

Aztec Software & Technology Services Limited
Consolidated Balance Sheets as of March 31,

	2003	2002	2003
	Rs.	Rs.	Convenience translation into US \$ (Unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	821,962,068	175,112,087	17,293,542
Available for sale securities (Note 4)	-	663,742,074	-
Accounts receivable, net of allowances (Note 5)	32,523,376	51,151,026	684,270
Other current assets (Note 6)	8,877,207	7,682,190	186,771
Total current assets	863,362,651	897,687,377	18,164,583
Plant and equipment, net (Note 7)	41,688,161	76,239,816	877,092
Deferred income taxes (Note 18)	15,568,033	17,624,321	327,541
Investment in affiliate (Note 8)	-	7,990,465	-
Other assets (Note 6)	11,071,197	11,135,643	232,931
Total assets	931,690,042	1,010,677,622	19,602,147
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable	2,508,659	2,783,096	52,781
Accrued expenses	5,548,869	3,589,694	116,745
Advances from customers	3,901,425	1,291,036	82,083
Deferred income taxes (Note 18)	-	70,732	-
Other current liabilities (Note 9)	9,609	1,967,975	202
Total current liabilities	11,968,562	9,702,533	251,811
Deferred income taxes (Note 18)	555,702	756,010	11,692
Other liabilities (Note 10)	2,928,853	2,721,693	61,621
Total liabilities	15,453,117	13,180,236	325,123
Stockholders' equity (Note 13)			
Equity Shares at Rs.3/- par value; 42,500,000 shares authorized, Issued and outstanding 40,395,120 shares as of March 31, 2003 and 2002	121,185,360	121,185,360	-
Additional paid-in capital (Note 17)	740,765,374	778,588,770	15,585,217
Retained earnings	76,134,855	146,679,550	1,601,827
Equity shares held by a controlled trust: 5,221,733 and 5,956,758 shares as of March 31, 2003 and 2002	(15,665,199)	(17,870,274)	(329,586)
Deferred stock compensation (Note 17)	(6,183,465)	(31,213,418)	(130,096)
Accumulated other comprehensive income (Note 4)	-	127,398	-
Total stockholders' equity	916,236,925	997,497,386	19,277,023
Total liabilities and stockholders' equity	931,690,042	1,010,677,622	19,602,147

See accompanying notes to the consolidated financial statements

Aztec Software & Technology Services Limited
Consolidated Statements of Operations for the year ended March 31,

	2003	2002	2001	2003
	Rs.	Rs.	Rs.	Convenience translation into US \$ (Unaudited)
Revenue	441,819,585	692,385,092	812,919,542	9,295,594
Cost of revenue	(298,964,918)	(403,429,657)	(453,892,898)	(6,290,026)
Gross profit	142,854,667	288,955,435	359,026,644	3,005,568
Selling, general and administrative expenses	(228,785,930)	(263,252,540)	(304,036,840)	(4,813,506)
Loss on agreement termination	-	(10,000,000)	-	-
Other operating income/(expense), net (Note 14)	(4,320,857)	10,796,858	5,833,158	(90,908)
Operating income/(loss)	(90,252,120)	26,499,753	60,822,962	(1,898,845)
Other income, net (Note 15)	49,502,691	82,737,467	5,248,647	1,041,504
Equity in loss of affiliate (Note 8)	(6,030,121)	(23,074,763)	-	(126,870)
Income taxes (Note 18)	(6,322,753)	4,612,600	3,907,444	(133,027)
Net income/(loss)	(53,102,303)	90,775,057	69,979,053	(1,117,238)
Earnings per equity share (Note 19)				
Basic	(1.52)	2.62	2.55	(0.03)
Diluted	(1.52)	2.41	2.03	(0.03)
Weighted equity shares used in computing earnings per share				
Basic	34,908,401	34,633,192	27,442,161	34,908,401
Diluted	34,908,401	37,703,663	34,551,932	34,908,401

See accompanying notes to the consolidated financial statements

Aztec Software & Technology Services Limited
Consolidated Statements of Cash Flows for the year ended March 31,

	2003	2002	2001	2003
	Rs.	Rs.	Rs.	Convenience translation into US \$ (Unaudited)
Cash flows from operating activities :				
Net income/(loss)	(53,102,303)	90,775,057	69,979,053	(1,117,238)
Adjustment to reconcile net income/(loss) from continuing operations to net cash from operating activities :				
Equity in loss of affiliate	6,030,121	23,074,763	-	126,870
Depreciation	44,346,202	46,833,633	27,105,538	933,015
Amortisation of stock based compensation	5,620,987	33,259,292	123,489,302	118,262
(Gain)/loss on sale of available for sale securities	(45,835,890)	4,572,370	(250,000)	(964,357)
Loss on sale of plant and equipment	146,866	663,061	-	3,090
Changes in operating assets and liabilities :				
Deferred income taxes	1,855,980	(6,076,580)	(6,522,273)	39,049
Accounts receivable, net of allowances	18,627,650	45,541,409	(51,710,991)	391,914
Other current assets	(1,195,017)	5,481,689	(2,383,689)	(25,142)
Other assets	64,446	29,413,878	(33,742,541)	1,356
Trade accounts payable	(274,437)	(3,574,262)	1,686,961	(5,774)
Accrued expenses	1,959,175	(23,280,806)	23,575,694	41,220
Advances from customers	2,610,389	(37,999,926)	39,290,962	54,921
Other current liabilities	(1,958,366)	807,619	1,030,188	(41,203)
Other liabilities	207,160	(105,040)	1,717,068	4,359
Net cash provided by/(used in) operating activities	(20,897,037)	209,366,157	193,265,272	(439,660)
Cash flows from investing activities :				
Expenditure on plant and equipment	(9,993,727)	(37,328,175)	(77,621,634)	(210,261)
Proceeds from sale of plant and equipment	52,314	754,888	-	1,101
Purchase of available for sale securities	-	(1,464,400,248)	(785,000,000)	-
Proceeds from sale of available for sale securities	709,379,834	1,299,283,934	282,250,000	14,924,886
Purchase of investment in affiliate	-	(48,185,000)	-	-
Cash received from affiliate	1,960,344	17,119,772	-	41,244
Net cash provided by/(used in) investing activities	701,398,765	(232,754,829)	(580,371,634)	14,756,970
Cash flows from financing activities :				
Borrowings from banks, net	-	(1,261,125)	(10,673,852)	-
Proceeds from issuance of long-term debt	-	-	29,000,000	-
Repayment of long-term debt	-	(25,375,000)	(8,481,987)	-
Proceeds from issuance of equity shares	2,465,488	7,566,562	595,746,050	51,872
Purchase of equity shares by controlled trust	(18,674,843)	(5,714,402)	-	(392,906)
Payment of cash dividend	(17,442,392)	(11,345,702)	-	(366,976)
Net cash provided by/(used in) financing activities	(33,651,747)	(36,129,667)	605,590,211	(708,011)
Net increase/(decrease) in cash and cash equivalents during the year	646,849,981	(59,498,339)	218,483,849	13,609,299
Cash and cash equivalents at the beginning of the year	175,112,087	234,610,426	16,126,577	3,684,243
Cash and cash equivalents at the end of the year	821,962,068	175,112,087	234,610,426	17,293,542
Supplementary Disclosures :				
Cash paid for:				
Interest	262,894	2,349,575	4,088,175	5,531
Income taxes	5,750,225	1,089,263	2,151,489	120,981

See accompanying notes to the consolidated financial statements

Aztec Software & Technology Services Limited
Notes to the consolidated financial statements
(In rupees, except share data)

1 Company overview

Aztec Software & Technology Services Limited along with Aztec Software Inc, its wholly owned subsidiary, (collectively, the Company) is a leading provider of technology services to the Internet centric needs of corporations. The Company focuses on and has deep expertise in areas like Internet middleware, databases, application integration and messaging technologies like Extensible Markup Language (XML). The Company has a predominantly offshore centric business model wherein it does most of the work from its development center in Bangalore, India.

2 Significant accounting policies

Basis of preparation of financial statements

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Use of 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, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Functional currency

The functional and reporting currency of the Company is the Indian rupee.

Convenience translation

The accompanying consolidated financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars (US\$) at the noon buying rate in New York City on March 31, 2003, as certified for customs purposes by the Federal Reserve Bank of New York of US\$ 1 = Rs 47.53. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

Principles of consolidation

The consolidated financial statements include the financial statements of Aztec Software Inc, a wholly owned subsidiary and Aztec Software and Technology Services Limited Employees' Welfare Trust, a controlled trust. All material inter-company balances and transactions have been eliminated on consolidation. Investment in affiliates in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. The Company's equity in the earnings of such affiliates is included in the consolidated statements of operations and the Company's share of net assets of such affiliates is included in the consolidated balance sheet.

Aztec Software & Technology Services Limited
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Cash and cash equivalents

The Company considers all highly liquid investments and deposits with remaining maturity at the date of purchase/investment, of three months or less to be cash equivalents.

Revenue recognition

Revenue from software development services comprises income from time-and-material and fixed price contracts. Revenue from software development services on time-and-material basis is recognized as the related services are performed. For fixed price contracts, revenue is recognized in accordance with the percentage of completion method of accounting. Adjustments in estimates, which can affect both revenues and earnings, are made in the period in which the information necessary to make the adjustment becomes available. Provisions for estimated losses on contracts-in-progress are recorded in the period in which such losses become probable based on the current contract estimates. Reimbursements received from customers for out-of-pocket expenses incurred in providing services have been characterized as revenue in the consolidated statements of operations.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. The Company depreciates plant and equipment over their estimated useful lives using the straight-line method. Leasehold improvements are depreciated over the shorter of the lease term or estimated useful life. Software for internal use is primarily acquired from third-party vendors and is in ready to use condition. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software. The estimated useful lives of assets are as follows:

Computer equipment	3 years
Software	1-3 years
Furniture and fixtures	5 years
Leasehold improvements	5 years
Other equipment	5 years

Deposits paid towards the acquisition of plant and equipment outstanding at each balance sheet date and the cost of plant and equipment not put to use before such date are disclosed under capital work-in-progress.

Impairment of long-lived assets and long lived assets to be disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

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Notes to the consolidated financial statements
(In rupees, except share data)

Start-up costs

Cost of start-up activities including organization costs are expensed as incurred.

Foreign currency transactions

The functional and reporting currency of the Company, including the foreign wholly-owned subsidiary, is the Indian rupee. Foreign currency transactions are translated into Indian rupees at the rates of exchange prevailing on the date of the respective transactions. Assets and liabilities denominated in foreign currency are translated into Indian rupees at the exchange rate prevailing on the balance sheet date. The resulting exchange gains/losses are included in the consolidated statements of operations.

Earnings per share

Basic earnings per share are computed using the weighted average number of shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire equity shares at the average market price during the reporting period.

Income taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years, to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, operating losses, and tax credit carry forwards. The effect on deferred taxes for a change in tax rates is recognized in the consolidated statements of operations in the period of change. Management provides valuation allowances against the deferred tax asset for amounts which does not meet the condition of the “more likely than not” realizability criterion.

Investments

The Company classifies its investments in mutual fund units and debt securities that have readily determinable fair values as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of shareholders’ equity in comprehensive income, net of income taxes. Interest income and realized gains and losses on securities are included in “Other income/(expense), net” in the consolidated statements of operations. Realized gains and losses from the sale of available-for-sale securities are determined on a weighted average basis and are included in income. For all investment securities, unrealized losses that are other-than-temporary are recognized in net income.

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Stock-based compensation

The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, the Company computes compensation cost for each employee stock option granted as the amount by which the fair market value of the Company's equity shares on the date of grant exceeds the exercise price. The amount of compensation cost, if any, is amortized over the vesting period.

The Company has therefore adopted the pro forma disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123. Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's net income and earnings per share as reported would have been reduced to the pro forma amounts indicated below:

	Years ended March 31,		
	2003	2002	2001
Net income/(loss), as reported	(53,102,303)	90,775,057	69,979,053
Add: Stock-based employee compensation expense included in reported net income, net of tax effects	5,620,987	33,259,292	123,489,302
Less: Stock-based employee compensation expense determined under fair value based method, net of tax effects	5,657,584	92,287,076	126,462,439
Pro forma net income/(loss)	(53,138,900)	31,747,273	67,005,916
Earnings per share: Basic			
As reported	(1.52)	2.62	2.55
Pro forma	(1.52)	0.92	2.44
Earnings per share: Diluted			
As reported	(1.52)	2.41	2.03
Pro forma	(1.52)	0.86	1.94

Fair value of options on the date of grant has been estimated using the Black-Scholes option-pricing model using the following assumptions:

(Range)	Years ended March 31,		
	2003	2002	2001
Expected dividend yield	0.83% - 3.14%	0.39% - 0.91%	-
Risk-free interest rate	5.87%-7.65%	7.5%-10.29%	9.66%-10.9%
Expected stock price volatility	79.99%-87.95%	81.28%-86.40%	80.00%-96.48%
Expected term (years)	7.24	7.24	0.28-7.24

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Dividends

Dividend on equity shares and the related dividend tax are recorded on approval by the shareholders of the Company.

Recent accounting pronouncements

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Adoption of the SFAS No. 143 will not have a material impact on the consolidated financial statements of the Company.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. SFAS No. 145 was adopted beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which were adopted for transactions occurring subsequent to May 15, 2002. Adoption of the SFAS No. 145 did not have a material impact on the consolidated financial statements of the Company.

In July 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of the SFAS No. 146 did not have a material impact on the consolidated financial statements of the Company.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 requires a guarantor to include disclosure of certain obligations, and if applicable, at the inception of the guarantee, recognize a liability for the fair value of certain other obligations undertaken in issuing a guarantee. The recognition requirements are effective for guarantees issued or modified after December 31, 2002. Adoption of FIN No. 45 did not have a material impact on the consolidated financial statements of the Company.

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In November 2002, the EITF issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, the Company may elect to report the change in accounting as a cumulative-effect adjustment. Adoption of EITF Issue No. 00-21 will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS No. 148 are applicable for fiscal periods beginning after December 15, 2002. The Company continues to use the intrinsic value based method of APB Opinion No. 25 to account for its employee stock based compensation plans. The disclosure provisions of SFAS No. 148 have been adopted by the Company for the year ended March 31, 2003.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities- an interpretation of Accounting Research Bulletin No. 51. FIN No. 46 is applicable to all variable interest entities created after January 31, 2003. In respect of variable interest entities created before February 1, 2003, FIN No. 46 will be applicable from fiscal periods beginning after June 15, 2003. Adoption of FIN No. 46 will not have a material impact on the consolidated financial statements of the Company.

3 Cash and cash equivalents

Cash and cash equivalents as of March 31, 2003 and 2002 comprise cash, cash on deposit with banks and money market funds. Cash and cash equivalents as of March 31, 2003 and 2002 include restricted cash of Rs 125,000 and Rs 945,000 respectively. Restricted cash represents cash deposits placed with banks as margin money against guarantees and letters of credit in the normal course of business operations. Restrictions on such deposits are released on the expiry of the terms of the guarantees and letters of credit.

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4 Available for sale securities

Investment securities consist of the following:

	As of March 31,					
	2003			2002		
	Mutual funds	Debt securities	Total	Mutual funds	Debt securities	Total
Carrying value	-	-	-	605,062,999	58,480,945	663,543,944
Gross unrealized holding gains	-	-	-	198,130	-	198,130
Fair value	-	-	-	605,261,129	58,480,945	663,742,074

Proceeds from the sale of available for sale securities were Rs 709,379,834 Rs 1,299,283,934 and Rs 282,250,000 during the years ended March 31, 2003, 2002 and 2001 respectively.

Dividends from available for sale securities during the years ended March 31, 2003, 2002 and 2001 were Rs Nil, Rs 86,099,673 and Rs 5,323,600 respectively, and are included in other income.

5 Accounts receivable

Accounts receivable as of March 31, 2003 and 2002 are stated net of allowance for doubtful accounts. The Company estimates the allowance for doubtful accounts based upon factors surrounding the specific customer account. Accounts receivable are not collateralized.

The activity in the allowance for doubtful accounts receivable is given below:

	As of March 31,		
	2003	2002	2001
Balance at the beginning of the year	17,035,348	-	-
Additional provision during the year	19,084,657	17,035,348	7,931,236
Bad debts charged to provision	17,035,348	-	7,931,236
Balance at the end of the year	19,084,657	17,035,348	-

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6 Other assets

Other assets consist of the following:

	As of March 31,	
	2003	2002
Advances to employees	410,240	863,737
Prepaid expenses	2,141,805	2,715,790
Advances to suppliers	1,650,683	554,587
Deposits	11,071,197	11,093,205
Cost and estimated earnings in excess of billings on contracts in progress	3,175,183	2,245,428
Others	1,499,296	1,345,086
	19,948,404	18,817,833
Less: Current assets	8,877,207	7,682,190
	11,071,197	11,135,643

Advances have been granted to employees for purposes such as deposits for residential premises, purchase of automobiles and personal exigencies. Such advances are repayable over fixed periods ranging from 3 months to 24 months. No interest has been charged on these advances.

The required repayments of loans by employees are as detailed below.

Year of repayment	As of March 31,	
	2003	2002
2002-03	-	850,704
2003-04	410,240	13,033
Total	410,240	863,737

The estimated fair value of advances to employees as of March 31, 2003 and 2002 was Rs 410,240 and Rs 756,260 respectively. The fair value of the advances have been estimated by discounting the future cash flows using the current rates at which similar advances would be made to such borrowers based on the remaining maturities, consideration of credit risks, and other business issues pertaining to such advances.

The estimated fair value of other non-current assets as of March 31, 2003 and 2002 was Rs 6,768,977 and Rs 4,931,396 respectively. The fair value has been determined based on quoted market prices and other appropriate valuation techniques.

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7 Plant and equipment, net

Plant and equipment consist of the following:

	As of March 31,	
	2003	2002
Computer equipment	79,250,245	75,485,358
Purchased software	43,007,813	37,963,040
Furniture and fixtures	18,356,067	18,238,936
Leasehold improvements	9,521,030	9,225,318
Other equipment	27,848,811	27,581,938
Total cost	177,983,966	168,494,590
Less: Accumulated depreciation	136,295,805	92,254,774
Net carrying amount	41,688,161	76,239,816

Depreciation expense for the years ended March 31, 2003, 2002 and 2001 were Rs 44,346,202, Rs 46,833,633 and Rs 27,105,538 respectively, including amortization of purchased software of Rs 5,092,327, Rs 13,505,433 and Rs 3,617,915 respectively.

8 Investments in affiliate

In September, 2001, the Company formed a joint venture, DB Software Solutions, LLC (DB) with Embarcadero Technologies Inc (EMBT), a publicly listed company in the United States, into which the Company contributed Rs 48,185,000 as its share of equity. DB was formed to develop data and database management software. Aztec provides software development services to DB and EMBT will provide marketing services after the product is developed. The Company's 50% share of the joint venture results is reported as "Equity in Loss of Affiliate" in the consolidated financial statements.

The Company provided software development services to DB for Rs 15,682,755 and Rs 79,626,846 during the years ended March 31, 2003 and 2002, respectively. Of these services Rs 1,960,344 and Rs 17,119,772, for the years ended March 31, 2003 and 2002, respectively, representing the Company's share in the unrealized profit, has been treated as a reduction of the Company's equity in the loss of affiliate and a corresponding reduction in revenue during the respective years. There was no accounts receivable from the joint venture as of March 31, 2003 and 2002. The carrying value of the investment in the joint venture as of March 31, 2003 and 2002 was Rs Nil and Rs 7,990,465 respectively. The Company's equity in the loss of the joint venture for the years ended March 31, 2003 and 2002 was Rs 6,030,121 and Rs 23,074,763 respectively.

9 Other current liabilities

Other current liabilities consist of:

	As of March 31,	
	2003	2002
Dues to employees	-	1,952,000
Taxes payable	9,609	15,975
Total	9,609	1,967,975

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10 Other liabilities

Other liabilities as of March 31, 2003 and 2002 consist of provision for compensated absences.

11 Related party transactions

During the years ended March 31, 2003, 2002 and 2001, the Company provided software development services to Jam Cracker Inc (formerly Vital Tone Inc), an entity under common control, for Rs 399,595, Rs 53,578,034 and Rs 138,934,165 respectively.

Rs Nil, Rs 12,754,124 and Rs 7,030,202 were receivable from the related party as of March 31, 2003, 2002 and 2001 respectively. During the years ended March 31, 2003, 2002 and 2001, Jam Cracker Inc rendered professional services to the Company for Rs 1,804,050, Rs 4,798,150 and Rs Nil respectively. There were no payments outstanding to Jam Cracker Inc as of March 31, 2003 and 2002.

During the years ended March 31, 2003, 2002 and 2001, the Company provided software development services to Reez.com, an entity under common control, for Rs Nil, Rs Nil and Rs 29,263,416. There were no receivables from the related party as of March 31, 2003 and 2002.

12 Employee benefit plans

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's basic salary and the years of employment with the Company. The Company has set up a group gratuity scheme with Life Insurance Corporation of India during the years ended March 31, 2002 under which annual contributions are made to a fund managed by the Life Insurance Corporation of India. Under this scheme, the Life Insurance Corporation of India administers the fund and determines the contribution premium required to be paid by the Company. However, the settlement obligation remains with the Company. The Company makes a provision for gratuity based on actuarial valuation.

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The following tables set out the funded status of the Gratuity Plan and the amounts recognized in the Company's consolidated financial statements.

Change in the benefit obligations

	As of March 31,	
	2003	2002
Projected Benefit Obligations (PBO), beginning of the year	2,473,867	1,823,640
Service cost	552,362	467,863
Interest cost	222,648	182,364
Benefits paid	(65,236)	-
PBO at the end of the year	3,183,641	2,473,867

Change in Plan assets

	As of March 31,	
	2003	2002
Fair value of plan assets at the beginning of the year	2,490,209	-
Actual return on plan assets	237,197	-
Employer contributions	488,352	2,490,209
Benefits paid	(65,236)	-
Plan assets at the end of the year	3,150,522	2,490,209
Funded Status	(33,119)	16,342
Excess of actual over expected return on plan assets	12,729	-
Unrecognized actuarial gain/loss	-	-
Unrecognized transitional obligation	207,608	226,482
(Accrued)/Prepaid benefit	187,218	242,824

Net gratuity cost for the years ended March 31, 2003, 2002 and 2001 included the following components:

	2003	2002	2001
Service cost	552,362	467,863	995,138
Interest cost	222,648	182,364	75,318
Expected return on assets	(224,468)	-	-
Amortization of transition liabilities	18,874	18,874	-
Net gratuity cost	569,416	669,101	1,070,456

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The actuarial assumptions used in accounting for the gratuity plan are as follows:

Years ended March 31,	2003	2002	2001
Discount rate	9.0%	10.0%	10.0%
Rate of increase in compensation levels	6.0%	7.0%	7.0%
Rate of return on plan assets	9.0%	10.0%	-

The Company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards.

Provident fund

All eligible employees of the Company receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the Company make monthly contributions to the fund, which is equal to a specified percentage of the covered employee's basic salary. The Company has no further obligations under this plan beyond its monthly contributions. The Company contributed Rs 6,027,510, Rs 6,820,216 and Rs 6,169,951 to the provident fund during the years ended March 31, 2003, 2002 and 2001 respectively.

13 Equity Shares and Dividends

The Company has only one class of equity shares. Every holder of equity shares, as reflected in the records of the Company on the date of the shareholders meeting, shall have one vote in respect of each share held by the shareholder for all matters submitted to vote in the shareholders meeting.

As per the requirements of Indian statute, dividends in excess of 10% shall be declared out of distributable profits only after transfer of upto 10% of net income computed in accordance with current regulations to a general reserve. If the Company is to declare and pay dividends, such dividends are to be paid in Indian rupees to each holder of equity shares in proportion to the number of shares held by him to the total equity shares outstanding as on that date. Remittances of dividend outside India are governed by Indian statutes on foreign exchange and are subject to taxes applicable at the time of payment.

In the event of liquidation of the affairs of the Company, the holders of equity shares shall be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts, if any. The remaining assets will be distributed in proportion to the number of equity shares held by the shareholders.

In October 2000, the Company made an initial public offering of its equity shares in India. The offering consisted of 6,500,000 equity shares at an offer price of Rs 80 per share. The expenses of the public offering were Rs 40,307,018 and the net proceeds were Rs 479,692,982.

The Company paid cash dividends of Rs 17,442,392, Rs 11,345,702 and Rs Nil during the years ended March 31, 2003, 2002 and 2001 respectively. The per-share dividend was Rs 0.50, Rs 0.30 and Rs Nil during the years ended March 31, 2003, 2002 and 2001 respectively.

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During the year ended March 31, 2000, the Company effected a ten-for-three stock split. During the year ended March 31, 2001, the Company effected a two-for-one stock split in the form of a stock dividend. The additional equity shares were distributed on May 30, 2000 to shareholders of record on the same date. All references in the consolidated financial statements to the number of shares, per share amounts, and market prices of the Company's equity shares have been restated to reflect the stock split and the resulting increased number of equity shares outstanding.

There are no voting, dividends or liquidation rights to the holders of options issued under the Company's stock based compensation plans.

14 Other operating income/(expense), net

Other operating income/(expense) consist of the following:

	Years ended March 31,		
	2003	2002	2001
Loss on sale of plant and equipment	(146,866)	(663,061)	-
Foreign exchange gains/(loss), net	(4,173,991)	11,459,919	5,833,158
Total	(4,320,857)	10,796,858	5,833,158

15 Other income/(expense), net

Other income/(expense) consist of the following:

	2003	2002	2001
Dividend income	-	86,099,673	5,323,600
Interest income	365,469	1,545,238	4,775,994
Interest and finance charges	(262,894)	(2,747,394)	(5,232,658)
Gain/(loss) on sale of available for sale securities	45,835,890	(4,572,370)	250,000
Others	3,564,226	2,412,320	131,711
Total	49,502,691	82,737,467	5,248,647

16 Operating leases

The Company has entered into several operating lease arrangements for office buildings that are renewable on a periodic basis at the option of both the lessor and lessee. Rental expenses under such leases were Rs 27,106,602, Rs 23,106,891 and Rs 13,028,336 for the years ended March 31, 2003, 2002 and 2001 respectively.

The schedule of future minimum lease rental payments in respect of non-cancelable operating leases is set out below.

Years ending March 31,	
2004	17,235,565
2005	18,470,090
2006	20,571,443
2007	3,291,085
Total	59,568,183

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17 Stock based compensation

The Company has two stock option plans: 1998 Stock Option Plan – India (India Plan) and 1998 Stock Option Plan – US (US Plan). The Company has established a controlled trust called the Aztec Software and Technology Services Limited Employees' Welfare Trust (the Trust). The Trust would purchase shares of the Company out of funds borrowed from the Company. The Company's Compensation Committee would recommend to the Trust, officers and key employees to whom the Trust will grant shares from its holding, upon exercise of options granted under the India Plan and the US Plan. The shares are to be granted at the exercise price of the option awarded.

The Company is authorized to issue or instruct the Trust to issue upto 8,986,668 and 4,480,000 equity shares to eligible employees under the India Plan and the US Plan respectively. Employees covered by the India Plan and US Plan are granted an option to purchase shares of the Company subject to the requirements of vesting. The Company records deferred compensation for the difference between the grant price of the options and the fair value as determined by the quoted market prices of the equity shares on the grant date. The deferred compensation is amortized on a straight-line basis over the vesting period of the options which ranges from 7 to 52 months.

The movement in the shares held by the Trust is given below:

	Years ended March 31,	
	2003	2002
Shares held at the beginning of the period	5,956,758	10,486,668
Shares purchased from market	644,677	122,135
Shares transferred to employees	1,379,702	4,652,045
Shares held at the end of the period	5,221,733	5,956,758

The shares held by the Trust have been reported as a reduction from stockholders' equity.

For options granted under the stock option plans, the Company recorded deferred compensation, net of reversals on forfeiture of options, of Rs 181,372,599 during the year ended March 31, 2001. For the years ended March 31, 2003 and 2002, the Company recorded reversals on forfeiture of options, net of deferred compensation, of Rs 19,408,966 and Rs 56,060,099 respectively.

The amortization of stock based compensation, net of reversals, has been allocated to cost of revenue and selling, general and administrative expenses as follows:

	Years ended March 31,		
	2003	2002	2001
Cost of revenue	6,106,801	30,113,800	75,545,295
Selling, general, and administrative expenses	(485,814)	3,145,492	47,944,007
Total	5,620,987	33,259,292	123,489,302

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The following table summarizes the transactions of the stock option plans for the years ended March 31, 2003, 2002 and 2001.

	Shares arising out of options	Weighted average exercise price
Year ended March 31, 2003		
Options outstanding at the beginning of the year	6,737,633	27.69
Options granted during the year	773,000	30.46
Options exercised during the year	1,379,702	1.79
Options forfeited during the year	3,449,977	46.76
Options outstanding at the end of the year	2,680,954	17.28
Unvested options outstanding at the end of the year	1,615,360	21.39
Exercisable options outstanding at the end of the year	1,065,594	11.04
Year ended March 31, 2002		
Options outstanding at the beginning of the year	9,055,384	3.66
Options granted during the year	3,635,756	50.13
Options exercised during the year	4,652,045	1.62
Options forfeited during the year	1,301,462	16.34
Options outstanding at the end of the year	6,737,633	27.69
Unvested options outstanding at the end of the year	5,683,196	32.24
Exercisable options outstanding at the end of the year	1,054,437	3.16
Year ended March 31, 2001		
Options outstanding at the beginning of the year	6,292,268	1.50
Options granted during the year	3,054,200	8.06
Options exercised during the year	-	-
Options forfeited during the year	291,084	3.23
Options outstanding at the end of the year	9,055,384	3.66
Unvested options outstanding at the end of the year	5,349,538	5.15
Exercisable options outstanding at the end of the year	3,705,846	1.50

The weighted average grant-date fair value of options granted during the years ended March 31, 2003, 2002 and 2001 was Rs 21.28, Rs 22.38 and Rs 66.51 respectively.

Information on outstanding and exercisable options at March 31, 2003 is set out below.

	Range of exercise prices			
	Rs 0-3	Rs 10-40	Rs 40-60	Rs 60-90
Options Outstanding				
Number of options outstanding	1,421,054	994,900	228,000	37,000
Remaining contractual life in years	6.39	7.54	7.47	6.91
Weighted average exercise price	1.78	30.48	46.26	78.86
Options Vested and Exercisable				
Number of options exercisable	794,534	204,520	48,000	18,540
Remaining contractual life in years	6.13	7.74	9.00	7.88
Weighted average exercise price	1.62	33.00	47.00	79.37

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18 Income taxes

Income taxes consist of the following:

	Domestic	Foreign	Total
Year ended March 31, 2003			
Current tax expense	5,743,859	-	5,743,859
Deferred tax expense/(benefit)	(2,398,278)	2,977,172	578,894
Total	3,345,581	2,977,172	6,322,753
Year ended March 31, 2002			
Current tax expense	1,039,889	-	1,039,889
Deferred tax expense/(benefit)	(110,343)	(5,542,146)	(5,652,489)
Total	929,546	(5,542,146)	(4,612,600)
Year ended March 31, 2001			
Current tax expense	2,310,318	-	2,310,318
Deferred tax expense/(benefit)	35,484	(6,253,246)	(6,217,762)
Total	2,345,802	(6,253,246)	(3,907,444)

Deferred income taxes on unrealized gain on available for sale securities was Rs Nil, Rs 70,732 and Rs 4,759,882 as of March 31, 2003, 2002 and 2001 respectively.

A substantial portion of the profits of the Company's India operations are exempt from Indian income taxes being profits attributable to export operations and profits from an undertaking situated in a software technology park under the Software Technology Parks Scheme (STPS) of the Government of India. Under the tax holiday, the taxpayer can utilize an exemption from income taxes for a period of 10 consecutive years. The Company has opted for this exemption from the year ended March 31, 1997 for its undertaking. The aggregate rupee and per share effects of these tax exemptions are Rs Nil and Rs Nil per share for the year ended March 31, 2003, Rs 27,743,021 and Rs 0.80 per share for the year ended March 31, 2002 and Rs 74,167,016 and Rs 2.70 per share for the year ended March 31, 2001. During the year ended March 31, 2003, Indian tax laws were amended to restrict the exempt income from an export oriented undertaking, for the financial year 2002-03, from 100% to 90% of its aggregate income.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes.

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The components of deferred income taxes included on the balance sheet are as follows:

	Years ended March 31,	
	2003	2002
Deferred tax assets:		
Plant and equipment	2,508,621	-
Allowance for doubtful accounts receivable	-	6,081,619
Preliminary expenses	199,547	39,350
Carry forward business loss	12,859,865	17,475,665
Carry forward capital loss	-	110,353
Total	15,568,033	23,706,987
Less: Valuation allowance	-	(6,082,666)
Net deferred tax assets	15,568,033	17,624,321
Deferred tax liabilities:		
Plant and equipment	555,702	756,010
Unrealized gains on available for sale securities	-	70,732
Total	555,702	826,742

The composition of deferred tax assets and liabilities by jurisdiction is as follows:

	Years ended March 31,	
	2003	2002
India		
Deferred tax liabilities-Current	-	70,732
Deferred tax assets-Non current	2,508,621	6,193,019
Less: Valuation allowance	-	(6,082,666)
Net deferred tax assets	2,508,621	39,621
United States		
Deferred tax liabilities-Non current	555,702	756,010
Deferred tax assets-Non current	13,059,412	17,513,968
Net deferred tax assets	12,503,710	16,757,958

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, impact of tax holiday enjoyed by the Company, and tax planning strategies in making this assessment. The Company expects the deferred tax assets, net of the valuation allowance, at March 31, 2003 to be realized as a result of the reversal of existing taxable temporary differences.

The deferred tax asset on carry forward business loss as at March 31, 2003 will expire as follows:

Years ending March 31,	
2020	330,218
2021	6,548,604
2022	5,981,043
Total	12,859,865

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19 Earnings per share

The following is the reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share:

	As of March 31,		
	2003	2002	2001
Basic earnings per equity share - weighted average number of equity shares outstanding	34,908,401	34,633,192	27,442,161
Effect of dilutive stock options outstanding	-	3,070,471	7,109,771
Diluted earnings per equity share - weighted average number of equity shares and stock options outstanding	34,908,401	37,703,663	34,551,932

Shares held by the controlled trust have been reduced from the number of equity shares outstanding.

Options to purchase 1,827,753 and 39,884 equity shares at a weighted average exercise price of Rs 58.21 and Rs 86 were outstanding during the years ended March 31, 2002 and 2001 respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the equity shares. During the year ended March 31, 2003, the Company has reported a net loss and accordingly all outstanding options are anti-dilutive.

20 Segment reporting and enterprise wide disclosures

The Chief Executive Officer (CEO) of the Company who is the chief operating decision maker reviews the performance of the Company at the enterprise level. The CEO relies primarily on results at the enterprise level for assessing performance and making decisions about resource allocation and hence the Company has no reportable segments.

During the years ended March 31, 2003, 2002 and 2001 the Company derived 83%, 98% and 100% of its revenues respectively, from customers domiciled in the United States of America. The balance revenues were derived from customers domiciled in Europe and Asia Pacific.

Three, two and three customers individually contributed more than 10% of the revenues during the years ended March 31, 2003, 2002 and 2001 respectively. Five customers accounted for 71% and 70% of the trade receivables as of March 31, 2003 and 2002 respectively.

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The Company's plant and equipment were situated as follows:

	Years ended March 31,	
	2003	2002
India	25,233,555	46,999,442
United States	16,454,606	29,240,374

21 Commitments and contingencies

Capital Commitments: As of March 31, 2003 and 2002, the Company had committed to spend approximately Rs 50,750 and Rs Nil respectively under agreements to purchase plant and equipment. These amounts are net of capital advances paid in respect of these purchases.

Guarantees: As of March 31, 2003 and 2002, performance guarantees provided by banks on behalf of the Company to certain Indian Government and other agencies amount to Rs 500,000 and Rs 500,000 respectively.

Other commitments: The Company's Indian operations have been established as a Software Technology Park Unit under STPS of the Government of India. As per the scheme, the Company's India operations have export obligations to the extent of 1.5 times the employee costs for the year on an annual basis and 5 times the amount of foreign exchange released for capital goods imported, over a five year period. The consequence of not meeting this commitment in the future would be a retroactive levy of import duty on certain computer hardware previously imported duty free.

22 Fair value of financial instruments

The fair values of the Company's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months.

23 Financial instruments and risk concentration

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade accounts receivable and investment securities. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. The Company's cash resources are invested with reputed mutual funds and financial institutions. The Company maintains cash deposits with major banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivables. In some cases, the Company will require payment in advance. The Company estimates an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Consequently, an adverse change in the financial condition or the local economy of a particular customer could affect the Company's estimate of its bad debts.

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24 Loss on agreement termination

During the year ended March 31, 2001, the Company had entered into an agreement to occupy certain premises under an operating lease arrangement commencing September 2001. In view of the economic conditions prevailing in September 2001 and re-assessment of its requirements as of that date, the Company decided to terminate the agreement with the lessor through a negotiated settlement of Rs 10,000,000.