



2006-07



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Registered Office
Software Technology
Group International Limited
G-31, Cellular House,
Second Floor, Kalkaji,
New Delhi-110019 (India)
Phone : (011) 40560941/42
26479561/63
Fax : (011) 26479561

**Company Secretary &
Compliance Officer**

MR. RAJEEV SINGAL

Auditors of the Company

Jain Singhal and Associates,
Chartered Accountants,
M-6, IInd Floor, M-Block Market
Greater Kailash-II,
New Delhi-110 048

Bankers to the Company
The Jammu & Kashmir Bank

G-40, Connaught Place,
New Delhi-110001
Phone : 23352102, 23350863

HDFC Bank

C-5 /32, SDA,
New Delhi-110 016
Phone : (011) 41514332

**Standard Chartered
Grindlays Bank**

M-1, South Extension-II,
New Delhi-110 049
Phone : (011) 41644863/64



BOARD OF DIRECTORS

SHRI YOGESH VAIDYA — *Chairman & Chief Executive Officer*

DR. RAJAN SAXENA — *Director*

DR. S. M. PATHAK — *Director*

DR. M. C. VAIDYA — *Director*

DR. S. P. SHRIVASTAVA — *Director*

MS. PRASANNA VAIDYA — *Director*

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>
Dr. S. M. Pathak Dr. Rajan Saxena Dr. S. P. Shrivastava	Shri Yogesh Vaidya Dr. Rajan Saxena Dr. S.M. Pathak	Shri Yogesh Vaidya Dr. Rajan Saxena	Dr. Rajan Saxena Dr. S.M. Pathak Dr. S. P. Shrivastava	Dr. S.M. Pathak Dr. S. P. Shrivastava Dr. M. C. Vaidya	Dr. S. P. Shrivastava Dr. M. C. Vaidya

15TH ANNUAL REPORT 2006-2007**NOTICE**

Notice is hereby given that the Fifteenth Annual General Meeting of the members of the Company will be held on Monday, the 31st December, 2007 at 11.30 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 September, 2007 and the Profit and Loss Account of the company for the period ended on that date together with the Reports of the Directors' and Auditor's thereon.
2. To appoint a Director in place of Mr. Yogesh Vaidya, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Dr. S. M. Pathak, who retires by rotation and being eligible, offers himself for reappointment.
4. 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 traveling and out of pocket expenses."

SPECIAL BUSINESS

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

5. A Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 81 (1A) and all other applicable provisions, if any, of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company, the listing agreement entered into by the company with the Stock Exchanges where the shares of the Company are listed and in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI), Foreign Exchange Management Act, 1999 (FEMA) and clarifications thereon issued from time to time and subject to the approval of Reserve Bank of India (RBI) and other concerned authorities, if any, and all such approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them 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 duly authorized committee thereof for the time being exercising the powers conferred on the Board by this Resolution), the consent of the company be and is hereby accorded to

the Board to create, issue/offer and allot 5,00,000 warrants of Rs. 22/- each, with the option to the warrant holders to acquire, for every warrant, one fully paid up equity share of Rs 10/- each at a premium of Rs. 12/- per share on Preferential basis in compliance with all the applicable Laws and in the manner as may be decided by the Board in this behalf and such preferential allotment will be made to the proposed allottees as specified in the explanatory statement on such terms and conditions and in such manner as the Board may deem fit in this behalf and as given below:

- i) The 'Relevant Date' for the preferential issue as per the SEBI (Disclosure and Investor Protection) Guidelines, 2000 as amended up to date for the determination of applicable price for Equity Shares in lieu of the issue of the above mentioned warrants is Saturday, the 1st December, 2007 which is 30 days prior to the date of this Annual General Meeting i.e. 31st December, 2007.
- ii) The amount equivalent to 10% of the total warrant amount payable along with the application will be kept by the Company as a deposit to be adjusted and appropriated against the price of the warrants payable by the warrant holder at the time of exercising the option.
- iii) The option to acquire equity shares may be exercised by the warrant holders at any time before the expiry of 18 months from the date of allotment of warrants. The option to convert warrants into equity shares may be exercised by the allottees in one or more tranches during the period of 18 months from the date of allotment of warrants.
- iv) In the event the warrant holder does not exercise the option given under the warrants within 18 months from the date of allotment of warrants, the warrants shall lapse and the amount of deposit shall stand forfeited by the Company.
- v) The warrants shall be subject to a lock-in-period of one year from the date of allotment pursuant to the SEBI (Disclosure and Investor Protection) Guidelines, 2000 as amended up to date and would continue to be locked in till the exercise of option for conversion / exchange by the warrant holders for equity shares. The lock in on shares acquired on conversion of the warrants shall be reduced to the extent the warrants have already been locked in.
- vi) The issue of the warrants as well as equity shares arising from the exercise of the option given under the warrants shall be governed by the guidelines issued by SEBI or any other statutory authority as the case may be or any modification thereof".

"RESOLVED FURTHER THAT for the purposes giving effect to the above resolution, the Board be and is hereby authorized to do and perform all such acts, deeds and things as it may, in its absolute discretion deem necessary, desirable or appropriate to settle any question, difficulty or doubt that may arise in regard to the issue of warrants as it may think fit and to accept on behalf of the Company such conditions and modifications, if any, relating to the issue of



warrants which may be imposed, required or suggested by any regulatory authority and which the Board in its discretion thinks fit and proper".

"RESOLVED FURTHER THAT to the extent permitted as per the existing provisions of law in this regard all/any Equity Shares and the equity shares resulting from the conversion of the Warrants to be allotted as an outcome of the above mentioned preferential allotments shall rank *pari passu* in all respects with the then existing Equity shares including dividend entitlement".

"RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of the powers to the committee of Directors of the Company to the effect to the aforesaid Resolutions".

"RESOLVED FURTHER THAT the Board be and is hereby authorized to accept any modification (s) to or to modify the terms of issue of the said new warrants subject to the provisions of the Companies Act, 1956 and SEBI Guidelines / Regulations, without being required to seek any further consent or approval of the Company in general meeting".

By order of the Board

For Software Technology Group International Limited

RAJEEV SINGAL
Company Secretary

Place: New Delhi

Date: 1st December, 2007

NOTES

1. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under item 5 as set 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 26th December, 2007 to 31st December, 2007, 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. Pursuant to the provisions of Section 205 A read with Section 205 C of Companies Act, 1956 as amended Dividend, IPO refund amounts etc. which remain unclaimed or unpaid for a period of 7 years are statutorily required to be transferred to Investor Education & Protection Fund account set up by the Central Government.

Accordingly, a sum of Rs. 8,795 (Rupees Eight Thousand Seven Hundred Ninety Five only) standing unclaimed/unpaid in Company's Initial Public Offer (IPO) Refund account and

Rs. 1,20,936/- (Rupees One lac Twenty Thousand Nine Hundred Thirty Six only) standing unclaimed/unpaid in Company's Dividend account have already been transferred to the Investor Education & Protection Fund.

Further, no claim shall lie against the company or the said Fund after the aforesaid transfer of funds to the credit of the Central Government.

6. 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.
7. 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 Registrar & Transfer Agents of the Company.
8. All documents referred to in the accompanying Notice 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.
9. Members are requested to bring their copies of the Annual Report to the Meeting.
10. 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.
11. 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.
12. **ADDITIONAL INFORMATION AS PER CLAUSE 49 OF THE LISTING AGREEMENT:**

Brief Profile of Mr. Yogesh Vaidya, Chairman & CEO, recommended for reappointment

Mr. Yogesh Vaidya, aged 61 years is a BE Electronics from BITS, Pilani and has over 40 years of extensive experience in the IT Industry. He is the main promoter of the company. In 1975, he started the HCL Group with other professional associates. He relocated to California in 1989 to set up the international operations for HCL. During his tenure, as the founder and CEO of HCL, America, he was responsible for setting up joint ventures in Singapore, Hongkong and Europe. Presently, he has no association with HCL group. His areas of specialisation are Information Technology, Strong organization building, Strategic Alliances, Mergers and Acquisition, Marketing, Overseas Operations, Productivity etc. and he is responsible for overall operations of the company as CEO of the company under the superintendence and control of Board of Directors of the company.

Mr. Vaidya is on the Board of Associated Techno Plastics Private Limited, Crescent Software Solutions Private Limited, DNA

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Lab & Research (P) Limited, Y. P. Associates Private Limited, Vaidya Associates Private Limited, BEI Confluence Communication Limited, and STG Inc., USA and also a member of Compensation Committee and Investment Committee of your company.

He has ably steered the company through a single-minded focus of making it into a successful quality organization, providing business solutions through technology, training and consultation. Due to his proven track record, wide knowledge and extensive experience in knowledge based industry, his presence on the Board has helped the company in understanding the needs of new products, latest developments and taking various business decisions at appropriate time.

None of the directors except Mr. Yogesh Vaidya is interested in proposed resolution. However, Dr. M. C. Vaidya and Ms. Prasanna Vaidya, Directors being related to him may also be deemed to be interested in the proposed reappointment.

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

Dr. Pathak, aged 77 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 33 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 financial matters, management, policy formulation, 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.

None of the Director other than Dr. Pathak is concerned or interested in the proposed reappointment

By order of the Board
For Software Technology Group International Limited



RAJEEV SINGAL
Company Secretary

Place: New Delhi

Date: 1st December, 2007

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. 5 of the accompanying Notice dated 1st December, 2007.

The proposed resolution is intended to authorize the Company to issue convertible warrants to the non-promoter category of persons.

a) Objects of the issue:

- i. To infuse fresh equity.
- ii. To raise funds for corporate actions viz., Capital Expenditure, augmenting working capital and general corporate purposes.

b) Intention of promoters/ subscribers to subscribe for the issue:

Promoters of the company do not intend to subscribe to the issue of warrants.

c) Identity of the allottees along with the post preferential holding:

The details of the proposed allotment to be made to non-promoter group is being furnished hereunder:

S.No	Proposed Allottee	Existing share holding	Proposed allotment of warrants	Post conversion of warrants*	% of expanded capital*
1.	M/S.AKM SYSTEMS PVT. LTD., NEW DELHI	NIL	5,00,000	5,00,000	3.22

*The percentage etc. has been worked out after assuming that all warrants are converted into shares.



- d) Consequential changes in the voting rights:
Voting rights will change in tandem with the shareholding pattern.
- e) Shareholding pattern before and after the issue is:

Name	Existing Shareholding Pattern as on 30th November 2007		Subsequent to conversion of warrants issued on preferential basis* (Stage 1 pertaining to warrants allotted pursuant to Shareholders authority at their EGM held on 2 nd March, 2007)		Subsequent to conversion of proposed warrants to be issued on preferential basis* (Stage 2 pertaining to proposed issue of fresh warrants now)	
	No. of Shares held	% of Existing Capital	No. of Shares held	% of Increased Capital	No. of Shares held	% of Increased Capital
A. INDIAN PROMOTERS						
Individuals/HUF	5200795	41.61	5200795	34.67	5200795	33.55
Bodies Corporates	2408834	19.27	2408834	16.06	2408834	15.54
Sub Total	7609629	60.88	7609629	50.73	7609629	49.09
B. FOREIGN PROMOTERS						
TOTAL SHAREHOLDING (A)	7609629	60.88	7609629	50.73	7609629	49.09
NON-PROMOTER'S HOLDING.						
A. Institutional Investors .Banks, FIs, Insurance Companies, (Central State Govt. Institutions/ Non-Govt. Institutions	100	0.00	100	0.00	100	0.00
Sub Total	100	0.00	100	0.00	100	0.00
B. Non Institutional Investors	1624295	12.99	4074295	27.16	4574295	29.51
Bodies Corporate						
Bits Ltd - 24,00,000						
AKM Systems Pvt. Ltd. - 5,00,000						
Aspiring Equity Services Pvt. Ltd. - 50,000						
Individuals						
Individual shareholders holding nominal share capital upto Rs. 100000	2293850	18.35	2293850	15.29	2293850	14.80
Individual shareholder holding nominal share capital in excess of Rs. 100000	813094	6.50	863094	5.75	863094	5.57
Ashish Chugh - 50,000						
Any other (please specify)						
Non resident Indians	23039	0.18	23039	0.15	23039	0.15
Trusts	10500	0.08	10500	0.07	10500	0.07
Clearing members	29066	0.23	29066	0.19	29066	0.19
Hindu Undivided Families	96427	0.77	96427	0.64	96427	0.62
Sub Total	4890271	39.12	7390271	49.27	7890271	50.91
TOTAL PUBLIC SHAREHOLDING (B)	4890371	39.12	7390371	49.27	7890371	50.91
TOTAL (A+B)	12500000	100.00	15000000	100.00	15500000	100.00
Shares held by Custodian against which Depository receipts have been issued	Nil	Nil	Nil	Nil	Nil	Nil
TOTAL (A+B+C)	12500000	100.00	15000000	100.00	15500000	100.00

*The percentage etc. has been worked out after assuming that all warrants are converted into shares.

f) Time within which allotment shall be made:

The allotment of warrants pursuant to this resolution shall be completed with in a period of 15 days from the date of the passing of the resolution in compliance with SEBI guidelines, provided that where the allotment is pending because of the approval from some regulating authority, in such case the allotment shall be within 15 days from the date of such approval

g) Auditor's Certificate:

A Copy of the certificate of the Auditor's of the Company certifying the adherence with SEBI's Guidelines for this proposed preferential issue shall be laid before the shareholders at this Annual General Meeting of the Company.

h) Interest of Directors:

None of the Directors is concerned or interested in the proposed allotment.

Yours Directors, therefore, recommend the said resolution at Item No.5 for your approval.

By order of the Board
For Software Technology Group International Limited

Rajeev Singal

RAJEEV SINGAL
Company Secretary

Place: New Delhi
Date: December 01, 2007

15TH ANNUAL REPORT 2006-2007**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 September 30, 2007.

FINANCIAL RESULTS

(Rs. in Lacs)

Particulars	Year Ended Sept. 30, 2007 (12 Months)	Year Ended Sept30, 2006 (15 Months)
Operating Income	1828.05	1666.55
Gross Profit after Interest but before Depreciation & Tax.	341.78	181.74
Less : Depreciation	64.37	116.84
Provision for Taxation	66.08	125.89
Net Profit / (loss) before Extra-Ordinary items	211.33	(60.99)
Less : Extra Ordinary items	98.08	30.00
Net Profit / (loss) after Extra Ordinary items	113.25	(90.99)

REVIEW OF OPERATIONS

The Board of Directors is pleased to report that the tempo of recovery which was maintained during past few years has been further accelerated during the current year as your Company has posted a net profit of Rs. 113.25 lacs on an operating income of Rs. 1,828.05 lacs after a lean period of around five years in a row. Your Company was able to achieve this unprecedented growth inspite of adverse conditions like pressure on billing rates, rising overheads, Competition from unbranded players having advantage of low cost of operation, higher extraordinary provisioning for writing off a sum of Rs. 98.08 lacs relating to unrealized sales of previous periods etc. 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.

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.

DIVIDEND

Keeping in view the need to conserve the company's resources, your Board has decided to plough back the retained earnings for future requirements of the company. However, the Board wish to make it clear that non-recommendation of dividend in no way reflects its view on the future prospects of the company.

Further, the Company has already transferred a sum of Rs. 8,795/- (Rupees Eight Thousand Seven Hundred Ninety Five Only) reportedly standing unclaimed/unpaid in Company's Initial Public Offer (IPO) Refund account for seven years and a sum of Rs. 1,20,936/- (Rupees One Lac Twenty Thousand Nine Hundred Thirty Six Only) reportedly standing unclaimed/unpaid in Company's Dividend account for the year 1999-2000 to the 'Investor Education and Protection Fund' established under Section 205 C of the Companies Act, 1956.

FINANCE

Your company has been continuing with the necessary working capital facilities viz. Cash Credit, Working Capital Term Loan and Bank Guarantee with the Jammu and Kashmir Bank Ltd. 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.

Further, during the year, 25,00,000 warrants, to be convertible into equal number of Equity Shares were allotted to certain Non-promoters Strategic Investors @ Rs.13.50/- each on preferential basis in terms of relevant SEBI guidelines. The necessary margin money was received and the same has been utilized in accordance with the objects of the issue and there has been no material variation in this regard.

COST CONTROL INITIATIVES

As indicated in the previous reports, 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. 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***FinalTouch- Finishing school for Graduate Engineers/MCA's***

Your Company has launched Final Touch, a unique innovative software training program to stem the problem of talent crunch in the market. This programme is aimed at bridging the gap between what the industry needs, and what the formal education offers. The program has been specially designed keeping in mind IT skills and competencies demanded and accepted by the fast changing IT industry. Besides the program works as a finishing school and transforms fresh engineering graduates into readily employable professionals. It provides IT professionals and graduates the opportunity to gain both practical and hands-on experience and prepares them to address the challenges of present and next generation IT needs. The training is held using the latest technologies, tools and methodologies in vogue and is a Six month Power Packed Program, the admission to which will be through an IT fundamental entrance test. The students are awarded STG Certified Software Professional credentials with super specialization in any one of the IT tracks like .Net, Java EE, LAMP, Databases or Networking and the course prepares the students for various industry acclaimed IT certifications.

IBM National Education Partner

Moreover, it is also a matter of pride that - IBM the world's largest information Technology Company and STG have entered into a strategic relationship with STG to provide successful global careers to career professionals and fresh graduates in IBM technologies under its IBM Career Education Program (CEIS). The Company would provide training and certification on IBM technologies to students across the country and the curriculum design incorporates a "blended learning" approach by integrating classroom, hands-on lab exercises and team projects to provide students both the theoretical and practical training needed to build strong e-business application development skills. 10 hours of Live Projects form an integral part of this program. All global systems integrators are major users of IBM technologies. All of them have 20-25% of their workforce working on IBM technologies. There was a crying need for trained manpower on IBM technologies and University education System does not provide readily "usable" skills. STG has a nationwide presence and this alliance will facilitate spreading IBM career education across the country. The program is open for Fresh Engineering Graduates with computer background, MCA's BCA's and working IT professionals wanting to enhance skill sets in IBM technologies or looking at a career in IBM technologies and the students successfully completing the program will get Placement Assistance.

SmartER - Online Recruitment & selection system

STG introduced SmartER-Online Solution for recruitment and Selection.

SmartER is a Total Professional Selection and Testing System that includes Test Content Authoring, Registration and Scheduling and Professional Test Delivery developed by Software Solution Group of STG. This solution helps in improving the quality of recruitment and reduces the time and cost of hiring by as much as 70%. These are offered as a total hosted solution to corporate clients.

The STG SmartER is designed for use by enterprise organizations to facilitate the selection process for high volume recruitments, based on



testing. SmartER is a secure web based test administration platform which is detailed and in accordance to the changing times. It is used to test and certify potential candidates on their specialized skills. This effectively makes the selection procedure easier and sees to it that the empty seats are rightly allocated.

There are 3 major components to this solution package:

- Test content Authoring
- Registration & Scheduling
- Professional Test Delivery

New Technology Partnerships - IBM & Sun

Since the inception your company has successfully executed a number of projects using the Oracle technologies such as Oracle 10g, Oracle application server, Oracle workflow builder, J developer, Business Object for Java (BC4J), Designer, Form 9i and reports 9i in their consulting projects and software products in the Finance and accounting, Production & Inventory management, Sales and Distribution, Human capital & Recruitment management, Professional services, Supply chain management, Healthcare, Insurance, Education, e-learning and online test assessments industry verticals. It is gratifying to report that your Company has become an Oracle Partner as an Independent Software Vendor (ISV), System Integrator and Education Provider during the year the new partnership has come to sustain the efforts that STG's team dedicates to every product and consulting project, representing an additional guarantee of the high quality of the services provided by the company. The partnership serves Company's objective to offer the most efficient, professional and best suited products and solutions to its customers.

INFRASTRUCTURE

Your Company's state of the art offshore software development center at Gurgaon is fully operational and employs a high powered team of technology specialists and Software professionals to support the offshore development needs of international clients.

STG's offshore development team focuses on a unique model of providing "Customisable modules" to its international clients and is implementing projects for K-12 Education Providers and Corporate e-learning.

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 form 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:

According to recent NASSCOM estimates, the Indian ICT industry will contribute 7% of the country's GDP by 2009, providing direct employment to more than 2.2 million people and indirect employment to nearly twice that number.

The Indian IT software and services market is expected to grow to US\$50 billion by 2009, recording a CAGR of 27%. A recent study by NASSCOM indicates that the demand for Information Communication Technology (ICT) knowledge workers is going to outstrip supply, creating a major gap in the coming years. An estimated 1.2 million IT workers will be required by 2010. However, NASSCOM has predicted a shortage of 0.5 million skilled workers based on current supply.

The IT industry saw a Rs. 6,750 crore turnover last year and there have been around 25000 direct vacancies at present. Recent studies show that despite the number of engineering colleges increasing manifold for 776 in 2000 to 1450 in 2005 they were bogged down by a paucity of good educations, the influx of students from rural India that did not have the exposure to soft skills, inadequate enabling programs for faculty. Industry feedback indicated the students coming out of the

systems had superficial knowledge of subjects. According to NASSCOM there are 400,000 engineers graduating in the country every year but only one in four is employable in the IT sector. Besides the IT sector will need 5 lac professionals in the next 5 years.

So while the IT industry in India is growing at a scorching pace and India is witnessing an IT revolution rapid automation however creates a tremendous need for relevantly skilled professionals who can spearhead IT implementation within their organization. In the globalized environment where new products are hitting the market with great frequency and new technology developments have become a business compulsion in order to enhance productivity and better turnaround time, training has become a crucial part of the technology deployment cycle.

Out of a total of Rs. 226,879 that was the overall Indian IT industry in FY 07, exports as usual was the bigger contributor Rs. 153,744 crore with 35% growth over the previous fiscal. The domestic market was Rs. 73,135 crore, a 27.2% growth.

Training is one area that is beginning to see a very interesting shift, both in terms of markets as well as geography.

The Indian training market seems to have got its rhythm back this year after a downhill slide from 2001 through 2004. Last fiscal, the training market was worth Rs. 2,135 crore, up 46% from FY 06 which saw a total turnover of Rs. 1,453 crore, and a 14% growth over the previous fiscal. Revenues from corporate training and overseas operations, especially in China, are changing the fortunes of the struggling Indian training industry.

Individual training paled in comparison to corporate training, and continued to focus on providing skill-sets to the IT/ITeS industry. Fueled by the growth in hiring by this sector, increasing requirement for newer skill-sets and rapid changes in technology, this part of individual training witnessed robust growth. Plus, there were emerging areas like training on mobile phones and services for telecom channels.

Hardware and networking courses also gained momentum they contributed 30% of the IT training market.

Higher demand was for shorter courses on Technologies like C++, Java, .Net. Certifications like MCSE, MCDST, Oracle, Java, A+, Red Hat Linux, Cisco, networking and firewalls saw rising demand. Demand for security, hardware administration and project implementation skills also rose.

Though both sides continue to display growth, revenues from corporate training are increasing at a faster rate. Also, the corporate training market is not as fickle as the commodity market. Investment in training by corporate continued growth with a view to leverage their IT investments better. This is a rising trend both in big enterprises as well as SMEs.

In the corporate sector, the government is a major spender on training. There was high stress on certifications, not just training. While applications training continued to grow in corporate, database training grew substantially in the government vertical. The hot areas in the corporate training were database administration, business intelligence, data warehousing and application server.

The burgeoning BPO markets has also led many players to venture into the BPO training market providing services like training delivery, consulting, assessment and placement.

The growth of the e-learning wave is also gaining momentum in the country. While the pace of e-learning software development is increasing fervently, the adoption has been relatively slower, specially in the K-12 segment. Corporate in India are driving the usage of e-learning software, and in the long run, e-learning is poised to become a de facto standard in the industry, thereby becoming a major revenue generator for the country.

Finally, biotech is emerging as another opportunity area for training companies. The Biotech market in India, which crossed the \$1bn mark this year is poised for greater thrust and generate revenues to the tune of \$ 5 bn and create 1m jobs by 2010.

Opportunities & Threats:

A growing domestic market is complementing India's IT enabled services export growth and strong domestic demand makes India one of the fastest growing IT markets in a sia Pacific region, which is likely to coming into its own and is likely to post good growth in this year.

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Traditionally, India-centric, indigenous players are beginning to build a noticeable presence through organic growth in other low-cost locations. Global majors are ramping up their offshore delivery capabilities, predominantly in India and have started offshore development centers. Increasing number of companies looking at outsourcing and increase in offshoring by already established companies provides attractive opportunity for growth. Indian companies historically had a cost advantage over their western counterparts due to availability of cheaper manpower. 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 offshoring story is gathering pace as more and more global corporations vie to improve profitability through outsourcing are eyeing low cost high quality destination like India and biggest beneficiaries will be companies that have proven execution capabilities and scalable businesses.

On the other side, attracting and retaining the right talent, high competitions, pressure on margins due to rise in employee expenses without consequent rise in anticipated revenues, technological obsolescence etc. are some of the major concerns.

Further, Competition from global MNCs is increasingly looming on the horizon, who is 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.

Segment wise performance:

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

Outlook & Future prospects:

Given the pick up in the IT training Industry, improvement in sentiments, for IT as a career, favourable trends in recruiting IT personnel and strong growth in the IT Industry as a whole, the company is expected to be a major beneficiary. The increase in corporate spends on training in the US, new product launches by technology majors like Microsoft and greater interest in training outsourcing from European Corporates also provides a good opportunity to grow at a faster rate in the long term.

The Indian IT Sector has been country's fastest growing segment, even in the recent globally challenging economic environment, the Software and service Industry has been a major component of India's IT sector and showed significant momentum which is higher than any of other Industry space in the country. IT service industry has been transformed with customers focusing on return on investment (ROI), which 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 expanding their service offering to include IT consulting, systems integration and technology infrastructure management to provide high value services, thereby to increase customer wallet share. On the demand side, IT consulting had become more an upfront activity rather than a stand alone offering and 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.

Further, education business is poised for a growth in 2007-2008 as government and institutional training market is expected to increase, while enrollment in individual students segment is also expected to rise. 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, IBM, Microsoft, Red Hat, Cisco, Sun etc. Other than these certifications, software skills in vogue are Microsoft, Net, Oracle, SQL server, Linux and web based applications.

On the consulting front, it is gratifying that your company has successfully implemented Infosys's flagship banking product "Finacle" in leading nationalized banks.

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:

- λ Launch of new lines of highly specialized programs in IT education to cater to the need of new verticals.
- λ Focus towards newer service areas like IT consulting, Package Implementation, Enterprise wide Application Integration (EAI) etc.
- λ Concentrating on niche segments like Telecom, Banking and Financial services and Education and Corporate e-learning segments, which accounts for a major portion of total IT services exports.
- λ Renewed focus on corporate / institutional training market and online education.
- λ Increased thrust on software business and international operations through strategic tie-ups etc.
- λ Expanding the existing franchisee network.
- λ Improvement in cost structure by observing economy in operations.
- λ Focus on maintaining profitability and cash flow positive business.
- λ Consolidation of operations by focusing on medium and large customers.

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, availability of skilled personnel, 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, imposition of Fringe Benefit Tax in the present form, 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 has in place adequate system of internal control commensurate with its size and nature of its operations to ensure that