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FIFTEENTH ANNUAL REPORT

2001

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SQL INTERNATIONAL

SQL STAR INTERNATIONAL LIMITED

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Our Vision

"We shall provide value to our global clients through innovative IT solutions of high-quality by rapidly deploying leading-edge technologies."

"We would deliver consistently high-quality IT education in, and using, emerging technologies to individuals and Corporates, to attain leadership status."

Our Quality Policy

We, at SQL Star, shall constantly strive to achieve total customer satisfaction by providing services on time and consistently meeting customer expectations.

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Notice

Notice is hereby given that the **15th Annual General Meeting** of the members of SQL STAR INTERNATIONAL LIMITED will be held on Monday, the 29th April, 2002 at 10.00 a.m. at Santosh Mohan Dev Auditorium, Bipin Chandra Pal Memorial Bhawan, A – 81, Chittaranjan Park, New Delhi – 110 019 to transact the following business:

ORDINARY BUSINESS:

Adoption of Directors' Report and Annual Accounts

1. To consider and adopt the Balance Sheet as at 31st December 2001, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.

Appointment of Directors retiring by rotation

2. To appoint a director in place of Dr. Ramaswamy P. Aiyar, who retires by rotation and being eligible, offers himself for re-appointment.

3. To appoint a director in place of Mr. Brij Kumar Tankha, who retires by rotation and being eligible, offers himself for re-appointment.

Appointment of Auditors

4. To appoint auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the company and to fix their remuneration.

SPECIAL BUSINESS:

Appointment of Mr. Yogesh Jain as Director of the company

5. To consider and if thought fit, to pass with or without modifications, the following resolution as an ORDINARY RESOLUTION:

   "**RESOLVED THAT** Mr. Yogesh Jain, who was appointed Additional Director by the Board of Directors in their meeting held on March 25, 2002 and holds office upto the conclusion of this Annual General Meeting be and is hereby re-appointed as director of the company."

NOTICE RECEIVED FROM A SHAREHOLDER

The members are hereby informed that the Company has received a notice dated March 22, 2002 under the provisions of Section 257 of the Companies Act, 1956 from a shareholder of the company proposing the candidature of Mr Yogesh Jain for the office of director of the company.

By order of Board of Directors
For **SQL STAR INTERNATIONAL LIMITED**

Place : New Delhi
Date : March 25, 2002

B. K. TANKHA
DIRECTOR

NOTES :

1. The relative Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, in respect of the business under item 5 set out above is annexed hereto.

2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER. THE INSTRUMENT APPOINTING PROXY, IN ORDER TO BE EFFECTIVE, SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING.

3. The Register of Members and Transfer Books of the Company will remain closed from Tuesday the 16th April 2002 to Tuesday the 30th April 2002, both days inclusive.

4. All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection at the registered office of the company on all working days except Saturdays between 10:00 a.m. to 1:00 p.m. upto the date of the Annual General Meeting.

5. Members seeking any information with regard to accounts of the company, are requested to send their queries so as to reach at least 10 days before the meeting, to enable the management to keep the information ready.

6. Members are requested to inform the Company's Registrars and Share Transfer Agents viz., Karvy Consultants Limited, Unit : SQL Star International Limited, "Karvy House", 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034, before 15th April 2002 the changes, if any, in their registered addresses along with the Pin Code number quoting their folio number. All correspondence relating to shares may be addressed to The Company Secretary, Corporate Office, A – 38 B, Kailash Colony, New Delhi – 110 048 and requests for share transfer may be sent directly to Transfer Agents of the Company.

7. Members are requested to bring their copy of the Annual Report to the Meeting.

8. Shareholders/ Proxy-holders are requested to produce at the entrance, the attached Attendance Slip duly completed and signed, for admission to the meeting hall.

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Annexure to the Notice

EXPLANATORY STATEMENT

As required by Section 173(2) of the Companies Act 1956, the following Explanatory Statement sets out material facts relating to the business under item 5 of the accompanying Notice dated 25th March 2002.

ITEM 5:

Mr. Yogesh Jain has been appointed Additional Director of the company at the Board Meeting held on March 25, 2002. As per the provisions of Section 262 of the Companies Act, 1956. Mr. Yogesh Jain holds office only upto the date of this Annual General Meeting.

The company has also received a notice in writing from a member proposing the candidature of Mr. Yogesh Jain for the office of the Director under the provisions of Section 257 of the Companies Act, 1956.

He is a qualified Chartered Accountant and Company Secretary with more than 20 years of experience in dealing with various financial activities, taxation planning, having valuable contacts in industry and understanding of the financial markets in India. Stock Broking. *The Board is of the opinion that his association would benefit* the company.

The directors recommend the resolution for approval of the Shareholders.

None of the directors of the company other than Mr. Yogesh Jain, is in any way concerned or interested in this resolution.

By order of Board of Directors
For **SQL STAR INTERNATIONAL LIMITED**

B.K. TANKHA
DIRECTOR

New Delhi
March 25, 2002

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Company Information

Board of Directors

Dr. Ramaswamy P. Aiyar
Chairman

Dr. Ashok Kumar Agarwal
Managing Director

Mr. Brij Kumar Tankha
Whole-time Director

Mr. Satish Kumar Arora
Director

Dr. Kishore B. V. Buddhiraju
Director

Mr. Pradeep Gupta
Director

Ms. Janet E. Mellor
Director

Mr. Dinesh Sharma
Director
(Nominee of IFCI Venture Capital Funds Ltd.)

Company Secretary

Mr. Amitabh

Bankers

State Bank of India
Overseas Branch, Vijaya Building,
Barakhamba Road, New Delhi - 110 001.

Auditors

M/s. Arora Aggarwal & Associates
Chartered Accountants
75/3, Link Road, Lajpat Nagar - III,
Near Moolchand Hospital, New Delhi - 100 024.

Registered Office

3rd Floor, Andhra Association Building,
24 - 25, Institutional Area, Lodhi Road, New Delhi - 110 003.
Ph: 011 - 4601539, 4602904; Fax: 011 - 4601597

Corporate Office

New Delhi

A - 38 B, Kailash Colony,
New Delhi - 110 048.
Ph: 011 - 6224047, 6225847; Fax: 011 - 6224175
E-mail: corpdel@sqlstarintl.com

Hyderabad

SQL House
13 Infocity, Madhapur
Hyderabad - 500 033, A. P.
Ph: 040 - 3101600; Fax: 040 - 3101608
E-mail: corp@sqlstarintl.com

Overseas Offices

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SQL Star International Inc.
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V A 20170
Ph: +01 703 481 6931
E-mail: deepakg@sqlstarintl.com

Singapore

International SQL Star Pte. Ltd.
51 Anson Road, # 08-53, Anson Centre,
Singapore - 079904
Ph: +065 2270052
Fax: +065 2271730
E-mail: sanjaygupta@sqlstarintl.com

Software Development Centres

Hyderabad

SQL House,
13 Infocity, Madhapur,
Hyderabad - 500 033, A.P.
Ph: 040 - 3101600
Fax: 040 - 3101608
E-mail: rakeshg@sqlstarintl.com

New Delhi

A - 38 B, Kailash Colony,
New Delhi - 110 048.
Ph: 011 - 6224047, 6225847
Fax: 011 - 6224173
E-mail: rakeshg@sqlstarintl.com

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Education Centres*

Bangalore

40/4, 3rd Floor, Lavelle Road,
Above Mandovi Motors,
Behind Bowring Institute,
Bangalore - 560 001.
Ph: 080 - 2277681/2277882
Fax: 080 - 2277764
E-mail: bmblr@sqlstarintl.com

Bhubaneswar

B-41, Sahid Nagar,
Opp. Women's College,
Bhubaneswar - 751 007.
Ph: 0674 - 513922/545844
Fax: 0674 - 546468
E-mail: bmbbr@sqlstarintl.com

Chennai

Dwaraka, 36, 3rd Floor,
Nungambakkam High Road,
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Ph: 044 - 8252136/8252067/8252013
Fax: 044 - 8252209
E-mail: bmchn@sqlstarintl.com

Hyderabad

4, Motilal Nehru Nagar,
1st Floor, Begumpet,
Hyderabad - 500 016.
Ph: 040 - 7763125/7766501/7767516
Fax: 040 - 7761921
E-mail: sqltmg@sqlstarintl.com

Kolkata

Wellesley House, 4th Floor,
7, Red Cross Place, Dalhousie,
Kolkata - 700 001.
Ph: 033 - 2485402/2486320
Fax: 033 - 2482488
E-mail: bmcl@sqlstarintl.com

Mumbai

4th Floor, Kohli Villa, 130 SV Road,
Adjacent to Shopper's Stop,
Andheri (W)
Mumbai - 400 058.
Ph: 022 - 6239320/6239324
Fax: 022 - 6239326
E-mail: bmmb@sqlstarintl.com

New Delhi

3rd Floor, Andhra Association Building,
24 - 25, Lodhi Road,
New Delhi - 110 003.
Ph: 011 - 4601539/4602904/4601598
Fax: 011 - 4601597
E-mail: sqlldr@sqlstarintl.com

Pune

2nd Floor, Mittal Court, A Wing,
Rasta Peth, Off Ambedkar Road,
Pune - 411 001.
Ph: 020 - 4001316/4001317/6129937
Fax: 020 - 6121104
E-mail: bmpune@sqlstarintl.com

*Apart from the above own Education Centers, SQL Star's Authorized Partner Centers are also located in various cities.

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Chairman's Message

Dear Friends,

It is my pleasure presenting to you, your Company's Fifteenth Annual Report, highlighting its activities and performance in the year 2001.

The year 2001 brought with it events which have left an indelible mark on the entire world. To start with the bubbling dotcom sector went bust, followed by recession in the US economy and economic slowdown around the world. Then the disaster of September 11 occurred. The US, the world's largest economy, long seen as the engine of global growth, has been at the epicenter of all these events. As a result, worldwide almost all industries have been hit, the worst affected being the IT industry, heavily dependant as it is on the US economy. All the major stock exchanges around the world displayed high volatility and the slowdown has impacted technology spending by US companies resulting in lower bottom lines for Indian IT companies. Almost overnight, the scenario was one of lower IT spending by US companies, longer time to finalize deals, companies adopting the wait and watch policy, stringent visa norms, fear amongst professionals to travel to countries involved in the war and a sudden dip in the interest in IT training.

This uncertainty thrust on us had to be managed and the steps necessary to meet this crisis had to be taken. In such testing times, we at SQL Star concentrated on consolidating our existing operations. Individual and organizational productivity were emphasised. Manpower resourcing and recruitment are now specific timed according to project requirements.

Even though the turnover during the year 2001 has increased to Rs. 47.36 crores, against the previous year's Rs. 45.99 crores, the profit margins have been severely eroded, resulting in net profit of Rs.28 lakhs only compared to Rs.4.14 crores during the previous year. As stated earlier, a concerted effort has been made by the company for consolidation of its operations and costs.

In Software Services, efforts are being made to explore other geographical markets to reduce dependence on the US market. The domestic market is also being targeted very seriously. In education services, we have strategically focused on the growing segment of eLearning solutions. eLearning is fast emerging as the most important development in training. Realizing its potential and with a view to position SQL as a key player in this segment in the days to come, we are focussing on both the B2B and B2C segments. Recently we have launched our online education portal www.SQLeCenter.com that offers a range of IT and non-IT courses.

I am glad to share with you that the Rights Issue offer made by your company was oversubscribed to the tune of 133.07% of the offer made.

This essentially reflects the confidence placed in the company by all of you. I would like to thank all our shareholders, business partners, financial institutions and employees for their unstinted support.

With best wishes

Ramaswamy P. Aiyar
Chairman

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Directors' Report

To the members of SQL Star International Limited

Your directors have pleasure in presenting the 15th Annual Report of the company, together with the Audited Balance Sheet, Profit & Loss Account, Cash Flow Statement for the year ended December 31, 2001.

INDUSTRY OVERVIEW

According to an IMF release the global economy has avoided recession and is now all set for recovery. NASSCOM also is projecting that the year 2002 is going to be a year of stability for Indian IT companies. Notwithstanding the general global slowdown, India's software exports are likely to register a robust growth rate of over 30% during the current fiscal as informed recently by the Minister of Communications and Information Technology. Thus the future seems to be positive and from the year 2002 onwards the market should improve.

PERFORMANCE

During the year under review, subsequent to the various adverse happenings like dotcom bust, US and world economic slowdown, September 11 attacks and then the attack on Indian Parliament, the industrial sector as a whole has been badly hit, worst being the IT industry. Initially though it was expected to be a rough phase for just a couple of months, but it went on because of the various happenings. In such challenging times though your company has also been affected, we have tried to focus on consolidating our operations.

In software services, major efforts have been put in to expand marketing efforts and explore other geographical areas like Europe and Mid East. Significant focus is going towards domestic market as most of the states are rapidly introducing Information Technology in various activities.

The IT training industry has also been severely affected as a fall out of last year's events. Our efforts have been to sustain the current activities and explore additional opportunities to balance the risk. E-Learning is fast emerging as the in-thing in the training segment. Realizing its potential and with a view of being one of the key players in this segment in the days to come, we are laying due focus on both B2B and B2C segments. We have also launched our online education portal which offers a range of IT and non-IT courses.

The state-of-the-art software development center at Infocity, Hyderabad has become fully functional since April 2001.

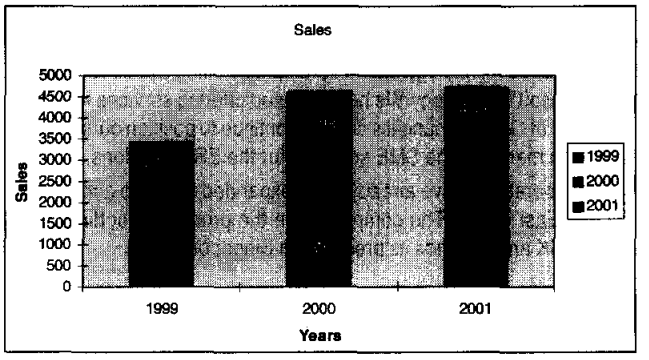
FINANCIAL PERFORMANCE

Even though the total income of your company has increased to Rs.47.36 crores during the current year from Rs.45.98 crores of the previous year, the Net Profit after tax has been severely affected and is Rs.0.28 crores in comparison to the previous year's Rs.4.14 crores. The break-up of income between software and education division was 65% and 35% as against 67% and 33% respectively in the previous year.

The profit margins have been low due to increased cost of infrastructure, marketing and also declining billing rates. All out efforts have been made to consolidate the cost structure of the company.

Financial Summary

The company's year-wise Sales are as shown in the chart given below.



FINANCIAL HIGHLIGHTS

Financial Results

(Rs. in lakhs)

	Year ended 31.12.2001	Year ended 31.12.2000
Total income	4736.25	4598.88
Profit before interest, depreciation & tax	406.73	709.52
Finance charges	124.76	74.64
Depreciation	181.58	163.78
Tax Paid	70.42	57.24
Profit after tax	29.97	413.86
Tax for earlier year	1.47	—
Profit and Loss balance brought forward	875.63	588.48
Total Profit available for appropriation	904.13	1002.34
Proposed Dividend & Dividend tax/ Dividend Tax Reverse	-12.26	126.71
Profit & Loss balance carried over to Balance Sheet	916.39	875.63

DIVIDEND

Directors regret their inability to recommend any dividend for the year ended December 31, 2001, due to inadequacy of profits and liquidity crunch faced by the company.

FUTURE PLANS

Keeping in view the status of the world economy and its effect on the Information Technology Industry, the following plans have been drawn up for its two divisions:

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Software Services

In the area of Software services, the critical activity has become to generate business from the US market using its wholly owned subsidiary in the US. It has also become imperative for your company to explore other markets in Europe, Middle East and Singapore to ensure that there is no over dependence on the US market. Main thrust of the company continues to be technology-based development using Oracle Technology and Microsoft Technology. We have initiated offering services for implementation of Oracle Financials and will continue to position ourselves for the Indian market in the SME segment for the ERP solutions.

The US operations have already been expanded to set up a marketing office in East Coast. The company is in the process of setting up its office in UK and expands its presence in Singapore also.

Education Division

Looking at the future scenario and the worldwide projections of the education & training markets, your company has positioned itself as a Learning Solutions Company. Thus, in addition to offering the traditional Instructor Led Training programs in identified areas like Oracle and Microsoft, your company has positioned itself into the e-learning area. The relationship with NETg, a global leader in e-learning content, based in USA, is continuing. In addition to providing IT contents of NETg, your company has also positioned itself in developing custom based solutions in e-learning for various corporate organizations. We expect that the initiation in e-learning will help the company to position itself as a leader in this area in the future.

HUMAN RESOURCES

In the area of Human Resources, last year has been a real challenge. The main emphasis has gone towards individual and organizational productivity and moving towards a lean and thin work force. All recruitments have been time bound and linked to specific project requirements only and the compensation has also been linked to individual and organizational performance. The current ESOP programme is continuing and additional incentives including performance-based rewards have also been introduced.

There has been no material development in the area of human resources and industrial relations remain good during the year. However, due to market condition, the employee strength has come down to 336 as on December 31, 2001 from 524 as on December 31, 2000.

INFRASTRUCTURE

The state-of-the-art Software Development Centre with nearly 75,000 sq.ft. area at the Info City at Hyderabad has become operational from April 2001.

QUALITY INITIATIVES

Your company has implemented and sustained its beliefs in Quality management and philosophy. The software division has been one of the few companies to be awarded ISO 9001-2000 certification, for both of its development centers at Delhi and Hyderabad. Education division has received certification of ISO 9001 for its Hyderabad and Delhi centers.

Your company has drawn up plans to move towards a level 4 certification of SEI CMM by the Year 2002 for its software division.

EMPLOYEES STOCK OPTION PLAN (ESOP)

The company has created an Employees Welfare Trust ("Trust") called "SQL ESOP Trust" to implement the Employees Stock Option Plan and allotted 4 lakh Equity shares to the Trust on 4th December 1998.

The Trust holds the shares for and on behalf of the eligible employees and to offer the same to the eligible employees, subject to the terms and conditions of the Employees Stock Option Scheme. The company has appointed an Advisory Committee to identify eligible employees for issue of equity shares.

Based on the Employees Stock Option Scheme stock options were offered to existing employees of the company and also to the new joinees in selected categories within the terms of offer of the scheme based on performance, thereby, ensuring better retention and performance of desired categories.

MATERIAL CHANGES AFTER THE DATE OF BALANCE SHEET

There has been no material change in the performance of the Company during the current year commencing from 1st January 2002.

Foreign Exchange Earnings and Outgo

(Rs. In Lakhs)

	2001	2000
Earning by way of Professional & Service Charges	2752.13	2784.39
Expenditure in Foreign Exchange	2052.51	1635.20

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is given in Annexure – A which forms part of this report.

SUBSIDIARY COMPANIES

The statement pursuant to Section 212 of the Companies Act, 1956 is annexed to the Annual Accounts of the company togetherwith the Annual Accounts of the wholly owned subsidiaries (WOS) of the Company, International SQL Star Pte. Ltd., Singapore and SQL Star International Inc., USA.

- **International SQL Star Pte. Ltd.**, Singapore reported a profit of S$ 21,739 for the financial year ended 31st December 2001 as compared to a loss of S$ 96,910 in the previous year. Though economic recession in the entire South Asia Pacific region further deepened as a consequence of the world economic slow down. The company has intensified its marketing efforts in this region. The expenses incurred on account of expansion to cater to requirements of additional business have started showing results and there is a profit in business for the Singapore subsidiary. We are continuing our strong relationship with Hewlett Packard and Oracle Corporation.
- **SQL Star International Inc., U.S.A.** reported a loss of US$ 5,27,651 for the financial year ended 31st December, 2001 (as

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