

ANNUAL REPORT 2003 - 2004



CONTENTS

Board of Directors	3
Notice & Explanatory Statement	4-5
Directors' Report with Annexures	6-10
Corporate Governance Report & Auditors Certification thereon	11-13
Auditors' Report	14-15
Balance Sheet	16
Profit & Loss Account	17
Schedules Forming Part of Accounts	18-29
Balance Sheet Abstract	30
Cash Flow Statement & Reconciliation	31
Statement of Interest in Subsidiaries	32
Consolidated Financial Statements	33-43
Subsidiaries Financial Statements	44-60
Shareholders' Information	61-62

Registered Office
Software Technology
Group International Limited
F-35, South Extension-I,
New Delhi-110 049
Phone : (011) 24656925
Fax:(011) 24649563

**Company Secretary &
Compliance Officer**

MR. RAJEEV SINGAL

Auditors of the Company
Jain Singhal and Associates,
Chartered Accountants,
E-169, Masjid Moth,
Greater Kailash-III,
New Delhi-110 048

Bankers to the Company
The Jammu & Kashmir Bank Ltd.

G-40, Connaught Circus,
New Delhi-110001
Phone : 23352098, 51516126

HDFC Bank

C-5 Commercial Complex,
SDA, New Delhi-110 016
Phone : (011) 2652 6750/51/52

Standard Chartered Bank

M-1, South Extension-II,
New Delhi-110 049
Phone : (011) 51644862/63/64



BOARD OF DIRECTORS

SHRI YOGESH VAIDYA	—	<i>Chairman & Chief Executive Officer</i>
DR. RAJAN SAXENA	—	<i>Director</i>
DR. S.M. PATHAK	—	<i>Director</i>
SHRI P.N. JAIN	—	<i>Director</i>
DR. M.C. VAIDYA	—	<i>Director</i>
DR. S.P. SHRIVASTAVA	—	<i>Director</i>

committees in pursuance of corporate governance

<u>Remuneration Committee</u>	<u>Compensation Committee</u>	<u>Investment Committee</u>	<u>Audit Committee</u>	<u>Shareholders/Investors Grievance Committee</u>	<u>Share Transfer Committee</u>
Shri P.N. Jain Dr. Rajan Saxena Dr. S.M. Pathak	Shri Yogesh Vaidya Dr. Rajan Saxena Dr S.M. Pathak Shri. P.N. Jain	Shri Yogesh Vaidya Dr. Rajan Saxena	Dr. Rajan Saxena Dr. S.M. Pathak Shri P.N. Jain Dr. S.P. Shrivastava	Dr. S.M. Pathak Shri P.N. Jain Dr. M.C. Vaidya	Shri P.N. Jain Dr. M.C. Vaidya Dr. S.P. Shrivastava

NOTICE

Notice is hereby given that the Twelfth Annual General Meeting of the members of the Company will be held on Tuesday, the 28th December, 2004 at 9.30 A.M at Shah Auditorium, 2, Gujarati Samaj Marg, Civil Lines, Delhi-110054 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 30th June, 2004 and the Profit and Loss Account of the company for the period ended on that date together with the Reports of the Directors' and Auditors thereon.
2. To appoint a Director in place of Dr.S.M Pathak , who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint Auditors and to fix their remuneration and to pass, with or without modification, the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT M/s Jain Singhal & Associates, Chartered Accountants, New Delhi, Company's retiring Auditors, being eligible and offering themselves for reappointment, be and are hereby reappointed as Auditors of the Company to hold the office until the conclusion of the next Annual General Meeting on the remuneration as may be decided by the Board of Directors of the company along with permissible travelling and out of pocket expenses."

SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modification(s) the following resolution as:

4. An Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956 Dr. S.P Shrivastava, appointed as Additional Director and who under Section 260 of the Act, *ibid*, holds office only up to the date of this Annual General Meeting and being eligible, offers himself for appointment and in respect of whom, the Company has received notices in writing from some members signifying their intention to propose the candidature of Dr. S.P Shrivastava for the office of Director, be and is hereby appointed as a Director of the Company liable to retire by rotation."

By order of the Board
For Software Technology Group International Limited

Place: New Delhi
Date: 21st October, 2004

RAJEEV SINGAL
Company Secretary

NOTES

1. The relative Explanatory Statement pursuant to section 173 (2) of the Companies Act, 1956, in respect of the business under item 4 as 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 be closed from 21st December, 2004 to 28th December, 2004, both days inclusive.**
4. As per amended provisions of the Companies Act, 1956, facility for making nominations is now available for shareholders in respect of shares held by them. Nomination forms can be obtained from Registrars of the company namely: M/s Karvy Computershare Pvt. Limited.
5. Members seeking any information with regard to accounts or operations 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 Computershare Pvt. Limited*, Unit: Software Technology Group International Limited, Karvy House, 46, Avenue 4, Street No.1 Banjara Hills, Hyderabad -500 034 about the changes, if any, in there registered addresses along with the PIN Code number and quoting their folio number. All correspondence relating to transfer of shares may be sent directly to the aforesaid Transfer Agents of the Company.
7. 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, Sundays & holidays between 11.00 A.M and 1.00 P.M up to the date of the Annual General Meeting.
8. Members are requested to bring their copies of the Annual Report to the Meeting.
9. Shareholders/ Proxy Holders are requested to produce at the entrance, the attached Attendance Slip duly completed and signed as per Specimen Signatures recorded with the Company for admission to the Meeting Hall.
10. Members, who are holding shares in identical names in more than one folio, are hereby requested to write to the Company Secretary or Registrar enclosing their Share Certificates to enable the company to consolidate their holdings.
11. Pursuant to provisions of Section 205(c) of Companies Act, 1956 the amount of dividend remaining unclaimed for a period of 7 years from the date of payment shall be transferred to the Investor Education & Protection Fund. The aforesaid dividend once transferred to Investor Education & Protection Fund will



not be refundable to any shareholder. Hence, shareholders who have not claimed their dividend are requested to claim the same from the company before it falls due for transfer to aforesaid fund.

12. ADDITIONAL INFORMATION AS PER CLAUSE 49 OF THE LISTING AGREEMENT:

Brief Profile of Dr.S.M Pathak , Director, recommended for reappointment:

Dr. Pathak, aged 74 years is M.S.C. (ag) with specialization in Economics & Marketing and Ph.D. from Cornell University, USA with specialization in Management Techniques, Production Economics, Marketing Research & Development. He has over 30 years experience which includes 22 years in banking industry in senior capacity to the level of General Manager. Prior to that, he served central and state governments as Joint Economic Advisor for 8 years. He has also served as short-term consultant in Asian Development Bank, Manila and World Bank in the field of financial analysis and development credit covering various countries.

The Directors are of the opinion that Dr. Pathak's knowledge and vast experience in the industry particularly in banking industry will be of immense benefit to the company.

As Dr. Pathak does not hold Directorship in any other company; therefore, he may be in a position to provide complete guidance in the policy formulation, management, financial matters etc. to the company at all times.

He is also Chairman of Shareholders' / Investors' Grievance Committee and Member of Audit Committee, Compensation Committee and Remuneration Committee of your company.

By order of the Board

For Software Technology Group International Limited

Place: New Delhi

Date: 21st October, 2004

RAJEEV SINGAL
Company Secretary

EXPLANATORY STATEMENT

As required by Section 173(2) of the companies Act, 1956, the following Explanatory Statement sets out the material facts relating to business item no. 4 of the accompanying Notice dated 21st October, 2004.

ITEM No.4

The Board of Directors of your company at its meeting held on 28th January, 2004 has appointed Dr. S.P Shrivastava as Additional Director pursuant to the provisions contained in the Articles of Association and Section 260 of the Companies Act, 1956.

Dr.S.P Shrivastava, aged 64 years is Post Graduate from I.I.T Kharagpur and is Ph.D from University of Roorkee. He was offered a Netherlands Govt. fellowship for postgraduate studies in the university of Delft, Netherland in 1967. He worked as Scientist in Central Building Research Institute and Asst. Director with Govt. of India in CWPC Department. He was one of the founder promoter of Unitech Limited, one of the leading construction company besides being the Director on the Board of various leading Companies. He has been instrumental in establishing a number of joint ventures with various international Companies of repute and has also organised a charitable trust, which provides education and healthcare to rural population. He holds a wide and varied experience of over four decades in allied services sector connected with Organisation & Management of Education and Charitable Institution, Office organization and Corporations.

He will be holding office as Director only up to the date of this Annual General Meeting. As required under Section 257 of the Act, *ibid*, notices have been received from members signifying their intention to propose Dr. Shrivastava as a candidate for the office of Director. The Directors are of the opinion that Dr. Shrivastava's knowledge and rich experience in the industry will be of immense benefit to the company. The Board, therefore, recommends the acceptance of the resolution.

Dr. Shrivastava is also on the Board of RHW Hotel Management Services Ltd, Unimet Profiles Pvt. Ltd, Calyx Exports Pvt. Ltd., Mediasoft Solutions Pvt. Ltd, iitSoft Pvt. Ltd & Iterate India Pvt. Ltd. and is member of Audit and Share Transfer Committee of your Company.

None of the Directors other than Dr. Shrivastava is concerned or interested in the proposed appointment.

By order of the Board

For Software Technology Group International Limited

Place: New Delhi

Date: 21st October, 2004

RAJEEV SINGAL
Company Secretary

DIRECTORS' REPORT

Your Directors are pleased to present the Annual Report of the Company together with the Audited Statements of Accounts for the year ended June 30, 2004.

FINANCIAL RESULTS

(Rs. in Lacs)

Particulars	Year Ended June 30, 2004	Year Ended June 30, 2003
Operating Income	1131.35	1397.05
Gross Profit after Interest but before Depreciation & Tax.	(129.75)	(323.46)
Less : Depreciation	160.96	194.80
Provision for Taxation	(153.82)	(217.25)
Net Profit / (loss) before Extra-Ordinary items	(136.89)	(301.01)
Less : Extra Ordinary items	133.97	313.04
Net Profit / (loss) after Extra Ordinary items	(270.86)	(614.05)

REVIEW OF OPERATIONS

The Board of Directors are pleased to report that your company is on the path to recovery after an unprecedented and long recessionary period as inspite of continuing global economic slowdown with sluggishness and depressed scenario in domestic economy, your company has succeeded in containing the losses to Rs. 270.86 Lacs as against Rs. 614.05 Lacs of previous corresponding year. Further, the pressure on billing rates, competition from unbranded players having the advantage of low cost of operation and extraordinary provisioning for writing off a sum of Rs. 133.97 Lacs relating to unrealised sales of previous periods contributed to the losses. The aforesaid provisioning is essential for the good health of the financial system as well as compliance with requirements of full disclosure & prudent and conservative accounting policies.

In view of absence of profits for the period under review, your Directors are unable to recommend any dividend. Pursuant to provisions of Section 217(1)(d) of the Companies Act, 1956, there has been no material change and commitment affecting the financial position of the Company, between the end of the financial year of the company to which the balance sheet relates and the date of this report.

FINANCE

Your company has been continuing with the necessary working capital facilities viz. Cash Credit, Working Capital Term Loan and Bank Guarantee to the tune of Rs. 200 Lacs, Rs 250 Lacs and Rs. 35 Lacs respectively with the Jammu and Kashmir Bank, which were modified and renewed during the year and has been regular in repayment etc. However, the company's focus will be on to meet most of the requirements through internal cash generation, besides to strive for reduction in the cost of borrowing in significant manner.

COST CONTROL INITIATIVES

As indicated in the last year's report, your company continues to focus on cost reduction, procurement of materials at competitive prices, reinforcement of financial discipline and adequate control on overhead costs on continuous basis. As a result of these measures, the total expenditure was trimmed to Rs. 1218.84 Lacs compared with Rs. 1651.59 Lacs of previous corresponding year. Your Company has also shifted the Registered Office with in NCRT of Delhi and Corporate Office to Gurgaon to observe the economy in operations. All these initiatives for cost control and efficiency enhancement are expected to lead to improvement and consolidation in all segments of the business in future also.

NEW PROJECTS / PRODUCTS

Given the negative impact that the slowdown has had on the training business, your company has adopted the strategy of tapping markets where students are - State level colleges and schools across the country.

We are pleased to inform you that this strategy has been successful and your company has bagged a prestigious order titled "Himachal School Project", wherein your company will provide IT Education to 234 schools for a period of 3 years. This project would cover the students from class IX to class XII.

As part of your company's strategy of focusing on current and emerging technologies the company has tied up with EC-Council to provide specialized course on "Ethical Hacking", which is probably one of its kind in the Indian Industry. EC-Council provides professional certification and facilitates peer interaction to build and enhance the knowledge, skill and professional growth of its members. EC-Council offers several options for aspiring and practicing Electronic Commerce professionals to internalize and draw on skills identified as essential web industry standard for Electronic Commerce.

INFRASTRUCTURE

With a view to observe economy in operations and at the same time provide for future horizontal expansion, your company has shifted its corporate office to a 11,000 Square feet premises in Gurgaon, which has grown extensively during the last decade, becoming an IT hub. It offers several advantages like a strategic geographical location, with its proximity to Delhi, access to urban environment, good telecommunication, quality workforce etc.

We are pleased to inform that your company has set up another state of the art training center at Indira Nagar - Bangalore, to cater to the current market needs. Further, in view of market potential for Company's training courses, capacity expansion has been carried out at Chennai center.

Moreover, Your Company has already set up a modern, state of art offshore software development center, which is fully operational and is equipped to have Software professionals to support the offshore development needs of international clients.

EMPLOYEE STOCK OPTION PLAN

The Employee Stock Option Plan (ESOP) was introduced and implemented initially in August, 1999 through "STG-ESOP Welfare Trust" to enable the employees of the company to participate in future growth and success of the company. The company introduced fresh ESOP 2002-IInd phase by offering fresh options on the terms and conditions as depicted and approved by Members at their 10th Annual General Meeting, which shall be administrated within the statutory norms by the compensation committee comprising of majority of independent directors through "STG-ESOP Welfare Trust" who will



implement the same either with new shares or acquiring the same from open market or with the combination of both. The Compensation Committee had offered 4,02,500 Options at a price as per pricing formula to various senior employees of the company and modified the vesting schedule at a rate of 25% each on completion of 12,24,36 and 48 months respectively from the date of grant of options.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the listing agreement with Stock Exchanges, a report on Corporate Governance along with auditors' certificate of its compliance is included as part of this annual report.

CONSOLIDATED FINANCIAL STATEMENTS

As required under clause 32 of listing agreement with Stock Exchanges and new accounting standards, the audited consolidated financial statements are being published and forms part of this annual report.

MANAGEMENT DISCUSSION & ANALYSIS

Management Discussion & Analysis Report pursuant to clause 49 of the listing agreement is as under:

Industry Structure & Developments:

The Indian IT training market was adversely impacted by the global economic slowdown and jobs cuts within the IT sector; whereas IT software and service sector had a mixed year. However, since the beginning of this fiscal, global Technology spending seems to be on the up trend after the couple of years of slowdown. With a view to further cut down on costs and improve the profitability, more thrust has been laid on off shoring and it has been gaining acceptance from increasing number of enterprises. Alongside the large and established enterprises that have chosen to focus on off shoring as a strategic thrust, medium size enterprises are beginning to look at this as a strategic initiative. While India is seen as an undisputed leader, other countries are being evaluated as alternatives from a long-term point of view.

After the pressure that Indian IT companies witnessed on the billing rates front owing to slowdown in US economy and thus less spending towards fresh technology implementation, the current fiscal is likely to witness stabilizing of billing rates and improved volume growth. The feel good factor was evident across the board and the country's foreign exchange reserve reportedly touched an all time high.

Recent months witnessed stabilizing of billing rates and improved volume growth. A recent study conducted by NASSCOM (available at their website) indicates that despite the availability of training manpower, a demand supply gap still exists in the IT manpower market. If India's IT software and services sector is to achieve an annual revenue of US\$ 70-80 billion in 2008, it will have to educate at least 2 million additional knowledge workers over the next 8 years. Though the quantity of workers is important, it is the quality of this knowledge base that will ultimately play a crucial role in deciding the fate of the IT industry in India.

The fortunes of the Indian training industry dropped for the third year in a row. However, the drop of 13% is much lower than the 23% decline of 2002-2003. The year 2003-2004 was a year of consolidation for the training industry. Training companies across the spectrum tried in their own ways to spur growth.

Opportunities & Threats:

In the software services business, Indian companies historically had a cost advantage over their western counterparts due to availability of cheaper manpower. Many top rung IT service providers have now started exploring the possibility of getting the work done in India and

have started offshore development centers. Further, IT enabled services (ITES), Call Center & Business Process Outsourcing (BPO), Institution Training; Strategic alliances etc. are some of the growth areas, which your company has been pursuing on continuous basis. ITES is a long-term strategy and IT service companies enjoy a number of synergies between their BPO operations and IT service offerings. The increased public sector spending on IT and IT Training and core banking solutions augur well for the company as it is actively pursuing these growth areas. IT consulting is another area of strength where the company is putting its major thrust; Margins are on higher side in consulting domain, especially since such projects are mission-critical in nature. Moreover, Indian outsourcing story is now being strongly recognized by global enterprises across the board seriously considering offshore outsourcing from India, which provides immense potential as India's market share of global technology marketplace continues to remain miniscule at mere 1.8%.

On the other side, while Indian software companies are increasingly facing competition from global MNCs who are replicating the Indian offshore model, the need of the hour for these Indian companies is to rapidly move up the software value chain. For Indian IT software industry, one of the biggest concerns in the medium term is the outsourcing backlash in the US. However, to grow in the long term, scalability and quality offering would be the key. High competition resulting into high attrition, pressure on margins due to rise in employee expenses without consequent rise in anticipated revenues etc. are some of the other concerns.

Segmentwise performance:

Segment wise revenue, results and capitals employed are provided in notes on accounts forming part of the Annual Report.

Outlook & Future prospects:

With Indian vendors widening their service offerings to keep pace with changing customer demand, a research report has estimated a 38% two year compounded annual growth (CAGR) in Indian IT services exports to \$23 billion in financial year 2006, which is likely to expand market share of Indian vendors in the global market. IT service industry has been transformed with customers focusing on return on investment (ROI), since the bursting of the technology bubble in 2000-01. This focus has resulted in enhanced demand for integrated end to end services, value based pricing models, competitive global delivery and domain focused solutions. As demand picks up and western system integrators (SI) set up in India, supply constraints are surfacing. Increasing competition and pressure on billing rates are among the key reasons forcing the Indian software industry to make a fast move up the software value chain and expending their service offering to include IT consulting, systems integration and technology infrastructure management to provide high value services to its clients, thereby to increase customer wallet share. On the demand side, IT consulting had become more an upfront activity rather than a standalone offering; customers were looking at IT sourcing as part of long term business strategy; and the IT demand was picking up, led by macro-economic recovery. A number of players are entering the ITES segment to provide solutions in areas of customer care and telemarketing to domestic companies. This is likely to drive demand for services from this segment. Also the Indian Corporate sector, going forward is likely to make investments in areas of CRM, SCM and ERP in order to become more efficient.

STG has continued its focus on providing quality IT training and is one of the strongest brands in IT education industry. It has been honored by Microsoft with the award "Best training service provider on .NET

technology." Also it has been honored by Red Hat for the "Highest numbers of enrollments on Red Hat standard courses in India".

Further, education business is poised for a growth in 2004-2005 as government and institutional training market is expected to increase, while enrollment in individual students segment is also expected to rise on the back of recovery in the US market. With people increasingly realizing that global exposure is vital for a successful career, more and more students are opting for globally recognized certifications from technology vendors such as Oracle, Microsoft, Red Hat, Cisco, Sun etc. Other than these certifications, software skills in vogue are Microsoft. Net, Oracle 9i, SQL server 2000, Linux and web based applications.

With nationwide presence of training centers, your company is well equipped to encash this opportunity.

On the consulting front, the long-term association with Infosys along with the major thrust for quality, efficiency and cost effectiveness has given us a confidence to get a substantial business in future also. It is gratifying that your company has successfully implemented Infosys's flagship banking product "Finacle" in over 100 branches of a leading nationalized bank.

Your company has been honored by Infosys with the partner excellence award for "Best rollover support" and "Customer delight". The high quality performance in terms of quality, efficiency and cost effectiveness ensured that STG continues to get further orders from the major nationalized banks of India.

The success of "Finacle" in the Indian banking industry implies that STG has got very good future prospects in the field of Banking & Financial Services Industry (BFSI), system integration (SI) and Enterprise wide application integration (EAI). Integration, put simply, is a combination of processes, software standards and hardware resulting in the seamless integration of two or more enterprises systems (CRM, SCM etc.) allowing them to operate as one. This involves implementation of technology to enable dissimilar systems to share data effectively. Further, negotiations are under way for offering services for outsourcing software consulting, which are likely to be materialized soon.

Moreover, the company's foray into strategic tie-ups and new business areas is expected to improve its position. The company's strategy to improve its performance includes:

- Concentrating on niche segments like Telecom, Banking and Financial services (BFSI) and insurance segments, which accounts for a major portion of total IT services exports.
- Focus towards newer service areas like IT consulting, Package Implementation, Enterprise wide Application Integration (EAI), etc.
- Focus on information technology enabled services (ITES) through BPO Segment.
- Launch of new lines of highly specialized programs in IT education to cater the need of new verticals.
- Renewed focus on corporate / institutional training market and online education.
- Increased thrust on software business and international operations through strategic tie-ups etc.
- Focus on maintaining profitability and cash flow positive business.

- Improvement in cost structure by observing economy in operations.
- Consolidation of operations by focusing on medium and large customers.
- Expanding the existing franchisee network.

With these steps and new projects launched during the year, your company is likely to surge ahead in future.

Risks & Concerns:

Among serious concerns the replication of the Indian off shoring model by the global tech biggies, high competition resulting into high attrition, high reliance on US markets, small size thus volatile revenue streams, intense competition from small unorganised players in the Industry, continuing pressure on billing rates, client concentration, rising overheads, change in government policies, foreign exchange fluctuation may affect the IT Industry in general, which may have impact on company's operations.

An integrated approach to risk management will form an important element of company's overall business strategy.

Internal Control Systems and their adequacy:

Your company continues to place considerable emphasis and efforts on the internal control systems. It has a proper and adequate system of internal controls commensurate with its size and nature of business to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that transactions are authorised, recorded and reported correctly. Management continuously reviews the Internal Control Systems and procedures to ensure orderly efficient conduct of business.

An extensive program of internal audit supplements the internal control and reviewed by management based on documented policies, guidelines and procedures. The internal control is designed to ensure that the financial and other records are in order for preparing financial statements and other data and for maintaining accountability of assets. Internal Audit reports have been placed before the Audit Committee at regular intervals for its review.

Human Resources Development:

Your company operates in a knowledge intensive industry and considers its employees as its one of the most valuable asset and lays great emphasis on nurturing an organisational culture that creates job satisfaction and performance oriented environment. The staff of your company, at all levels, contributed, significantly in pegging the overheads at the lowest possible levels, without compromising on the quality and efficiency of deliverables, which act in unison is, highly appreciated. The company for their benefit has initiated various employees benefit measures including implementation of Employee Stock Option Plan.

The Company believes in nurturing young talents through its people interventions and management-training schemes, which strives to develop business managers of tomorrow.

It has restructured internally its organisation levels with a view to maintain individual and organisational productivity at the optimum with minimum possible workforce. The total employee strength was increased to 266 against 248 in previous corresponding period in order to enable the company to build up its resources & expertise in banking vertical.

There has been no other material development in this area and industrial relations remain good during the year.



FIXED DEPOSITS

The Company has not accepted any deposit from the public, and as such there are no outstanding deposits in terms of Companies (Acceptance of Deposits) Rules, 1975.

OVERSEAS SUBSIDIARIES

In view of the prevailing slow down in information technology and related services, your company has decided to suspend operations in its New Jersey office and closed operations at Australia office for the time being. Pursuant to Section 212 of the Companies Act, 1956 the financial statements with value in Indian Rupees and other related documents of company's three subsidiaries namely STG Australia Pty. Ltd., Sydney, Software Technology Group International Inc., New Jersey and Software Technology Group Inc., San Jose, California, USA are annexed with the Annual Accounts of your company.

STOCK EXCHANGES

The equity shares of your company are listed with Delhi Stock Exchange, The Stock Exchange, Mumbai and The National Stock Exchange of India Limited. Your company is regular in paying listing fees in each of the Stock Exchanges. With effect from July 24, 2000 trading in equity shares of the company at the Stock Exchanges are permitted only in Dematerialized form. The Company's shares are available for trading in the depository systems, of both the National Securities Depository Services (India) Limited (NSDL) and Central Depository Services (India) Limited (CDSL). As on date 74,68,693 Equity Shares of the company, constituting 59.74% of the share capital of the company are dematerialized.

DIRECTORS' RESPONSIBILITY STATEMENT

In terms of provisions of Section 217 (2AA) of the Companies Act, 1956 your Directors confirm as under:

- i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) That the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of financial period and of profit or loss of the company for that period;
- iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
- iv) That the directors had prepared the annual accounts on a "going concern basis".

DIRECTORATE

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Dr. S.M Pathak, Director, retires by rotation and being eligible, offers himself for re-appointment. Shri P.N Jain retires by rotation and is not willing to seek reappointment. Accordingly, he ceases to be Director at the ensuing Annual General Meeting. The Board places on record its appreciation for the valuable services rendered by Shri Jain during his tenure as Director.

Dr. S. P Shrivastava was inducted on the Board as "Additional Director" effective from 28th January, 2004. Accordingly, he holds office upto the following Annual General Meeting and is eligible for

reappointment. The company has received notices from some members proposing his candidature for being appointed as Director of the company. Necessary resolution for confirmation of his appointment is proposed and incorporated in the notice of the Annual General Meeting. Your directors are confident that with his association, vast knowledge and managerial expertise, your company would be benefited immensely.

The information on the particulars of Directors eligible for reappointment in terms of clause 49 of the listing agreement has been provided in notes and explanatory statement of notice convening the Annual General Meeting.

AUDITORS & AUDITORS' REPORT

M/s Jain Singhal & Associates, Chartered Accountants, the retiring Auditors of the Company who hold office until conclusion of the Annual General Meeting, being eligible, offer themselves for re-appointment. The Company has received a certificate from them that their re-appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956.

Regarding auditors' observation on annual accounts, the Board of Directors wish to state that RBI vide its letter No. FE.CO. OID.1165/19.19.305/2004-2005 dated 6th October, 2004 has approved the closure and write off of equity investment of US \$ 299000 by the company in its Australian subsidiary.

Regarding non-realisation of convertible foreign exchange during year 2001-02, the concerned company has gone into liquidation and for writing off Bad debts for the year 2000-01, the matter has been taken up with statutory authorities. However, as all these are for the previous years, there will not be any significant impact on the financial results of the current reporting year.

PARTICULARS OF EMPLOYEES

During the year, there was no employee in the company drawing remuneration beyond ceiling limits whose particulars are required to be disclosed in terms of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars required to be furnished under Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars of Board of Directors) Rules, 1988 are set out in Annexure 'A', which forms an integral part of the Report.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the contributions made by the employees at all levels, whose continued commitment and dedication helped the Company in its operations in these trying times.

Your Directors would also like to take this opportunity to express their gratitude for the co-operation and support from its Bankers viz. The Jammu & Kashmir Bank Limited, STPI, State and Central Govt. agencies, the Reserve Bank of India and other statutory bodies and look forward to their continued support in the future also.

Last but not the least, we sincerely thank our shareholders for their constant support and co-operation in the difficult times.

For and on behalf of the Board.

Place: New Delhi
Date: 21st October, 2004

YOGESH VAIDYA
CHAIRMAN & CEO

ANNEXURE "A" TO THE DIRECTORS' REPORT

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

A. Conservation of Energy

Although the operations of company are not energy intensive, Energy conservation has always been given focus from point of view of cost control. Adequate Measures have been taken to conserve and optimize the use of energy by using Energy efficient computers and equipment with latest technologies.

B. Technology Absorption, Research and Development (R&D)

Your company continuously develops and adopts new technologies to aid efficient management of its resources. It has various renowned strategic alliance partners and is continuously adapting the technology through these partners. In past, it has announced the launch of eSTG. Net, the latest course based on Microsoft's .Net Technology. Further, a program on Advanced Diploma in Bioinformatics was also launched to cater the needs of several fast emerging industries such as geonomics, pharma, agro and biotechnology.

Research & Development continues to be given high priority. The company deploys its resources from time to time enabling to keep abreast of continuously changing technology. The company is also undertaking research in Software Engineering Technology, use of productivity enhancement tools and test automation. These will lead to better quality and higher productivity.

C. Foreign Exchange Earning and Outgo

Efforts continue to enlarge the product range and geographical reach on export market in order to maximize foreign exchange inflow and every effort is being made to minimise the foreign exchange outflow.

Total Foreign Exchange Earnings on accrual basis during the year are Rs. 1,77,97,508.83 against Rs. 2,25,687.12 of previous year.

Total Foreign exchange Outgo on accrual basis during the year amounted to Rs. 43,74,729.50 against Rs. 84,36,309.29 of previous year.

For and on behalf of the Board.

Place: New Delhi
Dated: 21st October, 2004

YOGESH VAIDYA
CHAIRMAN & CEO