

Notice

Notice is hereby given that the Tenth Annual General Meeting of the Company will be held on Thursday, the 30th day of September 2004 at 10.30 A.M at Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad - 500 051 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance sheet as at 31st March 2004 and Profit and Loss Account for the year ended as on that date along with Directors Report and Auditors Report thereon.
2. To appoint a Director in place of Mr. Douglas K Mellinger, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Dr. M V S R Kamesam, who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and, if thought fit, to pass with or without modification, the following resolution as an ordinary resolution.

“RESOLVED THAT M/s. P. R. Pramodkumar & Co., Chartered Accountants, retiring Auditors be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of next Annual General Meeting at such remuneration as may be determined by the Board”.

SPECIAL BUSINESS

5. **To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution.**

“Resolved that Mr. K V S Chalapathi Rao, who was appointed as Additional Director of the Company during the year, be and is hereby appointed as Director of the Company liable to retire by rotation”.

6. **To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution.**

“Resolved that Mr. V. Srinivasa Rao, who was appointed as Additional Director of the Company during the year, be and is hereby appointed as Director of the Company liable to retire by rotation”.

7. **To consider and if thought fit to pass with or without modification the following resolution as an Ordinary Resolution.**

“Resolved that Mr. M.P. Mehrotra, who was appointed as Additional Director of the company during the year be and is hereby appointed as Director of the Company liable to retire by rotation”.

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

“RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII as amended from time to time and as recommended by the remuneration committee, the consent of the Company be and is hereby accorded for appointment and regularization of Dr. M.V.S.R Kamesam as Whole Time Director of the company for the period from 30th April 2004 to 1st July 2004 at a consolidated remuneration of Rs.50000/- per month.

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

“RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII (as amended from time to time) to the said Act, and as recommended by the remuneration committee the consent of the Company be and is hereby accorded for appointment of Mr. K.V.S. Chalapathi Rao as Executive Director of the Company for a period of two Years with effect from 29th May 2004 at a remuneration as

detailed below.

1. Salary: Rs.90, 000 Per Month

Perquisites:

1. Housing: Rent Free Accommodation or House Rent Allowance of Rs. 30,000 Per month
2. Other Allowances like Maintenance of house office, Subscription to internet, Professional Development Allowance, Dress Allowance, Gardener, Servant etc; not exceeding Rs. 10,000 Per month.
3. Contribution to Provident Fund, Superannuation Fund or Annuity Fund. This will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961. Gratuity payable shall not exceed half month's salary for each completed year of service.
4. Encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.
5. Provision of Car for use on Company's business and Telephone at residence. These will not be considered as perquisites. The company shall bill personal long distance calls on telephone and the use of the car for private purpose.
6. In the event of loss or inadequacy of profits in any financial year during the currency of tenure of his services, the payment of salary, perquisites and other allowances shall be governed under Section II of the Part II of Schedule XIII of the companies Act, 1956 including any statutory modification or re-enactment thereof, as may for the time being inforce.

10. To consider and if thought fit, to pass, with or without modification(s), the following

resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII amended from time to time to the said Act, and as recommended by the remuneration committee the consent of the Company be and is hereby accorded for appointment of Mr. V. Srinivasa Rao as Whole time Director of the company designated as President for a period of two Years with effect from 29th May 2004 at consolidated remuneration of 11000 US Dollars per month.

"RESOLVED FURTHER that In the event of loss or inadequacy of profits in any financial year during the currency of tenure of his services, the payment of salary shall be governed under Section II of the Part II of Schedule XIII of the companies Act, 1956 including any statutory modification or re-enactment thereof, as may for the time being be in force.

11. Special Resolution.

"RESOLVED that subject to the provisions of Securities and Exchange Board of India Guidelines, the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof for the time being in force), Securities Contracts (Regulations) 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 of Directors of the Company to de-list the Equity Shares of the Company from the Stock Exchanges located at Hyderabad (Regional Stock Exchange), Ahmedabad, Madras, New Delhi.”

12. To consider and if thought fit to pass with or without modification the following resolution as a Special Resolution.

“RESOLVED that pursuant to the Provisions of Section 17 and other applicable provisions if any of the companies Act, 1956 consent of the company be and is hereby accorded for amendment of Clause III B i.e. Object incidental or Ancillary to the attainment of Main Objects by insertion of the following new sub-clause 12A after the existing sub-clause 12 of Clause III B of the Memorandum of Association of the

company.”

“12A: In relation with the business of the Company to guarantee or extend the corporate guarantee in relation to the payment of money secured or unsecured by or payable under or in respect of promissory notes, bonds, debentures, debentures stocks, contracts, mortgages, charges, obligations, instruments and securities of any or any authority supreme, municipal, local or otherwise, or of any person however, whether incorporated or not incorporated and generally to guarantee or become sureties for the performance of any contracts or obligations.

For and on behalf of the Board

Sd/-

Place : Secunderabad **Mr. K. V. S. Chalapathi Rao**
Date : 16th August 2004 Executive Director

Notes:

- a) The Explanatory Statements relating to Item Number(s) 5 to 9 of the Special Business of the Meeting referred to above is annexed to this Notice as required by Section 173 of the Companies Act, 1956.
- b) A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and proxy need not be a member of the company. The Proxy in order to be effective must be deposited at the Registered Office of the Company not less than 48 hours before the meeting.
- c) The Register of Members and Share Transfer Books of the Company shall remain closed from Tuesday, 28th September 2004 to Thursday, 30th September 2004 (both days inclusive) for the purpose of Annual General Meeting.
- d) The members are requested to intimate to the Company at 9-1-83 & 84, Amarchand Sharma Complex, S.D.Road, Secunderabad – 500 003, changes, if any, in their Registered address along with Pin Code number.
- e) Members who are having multiple Folios with identical names are requested to inform Folio Numbers, to enable the Company to consolidate the same into Single Folio.
- f) Queries on accounts and operations of the Company, if any, may please be sent to the Company at least seven days in advance of the Meeting so that the answers may be made readily available at the Meeting.
- g) Members / Proxies are requested to deposit the enclosed Attendance Slip duly filled in and signed for attending the meeting.



Additional Information on Directors Recommended for Appointment/Seeking Re-election at the Ensuing Annual General Meeting

Mr. M V S R Kamesam

Dr M V S R Kamesam aged 53 years is an M. Tech from IIT Kharagpur. He also holds Post Graduate Diploma in Management from IIM Bangalore and Ph. D in Organisational Transformation. He has over 31 years of Industrial experience in various reputed Companies. He has been associated with the Company as Director since 2003.

Mr. Douglas M Millinger

Mr Douglas K Millinger is the Founder and Vice-Chairman of Foundation Source. He was earlier a partner with Interact Capital Partner (IPC), an Investor and Investment Banker for early stage Technology Companies. He is also the founder of Enherent a Global Software Development and Services Company.

Mr. K.V.S. Chalapathi Rao

Mr. K V S Chalapathi Rao aged 30 years has a Bachelor in Engineering and Post Graduation Diploma in Planning and Project Management. He has over 10 years of experience in the areas of Operations, System Modernization and Corporate

Strategic Planning and worked for reputed Multi National Companies.

Mr. V. Srinivasa Rao

Mr. V Srinivas Rao aged 36 years has done Masters in Computers from IIT Kanpur. He has over 14 years of experience in Operations and International Business Development. He has worked with Multi National Companies. He has been working at US headquarters of Goldstone since the year 2000.

Mr. Mahesh Prasad Mehrotra

Mr. Mahesh Prasad Mehrotra aged 63 years is a Practicing Chartered Accountant having 42 years of experience and he is founder partner of Mehrotra and Mehrotra, Chartered Accountants, Kanpur and Delhi. He is a member, Task Force for MOUs, Ministry of Heavy Industries and Public Enterprises, Government of India, Department of Public Enterprises, for the year 2004-2005. He has been associated as Director / Trustee in Public / Private Limited companies and Trusts.

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

Item No's: 5, 6 & 7

Mr. K.V.S. Chalapathi Rao, Mr. V. Srinivasa Rao and Mr. Mahesh Prasad Mehrotra were appointed as Additional Directors of the Company in the Board Meeting(s) held on 29th May 2004 and 19th July 2004 respectively and they hold office till the conclusion of the ensuing Annual General Meeting.

Notice(s) pursuant to the provisions of Sec 257 of the Companies Act, 1956, together with the requisite deposit(s) have been received from the members proposing his/their candidature for the office of Director(s) liable to retire by rotation.

Your Directors recommend the resolution for approval of the members.

None of the Directors except Mr. K.V.S. Chalapathi Rao, Mr. V. Srinivasa Rao and Mr. Mahesh Prasad Mehrotra, is in anyway concerned or interested in this resolution.

ITEM 8:

Dr M V S R Kamesam is an M. Tech from IIT Kharagpur and has 31 years of Industrial experience in various reputed Companies. He also holds Post Graduate Diploma in Management from IIM Bangalore and Ph. D in Organisational Transformation. He has been associated with Goldstone Technologies Limited as Director of the company since 2003

The Board of Directors in their meeting held on 30th April 2004, on the recommendation of the

Remuneration Committee and subject to the approval of shareholders, have resolved to appoint him as Whole time Director of the company for a period of 1 year with effect from 30th April 2004 on the terms and conditions detailed in the Resolution 8. However, he was relieved from his duties as Whole time Director on 1st July 2004.

As per the provisions of Section 269, 198, 309,310 read with Schedule XIII of the companies Act, 1956 approval of shareholder required by passing of Ordinary resolution in the General Meeting and hence the Directors recommend the resolution for your approval.

This explanatory note together with the notice should be treated as an abstract under Section 302 of the Companies Act, 1956.

None of the Directors of the Company is in any way concerned or interested in this resolution except Dr. M.V.S.R Kamesam.

ITEM 9:

Mr. K.V.S Chalapathi Rao

The Board of Directors in their meeting held on 30th April 2004, on the recommendation of the remuneration committee, have resolved to appoint Mr. K V S Chalapathi Rao as Executive Director of the company for a period of 2 years with effect from 29th May 2004 on the terms and conditions detailed in the Resolution 9.

As per the provisions of Section 269, 198, 309,310 read with Schedule XIII of the companies Act, 1956 approval of shareholders is required by passing of Ordinary resolution in the General Meeting and hence the Directors recommend the resolution for your approval.

This explanatory note together with the notice should be treated as an abstract under Section 302 of the Companies Act, 1956.

None of the Directors of the Company is in any way concerned or interested in this resolution except Mr. K.V.S. Chalapathi Rao.

ITEM 10:

Mr. V. Srinivasa Rao

The Board of Directors in their meeting held on 30th April 2004, on the recommendation of the remuneration committee, have resolved to appoint Mr. V Srinivasa Rao as Whole-time Director and designate him as President of the Company for a period of 2 years with effect from 29th May 2004 on the terms and conditions detailed in the Resolution 10.

As per the provisions of Section 269, 198, 309,310 read with Schedule XIII of the companies Act, 1956 approval of shareholders is required by passing of Ordinary resolution in the General Meeting and hence the Directors recommend the resolution for your approval.

This explanatory note together with the notice should be treated as an abstract under Section 302 of the Companies Act, 1956.

None of the Directors of the Company is in any way concerned or interested in this resolution except Mr. V.Srinivasa Rao.

Item 11

Presently the Company's securities are listed at the Six Exchanges namely, Hyderabad Stock Exchange Limited (HSE)-Regional Stock Exchange; National Stock Exchange of India Limited (NSE); Stock Exchange Mumbai (BSE); Madras Stock Exchange Limited (MSE); Delhi Stock Exchange Association Limited (DSE) and Stock Exchange Ahmedabad (ASE).

With the extensive networking of BSE and NSE and the extension of BSE/NSE terminals to other cities as well, investors have access to trade and deal in the Company's securities across the country. After the commencement of Electronic Trading, the Shares of the Company are not frequently traded on Hyderabad, Delhi, Ahmedabad and Madras Stock Exchanges. Hence it is proposed to De-list the securities of the Company from these four exchanges. This is proposed to reduce the regulatory formalities in complying the Listing Agreements of different Stock Exchanges and



duplication of work of the Company. Besides there will be substantial saving in the cost to the Company.

The proposed de-listing of the Company's securities from the above four exchanges, as and when the same takes place, will not adversely affect the investors. The Company's securities will continue to be listed on BSE and NSE. The de-listing will take effect after all approvals; permissions and sanctions are received from the appropriate authorities

In line with the SEBI (De-listing of Securities) Guidelines 2003, members' approval is being sought by way of Special Resolution for enabling voluntary de-listing of its securities from the Stock Exchanges and hence this resolution.

Your directors recommend the resolution for your approval

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

Item 12:

During the course of business, the Company is required to associate with many Companies including group Companies. At times, for effective operational convenience, the Company need to extend the Corporate Guarantee to its associated or group Companies. For the purpose, Memorandum of Association of the Company must contain a clause to extend the corporate guarantees. According to Section 17 of the Companies Act, 1956, any amendment to Memorandum of Association requires the approval of shareholders in the general meeting and hence this resolution.

Your Directors recommend the resolution for your approval.

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

For and on behalf of the Board

Sd/-

Place : Secunderabad
Date : 16th August 2004

Mr. K.V.S. Chalapathi Rao
Executive Director

Directors' Report

To
The Members
Goldstone Technologies Limited

Your Directors have pleasure in presenting the Tenth Annual Report on the business and operations of your company and the Audited Accounts for the financial year ended on 31st March 2004.

Financial Results

	(Rs in Lakhs)	
Particulars	2003-04	2002-03
Net Sales/Income from Operations/Software	5727.35	4874.90
Other Income	4.98	14.21
Total Income	5732.33	4889.11
Operating Profit	665.82	355.00
Interest	101.69	94.22
Depreciation and Write Offs	187.69	98.65
Profit Before Tax	376.44	163.43
Provision for Tax	—	(9.94)
Deferred Tax	9.62	15.03
-Prior Period Adjustments	7.49	(117.56)
Profit after Tax	378.56	50.96
Equity Share Capital (1,08,38,400 Shares of Rs.10/- each)	1083.84	1083.84
E.P.S (Before Extra-ordinary items)	3.49	0.47
E.P.S (After Extra-ordinary items)	3.49	0.47
Net Worth	1469.96	1367.97
Book Value (face value Rs. 10/-)	13.56	12.62

Review of Operations

During the period under Review, your Company has registered revenue of Rs. 5732 lakhs as against Rs.4889 lakhs for the previous financial year ending 31st March 2003. The Net Profit for the period was Rs.378.56 lakhs as against Rs. 50.96 lakhs during the previous period. The year 2003-04 has been consolidating face with respective technical support out sourcing, the year had witnessed in the ramp up in the operations of the existing clients, while adding couple of new clients.

All efforts have been made to strengthen the systems and processes and establish a fool proof delivery system, it is worth while to note that the clients are more than satisfied with Goldstones delivery model.

In the F2J's space, there was a notable breakthrough in the development of Graphical User Interface (GUI) module, which has added flavor to the existing tool. The clients were happy using the migration tool, while aggressive marketing initiatives are being carried out to increase the business in F2J migration parallel efforts are being made to enhance the tool from time to time.

Due to the restrictions on H1 Visa processing and due to the tightened laws in the US, the On-site Business had witnessed to slow down in the first three quarters and efforts are being made to revive the lost ground. The business started with witnessing growth from the fourth quarter due to the aggressive initiatives taken by the Company. The Company is also exploring the inorganic growth in similar line of business.

Dividend

Your Directors regret their inability to recommend Dividend for the year under consideration.

Fixed deposits

The Company has not accepted any Fixed Deposits, falling with in the purview of Section 58A of the Companies Act, 1956

Insurance

All the properties of your Company including its building, plant & machinery and stocks have been adequately insured.

Auditors

M/s. P. R. Pramodkumar & Co., Chartered Accountants retiring Statutory Auditors of the Company hold office till the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. They have furnished a certificate stating that their reappointment, if made, will be within the limits laid down under Section 224(1B) of the Companies Act., 1956.

Directors

Mr. Douglas K Mellinger and Dr. M V S R Kamesam Director(s) retire by rotation and being eligible offer themselves for re-appointment. During the year Mr. M P Mehrotra, Mr. K V S Chalapathi Rao and Mr. V Srinivasa Rao were appointed as Additional Directors of the Company. Mr. K V S Chalapathi Rao and Mr. V Srinivasa Rao who were appointed as Whole-time Directors of the Company have been designated as Executive Director and President respectively. During the year Dr. K K Krishnan Kutty, Mr. P Ramesh Babu, Mr. K Vasudeva Rao and Mr. J A Rao have resigned as Directors of the Company. The Board places on record its appreciation for valuable services rendered by them during their tenure as Directors.

Stock Exchange Listing

The Equity Shares of the Company are listed on the National Stock Exchange, The Stock Exchange Mumbai, Hyderabad Stock Exchange, Madras Stock Exchange Building, Delhi Stock Exchange and Ahemadabad Stock Exchange. The company confirms that it has paid Annual Listing Fees due to all the above Stock Exchanges for the year 2003-2004. The company proposes to de-list the equity shares of the company from Hyderabad, Madras, Ahemadabad, and Delhi Stock Exchanges. The justification for the same has been furnished in the Notice of the Annual General Meeting.

Director's Responsibility Statement

In accordance with the Section 217(2AA) of the Companies Act, 1956, the Board of Directors affirm:

- (a) That in the preparation of the Accounts for the financial year ended as on 31st March 2004, the applicable accounting standards have been followed and there are no material departures there from.
- (b) That the accounting policies have been selected and applied consistently and judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2004 and of the profit or loss of the Company for the period ended on that date.
- (c) That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (d) That the accounts for the financial year ended 31st March 2004 have been prepared on a going concern basis.

Corporate Governance

A report on Corporate Governance including Auditor Certificate thereon as per Clause 49 of the Listing Agreement is contained elsewhere in the Annual Report.

Particulars of Employees:

None of the employees was in receipt of remuneration in excess of limits specified in Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Conservation of energy / technology absorption, foreign exchange earnings and outgoings

Disclosure of particulars in respect of Conservation of Energy, Technology, Absorption and Foreign Exchange Earnings and Outgo required under Companies (Disclosure of particulars in the Directors' Report) Rules 1998.

1. Conservation of Energy:

The operations of the company are not energy intensive. However, adequate measures have been taken to conserve and reduce the energy consumption.

2. Technology Absorption

Your company continues to use state-of-the-art technology for improving the productivity and quality of its products and services. To create adequate infrastructure, your company continues to invest in the latest hardware and software.

3. Foreign Exchange Earnings & Outgo:

The details of Foreign Exchange earnings and outgo are given below:

	(Rs.in Lakhs)	
	2003-04	2002-03
a) ForeignExchange Earnings	558.25	384.75
b) Foreign Exchange Outgo	40.40	22.44

Acknowledgements

Your Directors convey their sincere thanks to State Bank of Hyderabad, for their support and assistance.

Your Directors thank all the Employees of your company for their dedicated service, which enabled your company to achieve excellent results and performance during the year. Your Directors thank the shareholders for their support and confidence reposed in the company and the management and look forward to their continued co-operation and support.

For and on behalf of the Board

Place : Secunderabad
Date : 16th August 2004

Sd/-
Mr. M P Mehrotra
Chairman

Report On Corporate Governance

Company's Philosophy on Code of Governance

The Company envisages the attainment of highest level of transparency in all facets of its operations and in all its interactions with its shareholders, employees and the company.

The company is committed to the best governance norms. It strongly believes in setting the high standards in all its endeavors.

Board of Directors

The Board of Directors of the Company consists of 7 directors. Two of them are Executive and other five are Non-Executive independent Directors. The Board has taken all the necessary steps to strengthen the Board with optimum combination of Executive and Non-Executive independent Directors. In consonance with the amended Listing Agreement, the Board comprises of majority of independent directors. The Chairman of the Company Mr. M P Mehrotra is a Non-Executive and Independent Director

Nine Board Meetings were held during the financial year 2003 - 2004 on the following dates:

30th June, 2003; 31st July, 2003; 31st August, 2003, 1st September 2003, 27th October, 2003; 30th December 2003; 19th January, 2004, 23rd January 2004, 30th January 2004.

The details of attendance at the Board Meetings, AGM and Number of other Directorships and committee Memberships of Directors is given below.

Name of Director	Designation	Number of Board Meetings held	Number of Board Meetings Attended	No.of Committee Positions held in Companies	No.of Directors hips in other Companies	Attendance at Last AGM (Yes/No)
Dr K K Krishnan Kutty	Non – E D	8	7	3	1	Yes
Mr. L P Sashikumar	Non – E D	8	8	3	8	Yes
*Mr. J A Rao	Non – E D	8	8	4	4	Yes
*Mr. K Vasudeva Rao	E D	8	7	Nil	1	Yes
*Mr. P Ramesh Babu	Non – E D	8	8	Nil	7	No
Ms Mahitha Prasad Caddell	Non – E D	8	Nil	Nil	Nil	No
Mr. Douglas K Mellinger	Non – E D	8	Nil	Nil	Nil	No
Dr. M V S R Kamesam	Non – E D	8	6	Nil	1	No
**Mr. K V S Chalapathi Rao	E D	8	Nil	Nil	Nil	NA
**Mr. V Srinivas Rao	Non – E D	8	Nil	Nil	Nil	NA
**Mr. M P Mehrotra	Non – E D	8	Nil	Nil	11	NA

* Dr. K K Krishnan Kutty, and Mr. K Vasudeva Rao have resigned as Directors on 30th April 2004. Mr. P Ramesh Babu, and Mr. J A Rao have resigned as Directors of the Company on 29th May 2004 and 1st June 2004 respectively.

** Mr. K V S Chalapathi Rao and Mr. V Srinivasa Rao have been appointed as Executive Director and President of the Company on 29th May 2004. Mr. M P Mehrotra was appointed as Director and Chairman of the Company during the year.

Audit Committee

As on 31st March 2004, the Audit Committee Comprised of Dr K.K. Krishnan Kutty Chairman, Sri. J.A. Rao and Sri L.P. Sashikumar, as its Members. The role, terms of reference and authority and powers of the Audit Committee are in conformity with the requirements of Companies Act, 1956 and provisions made in paragraph C and D in sub-clause II of Clause 49 of the listing agreement.

The Audit Committee held four meetings during the year 2003-2004 and attendance at the meeting was as under

Name of the Director	Position held in the Committee	No. of meetings attended	Committee meetings held on
Dr. K. K. Krishnan Kutty	Chairman	3	30 th June 2003
Mr. L. P. Sashikumar	Member	3	31 st July 2003
Mr. J. A. Rao	Member	3	27 th October 2003

Remuneration /Compensation Committee

As on 31st March, 2004 the Remuneration Committee comprised of Mr. L.P. Sashikumar, Chairman, Mr.J.A. Rao, Member and Dr. K.K. Krishnan Kutty Members. The terms of reference of the Remuneration Committee, inter alia include determination of compensation package of Executive Directors and Senior Management of the Company. During the year 2003-2004, the committee met only one time on 1st September, 2003 and all the Members attended the meeting.

Details of remuneration to all the directors in the financial year 2003-2004

The aggregate of Salary, perquisites paid to Mr. K. Vasudeva Rao, Executive Director for the period from 1st December 2003 to January 2004 is Rs. 8,00,000/-.

Shareholders / Investors Grievance Committee

As on 31st March, 2004, the Shareholders/Investor Grievance Committee comprised of Mr.L.P.Sashikumar, Mr. J.A.Rao, and Dr. K.K. Krishnan Kutty. The committee was formed to specifically redress the shareholder and investor complaints like transfer of shares, non-receipts of balance sheet, non-receipt of dividend warrants etc.,

Number of Investor Queries/Complaints received during the year 2003-04 were as follows

Nature of Complaint	Received during the year	Resolved during the year
Letters received from NSE	1	1
Letter from SEBI	1	1
Letter from BSE	2	2
Non-Receipt of Dividend/Warrant	1	1
Non-receipt of Share Certificate/Transfer	–	–
Total	5	5

Share Transfer Committee

The Members of the shareholders /Investors Grievance Committee are also entrusted with the responsibility of Share Transfer Committee, which looks into the matters relating to transfers/transmissions, issue of duplicate certificates etc. The details regarding the transfers, dematerializations, issue of duplicate Share certificate, etc., are as under:

No.of share transfer	No.of Shares approved for transfer	Duplicate Shares Issued	Re-materialization of Shares	Total
13	10310	200	5	10515

The Last Three Annual General Meetings:

The Last three Annual General Meetings of the company were held at plot No.19, IDA, Phase-II, Cherlapally, Hyderabad – 500051.

Year	No. of Meeting	Location	Date & Day	Time
2002 - 2003	09	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	30 th September 2003, Tuesday	9.30 A M
2001 – 2002	08 th	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	30 th September 2002, Monday	11.00 A. M
2000 - 2001	07 th	Plot No. 1 & 9, IDA, Phase II, Cherlapally, Hyderabad – 500 051	31 st December 2001, Monday	4.30 P. M

No postal Ballots were required to be used \ invited for voting at these meetings in respect of the resolutions passed nor it is proposed during the year.

Disclosures

There were no transactions of material nature between the company and the directors or management and their relatives or promoters that may have a potential conflict with interest of the company. The remuneration to Whole-time Directors and key management personnel has been disclosed in the Annual Report

There has been no Non-Compliance by the company on any matter related to capital markets, Listing Agreement, Filing of the requisite Forms, Returns and Documents with the Registrar of Companies (ROC) and hence no penalties were paid nor any strictures were imposed on the company by the stock exchanges or SEBI or any statutory authority.

Means of Communication

The company publishes its Quarterly results in Business Standard (English), Andhra Bhoomi (Telugu). These results are submitted to the stock exchanges in accordance with the Listing Agreements and they are also being filed with the Stock Exchanges under EDIFAR facility.

Management Discussion & Analysis

The Management Discussion & Analysis Report is enclosed as part of the Annual Report.

GENERAL SHAREHOLDERS ' INFORMATION

1. General Shareholders Information:

The Tenth Annual General Meeting of the Company will be held on Thursday, 30th September, 2004 at 10.30 A.M at Plot No 1 & 9 Phase II, IDA Cherlapally, Hyderabad- 500051

Dates of Book Closure: 28th September – 30th September 2004 (Inc. of both days)

Stock Exchanges where Listed

- | | |
|--|--|
| <p>1. National Stock Exchange of India Limited
Exchange Plaza, 5th Floor Plot No C/1
G Block Bandra Kurla Complex
Bandra (E), Mumbai - 400 051</p> <p>3. The Hyderabad Stock Exchange Limited
Administrative Office 6-3-654
Adjacent to Erramanzil Bus Stop
Somajiguda Hyderabad – 500 082</p> <p>5. Madras Stock Exchange Limited,
Exchange Building Post Box No 183
II Second Line Beach
Chennai - 600 001</p> | <p>2. The Stock Exchange Mumbai
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001</p> <p>4. The Stock Exchange Ahmedabad
Kamadhenu Complex
Opp Sahajanand College
Panjarapole, Ahmedabad – 3800 015</p> <p>6. Delhi Stock Exchange Association Limited
DSE House 3/1
Asaf Ali Road
New Delhi - 110 002</p> |
|--|--|

Stock Code:

NSE - GOLD TECH

BSE - 531439

Market Price Data:

Month	NSE		BSE	
	High	Low	High	Low
April 2003	34.80	21.50	32.00	21.30
May 2003	29.40	22.90	28.45	21.30
June 2003	26.50	23.05	27.00	23.00
July 2003	26.25	19.00	27.25	19.00
August 2003	23.75	17.00	23.75	18.25
September 2003	25.00	18.75	25.25	18.50
October 2003	23.20	17.10	23.80	17.25
November 2003	24.95	18.10	25.00	18.10
December 2003	40.95	24.50	40.95	24.50
January 2004	39.90	22.05	38.50	22.20
February 2004	23.50	19.15	23.50	19.20
March 2004	20.40	14.20	20.35	14.50

Registrar and Transfer Agents

M/s Venture Capital and Corporate & Investment Limited
6-2-913/914, 3rd Floor, Progressive
Towers, Khairtabad Hyderabad – 04
Tel: +91-40-3322262/64
Fax: +91-40-3324803
Email: vccil_hyd@yahoo.co.in

Distribution of Shareholding as on 31st March 2004

Share or Debentures Holding of nominal value of		Share/Debentures Holders		Share/Debenture Amount	
Rs	Rs.	Number	% of Total	In Rs	% of Total
(1)		(2)	(3)	(4)	(5)
Upto -	5000	9,975	78.48	18484620	17.05
5001 -	10000	1,389	10.92	11701760	10.80
10001 -	20000	680	5.35	10510850	9.70
20001 -	30000	258	2.03	6681330	6.16
30001 -	40000	92	0.72	3329580	3.07
40001 -	50000	84	0.66	3956760	3.65
50001 -	100000	126	0.99	8957810	8.26
100001 and above		106	0.83	44761290	41.30
TOTAL		12710	100.00	108384000	100.00

Shareholding Pattern as on 31st March 2004

Category	No. of Equity Shares Held	% of Shareholding Holders	No. of Share-	% to Total Shareholders
1 Promoters	2013651	18.58%	4	0.04%
2 Mutual Funds & IFI's	73900	0.68%	2	0.02%
3 Private Bodies Corporate	1820150	16.79%	651	5.12%
4 Public	6546654	60.40%	11815	92.95%
5 NRI'S	384045	3.54%	238	1.87%
GRAND TOTAL	10838400	100.00%	12710	100.00%

Dematerialization of Shares and Liquidity

The International Security Identification Number (ISIN) allotted to the Company Scrip is INE805A01014. Investors have better liquidity in Dematerialized Form and are therefore advised to open a Demat Account with a Depository Participant of their choice to trade in Dematerialized form. Over 94.28% of the company Shares are now held in Electronic Form



Location of Software Divisions

India	United States of America
9-1-83 & 84 Amarchand Sharma Complex S D Road Secunderabad – 500 003 U S A	8603 Westwood Center Drive Suite 200, Vienna Virginia –22182

Address for Correspondence:

Goldstone Technologies Limited,
Shares Department,
9-1-83 & 84 Amarchand Sharma Complex,
S D Road Secunderabad – 500 003
Tel: +91 – 40 - 27807640, Fax +91 – 040 - 27801910,
Email: infosecretarial@goldstonetech.com, pvrMurthy@goldstonetech.com

Compliance Certificate of the Auditors

The Company has obtained a certificate from the statutory auditors regarding compliance of conditions of corporate governance as stipulated in Clause 49, which is annexed herewith.

Auditors' Certificate on Corporate Governance

To

The Members

We, the Statutory Auditors of Goldstone Technologies Limited have reviewed the relevant records for the year ended on 31st March 2004 relating to compliance with the requirements of Corporate Governance and state that in our opinion and to the best of our knowledge and according to the information and explanation given to us, the Company has complied with the provisions of Clause 49 of the Listing Agreement

For Pramodkumar & Associates.,

Place : Secunderabad
Date : 16th August, 2004

sd/-
P R Pramodkumar
Proprietor

Management Discussion and Analysis Report

The financial year of the Company consists of 12 months period commencing from 01.04.2003 and ending on 31.03.2004.

Industry Structure & Developments:

Globalization and revolution in telecommunications have made outsourcing of various works possible across the globe to locations where the manpower and other required infrastructure are cheaper and are more readily available. As per the analysis done by Mr. Gartner, there are approx. 30 countries across the globe, attracted by many multinational companies for outsourcing of various works. Outsourcing is basically a cost cutting maneuver and a strategic initiative to improve the profit margins of an enterprise. The ITES spending worldwide has been consistently increasing and provides immense market opportunities.

India has remained one of the favourable destinations for ITES activities. The Indian ITES industry has been growing at a rate of about 50% annually over the past five years.

Opportunities, Threats, Risks and Concerns:

India has large, skilled manpower available for ITES industry resulting in establishment of number of companies / organizations, which compete with each other undergoing efforts to increase their services' portfolio year after year. The risks associated with the industry are: Competition, Legal liabilities, high rate of Attrition, Longer sales cycles, disruption in infrastructure viz., network & telecommunications, foreign exchange fluctuations etc. The thrust is more on services when compared to product development. Areas like Technical Support Outsourcing, Tech Help Desk and Product Maintenance etc. could dominate the next decade.

Outlook for the year 2004-05

The company's outlook for the financial year ending March 31, 2005 is as follows:

For Financial Year 2004-05 income from Software services is expected to grow between 25% to 35%. Accordingly income is expected to be between Rs.65 Crores to 70 Crores. The Company would aggressively explore the Technical Support Outsourcing business and are expecting to grow by 100% in this space. Similarly all efforts are being

made to enhance the revenues from onsite projects and staff augmentation.

Further the F2J portion is expected to grow by 25 to 35%

The Company has already entered into the multi linguistic support for its clients in the Asia Pacific (APAC), Europe, Australia and United States of America (USA) covering a broad spectrum of languages viz. Japanese, Korean, French, German and Spanish. This would be a differentiating factor for the Company in the Global Markets. The Company is also exploring the possibility of acquiring mid-sized company in US in the similar line of business. This would strengthen the existing business and value in terms of adding new clients of reputation.

Financial Performance:

Capital Structure:

During the year, the authorised capital of the company has been increased from Rs. 20 crores to Rs. 25 crores during the financial year.

Reserves & Surplus:

The Reserves & Surplus position has improved during the year due to higher profit after tax earned by the Company.

Fixed Assets:

There has been an addition of Fixed Assets worth of Rs.77.84 lakhs during the year, spent on Computer Systems and other electronic equipments.

Investments:

The Company has not made new investments during the year. The existing investments in Enherent Corporation have been disposed off during the financial year 2004-05.

Sundry Debtors:

The sundry debtors balance outstanding as on 31.03.04 has increased when compared to the outstandings as on 31.03.03 due to increase in the yearly revenues and extending the credit periods to various customers. All the outstanding receivables are considered good.

Cash & Bank balances:

In spite of the increased operations and revenues, the cash & bank balances have been maintained at the minimum level.

Loans and Advances:

Strict management / financial control has been exercised during the year and the Loans & advances outstanding as on 31.03.04 has been brought down when compared to the previous year.

Current Liabilities & Provisions:

In view of the increased operations and availing of higher level of market credit the balances of current liabilities has increased during the year.

Provision for gratuity and leave encashment have been made on the basis of actuarial valuation.

Miscellaneous Expenditure:

Expenditure incurred by the Company, the yields / benefits from which are estimated to be accrued to the Company from more than a year, have been treated as Deferred Revenue Expenditure. An amount of Rs.302.56 lakhs is classified as Deferred Revenue Expenditure during the year to be charged to the Profits of the future years.

Operational Results:**Revenue:**

During the year, the revenue has increased by 17.50% over the previous year.

Expenditure:

The expenditure has increased by 13.30% over the previous year mainly on account of increase in Professional Consultancy charges, Publicity Expenses, Traveling expenses and other operational expenses.

Financial Charges:

Company has incurred a sum of Rs.101.69 lakhs towards financial charges against Rs.94.22 lakhs incurred during the previous year.

Depreciation:

An amount of Rs.161.69 lakhs was provided as depreciation during the year, which includes prior period adjustments in depreciation.

Write Offs:

The amount of expenses written off during the year has increased due to yearly write off of the deferred revenue expenditure commencing from the financial year 2003-04.

Provision for Tax:

Provision for tax has not been provided during the year since the income earned is exempt under Income Tax.

Net Profit/Loss:

Profit after tax has increased during the year on account of increased revenues.

Earning per Share:

The Earning per share of the Company for the year is Rs.3.49/- per share of face value of share of Rs.10/- as against Rs.0.47/- of the previous year.

Internal Controls & Systems:

The Company has proper and adequate system of internal controls commensurate with its size and nature of operations to provide reasonable assurance that all assets are safeguarded, transactions are authorized, recorded & reported properly and applicable statutes & corporate policies are duly complied with. The internal audit function has been structured to continuously review the adequacy and efficacy of the internal controls. The audit committee reviews the internal audit reports at regular intervals. The company has an audit committee constituted as per section 292 (a) of the Companies Act, 1956 and as per the requirements of Corporate Governance specified under Clause 49 of the listing agreement.

Human Resource Development & Industrial relations

The Company's Corporate HRD policy emphasizes on continuous, increased quality and commitment of its employees in order to succeed in the achievement of the corporate goals. The company provides employee development opportunities by conducting training programmes to equip the employees with upgraded skills enabling them to adapt to the contemporary technological advancements.

As on 31st March 2004, the Company has a total strength of 225 employees: Domestic-150, Overseas-75. Industrial relations during the year continue to be cordial and the Company is committed to maintain good industrial relations.

Cautionary Statement

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations, may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results would differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand, supply and price conditions in the domestic / overseas markets in which the Company operates, changes in the government regulations, tax laws and other statutes and other incidental factors.

Auditors' Report

TO
**THE MEMBERS OF
GOLDSTONE TECHNOLOGIES LIMITED:**

- 1) We have audited the attached Balance Sheet of Goldstone Technologies Limited as at 31st March, 2004 and also the Profit and Loss Account and the Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2) We have 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 misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3) As required by the Companies (Auditors' Report) Order, 2003, issued by Central Government in terms of section 227 (4A) of the Companies Act, 1956 (the Act) and on the basis of such checks as we considered appropriate and according to the information and explanations given to us during the course of our audit, we set out in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
- 4) Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of the books;
 - c) The Balance Sheet, Profit and Loss Account and cash flow statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash flow statement dealt with by this report have been prepared in compliance with the applicable Accounting Standards referred to in Sub-Section (3C) of Section 211 the Act.
 - e) On the basis of written representations received from the Directors as on March 31, 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, together with the notes thereon, give the information required by the Act, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India;
 - i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
 - ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date; and
 - iii) In the case of Cash flow statement, of the cash flows for the year ended on that date.

For P.R.PRAMODKUMAR & Co.
Chartered Accountants

Sd/-
P.R.PRAMODKUMAR
Proprietor.

Place : Hyderabad.
Date : 16th August, 2004.

Annexure to the Auditors' Report

Annexure referred to in paragraph 3 of our report of even date to the members of Goldstone Technologies Limited for the year ended 31st March, 2004.

- (i) a) The Company is maintaining proper records showing full particulars, including quantitative details and situation on fixed assets.
- b) Fixed assets have been physically verified by the management during the year based on a phased programme of verifying all the assets over a period of two years, which in our opinion is reasonable having regard to the size of the Company and the nature of its fixed assets. No material discrepancies were noticed on physical verification.
- c) There was no substantial disposal of fixed assets during the year.
- (ii) The Company being engaged in Software Development services, does not have any inventory. Therefore clauses ii(b) and ii(c) of paragraph 4 of the Order, are not applicable.
- (iii) In our opinion, the Company has neither granted nor 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. As the Company has not granted/taken any loans, secured or unsecured, to/from parties listed in the registers maintained under Section 301 of the Companies Act, 1956 clauses iii(b), iii(c) and iii(d) of paragraph 4 of the Order, are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods. During the course of our audit, no major weakness has been observed in the internal controls.
- (v) a) According to the information and explanations given to us, we are of the opinion, that the transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
- b) There were no transactions made with such parties during the year.
- (vi) The Company has not accepted any deposits from the public to which the directives issued by the Reserve Bank of India and the provisions of section 58A of the Act and the rules framed there under apply.
- (vii) The Company has an internal audit system, commensurate with its size and nature of business apart from overseas branch operations, which, in our opinion needs to be strengthened commensurate with the size, of the operations there.
- (viii) We are informed that the Central Government has not prescribed maintenance of cost records under clause (d) of sub section (1) of section 209 of the Act for the products of the company.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, or employees' state insurance,, income-tax, sales-tax, wealth tax, customs duty, excise duty, cess have generally been regularly deposited by the Company with the appropriate authorities though there have been a short delay in a few cases. According to the information and explanations given to us, no undisputed amounts payable in respect of wealth tax, sales tax, customs duty and excise duty were outstanding, at the year end for a period of more than six months from the date they became payable other

than the demand for Rs. 42,06,082/- raised by the 'Contingent Liabilities', as informed by the Company.

- (b) According to the records of the Company, information and explanations given by the management, there are no dues outstanding on account of sales tax, income tax, customs duty, wealth tax, excise duty and cess on account of any dispute, other than as stated in (viii)(a) above.
- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred any cash losses in the current and immediately preceding financial year.
- (xi) The Company has not defaulted in repayment of dues to banks and financial institutions and had no debentures outstanding during the year.
- (xii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The nature of activities of the Company does not attract any special statute applicable to chit fund and nidhi/mutual benefit fund/ societies.
- (xiv) The Company does not deal or trade in shares, securities, debentures and other investments.
- (xv) According to the information and explanations given to us, the Company has given corporate guarantee for loan taken by one of its group companies from State Bank of Hyderabad, the terms and conditions

whereof in our opinion, are not prima-facie prejudicial to the interest of the company.

- (xvi) Based on information and explanations given to us by the management, the loans were applied for the purpose for which the said loans were obtained.
- (xvii) According to the information and explanations given to us and on overall examination of the Balance Sheet of the Company as at March 31, 2004 we report that no funds raised on short-term basis have been used for long-term investment.
- (xviii) The Company has not made any preferential allotment of shares during the year.
- (xix) The Company did not have any debentures outstanding during the year.
- (xx) The Company has not raised any money through a public issue during the year.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For P.R.PRAMODKUMAR & Co.
Chartered Accountants

Sd/-
P.R.PRAMODKUMAR
Proprietor.

Place : Hyderabad.
Date : 16th August, 2004.

Balance Sheet as at 31st March, 2004

	Sch.	As at 31st March, 2004 Rupees	As at 31st March, 2003 Rupees
I SOURCES OF FUNDS			
1 SHAREHOLDERS' FUNDS			
a. Share capital	1	10,83,84,000	10,83,84,000
b. Share Warrants Money		1,35,00,000	1,35,00,000
c. Reserves and Surplus	2	7,53,22,458	3,74,66,506
		<u>19,72,06,458</u>	<u>15,93,50,506</u>
2 LOAN FUNDS			
Secured Loans	3	6,30,00,000	7,20,00,000
		<u>6,30,00,000</u>	<u>7,20,00,000</u>
Total		<u>26,02,06,458</u>	<u>23,13,50,506</u>
II APPLICATION OF FUNDS			
1 FIXED ASSETS	4		
a. Gross block		15,54,64,932	14,76,80,699
b. Less: Depreciation		6,15,66,589	4,79,54,102
Net block		<u>9,38,98,343</u>	<u>9,97,26,597</u>
Add : Capital Work in Process (Including Capital Advances)		6,61,09,399	6,81,11,399
		<u>16,00,07,742</u>	<u>16,78,37,996</u>
2 INVESTMENTS	5	1,66,98,000	1,66,98,000
3 CURRENT ASSETS, LOANS & ADVANCES			
a. Sundry Debtors	6	15,67,74,958	9,97,38,750
b. Cash and Bank Balances	7	1,73,02,343	1,89,65,377
c. Loans and Advances	8	2,06,18,098	3,84,26,256
Total		<u>19,46,95,398</u>	<u>15,71,30,384</u>
Less: Current Liabilities & Provisions			
a. Current Liabilities	9	13,48,44,313	9,42,85,685
b. Provisions	10	10,15,766	1,20,77,891
Total		<u>13,58,60,079</u>	<u>10,63,63,576</u>
NET CURRENT ASSETS		<u>5,88,35,320</u>	<u>5,07,66,807</u>
4 Miscellaneous Expenditure	11	3,67,10,234	90,54,201
5 Deferred Tax Liability		1,20,44,837	1,30,06,498
Total		<u>26,02,06,458</u>	<u>23,13,50,506</u>
Notes to Accounts	17		

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

On behalf of the Board

Sd/-
P.R. Pramodkumar
Proprietor

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Place : Secunderabad
Date : 16.08.2004

Profit & Loss Account for the Year Ended 31st March, 2004

	Sch.	For the year ended 31-03-2004 Rupees	For the year ended 31-03-2003 Rupees
INCOME			
Software development	12	57,27,35,309	48,74,89,999
Other income	13	4,97,889	14,20,685
Total		57,32,33,198	48,89,10,684
EXPENDITURE			
Personnel costs	14	30,30,13,904	30,09,42,931
Administration and other expenses	15	20,36,37,902	15,24,37,539
Finance Charges	16	1,01,68,512	94,21,816
Depreciation		1,61,68,876	91,06,888
Miscellaneous Expenses Written off		26,00,330	6,58,572
Total		53,55,89,524	47,25,67,746
Profit before taxation		3,76,43,674	1,63,42,938
Provision for taxation		-	(9,93,749)
Deferred tax asset		9,61,661	15,03,070
Profit after tax		3,86,05,335	1,68,52,259
Prior period adjustments (Net)		7,49,383	1,17,55,777
Profit after Adjustment		3,78,55,952	50,96,482
Brought forward from previous year		(6,80,95,003)	(7,31,91,485)
Balance carried to Balance Sheet		(3,02,39,052)	(6,80,95,003)
Earnings per Share			
(Equity Shares of nominal value Rs. 10/- each)			
Basic & Diluted		3.493	0.470
Number of shares used in Computing EPS			
Basic & Diluted		1,08,38,400	10,8,38,400
Notes to Accounts	17		

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

On behalf of the Board

Sd/-
P.R. Pramodkumar
Proprietor
Place : Secunderabad
Date : 16.08.2004

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
1: SHARE CAPITAL		
Authorised:		
2,50,00,000 Equity Shares of Rs.10/- each	<u>250,000,000</u>	<u>200,000,000</u>
Issued, Subscribed and Paid up:		
1,08,38,400 Equity Shares of Rs. 10/- each, fully paid up	<u>108,384,000</u>	<u>108,384,000</u>
Total	<u>108,384,000</u>	<u>108,384,000</u>
2: RESERVES AND SURPLUS		
1 Capital Reserve	<u>1,280,538</u>	<u>1,280,538</u>
2 Share Premium Account	<u>85,980,292</u>	<u>85,980,292</u>
3 General Reserve	<u>18,300,679</u>	<u>18,300,679</u>
4 Profit & Loss Account balance	<u>-30239051</u>	<u>-68,095,003</u>
Total	<u>7,53,22,458</u>	<u>37,466,506</u>
3: SECURED LOANS		
Term Loan from IDBI	<u>63000000</u>	<u>72,000,000</u>
Total	<u>63000000</u>	<u>72,000,000</u>

Schedules Forming Part of the Accounts

4: FIXED ASSETS

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 01.04.2003 Rupees	Additions during the year Rupees	Deductions during the year Rupees	As on 31.03.2004 Rupees	Upto 01.04.2003 Rupees	For the year Rupees	Deductions during the year Rupees	Upto 31.03.2004 Rupees	As on 31.03.2004 Rupees	As on 31.03.2003 Rupees
1. Land	80,62,000	-	-	80,62,000	-	-	-	-	80,62,000	80,62,000
2. Buildings	2,23,74,053	-	-	2,23,74,053	23,08,770	7,47,293	-	30,56,063	1,93,17,990	2,00,65,283
3. Leasehold Improvements	47,37,576	-	-	47,37,576	47,37,576	-	-	47,37,576	-	-
4. Plant & Machinery	30,62,462	-	-	30,62,462	26,03,150	1,08,867	-	27,12,017	3,50,445	4,59,312
5. Furniture & Fixures	47,47,316	9,921	-	47,57,237	23,87,732	5,72,315	23,47,070	6,12,977	41,44,260	23,59,584
6. Electrical Installation	56,11,083	-	-	56,11,083	8,08,291	2,88,591	-	10,96,882	45,14,201	48,02,792
7. Vehicles	9,45,083	-	-	9,45,083	3,67,616	89,783	-	4,57,399	4,87,684	5,77,467
8. Computer system	8,69,77,545	75,18,265	-	9,44,95,810	3,15,05,072	1,40,19,549	2,09,320	4,53,15,301	4,91,80,509	5,54,72,473
9. Electronic equipment & Office Equipment	1,11,63,579	2,56,049	-	1,14,19,628	32,35,896	3,42,478	-	35,78,374	78,41,254	79,27,683
Total	14,76,80,697	77,84,235	-	15,54,64,932	4,79,54,103	1,61,68,876	25,56,390	6,15,66,589	9,38,98,343	9,97,26,594
Previous year	10,69,05,706	4,07,74,991	-	14,76,80,697	3,36,28,279	1,43,25,824	-	4,79,54,103	9,97,26,594	7,32,77,427

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
5: INVESTMENTS- AT COST		
Long Term Investment		
Unquoted		
i) Investment in Preferential Stock of Enherent Corporation	1,66,98,000	1,66,98,000
(27,50,000 convertible preferred Stock, Face Value US\$ 1 each and 18,75,000 Warrants of common stock, Face value US\$ 0.001 per Warrant)		
Total	<u>1,66,98,000</u>	<u>1,66,98,000</u>
6: SUNDRY DEBTORS		
(UNSECURED, CONSIDERED GOOD)		
a. Debts outstanding for a period exceeding six months	1,96,06,250	2,29,17,732
b. Other Debts	13,71,68,708	7,68,21,018
Total	<u>15,67,74,958</u>	<u>9,97,38,750</u>
7: CASH & BANK BALANCES		
Cash on hand	2,20,669	2,70,218
Bank balances		
With Scheduled Banks:		
-In Current Accounts	32,76,019	12,34,269
-In Fixed Deposit	4,58,788	-
Balances with others		
-M & T Bank	1,33,46,867	1,74,60,890
(Maximum Balance outstanding during the year \$ 5,87,727.47)		
(Maximum Balance outstanding during the Previous year \$ 7,33,540)		
Total	<u>1,73,02,343</u>	<u>1,89,65,377</u>

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
8: LOANS & ADVANCES (UNSECURED, CONSIDERED GOOD)		
Advance to suppliers	68,21,711	58,55,150
Advance to Staff	35,82,075	86,19,960
Deposits	22,39,241	42,79,240
Advance Income Tax	1,13,770	1,17,47,609
Prepaid Expenses	78,61,300	79,24,297
Total	<u>2,06,18,098</u>	<u>3,84,26,256</u>
9: CURRENT LIABILITIES		
Sundry Creditors (No outstanding dues to SSI Undertakings)	1,38,48,577	1,15,40,289
Other Creditors/ Liabilities	11,70,23,634	8,10,72,412
Statutory Liabilities	31,68,959	8,02,985
Interest Accrued but not due on Loans	8,03,143	8,70,000
Total	<u>13,48,44,313</u>	<u>9,42,85,685</u>
10 PROVISIONS		
Provision for Taxation	2,22,260	1,14,56,665
Provision for Gratuity and Leave Encashment	7,93,506	6,21,226
Total	<u>10,15,766</u>	<u>1,20,77,891</u>
11: MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)		
Preliminary Expenditure	37,193	
Less : Written Off during the year	<u>18,680</u>	18,513
Public Issue Expenses	26,22,720	
Less : Written Off during the year	<u>2,21,944</u>	26,22,720
Deferred Revenue Expenditure	63,94,288	
Add: Addition during the year	<u>3,02,56,363</u>	
Less : Written Off during the year	<u>23,59,706</u>	3,42,90,945
Total	<u>3,67,10,234</u>	<u>90,54,201</u>

Schedules Forming Part of the Accounts

	For the year ended 31.03.2004 Rupees	For the year ended 31-03-2003 Rupees
12: SALES		
Software - Domestic	19,76,930	49,98,690
- Exports	57,07,58,379	48,24,91,309
Total	<u>57,27,35,309</u>	<u>48,74,89,999</u>
13: OTHER INCOME		
Insurance Claims received	68,463	12,66,760
Interest on Fixed Deposits	31,223	1,53,925
Miscellaneous Income	3,98,204	-
Total	<u>4,97,889</u>	<u>14,20,685</u>
14: PERSONNEL EXPENDITURE		
Salaries, Wages and other Benefits	30,11,08,793	29,87,42,693
Staff Welfare	13,94,169	1,77,358
Staff Recruitment & Training	5,10,942	20,22,880
Total	<u>30,30,13,904</u>	<u>30,09,42,931</u>

Schedules Forming Part of the Accounts

	For the year ended 31.03.2004 Rupees	For the year ended 31-03-2003 Rupees
15: ADMINISTRATIVE AND SELLING EXPENSES		
Directors Remuneration	1433600	1,80,000
Perquisites to the Directors	428400	-
Advertisement	2229155	3,32,846
Electricity	2991406	4,32,423
Rent	5756059	66,17,226
Legal Fees	4305477	18,74,122
Consumables	31415	64,919
Printing and Stationary	619389	98,921
Postage ,Telephones and Internet	19327527	1,01,57,641
Insurance	70401	21,35,682
Professional and Consultancy	42849864	26,61,627
Outsourcing Expenses	95558238	9,08,70,218
Rates and Taxes	3453023	3,21,985
Meeting Expenses	33025	-
Marketing Expenses	7875755	78,91,025
Gifts and Donations	24505	-
Books & Periodicals	70545	64,375
Membership & Subscription	585938	6,44,029
Vehicle Maintenance	2839897	4,49,504
Travelling Expenses		
- Directors -	1140990	5,32,939
- Others	21724110	1,63,19,294
Conveyance	277130	8,493
Business Promotion	1093341	2,39,434
Auditors Remuneration	135000	1,25,000
Office Maintenance	1593270	21,77,515
Repairs & Maintenance	3180745	21,78,488
Miscellaneous Expenses	1135192	42,27,587
Listing Fees	107000	-
Bad Debts written off	3217512	-
Foreign Exchange Fluctuation loss	9206839	15,49,469
Security Charges	599517	78,439
Licence Fee	-	2,04,339
Total	233894265	15,24,37,539
Less: Deferred Revenue Expenses	30256363	-
	203637902	15,24,37,539
16: FINANCIAL EXPENSES		
Interest on Term Loan	9946229	83,34,525
Bank Charges & Commission	222283	1,71,043
Other Financial Charges	-	9,16,248
Total	10168512	94,21,816

17. SIGNIFICANT ACCOUNTING POLICIES

A) Statement on Significant Accounting Policies

(i) Basis of Accounting

The Financial Statements of the Company are prepared under the historical cost convention and comply with the applicable accounting standards issued by the Institute of Chartered Accountants of India, and the relevant provisions of the Companies Act, 1956 as adopted consistently by the Company.

(ii) Revenue Recognition:

- a) All incomes and expenditure are accounted on accrual basis except insurance claims and dividend incomes, which are accounted on cash basis.
- b) Revenue from Software Development contracts, priced on time and material basis, is recognised on the basis of billable time spent by employees working on the project, at the contracted rate.
- c) Revenue from fixed price contracts is recognised on milestones achieved as per the terms of specific contracts.

(iii) Fixed Assets:

- a) Fixed Assets are capitalized at acquisition costs and include freight, installation cost, finance cost, duties and taxes and other incidental expenses incurred during construction/installation stage. Project expenses are capitalised to the respective asset heads on a proportionate basis. Any capital grant or subsidy received is reduced from the cost of eligible assets.
- b) Depreciation on Fixed Assets is provided on straight-line method in the manner and at the rates

specified in Schedule XIV to the Companies Act, 1956.

(iv) Investments:

Investments are classified into current Investments and Long-term investments. Current Investments are carried at the lower of cost or fair value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the profit and loss account. Long-term investments are carried at cost less provision made to recognize any decline, other than temporary, in the value of such investments.

(v) Foreign Currency Transactions:

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. In respect of foreign branches, all revenue and expense transactions during the year are reported at average rate. Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Balance in 'Head office account' whether debit or credit, is reported at the amount of the balance in the 'branch account' in the books of the head office after adjusting for unresponded transaction. Net gain/loss on foreign currency translation is recognized in the profit and loss account.

(vi) Miscellaneous Expenditure:

- a) Preliminary Expenditure is amortised over a period of ten years.
- b) Public Issue expenses are amortised over a period of ten years.
- c) Deferred Revenue Expenditure is charged to revenue over a period of five years.

(vii) Retirement Benefits to Employees

Contributions to defined Schemes such as Provident Fund, Employees State Insurance Scheme are charged as incurred on accrual basis. The Company provides the retirement benefits in the form of Gratuity and Leave Encashment on the basis of actuarial valuation made by Independent actuary as at balance sheet date.

B) NOTES FORMING PART OF ACCOUNTS:

1) Preferential Allotment:

Company has allotted 5000000 nos. of convertible Equity share warrants on preferential basis to goldstone Exports Limited at Rs. 27.00 per warrant aggregating to 13500000 on 27.12.2002. Goldstone Exports Limited has paid Rs.2.70 per warrant being 10% of the face value of the warrant as per the terms of allotment. Balance amount of Rs. 24.30 per warrant was payable within 18 months period from the date of allotment of the warrants as per terms of the allotment. since, Goldstone Exports Limited failed to pay the balance amount within the due date the share warrant allotment money of Rs. 135.00 lakhs stand forfeited during the financial year 2004-05.

2) Secured Loans:

Term loan from IDBI is secured by first charge, on paripassu basis on the movable and immovable assets of the Company, present and future, subject to prior charge on specified movables/ current assets in favour of the bankers for working capital limits, if any, sanctioned by them. Also secured by first charge, on paripassu basis on the movable and

7) Deferred Tax Liability:

Deferred Tax Asset/Liability is recognized in accordance with accounting standard on Deferred Taxes (AS - 22)

immovable assets of Goldstone Teleservices Limited, present and future, subject to prior charge on specified movables / current assets in favour of the bankers for working capital limits, if any, sanctioned by them and unconditional & irrevocable personal guarantee by Mr. L P Sashi Kumar, Director.

3) Fixed Assets:

Capital Work-in-progress as at 31.03.2004 includes: 1) Advance Rs. 1,25,00,000/- paid in a previous year by the Company for acquisition of immovable property pending registration and advance Rs. 5,36,09,399/- towards Capital expenditure, also paid in the previous year.

4) Investment:

The Company made long-term strategic investments in Enherent Corporation in December 2002 by investing in Preferential stock consisting of convertible / preferred stock and warrants of common stock as a single deal for a total amount of USD 3,50,000. Due to change in the Company's future strategic plans, this investment was sold on 1st April 2004.

5) Current Assets and Current Liabilities:

Sundry Debtors, Loans & Advances and Sundry Creditors balances are subject to confirmation by the parties.

6) Provisions (Income-Tax)

An amount of Rs. 2,22,260 has been provided towards taxes payable in USA with regard to our USA branch operations.

(In Rupees)

Particulars	As at 01-04-2003	Current Year 2003-04	As at 31-03-2004
Defference between Book and Tax Depreciation	1,30,06,498	-9,61,661	1,20,44,837

8) Prior Period Adjustments:

- a) Provision for Income Tax pertaining to the previous years (1999-2000, 2000-01) Rs. 31,54,358 adjusted on completion of income-tax assessments.
- b) Provision for Service Tax pertaining to the year 2002-03 - Rs. 10,000.
- c) Excess provision in the previous years pertaining to other expenses written back - Rs. 69,947.
- d) Excess provision made in the previous years for Depreciation written back - Rs. 25,56,389.

9) Related Party Disclosure:

The Company had transactions with the following related parties.

- a. Subsidiary: Prime Soft LLC

10) Earnings Per Share:

Calculation of EPS (Basic & Diluted):

Particulars	Rs. In Lakhs	
	Current Year 2003-04	Previous period 2002-03
Total No. of Shares Outstanding	1,08,38,400	1,08,38,400
Profit after Taxes before Prior Period Adjustments	386.05	168.52
Profit after Taxes after Prior Period Adjustments	378.56	50.96
EPS after Taxes before Prior Period Adjustments	3.562	1.555
EPS after Taxes after Prior Period Adjustments	3.493	0.470

11) Segment Reporting:

The Company is primarily engaged in the business of software Development comprising both onsite and offshore operations. Since the nature of the activities is governed by the same nature of risks, these are grouped as a single segment.

12) Additional Information required as per paras 3 & 4 of Part II of Schedule VI to the companies Act, 1956.

The Company is engaged in Software Development. The production and sale of such Software cannot be expressed in Units, Hence, it is not possible to give the quantitative details and information as required under paragraphs 3,4 of Part II of Schedule VI to the Companies Act, 1956.

a) Contingent Liability:

Taxation Matters

Demand of Rs. 42,06,082/- raised in respect of the Assessment year 2000-01 by the Income Tax Department, against which Company has preferred an appeal before ITAT, which is pending. The same has been reduced to Rs. 4,97,000/- vide order of CIT, Appeals II, A.P., Hyderabad.

b) Managerial Remuneration:

Particulars	Current Year 2003-04	Previous period 2002-03
Executive – Director		
Salary	9,60,000	Rs. 7,20,000
Commission	Nil	Nil
Other perquisite	2,40,000	Rs. 2,40,000
Whole time Director		
Salary	Nil	Rs. 1,60,000
Other perquisite	Nil	Rs. 7,56,300

c) Foreign Exchange Transaction:

Rs. In Lakhs

Particulars	Current Year 2003-04	Previous period 2002-03
1) Value of Imports on CIF Basis		
a) Capital Goods – Computer Systems	5.10	–
b) Capital Goods – Computer Software	–	–
2) Expenditure in Foreign Currency		
a) Travelling Expenses	35.30	22.44
3) Earnings in Foreign Currency (on Receipt basis)		
a) Software Exports	558.25	384.75

d) Auditors Remuneration:

Particulars	Current Year 2003-04	Previous period 2002-03
Audit Fees	Rs. 1,10,000	Rs. 1,10,000
Taxation Matters	Rs. 15,000	Rs. 15,000
Service Tax	Rs. 10,000	–

13) No amount is due to any small-scale industry in excess of Rs. 1,00,000/- for more than 30 days.

14) Figures have been rounded off to the nearest rupee.

15) Figures for the corresponding year wherever necessary have been regrouped, recast and rearranged to conform to those of the current year.

Per our report attached
For **P R Pramodkumar & Co**
Chartered Accountants

On behalf of the Board

Sd/-
P.R. Pramodkumar
Proprietor

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Place : Secunderabad
Date : 16ththAugust, 2004

Statement of Cash Flows for the year ended 31.03.2004

(Amounts in Rs. Lakhs)

	31.03.2004	31.03.2003
A Cash Flow from operating activity		
Net Profit before tax	376.44	163.43
Adjustments for:		
Depreciation	136.12	143.26
Miscellaneous expenditure written off	26.00	6.59
Provision for Gratuity & Earned Leave	1.72	6.21
Other Income	(4.98)	(14.21)
Interest on Long Term Loan	101.69	83.35
Operating Profit before working capital changes	636.99	388.63
Adjustments for:		
Trade and other receivables	(570.36)	346.00
Trade advances	61.74	(123.85)
Trade Payable	405.59	29.71
Cash generated from operations	533.96	640.49
Direct Taxes paid (net)	3.99	(11.89)
Interest paid	(101.69)	(83.35)
Cashflow before extraordinary items	436.26	545.25
Extra ordinary items	(7.49)	(117.56)
Net Cash flow from operating activity	428.77	427.69
B. Cash Flow from Investing Activity		
Purchase of fixed assets	(77.84)	(16.75)
Capital work in progress	20.02	31.08
Purchase of investments	0.00	(151.98)
Miscellaneous Expenditure	(302.56)	(44.75)
Interest received	0.31	1.54
Other income	4.67	12.67
Net Cash used for investing activity	(355.40)	(168.19)
C. Cash Flow from financing activities		
Repayment of Term Loan	(90.00)	(180.00)
Net cash generated from financing activity	(90.00)	(180.00)
Cash and cash equivalents (Opening Balance)	189.65	110.15
Net increase in Cash & Cash equivalents (A+B+C)	(16.63)	79.50
Cash and cash equivalents (Closing Balance)	173.02	189.65

Per our report attached

On behalf of the Board

For **P R Pramodkumar & Co**

Chartered Accountants

Sd/-

P R Pramodkumar

Proprietor

Sd/-

L P Sashikumar

Director

Sd/-

K V S Chalapathi Rao

Director

Place : Secunderabad

Date : 16thth August, 2004



**Consolidated Statements
of
Goldstone Technologies Limited**

Auditors' Report

To the Board of Directors on the consolidated financial statements of **Goldstone Technologies Limited & its Subsidiary.**

1. We have audited the attached Consolidated Balance Sheet of Goldstone Technologies Limited as at 31st March 2004 and also the Profit and Loss Account for the year ended on that date annexed thereto and the consolidated Cash Flow Statement for the year ended on that date. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary of Goldstone Technologies Limited, whose financial statements reflect total assets of Rs. 1.47 Lakhs as at 31st March, 2004 and total revenues of Rs. 0.00 Lakhs for the year ended on that date. These financial statements have not been audited as the same, being U.S.A based, are not statutorily required in the said country. Our opinion in so far as it relates to the said amounts included in respect of the subsidiary is based solely on the accounts prepared by the management.
4. We report that 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 subsidiary included in the consolidated financial statements.
5. On the basis of the information and explanation given to us, and on consideration of the separate audit reports on individual audited financial statements of the company and its subsidiary, In our opinion the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i. In the case of the Consolidated Balance Sheet of the consolidated state of affairs of the Company and its subsidiary as at March 31, 2004;
 - ii. In the case of Consolidated Profit & Loss Account, of the consolidated results of operations of the Company and its subsidiary for the year ended March 31, 2004;
 - iii. In the case of the Consolidated Cash Flow statement, of the consolidated cash flows of the Company and its subsidiary for the year ended March 31, 2004.

For **P R Pramodkumar**
Chartered Accountants

Sd/-

P R Pramodkumar
Proprietor

Place: Secunderabad
Date : 16th August, 2004

Consolidated Balance Sheet as at 31st March, 2004

	Sch.	As at 31st March, 04 Rupees	As at 31st March, 03 Rupees
I SOURCES OF FUNDS			
1 SHAREHOLDERS' FUNDS			
a. Share capital	1	10,83,84,000	10,83,84,000
b. Share Warrants Money		1,35,00,000	1,35,00,000
c. Reserves and Surplus	2	7,54,69,638	3,77,96,427
		<u>19,73,53,638</u>	<u>15,96,80,427</u>
2 LOAN FUNDS			
Secured Loans	3	6,30,00,000	7,20,00,000
		<u>6,30,00,000</u>	<u>7,20,00,000</u>
Total		<u>26,03,53,638</u>	<u>23,16,80,427</u>
II APPLICATION OF FUNDS			
1 FIXED ASSETS	4		
a. Gross block		15,54,64,932	14,76,80,699
b. Less : Depreciation		6,15,66,589	4,79,54,102
Net block		<u>9,38,98,343</u>	<u>9,97,26,597</u>
Add : Capital Work in Process (Including Capital Advances)		6,61,09,399	6,81,11,399
		<u>16,00,07,742</u>	<u>16,78,37,996</u>
2 INVESTMENTS	5	1,66,98,000	1,66,98,000
3 CURRENT ASSETS, LOANS & ADVANCES			
a. Sundry Debtors	6	15,67,74,958	10,02,09,473
b. Cash and Bank Balances	7	1,73,02,343	1,89,65,377
c. Loans and Advances	8	2,07,65,278	3,87,34,008
Total		<u>19,48,42,578</u>	<u>15,79,08,858</u>
Less: Current Liabilities & Provisions			
a. Current Liabilities	9	13,48,44,313	9,47,34,239
b. Provisions	10	10,15,766	1,20,77,891
Total		<u>13,58,60,079</u>	<u>10,68,12,130</u>
NET CURRENT ASSETS		<u>5,89,82,500</u>	<u>5,10,96,728</u>
4 Miscellaneous Expenditure	11	3,67,10,234	90,54,201
5 Deferred Tax Liability		<u>1,20,44,837</u>	<u>1,30,06,498</u>
Total		<u>26,03,53,638</u>	<u>23,16,80,427</u>
Notes to Accounts	17		

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

Sd/-

P.R. Pramodkumar
Proprietor

Place : Secunderabad
Date : 16.08.2004

On behalf of the Board

Sd/-

L.P.Sashikumar
Director

Sd/-

KVS Chalapathi Rao
Executive Director

Consolidated Profit & Loss Account for the year ended 31st March, 2004

	Sch.	For the year ended 31-03-2004	For the year ended 31-03-2003
INCOME			
Software development	12	57,27,35,309	49,49,11,399
Other income	13	4,97,889	14,26,385
Total		57,32,33,198	49,63,37,784
EXPENDITURE			
Personnel costs	14	30,30,13,904	30,84,31,574
Administration and other expenses	15	20,38,20,643	15,34,52,189
Finance Charges	16	1,01,68,512	94,70,392
Depreciation		1,61,68,876	91,06,888
Miscellaneous Expenses Written off		26,00,330	6,58,572
Total		53,57,72,265	48,11,19,615
Profit before taxation		3,74,60,933	1,52,18,169
Provision for taxation		–	(9,93,749)
Deferred tax asset		9,61,661	15,03,070
Profit after tax		3,84,22,594	1,57,27,490
Prior period adjustments (Net)		7,49,383	1,17,55,777
Profit after Adjustment		3,76,73,211	39,71,713
Brought forward from previous year		(6,77,65,082)	(7,17,36,795)
Balance carried to Balance Sheet		(3,00,91,872)	(6,77,65,082)
Earnings per Share			
(Equity Shares of nominal value Rs. 10/- each)			
Basic & Diluted		3.476	0.366
Number of shares used in Computing EPS			
Basic & Diluted		1,08,38,400	1,08,38,400
Notes to Accounts	17		

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

Sd/-
P.R. Pramodkumar
Proprietor

Place : Secunderabad
Date : 16.08.2004

On behalf of the Board

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
1: SHARE CAPITAL		
Authorised:		
2,50,00,000 Equity Shares of Rs.10/-	<u>250,000,000</u>	<u>200,000,000</u>
Issued, Subscribed and Paid up:		
1,08,38,400 Equity Shares of Rs. 10/- each, fully paid up	<u>108,384,000</u>	<u>108,384,000</u>
Total	<u>108,384,000</u>	<u>108,384,000</u>
2: RESERVES AND SURPLUS		
1 Capital Reserve	<u>1,280,538</u>	<u>1,280,538</u>
2 Share Premium Account	<u>85,980,292</u>	<u>85,980,292</u>
3 General Reserve	<u>18,300,679</u>	<u>18,300,679</u>
4 Profit & Loss Account	<u>-30,091,871</u>	<u>-67,765,082</u>
Total	<u>75,469,638</u>	<u>37,796,427</u>
3: SECURED LOANS		
Term Loan from IDBI	<u>63,000,000</u>	<u>72,000,000</u>
Total	<u>63,000,000</u>	<u>72,000,000</u>

Schedules Forming Part of the Accounts

4: FIXED ASSETS

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As on 01.04.2003 Rupees	Additions during the year Rupees	Deductions during the year Rupees	As on 31.03.2004 Rupees	Upto 01.04.2003 Rupees	For the year Rupees	Deductions during the year Rupees	Upto 31.03.2004 Rupees	As on 31.03.2004 Rupees	As on 31.03.2003 Rupees
1. Land	80,62,000	-	-	80,62,000	-	-	-	-	80,62,000	80,62,000
2. Buildings	2,23,74,053	-	-	2,23,74,053	23,08,770	7,47,293	-	30,56,063	1,93,17,990	2,00,65,283
3. Leasehold Improvements	47,37,576	-	-	47,37,576	47,37,576	-	-	47,37,576	-	-
4. Plant & Machinery	30,62,462	-	-	30,62,462	26,03,150	1,08,867	-	27,12,017	3,50,445	4,59,312
5. Furniture & Fixures	47,47,316	9,921	-	47,57,237	23,87,732	5,72,315	23,47,070	6,12,977	41,44,260	23,59,584
6. Electrical Installation	56,11,083	-	-	56,11,083	8,08,291	2,88,591	-	10,96,882	45,14,201	48,02,792
7. Vehicles	9,45,083	-	-	9,45,083	3,67,616	89,783	-	4,57,399	4,87,684	5,77,467
8. Computer system	8,69,77,545	75,18,265	-	9,44,95,810	3,15,05,072	1,40,19,549	2,09,320	4,53,15,301	4,91,80,509	5,54,72,473
9. Electronic equipment & Office Equipment	1,11,63,579	2,56,049	-	1,14,19,628	32,35,896	3,42,478	-	35,78,374	78,41,254	79,27,683
Total	14,76,80,697	77,84,235	-	15,54,64,932	4,79,54,103	1,61,68,876	25,56,390	6,15,66,589	9,38,98,343	9,97,26,594
Previous year	10,69,05,706	4,07,74,991	-	14,76,80,697	3,36,28,279	1,43,25,824	-	4,79,54,103	9,97,26,594	7,32,77,427

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
5: INVESTMENTS- AT COST		
Long Term Investment		
Unquoted		
i) Investment in Preferential Stock of Enherent Corporation (i. 2,750,000 convertible preferred Stock, Face Value US\$ 1 each and 1,875,000 Warrants of common stock, Face value US\$ 0.001 per Warrant)	1,66,98,000	1,66,98,000
Total	<u>1,66,98,000</u>	<u>1,66,98,000</u>
6: SUNDRY DEBTORS		
(UNSECURED, CONSIDERED GOOD)		
a. Debts outstanding for a period exceeding six months	1,96,06,250	2,29,17,732
b. Other Debts	13,71,68,708	7,72,91,741
Total	<u>15,67,74,958</u>	<u>10,02,09,473</u>
7: CASH & BANK BALANCES		
Cash on hand	2,20,669	2,70,218
Bank balances		
With Scheduled Banks:		
- In Current Accounts	32,76,019	12,34,269
- In Fixed Deposit	4,58,788	-
Balances with others		
- M & T Bank	1,33,46,867	1,74,60,890
(Maximum Balance outstanding during the year \$ 5,87,727.47)		
(Maximum Balance outstanding during the Previous year \$ 7,33,540)		
Total	<u>1,73,02,343</u>	<u>1,89,65,373</u>

Schedules Forming Part of the Accounts

	As at 31.03.2004 Rupees	As at 31.03.2003 Rupees
8: LOANS & ADVANCES		
(UNSECURED, CONSIDERED GOOD)		
Advance to suppliers	69,68,891	58,55,150
Advance to Staff	35,82,075	86,19,960
Deposits	22,39,241	42,79,240
Advance Income Tax	1,13,770	1,20,55,361
Prepaid Expenses	78,61,300	79,24,297
Total	<u>2,07,65,278</u>	<u>3,87,34,008</u>
9 CURRENT LIABILITIES		
Sundry Creditors	1,38,48,577	1,19,88,843
(No outstanding dues to SSI Undertakings)		
Other Creditors/ Liabilities	11,70,23,634	8,10,72,412
Statutory Liabilities	31,68,959	8,02,985
Deferred Tax Liability	-	-
Interest Accrued but not due on Loans	8,03,143	8,70,000
Total	<u>13,48,44,313</u>	<u>9,47,34,239</u>
10 PROVISIONS		
Provision for Taxation	2,22,260	1,14,56,665
Provision for Gratuity and Leave Encashment	7,93,506	6,21,226
Total	<u>10,15,766</u>	<u>1,20,77,891</u>
11 MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Preliminary Expenditure	37,193	
Less : Written Off during the year	<u>18,680</u>	37,193
Public Issue Expenses	26,22,720	
Less : Written Off during the year	<u>2,21,944</u>	26,22,720
Deferred Revenue Expenditure	63,94,288	
Add: Addition during the year	<u>3,02,56,363</u>	
	<u>3,66,50,651</u>	
Less : Written Off during the year	<u>23,59,706</u>	63,94,288
Total	<u>3,67,10,234</u>	<u>90,54,201</u>

Schedules Forming Part of the Accounts

	For the year ended 31-03-2004 Rupees	For the year ended 31-03-2003 Rupees
12: SALES		
Telecom - Domestic	-	-
- Exports	-	-
Software - Domestic	19,76,930	49,98,690
- Exports	57,07,58,379	48,99,12,709
Total	<u>57,27,35,309</u>	<u>49,49,11,399</u>
13: OTHER INCOME		
Insurance Claims received	68,463	12,66,760
Interest on Bank Balances	-	-
Interest on Fixed Deposits	31,223	1,53,925
Miscellaneous Income	3,98,204	5,700
Service Charges	-	-
Profit on sale of Plant & Machinery	-	-
Total	<u>4,97,889</u>	<u>14,26,385</u>
14: PERSONNEL EXPENDITURE		
Salaries, Wages and other Benefits	30,11,08,793	30,62,31,336
Staff Welfare	13,94,169	1,77,358
Staff Recruitment & Training	5,10,942	20,22,880
Total	<u>30,30,13,904</u>	<u>30,84,31,574</u>

Schedules Forming Part of the Accounts

	For the year ended 31-03-2004 Rupees	For the year ended 31-03-2003 Rupees
15: ADMINISTRATIVE AND SELLING EXPENSES		
Directors Remuneration	14,33,600	1,80,000
Perquisites to the Directors	4,28,400	-
Advertisement	22,29,155	3,32,846
Electricity	29,91,406	4,32,423
Rent	57,56,059	66,17,226
Legal Fees	43,05,477	18,74,122
Consumables	31,415	64,919
Printing and Stationary	7,75,805	98,921
Postage ,Telephones and Internet	1,93,27,527	1,01,57,641
Insurance	70,401	21,35,682
Professional and Consultancy	4,28,49,864	27,16,981
Outsourcing Expenses	9,55,58,238	9,08,70,218
Rates and Taxes	34,53,023	3,26,939
Meeting Expenses	33,025	-
Marketing Expenses	78,75,755	78,91,025
Gifts and Donations	24,505	-
Books & Periodicals	70,545	64,375
Membership & Subscription	5,85,938	6,44,029
Vehicle Maintenance	28,39,897	4,49,504
Travelling Expenses		
- Directors	11,40,990	5,32,939
- Others	2,17,24,110	1,63,19,294
Conveyance	2,77,130	8,493
Carriage Outward	-	-
Sales Tax	-	-
Business Promotion	10,93,341	2,39,434
Auditors Remuneration	1,35,000	1,25,000
Office Maintenance	15,93,270	21,77,515
Repairs & Maintenance	31,80,745	21,78,488
Miscellaneous Expenses	11,35,192	42,27,587
Listing Fees	1,07,000	-
Liquidated Damages	-	-
Bad Debts written off	32,17,512	9,54,342
Foreign Exchange Fluctuation loss	92,33,164	15,49,469
Security Charges	5,99,517	78,439
Licence Fee	-	2,04,339
Royalties	-	-
Total	23,40,77,006	15,34,52,189
Less: Deferred Revenue Expenses	3,02,56,363	-
	20,38,20,643	15,34,52,189
16: FINANCIAL EXPENSES		
Interest on Working Capital	-	-
Interest on Term Loan	99,46,229	83,34,525
Bank Charges & Commission	2,22,283	2,19,619
Other Financial Charges	-	9,16,248
Total	1,01,68,512	94,70,392

Statement of Consolidated Cash Flows for the year ended 31.03.2004

	Rs. In lakhs	
	31.03.2004	31.03.2003
A Cash Flow from operating activity		
Net Profit before tax	374.61	152.18
Adjustments for:		
Depreciation	136.12	143.27
Miscellaneous expenditure written off	26.00	6.59
Provision for Gratuity & Earned Leave	1.72	6.21
Other Income	(4.98)	(14.27)
Interest on Long Term Loan	101.69	83.35
Operating Profit before working capital changes	635.16	377.33
Adjustments for:		
Trade and other receivables	(565.65)	341.29
Trade advances	60.27	(124.18)
Trade Payable	401.10	45.98
Cash generated from operations	530.88	640.42
Direct Taxes paid (net)	7.07	(14.97)
Interest paid	(101.69)	(83.35)
Cashflow before extraordinary items	436.26	542.10
Extra ordinary items	(7.49)	(117.56)
Net Cash flow from operating activity	428.77	424.54
B. Cash Flow from Investing Activity		
Purchase of fixed assets	(77.84)	(16.75)
Capital work in progress	20.02	31.08
Purchase of of investments	-	(151.98)
Miscellaneous Expenditure	(302.56)	(44.75)
Interest received	0.31	1.54
Other income	4.67	12.73
Net Cash used for investing activity	(355.40)	(168.13)
C. Cash Flow from financing activities		
Repayment of Term Loan	(90.00)	(180.00)
Net cash generated from financing activity	(90.00)	(180.00)
Cash and cash equivalents (Opening Balance)	189.65	113.24
Net increase in Cash & Cash equivalents (A+B+C)	(16.63)	76.41
Cash and cash equivalents (Closing Balance)	173.02	189.65

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

On behalf of the Board

Sd/-
P.R. Pramodkumar
Proprietor

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Place : Secunderabad
Date : 16.08.2004

17 SIGNIFICANT ACCOUNTING POLICIES

A) Statement on Significant Accounting Policies

(i) Basis of Accounting / Consolidation

The Consolidated Financial Statements of the Company with the wholly owned subsidiary Primesoft LLC have been prepared under the historical cost convention in accordance with generally accepted accounting principles applicable and the Accounting Standard 21 on Consolidation of financial statements issued by the Institute of Chartered Accountants of India, and the relevant provisions of the Companies Act, 1956 as adopted consistently by the Company.

(ii) Revenue Recognition:

- a) All incomes and expenditure are accounted on accrual basis except insurance claims and dividend incomes, which are accounted on cash basis.
- b) Revenue from Software Development contracts, priced on time and material basis, is recognised on the basis of billable time spent by employees working on the project, at the contracted rate.
- c) Revenue from fixed price contracts is recognized on milestones achieved as per the terms of specific contracts.

(iii) Fixed Assets:

- a) Fixed Assets are capitalized at acquisition costs and include freight, installation cost, finance cost, duties and taxes and other incidental expenses incurred during construction/installation stage. Project expenses are capitalised to the respective asset heads on a proportionate basis. Any capital grant or subsidy received is reduced from the cost of eligible assets
- b) Depreciation on Fixed Assets is provided on straight-line method in the manner and at the rates specified in Schedule XIV to the Companies Act, 1956.

(iv) Investments:

Investments are classified into current

Investments and Long-term investments. Current Investments are carried at the lower of cost or fair value. Any reduction in carrying amount and any reversals of such reductions are charged or credited to the profit and loss account. Long-term investments are carried at cost less provision made to recognize any decline, other than temporary, in the value of such investments.

(v) Foreign Currency Transactions:

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction. In respect of foreign branches, all revenue and expense transactions during the year are reported at average rate. Monetary assets and liabilities are translated at the rate prevailing on the balance sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Balance in 'Head office account' whether debit or credit, is reported at the amount of the balance in the 'branch account' in the books of the head office after adjusting for unresponded transaction. Net gain/loss on foreign currency translation is recognized in the profit and loss account.

(vi) Miscellaneous Expenditure:

- a) Preliminary Expenditure is amortised over a period of ten years.
- b) Public Issue expenses are amortised over a period of ten years.
- c) Deferred Revenue Expenditure is charged to revenue over a period of five years.

(vii) Retirement Benefits to Employees

Contributions to defined Schemes such as Provident Fund, Employees State Insurance Scheme are charged as incurred on accrual basis. The Company provides the retirement benefits in the form of Gratuity and Leave Encashment on the basis of actuarial valuation made by Independent actuary as at balance sheet date.

B NOTES FORMING PART OF ACCOUNTS:

1. Subsidiaries considered for Conso-olidation:

Primesoft LLC, an US incorporated Company is the wholly owned subsidiary and is considered for Consolidation.

2. Deferred Tax Liability:

Deferred Tax Asset/Liabilities is recognized in accordance with accounting standard on Deferred Taxes (AS – 22)

3. Related Party Disclosure:

The Company had transactions with the following related parties.

a. Subsidiary: Prime Soft LLC - A Wholly Owned Subsidiary Company

4. Earnings Per Share:

Calculation of EPS (Basic & Diluted):

Particulars	Rs. In Lakhs	
	Current Year 2003-04	Previous period 2002-03
Total No. of Shares Outstanding	1,08,38,400	1,08,38,400
Profit after Taxes before Prior Period Adjustments	384.23	157.27
Profit after Taxes after Prior Period Adjustments	376.73	39.72
EPS after Taxes before Prior Period Adjustments	3.545	1.45
EPS after Taxes after Prior Period Adjustments	3.476	0.37

5. Segment Reporting:

The Company is primarily engaged in the business of software Development comprising both onsite and offshore operations. Since the nature of the activities is governed by the same nature of risks, these are grouped as a single segment.

6. Figures have been rounded off to the nearest rupee.

7. Figures for the corresponding year wherever necessary have been regrouped, recast and rearranged to conform to those of the current year.

as per our report attached
for **P.R.Pramodkumar & Co**
Chartered Accountants

On behalf of the Board

Sd/-
P.R. Pramodkumar
Proprietor

Sd/-
L.P.Sashikumar
Director

Sd/-
KVS Chalapathi Rao
Executive Director

Place : Secunderabad
Date : 16.08.2004



Directors' Report

To,
The Members of
Primesoft LLC

Your directors have pleasure in presenting the Eight Annual Report on the business and operations of the Company and the accounts for the period ending 31st March 2004.

Directors

During the year, the following Directors occupied the office of the Directors of the Company.

Mr. L P Sashi Kumar

Ms. Mahita Caddell

Financial Results

Year	2003-04		2002-03	
	In US \$	Rs. in Lakhs	In US \$	Rs. In Lakhs
Gross Revenue	-	-	156360	74.27
Operating Profit / (Loss)	-3578.50	-182742	(23679.34)	(11.25)
Depreciation	-	-	-	-
Net Profit / (Loss)	-3578.50	-182742	(23679.34)	(11.25)

Review of the operations

During the year under review, the Company has not earned revenues and registered a net loss of US \$ 3578.50 (Rs.1.82 lakhs) as against loss of US \$ 23679.34 (Rs.11.25 Lakhs) in the previous year.

Environmental Regulations Performance

The Company's operations were not subject to any particular or significant environmental regulations of Federal, State laws, hence no specific environmental disclosure is required.

Audit

The Company is not listed in any of the stock exchanges in USA, hence audit of accounts is not compulsory under US laws.

For and on behalf of the Board

Sd/
Ms. Mahita Caddell
Director

Dated 16th August 2004

Balance Sheet as at 31st March, 2004

	March 31, 2004		March 31, 2003	
	in US \$	in Rs.	in US \$	in Rs.
ASSETS				
CURRENT ASSETS				
Cash & Bank Balances	0	0	0	0
Other Advances	3367.21	147180	16388.96	778476
Total current Assets	3367.21	147180	16388.96	778476
Total Assets	3367.21	147180	16388.96	778476
LIABILITIES				
Accounts Payable	0	0	9443.25	448554
Other Liabilities	0	0	0	0
Total Current Liabilities	0	0	9443.25	448554
Stock Holder' s equity /				
Retained earnings	6945.71	329921	6945.71	329921
Net Income / (Loss)	(3578.50)	(182742)	0	0
Total Liabilities & Equity	3367.21	147180	16388.96	778475

Profit and Loss Account for the year ended as at 31st March, 2004

	For the year ended March 31, 2004		For the year ended March 31, 2003	
	in US \$	in Rs.	in US \$	in Rs.
INCOME				
Professional Services / Consulting	0	0	156240.00	7421400
Other Income	0	0	120.00	5700
TOTAL INCOME	0	0	156360.00	7427100
EXPENSES				
Payroll Expenses	0	0	157655.64	7488643
Administration & Other Charges	3578.50	182742	22383.70	1063226
TOTAL EXPENSES	3578.50	182742	180039.34	8551869
NET PROFIT	-3578.50	-182742	-23679.34	-1124769

For and on behalf of the Board

Burlington, VT
16th August, 2004

Sd/-
Mahita Caddell
Director

Sd/-
L P Sashikumar
Director