

Intelligence at work

annual report 1999-2000



BLUE STAR

BLUE STAR INFOTECH LIMITED

File Name: Annual-Report  
Job No: 27160  
PC: Srikanth



- ★ Registered Office
- Offices/Software development centres
- Subsidiaries
- ▼ Client locations



Board of Directors

Suneel M Advani  
Chairman

Ashok M Advani  
Vice Chairman

Parmod K Bhalla  
Managing Director

Prakash G Hebalkar  
Director

Suresh N Talwar  
Director

Sanjay N Vaswani  
Director

Corporate Management

Parmod K Bhalla  
Managing Director

Assar S Sambhani  
President

Bharat P Shah  
Vice President

Hubert Coelho  
General Manager

Sudhir Gera  
General Manager - Marketing

Harish Govind  
General Manager - HR

Bankers

ABN-AMRO Bank

Central Bank of India

The Hongkong & Shanghai  
Banking Corporation Ltd

Auditors  
Price Waterhouse, Mumbai

Registrars & Share  
Transfer Agents

Intime Spectrum  
Registry Pvt Ltd  
260, Shanti Industrial Estate,  
Sarajini Naidu Road,  
Mulund (West)  
Mumbai 400 080  
Telephone : 91-22-5923837  
Fax: 91-22-5672693

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Mohan T Advani Chowk,  
Jamshedji Tata Road,  
Mumbai 400 020  
Telephone : 91-22-2020868  
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www.bsil.com



BLUE STAR INFOTECH LIMITED

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## LETTER FROM THE CHAIRMAN

Dear Shareholder,

This is my first letter to you as Chairman of the Board of your brand new Company, Blue Star Infotech Limited (BSIL). This is also the very first Annual Report published by your Company. It has been a long, difficult and frustrating road that we have travelled in the spin-off of the International Software Division from the parent company - Blue Star Limited - into Blue Star Infotech Limited. The demerger finally took place on April 4, 2000, and BSIL is now poised to emerge, with its own identity, as a significant player in the global software industry.

BSIL is not a start-up

As you know, although BSIL is a new Company, it is not a start-up. It has outstanding credentials in creating software solutions for technology companies around the world for over

15 years. Apart from a strong, respected, supportive parent, BSIL has an outstanding Board of Directors, comprising highly qualified individuals, with vast experience in the knowledge industry. Powerful brand equity and worldwide business connections, along with a growing network of sales offices and business associates across the globe, have brought a number of customers to BSIL, over the last few years. These are clients who have then stayed with us for a number of years, after being impressed with the depth of talent of our people, our excellent infrastructure and our rigorous commitment to quality systems and on-time delivery. Furthermore, BSIL's balance sheet as on 30th June, 2000 is exceptional, with reserves and surplus of almost Rs 120 Million.

New Managing Director

With this kind of inheritance, all that remained for BSIL to acquire was a proven leader for the new millennium who would provide the passion, vision and strategic direction for growth.



BLUE STAR INFOTECH LIMITED

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I take great pleasure in introducing to you our new Managing Director, Mr Parmod K Bhalla , an IT professional with over two decades of experience in the industry, spanning international marketing, operations management and strategic planning. Having been on board for three months, Mr Bhalla has drawn up aggressive growth plans to expand the Company's operations in Europe and the USA. He has recruited professionals with proven track records to strengthen the key functions of Recruitment, Sales & Marketing and Business Development.

#### Initiatives for accelerated growth

We are living in a business environment of rapid change and hyper competition, but also in a world that offers enormous opportunities, and rewards those organisations that take the initiative to capitalise on these. What initiatives are we at BSIL taking?

- To meet the growing demand for off-shore services, we continue to expand our development centre facilities. Simultaneously, we are ramping up our headcount. We intend to grow at a minimum rate of 30 software professionals per month.
- We have built and acquired competence in the new areas of e-business and mobile telephony, and have strengthened our capabilities in the area of embedded software. Much of this transition is owed to the technology evaluation and adaptation skills present in our new R&D Centre, which was established during the current year.
- We have obtained ISO 9001 quality certification for Mumbai operations, and are in the process of obtaining SEI CMM Certification as well. ISO 9001 certification for our Bangalore facility is expected within the next few months.
- Our marketing subsidiaries in the USA and UK have been beefed up, and a new branch has been opened in Helsinki, Finland.
- As travel and immigration rules around the world begin to favour the movement of IT professionals, we have renewed our attention to the on-site placement business.
- We have initiated steps to substantially broaden the ESOP by increasing the stock options from 3% to 8% of total equity.
- In the area of employee care, we have drawn up a plan to start construction on multi-faceted recreational centres for our employees in Mumbai and Bangalore.

This is why I write this letter to you with a sense of confidence. I believe that your Company with a strong management team in place, is well positioned and poised for growth. Our recruiters are busy, the sales and marketing organisation is the strongest it has ever been. Our project delivery skills are superb, and our technical capability has never been better. Most importantly, the people of BSIL are highly motivated and charged up at the

thought of belonging to an independent corporate entity, not to mention the lucrative stock option plan under which each and every one of them is eligible to receive shares in, and thus become a part owner of their Company. The entire organisation is committed to the new direction for growth.

As we head into the new millennium, a sense of destiny pervades the Indian IT industry. Our resounding success has given the country a level of confidence it has never before possessed, that India is now poised on the edge of greatness. I am sure I speak for all of you when I say that we are proud to be part of the Indian IT industry.

Yours sincerely,

Suneel M Advani

September 29, 2000.





*Intelligence at work*

## This is BSIL today...

Blue Star Infotech Limited (BSIL) is a fast-growing global provider of software consultancy, design and development services, headquartered in Mumbai, India. BSIL operates four software development centres in Mumbai and one in Bangalore, in India. To better serve its large markets, the Company has operations in San Jose, London, and Helsinki (Finland). To cater to its emerging markets, BSIL works closely with Business Associates in Continental Europe, Japan and Malaysia. With state-of-the-art development centres and infrastructure, approximately 350 professionals, and a growing list of Fortune 500 and medium-sized hi-technology clients, BSIL is poised to play a major role in the global software industry.

The Company is part of the Blue Star group, a Rs 4,810 million (\$105 million) group with interests in distribution of hi-technology professional electronics equipment, airconditioning and refrigeration products & systems and commercial equipment. Blue Star has business relationships and technology tie-ups with

world renowned companies including Hewlett-Packard, USA; Hitachi Medical Corporation, Japan; Yokogawa, Japan; Scientific Atlanta, USA; York International, USA; Climatrol, Italy; Vestfrost, Denmark; Neles Jamesbury, USA; Zaxus (formerly Racal), UK; and Juniper Networks, USA; to name a few.

### History of BSIL

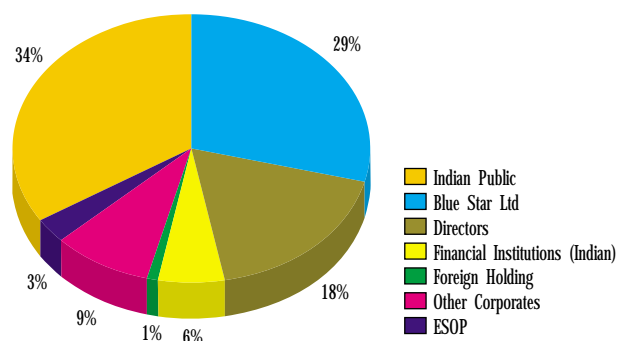
The software services business of Blue Star commenced its operations in December 1983, as a division to support Hewlett-Packard's computer business in India. Based on its initial success, the division looked to attract other Fortune 500 clients. In 1990, the division acquired a marketing entity in Silicon Valley in the US, USIN International Inc, to sell its software services. This initiative led to the development of a number of long-term business relationships with North American customers. From inception, the division followed a strategy of focusing on off-shore software services. For this purpose, it set up Software Competency Centres in Mumbai and Bangalore, some of which were dedicated units for its larger clients. Having successfully executed this model for



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### Shareholding Pattern



US clients, the division initiated marketing efforts in the UK, Continental Europe and Japan. Throughout the nineties, the division leveraged Blue Star's relationships with its collaborators, business associates and joint venture partners to enter into extended software development partnerships.

Toward the end of the nineties, with the growing success of the Indian software industry, it started becoming increasingly challenging to retain talented consultants in a software division within a larger umbrella organization. Hence, Management decided that the best course of action was to spin-off the division into a separate company. This would permit the introduction of a lucrative Employee Stock Option Plan (ESOP), thus encouraging employees to make their future with the Company. From the stakeholder perspective, a spin-off would potentially give existing Blue Star shareholders a higher valuation, and would present the business as an attractive investment opportunity to new investors. Finally, from a business perspective, such a structure would provide the best tax treatment to the Company's income.

The spin-off did not bring any additional tax burden to the Company or the shareholders. Shareholders of Blue Star Ltd received one share of BSIL and three shares of Blue Star in place of every four shares of Blue Star held by them. Consequently, the share capital of Blue Star Ltd was reduced by 25 per cent. BSIL is currently listed on India's premiere bourse, the Bombay Stock Exchange. Showing their commitment to the future of the Company, Blue Star Ltd and BSIL Directors and employees together own 50% of the outstanding shares. This is balanced by the 34% holding by the public, which ensures healthy liquidity of the stock.

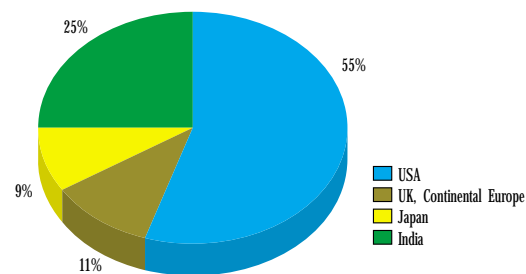
After shareholder approval and due legal process, Blue Star's International Software Division was spun-off in April 2000, and rechristened Blue Star Infotech Limited (BSIL), a Company now poised to play a major role in the global software industry.

### Business Reach

Blue Star Infotech Limited (BSIL) is a global provider of software consultancy, design and development services. It currently caters to markets in the USA, UK, Continental Europe, Scandinavia and Japan.

BSIL is represented in the USA, by its wholly owned subsidiary in San Jose, California, USIN International Inc, which markets its services in the United States and Canada. In the UK, Blue Star Infotech (UK) Ltd, a subsidiary, has been formed to represent BSIL's interests in the region. The Company has recently set up a branch office in Helsinki, Finland to serve the growing demands of the Scandinavian telecommunications industry. BSIL meets the needs of the rapidly increasing customer base in Continental Europe, Japan and the Far East, by working closely with Business Associates who represent the Company's interests in these emerging markets.

### Markets Served



*Note: The majority of India-based revenue comes from off-shore projects executed for a California-based hi-technology product company. Although the projects are executed for international sites, remuneration is received from the Customer's Indian operations. The remaining Indian revenue is generated by domestic ERP implementation work.*





*The management team at BSIL's subsidiary - USIN International Inc, San Jose*

Software services are provided primarily from four development centres in Mumbai and one in Bangalore. In addition, over 60 consultants are currently executing projects at various client sites around the world.

BSIL's long-term, flexible and responsive approach coupled with mature and robust processes, ensures cost-effective project execution to international quality standards with rigorous attention to on-time completion. Its emphasis on quality has resulted in the award of the ISO 9001 Certification and the Company is in the process of receiving SEI-CMM accreditation.

#### Professional Services

BSIL offers its customers a diverse set of services that leverage contemporary and cutting-edge technologies. In its efforts to provide a full-service offering to its customers, the Company continues to expand its software capabilities. This, together with the rapid rate of technology obsolescence characteristic of the industry, also requires a constant evolution of services provided.

BSIL has a long history of working with hi-technology hardware & software companies. Leveraging this experience, the Company has established a full-fledged consulting practice to support hi-technology product companies and to act as a virtual extension to the client's design and development team. BSIL undertakes development, porting, testing and maintenance of embedded software solutions. The Company also works closely with independent software vendors to assist with co-development, re-architecture and end of life-cycle support of their marketed products.

Internet technologies have transformed traditional business models and processes. To serve this burgeoning market, BSIL has a growing team of experts, proficient in cutting-edge Internet technologies. The e-commerce team addresses both the web-enabling of existing applications as well as the design and execution of custom-built web-based business applications for emerging needs in the "e-nabled" business environment. The e-commerce team is fully geared to provide end-to-end solutions to all sizes of clients.



Although conventional legacy applications will gradually migrate to web-based platforms, there is a large customer base that continues to rely on old architectures for mission-critical business processes. In addition to providing non-invasive web-enabling and migration services, BSIL continues to service legacy applications in terms of application development, enhancements, maintenance and support. Through its early involvement with Hewlett-Packard, the Company has built considerable expertise in maintenance and migration of applications on the HP Platform.

With its vast experience in various business processes, BSIL offers a complete range of Enterprise Application Integration (EAI) services like implementation of ERP applications, including managing and guiding the change process.

With the current world-wide shortage of knowledge workers, BSIL has renewed its focus on staffing and on-site consulting. In addition to providing consultants to customer development teams, BSIL undertakes project staffing and execution at the client site.

#### Delivery Models

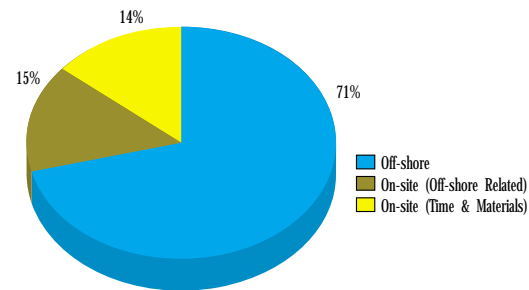
The Company offers its clients a full range of software delivery models including On-site Consulting, Off-shore Competency Centres and Off-site Development.

In the On-site Consulting model, BSIL's consultants work at the client's premises, either as part of the client's development team or in project teams managed by BSIL. These consultants are selected and trained by BSIL to fulfill the client's business requirements.

An Off-shore Competency Centre is a dedicated software development team at BSIL that uses the technology, processes and methodologies required by the customer. The model requires the initial project definition and design to be done on-site followed by a seamless transfer of knowledge to BSIL's teams in India. In many cases, an Off-shore Competency Centre operates as a virtual extension of the client's development team and is ideal for reducing time-to-market.

The Company is in the process of setting up off-site Development Centres in the USA and UK to cater to the growing number of projects that require short turn-around cycles and close customer interaction. Although the project structure will be similar to an off-shore setup, the client benefits from the geographical proximity and similar time zone to BSIL's off-site centres in the markets it serves.

### On-site/Off-shore Split (in terms of man years of work)



*Note: Off-shore related on-site work includes the initial design and definition, some development, and implementation of the work being executed off-shore. The on-site team also acts as a liaison between the client and the off-shore team.*

Although these models may seem strikingly different, the majority of our clients require a mix of all these delivery models at various stages of the development cycle.

#### Quality

BSIL is committed to satisfying the needs and expectations of its customers by consistently delivering cost-effective solutions and services that conform to specified requirements, on or ahead of schedule.

The Company uses a formal Quality Management System (QMS) and Customer Evaluation Feedback system of ISO 9001 and the ISO 9000-3 guidelines to measure customer satisfaction on four key issues, viz., quality of deliverables, timeliness, cost-effectiveness and commitment to customer satisfaction.

The Quality Team has documented all key processes through ISO 9000 certifications, and the recent successful surveillance audit for ISO 9001 by BVQI was a reassurance of the focus on quality. To further strengthen the quality of its processes, the Company is currently in the process of attaining SEI-CMM accreditation.

It is with this strong emphasis on quality in the foreground that BSIL has earned the overall rating of "Preferred Vendor" with all of its clients.

#### Research & Development

In order to keep as up-to-date as possible with the rapid technological change that characterizes the software industry, an R&D Centre has been set up in the Company's facilities during 1999-2000. The Centre focuses on technology absorption, adaptation and innovation and its dedicated group of R&D engineers constantly evaluates software-testing tools,





Technical Development Programme

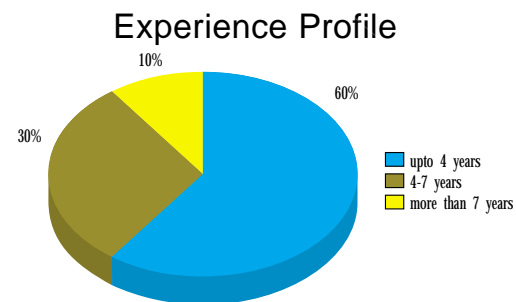
applications and platforms. These initiatives allow project teams to proactively provide clients with cutting-edge alternatives and enhancements to existing technology environments. With the growing complexity of Internet technologies, the R&D team also provides the knowledge support for the growing e-business consulting practice.

In conjunction with the Company's Hewlett-Packard Excellence Centre, the R&D team has also developed tools to web-enable legacy applications on the HP platform. These tools will help in extending the business value and usability of existing applications while allowing corporations to exploit the open architecture of the Internet. Specifically, the web-to-host tools developed in-house non-invasively enable HP's 3000 based legacy applications, enhance them and integrate them with other applications.

#### People

As of June 2000, BSIL, along with its subsidiaries, had a total of

350 employees. The Company follows stringent recruitment procedures to ensure a close fit to customer requirements and organisation culture. Management's commitment to build a mature organisation has resulted in over 40% of the employees having over four years of industry experience. To further strengthen its service offering, the Company continues to recruit employees with strong engineering skills. Today over 75% of employees are engineering graduates and Masters degree holders.



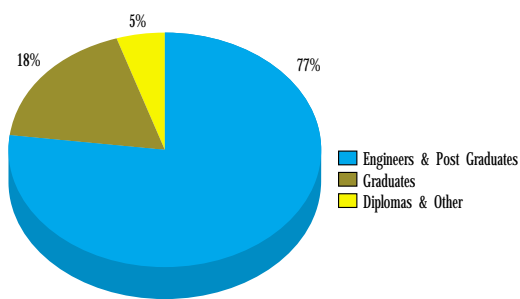
BLUE STAR INFOTECH LIMITED

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Software Development Centre at Bangalore and its roof-top cafeteria

### Qualification Profile



Even with consultants spread all across the world, BSIL continues to be a close-knit family. In an effort to retain this culture in a rapidly growing environment, a corporate intranet named "Darpan" has been developed and implemented in-house to facilitate internal communication across all levels of the organisation.

### Employee Care

People are our single most important resource, and to deliver superior results they are provided with a congenial and relaxed work atmosphere. To motivate the development team, facilities are equipped with state-of-the-art hardware, software and communication equipment. Management places great emphasis on continuously improving the work environment and ambience to nurture innovation and creativity. Towards this goal, a new recreational centre with exercise facilities, library, audio-visual entertainment and indoor games is currently being built.

As a part of employee development initiatives, technical, non-technical and managerial training is provided around the year to ensure that employees are up-to-date in terms of knowledge, skills and attitude. Being in a knowledge-based service business, special emphasis is placed on personality development and enhancing communication skills.

An Employee Stock Option Plan (ESOP) was launched in

July 2000 to enable employees to share in the Company's success and to attract the best talent available. The plan is also intended to encourage employees to stay with the Company for the long term, and to understand that they are an integral part of ensuring the Company's success. Management believes that it is the employees who can make a company reach new heights and that their own personal achievements and Company's success go hand-in-hand. Leaving industry standards far behind, Management has chosen to extend the ESOP to every BSIL employee.

As a result of this employee focus, the attrition rate of BSIL software professionals has dropped dramatically and is well below the industry average.

#### BSIL Partnerships

BSIL has an impressive list of clients, many of whom are on the Fortune 500 list. The Company also has a large and growing number of medium sized hi-technology clients in the USA and Europe. Recognizing its mature processes and strength in managing complex technologies and off-shore centres, a majority of BSIL's clients over a period of time have entered into long-term partnerships with the Company. Some of the major contributors to the Company's growth over the last few years include:

- BSIL has been an applications development partner of the Indian software operations of a US Fortune 500 client for over fifteen years.
- BSIL has provided product development support to the European R&D Group of a \$15 billion US multinational multi-product company for nine years.
- The Company has an embedded software development team for a Japanese Fortune 500 manufacturer of hi-technology medical equipment. This relationship goes back over four years.
- BSIL has set up a full-fledged dedicated development centre for a California-based developer of business planning software. The four-year relationship has spanned the entire life-cycle of the client's flagship product.
- BSIL has been a development partner of a leading UK-based network and e-business security company since 1996.
- The Company has a two-year association with a Finland-based provider of value-added telecommunications services. The relationship includes setting up a virtual extension of the client's product development team.

The Company intends to not only grow its existing partnerships, but approaches every potential new client with the intention of developing relationships for the long-term. Extending this philosophy to its stakeholders, it is the endeavor of BSIL to develop long-term mutually beneficial relationships with its employees, business associates and shareholders.



## 1999-2000: Highlights

- Total income of operations for the 15-month period from April 1999 to June 2000 was Rs 485.0 million (\$10.8 million) while Profit After Tax (PAT) was pegged at Rs 83.1 million (\$1.8 million).
- Introduction of Employee Stock Option Plan (ESOP). Every BSIL employee is eligible for the Plan.
- Quality continued to be a central focus for the Company. ISO 9001 Certification was obtained for Mumbai in August 1999 and plans for SEI-CMM accreditation are in progress.
- The Company set up an R&D Centre, focused on new-technology absorption, adaptation and innovation.
- The Company strengthened its focus on serving hi-technology hardware and software product companies.
- The Company assimilated its Internet technologies-related activities into a full-fledged e-business consulting practice. The team focuses on web-enabling existing applications as well as implementing web-based solutions.

Summarised Financial Statements	
<i>(Rs Million, \$1 = approx. Rs 45)</i>	
Income Statement	
	15 months <u>(ended June, 30, 2000)</u>
Total Revenue	485.0
Total Expenditure	381.0
Profit before Tax	104.0
Profit after Tax (Net Income)	83.1
Balance Sheet	
	<u>As on June 30, 2000</u>
<i>Assets:</i>	
Current Assets	200.0
Fixed Assets, net of accumulated depreciation	38.1
Investments in Subsidiaries	6.7
Miscellaneous Expenditure (to the extent not written-off or adjusted)	9.4
	<u>254.2</u>
<i>Liabilities:</i>	
Current Liabilities & Provisions	34.6
Long-term Liabilities	<u>0.0</u>
	34.6
<i>Shareholders' Funds:</i>	
Share Capital	100.0
Reserves & Surplus	<u>119.6</u>
	219.6
	<u>254.2</u>





Suneel M Advani



Ashok M Advani



Parmod K Bhalla



Prakash G Hebalkar



Suresh N Talwar



Sanjay N Vaswani

## BOARD OF DIRECTORS

Suneel M Advani, Chairman is a double graduate in Electrical Engineering and Economics from the Massachusetts Institute of Technology, USA. He joined Blue Star Ltd in March 1969 as a Management Trainee and moved up steadily holding responsible positions before joining the Board in 1983 as Executive Director. He was elevated to the position of President and Vice Chairman of Blue Star in 1984.

Ashok M Advani, Vice Chairman is an MBA from the Harvard Graduate School of Business Administration, an Electrical engineer from the Massachusetts Institute of Technology, USA and a BSc Honours from Bombay University. He joined Blue Star Limited in 1969. He held a variety of senior positions in manufacturing and finance in the Company before becoming a Director in 1979. He was appointed President & Vice Chairman in 1981 and took over as Chairman & Chief Executive in 1984.

Parmod K Bhalla, Managing Director is a BA in Mathematics and MA in Operational Research, both from the University of Delhi. He joins BSIL as Managing Director with effect from June 29, 2000. Bhalla's career spans 24 years. He spent his early years in Operational Research & Systems in Indian Airlines, NDDB, EDP Corporation & DCM Data Products. From 1982 through 1999, Bhalla was with HCL Ltd and its associate companies. Before his current assignment, Bhalla was CEO of the Indian operations of AN-NET Infotech Ltd, a software services start-up, specialising in the e-Commerce space. Bhalla's extensive experience in international

marketing, operations management, and strategic planning will add value to BSIL.

### Other Directors

Prakash G Hebalkar is a Doctor of Science in Computer Science and Economics from the Massachusetts Institute of Technology, USA. He has worked with IBM, USA and thereafter with Tata Unisys as Senior Vice President. He was instrumental in forming and building up the joint venture of Tata and Unisys as a successful software and consultancy services activity. He is also associated with several leading venture finance organisations and financial institutions.

Suresh N Talwar is a graduate in Commerce & Law and a Solicitor and Senior Partner of Crawford Bayley & Company, a leading solicitor's firm. He joined the Board of Blue Star in June 1986 and continues to be a Director till date. Besides his vast legal experience, he is on the Board of several leading companies.

Sanjay N Vaswani holds an MBA from the Wharton School of Business and a BBA summa cum laude from the University of Texas at Austin. He has worked for Intel Corporation and as an associate in McKinsey & Company Inc in Los Angeles. In 1990, he set up his own consulting firm which is a consultant and advisor to hi-tech companies in the USA. Vaswani works and resides in the heart of Silicon Valley and is very knowledgeable about the IT industry.



## DIRECTORS' REPORT

The Directors are pleased to present their 3rd Annual Report and the Audited Accounts for the financial year (15 months) ended June 30, 2000.

### DIVIDENDS:

The Company has aggressive plans to expand its international operations, including opening of a new branch office in Finland. The Directors thought it prudent to conserve resources to support such growth opportunities and, therefore, have not recommended dividend for the financial year ended June 30, 2000.

### SPIN OFF:

After a lengthy legal process, the Hon'ble High Court at Bombay issued an Order approving the Scheme of Arrangement between the Company and Blue Star Limited (BSL) on April 3, 2000. The Order became effective on April 4, 2000, after it was filed with the Registrar of Companies.

Under the terms of this scheme, the business of the International Software Division (ISD) of BSL was deemed to have been transferred to Blue Star Infotech Limited (BSIL) with retrospective effect from October 1, 1998. However, since the High Court Order was received and became effective on April 4, 2000, necessary accounting entries for transfer of business were passed only on that day.

### FINANCIAL YEAR:

The last financial year of the Company ended on March 31, 1999. Since the transfer of business took place after March 31, 2000, in order to incorporate the effect of spinoff in the books of BSIL and present a complete report to its shareholders, the financial year was extended to 15 months ending June 30, 2000. Accordingly, the accounts of BSIL have been prepared for the period April 1, 1999 to June 30, 2000.

### OPERATING RESULTS:

Since the financial year ended June 30, 2000 was the first financial year in which the Company commenced its commercial operations, there are no comparable figures for the previous financial year ended March 31, 1999. Therefore, it is not possible to compare the performance of the Company with the previous year. The operations for the period April 1, 1999 to April 3, 2000 were conducted by BSL through its International Software Division, pursuant to the Scheme of Arrangement. The total income during the financial year was Rs.48.49 crores, and profit after tax was Rs.8.31 crores.

The financial year 1999-2000 saw modest growth. There were several reasons for this.

1. Because of the all round slowdown in the ERP segment, and of the Baan Company in particular, our Baan ERP implementation business did not grow. While we got some business from BAAN customers in India, in Europe and the USA ERP customers installed other ERP packages.
2. U.S. business, both onsite and offshore, was weak because of the pre-occupation of American I.T. Managers with the Y2K issue (Y2K was not a business segment addressed by BSIL).

The Company responded to these market developments by containing operating costs and scaling back recruitment. It was felt that the setback was a temporary phenomenon, and the cash flow being relatively good, should not impede investments for future growth. Accordingly, the marketing team was strengthened in India and the U.S.A., and a new sales office was opened in London to address the U.K. market more effectively. Additional space was acquired for offshore project execution at Seepz and a software technology park facility was also established. A new R&D Centre was opened in Bangalore to develop products based on web technologies.

SUMMARISED FINANCIAL RESULTS	April '99 - June '00 (Rs. Lakhs)
Total Income	<u>4849.39</u>
Profit before interest, depreciation and taxation	1223.77
Interest	25.42
Depreciation	158.63
Provisions for taxation	<u>209.17</u>
Profit after taxation	830.55
Less: Balance brought forward	10.46
Add: Profit transferred by Blue Star Limited for the period 1.10.98 to 31.3.1999	<u>375.48</u>
Profit available for appropriation	1195.57
Less: Transfer to General Reserve	<u>500.00</u>
Balance carried forward	<u>695.57</u>



#### SHARE CAPITAL:

The authorised capital of the Company is Rs. 11 crores and the paid up capital is Rs. 10 crores.

As per the Scheme of Arrangement approved by the High Court, 67,74,275 equity shares of Rs.10/- each in BSIL were allotted to the shareholders of BSL in the ratio of 1 equity share for every 4 equity shares held by them in BSL, as on the record date. Besides, 29,25,725 equity shares of Rs.10/- each (including 70 equity shares allotted to the subscribers to the Memorandum of Association which were held by them on behalf of BSL), were allotted to BSL, and 3,00,000 equity shares of Rs.10/- each were allotted to the BSIL Employees' Stock Option Trust constituted for the purpose of implementation of the Company's Stock Option Scheme. The allotment of shares was carried out on May 18, 2000. These shares have been exchanged upon surrender of BSL shares. The shares are listed on the Mumbai and National Stock Exchanges.

#### DEMATERIALISATION:

The Company has entered into agreements with NSDL and CDSL for making its shares available in the demat mode. Alternatively, they can also be traded in the physical mode, since the Company's shares are not notified for compulsory trading in demat mode.

#### EMPLOYEE STOCK OPTION SCHEME

In order to attract and retain employees and to reward them for good performance, the Company constituted a Trust for the purpose of implementation of the Employee Stock Option Scheme. 3,00,000 equity shares of Rs.10/- each were allotted to the Trust.

Under the Scheme, the employees of BSIL and its subsidiary/associate companies, and Directors of BSIL, have been given options to obtain shares of the Company as per the terms and conditions of the Scheme. A Compensation Committee constituted of Board members was formed for the purpose of implementation of this Scheme.

#### SUBSIDIARY COMPANIES:

USIN International Inc., USA

USIN International Inc., was a wholly owned subsidiary of BSL. Pursuant to the Scheme of Arrangement, the investments of BSL in USIN were transferred to BSIL, and accordingly USIN became a wholly owned subsidiary of BSIL effective April 4, 2000. This Company provides the front-end marketing support in the U.S.A. for the software services provided by BSIL. The financial year of USIN was April, 1999 to March, 2000. The Balance Sheet and the Statement of Income and Retained Earnings for the financial year ended March 31, 2000 form part of this Annual Report. The total income during the year ended March 31, 2000 was US \$ 5.107 Million, which generated a loss of US \$ 0.22 Million as compared to an income of US \$ 6.023 Million and a net profit of US \$ 0.07 Million during the previous year.

Blue Star Infotech (UK) Ltd.

Blue Star Infotech (UK) Ltd. was incorporated in the UK as a wholly owned subsidiary of USIN on September 1, 1998 to tap the software market in that market. However, its operations commenced in the financial year 1999-2000. Since USIN became a subsidiary of BSIL, as per the provisions of the Companies Act 1956, its UK subsidiary also became a subsidiary of BSIL. The Balance Sheet and Profit & Loss Account of Blue Star Infotech (UK) Ltd for the period April, 1999 to March, 2000 form part of this Annual Report. Total income during the period was £106,260 which resulted in a loss of £47,995. This was the Company's first full year of operations, and investments were made in marketing, which will begin to show results only in the second and third years.

#### DIRECTORS:

Mr. Suresh N. Talwar, Dr. Prakash Hebalkar, Mr. Sanjay Vaswani and Mr. Parmod Bhalla were appointed as additional Directors pursuant to Article 119 of the Articles of Association of the Company, to hold office up to the date of the forthcoming Annual General Meeting. Being eligible for reappointment, they offer themselves for reappointment.

Mr. Assar S. Sambtani and Mr. K.P.T. Kutty, who were Directors of the Company, resigned from the Board with effect from January 21, 2000.

Mr. Parmod Bhalla was appointed Managing Director of the Company for a period of 5 years with effect from June 30, 2000. A resolution for confirmation of his appointment will be placed before the forthcoming Annual General Meeting of the Company.

#### DISCLOSURE OF PARTICULARS:

Information as per Section 217 (2A) of the Companies Act 1956, read with the rules made thereunder, relating to the particulars of employees, is given as an Annexure forming part of this report. Since the Company did not have any commercial operation for a major part of the financial year, the information pursuant to Section 217(1)(e) is not given.

For and on behalf of the Board,

SUNEEL M. ADVANI  
CHAIRMAN

Mumbai  
September 26, 2000.



BLUE STAR INFOTECH LIMITED

15

File Name: Annual-Report  
Job No: 27160  
PC: Srikanth

## INVESTOR AND SHAREHOLDER INFORMATION

### Shareholder Inquiries

Questions concerning your folio, share certificates, address changes, consolidation of certificates, lost certificates and related matters should be addressed to Blue Star Infotech Limited, directly or their share transfer agents.

Blue Star Infotech Limited Intime Spectrum Registry Pvt Ltd  
Kasturi Buildings 260, Shanti Industrial Estate  
Mohan T Advani Chowk Sarojini Naidu Road  
Jamshedji Tata Road Mulund (West)  
Mumbai 400 020 Mumbai 400 080  
Tel : 91-22-2020868 Tel:91-22-5923837, 5647731,  
Fax: 91-22-2025813 5672716,5684590,5684591  
www.bsil.com Fax:91-22-5672693

Share transfer documents will also be accepted at:

Intime Spectrum Registry Pvt Ltd  
203 Dawar House, 2nd floor  
Next to Central Camera Building  
197 D.N.Road, Fort, Mumbai 400 001

### Dematerialisation

The Company has made arrangements for dematerialisation of its shares through National Securities Depositories Limited (NSDL) and Central Depository Services (India) Ltd (CDSL). The Company shares are traded in Physical and Demat mode. However, shareholders are advised to dematerialise their shareholding.

### Investor Relations Programme

Blue Star Infotech Limited has an active investor relations programme directed to both individual and institutional investors. The Company's investor relations mission is to maintain an ongoing awareness of the Company's performance among its shareholders and the financial community. The Company welcomes inquiries from its investors, large or small, as well as from members of the financial community.

For further information, please contact the Company's Investor Relations Department at the registered office.

### Blue Star Infotech's Shareholders

As of 30th June, 2000, the Company has approximately 25,800 registered shareholders. Approximately 34 per cent of the Company's shares are held by individual investors. The Promoters including Blue Star Limited hold approximately 47 per cent of the shares, 3 per cent of the shares is allocated for ESOP and Institutions and Body Corporate hold the balance shares.

### Stock Exchange Listings

Bombay Stock Exchange  
National Stock Exchange



BLUE STAR INFOTECH LIMITED

File Name: Annual-Report  
Job No: 27160  
PC: Srikanth

## BLUE STAR INFOTECH LIMITED

### Bankers:

ABN AMRO Bank  
Central Bank of India  
The Hongkong and Shanghai Banking Corporation Ltd.

### Auditors:

Blue Star Infotech Limited  
Price Waterhouse  
Dubhash House  
15, J. N. Heredia Marg  
Ballard Pier  
Mumbai 400 038  
India

### Corporate Management:

As on September 23, 2000

### Blue Star Infotech Limited

Suneel M. Advani, Chairman  
Ashok M. Advani, Vice Chairman  
Parmod Bhalla, Managing Director  
Assar Sambtani, President  
Bharat Shah, Vice President  
Hubert Coelho, General Manager  
Sudhir Gera, General Manager — Marketing  
Harish Govind, General Manager — HR

USIN International, Inc.  
Clinton Beacham, COO

Blue Star Infotech (UK) Limited  
Gary Bailly, Country Manager

### Offices:

### Registered Office

Kasturi Buildings, Mohan T. Advani Chowk  
Jamshedji Tata Road  
Mumbai 400 020, India  
Tel: 91-22-202 0868  
Fax: 91-22-202 5813

### Corporate Office

Unit 188, SDF VI  
SEEPZ, Andheri (E)  
Mumbai 400 096, India  
Tel: 91-22-829 2669  
Fax: 91-22-829 0751

### Bangalore

Vidyadeep  
# 128/1 Ulsoor Road  
Bangalore 560 042, India  
Tel: 91-80-558 5316  
Fax: 91-80-558 1263

### United Kingdom

Blue Star Infotech (UK) Limited  
3rd Floor, Station House  
Masons Avenue, Wealdstone  
Harrow, Middlesex HA3 5AH  
United Kingdom

### United States of America

USIN International, Inc.  
226, Airport Parkway  
Suite 465, San Jose  
CA 95110-1329  
United States of America  
Tel: 1-408-441-8800  
Fax: 1-408-441-6658

## AUDITORS' REPORT

To the Members of BLUE STAR INFOTECH LIMITED

We report that we have audited the Balance Sheet of Blue Star Infotech Limited as at June 30, 2000 signed by us under reference to this report and the related Profit and Loss Account for the period ended on that date, which are in agreement with the books of account.

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, dated 7th September, 1998 issued by the Central Government of India and on the basis of such checks as we considered appropriate and according to the information and explanations given to us we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our audit. In our opinion, proper books of account have been kept as required by law so far as appears from our examination of the books.

3. In our opinion, these accounts have been prepared in compliance with the applicable accounting standards referred to in Section 211 (3C) of The Companies Act, 1956, of India (the 'Act').
4. In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account together with the schedules attached thereto and the Statement on Significant Accounting Policies give in the prescribed manner the information required by the Act, and also give respectively, a true and fair view of the state of the Company's affairs as at June 30, 2000 and its profit for the period ended on that date.

For Price Waterhouse  
Chartered Accountants

P. N. Ghatalia  
Partner

Mumbai, September 26, 2000

## ANNEXURE TO THE AUDITORS' REPORT

(Annexure referred to in paragraph 1 of Auditors' Report of even date to the members of Blue Star Infotech Limited on the accounts for the period ended June 30, 2000)

- |  |   |
|--|---|
| <p>(i) The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets. Pursuant to the acquisition of the International Software Division from Blue Star Limited, the Company is in the process of conducting a complete physical verification of the fixed assets. The fixed assets of the Company have not been revalued during the period.</p> <p>(ii) The Company has neither taken nor granted any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under Section 301 of the Act. We are informed that there are no companies under the same management within the meaning of sub-section 1(B) of Section 370 of the Companies Act 1956.</p> <p>(iii) The parties to whom loans or advances in the nature of loans have been given by the Company are repaying the principal amounts, as stipulated, and are also regular in payment of interest, where applicable.</p> | <p>(iv) In our opinion there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of computer hardware and software, consumables, plant and machinery, equipment and other assets. The activities of the Company do not involve sale of goods.</p> <p>(v) The Company has entered into transactions for the sale of services in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act, aggregating during the year to Rs. 50,000 or more in respect of each party. There are no sales of similar services comparable to those sold since these are considered to be of special nature as explained by the management of the Company. According to the information and explanation given to us, the Company has not entered into any transactions for purchase or sale of goods and materials with companies, firms or other parties listed in the register maintained under Section 301 of the Act.</p> |
|--|---|

- (vi) The Company has not accepted any deposits from the public within the meaning of Section 58A of the Companies Act, 1956 and the rules framed thereunder.
- (vii) The Company has been generally regular during the period in depositing Provident Fund dues with the appropriate authorities in India. As informed to us, the provisions relating to Employees' State Insurance are not applicable to the Company for the current period.
- (viii) At the last day of the financial period, there was no amount outstanding in respect of undisputed income tax, wealth tax, sales tax, customs duty and excise duty which were due for more than six months from the date they became payable.
- (ix) During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices in India, we have not come across any personal expenses which have been charged to the Profit and Loss Account, nor have we been informed of such cases by the management, other than those payable under contractual obligations and/or accepted business practices.
- (x) The Company is not a sick industrial company within the meaning of Clause (o) of Section 3(1) of the Sick Industrial Companies (Special Provisions) Act, 1985, of India.
- (xi) In our opinion, the Company has a reasonable system of allocating man-hours utilised to the relative jobs/projects, commensurate with its size and nature of its business.
- (xii) In our opinion and according to the information and explanations given to us, the Company has a reasonable system of authorisation at proper levels and of internal control, commensurate with the size of the Company and the nature of its business, on allocation of labour/service costs to jobs/projects. The allocation of stores to jobs was not applicable to the Company for the current period.
- (xiii) Clauses (iii), (iv), (v), (vi), (xii), (xiv) (xv), (xvi) of paragraph 4(A) and clause (ii) of paragraph 4(B) are not applicable to the Company for the current period.

For Price Waterhouse  
Chartered Accountants

P. N. Ghatalia  
Partner

Mumbai, September 26, 2000

BALANCE SHEET AS AT JUNE 30, 2000

	Schedule	As at June 30, 2000 Rupees Lacs	As at March 31, 1999 Rupees Lacs
<b>SOURCES OF FUNDS</b>			
Shareholders' Funds			
Share Capital	A	10,00.00	0.01
Advance received towards Share Capital		—	32.06
Reserves & Surplus	B	11,95.57	—
<b>TOTAL</b>		<b>21,95.57</b>	<b>32.07</b>
<b>APPLICATION OF FUNDS</b>			
Fixed Assets	C		
Gross Block		5,85.43	—
Less: Depreciation		2,04.39	—
Net Block		3,81.04	—
Investments	D	66.58	—
Current Assets, Loans and Advances	E		
Sundry Debtors		9,99.90	—
Cash and Bank Balances		3,59.43	0.31
Loans and Advances		6,41.17	19.06
		20,00.50	19.37
Less: Current Liabilities and Provisions	F		
Current Liabilities		1,92.34	1.30
Provisions		1,53.85	—
		3,46.19	1.30
Net Current Assets		16,54.31	18.07
Miscellaneous Expenditure (to the extent not written off or adjusted)		93.64	3.54
Profit and Loss Account		—	10.46
<b>TOTAL</b>		<b>21,95.57</b>	<b>32.07</b>
Notes to Accounts	J		

Schedules A to F and J referred to above form an integral part of the Balance Sheet

For and on behalf of the Board

In terms of our report of even date  
For Price Waterhouse  
Chartered Accountants

Suneel M. Advani  
Chairman

Parmod K. Bhalla  
Managing Director

P. N. Ghatalia  
Partner

Ashok M. Advani  
Vice Chairman

Mumbai, September 26, 2000

Mumbai, September 26, 2000

PROFIT & LOSS ACCOUNT FOR THE PERIOD APRIL 1, 1999 JUNE 30, 2000

	Schedule	Period ended June 30, 2000 Rupees Lacs	Period ended March 31, 1999 Rupees Lacs
<b>INCOME</b>			
Sales and services			
Exports		34,73.88	—
Domestic		13,37.84	—
Total sales and services		48,11.72	—
Other income	G	37.67	—
<b>TOTAL</b>		<b>48,49.39</b>	<b>—</b>
<b>EXPENDITURE</b>			
Employee remuneration & benefits	H	9,92.77	—
Operating & general expenses	I	26,32.85	10.46
Depreciation		1,58.63	—
Interest		25.42	—
<b>TOTAL</b>		<b>38,09.67</b>	<b>10.46</b>
Profit/(Loss) before Taxation		10,39.72	(10.46)
Provision for taxation		2,09.17	—
Profit/(Loss) after taxation		8,30.55	(10.46)
Profit of International Software Division of Blue Star Limited for the period October 1, 1998 to March 31, 1999 (Refer Note 4 in Schedule J)		3,75.48	—
Balance brought forward		(10.46)	—
Profit available for appropriation		11,95.57	(10.46)
<b>APPROPRIATIONS</b>			
Transfer to General Reserve		5,00.00	—
Balance transferred to Balance Sheet		6,95.57	(10.46)
Notes to Accounts	J		

Schedules G to J referred to above form an integral part of the Profit & Loss Account

For and on behalf of the Board

In terms of our report of even date  
For Price Waterhouse  
Chartered Accountants

Suneel M. Advani  
Chairman

Parmod K. Bhalla  
Managing Director

P. N. Ghatalia  
Partner

Ashok M. Advani  
Vice Chairman

Mumbai, September 26, 2000

Mumbai, September 26, 2000

SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT JUNE 30, 2000

	As at June 30, 2000 Rupees Lacs	As at March 31, 1999 Rupees Lacs
<b>SCHEDULE A:</b>		
<b>SHARE CAPITAL</b>		
Authorised 1,10,00,000 Equity Shares of Rs. 10/- each (Previous period 1,00,00,000 equity shares of Rs. 10/- each)	11,00.00	10,00.00
Issued, Subscribed and Paid up 1,00,00,000 Equity Shares of Rs. 10/- each fully paid-up (Previous period 70 equity shares of Rs. 10/- each fully paid-up)	10,00.00	0.01
	10,00.00	0.01
<b>SCHEDULE B:</b>		
<b>RESERVES &amp; SURPLUS</b>		
General Reserve		
Balance as at April 1, 1999	—	—
Add: Transfer from Profit & Loss Account	5,00.00	—
	5,00.00	—
Profit & Loss Account	6,95.57	—
	11,95.57	—

**SCHEDULE C:**

**FIXED ASSETS**

Rupees Lacs

Description of assets	Gross block			Depreciation			Net Block			
	As at 31.3.1999	Additions	Deletions	As at 30.6.2000	As at 31.3.1999	Additions	Deletions	As at 30.6.2000	As at 30.6.2000	As at 31.3.1999
Plant & Machinery	—	3,54.99	5.35	3,49.64	—	1,55.11	2.94	1,52.17	1,97.47	—
Furnitures & fittings	—	1,63.48	1.05	1,62.43	—	34.05	0.30	33.75	1,28.68	—
Office equipment	—	26.98	—	26.98	—	6.13	—	6.13	20.85	—
Vehicles	—	46.38	—	46.38	—	12.34	—	12.34	34.04	—
<b>TOTAL</b>	—	5,91.83	6.40	5,85.43	—	2,07.63	3.24	2,04.39	3,81.04	—
Previous Period	—	—	—	—	—	—	—	—	—	—

Notes:

- Additions to Gross Block include the net book value of the assets taken over from the International Software Division of Blue Star Limited, pursuant to the Scheme of Arrangement (Refer Note 4 of Schedule J), amounting to Rs.217.45 Lacs
- Additions to depreciation for the period includes Rs. 49.00 Lacs pertaining to the period October 1, 1998 to March 31, 1999.

SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT JUNE 30, 2000

	As at June 30, 2000 Rupees Lacs	As at March 31, 1999 Rupees Lacs
<b>SCHEDULE D:</b>		
<b>INVESTMENTS (AT COST)</b>		
Unquoted:		
Investment in subsidiary company		
1,00,000 equity shares of US\$ 1 each in USIN International, Inc., fully paid-up (Previous period Nil)	66.58	—
Refer Note 5 of Schedule J		
<b>SCHEDULE E:</b>		
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>		
(a) Sundry Debtors (Unsecured)		
Considered Good:		
Over six months	1.50	—
Others	9,98.40	—
	9,99.90	—
(b) Cash & Bank Balances:		
Cash on hand	0.47	0.01
Balances with Scheduled Banks:		
in current accounts	75.88	0.30
in deposit accounts (EEFC)	2,83.08	—
	3,59.43	0.31
(c) Loans & Advances		
Unsecured and considered good:		
Advances Recoverable in cash or in kind or for value to be received	5,86.74	19.06
Deposits with Government and other bodies	54.43	—
	6,41.17	19.06
<b>SCHEDULE F:</b>		
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>		
(a) Current Liabilities		
Sundry Creditors		
Outstanding dues to small scale industries	—	—
Others	44.31	1.30
Other Liabilities	1,48.03	—
	1,92.34	1.30
(b) Provisions		
Provision for leave encashment	8.62	—
Provision for tax (net of advances)	1,45.23	—
	1,53.85	—

SCHEDULES ATTACHED TO AND FORMING PART OF THE PROFIT & LOSS ACCOUNT  
FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

	Period ended June 30, 2000 Rupees Lacs	Period ended March 31, 1999 Rupees Lacs
<b>SCHEDULE G:</b>		
<b>OTHER INCOME</b>		
Profit on sale of assets	0.02	—
Interest on bank deposits (tax deducted at source Rs. Nil)	13.07	—
Exchange gain	21.68	—
Sale of special import licenses	2.90	—
	37.67	—
<b>SCHEDULE H:</b>		
<b>EMPLOYEE REMUNERATION AND BENEFITS</b>		
Salaries, wages & bonus	6,67.89	—
Contribution to provident and other funds	79.36	—
Staff welfare	2,45.52	—
	9,92.77	—
<b>SCHEDULE I:</b>		
<b>OPERATING AND GENERAL EXPENSES</b>		
Rent	61.52	—
Lease rentals	2.81	—
Rates & taxes	1.17	—
Power	44.11	—
Insurance	1.14	—
Repairs & maintenance		
Leasehold premises	11.59	—
Machinery	21.15	—
Payment to auditors – Audit fees	1.25	1.30
Professional charges	1,24.92	6.31
Service charges paid to overseas subsidiaries	16,47.60	—
Travelling & conveyance	5,34.84	0.01
Communication	60.04	—
Miscellaneous expenses	91.85	1.20
Loss on assets sold or discarded	0.32	—
Miscellaneous expenditure written off	28.54	1.64
	26,32.85	10.46

SCHEDULES ATTACHED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

SCHEDULE J:

NOTES TO ACCOUNTS

1. Significant accounting policies
  - (a) Basis of accounting and preparation of financial statements  
The financial statements have been prepared under the historical cost convention on an accrual basis and are in accordance with the requirements of the Companies Act, 1956, ('the Act') and comply with the Accounting Standards referred to in section 211(3C) of the Act.
  - (b) Fixed assets and depreciation
    - (i) Fixed Assets are stated at cost. Cost includes inward freight, duties, taxes and expenses incidental to acquisition and installation, up to the point that the asset is ready for its intended use.
    - (ii) Depreciation on fixed assets is provided on the written down value method, on a pro-rata basis. The applicable rates are as provided under Schedule XIV to the Act, or estimated useful lives, whichever are higher.
  - (c) Investments  
Long term investments are valued at cost. In the event of a permanent diminution in the value, the investment is valued net of such diminution.
  - (d) Foreign exchange transactions
    - (i) Income and expenses in foreign exchange are recorded at the exchange rates prevailing on the date of the transaction.
    - (ii) Current assets and current liabilities denominated in foreign currency are translated at the exchange rate prevailing at the year end date.
    - (iii) Fixed assets purchased are capitalised at rates prevailing on the date of purchase.
    - (iv) Exchange difference relating to acquisition of fixed assets is adjusted to the cost of the assets. All other gains or losses are included in the Profit and Loss Account.
  - (e) Retirement benefits  
Liabilities of the Company on account of gratuity and leave encashment are ascertained by actuarial valuation. The amount of gratuity liability so ascertained, is paid to the gratuity fund and necessary provision is made towards leave encashment.
  - (f) Revenue recognition
    - (i) Revenue from software development on a time and material basis is recognised based on software developed and billed to clients as per the terms of the specific contracts.
    - (ii) Revenue from fixed price contract is recognised based on the milestones achieved as specified in the contracts on the percentage of completion basis.
    - (iii) Revenue from the sale of special import licenses is recognised when licenses are actually sold.
  - (g) Miscellaneous Expenditure
    - (i) Amortisation of software product development expenditure  
Expenditure incurred on in-house software product development is treated as deferred revenue expenditure and will be amortised over a period of three years from the day it becomes commercially marketable.
    - (ii) Amount paid for acquisition of leasehold premises is amortised over five years.
2. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) is Rs. 14.78 Lacs (Previous period Rs. Nil).
3. Contingent liabilities  
There are no contingent liabilities as on the date of the Balance Sheet.
4. Acquisition of International Software Division from Blue Star Limited
  - (a) Pursuant to the Scheme of Arrangement between the Company and Blue Star Limited for the demerger of the International Software Division (ISD) of Blue Star Limited approved by the Honourable High Court of Bombay on April 3, 2000, the ISD has been acquired as a going concern by the Company on April 4, 2000. The assets and liabilities of ISD were transferred to and vested in the Company with retrospective effect from October 1, 1998. The Accounts drawn up give effect to the Scheme. In view of the aforesaid acquisition, the figures for the current period are not comparable with those in the previous period.
  - (b) The assets and liabilities of ISD as on October 1, 1998 taken over by the Company are as under:

	Rupees Lacs
Net fixed assets (including capital work-in-progress)	2,17.45
Investments	66.58
Sundry debtors	4,89.08
Cash and bank balances	1.48
Loans and advances	1,24.78
Other assets	70.00
Current liabilities and provision	(2,02.70)
	7,66.67

This transaction has been settled through the current account with Blue Star Limited.

SCHEDULES ATTACHED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

SCHEDULE J:

NOTES TO ACCOUNTS (Contd.)

- (c) Further, pursuant to the Scheme of Arrangement, equity shares of Rs. 10/- each, at par, have been allotted to the undermentioned, for cash:
- (i) 67,74,275 equity shares to shareholders of Blue Star Limited
  - (ii) 29,25,655 equity shares to Blue Star Limited
  - (iii) 3,00,000 equity shares to BSIL Employees' Stock Option Trust

- (d) The profit of the International Software Division for the period October 1, 1998 to March 31, 1999 is arrived at as follows:

	Rupees Lacs
<b>INCOME</b>	
Sales and Services	
Exports	13,71.12
Domestic	3,49.24
<b>TOTAL</b>	17,20.36
<b>EXPENDITURE</b>	
Employee remuneration & benefits	3,38.82
Operating & general expenses	9,00.98
Depreciation	49.00
Interest	6.08
<b>TOTAL</b>	12,94.88
Profit before taxation	4,25.48
Provision for taxation	50.00
<b>Profit after taxation</b>	3,75.48

5. Pursuant to the Scheme of Arrangement (Refer Note 4), the entire investment held by ISD in USIN International, Inc., USA (USIN), has been acquired by the Company. As a result, USIN has become the wholly-owned subsidiary of the Company. The underlying investment of 100,000 shares of US\$1 each have since been transferred into the name of the Company. Pursuant to USIN becoming the subsidiary of the Company, Blue Star Infotech (UK) Limited, UK, a subsidiary of USIN, has also become the subsidiary of the Company.
6. As of June 30, 2000 the Company has no outstanding dues to any small scale industrial undertaking as defined under Section 3(j) of the Industries (Development and Regulation) Act, 1951 for a sum exceeding Rs. 1 Lac and which is outstanding for more than 30 days at the Balance Sheet date.
7. Legal & Professional charges includes an amount of Rs. 4.50 Lakhs pertaining to the period ended September 30, 1998.
8. Managerial remuneration to Managing Director included in the Profit and Loss Account:

	Period ended June 30, 2000 Rupees Lacs	Period ended March 31, 1999 Rupees Lacs
Salary	0.05	—
Contribution to provident fund and superannuation scheme	0.02	—
Perquisites	0.05	—

The appointment of the Managing Director is subject to approval of the shareholders at the Annual General Meeting.

9. Additional information pursuant to the provisions of Part II of Schedule VI to the Act

- A. The Company is engaged in the development of computer software. Considering the nature of business, certain details required under Part II of schedule VI are not applicable.

	Period ended June 30, 2000 Rupees Lacs	Period ended March 31, 1999 Rupees Lacs
<b>B. Value of imports on CIF basis:</b>		
Capital Goods	43.63	—
<b>C. Expenditure in foreign exchange</b>		
Travel expenses	2,86.53	—
Professional fees	10.87	—
Expenditure incurred for overseas software development	16,47.60	—
Other expenses	6.82	—
<b>D. Earnings in foreign exchange</b>		
Income from services	34,73.88	—
Interest on bank deposits	13.07	—

10. The current period comprises of fifteen months whereas the previous period comprised of six months.

11. The previous period's figures have been regrouped/rearranged, wherever necessary.

SCHEDULES ATTACHED TO AND FORMING PART OF THE ACCOUNTS  
FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

SCHEDULE J:

NOTES TO ACCOUNTS (Contd.)

12. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

Registration No. 110459

State Code 11

Balance Sheet Date 30 06 2000  
Date Month Year

II. CAPITAL RAISED DURING THE PERIOD (AMOUNT IN RS. THOUSANDS)

Public Issue  
NIL

Rights Issue  
NIL

Bonus Issue  
NIL

Private Placement  
9999\*

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS  
(AMOUNT IN RS. THOUSANDS)

Total Liabilities  
219557

Total Assets  
219557

SOURCES OF FUNDS

Paid-up Capital  
100000

Reserves & Surplus  
119557

Secured Loans  
NIL

Unsecured Loans  
NIL

APPLICATION OF FUNDS

Net Fixed Assets  
38104

Investments  
6658

Net Current Assets  
165431

Miscellaneous Expenditure  
9364

Accumulated Losses  
NIL

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover (including other income)  
484939

Total Expenditure  
380967

+ - Profit Before Tax  
103972

+ - Profit After Tax  
83055

Earning Per Share in Rupees (15 months)  
8.31

Dividend rate %  
NIL

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS/SERVICES OF COMPANY

(AS PER MONETARY TERMS)  
Item Code No. (ITC Code)  
85249904.10

Product Description

COMPUTER SOFTWARE

\*See Note 4(c)

Signatures to Schedules A to J

For and on behalf of the Board

Suneel M. Advani  
Chairman

Parmod K. Bhalla  
Managing Director

Ashok M. Advani  
Vice Chairman

Mumbai, September 26, 2000

CASH FLOW STATEMENT FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

	Period ended June 30, 2000 Rupees Lacs	Period ended March 31, 1999 Rupees Lacs
[A] Cash Flows from Operating Activities		
Net profit/(loss) before tax	10,39.72	(10.46)
Depreciation	1,58.63	—
Foreign exchange gains	(9.59)	—
Miscellaneous expenditure written off	28.54	4.85
Loss on sale of fixed assets (net)	0.30	—
Interest	25.42	—
Interest income	(13.07)	—
	<u>1,90.23</u>	<u>4.85</u>
Operating profit before working capital changes	12,29.95	(5.61)
Adjustment for:		
Trade and other receivables	(5,71.56)	(0.62)
Trade payables and other liabilities	(83.59)	1.25
	<u>(6,55.15)</u>	<u>0.63</u>
Cash generated from operations	5,74.80	(4.98)
Direct taxes paid	(95.50)	(18.44)
Net Cash from operating activities	4,79.30	(23.42)
[B] Cash flows from investing activities		
Purchase of fixed assets	(2,32.16)	—
Sale of fixed assets	2.85	—
Software product development expenditure	(58.64)	—
Loan to BSIL Employees' Stock Option Trust	(30.00)	—
Interest received	13.07	—
Consideration paid for acquisition of International Software Division of Blue Star Limited (net of cash and cash equivalents) [See Note 2]	(7,65.19)	—
Net cash used in investing activities	(10,70.07)	—
[C] Cash flow from financing activities		
Proceeds from issue of equity share capital [See Note 2]	9,67.93	—
Advance received towards equity share capital	—	23.72
Interest paid	(25.42)	—
Net cash from financing activities	9,42.51	23.72
[D] Net cash from operating, investing and financing activities for the period October 1, 1998 to March 31, 1999 transferred on acquisition of the International Software Division from Blue Star Limited	7.42	—
Effect of exchange difference on translation of foreign currency deposits	(0.04)	—
Net increase/(decrease) in cash and cash equivalents	3,59.12	0.30
Cash & cash equivalents — opening balance	0.31	0.01
Cash & cash equivalents — closing balance	<u>3,59.43</u>	<u>0.31</u>

## CASH FLOW STATEMENT FOR THE PERIOD APRIL 1, 1999 TO JUNE 30, 2000

### Notes:

1. The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard-3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. The Scheme of Arrangement (as further explained in Note 4 of Schedule J) envisages the acquisition of the International Software Division and issue of shares to Blue Star Limited and its shareholders. These transactions have been settled through current account with Blue Star Limited.
3. As a result of the Scheme of Arrangement, the Cash Flow Statement includes the cash flows of the International Software Division taken over from Blue Star Limited and hence, the figures for the current period are not comparable with those of the previous period. Further, as a consequence of this acquisition, certain items in the Cash Flow Statement do not correspond to the differences between the Balance Sheet accounts for the respective items.

For and on behalf of the Board

Suneel M. Advani  
Chairman

Parmod K. Bhalla  
Managing Director

Ashok M. Advani  
Vice Chairman

Mumbai, September 26, 2000

### AUDITORS' CERTIFICATE

The above Cash Flow Statement has been compiled from and is based on the audited accounts of Blue Star Infotech Limited for the period ended June 30, 2000 reported upon by us on September 26, 2000. According to the information and explanations given together with notes thereon, the aforesaid Cash Flow Statement has been prepared pursuant to Clause 32 of the Listing Agreement with Stock Exchange and the reallocations required for the purpose are as made by the Company.

For Price Waterhouse  
Chartered Accountants

P. N. Ghatalia  
Partner

Mumbai, September 26, 2000

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956  
RELATING TO SUBSIDIARY COMPANIES

1. Name of the Subsidiary Company	: USIN International, Inc., USA	Blue Star Infotech (UK) Limited, UK
2. Financial Year of the Subsidiary	: March 31, 2000	March 31, 2000
3. (a) No. of shares held in Subsidiary Company on the above date	: Nil	Nil
(b) Extent of Holding	: Nil	Nil
4. (a) No. of shares held in Subsidiary Company on June 30, 2000 (Pursuant to acquisition of the International Software Division of Blue Star Limited)	: See Note 1	See Note 2
(b) Extent of Holding	: 100%	100% (see Note 2)
5. The net aggregate of profits less losses of the Subsidiary Company as far as it concerns the members of the Holding Company.		
(i) Not dealt with in the Holding Company's Accounts:		
(a) For the Financial Year of the Subsidiary	: Nil	Nil
(b) For the Previous Financial Years, since it became the Holding Company's Subsidiary	: Nil	Nil
(ii) Dealt with in the Holding Company's Accounts:		
(a) For the Financial Year of the Subsidiary	: Nil	Nil
(b) For the Previous Financial Years, since it became the Holding Company's Subsidiary	: Nil	Nil

Notes:

1. 100,000 shares of US\$1 each of USIN International, Inc. have since been transferred into the name of the Company. Pursuant to the said transfer, USIN becomes the wholly-owned subsidiary of the Company.
2. 10,000 shares of £1 each held by USIN International, Inc. By virtue of the said holding, Blue Star Infotech (UK) Limited becomes a subsidiary of Blue Star Infotech Limited, the holding Company.

For and on behalf of the Board

Suneel M. Advani  
Chairman

Parmod K. Bhalla  
Managing Director

Ashok M. Advani  
Vice Chairman

Mumbai, September 26, 2000

## INDEPENDENT AUDITORS' REPORT

May 16, 2000

Board of Directors  
USIN International, Inc.  
(a wholly-owned subsidiary of  
Blue Star Limited)  
San Jose, California

We have audited the accompanying balance sheets of USIN International, Inc. (a wholly-owned subsidiary of Blue Star Limited), as of March 31, 2000 and 1999, and the related statements of operations and retained deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully disclosed in Note 9 to the financial statements, the Company's policy is to prepare its financial statements on the basis of accounting principles generally accepted in India. The Company has a controlling interest in another company and consolidated financial statements have not been prepared. Accounting principles generally accepted in the United States, in our opinion, require that consolidated financial statements be prepared where one company has a controlling interest in one or more other companies.

In our opinion (except for the effects of the matters discussed in the preceding paragraph), the financial statements referred to above present fairly, in all material respects, the financial position of USIN International, Inc. (a wholly-owned subsidiary of Blue Star Limited), as of March 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accepted principles generally accepted in the United States.

BRACH, NEAL, DANNEY & SPENCE, LLP

BALANCE SHEETS AS AT MARCH 31, 2000 AND 1999

	Note	As at March 31, 2000 US \$	As at March 31, 1999 US \$
<b>ASSETS</b>			
Current Assets:			
Cash		299,399	294,841
Accounts receivable, trade	7	815,727	764,735
Employee and consultant advances		21,574	25,314
Shareholder advances	8	265,510	277,423
Customer advances		3,479	2,328
Prepaid expenses		6,848	1,455
Current portion of notes receivable, consultants	2	22,507	15,683
Refundable income taxes		26,077	—
<b>Total Current Assets</b>		<b>1,461,121</b>	<b>1,381,779</b>
Equipment, at cost:			
Machinery and equipment		69,435	50,216
Furniture and fixtures		17,468	11,662
		<b>86,903</b>	<b>61,878</b>
Less: accumulated depreciation		(59,453)	(47,042)
		<b>27,450</b>	<b>14,836</b>
Other Assets:			
Notes receivable, consultants, less current portion of \$ 22,507 at March 31, 2000 and \$ 15,683 at March 31, 1999	2	7,352	9,167
Due from Blue Star Infotech (UK), unsecured		54,689	—
Deposits		2,092	2,092
Investment in affiliated company		17,050	17,050
Other investments		500	—
Deferred taxes		79,714	—
		<b>161,397</b>	<b>28,309</b>
		<b>1,649,968</b>	<b>1,424,924</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Note payable, ABN-AMRO Bank	3	810,000	600,000
Accounts payable, trade		51,367	37,452
Accounts payable, shareholder	8	630,878	398,925
Accrued expenses		76,639	78,664
Income taxes payable		—	6,624
<b>Total Current Liabilities</b>		<b>1,568,884</b>	<b>1,121,665</b>
Commitments and Contingencies	5, 6, 7 and 8	—	—
Stockholders' Equity:			
Common stock, \$1 par value, 1,000,000 Shares authorized, 100,000 shares issued and outstanding		100,000	100,000
Retained earnings (deficit)		(18,916)	203,259
		<b>81,084</b>	<b>303,259</b>
		<b>1,649,968</b>	<b>1,424,924</b>

See accountants' report and accompanying notes to financial statements.

STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED  
MARCH 31, 2000 AND 1999

	Note	Year ended March 31, 2000 US \$	Year ended March 31, 1999 US \$
Sales	7	5,107,407	6,023,137
Cost of sales	8	4,626,456	5,367,868
Gross Profit		480,951	655,269
Selling, general and administrative expenses	8	776,910	556,381
Operating income (loss)		(295,959)	98,888
Other Income (Expense):			
Interest income		9,997	—
Miscellaneous income		8,035	9,889
Interest expense		(33,848)	(27,589)
Loss on disposal of equipment		—	(890)
		(22,216)	(18,590)
Income (loss) before provision for income taxes		(318,175)	80,298
Provision for income taxes	4	(96,000)	10,000
Net Income (loss)		(222,175)	70,298
Retained earnings, beginning of year		203,259	132,961
Retained earnings (deficit), end of year		(18,916)	203,259

See accountants' report and accompanying notes to financial statements.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED MARCH 31, 2000 AND 1999

	Year ended March 31, 2000 US \$	Year ended March 31, 1999 US \$
<b>Cash Flows from Operating Activities:</b>		
Net Income (loss)	(222,175)	70,298
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	12,411	7,522
Loss on disposal of equipment	—	890
(Increase) decrease in operating assets:		
Accounts receivable, trade	(50,992)	121,773
Employee and consultant advances	3,740	24,860
Shareholder advances	11,913	(56,214)
Other assets	(6,545)	4,935
Refundable income taxes	(26,077)	—
Deferred taxes	(79,714)	—
Increase (decrease) in operating liabilities:		
Accounts payable, trade	13,915	(25,008)
Accounts payable, shareholder	231,953	(741,722)
Accrued expenses	(2,025)	19,812
Income taxes payable	(6,624)	(327)
Total adjustments	101,955	(643,479)
Net cash (used) by operating activities	(120,220)	(573,181)
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(25,025)	(6,939)
Notes receivable, consultants	(62,360)	(21,800)
Payments on notes receivable, consultants	57,351	12,417
UK note, unsecured	(54,688)	—
Other investments	(500)	(17,050)
Net cash (used) by investing activities	(85,222)	(33,372)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable, ABN-AMRO Bank	860,000	600,000
Repayments note payable, ABN-AMRO Bank	(650,000)	—
Issuance of common stock	—	75,000
Net cash provided by financing activities	210,000	675,000
Net increase in cash	4,558	68,447
Cash, beginning of year	294,841	226,394
Cash, end of year	299,399	294,841

Supplemental Disclosure of Cash Flow Information:

1. Accounting Policy – The Company considers all highly liquid investments with a maturity of three months or less when purchased to be “cash equivalent”.

2. The following cash payments were made during the years ended March 31, 2000 and 1999 for :

	2000 US \$	1999 US \$
Interest	33,848	27,589
Income taxes	25,752	10,307

See accountants' report and accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2000 AND 1999

1. Business Description and Summary of Significant Accounting Policies:

Business Description:

The Company (a California Corporation) was formed in April, 1991 and provides software programming services and grants credit to U.S. Companies.

As of the financial statement date, the Company's outstanding stock is considered to be wholly-owned by Blue Star Limited (an Indian corporation). Blue Star Limited has transferred to Blue Star Infotech Limited as of April 7, 2000 the Company's outstanding stock hitherto wholly owned by Blue Star Limited pursuant to the Scheme of Arrangement between Blue Star Limited and Blue Star Infotech Limited for the demerger of the International Software Division, with effect from October 1, 1998, approved by the honorable Bombay High Court on April 3, 2000, registered and recorded by the Registrar of Companies, Maharashtra, being the requisite Government and statutory body on April 6, 2000. The requisite permission from the Reserve Bank of India to transfer the ownership of the Company's outstanding stock shall be obtained shortly. However, this is only a matter of procedure and does not vitiate the transfer already carried out in view of the approval obtained from the Bombay High Court.

The accrual basis accounting policies adopted by the Company are consistent with generally accepted accounting principles. The significant policies are as follows:

Concentration of Credit Risk:

The Company maintains its cash in commercial checking and money market accounts. Periodically throughout the year, cash is maintained at the bank in excess of insured (FDIC) amounts of \$ 100,000.

Accounts Receivable:

The Company uses the allowance method to account for bad debts. Management has determined that no allowance for uncollectible accounts is deemed necessary at March 31, 2000 and 1999.

Equipment:

Equipment is reflected at cost and is depreciated over their estimated useful lives using accelerated methods of depreciation. All repair and maintenance costs are expensed as incurred.

Investment in Affiliated Company:

This investment represents a 100% ownership interest in Blue Star Infotech (UK) Limited (a corporation) which began business September 1, 1998.

Income Taxes:

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. Notes Receivable, Consultants:

The notes receivable, consultants consisted of the following:

	2000 US \$	1999 US \$
Consultants (five separate notes), no interest, unsecured, due through December 2001	29,859	24,850
Less Current portion	<u>(22,507)</u>	<u>(15,683)</u>
	<u>7,352</u>	<u>9,167</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2000 AND 1999

The aggregate principal maturities of the notes receivable for the next two years are as follows:

<u>Year ending March 31,</u>	<u>US \$</u>
2001	22,507
2002	<u>7,352</u>
	<u>29,859</u>

3. **Note Payable, ABN-AMRO Bank:**

In November 1999 the Company entered into an agreement with ABN-AMRO Bank that provides for an \$ 810,000 line of credit which matures on June 16, 2000. Interest is at the bank's prime lending rate (currently at 9%). The loan is guaranteed by Blue Star Limited (the parent company of USIN International, Inc.).

4. **Income Taxes:**

The Company utilizes Statement of Financial Standard (SFAS) No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for deferred income taxes.

The Company's total deferred tax liabilities, deferred tax assets, and asset valuation allowances at March 31, 2000 and 1999 are as follows:

	2000 US \$	1999 US \$
Total deferred tax assets	79,714	—
Less valuation allowance	<u>—</u>	<u>—</u>
	<u>79,714</u>	<u>—</u>
Total deferred tax (liabilities)	<u>—</u>	<u>—</u>
Net deferred tax (liabilities)	<u>79,714</u>	<u>—</u>

These amounts have been presented in the Company's financial statements as follows:

Current deferred tax asset (liabilities)	<u>79,714</u>	<u>—</u>
Non-current deferred tax (liabilities)	<u>—</u>	<u>—</u>

A summary of the components of income tax expense is as follows:

Federal:		
Current	(97,000)	9,000
State:		
Current	<u>1,000</u>	<u>1,000</u>
	<u>(96,000)</u>	<u>10,000</u>

The company believes that deferred tax assets will be fully utilized based upon future reversals of existing taxable temporary taxable differences, future earnings or available tax strategies. Accordingly, there was no valuation allowance on deferred tax assets at March 31, 2000.

5. **Commitments and Contingencies:**

Effective January 1, 1998, the Company entered into a 36-month noncancellable operating lease agreement for office space in San Jose, California. Total facility lease expense (including variable common area expenses) was \$ 48,103 and \$ 48,021 for March 31, 2000 and 1999, respectively.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2000 AND 1999

Future minimum rental commitments (excluding variable common area expenses) for the noncancellable operating lease are as follows:

Year ending March 31,	US \$
2001	<u>34,571</u>

6. Operating Leases – Equipment:

The Company has two operating leases which were entered into in 1999. The terms are for 36 and 60 months with monthly payments of \$239 and \$86 per month.

Future minimum equipment rental commitments are as follows:

Year ending March 31,	US \$
2001	3,887
2002	3,887
2003	3,887
2004	1,027
2005	257
	<u>12,945</u>

7. Significant Customers:

The Company had sales to two customers in 2000 and three customers in 1999 which amounted to approximately \$ 2,341,668 and \$ 2,747,700 of gross revenues, respectively. Sales to these major customers represented 46% and 45% of total sales and accounted for approximately \$ 444,534 and \$ 264,000 of accounts receivable at March 31, 2000 and 1999, respectively.

8. Related Party:

During 1995, 100% of the Company's outstanding stock was acquired by Blue Star Limited (an Indian Corporation).

Included in the March 31, 2000 and 1999 financial statements are the following transactions with Blue Star Limited.

	2000 US \$	1999 US \$
Consulting services purchased	<u>4,089,788</u>	<u>4,441,099</u>
Management service fees	<u>100,294</u>	<u>122,217</u>
Advances receivable	<u>265,510</u>	<u>277,423</u>
Accounts payable	<u>630,878</u>	<u>398,925</u>

9. Investment in Affiliated Company:

The investment listed includes \$ 17,050 (at cost), which the Company holds a 100% interest in Blue Star Infotech (UK) Limited (a corporation). USIN International, Inc. is a wholly-owned subsidiary of Blue Star Limited, an Indian corporation. Consolidated financial statements have not been prepared in order to meet the requirements of Indian accounting principles. Blue Star Infotech (UK) Limited (a corporation) had sales of approximately \$170,000 and \$ 0 for the periods ended March 31, 2000 and 1999, respectively, and net equity (deficit) of approximately \$(71,000) and \$6,000 for the years ended March 31, 2000 and 1999, respectively.

10. Subsequent Event:

Subsequent to March 31, 2000, the Company received a notice from the Internal Revenue Service indicating that it will perform an audit of Form 1120 for the year ended March 31, 1998. Due to the uncertainty of the nature and length of this audit, potential liability to the Company, if any, cannot be reasonably estimated at this time. Therefore, no such amounts have been recorded in these financial statements.

## DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 March 2000.

### Principal Activities and Review of the Business

The principal activity of the company is that of computer software consultancy.

The company commenced its activities from July 1999. The main focus of business has been software consultancy services on HP platforms.

The necessary infrastructure has been established for future growth.

### Results and Dividends

The results for the year are set out in the Profit and Loss Account.

### Directors

The following directors have held office since 1 April 1999:

S M Advani

S P Advani

A S Sambtani

### Directors' Interests

The directors' beneficial interests in the shares of the company were as stated below:

	Ordinary Shares of	
	31-3-2000	£ 1 each 1-4-1999
S M Advani	—	—
S P Advani	—	—
A S Sambtani	—	—

S M Advani also served on the board of the ultimate parent undertaking Blue Star Ltd. which is registered in India.

### Millennium Policy and the Euro

The Year 2000 issue presented companies using any form of electronic system with the opportunity to ensure that they were not vulnerable to a potentially significant problem to the business environment.

We have carried out a review which has shown that the company's computer operations are Year 2000 compliant, and there have been no adverse effects to date.

The Year 2000 issue does create risk for the company from third parties with whom we deal on financial and business transactions. As a result of this we cannot be certain of avoiding business disruption in areas where we do not have a direct relationship. However, no problems have been encountered to date.

The directors do not consider that the introduction of the Euro will have any significant impact on the company.

### Auditors

Jeffreys Henry were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

### Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board  
S M Advani  
Director

16 May 2000

## AUDITORS' REPORT

To The Shareholders of Blue Star Infotech (UK) Limited

We have audited the financial statements on pages 37 to 40 which have been prepared under the historical cost convention and the accounting policies set out on page 38.

### Respective Responsibilities of Directors and Auditors

As described on this page the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Jeffreys Henry  
Chartered Accountants  
Registered Auditors  
16 May 2000

Finsgate, 5-7 Cranwood Street  
London  
EC1V 9EE

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2000

	Notes	2000 £	1999 £
Turnover	2	106,260	—
Administrative expenses		(152,058)	(6,541)
Operating loss	3	(45,798)	(6,541)
Interest payable and similar charges	4	(2,197)	—
Loss on ordinary activities before taxation		(47,995)	(6,541)
Tax on loss on ordinary activities	5	—	—
Loss on ordinary activities after taxation	10	(47,995)	(6,541)

The profit and loss account has been prepared on the basis that all operations are continuing operations. There are no recognised gains and losses other than those passing through the profit and loss account.

BALANCE SHEET AS AT 31 MARCH 2000

	Notes	2000		1999	
		£	£	£	£
Fixed assets					
Tangible assets	6		3,258		1,529
Current assets					
Debtors	7	74,151		1,215	
Cash at bank and in hand		25,465		4,138	
		<u>99,616</u>		<u>5,353</u>	
Creditors: amounts falling due within one year	8	(147,410)		(3,423)	
Net Current (liabilities)/assets			(47,794)		1,930
Total assets less current liabilities			<u>(44,536)</u>		<u>3,459</u>
Capital and reserves					
Called up share capital	9		10,000		10,000
Profit and loss account	10		(54,536)		(6,541)
Shareholders' funds - equity interests	11		<u>(44,536)</u>		<u>3,459</u>

The financial statements were approved by the Board on 16 May 2000

S M Advani  
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2000

8. Creditors: amounts falling due within one year		
	2000	1999
	£	£
Trade creditors	98,743	—
Amounts owed to parent and fellow subsidiary undertakings	33,400	—
Taxes and social security costs	6,994	—
Other creditors	5,818	—
Accruals and deferred income	2,455	3,423
	<u>147,410</u>	<u>3,423</u>
9. Share capital		
	2000	1999
	£	£
Authorised		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
10. Statement of movements on profit and loss account		
	Profit and loss account	
	£	
Balance at April 1999	(6,541)	
Retained loss for the year	(47,995)	
	<u>(54,536)</u>	
Balance at 31 March 2000	<u>(54,536)</u>	
11. Reconciliation of movements in shareholders' funds		
	2000	1999
	£	£
Loss for the financial year	(47,995)	(6,541)
Proceeds from issue of shares	—	10,000
	<u>(47,995)</u>	<u>3,459</u>
Net (depletion in)/addition to shareholders' funds	(47,995)	3,459
Opening shareholders' funds	3,459	—
	<u>(44,536)</u>	<u>3,459</u>
Closing shareholders' funds	<u>(44,536)</u>	<u>3,459</u>
12. Employees		
Number of employees		
The average monthly number of employees (including directors) during the year was:		
	2000	1999
	Number	Number
	<u>1</u>	<u>—</u>
Employment costs		
	£	£
Wages and salaries	<u>28,135</u>	<u>—</u>
13. Control		
As of the date of the financial statement, the company's outstanding stock is wholly owned by USIN International Inc., a company incorporated in the United States of America which is a wholly owned subsidiary of Blue Star Limited (an Indian Corporation) which is India's leading provider of air-conditioning and refrigeration products, systems and services.		
Pursuant to the Scheme of Arrangement between Blue Star Limited and Blue Star Infotech Limited, for the demerger of the International Software Division with effect from 1 October 1998, approved by the Honorable High Court, Mumbai on 3 April 2000, registered and recorded by the Registrar of Companies, Maharashtra, being the requisite Government and statutory body on 6 April 2000, Blue Star Infotech India Limited becomes the ultimate controlling company of Blue Star Infotech (UK) Limited. This however does not alter the status of USIN International Inc., a company incorporated in the United States of America from being the immediate parent undertaking.		
14. Related party transactions		
During the year in the normal course of business, subcontractors' fees of £95,915 were paid to the ultimate parent company Blue Star Limited. In addition, in the normal course of business, interest of £2,197 was paid to the parent company USIN International Inc.		
Included in amounts owed by parent undertaking is an amount owed by the ultimate parent company Blue Star Limited of £38,719.		
Included in trade creditors is an amount due to the ultimate parent company Blue Star Limited of £95,915.		
Included in amounts due to parent undertaking is an amount due to the parent company USIN International Inc. of £33,400.		

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2000

	2000		1999	
	£	£	£	£
Turnover				
Sales		106,260		—
Administrative expenses		(152,058)		(6,541)
Operating loss		(45,798)		(6,541)
Interest payable				
Loan interest paid	2,197		—	
		(2,197)		—
Loss before taxation		(47,995)		(6,541)

SCHEDULE OF DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED 31 MARCH 2000

	2000		1999	
	£		£	
Administrative expenses				
Wages and salaries	28,135			—
Subcontractors' fees	95,915			—
Accommodation for employees	7,650			—
Rent reliences and other	4,320		2,812	
Repairs and maintenance	79		64	
Printing, postage and stationery	622			—
Advertising	1,410			—
Seminar, exhibition & conference costs	2,421			—
Telephone	3,812			—
Computer running costs	334			—
Travelling expenses	3,345			—
Legal and professional	140		1,059	
Accountancy	1,740		1,750	
Audit fees	1,400		750	
Bank charges	139		24	
Sundry expenses	138			—
Depreciation on FF & E	458		82	
	152,058		6,541	

