Quality System
Quality Endorsed Company

ANNUAL REPORT 1998 - 99

LGS

LEADING EDGE SYSTEMS

BOARD OF DIRECTORS

S Y REGE
ATUL KAMATH
RAM BHAGWAT
TUSHAR VAIDYA
ANIL AHUJA *(Additional Director)*

AUDITORS

M.H. KALE & CO

SOLICITORS

CRAWFORD BAYLEY & CO

LEGAL ADVISORS

M/s SANJAY A PATKAR

BANKERS

STATE BANK OF INDIA
THE VYSYA BANK LTD

CORPORATE OFFICE

UNIT 27, SDF-I
SEEPZ, ANDHERI (EAST)
MUMBAI 400 096

US OFFICE

1 METROPLEX DRIVE
EDISON, NJ 08817
USA

DEVELOPMENT CENTRES

214-216, UDYOG BHAWAN
SONAWALA ROAD
GOREGAON (EAST)
MUMBAI 400 063

A1, PIROJSHA NAGAR
GODREJ SOAPS COMPLEX
EASTERN EXPRESS HIGHWAY
VIKHROLI (EAST), MUMBAI 400 079

Quality Policy

At Leading Edge Systems, the management and the employees are committed to secure a long-term partnership with each customer. We are in the business of providing Custom Engineered Software Solutions, Consulting Assignments, Software Migration & Maintenance. We want to be the preferred supplier of the products and services that we offer. We intend doing this by:

- Ensuring that all products and services will provide complete satisfaction through meeting or exceeding the mutually agreed requirements and expectations consistently.
- Fostering a team environment where quality is everyone's responsibility.
- Promoting a philosophy of continuous improvement embraced by each and every employee.
- Inculcate awareness in all our employees to be responsible for what they produce.

Goals

- To maintain and continuously improve Quality System based on ISO 9001 - 1994, IEEE 1298. 1-1992 and AS 3563, 1-1991 standards.
- Achieve SEI - CMM Level 4 by year 2000.
- Introduce / inculcate TQM culture (Attain Level 6 on IQRS scale by year 2000) to achieve:
  - Customer Delight
  - Empowered Employees
  - Higher Revenues
  - Lower Costs

PAST FIVE YEARS AT A GLANCE

(Rs. In Millions)

	for the year ending March 31,				
	1999	1998	1997	1996	1995
Total income	**654.95**	488.20	345.60	169.56	104.80
Operating expenses	**469.92**	347.15	255.81	137.17	81.25
Operating profit	**185.03**	141.05	89.79	32.39	23.55
Interest and finance charges	**2.50**	1.21	0.89	0.67	0.53
Depreciation	**14.52**	7.49	5.78	4.73	2.59
Profit before taxes	**168.01**	132.35	83.12	26.99	20.43
Taxation	**34.89**	25.53	22.12	3.69	3.80
Net profit	**133.12**	106.82	61.00	23.30	16.63
Dividend %	**30.00**	30.00	22.50	15.00	15.00
Dividend amount	**15.49**	10.85	7.40	4.93	2.97
Equity Capital	**65.78**	32.89	32.89	32.89	32.89
Reserves & Surplus	**286.97**	209.86	111.91	59.16	46.94
Net worth	**351.09**	242.75	142.90	89.91	77.35
Net Assets	**564.47**	247.76	147.78	93.72	81.38
Performance Indicators					
as a % of total income					
Operating Margin	**28.25**	28.89	25.98	19.10	22.47
Net Margin	**20.33**	21.88	17.65	13.74	15.87
Taxation	**5.33**	5.23	6.40	2.18	3.63
Taxation/Profit before taxes	**20.77**	19.29	26.61	13.67	18.60
Current Ratio	**6.10**	4.24	3.66	4.26	10.11
Total income/net working capital (times)	**1.45**	2.43	3.16	2.32	1.52
Fixed assets turnover (times)	**4.54**	8.21	7.61	6.20	6.36
Receivable (in days)	**98.00**	108.78	82.96	79.37	70.35
Investment Indicators					
Book value per share	**53.36**	73.28	43.43	27.33	23.51
Earnings per share	**20.23**	32.47	18.54	7.08	5.05
Return on capital employed %	**23.58**	43.11	41.28	24.86	20.43
Share price as on March 31, (BSE) Rs.	**475.00**	421.00	61.50	27.00	81.00
Market capitalisation (in millions)	**3125**	1385	202	89	266

Dear Shareholders,

1998-99 was a difficult year for Leading Edge Systems (LES) in terms of growth in sales and profits. However, it was a year in which your company achieved some important milestones and chalked out a bold new plan to propel future growth. During the year under review, the total income of LES grew by 34% to Rs. 655 million as against Rs. 488 million for the year ended March 31, 1998. The profit after tax was higher by 25% to Rs. 133 million.

Your company's growth during the year under review, while respectable, was lower than that of other Indian exporters of IT services. The reason for the lower growth was customers' continued pre-occupation with the millenium date (Y2K) problem, which resulted in slackening demand for your Company's traditional expertise in client-server technology. Your management decided against its earlier intent to enter the Y2K solutions market, given the low value addition and the temporary nature of the opportunity. Most of your Company's competitors, which had built up large resources to tap the Y2K solutions market, are now suffering from large resource over-capacity as the new millenium draws closer and demand for Y2K solutions slows down. As a result, while your management's decision to stay away from the Y2K market has impacted growth in the year under review, it leaves your Company currently in a better position.

Your management has undertaken a comprehensive restructuring effort in order to streamline the Company's business and to propel it to the next growth orbit. The key planks of the ongoing restructuring are:

1) Revamp of the sales and marketing infrastructure in the US and Europe; 12 new salespeople and three new sales offices are being added in the Company's main markets. In addition to acquiring new customers the sales effort will also focus on mining the Company's existing customer base that includes 47 Fortune 500 companies.

2) Extension in the Company's technical expertise from its traditional strengths in client-server technology to Web Enabling, ERP and Supply Chain Management. This has necessitated additional spending on related software and training.

3) KPMG have been mandated to set up internal MIS and management control systems in the company. With your approval, their associates, M/s BSR & Co., Chartered Accountants, will be appointed as the Company's auditors. The Company continues to work towards its commitment of publishing US GAAP accounts by the first quarter of FY 2000-01 and achieving CMM Level 4 certification by December 2000.

Your Company also achieved some important milestones during the year under review, which will have significant bearing on future performance.

1) The Company commissioned its new 22,000 sq. ft. software development facility at Vikhroli, a Mumbai suburb, in January 1999. This facility has the capacity to accommodate 250 engineers and is liked to the Company's US facilities via a 64kbps line. With this, a major bottleneck to the Company's growth has now been removed.

2) The India Private Equity Fund (Mauritius) (IPEF) invested in 920,000 warrants of the Company. IPEF is sponsored by CIBC Oppenheimer and Chase Capital Partners and your management welcomes this investment as it enhances the corporate image of your Company and increases its credibility. Chase Capital Partners and Oppenheimer have invested in over 600 companies worldwide and their association gives LES unparalleled access to potential customers. Moreover, with acquisitions acquiring increasing importance as a growth driver, IPEF's investment gives the Company the financial strength as well as the expertise to engineer an acquisition.

3) Your Company also initiated plans to structure an Employee Stock Option Plan (ESOP) in order to closely link employee compensation to Company performance. Under the ESOP, 5% of your Company's equity has been transferred to an employee trust and 1% has been distributed to employees. The exercise price of the option is Rs. 265/- per share and the vesting period is three years.

Finally, your management would like to thank the Company's employees, customers and shareholders for their unstinted support.

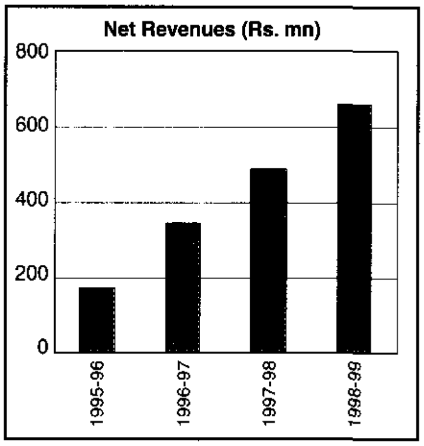
Atul Kamath **Tushar Vaidya** **Ram Bhagwat**

The directors are pleased to present the thirteenth annual report and audited statement of accounts of Leading Edge Systems Limited for the year ended March 31, 1999.

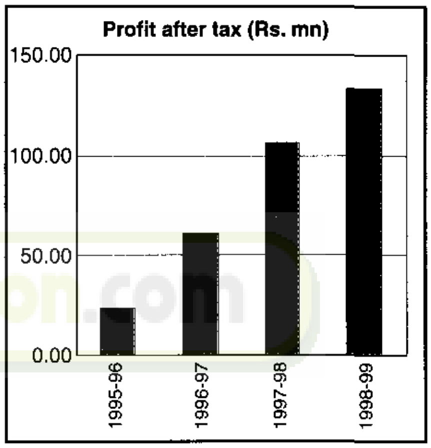
Financial Results

(Rs. in Millions)

Item	Year ended March 31, 1999	Year ended March 31, 1998
Gross Revenue	**654.95**	488.19
Operating profit (PBIDT)	**185.02**	141.05
Interest	**2.50**	1.21
Depreciation	**14.52**	7.49
Provision For Tax	**34.88**	25.53
Profit After tax	**133.12**	106.82
Appropriations		
ADD: Refund of excess Tax Paid	–	2.73
LESS: Short provision for Tax	**7.64**	–
LESS :Tax on dividend	–	0.74
Proposed Dividend	**15.49**	10.85
Transfer To General Reserve	**13.31**	10.68
Profit after Appropriations	**96.68**	87.27
Add: Balance Brought Forward	**155.79**	68.52
Balance To Be Carried Forward	**252.47**	155.79



During the year under review, your Company recorded all round improvement in financial performance. Your Company's total income was higher by 34% at Rs. 654.95 million as against Rs. 488.19 million for the year ended March 31, 1998. The profit after tax at Rs. 133.12 million was higher by 25%. Despite the substantial investment in the Company's new software development facility the Return on Average Net Worth (RONW) remained healthy at 40% for the current year as against 44% for the year ended March 31, 1998. However, the Return on Capital Employed (ROCE) dipped to 23.58% for the current year as against 43.11% for the year ended March 31, 1998, due to expansion and the increase in the asset-base of the Company.

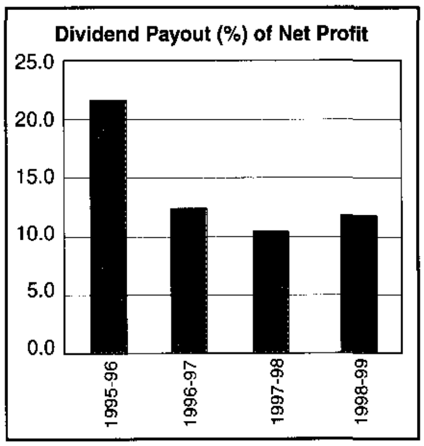


Dividend

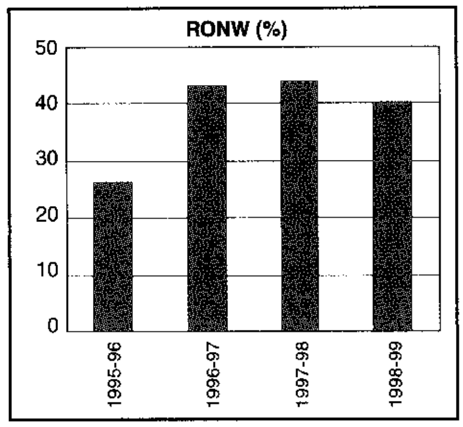
The directors are pleased to recommend a dividend of Rs. 3 per share for the year ended March 31, 1999. Dividend on bonus shares issued during the year will be paid on a pro-rata basis. The total dividend amount will be Rs. 15.49 million (inclusive of dividend tax) as compared to Rs. 10.85 millions in the previous year.

Operations

For the year under review, your Company continued to derive the bulk of its turnover (over 90%) from the US. It has built a very impressive client list and has provided IT services to over 40 Fortune 500 companies. Your Company's top client list includes names like Cigna Insurance, Telecheck, Omnipoint, KPMG, Pepsi and The Trane. The Company's top 5 customers contributed over 30% of the sales turnover in the year under review.

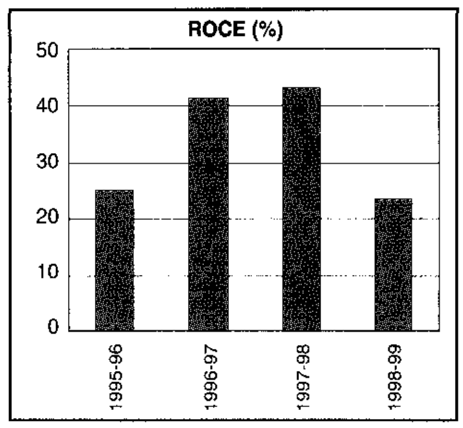


Your Company's proportion of revenues from offsite projects (i.e. projects executed by LES at its own facility in the US) was 39% during the year under review. The proportion of revenues from onsite consulting (placements at the client site) constituted 33% of total revenues down from 40% in previous years. The offshore component (projects executed in the Indian software development facilities) increased to 28% of total revenues and this is expected to go up further during the current year with the commissioning of the new facility at Vikhroli, in Mumbai.



Your Company continued its focus on the client-server platform, concentrating on technologies like C++, Oracle, UNIX, etc. Client server based solutions contributed 90% of total revenues during the year under review. During the year under review, your Company also entered the mainframe business and built a dedicated Mainframe Group. However, your Company stayed away from any Y2K related business. While this decision impacted growth during the current year, it was part of a conscious strategy and your Company will not be impacted by the problem of over capacity once the millenium draws closer and the market for Y2K related solutions slackens.

Your Company has initiated steps to further widen its technology expertise and is investing in technology and skills so as to provide enterprise planning solutions like supply chain management (SCM), intranets, extranets, etc.



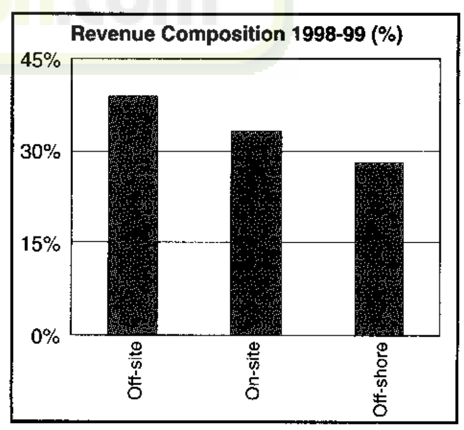
During the year, your company invested Rs. 56.78 million in commissioning its new offshore software development center at Vikhroli. The 22,000 sq. ft. center, which can accommodate 250 people, has state of the art hardware and software facilities and is linked to our US office by a 64kbps dedicated link.

Leading Edge Infotech Limited

Leading Edge Infotech Limited (LEI), the 100% subsidiary of the company, which carries out the domestic business of the company, caters mainly to the IT requirements of the financial services industry. The severe crunch in this industry had an adverse effect on the results of LEI. LEI reported a loss of Rs. 2.7 million on a turnover of Rs. 10 million during the year. However, we are confident of a better performance from LEI during the current year, as in addition to the financial services software, the company will be providing ERP implementation services to local clients, having been appointed one of the first Local Resource Partners (LRP) by SAP, the premier ERP software company.

Employee Stock Option Plan (ESOP)

The Employees Stock Option Plan (ESOP) approved at the AGM last year was implemented during the year. Options for over 1% of the company's stock have been given to various employees based upon performance and duration of service with the company.



Directors

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the company, Mr. Atul Kamath, Director, is liable to retire by rotation and is eligible for re-appointment.

Additional director

Mr. Anil Ahuja has been appointed as additional director in the board meeting held on April 01, 1999, who holds office by virtue of section 260 of the companies act 1956 up to this annual general meeting. He being eligible for re-appointment it is proposed to appoint him as director of the company liable to retire by rotation. The company has received notice u/s 257 of the companies act 1956 proposing his appointment as director of the company at the ensuing annual general meeting.

Auditors

The auditors M/s. M. H. Kale & Co., Chartered Accountants, have conveyed their unavailability to continue as auditors for the following years. However M/s BSR & Co., Chartered Accountants have conveyed their willingness to hold office as auditors for the financial year 1999-2000 until the conclusion of the next Annual General Meeting.

Information Pursuant To Section 217 of The Companies Act, 1956

The information required under the provisions of section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and under Section 217 (1) (e) of the said Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is set out in the Annexure included in this report (which forms a part of this report). As per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report together with Accounts is being sent to the shareholders of the company, excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the company.

Acknowledgements

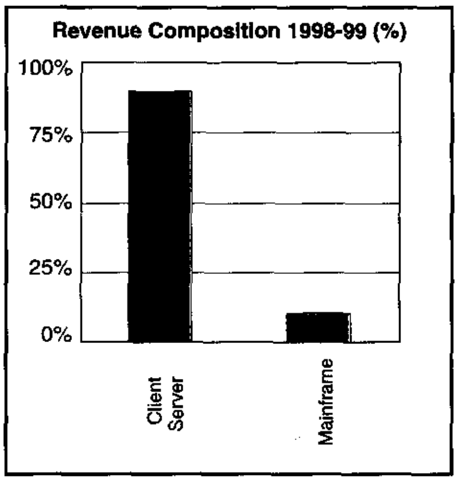
The directors would like to gratefully acknowledge the contribution made by our employees to the growth of the company. We would also like to thank our shareholders, customers, vendors and bankers for their continued support. The directors would also like to thank the Government of India, the SEEPZ authorities, RBI and other government agencies as well as NASSCOM for their support.

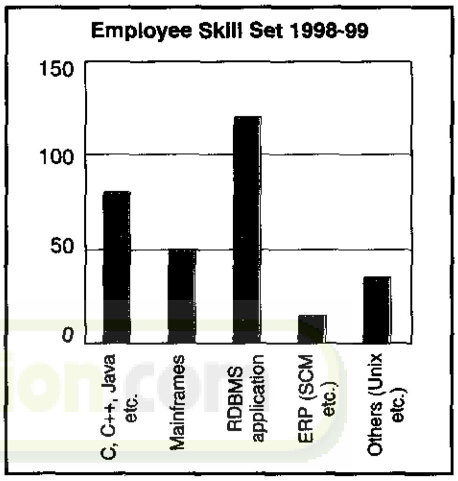
On behalf of the Board of Directors

Sd/-

Mumbai
May 18, 1999

Atul Kamath
Director





Information under section 217 (1) (e) of the Companies Act, 1956, read with Companies (disclosure of particulars in the report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended March 31, 1999.

CONSERVATION OF ENERGY

a. Energy conservation measures taken	:	The computer systems installed are designed for low power consumption.
b. Additional investments and proposal if any, being implemented for reduction of consumption of energy	:	As above
c. Impact of measures in (a) and (b) for reduction of energy consumption and consequent impact on the cost of production	:	N. A.
d. Total energy consumption and energy consumption per unit of production	:	N. A.

TECHNOLOGY ABSORPTION

e. Efforts made in technology absorption	:	N. A.

FOREIGN EXCHANGE EARNINGS & OUTGO

f. Activities relating to exports,initiatives taken to increase exports, development of new export market for products and services and export plans	:	As detailed in the report
g. Statement of Expenditure/ Earning incurred in foreign currency		
Earnings	:	Rs. 634,685,697
Outgo	:	Rs. 471,139,116

AUDITORS' REPORT

To the Members of
LEADING EDGE SYSTEMS LIMITED

We have audited the attached Balance Sheet of LEADING EDGE SYSTEMS LIMITED as at 31st March, 1999 together with the Profit & Loss Account of the company for the year ended on that date annexed thereto :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by Company Law Board in terms of section 227 (4A) of the Companies Act 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said order.
2. Further to our comments referred to in paragraph 1 above, we report that :
   a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
   b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of the books;
   c) The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account;
   d) The Balance Sheet and Profit & Loss Account have been prepared in compliance with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, except for non-provision of part of retirement benefit costs as laid down in Accounting Standards-15, as stated in note no. 1(f) in Notes to Accounts.
   e) We draw attention to Note No. 6 in Notes to Accounts. It may be noted in this connection that our audit is not intended, designed nor performed to provide and accordingly does not provide any assurance that the company's internal system or those of its external dependencies are / or will be year 2000 compliant and we are, therefore, unable to comment on the management's opinion in this regard.

   Subject to this, in our opinion and to the best of our information and according to the explanations given to us, the said accounts, read with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view;

   i. In the case of the Balance Sheet of the state of affairs of the company as at 31st March, 1999 AND
   ii. In the case of Profit & Loss Account of the Profit for the year ended on that date.

For M.H. KALE & CO.
Chartered Accountants

Sd/-

MUMBAI
DATED : 18th May, 1999

(M.H. KALE)
Proprietor