issue (including securities premium)	7,300,700	—
Key Management Personnel		
Remuneration	2,368,750	—
Shares allotted in Rights Issue (including securities premium)	1,300,000	—

There are no provisions for doubtful debts / advances in respect of related parties as at the Balance Sheet date or amounts written-off or written back in the period in respect of debts due from or to related parties.

6 Work in progress

Work in progress includes an amount of Rs.19,173,784 comprising direct expenses such as salaries incurred on product development and certain direct overheads absorbed on the basis of man hours spent on product development. In respect of the above, the management of the Company:

(a) has carried out tests to demonstrate their technical feasibility and has the intention and adequate resources to complete and market these products; and

(b) estimates that the current and future development costs on the products together with expected selling and administration costs are likely to be more than covered by related future revenues / benefits.

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

		As at 30 June 2002 Rs	As at 31 March 2001 Rs
7	**Commitments & Contingencies**		
	Estimated amount of contracts pending execution on capital account	—	4,633,376
	Unexpired:		
	Letter of Credits	—	2,181,000
	Bank Guarantees	1,364,395	1,105,370
8	**Loans & Advances include**		
	Advance to Megasoft Employees' Welfare Trust for the cost of 500,000 equity shares allotted on 31st December 1999 towards employee stock options	5,000,000	5,000,000
9	**Provision for staff benefits** *(included under Other Liabilities)*		
	(i) Gratuity	1,458,639	—
	(ii) Leave encashment	1,249,911	—
10	**Dues to small scale industrial undertakings**	—	—

		For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
11	**Payments to Directors**		
	Whole-time Directors		
	Salary	768,000	468,000
	Contribution to provident & other funds	92,160	56,160
	Perquisites	252,750	98,000
		1,112,910	622,160
	Non-executive Directors		
	Sitting fees *(included under Miscellaneous expenses)*	7,250	16,500
	Professional fee # *(included under Legal & Professional expenses)*	75,000	—

Approval of the Central Government under Section 309 of the Companies Act, 1956 obtained vide their letter No.6/17/2001-CL.VII dated 18th October 2001 for payment of fee for professional services.

12	**Payments to Auditors**		
	Audit fees (including service tax)	735,000	51,500
	Tax audit fees (including service tax)	—	13,125
	Others (including service tax)	326,000	15,638
		1,061,000	80,263
13	**CIF value of imports**		
	Capital goods	3,590,460	21,381,636

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

14 Expenditure in foreign currency

	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
Travel expenses	4,310,529	12,105,700
Expenditure incurred at overseas branches	176,005,961	65,508,969
Other expenses	366,966	7,717,217
	180,683,456	85,331,886

15 Earnings in foreign exchange

Software development services	302,133,392	195,182,078

16 Quantitative details

The Company is in the business of development and maintenance of computer software. The development and sale of such software cannot be expressed in any generic unit. Hence, it is not possible to furnish the quantitative details and the information required under paragraphs 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

17 Taxation

The profits arising from the operations of the Company registered under Software Technology Park ("STP") scheme of India are exempted from taxation for a period of ten years from the date of registration (3rd September 1999). The total turnover and profits for the period are out of the aforesaid STP scheme, and hence there is no current tax liability.

18 Prior period adjustments

Prior period adjustments include provisions made for leave encashment, gratuity and other expenses for the period upto 31st March 2001 amounting to Rs.1,739,360, Rs.1,578,016 and Rs.1,142,442 respectively.

19 Earnings per share

	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
No of shares outstanding prior to rights issue	10,650,500	10,650,500
Rights Issue (two shares for every five shares)	4,260,200	—
Earnings per share (Basic & Diluted)		
No of shares	13,469,379	13,100,115
Basic & Diluted (before prior period adjustments)	0.08	2.45
Basic & Diluted (after prior period adjustments)	(0.25)	2.45

20 Rights Issue

The Company made a Rights issue of 4,260,200 equity shares of Rs.10 each at a premium of Rs.15 each aggregating to Rs.106,505,000 during the current period. The shares were allotted on 12th June 2002 and the basis of allotment was approved by the Regional Stock Exchange viz. Madras Stock Exchange Limited, in accordance with the SEBI Guidelines.

Schedules to the Balance Sheet and Profit & Loss Account (Continued)

17 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

21 Utilisation of money raised in Rights Issue

The amount of Rs.106,505,000 raised by the Company in its Rights Issue has been utilised as follows:

	Projected Utilisation as per Letter of Offer Rs	Actual Utilisation Rs
Repayment of Unsecured Loans	90,000,000	90,100,000
Rights Issue Expenses	1,500,000	980,404
Working Capital margin	15,005,000	15,424,596
	106,505,000	106,505,000

22 Securities Premium

The preliminary expenses of Rs.2,612,533 (balance as at 30th June 2002) and rights issue expenses of Rs.980,404 have been set-off against the Securities Premium as per the provisions of Section 78 of the Companies Act, 1956.

23 Secured loans / borrowings are secured as follows:

(i) The term loan and working capital loan from Bank of India are secured by first charge on tangible movable assets including computers and its accessories, air conditioners, furniture and fixtures,etc., and hypothecation of book debts of the Company and personal guarantee of a Director. The term loan is repayable in twelve equal instalments of Rs.2,500,000 each from 31st March 2001.

(ii) Vehicle loans are secured by hypothecation of vehicles purchased. Amount repayable within one year Rs.1,174,188 (Previous period - Rs.279,575)

24 Unsecured loans

Unsecured loans include interest free loans availed from private financial institutions of Rs.32,400,000 (Previous period - Rs. Nil).

25 Transfer pricing legislation

The Company is in the process of developing a comprehensive system of maintenance of the information and documents as required by the newly introduced transfer pricing legislation under Sections 92-92F of the Income-tax Act, 1961 which require existence of these records latest by October 2002. The Management is of the view that its international transactions are at arm's length and that the aforesaid legislation would not have any impact on the amount of tax provision in the financial statements.

26 Amalgamation of Indus e-Solutions Limited

The prior period comparatives include effect of the amalgamation of Indus e-Solutions Limited (formerly Orion Plastek Limited) with the Company effective 1st January 2000. The Company accounted for the amalgamation as per the "Pooling of Interest" method prescribed by AS 14 - Accounting for Amalgamation, issued by the ICAI and the assets, liabilities and other reserves of Indus e-Solutions Limited as at 1st January 2000 were recorded in the books of account. Consequent to the amalgamation 5,150,500 equity shares of Rs.10 each were allotted at par by the Company to the shareholders of Indus e-Solutions Limited in the ratio of 1:1 on 24th August 2000.

27 Prior period comparatives

Prior period figures have been regrouped wherever necessary to conform to current period's presentation.

28 Cash flows

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Company are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions. The cash flow statement of the Company is set out in the attached schedule.

Cash Flow Statement

	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
Cash flows from operating activities		
Profit before taxation	1,204,824	32,072,726
Adjustments for:		
Depreciation	18,293,879	6,775,347
Amortisation of Miscellaneous Expenditure	7,940,637	3,944,564
Loss on sale of Fixed Assets	906,397	—
Prior-period adjustments	(4,459,818)	—
Interest received	(269,029)	(2,567,013)
Finance charges	24,894,592	7,122,224
Operating profit before working capital changes	48,511,482	47,347,848
(Increase) in Work-in-progress	(27,229,437)	(41,365,426)
(Increase) in Sundry Debtors	(21,957,200)	(117,623,111)
(Increase) in Loans & Advances	(3,356,033)	(18,219,160)
Increase / (Decrease) in Current Liabilities & Provisions	(11,684,496)	29,519,485
Net cash provided by operating activities	**(15,715,684)**	**(100,340,364)**
Cash flows from investing activities		
Purchase of Fixed Assets	(9,988,592)	(78,432,190)
Investment in Subsidiaries	(5,082,237)	(2,631,405)
Proceeds from sale of Fixed Assets	1,174,832	—
Miscellaneous Expenditure	—	(19,325,354)
Interest received	269,029	2,567,013
Net Cash used for investing activities	**(13,626,968)**	**(97,821,936)**
Cash flows from financing activities		
Proceeds from issuance of share capital	42,602,000	51,487,500
Receipt of Calls-in-arrears	17,500	—
Proceeds of Premium from issue of Share Capital (net)	62,922,596	—
Amalgamation Reserve	—	735,970
Proceeds from long-term borrowings	(6,254,559)	99,747,214
Increase in Working capital loans	(5,495,639)	26,045,913
Finance Charges	(24,894,592)	(7,122,224)
Net cash provided by financing activities	**68,897,306**	**170,894,373**
Net increase in cash & cash equivalents	39,554,654	(27,267,927)
Cash & Cash equivalents at the beginning of the period	6,428,258	33,696,185
Cash & Cash equivalents at the end of the period	**45,982,912**	**6,428,258**

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
30th September 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager &
Company Secretary

Balance Sheet abstract & Company's General Business Profile

I Registration Details

Registration No.	42730
Balance Sheet Date	30/06/2002
State Code	18

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

Public Issue	—	Rights Issue *	106505
Private Placement	—	Bonus Issue	—

* 42,60,200 equity shares of Rs.10 each issued at a premium of Rs.15 each

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

Total Liabilities	351047	Total Assets	351047
Source of Funds		**Application of Funds**	
Paid-up capital	149107	Net Fixed Assets	67597
Reserves & Surplus	87897	Investments	7714
Secured Loans	41643	Net Current Assets	269717
Unsecured Loans	72400	Miscellaneous Expenditure	6019
		Accumulated Losses	—

IV Performance of Company (Amount in Rs. Thousands)

Turnover	387688	Total Expenditure	386483
Profit before Tax	1205	Profit after Tax	1086
Earnings per Share in Rs. (annualised)	0.06	Dividend Rate % (pro-rata)	Nil

V Generic name of principal product / service of Company
(as per monetary terms)

ITC Code	8524
Product Description	Development of Computer software

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager &
Company Secretary

Chennai
30th September 2002

Management Discussion and Analysis

Company Background

Megasoft Limited is headquarter at Chennai, India. As a Group, Megasoft consists of Megasoft Limited, India, its wholly-owned subsidiaries – Megasoft Consultants Sdn Bhd, Malaysia, Megasoft Consultants Pte Ltd, Singapore and Megasoft (HK) Limited, Hong Kong. In addition to these, the offices of Associate Companies are present in USA, UK, Germany, The Netherlands, Australia and New Zealand.

Megasoft has been serving as a prime source of comprehensive IT services for a rapidly expanding global customer base. In short, our services range from upstream business applications consulting, development and maintenance of software applications, set-up and administration of systems (e.g., networks, and databases), and product development through providing systems integration and enterprise-wide solutions.

Our business philosophy aims at integrating leading edge Technology and superior customer service to deliver contemporary and innovative solutions that significantly reduce development costs and provide quality. We have nurtured long term relationships with most of our clients covering fortune 500 organisations in USA, Europe, Asia-Pacific, etc., covering companies in Manufacturing, Insurance, Banking, Finance, Telecom, Transportation sectors.

Industry scenario

Growth in the Software Industry in India has been more or less on the expected lines during the financial year 2001-02. The country was able to make progress in software development and exports even though recession in the global software industry had its impact on the performance of Indian Companies. The total software exports from India during the year was to the tune of Rs.36,500 crores showing an increase of 29% over last year's exports of Rs.28,350 crores. Income from Indian markets was Rs.11,500 crores as compared to Rs.9,890 crores in fiscal 2000-01. Thus the industry continued to show impressive results even in the face of recession and downtrend in the global software markets. The industry was also able to generate close to 100,000 jobs during the period under review. However, it should also be mentioned here that many companies, including some well established ones resorted to rightsizing strategy, to survive in the Industry.

According to a study by Gartner, there would be increased revenues from the off-shore model and this would include enterprise application integration (EAI) services, applications outsourcing, packaged application implementation and integration with legacy applications in addition to development and maintenance services.

The study also finds that currently, India is the preferred destination for IT services spending with a majority of corporates across the world preferring off-shore services from India. Many more corporates plan to outsource to India in the coming years. This is mainly due to the development of infrastructure, more specifically telecom and power. But the study also finds that Canada, Ireland, Singapore, Mexico and China would be the major competitors for India in these services.

During the period under review the major revenue earners were the Banking, Finance and Insurance (BFI) and Telecom sectors. These vertical segments steadily increased their market and contributed to the overall software development. The IT Enabled Services (ITES) has emerged as a major vertical segment having a lot of growth potential.

The Government of India through its Information Technology Ministry has been extending various facilities and benefits to the Software Industry. The benefits to the Software Industry have been extended both by the Central Government and by many other State Governments.

Opportunities and Threats

Opportunities

Your Company has proactively diversified amply adding to its existing strong client base in North America. By virtue of its vertical specialisation in insurance industry, the Company has added to its list a major multi-national insurance company to its domestic client's list. With growing experience and expertise in multiple applications, functionality and domains, we have been able to provide cost effective solutions to our clients.

In order to meet our entire client needs we strive to offer a comprehensive range of services by continuously evaluating new and emerging technologies. We have built strong technical, marketing support and resource teams to support our business development teams worldwide leading to effective business development activities and improved business.

Being a relatively new player in the market, there is also the cost advantage to the Company. Small and medium size companies which do not have huge budget outlay will be looking for a solutions provider who can provide software services at a relatively low cost but with the same quality as is provided by established companies. Your Company is confident of stepping in to this category of software providers. With the proposed acquisition of MCI, there would also be better opportunities in the European and Asia-Pacific region.

Threats

The market for IT services is highly competitive. Our competitors include software companies, large international consulting affiliates, and system consulting companies. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenue.

Competitors also pose the threat in the form of poaching good technical skills from our organisation by offering higher pay compensations and promise of overseas placements.

Strengths and Weaknesses

Strengths

One of our strengths is our ability to leverage our Offshore Development Centres (ODC). The ODC has many facilities and features that are attractive to our clients who are primarily located in the US. Megasoft's (ODC) facility has the following offering and advantages to its clients:

- A 24/7 delivery turnaround that takes advantage of time zone differences between Megasoft India and our client site.
- Access to our large pool of highly skilled English-speaking professionals.
- Relatively low cost IT professionals.

The Company has successfully executed projects in a typical off-shore onsite model. Many of our clients enter into an ongoing agreement for comprehensive maintenance services after completion of projects.

The Company continues to make significant investments in tools and frameworks in eCommerce, CRM and EAI space and has established partnerships with all the key product companies in each space. The tools and frameworks accelerate the development process and helps us to complete our client's IT projects in record time.

Megasoft has set up a full-fledged new initiatives and services group, which focuses on emerging technologies and trends in security consulting, M-commerce services including Wireless LAN's, Bluetooth and non proprietary technologies like 802.1/802.2. Our other initiatives include full-fledged practices for ePharma, insurance, logistics and banking solutions. We have a state of the art R&D center focusing on core technologies. The Core Technology group includes a .NET practice and architectural design practice among other things. The Core Technology group constantly evaluates new technologies, gains the appropriate experience and recommends new service offerings to the Corporation.

Certified under ISO 9001 and marching towards SEI-CMM Level 4, we rigorously adhere to high quality oriented and evolved processes. Megasoft commitment to quality permeates into every aspect of our operation be it a business process outsourcing project or an IT outsourcing project. Megasoft is making a significant financial investment to ensure that its IT delivery facilities achieve SEI-CMM level 4 and its process facilities achieve COPC certification. Megasoft is also vigorously implementing the six-sigma methodology of define-measure analyze-implement-control (DMAIC) in all its business processes to maximize on quality and productivity.

Weakness

Megasoft is concentrating on few select vertical segments such as Banking, Finance and Insurance, Emergency Management and Public Safety, broadly and not exploring other niche technology areas such as embedded systems, artificial intelligence and telecom sectors.

Megasoft does not have many domestic clients in the BFSI sector.

Risks and Concerns

The risks that your company may face are broadly classified as Political, Economical and Technological.

Political risks

- Economic liberalisation policies of the Government at the helm could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalisation and deregulation policies could adversely affect business and economic conditions in India generally and our business in particular.
- The laws for protecting the intellectual property rights are yet to be strengthened in our country. On account of this, there may be infringement or misappropriation of the products, services or proprietary information of our Company and resulting in the Company spending its valuable resources for litigation.
- Restrictions on immigration have been imposed by the US Government in the aftermath of the terrorist attacks which may result in delays in visa processing. This could affect our growth as a major part of our revenues are from the US.
- Our costs could increase if the Government of India reduces or withholds tax benefits and other incentives it provides to the IT industry. The Company will be affected if the Government decides to withdraw or cancel the various benefits currently available to the industry.

Economic Risks

- There is a risk of revenues fluctuating and the same could not be predicted. There can be a fall in our earnings as a result.
- Severe competition in the market for IT Services could affect our cost advantages, which could decrease our revenues. The market for IT Services is highly competitive. Our competitors include global and Indian Software giants, large international accounting firms and their consulting affiliates, systems consulting and integration firms, other technology companies and client in-house information services departments, both international and domestic. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenue than we do. We cannot be reasonably certain that we will be able to compete successfully against such competitors, or that we will not lose clients to such competitors. Additionally, we believe that our ability to compete also depends on factors outside our control, such as our ability to attract, motivate and retain skilled employees, the price at which our competitors offer comparable services, and the extent of our competitors' responsiveness to their clients' needs.
- The high expenditure on salaries takes away a major part of the revenues. This could dent our profits significantly. However, the salary costs have been on par with the industry average and standards and the management does not see a major cut in profits due to this.

Technical Risks

- Any decrease in demand for technology in industries may significantly decrease the demand for our services, which may impair our growth and cause our revenues to decline.
- Disruptions in telecommunications could harm our service model, which could result in a reduction of our revenues. Although we maintain redundancy facilities and satellite communication links, any significant loss in our ability to transmit voice and data through satellite and telephone communications would result in a reduction of our revenues.
- As the IT industry is always exposed to rapid changes in technology, an undue focus on any particular technology could increase the risk profile of the Company. On account of the rapid technological changes we have chosen not to impose rigid concentration limits. Often, industry characteristics and market dynamics determine the choice of technology.
- Information technology is possibly the only area where costs for a given technology reduce over time. The cost of acquiring technology also includes the cost of installation and retraining. Your Company has invested on competency centers and practice centers to keep itself abreast of the newest and the latest in the industry. While the competency centers focus on technologies of Microsoft, Sun and Oracle, the Practice centers focus on mobile commerce, ERP and CRM.

Internal Control System

Internal Control systems are being implemented strictly in the Company. The Company has an adequate internal control system to safeguard the assets of the Company. The Management of the Company ensures strict adherence to the accounting policy of the Company. Proper span of control is also designed to ensure that the reporting system of the Company is simple and adequate enough to take care of the implementation of the internal control policy of the Company.

The Internal Auditors of the Company carry out periodical physical verification of fixed assets of the Company and submit their report. The Audit Committee of the Board reviews the same and makes its recommendations to the Board who ensures proper compliance with the policy of the Company. All capital expenditure transactions, investments and other major financial transactions are executed only after they are duly authorised by the Management. Before the decisions are taken the Management places the details before the Audit Committee, which reviews the necessity of the transaction. The Management has taken steps to make internal control system more stringent and comprehensive in line with the various International Quality standards.

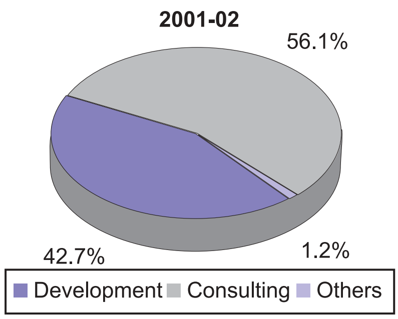
YEAR UNDER REVIEW

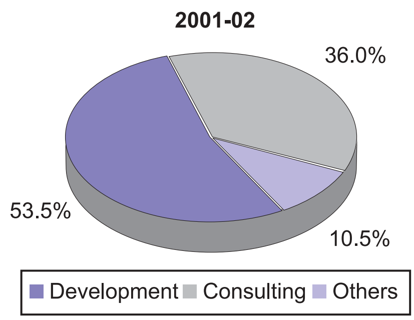
Financial Performance

Revenues

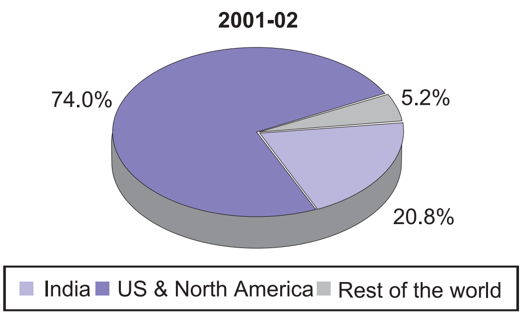
Software revenues increased by 80% to Rs.3818 lacs in the current fiscal 2001-02 from Rs.2123 lacs in previous fiscal 2000-01. Exports grew by 55% from Rs.1952 lacs in 2000-01 to Rs.3021 lacs in 2001-02.

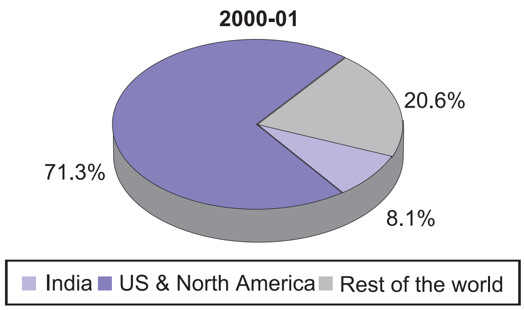
Revenues - Business-wise





Geographical





Expenditure

Particulars	2001-02		2000-01	
	Rs lacs	%	Rs lacs	%
Total Income	3877	100.0	2185	100.0
Software Development cost	2820	72.7	1132	51.8
Administration & other expenses	534	13.8	554	25.4
EBIDTA	523	13.5	499	22.8
Finance cost	249	6.4	71	3.2
EBDTA	274	7.1	428	19.6
Depreciation & Amortisation	262	6.8	107	4.9
PBT	12	0.3	321	14.7
Deferred tax expense	1	—	—	—
PAT	11	0.3	321	14.7

- Software development cost increase is mainly on account of increase in man-months in the current fiscal.
- Administration and other expenses are comparatively lower on account of the various economy measures implemented across the Company to improve the dwindling margins in the IT industry.
- Finance cost were higher during the current fiscal on account of payment of interest on the borrowings for working capital which were mostly repaid out of the Rights Issue proceeds received during June 2002.
- The fall in EBDTA is mainly on account of the interest costs and the lowering margins in the IT industry.

Share Capital

The Company made a Rights Issue aggregating to Rs.1065 lacs during the year to repay the unsecured loans and to meet the long-term working capital requirements. The Issue of 4,260,200 equity shares of Rs.10 each at a premium of Rs.15 each was allotted on 12th June 2002. During the year the Company also received the balance of calls-in-arrears, which were outstanding at the end of the previous year.

Reserves & Surplus

Reserves of the Company increased on account of the share premium of Rs.639 lacs received out of the Rights Issue during the year. Expense of the Rights Issue and the preliminary expenses balance as at the end of the year have been set-off against the share premium as per the provisions of Section 78 of the Companies Act, 1956.

Debt

During the year the Company had borrowed loans (unsecured) to meet its working capital requirements. Consequent to receipt of Rights Issue funds during June 2002 most of these unsecured loans were repaid.

Fixed Assets

The increase in fixed assets of the Company (Gross) is on account of the upgradation carried out at our Development Centres.

Investments

The Company infused additional funds in its wholly-owned subsidiary at Malaysia. An amount of MR 150,000 was invested in the subsidiary by way of Share Capital. The Company also took over Megasoft (HK) Limited, a Company incorporated in Hong Kong. The Company has infused as Share Capital HK$ 10,000. The subsidiary has been set up as a strategic plan for expanding the Company's business in the Asian region.

Work-in-progress

Work-in-progress has increased on account of additonal work done on some of the projects on hand during the period.

Debtors

The debtors were outstanding for 169 days during the year under review. This is higher than last year's figure of 151 days of total software revenues. The increase is mainly on account of the slowdown in the IT industry globally.

Statement pursuant to Section 212(1)(e) of the Companies Act, 1956 as at 30th June 2002

1	Name of the Subsidiary	Megasoft Consultants Sdn. Bhd, Malaysia	Megasoft Consultants Pte Ltd, Singapore	Megasoft (HK) Limited, Hong Kong
2	Financial year ended	31 December 2001	31 December 2001	30 June 2002
3	Holding Company's interest	100%	100%	100%
4	Number of Shares in the subsidiary company held by Megasoft Limited as at the above date	400,000 shares of MR 1 each	100,000 shares of S$ 1 each	10,000 shares of HK$ 1 each
5	The net aggregate of profits or losses of the subsidiary company for it's financial year so far as it concern the members of Megasoft Limited			
(a)	Dealt with or provided for in the accounts of Megasoft Limited	Nil	Nil	Nil
(b)	Not dealt with or provided for in the accounts of Megasoft Limited	(MR 63,662)	(S$ 183,455)	(HK$ 78,805)
6	The net aggregate of profits or losses of the subsidiary company for it's previous financial year so far as it concern the members of Megasoft Limited			
(a)	Dealt with or provided for in the accounts of Megasoft Limited	Nil	Nil	Nil
(b)	Not dealt with or provided for in the accounts of Megasoft Limited	Nil	Nil	(HK$ 504,583)

Statement pursuant to section 212(5) of the Companies Act, 1956 relating to the subsidiary companies:

There has been no change in the holding company's interest in the subsidiaries between the end of the financial year of the subsidiaries and that of the holding company in respect of:

(a) Fixed Assets of the subsidiaries

(b) Investments of the subsidiaries

(c) Moneys lent by the subsidiaries

(d) Moneys borrowed by the subsidiaries for any purpose other than that of meeting current liabilities.

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager &
Company Secretary

Chennai
30th September 2002

MEGASOFT LIMITED & SUBSIDIARIES

Consolidated Financial Statements
for the fifteen months period ended
30th June 2002

Auditors' Report to the Board of Directors and Shareholders of Megasoft Limited on the Consolidated Financial Statements of Megasoft Limited and its subsidiaries

We have examined the attached consolidated balance sheet of Megasoft Limited ("the Company") and its subsidiaries as of June 30, 2002 and the consolidated profit and loss account and the consolidated cash flow statement for the fifteen-month period 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. 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 prepared in all material respects, in accordance with an identified financial reporting framework generally accepted in India and 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.

We did not audit the financial statements of the subsidiaries, whose financial statements reflect total assets of Rs 4,235,516 as at June 30, 2002 and total revenues of Rs 23,190,239 for the fifteen-month period ended on that date. 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.

We report that:

a) the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 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;

b) this being the first period of preparation of consolidated financial statements, the corresponding comparative figures as at and for the previous fifteen-month period ended March 31, 2001, have not been audited by us. Accordingly, we express no opinion or any other form of assurance on such comparative figures;

c) As explained in note no. B (7) to Schedule 16 – Significant Accounting Policies and Notes to Accounts, the carrying value of work in progress of the Company relating to product development expenditure amounting to Rs 19,173,784 is based upon management's representation that technical feasibility of the relevant products has been demonstrated, and that it has intention as well as adequate resources to complete and market these products, and that the current and future development costs on the products together with expected selling and administration costs are likely to be more than covered by related future revenues / benefits. As the validity of the management representation is dependent on a number of uncertain future events, we are unable to comment on the appropriateness of carrying forward the work in progress amounting to Rs 19,173,784;

d) Sundry debtors and Work in Progress include amounts recoverable from and expenditure incurred on projects undertaken on behalf of eCogNito.net Inc, USA amounting to Rs 38,910,307 and Rs 40,708,516, respectively. In the absence of audited financial statements of that company or subsequent recovery of a majority of the outstanding balances, we are unable to comment on whether such balances are recoverable;

e) Any adjustments that might be required in respect of work in progress and sundry debtors described in paragraphs (c) and (d) above would have the impact of increasing the loss for the period and reducing the corresponding amounts in the balance sheet of reserves and surplus, work in progress and sundry debtors.

f) On the basis of the information and explanation given to us and on the consideration of the separate audit reports on individual audited financial statements of Megasoft Limited and its aforesaid subsidiaries, and *subject to the effect of any adjustments that might be required in respect of our observations referred to in paragraphs (b) to (e) above*, we are of the opinion that:

(i) the consolidated balance sheet gives a true and fair view of the consolidated state of affairs of Megasoft Limited and its subsidiaries as of June 30, 2002;

(ii) the consolidated profit and loss account gives a true and fair view of the consolidated results of operations of Megasoft Limited and its subsidiaries for the fifteen-month period ended on that date; and

(iii) the consolidated cash flow statement gives a true and fair view of the consolidated cash flows of Megasoft Limited and its subsidiaries for the fifteen-month period ended on that date.

for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
November 8, 2002

Consolidated Balance Sheet as at 30th June 2002

	Schedule	30 June 2002 Rs	31 March 2001 Rs
Source of Funds			
Shareholders' Funds			
Share Capital	1	149,107,000	106,487,500
Reserves & Surplus	2	76,043,082	31,297,436
		225,150,082	**137,784,936**
Loan Funds			
Secured Loans	3	41,642,929	47,093,127
Unsecured Loans	4	72,400,000	78,700,000
		114,042,929	**125,793,127**
		339,193,011	**263,578,063**
Application of Funds			
Fixed Assets	5		
Gross Block		92,695,119	85,106,667
Less: Depreciation		24,852,310	6,870,581
Net Block		**67,842,809**	**78,236,086**
Current Assets, Loans & Advances			
Work in progress	6	68,594,863	41,365,426
Sundry Debtors	7	150,409,903	133,349,533
Cash & Bank balances	8	47,638,588	7,400,899
Loans & Advances	9	29,562,425	27,868,633
		296,205,779	209,984,491
Less: Current Liabilities & Provisions	10	29,541,782	41,471,257
Net Current Assets		**266,663,997**	**168,513,234**
Deferred tax liability		(3,290,453)	—
Miscellaneous Expenditure *(to the extent not written-off or adjusted)*	11	7,976,658	16,828,743
		339,193,011	**263,578,063**

Significant Accounting policies & Notes to Accounts 16

The Schedules referred to above and Notes thereon form an integral part of the Balance Sheet.

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
8th November 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager & Company Secretary

Consolidated Profit & Loss Account for the period ended 30th June 2002

	Schedule	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
Income			
Sales / Services			
Exports		319,364,404	203,867,245
Domestic		79,706,467	17,165,349
Other Income	12	5,870,940	6,194,285
		404,941,811	**227,226,879**
Expenditure			
Software development expenses	13	302,082,846	121,840,153
Administration & Other expenses	14	59,097,217	58,205,176
Finance Charges	15	24,980,685	7,152,336
Depreciation		18,412,270	6,811,310
Deferred Revenue Expenses written-off		7,499,416	3,503,343
Preliminary Expenses written-off		683,523	476,403
		412,755,957	**197,988,721**
(Loss) / Profit before tax		(7,814,146)	29,238,158
Tax Expense			
Current		—	—
Deferred tax benefit / (expense)		(118,854)	—
(Loss) / Profit after tax		(7,933,000)	29,238,158
Less: Prior period adjustments		(4,459,818)	—
Balance brought forward		30,561,466	1,323,308
Less: Transitional adjustment on adoption of new accounting standard on taxes on income		(3,171,599)	—
Balance carried over		**14,997,049**	**30,561,466**
Earnings per share			
(equity shares, par value Rs.10 each)			
Basic & Diluted (before prior period adjustments)		(0.59)	2.23
Basic & Diluted (after prior period adjustments)		(0.92)	2.23
No of shares used in computing Earnings per share			
Basic & Diluted		13,469,379	13,100,115
Significant Accounting policies & Notes to Accounts	16		

The Schedules referred to above and Notes thereon form an integral part of the Profit & Loss Account.

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
8th November 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager & Company Secretary

Schedules to the Consolidated Balance Sheet

	30 June 2002 Rs	31 March 2001 Rs
1 Share Capital		
Authorised		
20,000,000 (previous period 11,000,000) equity shares of Rs.10 each	200,000,000	110,000,000
Issued, Subscribed & Paid-up		
14,910,700 (previous period 10,650,500) equity shares of Rs.10 each	149,107,000	106,505,000
Less: Calls in arrears (others)	—	17,500
	149,107,000	**106,487,500**
2 Reserves & Surplus		
General Reserve		
As per last Balance Sheet	735,970	—
On Amalgamation of Indus e-Solutions Limited	—	735,970
	735,970	**735,970**
Securities Premium		
On Rights Issue	63,903,000	—
Less: Preliminary Expenses write-off	(2,612,533)	—
Less: Rights Issue expenses write-off	(980,404)	—
	60,310,063	**—**
(Refer Note No.12 of Schedule 16(B) - Notes to Accounts)		
Profit & Loss Account balance	14,997,049	30,561,466
	76,043,082	**31,297,436**
3 Secured Loans		
Term loans from Bank	18,509,562	20,000,000
Working Capital loans from Banks	20,550,274	26,045,913
Hire purchase	2,583,093	1,047,214
	41,642,929	**47,093,127**
(Refer Note No.13 of Schedule 16(B) - Notes to Accounts)		
4 Unsecured Loans		
Loans from a Director	—	6,200,000
Others	72,400,000	72,500,000
	72,400,000	**78,700,000**

5 Fixed Assets

Particulars	Gross Block				Depreciation				Net Block	
	Cost as at 1 April 2001 Rs	Additions Rs	Deletions Rs	Cost as at 30 June 2002 Rs	As at 1 April 2001 Rs	For the period Rs	On Deletions Rs	Total Rs	As at 30 June 2002 Rs	As at 31 March 2001 Rs
Plant & Machinery	12,037,410	580,025	(114,097)	12,503,338	409,425	808,793	(7,114)	1,211,104	11,292,234	11,627,985
Computer systems & Software	41,837,799	3,267,129	—	45,104,928	5,432,079	14,009,621	—	19,441,700	25,663,228	36,405,720
Furniture & Fittings	29,791,642	1,786,262	(218,210)	31,359,694	922,300	2,513,862	(17,823)	3,418,339	27,941,355	28,869,342
Vehicles	1,439,816	4,466,806	(2,179,463)	3,727,159	106,777	1,079,994	(405,604)	781,167	2,945,992	1,333,039
Total	**85,106,667**	**10,100,222**	**(2,511,770)**	**92,695,119**	**6,870,581**	**18,412,270**	**(430,541)**	**24,852,310**	**67,842,809**	**78,236,086**
Previous period	4,098,337	81,008,330	—	85,106,667	59,271	6,811,310	—	6,870,581	78,236,086	4,039,066

Note: Vehicles are purchased under hire purchase.

Schedules to the Consolidated Balance Sheet (continued)

		30 June 2002 Rs	31 March 2001 Rs
6	**Work-in-progress**		
	At Cost	**68,594,863**	**41,365,426**
7	**Sundry Debtors**		
	Unsecured, considered good		
	Debts outstanding for more than six months	47,055,913	44,956,713
	Others	103,353,990	88,392,820
		150,409,903	133,349,533
	Unsecured, considered doubtful	4,809,773	—
		155,219,676	133,349,533
	Less: Provision for doubtful debts	(4,809,773)	—
		150,409,903	**133,349,533**
8	**Cash & Bank balances**		
	Cash in hand	92,488	116,939
	Balance with Scheduled Banks:		
	In Current Accounts	2,486,275	313,060
	In Short Term Deposit Accounts	292,974	3,104,259
	In EEFC Accounts	4,174,398	2,114,068
	Balance with non-scheduled Banks:		
	In Current Accounts		
	United Bank, Virginia, USA	38,259,256	779,932
	Alliance Bank, Virginia, USA	732,150	—
	HSBC, Singapore	531,188	115,937
	HSBC, Kuala Lumpur, Malaysia	40,009	61,551
	HSBC, Hong Kong	1,029,850	795,153
		47,638,588	**7,400,899**
	Maximum balance held in non-scheduled Banks during the period:		
	In Current Accounts		
	United Bank, Virginia, USA	38,259,256	9,835,591
	Alliance Bank, Virginia, USA	744,002	—
	HSBC, Singapore	1,515,704	1,359,984
	HSBC, Kuala Lumpur, Malaysia	2,991,267	61,386
	HSBC, Hong Kong	4,112,705	2,753,251
9	**Loans & Advances**		
	(Unsecured, considered good)		
	Advances recoverable in cash or in kind or for value to be received	21,601,167	21,146,344
	Deposits	4,423,879	6,152,413
	Advance Income-tax (TDS)	3,537,379	569,876
		29,562,425	**27,868,633**

Schedules to the Consolidated Balance Sheet (continued)

		30 June 2002 Rs	31 March 2001 Rs
10	**Current Liabilities & Provisions**		
	Sundry Creditors		
	- for goods / services	12,546,692	30,954,978
	- for accrued salaries and benefits	6,597,312	1,727,243
	Other Liabilities		
	- withholding and other taxes payable	1,137,079	3,254,076
	- provision for expenses	4,505,642	5,186,849
	- provision for staff benefits	2,708,550	—
	- others	1,262,349	203,111
	Advance received from customers	406,000	145,000
	Interest accrued but not due	378,158	—
		29,541,782	**41,471,257**
11	**Miscellaneous Expenditure**		
	(to the extent not written-off or adjusted)		
	Preliminary Expenses	—	3,309,742
	Deferred Revenue Expenses	7,976,658	13,519,001
		7,976,658	**16,828,743**

(Refer Note No.2 of Schedule 16(B) - Notes to Accounts)

Schedules to the Consolidated Profit & Loss Account

		For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
12	**Other Income**		
	Interest received	273,709	2,571,369
	Net Foreign Exchange Gain	5,597,231	3,622,916
		5,870,940	**6,194,285**
13	**Software Development Expenses**		
	Salaries & Bonus including overseas staff expenses	138,231,016	61,550,777
	Contribution to Provident & Other Funds	7,907,688	3,977,672
	Employees Welfare Expenses	3,709,311	8,100,391
	Software Development Expenses	169,698,775	82,893,120
	Communication expenses	9,765,493	6,683,619
		329,312,283	163,205,579
	Less : Increase / (Decrease) in Work-in-progress	(27,229,437)	(41,365,426)
		302,082,846	**121,840,153**
14	**Administration & Other Expenses**		
	Rent	10,500,006	8,566,380
	Rates & Taxes	633,839	394,931
	Travel & Conveyance	19,076,164	26,169,353
	Insurance	2,457,838	2,530,975
	Power & Fuel	5,026,035	2,898,299
	Repairs & Maintenance		
	- Machinery	1,150,565	1,423,793
	- Others	3,732,842	2,568,811
	Printing & Stationery	2,303,951	3,099,470
	Provision for doubtful debts	4,809,773	—
	Loss on sale of Fixed Assets	906,397	—
	Advertisement & Business Promotion	1,350,203	4,734,984
	Legal & Professional Expenses	2,901,810	3,321,348
	Auditors' remuneration	1,320,443	80,263
	Directors' remuneration	1,112,910	622,160
	Miscellaneous Expenses	1,814,441	1,794,409
		59,097,217	**58,205,176**
15	**Finance Charges**		
	Interest on Term Loans	5,591,046	—
	Interest on Working Capital Loans	6,798,076	1,463,033
	Interest on Other Loans	11,893,935	4,526,600
	Other Finance Charges	697,628	1,162,703
		24,980,685	**7,152,336**

Schedules to the Consolidated Balance Sheet and Profit & Loss Account

16 Significant Accounting policies & Notes to Accounts

Group overview

Megasoft Limited ("the Company") together with its subsidiaries Megasoft Consultants Sdn Bhd, Malaysia, Megasoft Consultants Pte Ltd, Singapore and Megasoft (HK) Limited, Hong Kong (collectively "the Group") are engaged in the business of providing information technology services to customers.

A Significant Accounting Policies

1 Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared under the historical cost convention in accordance with Generally Accepted Accounting Principles ("GAAP") on the accrual basis. GAAP comprises mandatory accounting standards ("AS") issued by The Institute of Chartered Accountants of India ("ICAI").

The Group has adopted accounting standards on segment reporting, related party disclosures, earnings per share, consolidated financial statements and accounting for taxes on income issued by the ICAI that became mandatory effective accounting periods commencing on or after 1st April 2001.

The consolidated financial statements include the financial statements of Megasoft Limited and all its subsidiaries which are more than 50% owned or controlled by the Company. The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS 21 by the ICAI. All material inter-company transactions and accounts are eliminated on consolidation. This being the first occasion of presentation of consolidated financial statements in line with AS 21, previous period figures are unaudited and have been provided by management for comparison purposes.

2 Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include estimates of carrying value of work in progress, provision for doubtful debts and useful life of fixed assets. Actual results could differ from estimates.

3 Revenue Recognition

Revenue from software development on the time and material basis is recognised based on software developed and billed to clients as per the terms of specific contracts. In the case of fixed-price contracts, revenue is recognised based on the milestones achieved as specified in the contracts, on the percentage of completion basis. Provision for estimated losses on incomplete contract is recorded in the period in which such losses become probable based on the current estimates.

4 Fixed Assets & Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation. Direct costs such as freight, installation costs, duties and taxes are included in the cost of the asset until the assets are ready to be put to use. Assets acquired under hire purchase / leases are capitalised and the corresponding liability is recorded at an amount equal to the fair value of the hired / leased asset or the present value of the minimum hire / lease payments, whichever is lower, at the inception of the lease / hire purchase. Initial costs incurred in connection with specific leasing / hire purchase activities directly attributable to activities performed for a finance lease / hire purchase are included as part of the amount recognised as an asset under the lease / hire purchase.

Depreciation on fixed assets is provided using the straight line method (other than the Hong Kong subsidiary wherein reducing balance method is followed) in accordance with the rates specified under Schedule XIV to the Companies Act,1956 or at such higher rates, as detailed below:

Asset	India	Singapore	Malaysia	Hong Kong
Plant & Machinery	4.75%		10.00%	20.00%
Computer Systems & Software	25.00%	33.33%	20.00%	30.00%
Furniture & Fittings	6.33%			
Vehicles	9.50%			

Schedules to the Consolidated Balance Sheet and Profit & Loss Account (continued)

16 Significant Accounting policies & Notes to Accounts (continued)

A Significant Accounting Policies (continued)

Individual assets costing less than Rs.5,000 are depreciated fully in the year of purchase. Depreciation is charged on a pro-rata basis on fixed assets purchased / sold during the period. Depreciation on assets acquired under finance lease / hire purchase is provided using the straight-line method over the shorter of the lease / hire purchase term and useful life of the asset.

5 Work in progress

Work in progress stated at cost represents the amount of expenditure incurred by the Company on projects in progress and on product development. These expenses comprise direct expenses such as salaries incurred on projects / product development and certain direct overheads absorbed on the basis of man hours spent on the projects / product development.

6 Foreign Currency Transactions

Transactions in foreign currency are recorded at the rates of exchange prevailing on the date of the transaction or at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions. Current assets and liabilities denominated in foreign currency are translated at the rate of exchange as at Balance Sheet date. All resulting gains or losses are recognised in the Profit and Loss account. Foreign exchange gains or losses relating to the acquisition of fixed assets are adjusted to the cost of the asset.

Non-monetary items are translated using the exchange rates at the date of the transaction in the case of foreign branches / subsidiaries. Fixed assets are translated using the exchange rates at the date of acquisition. Depreciation is translated at the rates used for the translation of the values of the assets on which depreciation is computed.

Net exchange difference resulting from the translation of items in the financial statements of foreign branches / subsidiaries is recognised as income / expense for the period, except to the extent adjusted in the carrying amount of the related fixed asset as stated above.

7 Retirement benefits

Provident Fund

The employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and employer each make monthly contributions to the plan equal to specified percentage of the covered employee’s basic salary. The Company has no further obligations under the plan beyond its monthly contributions.

Gratuity

In accordance with the Payment of Gratuity Act, 1972, the Company provides for gratuity, a non-funded, defined benefit retirement plan (the “Gratuity Plan”) covering all employees. The plan, subject to the provisions of the Act, provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee’s salary and the years of employment with the Company. The Company estimates its liability as of each balance sheet date based on an actuarial valuation.

Leave encashment

Leave encashment cost which is a defined benefit, is accrued based on actuarial valuation at the balance sheet date carried out by an independent actuary, and is charged to Profit & Loss Account.

8 Miscellaneous Expenditure

Miscellaneous Expenditure comprising preliminary and deferred revenue expenses (market development and other expenses) are amortised over a period of ten and five years respectively.

16 Significant Accounting policies & Notes to Accounts (continued)

A Significant Accounting Policies (continued)

9 Deferred taxation

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future. However, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written down or written up to reflect the amount that is reasonable / virtual certainty (as the case may be) to be realised.

The break-up of major components of the deferred tax assets and liabilities as at 30th June 2002 have been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing laws.

B Notes to Accounts

1 Details of Subsidiary Companies

The details of subsidiaries are given below:

Name of the subsidiary	Country of Incorporation	% holding
Megasoft Consultants Sdn Bhd	Malaysia	100%
Megasoft Consultants Pte Ltd	Singapore	100%
Megasoft (HK) Limited	Hong Kong	100%

2 Changes in Accounting Policies

During the current period, the benefits of carrying forward certain items of deferred revenue expenses (market development and other expenses) were re-assessed and expenses amounting to Rs.3,188,900 (in addition to the amortisation during the period) has charged off the same as Deferred Revenue Expenses written off in the Profit and Loss account as against the practice of amortising these expenses over a period of five years. Had the policy of amortising these expenses over a period of five years been continued, the Loss for the period would have been lower and Miscellaneous Expenditure (to the extent not written-off or adjusted) and Reserves and Surplus as at 30th June 2002 would have been higher by Rs.3,188,900.

Preliminary expenses amounting to Rs.2,612,533 have been written-off (in addition to the amortisation during the period) against the securities premium received on the rights offering as against the practice of amortising these expenses over a period of ten years. Had the policy of amortising these expenses over a period of ten years been continued, Miscellaneous Expenditure (to the extent not written-off or adjusted) and Reserves and Surplus as at 30th June 2002 would have been higher by Rs.2,612,533.

3 Deferred Taxation

As per the requirement of AS 22 - Accounting for Taxes on Income, the effect of deferred tax upto 31st March 2001 amounting to Rs.3,171,599 has been adjusted against the opening balance of the Profit & Loss Account. The effect of deferred tax in the current period, being a deferred tax liability amounting to Rs.118,854 has also been adjusted in the Profit and Loss Account on account of which the Loss for the period is higher by the equivalent amount.

Deferred tax comprise	As at 30 June 2002 Rs
Fixed Assets	(3,290,453)
Net deferred tax asset/(liability)	(3,290,453)

Schedules to the Consolidated Balance Sheet and Profit & Loss Account (continued)

16 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

4 Segment Reporting

The Group's operations predominantly relate to providing information technology services to customers operating in various industry segments. Accordingly, revenues represented by industry classes comprise the primary basis of segmental information. The secondary segment is geographical, determined based on the location of the customer who is invoiced or in relation to which the revenue is otherwise recognised. Fixed assets used in the Group's business and liabilities contracted have not been identified to the primary reportable segment, as the fixed assets and services are used interchangeably between segments.

Certain expenses such as Administration & Other Expenses, which form a significant component of total expenses, are not specifically allocable to specific segments as the underlying services are used interchangeably. Management believes that it is not practical to provide segment disclosures to these costs and expenses and accordingly these expenses are separately disclosed as "unallocated" and adjusted only against the total income of the Group.

Primary Segment: Industry classes

	Development Rs	Consulting Rs	Others Rs	Total Rs
Revenues	161,225,881	233,855,419	3,989,571	399,070,871
Less: Identifiable operating expenses	(85,779,909)	(202,039,354)	—	(287,819,263)
Less: Allocated expenses	(4,980,007)	(2,078,225)	(143,939)	(7,202,171)
Segmental operating income	70,465,965	29,737,840	3,845,632	104,049,437
Less: Unallocable expenses				84,570,899
Operating income				19,478,538
Add/(Less): Other income / (expense) net				(27,292,684)
Net Loss before taxes				(7,814,146)
Deferred tax benefit / (expense)				(118,854)
Net Loss after taxes				(7,933,000)

Secondary Segment: Geographical

	India Rs	North America Rs	Rest of the World Rs	Total Rs
Revenues	76,962,002	282,551,097	39,557,772	399,070,871
Carrying amount of segment assets / liabilities *(determined based on location)*				
Segment Assets	266,071,325	89,911,394	4,235,516	360,218,235
Bank Deposits	292,974	—	—	292,974
Other Assets	3,537,379	—	—	3,537,379
Total Assets	269,901,678	89,911,394	4,235,516	364,048,588
Segment Liabilities	132,763,836	488,390	10,332,485	143,584,711
Addition to Fixed Assets	9,988,592	—	111,630	10,100,222
Depreciation	18,244,154	49,725	118,391	18,412,270

16 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

5 Leases / Hire purchase

(a) Leases / Hire purchase - Capital

The Group has entered into leasing / hire purchase arrangements with banks and financial institutions for the hire / lease of motor vehicles (“the leased asset”) for a period of upto 60 months. During the lease / hire period, the Group has agreed to hypothecate and create an exclusive charge on the vehicle in favour of the bank / financial institution and repay the principal amount of the loan along with interest thereon by way of instalments as agreed upon. The charge / security created in favour of the bank / financial institution shall remain in force until such time all the dues under the agreement are fully discharged.

Pending lease / hire purchase obligations comprising minimum lease / hire payments:	**As at 30 June 2002** Rs
Not later than one year	1,174,188
Later than one year and not later than five years	1,408,905
Total	2,583,093
Less: Amounts representing interest	(306,741)
Present value of minimum lease payments	2,276,352
Less : Amount due not later than one year	(970,848)
Amounts due later than one year and not later than five years	1,305,504

(b) Operating Lease

The operating lease arrangements relate to rented premises and transit / guest house which are cancellable at the option of the Group.

Schedules to the Consolidated Balance Sheet and Profit & Loss Account (continued)

16 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

6 Related party transactions

The Group has transactions with the following related parties:

Associates: Megasoft Consultants Inc., US, Megasoft Consultants Ltd, UK, Megasoft Consultants GmbH, Germany, Megasoft Australia Pty Ltd, Australia and Capricorn Holdings Pvt Ltd.

Directors: Megasoft Limited, India - Mr Ravindra Sannareddy, Mr D Sudhakar Reddy, Mr S Rajagopal Reddy, Mr LS Venkataramanan & Mr P Mukunda Reddy

Key Management Personnel: Mr GK Rao & Mr GP Srinath

	For the fifteen month period ended 30 June 2002 Rs	Balance as at 30 June 2002 Rs
Associates		
Sales / Receivables	33,586,279	29,524,522
Outsourcing / Payables	164,499,805	(4,367,946)
Lease rentals & other expenses / Payables	2,150,625	(2,271,151)
Directors		
Loans received / due	20,057,000	—
Interest paid on Loans	2,796,669	—
Remuneration to Whole-time Directors	1,112,910	—
Professional fees to Non-Executive Director	75,000	—
Sitting fees to Non-Executive Directors	7,250	—
Shares allotted in Rights Issue (including securities premium)	7,300,700	—
Key Management Personnel		
Remuneration	2,368,750	—
Shares allotted in Rights Issue (including securities premium)	1,300,000	—

There are no provisions for doubtful debts / advances in respect of related parties as at the Balance Sheet date or amounts written-off or written back in the period in respect of debts due from or to related parties.

16 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

7 Work in progress

Work in progress includes an amount of Rs.19,173,784 comprising direct expenses such as salaries incurred on product development and certain direct overheads absorbed on the basis of man hours spent on product development. In respect of the above, the management of the Company:

(a) has carried out tests to demonstrate their technical feasibility and has the intention and adequate resources to complete and market these products; and

(b) estimates that the current and future development costs on the products together with expected selling and administration costs are likely to be more than covered by related future revenues / benefits.

	As at 30 June 2002 Rs	As at 31 March 2001 Rs
8 Commitments & Contingencies		
Estimated amount of contracts pending execution on capital account	—	4,633,376
Unexpired:		
Letter of Credits	—	2,181,000
Bank Guarantees	1,364,395	1,105,370

9 Prior period adjustments

Prior period adjustments include provisions made for leave encashment, gratuity and other expenses for the period upto 31st March 2001 amounting to Rs.1,739,360, Rs.1,578,016 and Rs.1,142,442 respectively.

10 Rights Issue

The Company made a Rights issue of 4,260,200 equity shares of Rs.10 each at a premium of Rs.15 each aggregating to Rs.106,505,000 during the current period. The shares were allotted on 12th June 2002 and the basis of allotment was approved by the Regional Stock Exchange viz. Madras Stock Exchange Limited, in accordance with SEBI Guidelines.

11 Utilisation of money raised in Rights Issue

The amount of Rs.106,505,000 raised by the Company in its Rights Issue has been utilised as follows:

	Projected Utilisation as per Letter of Offer Rs	Actual Utilisation Rs
Repayment of Unsecured Loans	90,000,000	90,100,000
Rights Issue Expenses	1,500,000	980,404
Working Capital margin	15,005,000	15,424,596
	106,505,000	106,505,000

12 Securities Premium

The preliminary expenses of Rs.2,612,533 (balance as at 30th June 2002) and rights issue expenses of Rs.980,404 have been set-off against the Securities Premium as per the provisions of Section 78 of the Companies Act, 1956.

Schedules to the Consolidated Balance Sheet and Profit & Loss Account (continued)

16 Significant Accounting policies & Notes to Accounts (continued)

B Notes to Accounts (continued)

13 Secured loans / borrowings are secured as follows:

(i) The term loan and working capital loan from Bank of India are secured by first charge on tangible movable assets including computers and its accessories, air conditioners, furniture and fixtures, etc., and hypothecation of book debts of the Company and personal guarantee of a Director. The term loan is repayable in twelve equal instalments of Rs.2,500,000 each from 31st March 2001.

(ii) Vehicle loans are secured by hypothecation of vehicles purchased. Amount repayable within one year Rs.1,174,188 (Previous period - Rs.279,575)

14 Unsecured loans

Unsecured loans include interest free loans availed from private financial institutions of Rs.32,400,000 (Previous period - Rs. Nil).

15 Amalgamation of Indus e-Solutions Limited

The prior period comparatives include effect of the amalgamation of Indus e-Solutions Limited (formerly Orion Plastek Limited) with the Company effective 1st January 2000. The Company accounted for the amalgamation as per the “Pooling of Interest” method prescribed by AS 14 - Accounting for Amalgamation, issued by the ICAI and the assets, liabilities and other reserves of Indus e-Solutions Limited as at 1st January 2000 were recorded in the books of account. Consequent to the amalgamation 5,150,500 equity shares of Rs.10 each were allotted at par by the Company to the shareholders of Indus e-Solutions Limited in the ratio of 1:1 on 24th August 2000.

16 Prior period comparatives

Prior period figures have been regrouped wherever necessary to conform to current period’s presentation.

17 Cash flows

Cash flows are reported using the indirect method, whereby loss / profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing and investing activities of the Group are segregated. Cash flows in foreign currencies are accounted at average monthly exchange rates that approximate the actual rates of exchange prevailing at the dates of the transactions. The cash flow statement of the Group is set out in the attached schedule.

Consolidated Cash Flow Statement

	For the fifteen month period ended 30 June 2002 Rs	For the fifteen month period ended 31 March 2001 Rs
Cash flows from operating activities		
(Loss) / Profit before tax	(7,814,146)	29,238,158
Adjustments for:		
Depreciation	18,412,270	6,811,310
Amortisation of Miscellaneous Expenditure	8,182,939	3,979,746
Loss on sale of Fixed Assets	906,397	—
Prior-period adjustments	(4,459,818)	—
Interest received	(273,709)	(2,571,369)
Finance Charges	24,980,685	7,152,336
Operating profit before working capital changes	39,934,618	44,610,181
(Increase) in Work-in-progress	(27,229,437)	(41,365,426)
(Increase) in Sundry Debtors	(17,060,370)	(121,889,313)
(Increase) in Loans & Advances	(1,693,792)	(18,537,364)
Increase / (Decrease) in Current Liabilities & Provisions	(11,929,475)	35,788,723
Net cash provided by operating activities	**(17,978,456)**	**(101,393,199)**
Cash flows from investing activities		
Purchase of fixed assets	(10,100,222)	(78,721,193)
Proceeds from sale of Fixed Assets	1,174,832	—
Miscellaneous Expenditure	(1,943,387)	(19,616,524)
Interest received	273,709	2,571,369
Net Cash used for investing activities	**(10,595,068)**	**(95,766,348)**
Cash flows from financing activities		
Proceeds from issuance of share capital	42,602,000	51,487,500
Receipt of Calls-in-arrears	17,500	—
Proceeds of Premium from issue of Share Capital (net)	62,922,596	—
Amalgamation Reserve	—	735,970
Proceeds from long-term borrowings	(6,254,559)	99,747,214
Increase in Working capital loans	(5,495,639)	26,045,913
Finance Charges	(24,980,685)	(7,152,336)
Net cash provided by financing activities	**68,811,213**	**170,864,261**
Net increase in cash & cash equivalents	40,237,689	(26,295,286)
Cash & Cash equivalents at the beginning of the period	7,400,899	33,696,185
Cash & Cash equivalents at the end of the period	**47,638,588**	**7,400,899**

As per our Report attached
for **Bharat S Raut & Co.**
Chartered Accountants

S Balasubrahmanyam
Partner

Chennai
8th November 2002

For and on behalf of the Board

S Rajagopal Reddy
Whole-time Director

D Sudhakar Reddy
Whole-time Director

GP Srinath
General Manager &
Company Secretary

MEGASOFT CONSULTANTS SDN BHD

(Incorporated in Malaysia)

Financial Statements
for the period ended
31st December 2001

DIRECTORS	:	PALANIAPPAN A/L KASIVISVANATHAN MOHAMMED MYNUDEEN MOHAMMED ZAHIRUDEEN
SECRETARY	:	PALANIAPPAN A/L KASIVISVANATHAN MACS (00608)
REGISTERED OFFICE	:	2-4-12, 4th Floor, Menara KLH Business Centre No.2, Jalan Kasipillay Off 2½ Miles Jalan Ipoh, 51200 Kuala Lumpur
AUDITORS	:	AZLAN AZIZ & PARTNERS Chartered Accountants (M)
BANKERS	:	HSBC, BERHAD

Directors' Report

The Directors have pleasure in submitting their report and the audited accounts of the Company from the date of incorporation, 3rd October 2000 to 31st December 2001.

Principal Activities

The principal activities of the company are to carry on the business of designing and development of systems and application software, system integrators and provide total IT solutions to all sectors of business, obtain technical knowledge from abroad, provide computer networking facilities, set up and run electronic data processing centers.

Results

	RM	INR
Loss for the period	(63,662)	(808,507)

Dividends

No dividend has been paid or declared by the Company during the period.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial period.

Issue of Shares and Debentures

During the financial period, the Company has increased its authorised capital from RM 100,000 to RM 500,000 by creation of additional 400,000 ordinary shares of RM 1.00 each at par, ranking pari passu in respect with all existing shares.

During the financial period, the Company has increased its paid-up from RM 2 to RM 250,000 by creation of additional 249,998 ordinary shares of RM 1.00 each at par, ranking pari passu in respect with all existing shares.

Bad and Doubtful Debts

Before the Profit and Loss Account and Balance Sheet of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied that all known bad debts had been written off and that adequate provision had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent.

Current Assets

Before the Profit and Loss Account and Balance Sheet of the Company were made out, the Directors took reasonable steps to ensure that any Current Assets which were unlikely to be realised in the ordinary course of business including their value as shown in the accounting records of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances, which would render the value attributed to Current Assets in the accounts misleading.

Valuation Methods

At the date of this report, the Directors are not aware of any circumstances that have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

Contingent and Other Liabilities

At the date of this report, there does not exist:

(i) any charge on the assets of the Company which has arisen since the end of the financial period which secures the liabilities of any other person, or

(ii) any contingent liability of the Company which has arisen since the end of the financial period.

No contingent or other liabilities have become enforceable or are likely to become enforceable within the succeeding period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

Change of Circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or accounts, which would render any amount stated in the accounts misleading.

Items of an Unusual Nature

In the opinion of the Directors:

(i) the results of the Company's operations for the period ended 31 December 2001 have not been substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial period in which this report is made.

Directors

The Directors who have held office since the date of incorporation are :

Palaniappan a/l Kasivisvanathan	First director
Kamarul Baharin Bin Khalid	Resigned w.e.f 15/11/2000
Mohammed Mynudeen Mohammed Zahirudeen	Appointed w.e.f 27/09/2001
Audrena Binti Sany Albert	Resigned w.e.f 27/09/2001

The Directors holding office at date of incorporation and their interest in the shares of the Company during the financial period were as follows:-

	Number of shares of RM 1 each			
	As at date of incorporation (03/10/2000)	Bought	Sold	As at 31/12/2001
Palaniappan a/l Kasivisvanathan	1	—	1	—
Kamarul Baharin Bin Khalid (Resigned w.e.f 15/11/2000)	1	—	1	—
Mohammed Mynudeen Mohammed Zahirudeen	—	—	—	—
Audrena Binti Sany Albert (Resigned w.e.f 27/09/2001)	—	1	1	—

Neither during nor at the end of the financial period was the Company a party to any arrangements whose object is to enable Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the date of incorporation, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

In accordance with the Company's Articles of Association, the Directors who should retire, retire and being eligible, offer themselves for re-election.

Auditors

The Auditors, Messrs AZLAN AZIZ & PARTNERS, have given their consent to act as an auditor for the current ensuing year.

Signed on behalf of the Board in accordance with a resolution of the Directors.

PALANIAPPAN A/L KASIVISVANATHAN **MOHAMMED MYNUDEEN MOHAMMED ZAHIRUDEEN**

Kuala Lumpur
Dated: 14 March 2002

Statement by Directors

We, the undersigned, being two directors of MEGASOFT CONSULTANTS SDN. BHD. state in the opinion of the directors, the financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of its results, and cash flows of the Company as at 31st December 2001 in accordance with the applicable approved accounting standards in Malaysia and the provisions of Companies Act, 1965.

Signed on behalf of the Board

PALANIAPPAN A/L KASIVISVANATHAN **MOHAMMED MYNUDEEN MOHAMMED ZAHIRUDEEN**

Kuala Lumpur
Dated: 14 March 2002

Statutory Declaration

PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, MOHAMMED MYNUDEEN MOHAMMED ZAHIRUDDEN, being the Director primarily responsible for the financial management of MEGASOFT CONSULTANTS SDN. BHD., do solemnly and sincerely declare that the financial statements are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960

Subscribed and solemnly declared
by the above named at Kuala Lumpur
in Wilayah Persekutuan
this 14 March 2002 **MOHAMMED MYNUDEEN MOHAMMED ZAHIRUDEEN**

Before me,

Commissioner for Oaths
Kuala Lumpur

Auditors' Report

To the Members of Megasoft Consultants Sdn. Bhd.

We have audited the financial statements set out on pages 7 to 12 of MEGASOFT CONSULTANTS SDN. BHD. The preparation of the financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We have conducted our audit in accordance with approved Standards on Auditing issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain all information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standard so as to give a true and fair view of:

- (i) the state of affairs of the Company as at 31st December 2001 and the results, and cash flows for the year ended on that date; and
- (ii) the matters required by section 169 of the said Act to be dealt with in financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

MOHAMED AZLAN SHAH
BIN AZIZ MOHAMMED
Partner of firm
2033/04/04 (J)
Kuala Lumpur
Dated: 14 March 2002

AZLAN AZIZ & PARTNERS
Chartered Accountants (M)
AF 1257

Balance Sheet as at 31st December 2001

	NOTES	2001 RM	2001 INR
Current Assets			
Cash and bank balances		23,063	292,900
Sundry debtors		3,750	47,625
Other debtors and deposits		8,600	109,220
		35,413	**449,745**
Current Liabilities			
Sundry creditors		4,008	50,901
Other creditors and accruals		22,220	282,194
		26,228	**333,095**
Net Current Liabilities		9,185	116,650
Intangible Assets	1(C)	168,920	2,145,284
Fixed Assets	2	8,233	104,559
		186,338	**2,366,493**
Financed by:			
Share Capital	3	250,000	3,175,000
Accumulated Losses Carried Forward		(63,662)	(808,507)
		186,338	**2,366,493**

(The annexed notes form an integral part of the financial statements)

Income Statement for the period ended 31st December 2001

	NOTES	2001 RM	2001 INR
Turnover		—	—
Cost of Sales		—	—
Gross Profit		—	—
General and Administrative Expenses		63,662	808,507
Loss for the Period	4	**(63,662)**	**(808,507)**

(The annexed notes form an integral part of the financial statements)

Statement of changes in equity for the period ended 31st December 2001

	Share Capital		Accumulated Losses		Total	
	RM	INR	RM	INR	RM	INR
At 3 October 2000	2	25	—	—	2	25
Net loss for the period	—	—	(63,662)	(808,507)	(63,662)	(808,507)
Allotment	249,998	3,174,975	—	—	249,998	3,174,975
At 31 December 2001	**250,000**	**3,175,000**	**(63,662)**	**(808,507)**	**186,338**	**2,366,493**

(The annexed notes form an integral part of the financial statements)

Cash Flow Statement for the period ended 31st December 2001

	2001 RM	2001 INR
Cash Flow from Operating Activities		
Net loss before taxation	(63,662)	(808,507)
Adjustment items not involving in the movement of fund		
Depreciation	915	11,620
	(62,747)	**(796,887)**
Increase in sundry debtors	(3,750)	(47,625)
Increase in other debtors and deposits	(8,600)	(109,220)
Increase in sundry creditors	4,008	50,902
Increase in other creditors and accruals	22,220	282,194
Net Cash Used In Operating Activities	**(48,869)**	**(620,636)**
Cash Flow from Investing Activities		
Purchase of fixed assets	(9,148)	(116,180)
Increase in intangible assets	(168,920)	(2,145,284)
Net Cash Used In Operating Activities	**(178,068)**	**(2,261,464)**
Cash Flow from Financing Activities		
Issue of shares	250,000	3,175,000
Net Cash from Financing Activities	**250,000**	**3,175,000**
Net increase in cash and cash equivalent	23,063	292,900
Cash and cash equivalent at beginning of year	—	—
Cash and cash equivalents at end of year	**23,063**	**292,900**
Cash and Cash Equivalents Represented By		
Cash and bank balances	23,063	292,900
	23,063	**292,900**

Notes to the accounts for the period ended 31st December 2001

1. Significant Accounting Policies

(a) Basis of Accounting

The accounts have been prepared under the historical cost convention, accounting principles applicable to a going concern and comply with approved accounting standards.

(b) Depreciation

Depreciation is calculated on a straight line method over the estimated useful lives of the related assets. The annual rates of depreciation are as follows:

Assets	**Rate**
Office equipment	10%

(c) Intangible Assets

The intangible assets represents the preliminary and research and development expenses. Both are carried forward at cost and are to by written off against future profits of the Company

2. Fixed Assets

Cost	As at date of incorporation 03/10/2000		Additional/ current charges		Disposal		As at 31/12/2001	
	RM	INR	RM	INR	RM	INR	RM	INR
Office equipment	—	—	9,148	116,179	—	—	9,148	116,179
Accumulated depreciation								
Office equipment	—	—	915	11,620	—	—	915	11,620
Net book value								
Office equipment	—	—	—	—	—	—	8,233	104,559

3. Share Capital

	2001 RM	2001 INR
Ordinary shares of RM 1 each		
Authorised capital		
As at date of incorporation	100,000	1,270,000
Increased during the period	400,000	5,080,000
As at 31 December	**500,000**	**6,350,000**
Issued and fully paid-up capital:		
As at date of incorporation	2	25
Allotment during the period	249,998	3,174,975
As at 31 December	**250,000**	**3,175,000**

4. Loss Before Taxation

	2001 RM	2001 INR
Loss before taxation is stated after charging :		
Auditor's remuneration	1,700	21,590
Depreciation	915	11,620

5. Date of Incorporation

The Company was incorporated on 3rd October 2000.

6. Comparative Figures

There are no comparative figures during the period as this is the first set of accounts.

Note: Indian Rupee equivalent of figures have been arrived at by applying the year end exchange rate of MR 1=Rs.12.70 and do not form part of the reports of Megasoft Consultants Sdn. Bhd., as made out in accordance with the laws of Malaysia. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956.

MEGASOFT CONSULTANTS PTE LTD

(Incorporated in the Republic of Singapore)

Financial Statements
for the period ended
31st December 2001

DIRECTORS	:	KALLOL BISWAS SANNAREDDY RAVINDRA BABU
REGISTERED OFFICE	:	111, North Bridge Road #21-01 Peninsula Plaza Singapore 179098
AUDITORS	:	BARRY WEE & Co. Certified Public Accountants
BANKERS	:	HSBC

Directors' Report

We, the undersigned Directors, on behalf of the Board of Directors of the Company, submit this annual report to the members together with the audited financial statements of the Company for the financial period from 5 October 2000 (date of incorporation) to 31 December 2001.

Directorate

The Directors in office at the date of this report are as follows:-

KALLOL BISWAS
SANNAREDDY RAVINDRA BABU

Principal Activities

The principal activities of the Company consist of designing and development of systems and application software as well as to obtain technical knowledge know-how from abroad and to set up and run electronic data processing and training centers on the business of data processing and software consultancy.

There have been no significant changes in the nature of these activities during the financial period.

Acquisition and Disposal of Subsidiaries

During the financial period, the Company did not acquire or dispose of any subsidiaries.

Financial Results

	S$	INR
Results of the Company for the financial period are as follows:-		
Loss for the period after taxation	(183,455)	(4,793,679)

Transfers to and from Reserves and Provisions

There were no material transfers to or from reserves and provisions during the financial period. Movements in provisions are as set out in the accompanying notes to the financial statements.

Issue of Shares and Debentures

At the date of incorporation, 2 ordinary shares of S$1 each were issued at par for the purposes of incorporating the Company. During the financial period, the Company issued 99,998 shares for cash at par to provide for additional working capital

There were no debenture stocks issued

Arrangements to enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial period was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interest in Shares or Debentures

Except as disclosed in this report, no Director who held office at the end of the financial period had interest in shares or debentures of the Company or of related corporations either at the beginning or at the end of the financial period.

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50, particulars of interest of Directors who held office at the end of the financial period in shares or debentures in the Company are as follows:-

	Ordinary Shares of S$1	
Name of Directors in which interest are held in	On the date of incorporation	As at end of the period
KALLOL BISWAS	1	-
SANNAREDY RAVINDRA BABU	1	-

Dividends

Since the date of the incorporation, no dividend has been paid. No dividend has been paid or is proposed to be paid in respect of the financial period under review.

OTHER STATUTORY INFORMATION

(a) Bad and Doubtful Debts

Before the Profit and Loss Account and the Balance Sheet of the Company were made out, the Directors took reasonable steps to ascertain what action had been taken in relation to writing off bad debts and providing for providing for doubtful debts of the Company. The Directors have satisfied themselves that all known bad debts have been written off and that adequate provision has been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render any amounts written off for bad debts or provided for doubtful debts in the financial statements inadequate to any substantial extent.

(b) Current Assets

Before the Profit and Loss Account and the Balance Sheet of the Company were made out, the Directors took reasonable steps to ensure that any Current Assets which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values and that adequate provision has been made for the diminution in the value of such Current Assets.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report which would render the values attributable to current assets in the financial statements misleading.

(c) Charges and Contingent Liabilities

Since the end of the financial period:-

(3.1) no charge on the assets of the Company has arisen which secures the liabilities of any other person; and

(3.2) no contingent liability of the Company has arisen.

(d) Ability to Meet Obligations

No contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Company to meet its obligations when they fall due.

(e) Other Circumstances Affecting the Financial Statements

At the date of this report the directors are not aware of any circumstances not otherwise dealt with in the report or the financial statements which would render any amount stated in the financial statements misleading.

(f) Unusual Items

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has substantially affected the results of the operations of the Company during the financial period.

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the internal between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

Directors' Interests in Contracts

Since the date of incorporation, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member or with a Company in which he has a substantial financial interest.

Share Options

During the financial period, there were:-

(1) no options granted by the Company to any person to take up unissued shares in the Company; and

(2) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial period, there were no unissued shares of the Company under option.

Auditors

The auditors, BARRY WEE & Co. have indicated their willingness to accept re- appointment.

On behalf of the Board of Directors

KALLOL BISWAS
Director

SANNAREDDY RAVINDRA BABU
Director

Singapore
15 January 2002

Directors' Statement for the period ended 31 December 2001

We, KALLOL BISWAS and SANNEREDDY RAVINDRA BABU, being the directors of MEGASOFT CONSULTANTS PTE LTD, do hereby state that in our opinion:

(1) The financial statements set out on pages 7 to 13 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 DECEMBER 2001 and of the results of the business and the changes in equity of the Company for the period ended on that date; and

(2) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

KALLOL BISWAS
Director

SANNAREDDY RAVINDRA BABU
Director

Singapore
15 January 2002

BARRY WEE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS OF MEGASOFT CONSULTANTS PTE LTD

(Incorporated in the Republic of Singapore)

We have audited the financial statements of MEGASOFT CONSULTANTS PTE LTD for the financial period ended 31 December 2001 as set out on pages 7 to 13. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The company has incurred a loss of S$ 183,455 (INR 4,793,679) during the financial period. As at the Balance Sheet date, the total liabilities exceed the total assets by S$ 83,455 (INR 2,180,679). The financial statements have been prepared on a normal going concern basis which assumes that additional funds will be made available to the Company as to enable the Company to carry on as a going concern.

Except for the matter referred to above, in our opinion,

(a) the financial statements of the Company are properly drawn up in accordance with the provisions of the Company Act. Chapter 50 (the "Act") and Singapore Statements of Accounting Standard and so as to give a true and fair view of:

   (i) the state of affairs of the Company as at 31 December 2001 and the results and changes in equity of the Company for the financial period ended on that date; and

   (ii) the other matters required by Section 201 of the Act to be dealt with in the financial statements;

(b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

BARRY WEE & Co.
Certified Public Accountants, Singapore

Singapore
15 January 2002

Balance Sheet as at 31st December 2001

	NOTE	2001 S$	2001 INR
Non - Current Assets			
Fixed assets	4	**4,120**	**107,656**
Current Assets			
Trade debtors		59,997	1,567,722
Prepayment		2,153	56,258
Amounts due from related party	5	15,058	393,466
Cash and bank balances		28,365	741,177
		105,573	**2,758,623**
Less: Current Liabilities			
Trade creditors		72,900	1,904,877
Accruals		37,343	975,773
Amounts due to holding company (non-trade)	6	82,905	2,166,308
		193,148	**5,046,958**
Net Current Liabilities		**(87,575)**	**(2,288,335)**
		(83,455)	**(2,180,679)**
Capital and Reserves			
Share capital	7	100,000	2,613,000
Accumulated losses		(183,455)	(4,793,679)
		(83,455)	**(2,180,679)**

Note: The notes set out on pages 10 to 13 form part of these financial statements.

Profit & Loss Account for the period ended 31 December 2001

	NOTE	2001 S$	2001 INR
Revenue	8	315,237	82,37,143
Cost of sales		(46,013)	(1,202,320)
Gross profit		**269,224**	**7,034,823**
Other operating profit		—	—
Distribution costs		(4,779)	(124,875)
Administrative costs		(443,133)	(11,579,065)
Other operating expenses		(2,060)	(53,828)
Loss from operations	9	**(180,748)**	**(4,722,945)**
Non-operating expense	10	(1,397)	(36,504)
Finance costs	11	(1,310)	(34,230)
Loss from Ordinary Activities Before Taxation		**(183,455)**	**(4,793,679)**
Taxation	12	—	—
Loss from Ordinary Activities After Taxation		**(183,455)**	**(4,793,679)**
Extraordinary Items		—	—
Loss for the Period Transferred To Revenue Reserve		**(183,455)**	**(4,793,679)**

Note: The notes set out on pages 10 to 13 form part of these financial statements.

Statement of changes in equity as at 31 December 2001

	Share Capital		(Accumulated Losses)		Total	
	S$	INR	S$	INR	S$	INR
As at the date of incorporation	2	52	—	—	2	52
Issue of shares during the financial period	99,998	2,612,948	—	—	99,998	2,612,948
Loss for the period	—	—	(183,455)	(4,793,679)	(183,455)	(4,793,679)
As at 31 December 2001	**100,000**	**2,613,000**	**(183,455)**	**(4,793,679)**	**(83,455)**	**(2,180,679)**

The notes set out on pages 10 to 13 form part of these financial statements.

Notes to the Financial Statements 31 December 2001

These notes form an integral part of and should be read in conjunction with the accompanying Balance Sheet and Profit and Loss Accounts.

1. FUNDAMENTAL ACCOUNTING CONCEPT

As at Balance Sheet date, the total liabilities exceed the total asset by S$83,455. The financial statements have been prepared on a normal going concern basis which assumes that additional funds will be made available to the Company so as to enable the Company to carry on as a going concern.

2. PRINCIPAL ACTIVITIES

Megasoft Consultants Pte. Ltd. is a company incorporated in the Republic of Singapore with its registered office at 111, North Bridge Road, #21-01, Peninsula Plaza, Singapore 179098 and is a wholly-owned subsidiary of Megasoft Limited, a company incorporated in India, which is also its ultimate holding company.

The principal activities of the Company consist of designing and development of systems and application software as well as to obtain technical knowledge know-how from abroad and to set up and run electronic data processing and training centers on the business of data processing and software consultancy.

There have been no significant changes to the nature of these activities during the financial period.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of Compliance

These financial statements have been prepared in accordance with the Singapore Statements of Accounting Standard issued by the Institute of Certified Public Accountants of Singapore and the disclosure requirements of the Singapore Companies Act, Chapter 50.

3.2 Basis of Financial Statements Preparation

The financial statements, expressed in Singapore dollars, are prepared in accordance with the historical cost convention.

3.3 Expenditure Carried Forward

Preliminary expenses are carried forward at cost in the balance sheet and are to be written off in full upon commencement of operating activities.

3.4 Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis which is calculated to write down the cost of the assets over their estimated useful lives. The estimated useful lives have been taken as follows:-

	Rates
Computer	3 years

The assets are retained in the Company's financial statements until they are no longer in use.

3.5 Income Recognition

Revenue is recognised when services are rendered which is taken to be the point in time when the customer has accepted the services and the related risks and rewards of ownership.

3.6 Deferred Taxation

Deferred taxation is calculated using the liability method and is provided on all significant timing differences rising from the different treatment of certain items for accounting and taxation purposes. A deferred tax benefit is, however, not recognised in the accounts unless there is a reasonable expectation of its realisation.

3.7 Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are translated into Singapore dollars at rates of exchange closely approximate to those rulings at the Balance Sheet date. Translation differences are included in the Profit and Loss Account.

4. FIXED ASSETS

	Cost		Accumulated Depreciation		Net Book Value		Depreciation Charge	
	S$	INR	S$	INR	S$	INR	S$	INR
Computer	6,180	161,483	2,060	53,827	4,120	107,656	2,060	53,827
	6,180	**161,483**	**2,060**	**53,827**	**4,120**	**107,656**	**2,060**	**53,827**

The assets are retained in the Company's financial statements until they are no longer in use.

5. AMOUNTS DUE FROM RELATED PARTY

The amounts due from related party are unsecured, interest free and have no fixed terms of repayment

6. AMOUNTS DUE TO HOLDING COMPANY (NON-TRADE)

	2001 S$	2001 INR
Non-trade	18,000	470,340
Loan	64,905	1,695,968
	82,905	**2,166,308**

The Company is 100% owned by Megasoft Limited, a corporation incorporated in India. The amount due to holding Company is non-interest bearing, unsecured and has no fixed term of repayment.

7. SHARE CAPITAL

	2001 S$	2001 INR
Authorised:		
100,000 ordinary shares of $1 each	100,000	2,613,000
Issued & Fully Paid:		
100,000 ordinary shares of $1 each	**100,000**	**2,613,000**

At the date of incorporation, 2 ordinary Shares of S$1 each were issued at par for the purposes of incorporating the Company. During the financial period, the Company issued 99,998 shares for cash at par to provide for additional working capital. There were no debenture stocks issued.

8. REVENUE

Revenue of the Company represents invoiced value of services rendered net of any trade discounts.

9. LOSS FROM OPERATIONS

	2001 S$	2001 INR
Loss from operations is arrived at:		
After charging:		
Auditor's remuneration	1,700	44,421
Director's remuneration	159,000	4,154,670
Rental of premises	32,274	843,320

10. NON-OPERATING EXPENSES

	2001 S$	2001 INR
Exchange gain / loss	117	3,058
Preliminary expenses written-off	1,280	33,446
	1,397	**36,504**

11. FINANCE COSTS

	2001 S$	2001 INR
Interest paid and payable to:		
Bank charges	1,288	33,655
Late payment interest	22	575
	1,310	**34,230**

12. TAXATION

No taxation has been payable due to the losses incurred by the Company for the current financial period. Subject to agreement by the Controller of Income Tax, unabsorbed losses and un-utilised wear and tear allowances approximating to S$ 175,868 (INR 4,595,431) and S$ 6,180 (INR 161,483) respectively, are available for offsetting against future taxable income, provided there are no substantial changes in the shareholdings of the shareholders within the provisions of Section 37 and 23 respectively of the Singapore Income Tax Act.

Future tax benefits arising from tax losses have not been recognised since there is no reasonable certainty of their recovery in future years.

13. COMPARATIVE FIGURES

No comparative figures were available as this is the Company's first set of accounts since the date of incorporation.

Note: Indian Rupee equivalent of figures have been arrived at by applying the year end exchange rate of S$ 1=Rs.26.13 and do not form part of the reports of Megasoft Consultants Pte. Ltd., as made out in accordance with the laws of Singapore. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956.

MEGASOFT (HK) LIMITED

Financial Statements
for the period ended
30th June 2002

DIRECTORS	:	RAVINDRA SANNAREDDY RAJ GOPAL REDDY SANNAREDDY
REGISTERED OFFICE	:	Flat B, 2nd Floor, Tung Sing House 18, Lok Ku Road, Sheung Wan Hong Kong
AUDITORS	:	ALBERT LAM & Co. Certified Public Accountants
BANKERS	:	HSBC

Report of the Directors

The Directors present herewith to the shareholders their report together with the audited financial statements of the Company for the period from 1st December 2001 (date of previous accounting date) to 30th June 2002.

Principal Activities

The principal activity of the Company is the provision of consultancy services in the field of information technology.

Financial Statements

The results of the Company's operation for the period ended 30th June 2002 are set out in the income statement on page 5.

The state of the Company's affairs as at 30th June 2002 is set out in the Balance Sheet on page 6.

Dividends

There were no dividends declared or paid for the period ended 30th June 2002

Property, Plant and Equipment

The details of movements in property, plant and equipment are set out in Note 7 to the financial statements.

Share Capital

Movements in share capital of the Company during the period are set out in note 8 to the financial statements.

Directors

The Directors who held office during the period and up to the date of this report are:

Mr Ravindra Sannareddy
Mr Raj Gopal Reddy Sannareddy

In accordance with Article 7 of the Company's Articles of Association, all present directors shall retire from office and, being eligible, offer themselves for re-election.

Directors' Interests in Contracts

No contracts of significance in relation to the Company's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Directors' Benefits from Right to Acquire Shares or Debentures

At no time during the period was the Company, its fellow subsidiaries or its holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Auditors

The financial statements have been audited by Messrs. Albert Lam & Co., Certified Public Accountants, who shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Chairman

Hong Kong
9th September 2002

Auditors' Report

To the Shareholders of Megasoft (HK) Limited
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 5 to 11 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adquately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statement. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainity

In forming our opinion, we have considered the loss for the period of HK$78,805 (INR 492,531) and net liabilities of HK$573,388 (INR 3,583,675) as at 30th June 2002. The financial statements have been prepared on a going concern basis, the validity of which depends upon future profitable operations and the continuing financial support of its ultimate holding company. The financial statements do not include any adjustment that would result a failure to continue in business as going concern. We consider that appropriate estimates and disclosures has been made and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30th June 2002 and of its loss for the period from 1st December 2001 (date of previous accounting date) to 30th June 2002 and have been properly prepared in accordance with the Companies Ordinance.

Albert Lam & Co.
Certified Public Accountants

Hong Kong
9th September 2002

Income Statement for the period ended 30 June 2002

	NOTE	2002 HK$	2002 INR	2001 HK$	2001 INR
Turnover	3	600,600	3,753,750	2,362,080	14,526,792
Other Revenue		73	456	1,425	8,764
		600,673	3,754,206	2,363,505	14,535,556
Administrative Expenses		(677,655)	(4,235,344)	(2,862,775)	(17,606,066)
Other Operating Costs		(288)	(1,800)	(1,555)	(9,563)
Loss from Operations		(77,270)	(482,938)	(500,825)	(3,080,073)
Finance Costs		(1,535)	(9,593)	(3,758)	(23,112)
Loss Before Taxation	4	(78,805)	(492,531)	(504,583)	(3,103,185)
Taxation	5	—	—	—	—
Net Loss For The Period		**(78,805)**	**(492,531)**	**(504,583)**	**(31,03,185)**

* "Net loss for the period" is the only component of the "Statement of Recognized Gains and Losses" and therefore no separate statement has been prepared.

The annexed notes form an integral part of these financial statements.

Balance Sheet as at 30 June 2002

	NOTE	2002 HK$	2002 INR	2001 HK$	2001 INR
NON CURRENT ASSETS					
PROPERTY, PLANT AND EQUIPMENT	7	12,953	80,956	15,540	95,571
CURRENT ASSETS					
Rental & utility deposit		—	—	39,030	240,035
Trade receivables		85,800	536,250	367,834	2,262,179
Debtors & prepayments		700	4,375	14,988	92,176
Cash and bank balances		164,847	1,030,294	26,396	162,335
		251,347	**1,570,919**	**448,248**	**2,756,725**
CURRENT LIABILITIES					
Trade payables		828,188	5,176,175	867,246	5,333,563
Creditors and accrued charges		9,500	59,375	91,125	560,418
		837,688	**5,235,550**	**958,371**	**5,893,981**
NET CURRENT LIABILITIES		(586,341)	(3,664,631)	(510,123)	(3,137,256)
NET LIABILITIES		**(573,388)**	**(3,583,675)**	**(494,583)**	**(3,041,685)**
REPRESENTED BY:					
SHARE CAPITAL	8	10,000	62,500	10,000	61,500
ACCUMULATED LOSS		(583,388)	(3,646,175)	(504,583)	(3,103,185)
SHAREHOLDERS' DEFICIT		**(573,388)**	**(3,583,675)**	**(494,583)**	**(3,041,685)**

Approved by the Board of Directors on 9th September 2002.

Director Director

The annexed notes form an integral part of these financial statements.

Notes to the Financial Statements

1. Basis of Preparation

a. Principal activities

The principal activity of the Company during the period was the provision of consultancy services in the field of information technology.

b. Going concern concept

The financial statements have been prepared on a going concern basis which assumes the continued financial support from the ultimate holding Company. The ultimate holding Company has indicated its intention to provide further financial support to the Company.

2. Principal Accounting Policies

The financial statements on pages 5 to 11 are prepared in accordance with generally accepted accounting principles in Hong Kong and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The Company's financial statements are prepared under the historical cost convention.

a. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the Leasing company are accounted for as operating leases. Rental payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective leases.

b. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives on a reducing balance basis. The principal annual rates are as follows:

Computer & Accessories	30%
Office equipment	20%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The carrying amount of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

c. Deferred taxation

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected with reasonable probability to crystallize in the foreseeable future. Deferred tax asset is not recognised unless its realization is assured beyond reasonable doubt.

d. Revenue recognition

- Revenue from the rendering of services is recognised when the services are provided to the customers.
- Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

e. Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decision. Parties are also considered to be related if they are subject to common control or common significant influence.

f. Translation of foreign currencies

Transactions in foreign currencies during the period are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the Balance Sheet date are translated at rates of exchange ruling at the Balance Sheet date. Exchange differences rising in these cases are dealt with in the income statement.

3. Turnover

Turnover represents consultancy services income earned during the period.

4. Loss Before Taxation

Loss before taxation is arrived after charging / (crediting) the following:

	2002 HK$	2002 INR	2001 HK$	2001 INR
Audit & Taxation fees	9,500	59,375	18,000	110,700
Depreciation	2,587	16,169	6,256	38,474
Staff costs	136,875	855,469	1,232,226	7,578,190
Preliminary expenses	—	—	5,953	36,611
Net exchange loss	27	169	2,833	17,423
Operating lease rental in respect of premises	47,159	294,744	273,066	1,679,356
Bank interest income	(73)	(456)	(1,425)	(8,764)

5. Taxation

Hong Kong profits tax has not been provided for in the financial statements as the Company has no assessable profits for the period.

6. Directors' Remuneration

There was no Directors' emoluments paid or payable during the period pursuant to Section 161 of the Companies Ordinance.

7. Property, Plant and Equipment

	Computer & Accessories HK$	Office & Equipment HK$	Total HK$	INR
COST				
At 1/12/2001	18,966	2,830	21,796	136,225
At 30/6/2002	18,966	2,830	21,796	136,225
ACCUMULATED DEPRECIATION				
At 1/12/2001	5,690	566	6,256	39,100
Charge for the period	2,323	264	2,587	16,169
At 30/06/2002	8,013	830	8,843	55,269
NET BOOK VALUE				
At 30/06/2002	10,953	2,000	12,953	80,956
At 30/11/2001	13,276	2,264	15,540	97,125

8. Share Capital

	2002 HK$	2002 INR	2001 HK$	2001 INR
Authorised, issued & fully paid:				
10,000 ordinary shares of HK$1 each	10,000	62,500	10,000	61,500

9. Operating Lease Commitment

At 30th June 2002, the Company has no material operating lease commitment.

10. Ultimate Holding Company

The Directors regard Megasoft Limited, a Company incorporated in India, as the ultimate holding Company.

11. Related Party Transactions

During the period, the Company had the following related party transactions which were carried out in the normal course of its business.

Name of related party	Nature of related party relationship	Nature of transaction	Amount paid HK$	Amount paid INR
Megasoft Consultants Pte. Ltd., Singapore	Fellow subsidiary	Provision of sub-contracting services	187,001	1,168,756

12. Accumulated Losses

	2002 HK$	2002 INR	2001 HK$	2001 INR
At the beginning of the period	(504,583)	(3,153,644)	—	—
Loss for the period	(78,805)	(492,531)	(504,583)	(3,103,185)
	(583,388)	(3,646,175)	(504,583)	(3,103,185)

13. Deferred Taxation

There was no material unprovided deferred tax liabilities as at 30th June 2002. Deferred tax asset arising from tax losses has not been recognised as it is uncertain that such an asset will be crystallised in the foreseeable future. At the balance sheet date and for the period then ended, the amount of deferred tax asset in respect of tax losses not recognised in the financial statements amounted to HK$ 12,236 (INR 76,475) respectively.

Note: Indian Rupee equivalent of figures have been arrived at by applying the year end exchange rates at HK$ 1=Rs.6.25 for the period ended 30 June 2002 and at HK$ 1=Rs. 6.15 for the period ended 30 November 2001, respectively and do not form part of the reports of Megasoft (HK) Limited as made out in accordance with the laws of Hong Kong. This information is being provided in compliance with the directions of the Department of Company Affairs, Government of India, under Section 212(8) of the Companies Act, 1956.

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