MELSTAR

Registered and Corporate Office
Melstar House, G-4, M.I.D.C. Cross Road 'A', Andheri (East), Mumbai- 400 093
Tel.: +91 (22) 2831 0505 Fax: +91 (22) 2831 0520
Email: info@melstar.com : Visit us at : **www.melstar.com**
Corporate Identity Number (CIN): L99999MH1986PLC040604

Board of Directors
- ★ S. M. Arora, Managing Director
- ★ Sattar Shaikh, Executive Director
- ★ Bharat Ramani
- ★ Suresh Bansal
- ★ Anthony Gale
- ★ Mrugesh Shah
- ★ Darius Pandole (upto 30.7.2007)
- ★ M. R. Lal

Auditors
Deloitte Haskins & Sells
Chartered Accountants
Mumbai

Bankers
Janakalyan Sahakari Bank Limited
HDFC Bank Limited
Citibank N.A.

Registrar & Share Transfer Agent
Intime Spectrum Registry Limited
(Unit - Melstar Information Technologies Limited)
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West)
Mumbai - 400 078
Tel.: 2596 3838 Fax: 2594 6969
E-mail: isrl@intimespectrum.com

Indian Offices

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335, Connection Point,
Mezzanine Floor, Airport Exit Road,
Bangalore - 560 017
Tel.:+91 (80) 2522 5737
Fax: +91 (80) 2522 5792

Chennai
Nakshatra Serviced Apartments,
2nd Floor,
8, Maharaja Surya Rao Road,
Alwarpet, Chennai - 600 018
Tel.: +91 (44) 4211 0322 / 24
Telefax: +91 (44) 4211 0323

Hyderabad
Sravana Complex, 4th Floor,
Plot No. 8-2-269/19/S/2,
Beside L.V.Prasad Eye Hospital Lane,
Road No. 2, Banjara Hills,
Hyderabad - 500 034
Tel.: +91 (40) 2355 1392
Fax: +91 (40) 2355 1391

Pune
403, Picasso Plaza, 4th Floor,
NIBM Chowk, Kondhwa Main Road,
Pune - 411 048.
Tel.:+91 (20) 2683 6094
Fax: +91 (20) 2683 6392

Kolkatta
CD 185, Sector - 1,
Gr. Floor,
Salt Lake City,
Kolkatta - 700 064
Tel.: +91 (33) 2321 6047 / 48

Gurgaon
SCO 18-19, Sector 14,
Gurgaon - 122 001
Haryana
Tel.: +91 (0124) 24080842 / 43 /44
Telefax: +91 /0124) 2408 0845

Overseas Subsidiaries

Melstar Inc.
707 Alexander Road,
Suite 208, Princeton,
New Jersey
Tel.: +1-609-514-0007
Fax: +1-609-514-0010

Melstar UK Limited
5, Croydon Road,
Keston,
Kent BR2 6EA, United Kingdom
Tel.: +44 1689 853504
Fax: +44 1689 862804

Melstar Singapore Pte Limited
1, North Bridge Road,
19-04/05, High Street Centre,
Singapore 179094
Tele/Fax: +65 6788 6131

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Notice

Notice is hereby given that the Twentieth Annual General Meeting of the members of Melstar Information Technologies Limited, will be held on Wednesday, the 26th September 2007 at 10.30 a.m. at AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri (E), Mumbai 400 093 to transact the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2007, and the Profit & Loss Account for the year ended on that date together with the Reports of Directors and the Auditors thereon.

2. To appoint a Director in the place of Mr.Bharat Ramani, who retires by rotation at this Meeting and, being eligible, offers himself for re-appointment.

3. To appoint a Director in the place of Mr.Mrugesh Shah, who retires by rotation at this Meeting and, being eligible, offers himself for re-appointment.

4. To appoint a Director in the place of Mr.Sattar Shaikh, who retires by rotation at this Meeting and, being eligible, offers himself for re-appointment.

5. To appoint M/s.Deloitte Haskins & Sells, Chartered Accountants, as Statutory Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

6. To authorise the Board of Directors to appoint Branch Auditors, in consultation with the Statutory Auditors of the Company, for the existing overseas branch offices in the US and UK to act until the conclusion of the next Annual General Meeting and to fix their remuneration.

Registered Office: **By Order of the Board of Directors**

G-4, Melstar House
MIDC, Cross Road "A",
Andheri East
Mumbai - 400 093.

Sattar Shaikh
Executive Director

Mumbai, July 30, 2007

Additional Information required under Clause 49 VI A of the Listing Agreement of Directors seeking re-appointment

Item - 2

Mr.Bharat Ramani, aged 44 years, is an Engineering Graduate (Electrical) from VJTI and has done Masters in Marketing and Management from NMIMS. He has over 21 years of experience in the IT industry at executive and Board level positions. Mr.Ramani is one of the Promoter Directors of the Company and has served the Company as Executive Director for almost ten years from November 1991. At present, he is looking after the operations of Melstar Inc, a wholly-owned subsidiary of the Company in the US as its Executive Vice President.

He is also on the Board of the following wholly-owned foreign subsidiaries of the Company:

1. Melstar Inc, US

2. Melstar UK Limited, UK

3. Melstar Limited, UK (Under CVA)

He had last retired by rotation at the Annual General Meting held on 28th September 2004 and was re-appointed as a director liable to retire by rotation.

Mr.Ramani holds 818,916 Equity shares in the Company amounting to 5.73% of the paid up Equity Capital of the Company.

Item 3

Mr.Mrugesh Shah, aged 46 years, is a first class graduate from Bombay University (B.Com) and a rank holder in the examinations of the Institute of Chartered Accountants. He qualified as a CA in 1983 and has over 24 years post-qualification experience. He is currently a partner of Mahajan & Aibara, a reputed firm of Chartered Accountants specializing in Management Assurance and Consultancy Service.

Mr.Shah is also on the Board of MnA Consultants Pvt. Limited and Synapse Inc, USA.

He had last retired by rotation at the Annual General Meting held on 28th September 2004 and was re-appointed as a director liable to retire by rotation.

Mr. Shah holds 200 Equity shares in the Company.

Item - 4

Mr.Sattar Shaikh, aged 49 years, is a Commerce Graduate from Mumbai University and has 25 years managerial experience in IT Industry at executive and Board Levels. Mr.Shaikh has been looking after the Company's Business, which includes Business development, fulfillment, finance, corporate affairs, etc. Mr.Shaikh is one of the main Promoters having initiated and completed the take over of the Company in 1991. He is an Executive Director of the Company.

He is also on the Board of the following wholly-owned foreign subsidiaries of the Company:

1. Melstar Inc, US

2. Melstar UK Limited, UK

3. Melstar Singapore Pte. Limited, Singapore

4. Melstar Limited, UK (Under CVA)

Mr. Shaikh had last retired by rotation at the Annual General Meeting held on 19th December 2005 and was re-appointed as a director liable to retire by rotation.

Mr.Shaikh holds 892,911 Equity shares in the Company, amounting to 6.25% of the paid up Equity Capital of the company.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE IN HIS / HER STEAD AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. UNDER THE COMPANIES ACT 1956,VOTING IS BY A SHOW OF HANDS UNLESS A POLL IS DEMANDED BY A MEMBER OR MEMBERS PRESENT IN PERSON OR BY PROXY, HOLDING AT LEAST ONE TENTH OF THE TOTAL SHARES ENTITLED TO VOTE ON THE RESOLUTION OR BY THOSE HOLDING PAID-UP CAPITAL OF AT LEAST RS.50,000/-. A PROXY SHALL NOT VOTE EXCEPT ON A POLL.

2. In order to be effective, the instrument appointing the proxy must be deposited at the registered office of the Company not later than 48 hours before the scheduled time of commencement of the meeting.

3. Members/Proxies are requested to bring to the Meeting the Attendance slip duly filled in along with their copy of this Annual Report.

4. The Register of Members of the Company shall remain closed from Monday, the 24th September 2007 to Wednesday, the 26th September 2007 (both days inclusive) for the purpose of Annual General Meeting.

5. Consequent upon the introduction of Section 109A of the Companies Act, 1956, members are entitled to make nomination in respect of shares held by them, if not already done. Members desirous of making nominations are requested to send their requests in Form No.2B (which will be made available on request) to the Company's Registrar and Share Transfer Agent in case the shares are held in physical form and to the Depository Participants in case the shares are held in electronic form.

6. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their queries in writing to the Company Secretary at least seven days before the date of the meeting so that the information required may be made available at the meeting.

7. Members holding shares in physical form are requested to notify / send the following to the Company's Registrars and Share Transfer Agents to facilitate better service:

   a) any change in their addresses ; and

   b) shares held in multiple accounts in identical names or joint accounts in the same order of names for consolidation of such shareholdings into one account.

8. The Investors are requested to note that unclaimed dividend for the financial year ended 31.3.2001 will be due for transfer in August 2008 to the Investor Education and Protection Fund established by the Central Government.

   Members who have not yet received / encashed Dividend Warrants for the aforesaid year may approach the Registrar and Share Transfer Agent of the Company for revalidation/issue of duplicate dividend warrant quoting reference of their ledger folio numbers or DP ID and Client ID as the case may be and stating the reason for delay before the transfer to the Investor Education and Protection Fund. No claim shall lie against the Company or the fund afterwards.

   The Investors are also requested to note that unpaid Public Issue Refund money as well as Unpaid dividend for the financial year ended 31.3.2000 have already been transferred to the Investor Education and Protection Fund within the due time and no claim shall lie against the Company or the Fund in this regard.

Registered Office:

G-4, Melstar House
MIDC, Cross Road “A”,
Andheri East
Mumbai - 400 093

Mumbai, July 30, 2007

By Order of the Board of Directors

Sattar Shaikh
Executive Director

Directors' Report

The Directors present hereunder the 20th Annual Report on the Business and operations of the Company along with the Audited Statement of Accounts of the Company and of the Group for the year ended 31st March 2007. The financial results for the year are summarized as under:

1. **FINANCIAL RESULTS**

(Rupees in Lacs)

	2006-07	2005–06
Sales	1769	1755
Other income	147	67
Operating Profit before depreciation, interest and taxes	188	246
Less: Depreciation	124	156
Less: Interest	27	38
Operating Profit / (Loss) before unusual item	37	52
Less: Provision for/write off of doubtful debts/advances	11	-
Profit / (Loss) before Taxation	26	52
Provision for taxation including FBT & Wealth Tax	(12)	(11)
Provisions for earlier years	1	1
Profit / (Loss) after tax	15	42
Profit brought forward from earlier year	159	239
Adjustments as per sanctioned Scheme of Arrangement	-	(122)
Dividend on Preference Shares (in Rupees)	417	-
Provision for Dividend Tax (in Rupees)	71	-
Balance carried to Balance sheet	174	159
*EPS (in Rupees) – Basic / Diluted	0.10	0.30
*Book value per Share (in Rupees)	11.30	11.22

*2005-06 figures are after carrying out adjustments as of 1.4.2005 in terms of Scheme of Arrangement and hence may not be strictly comparable.

2. **RESULTS OF OPERATIONS**

(a) Revenues

The total sales of the Company and of the Group for the year under report were as under:

(Rupees in Lacs)

	2006-07	2005-06	**2006-07**	2005-06
	Company	Company	**Group**	Group
US	**233**	103	**1,846**	1,526
Europe	**70**	252	**230**	457
Singapore	**-**	-	**1**	52
India	**1,466**	1,400	**1,466**	1,400
Total	**1,769**	1,755	**3,543**	3,435

The overall sales of the Company and the Group increased marginally. The sales of the Company stood at Rs.1,769 Lacs against Rs. 1,755 Lacs and the Group stood at Rs.3,543 Lacs against Rs.3,435 Lacs during the preceding year. The domestic and US Branch sales of the Company grew around 5% and 126% respectively compared to the previous year.

(b) Operations

The operations of the Company during year under report resulted in a net profit of Rs.15 Lacs compared Rs.42 Lacs during the previous year.

The performance of the subsidiaries was not encouraging during the year under report, except Melstar Inc, a wholly-owned subsidiary of the Company in the US, which generated an operating profit of Rs.103 Lacs. Consequently, the Group operations resulted into a loss of Rs.725 Lacs (against a loss of Rs.853 Lacs in the preceding year). The Subsidiaries also continued to face acute liquidity crisis during the year and cash flows remained under severe pressure. The Group loss was mainly on account of depreciation of Rs.490 Lacs and impairment of Rs.402 Lacs.

3. **DIVIDEND**

In view of overall losses suffered by the Group during the year, the Directors regret their inability to recommend any dividend to the equity shareholders of the Company for the year under report.

4. **SUBSIDIARY COMPANIES**

The Company has five wholly-owned foreign subsidiaries, viz, Melstar Inc., Melstar UK Limited, Melstar Limited (Under CVA at present), Melstar Singapore Pte Limited and a step-down subsidiary, Linkhand Support Limited, which is a subsidiary of Melstar Limited.

The important developments that have taken place during the year under report in various subsidiaries of the Company are dealt with hereunder:

(a) US Subsidiary - Melstar Inc.

The operations of Melstar Inc improved marginally during the year under report. It generated revenues of US$ 3,669,221 (Equivalent to Rs.1,613 Lacs) and operating profit of US$ 234,584 (Equivalent to Rs.103 Lacs) (previous year Revenues of US$ 3,226,101 equivalent to Rs.1,424 Lacs and profit of US$ 108,895 equivalent to Rs.48 Lacs). However, because of provisions of US$ 906,721 (equivalent to Rs.443 Lacs) made against doubtful debts in respect of two UK subsidiaries of the Company, Melstar Inc incurred net loss of US$ 571,315 (equivalent to Rs.296 Lacs) during the year under report.

The management of the subsidiary could not expand operations during the year under report because of cash flow constraints. It is expected that the performance of the subsidiary would be better during the current financial year.

(b) UK Subsidiaries:

(i) Melstar Limited & Linkhand Support Limited

As reported earlier, Melstar Limited had initiated Company Voluntary Arrangement (CVA) in January 2005. However, proceedings in this regard have not been completed so far. This subsidiary did not undertake any business activities during the year under report.

Linkhand Support Limited, a subsidiary of Melstar Limited, UK also did not undertake any business activities during the year under report. However, the subsidiary incurred loss Rs.795 Lacs mainly on account of amortization and impairment of Software Products having carrying value of Rs.440 Lacs as at 31.3.2007.

(ii) Melstar UK Limited

Melstar UK Limited is the only operative subsidiary of the Company in UK at present. However, its performance was not satisfactory during the year under report. It generated revenues of GBP 167,252 (equivalent to Rs.136 Lacs) against GBP 227,470 (Equivalent to Rs.182 Lacs) in the previous year and incurred loss of GBP 70,215 (equivalent to Rs.57 Lacs) against GBP 7,780 (equivalent to Rs.6.21 Lacs) during the previous year. The management is making best efforts to revive operations in UK through this subsidiary.

(c) Singapore Subsidiary - Melstar Singapore Pte Limited

During the year under report, this subsidiary generated only negligible revenues of SG$ 2,142 (equivalent to Rs 0.60 Lacs) and incurred loss of SG$ 123,093 (equivalent to Rs.35 Lacs) on account of amortization and impairment of a software product held by it. Lack of market growth, limited business opportunities and continued cash flow problems also led to poor performance of the subsidiary. The management is working out all possible efforts to minimize the operational expenses.

5. Financial Statements of Subsidiaries

In terms of the approval granted by the Central Government under Section 212(8) of the Companies Act, 1956, vide its letter No.47/174/207-CL-III dated 9.4.2007 copies of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and the Report of the Auditors of the Subsidiary Companies have not been attached to the Balance Sheet of the Company. The Company will make available these documents / details upon request by any member of the Company interested in obtaining the same. Further, these documents will also be kept open for inspection by any member / investor at the Company's Registered Office and that of the subsidiaries concerned. However, as required under the aforesaid approval, a summarized statement of financial position of the subsidiaries has been appended to the Annual Report elsewhere. Also in terms of Accounting Standard 21 issued by the Institute of Chartered Accountants of India, the Consolidated Financial Statements presented by the Company include the financial information of the subsidiaries as well.

6. Future Prospects / Outlook

The Company expects to improve its revenues and profitability by maximum utilization of its infrastructure and resources with continued efforts at containing costs consistent with the need for growth. The Company has been concentrating more on the domestic business since the last couple of years and it has started yielding results. There are more opportunities available in the market with the consistent growth of domestic IT industry and expansion of Indian operations by many large global companies. The Company has established business association with a few large global companies and it is expected that revenues from these clients will grow appreciably during the current financial year. The Company also hopes that it would be able to add more clients during current year and relationship with the existing clients would become stronger in terms of revenues, barring unforeseen events.

To improve the overall bottom-line and profitability across the group companies, winding up some of the non-operative subsidiaries may be undertaken during the current financial year to contain costs. Emphasis also will be given to minimize operational expenses, wherever possible and maximizing use of existing offshore infrastructure facilities.

7. DIRECTORS

In terms of article 154(1) of the Articles of Association of the Company, Mr.Bharat Ramani, Mr.Mrugesh Shah and Mr.Sattar Shaikh retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. Brief resume of the Directors proposed to be re-appointed, nature of their expertise in specific functional areas and names of the Companies in which they hold the directorship and membership/chairmanship of committees of the Board, as well as their shareholding as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges, are given in the Notice and Report on Corporate Governance forming part of the Annual Report. There has been no change among the Board members during the financial year under report. Since there is no regular Chairman at present one of the Independent Directors is chairing each meeting of the Board.

8. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that:

a) in the preparation of the annual accounts, the applicable accounting standards have been followed and there are no material departures from the same;

b) the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the company as at March 31, 2007 and of the loss for the year ended on that date;

c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

d) the directors have prepared the annual accounts on a 'going concern' basis.

9. PUBLIC DEPOSITS

The Company has not accepted any deposits from the Public or the Shareholders during the year or earlier years.

10. EMPLOYEES

The overall strength of people resources engaged by the Company increased during the year under report. The number of employees as at 31.3.2007 stood at 363 against 311 as at 31.3.2006.

In terms of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the name and other particulars of the employees required to be set out in the Directors Report are given hereunder:

Sr. No.	Name	Designation	Gross Remuneration (Rs.)	Qualification	Exp. (Yrs.)	Date of Joining	Age (Yrs.)	Previous Employment- Designation
1	S.M. Arora	Managing Director	2,921,346	B.A., M.B.A.	48	24/01/91	72	Melstar Industries Ltd. Director
2	Sattar Shaikh	Executive Director	2,840,785	B.Com.	27	01/08/97	49	Melstar Industries Ltd. Director

Notes:

1. Nature of Employment is Contractual. The terms of the Managing Director and the Executive Director are governed by the Shareholders' Resolutions.
2. Remuneration comprises basic salary, allowances and taxable value of perquisites.
3. Other Terms & Conditions are as applicable under the Rules of the Company.
4. Mr.Arora and Mr.Shaikh (being the promoter Directors), each of them together with their relatives hold more than 1% of the paid up capital of the Company.

11. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is as follows:

a. **Conservation of Energy**

The operations of the Company involve low energy consumption. Energy conservation measures have been taken wherever feasible. The Company has installed Power Factor correctors at the internal supply level to achieve high-energy efficiency. Efforts to conserve and optimize the use of energy through improved operational methods and other means is a continuous process.

b. **Disclosure of particulars with respect to absorption of Technology, Research and Development (R&D)**

No technology has been imported. Indigenous Technology available has been used for product development/ component identifications or offering services and is continuously being upgraded to improve overall performance.

c. **Foreign Exchange earnings & outgo**

The share of the revenues from exports constituted 15% of total revenues of the Company.

Total Foreign Exchange Earnings during the year amounted to Rs.260 Lacs.

Total Foreign Exchange outgo during the year amounted to Rs.220 Lacs inclusive of expenses incurred on account of purchases of services, foreign visits and other expenses.

12. CORPORATE GOVERNANCE

A separate section on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements with the Stock Exchanges, and also a Management Discussion and Analysis Report are appended hereto and forms integral part of the Annual Report.

13. AUDITORS AND AUDITORS' REPORT

M/s.Deloitte Haskins & Sells, the Statutory Auditors of the Company, retire at the ensuing Annual General Meeting. They have confirmed their eligibility and willingness for reappointment. The Directors commend their reappointment by the Members at the forthcoming AGM.

Auditors' qualification and management reply:

The Statutory Auditors have qualified Consolidated Accounts of the Group in their Audit Report with regard to preparation of accounts of three wholly-owned subsidiaries having no operations / substantially reduced operations (Para 5 of Auditors Report to the Consolidated Accounts).

The Auditors have stated that subject to their qualification stated above, the audited consolidated financial statements do represent true and fair view of the state of affairs of the Company and its subsidiaries as at 31.3.2007.

The directors' response to the qualification made by the Auditors in the Audit Report has been included in the Notes to Consolidated Account at Notes No.B11(a), (b) and (c). The Audit Committee has endorsed the management response in this regard.

14. ACKNOWLEDGEMENTS

The Board wishes to express their deep appreciation for the assistance and co-operation received from various Regulatory and Government authorities, Stock Exchanges, Banks, Customers, Vendors, Business Associates, Shareholders and stakeholders of the Company during the year. The Board also places on record its deep appreciation for the committed and unstinted efforts with which all the employees have performed their duties and responsibilities during the year under review.

On behalf of the Board of Directors

S.M.Arora	**Sattar Shaikh**
Managing Director	**Executive Director**

Mumbai, July 6, 2007

Management Discussion and Analysis Report

Forward Looking Statements

This report contains forward-looking statements, which may be identified by their use of words like 'expects', 'will' or other words of similar meaning. Forward-looking statements are based on certain assumptions and expectations of future events and the Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company assumes no responsibility to publicly amend or revise the forward-looking statements or any loss to the investors in the shares of the Company making investments relying on such forward-looking statements.

1. Industry Structure and Developments

Indian Economy has been growing rapidly for the last few years and a large number of Indian companies have expanded their operations globally, like many other large foreign companies operating in India. The fast growth in the economy was made possible by the rapid growth of service sector and commendable performance by the manufacturing sector. As per the reports, Information Technology (IT and IT Enabled Services) Industry will continue to grow over 25% during the coming year also. However, as per a study, around 50% of total export of software and IT enabled services are shared by three top IT companies. Like exports, domestic IT-BPO market also grew over 20% and is expected to witness substantial growth in the coming years.

2. Opportunities

Huge opportunities are available in the market. However, large clients prefer only large companies with global presence and proven track record of delivery. Most of small and medium sized companies have to struggle to bag orders from large clients. With past experience in the area of software application support and maintenance, there are good chances for the Company to attract new customers.

Many Global IT service companies are continuing to expand their operations in India because of cost advantages and availability of large number of technical resources. This trend would create more opportunities for the small and medium sized companies to work in association with those companies.

3. Segment-wise Performance

The Company has only three geographical segments viz. US, UK & Asia Pacific and the salient features have been dealt with in detail in the Directors' Report.

4. Threats

Some of the threats the Company could encounter are:

a) Growing competition from a number of market players having large capacities.

b) Timely availability of skilled personnel has fallen short of the industry requirement, besides high attrition rate. This might have some impact on Company's recruitment costs, growth in terms of number of resources and on revenues / profitability.

c) Availability of adequate Working Capital at the right time, could on occasions adversely affect its efforts to generate new business.

d) Continued pressures on billing rates due to substantial increase in salary level in the industry also may negate profitability.

e) Political instabilities and policies of various foreign governments to protect local employment by restricting market access by foreign players could also have some adverse impact.

f) Overseas travel / Visa restrictions imposed on Indian software professionals would be another area to contend with.

5. Risks and Concerns

Risk management is an essential component of the responsibilities of the management of a company. It has to ensure that the risks which might encounter while conducting its business activities are easily identified and managed with appropriate skills effectively to minimize / eliminate the adverse impact. The concerns that the Company could encounter are -

a) Government policies and restrictive measures;

b) Business process risks;

c) Inadequacy of resources - people, support services, working capital and above all timely availability;

d) Dependence on a selected few clients, changes in the market conditions, price situation, credit period, etc.

Mitigation

A preliminary analysis of the Company's risk profile is already in place. A comprehensive assessment / framework of the risk profile and risk response and measures to prevent and combat various types of risks to which the Company might get exposed in the process of execution of assignments / contracts as also in its future endeavors for growth to ensure optimum use of resources at its command consistent with the internal control systems and procedures as also in conformity with the regulatory requirements to withstand any adverse impact of factors and events outside its control, is being developed for effective monitoring.

The Company has also an effective internal audit function independent of external auditors, which regularly reviews effectiveness of the Company's policies. The Audit Committee of the Board periodically reviews implementation of internal control systems and procedures so as to strengthen the control process and to keep the Company's business insulated from internal and external risks and to check the impact of consequential damage and financial loss, if any.

6. Disaster prevention / recovery

Unexpected disasters can cause heavy damage to the properties, communication and data servers / systems and loss of invaluable data / softwares. Such events generally spring from power failure, earthquakes, fire, flood, war or other natural calamities. To prevent and/or to combat such events, the Company has developed and implemented a Business Recovery and Continuity Plans besides a separate Security Policy to address such damages, minimize its impact and at the same time continue its business with shortest possible time delays in such adverse conditions.

7. Future Outlook

The Company expects to improve its revenues and profitability by maximum utilization of its infrastructure and resources with continued efforts at containing costs and limited interruptions consistent with the need for growth. The Company has been concentrating more on the domestic business since the last two years and it has started yielding results. With the expansion of Indian operations by many large global companies, the Company expects more opportunities for small and medium sized companies. The Company has established business association with a few such companies. The Company expects more business from these clients during the current year, barring unforeseen events.

8. Internal Control Systems and their Adequacy

As a part of its commitment to healthy Governance, the Company has adopted requisite internal controls, systems and procedures for all its departments. Review of such systems and procedures is undertaken periodically and is commensurate with the Company's size of business and statutory requirements. As in the previous years, during this year too, the Internal Auditors carried out quarterly reviews of different aspects of internal controls. All such reports were presented to Audit Committee for its review and necessary action was taken to strengthen the controls and procedures where deemed expedient. A comprehensive Manual clearly defining each aspect of control covering all significant areas of the Company's operation such as accounting and finance, procurement, employee engagement, delivery of services, etc. is already in place and is monitored at regular intervals. Safeguarding of assets and their protection against unauthorized use are also part of the manual.

9. Material Developments in Human Resources

People are the company's key resource and the Company has to and does treat people as an important asset by establishing a structured program for paying competitive remuneration and performance related incentives and career advancement under a structured performance appraisal system. The Company has in place a conducive work environment that encourages innovation, meritocracy and motivates the employees to give their best performance. Development and training of employees to inculcate culture of excellence is an integral part of the Company's HR policy, besides close interaction, guidance, communication and involvement by superiors.

The total number of employees in the Company stood at 363 as on 31.3.2007 against 311 employees as on 31.3.2006.

The Company continues to evaluate the skills of its employees at various levels of hierarchy and hires appropriate resources with varying skills depending on the projects in hand / pipeline and specific requirements of its clients. A team of qualified professionals exists for resource development and imparting requisite quality training to the employees. In order to encourage the employees to get trained in latest technologies and skills, the Company had in place a Programme called "Certification Fee Reimbursement Programme".

10. Quality

Melstar's proactive approach, combined with its commitment to building world-class capabilities is reflected in the SEI CMM Level III assessment and ISO 9001: 2000 certification since 2002. In January 2005, the Company's quality procedures were re-assessed and re-certified by BVQI for a further period of three years. All technical employees of the Company have to undergo quality certification tests at regular intervals to ensure that the requisite quality standards are maintained. Clearing the quality tests has been made mandatory for continued employment and promotions. At the same time, the quality control team regularly continues due diligence exercises on all developmental activities by conducting periodical Internal Audits. To increase the awareness and implementation of the quality work, an award called "Quality Champion" is already in place and motivates the employees to follow quality standards.

11. Financial Performance

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956 and the Accounting Standards prescribed by the Institute of Chartered Accountants of India as well as the Generally Accepted Accounting Principles (GAAP) in India. The salient aspects of the financial performance of the Company and its subsidiaries have been dealt with at some length in the Directors Report.

The Consolidated Statements of Accounts of the Company covering all the subsidiaries duly audited (except Melstar Limited which is under CVA and Melstar Singapore Pte Limited, in view of insignificant transactions) are appended elsewhere in the Annual Report. The observations of the Auditors have been dealt with adequately in the Notes to the said Accounts on consolidated financial statements and in the Directors' Report of the Company.

An Analysis of financial performance for the year ended 31st March 2007 is given hereinafter:

i. Share Capital

As at 31st March 2007, the Company's Issued and Paid up Equity Share Capital stood at Rs.1,428 Lacs, the same as in the previous year, besides 2,000 Preference Shares of Rs.10/- each allotted in October 2006 towards consideration for amalgamation of Melstar Fashions Private Limited with the Company in terms of the Scheme of Arrangement approved by the High Court.

ii. Reserves and Surplus

The Reserves and Surplus of the Company as at March 31, 2007 stood at Rs.185 Lacs as against Rs. 174 Lacs as at March 31, 2006.

iii. Secured Loans

The liability of the Company of Rs.193 Lacs to the Secured Creditors as at March 31, 2007 stood as under (against Rs.358 Lacs in the previous year)-

a. Rs.185 Lacs (Rs.350 Lacs in the previous year) on account of Mortgage Loan payable to Janakalyan Sahakari Bank Limited.

b. Rs.8 Lacs (Rs.8 Lacs in the previous year) on account of Vehicle loans availed from ICICI Bank Limited.

The overall borrowings of the company decreased from Rs.358 Lacs at the beginning of the year to Rs.193 Lacs as at March 31, 2007.

iv. Unsecured Loans

Unsecured loan of Rs.17 Lacs from a subsidiary has been created during the year on account of transfer of vendor balance to that subsidiary.

v. Fixed Assets

During the year under report, the Company added Capital Goods of the value of Rs.54 Lacs to its gross block. As at 31.3.2007, the gross bock stands at 2,735 Lacs against Rs.2,736 Lacs as on 31.3.2006.

vi. Investments

The Company did not make any additional investments during the year under report. The value of investment thus stood at Rs.13 Lacs, against Rs.64 Lacs in the previous year.

vi. Debtors

Net receivables of the Company as at March 31, 2007 stood at Rs.368 Lacs representing 76 days revenues for the year, as against Rs.392 Lacs representing 82 days sales in the previous year. Outstandings older than 180 days (net of provisions) stood at Rs.0.27 Lacs and constituted 0.07% of the total receivable. Dues from subsidiaries and associates as at March 31, 2007 stood at Rs.163 Lacs, as against Rs.163 Lacs as at March 31, 2006.

vii. Loans and Advances

Loans and advances increased marginally from Rs.207 Lacs as at March 31, 2006 to Rs.208 Lacs as at 31.3.2007.

viii. Current Liabilities

Current liabilities increased from Rs.389 Lacs as at the end of March 2006 to Rs.400 Lacs as at March 31, 2007 on account of provision for ex-gratia for previous two years and increase in US branch creditors.

ix. Provisions

Provisions for the year ended 31.3.2007 amounted to Rs.32 Lacs as against Rs.63 Lacs for the previous year. The provisions were lower because of reduction in Gratuity and Leave Encashment liabilities.

x. Impact of Foreign Exchange Fluctuations

The Company earned net profit of Rs.1.19 Lacs during the year on account of fluctuations in the value of foreign currencies in terms of Rupee conversion.

xi. Depreciation

Depreciation on the assets and development facilities continued to be a significant part of the Company's overheads. The aggregate depreciation of the Company for the year amounted to Rs.124 Lacs (Rs.156 Lacs in the previous year).

As per the Company's consistent policy, depreciation has been provided at the rates prescribed under Schedule XIV to the Companies Act, 1956 and for Intangible Assets, depreciation has been calculated as per Accounting Standard AS-26.

xii. Tax Liability

The unit of the Company in Mumbai was eligible for tax benefits under Sections 10A of the Income Tax Act, 1961. The Software revenues from the said office aggregated to Rs.70 Lacs constituting 4% of the total sales. The revenues from foreign branches constituted 11% of the total sales.

No provision for Income Tax is made, since there is no taxable income in view of deductions available to the Company under the provisions of the Income Tax Act. However, the Company has provided for Rs.3.50 Lacs towards MAT under Section 115JB of the said Act.

S. M. Arora	**Sattar Shaikh**
Managing Director	***Executive Director***

Mumbai, July 6, 2007

Report on Corporate Governance

Company's Philosophy

The Company considers Corporate Governance as the most important process for conducting and managing its business activities in a transparent and visible manner in the interest of all its stake holders, besides keeping important segments of the society adequately informed. Melstar adopted good corporate practices all through its existence and oriented its actions in consonance with them. It has been the endeavour of Melstar to give fair and equitable treatment to all its stakeholders including employees, customers and shareholders as also to comply with applicable rules and regulations. Code of Conduct for directors and senior managers adopted by the Board as per the requirement of Clause 49 of the Listing shall further enhance the standards of Corporate Governance within Company. The Code has been posted on the web-site of the Company (www.melstar.com).

Board of Directors

The Company has an optimum combination of Executive and Non Executive Directors. The Board comprises three Independent Non-Executive Directors, three Non-Executive Directors and two Executive Directors. There has been no change in the Board of Directors since the last Annual General Meeting. Since there is no regular Chairman at present, one of the independent directors is chairing each meeting of the Board. All pecuniary transactions of the Company with Non-Executive Directors and/or other relations have been disclosed in the Annual Report. Other particulars are given hereunder:

Name	**Designation**	**Category**	**No. of Directorships in other Companies**		**Committee Memberships (Incl. MITL)**	**Committee Chairmanships (excluding memberships given in column 5)**
1	2	3	4		5	6
			Other Listed Company	Unlisted Limited, Pvt. Ltd. and Foreign subsidiary / Cos.		
Mr.Surinder Mohan Arora	Managing Director	Promoter and Executive Director	-	3	1	-
Mr.Sattar Shaikh	Executive Director	Promoter and Executive Director	-	4	-	-
Mr.Bharat Ramani	Director	Promoter and Non-Executive Director	-	3	-	-
Mr.Suresh Bansal	Director	Promoter and Non-executive Director	-	5	-	-
Mr.Anthony Gale	Director	Non-Executive Director	-	6	-	-
Mr.Mulk Raj Lal	Director	Independent and Non-Executive Director	1	1	1	3
Mr.Mrugesh Shah	Director	Independent and Non-Executive Director	-	2	1	-
Mr.Darius Pandole	Director	Independent and Non-Executive Director	-	4	1	-

The Board met four times during the year ended 31st March 2007 viz. on 28th April 2006, 27th July 2006, 31st October 2006, and 31st January 2007. The following table gives the attendance record of the Directors at the Board and Annual General Meeting.

Directors	No. of Board Meetings held	No. of Meetings Attended	Attendance at the last AGM held on 20.12.2006
Mr.S.M.Arora	4	4	Yes
Mr.S. Shaikh	4	4	Yes
Mr.Bharat Ramani	4	2	Yes
Mr.Suresh Bansal	4	1	No
Mr.Anthony Gale	4	1	Yes
Mr.M.R.Lal	4	4	Yes
Mr.Darius Pandole	4	4	No
Mr.Mrugesh Shah	4	4	No

Notes:

1. None of the directors is related to any other director.
2. None of the directors received any loans or advances from the company during the year.
3. None of the Directors holds Directorship in more than 15 public Limited Companies nor membership in more than ten committees nor chairmanship in more than five committees across all companies in which he is/was a Director. Since Remuneration Committee is non-mandatory, membership in Remuneration Committee has not been considered for this purpose.
4. Apart from receiving sitting fee, the Independent directors do not have any material pecuniary relationships or transactions with the Company, its promoters, its directors, its senior management, its subsidiaries and associates, which may affect independence of the director.
5. Brief resumes of directors retiring by rotation have been given in the Notice convening the Annual General Meeting.

Board Meetings

In conformity with the provisions of the Act as well as the Company's Articles, the Board met at regular intervals to review the quarterly / annual results and to transact other business. When considered expedient additional meetings were convened and held. The Board meetings are held at the Registered Office of the Company in Mumbai. The Agenda for the Board meetings, containing relevant matters as requisite, are distributed in advance to all the Board members.

Committees of the Board

The Committees of the Board were constituted at a Meeting of the Board held on 30th April 2001, when the Code of Corporate Governance became applicable to the Company. The Role and Responsibilities of each Committee are well defined and the role of Audit Committee has been revised as per the subsequent amendments to the Code. The Committees generally meet on the day of the Board meeting, except when otherwise considered expedient. The Board has constituted the following Committees:

(a) <u>Audit Committee</u>

The current composition of the Audit Committee with three Independent Non-executive Directors are -

	Name	Title	Status
1	Mr.M.R.Lal	Chairman	Independent Non-Executive Director
2	Mr.Mrugesh Shah	Member	Independent Non-Executive Director
3	Mr.Darius Pandole	Member	Independent Non-Executive Director
4	Mr.S. Shaikh	Permanent Invitee	Promoter and Executive Director

Meetings and attendance during the year:

During the year under report four meetings of the Committee were held, viz. on 28th April 2006, 27th July 2006, 31st October 2006, and 31st January 2007. The attendance at the meetings was as under:

Name	No. of Meetings Held	No. of Meetings Attended
Mr.M.R.Lal	4	4
Mr.Darius Pandole	4	4
Mr.Mrugesh Shah	4	4

At its meetings, the Audit Committee reviewed the quarterly and annual financial results before the Board took the same on record. The Committee also reviewed Internal Audit Reports, Internal Control Systems and Procedures and conducted other businesses as requisite and made recommendations to the Board, where improvements were deemed necessary to strengthen the same. As a measure of good corporate governance, representatives of Internal and Statutory Auditors were regularly invited to the meetings of the Audit Committee and made significant contribution to its deliberations. The minutes of the meetings of the Audit committee are regularly placed before the Board. The Company Secretary acts as the Secretary to the Committee.

Broad Terms of Reference:

In terms of the amendments to the Listing Agreement, the terms of reference of the Audit Committee have been enlarged to include overseeing the Company's financial reporting process and disclosure of financial information to ensure that the financial statements reflect a true and fair position and that adequate and credible information is disclosed as also recommending to the Board appointment / reappointment and/or removal of external and internal auditors and fixing their remuneration. The Audit Committee undertakes review of internal control systems, policies and practices, reports of the Company's internal and statutory auditors, quarterly and annual financial statements, financial and risk management policies, related party transactions, compliance with accounting standards and stock exchange requirements concerning financial statements, significant adjustments arising out of audit, disclosure of contingent liabilities, Directors' Responsibility Statement, reviewing financial statements of subsidiaries, Management Discussion and Analysis, findings of any internal investigation and follow up thereon, etc. for recommendation to the Board.

(b) Investor Grievance and Share Transfer Committee

The Composition of the Committee is as under:

	Name	Title	Status
1	Mr. M.R. Lal	Chairman	Independent Non-Executive Director
2	Mr. S.M. Arora	Member	Promoter & Managing Director

During the year under report the Committee met twice, ie. on 31st October 2006 and 30th March 2007.

The Company Secretary acts as the Compliance Officer and has been regularly interacting with the Share Transfer Agents to ensure that the complaints / grievances of the investors are attended to without undue delay and where deemed expedient, the complaints are referred to the Chairman of the Committee or discussed at its meetings. In general all complaints are attended to within seven days from the date of receipt.

The Company has a dedicated e-mail ID, companysecretary@melstar.com attended by the Secretarial Department to enable the investors to communicate with the Company.

The Registrar & Share Transfer Agent (RTA) of the Company during the financial year under report received 14 complaints from the members and all the complaints had been satisfactorily dealt with during the said period.

During the year, the Registrar had registered 36 transfers comprising 4,000 shares and processed 83 requests for dematerialization of 9,000 shares. There were no valid requests pending for share transfers at the end of the year.

Broad Terms of Reference

To examine and redress the complaints and grievances of shareholders of the Company, so as to direct and advise the RTA to ensure prompt redressal of complaints and grievances of the shareholders on any issue relating to the share transfer activity, to authorise issue of duplicate share certificates, to recommend to the Board appointment / removal of the Registrars and Share Transfer Agents and/or in the remuneration payable to them, etc.

(c) Remuneration Committee (Non-mandatory)

The Remuneration committee of the Board is constituted to formulate and recommend to the Board from time to time, a compensation structure for Executive Members of the Board and relatives of Directors.

Current Composition of the Committee with three Independent Non-executive Directors are -

	Name	Title	Status
1	Mr. Darius Pandole	Chairman	Independent Non-Executive Director
2	Mr. M.R.Lal	Member	Independent Non-Executive Director
3	Mr. Mrugesh Shah	Member	Independent Non-Executive Director
4	Mr. S.M.Arora	Invitee	Promoter & Managing Director

During the financial year under report, a meeting of the Committee was held on 31st October 2006, at which the re-appointment of Mr.Farooq Shaikh as "Sr. Manager Business Development" with effect from 1st April 2006, his remuneration and related terms were reviewed and recommendations were made to the Board. The requisite Resolution relating to his re-appointment was approved by the Members at the last Annual General Meeting held on 20th December 2006 and subsequently the Company also received approval of the Central Government for his re-appointment.

Broad Terms of Reference

To review and determine the policies of the Company relating to remuneration packages for Executive Directors and relatives of directors, administer benefits of ESOP Scheme to the eligible employees, etc.

Remuneration Policy / Criteria with details of Remuneration

a) Executive Directors

The Remuneration policy of the Company for its Executive Directors is guided mainly by the following factors:

i. Responsibilities shouldered;

ii. Company / individual performance during the year;

iii. Practices prevailing in comparable organizations, i.e. competitive structure; and

iv. Transparent, fair and simple to administer as well as fully legal and tax compliant.

The Company continues to pay a minimum fixed remuneration to its Executive Directors for the last few years due to inadequacy of profits when computed as per the provisions of Schedule XIII to the Companies Act, 1956.

The remuneration paid to the Executive Directors of the Company are as under:

Sr. No.	Name	Designation	Sitting Fee	Salary (Rs.)	Perquisites (Rs.)
1	S.M. Arora	Managing Director	Nil	2,160,000	761,346
2	Sattar Shaikh	Executive Director	Nil	2,160,000	680,785

No Service Contracts have been entered into with the present working directors. The Resolutions passed by the shareholders of the Company approving their terms are deemed as binding. The present term of their appointment is for a period of three years with effect from 1.4.2005. There was no provision for payment of Severance Fees in the said Resolutions. The Company has not granted any stock option to any of the Executive Directors during the year.

b) Non-Executive Directors

A fee of Rs.20,000/- is being paid to Non-executive Directors for attending each meeting of the Board. However the fee of the Chairman of the Audit Committee has been increased from Rs.10,000/- to Rs.20,000/- with effect from 1st January 2007 considering the responsibilities shouldered by the Chairman and also considerable time spent by him for reviewing the Financial statements as well as interaction with the Internal and Statutory Auditors and the Executive Management for meeting the Statutory requirements. All other members are being paid a fee of Rs.10,000/- for attending each Committee Meeting.
Non-executive Directors are entitled to receive a commission of 1% of the net profit of the Company for a financial year computed under the ceiling provided under the Companies Act, 1956. However, the Company did not pay any commission for the financial year ended 31.3.2007 in view of inadequate profits of the Company as calculated u/s 349 of the Companies Act, 1956.

The details of remuneration paid to the Independent Non-Executive Directors towards sitting fee are as under:

Sr. No.	Name	Designation	Sitting Fee (Rs.)
1	Mr.M. R. Lal*	Independent and Non-Executive Director	160,000
2	Mr.Darius Pandole	Independent and Non-Executive Director	130,000
3	Mr.Mrugesh Shah	Independent and Non-Executive Director	130,000

*In addition to the above, Mr.M.R.Lal, who is a lawyer by profession, has been paid Rs.51,000/- towards his professional fees.

The Company has not granted any stock option to any of the Non-executive Directors during the year.

ANNUAL AND EXTRA-ORDINARY GENERAL MEETINGS

The Annual and Extra-ordinary General Meetings of the Company held during the previous three years were as under:

Financial Year	Date	Time	Location	Special Resolutions transacted
AGM: 2003-04	28.9.2004	10.30 a.m.	AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri (E), Mumbai-400093	NIL
AGM: 2004-05	19.12.2005	10.30 a.m.	- do-	• Re-appointments of Mr.S.M.Arora as the Managing Director and Mr.Sattar Shaikh as Executive Director for a period of three years w.e.f. 1.4.2005.
Extra-ordinary General Meeting	27.7.2006	12.00 Noon	-do-	• Re-classification of Authorised Share Capital and Utilization of Securities Premium Account.
AGM: 2005-06	20.12.2006	10.30 a.m.	-do-	• Resolution under Section 163 of the Companies Act to keep statutory registers at the office of the Registrars and Share Transfer Agents. • Appointment of Mr.Farooq Shaikh as “Sr. Manager – Business Development” for a period of five years w.e.f. 1.4.2006
Court Convened Meeting	27.7.2006	10.30 a.m.	-do-	• Approval of 'Scheme of Arrangement' for amalgamation of Melstar Fashions Private Limited with the Company and its Shareholders.

DISCLOSURES

No materially significant related party transactions were entered by the Company with its promoters or directors, which could be deemed to be potentially conflicting with the interests of the Company. However, there were some transactions with the Company's wholly-owned foreign subsidiaries, which were mainly for administrative purpose. Some of the Directors of the Company (as stated above) are Directors of such wholly-owned foreign subsidiaries as well, though none of them has any personal financial interest in any of these subsidiaries. The details of such transactions are disclosed in the Notes to Accounts (Please Refer Note No.11 of Schedule 15).
There was no reported case of levy of any penalties, or imposition of strictures on the Company by the Stock Exchanges or SEBI on any matter related to the capital markets during the last three years.

MEANS OF COMMUNICATION

The Company regularly publishes its quarterly, half-yearly and annual results in due time in National and Regional Daily newspapers (Business Standard & Dainik Sagar) in compliance with requirements. These are also filed electronically with EDIFAR web-site. Therefore quarterly results are not sent to each household of shareholders. No presentation was made to analysts during the financial year under report.

The Management Discussion and Analysis Report is appended elsewhere and forms integral part of the Annual Report.

OTHERS:

(a) Certification by the Auditors: As required by Clause 49 of the Listing Agreement, the Auditors of the Company have verified the compliance of the Corporate Governance norms by the Company. Their report is attached.

(B) A firm of Chartered Accountants periodically carried out Secretarial Audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit reports confirm that the total issued and paid up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL.

General Shareholder Information

Annual General Meeting

a)	Date, Time and Venue of A.G.M.	:	26th September 2007 at 10.30 a.m. AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri (E), Mumbai-400093
b)	Dates of book closure	:	Monday, the 24th September to Wednesday, the 26th September 2007 for AGM purpose (both days inclusive)
c)	Special Resolutions	:	Nil
d)	Financial Calendar:		

1) First Quarter Results:	On or before 31st July.
2) Second Quarter / Half yearly Results:	On or before 31st October.
3) Third Quarter results:	On or before 31st January.
4) Fourth Quarter / Audited Annual Results:	On or before 30th June.
5) Payment of Dividend:	Not applicable since no dividend is recommended.

Stock Exchanges on which Company's shares are listed:

(1) Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Stock Code: 532307

(2) The National Stock Exchange of India Limited
Exchange Plaza,
Bandra-Kurla Complex, Bandra (E),
Mumbai 400 051

Stock Code: MELSTAR

The Company has been regular in paying the Listing Fees to the Stock Exchanges. Listing Fees for the year 2007-08 have also been paid.

Registrar and Share Transfer Agent:

The complete address of Registrar and Share Transfer Agent for communication is as follows:

Intime Spectrum Registry Limited
(Unit - Melstar Information Technologies Limited)
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West),
Mumbai 400 078
Telephone: 2596 3838 : Fax: 2594 6969
E-mail: isrl@intimespectrum.com

Share Transfer System

Shares lodged for transfers and dematerialization are processed by the Registrar and Share Transfer Agent on a weekly basis and generally registered and returned within a period of two weeks from the date of receipt, if the documents are complete in all respects.

The Company had been obtaining half yearly certificates from a Company Secretary in Practice within 30 days from the close of the relevant period with regard to compliance of share transfer formalities as per the requirement of clause 47(c) of the Listing Agreement of the stock exchanges, where the securities of the company are listed.

Market price data:

High / Low during each month and performance in comparison to BSE Sensex / BSE IT Index during the financial year ended 31.3.2007:

	National Stock Exchange of India Limited			Bombay Stock Exchange Limited				
Month	High	Low	No. of shares Traded	High	Low	No. of shares Traded	BSE Index	BSE IT Index
Apr-06	13.35	10.80	189976	13.34	10.70	255655	12042.56	4034.92
May-06	14.50	10.50	225128	14.39	10.60	268774	10398.61	3642.67
Jun-06	10.70	8.00	124590	11.50	8.00	138319	10609.25	3743.32
Jul-06	9.45	7.70	85497	9.36	7.90	78364	10743.88	3951.13
Aug-06	10.50	8.50	102336	10.30	8.35	132321	11699.05	4286.42
Sep-06	10.10	8.30	148870	10.00	8.23	251118	12454.42	4393.56
Oct-06	11.10	8.40	277201	11.09	8.50	293769	12961.90	4821.98
Nov-06	10.15	8.40	371109	10.21	8.40	327614	13696.31	5107.22
Dec-06	12.05	8.20	636877	12.05	8.10	1036895	13786.91	5272.56
Jan-07	12.65	10.05	409007	12.85	10.30	811494	14090.92	5297.17
Feb-07	14.00	9.30	443061	14.01	9.45	672004	12938.09	4869.99
Mar-07	9.60	8.00	170545	9.69	8.10	266992	13072.10	4899.39

Distribution of Shareholding as at March 31, 2007

Shareholding of nominal value of Rs.	No. of Shareholders	% of Total	No. of Shares of Rs. 10/- each	Total Value (Rs.)	% of Total
Upto Rs 5,000	11079	79.67	2021493	20214930	14.15
5,001 to 10,000	1441	10.36	1238556	12385560	8.67
10,001 to 20,000	673	4.84	1055266	10552660	7.38
20,001 to 30,000	262	1.88	681910	6819100	4.77
30,001 to 40,000	105	0.75	379099	3790990	2.65
40,001 to 50,000	97	0.69	464150	4641500	3.25
50,001 to 100,000	136	0.97	1006014	10060140	7.04
100,001 to above	113	0.81	7436651	74366510	52.06
Total	**13906**	**100**	**14283139**	**142831390**	**100**

Shareholding Pattern as at March 31, 2007

	Category	No. of shares	% of holding
A	**Promoters' holding**		
1	Promoters	3130990	21.92
B	**Non-Promoters Holding**		
1	Banks, Financial Institutions, Insurance Companies (Central / State Government Institutions / Non-Gov. Institutions	100000	0.70
2	Private Corporate Bodies	1390452	9.73
3	Indian Public / HUFs / Employees	7562856	52.95
4	NRIs	323797	2.27
5	Foreign Individuals	707347	4.95
6	Mr.A.C.Gale (Non-executive Director / foreign national)	1018898	7.13
7	Mr.Darius Pandole (Independent Non-executive Director)	48000	0.34
8	Mr.M.R.Lal (Independent Non-executive Director)	599	-
9	Mr.Mrugesh Shah (Independent Non-executive Director)	200	-
	TOTAL	**14283139**	**100.00**

Dematerialization of Shares and Liquidity

All shares of the Company are under compulsory dematerialization for delivery on sale / purchase. As at 31.3.2007, the number of shares of the Company in demat form stood at 13,506,667 shares representing 94.56% of shares issued by the Company. Considering the advantages of trading in demat form, members are encouraged to consider dematerialisation of their shareholding so as to avoid inconvenience in future.

Demat ISIN Number allotted to company's shares by NSDL and CDSL is**: INE817A01019.**

UNCLAIMED DIVIDENDS

As on the date of this report, a sum of Rs.199,910/- remained outstanding, out of the dividend declared by the Company for the financial year ended 31.3.2001.

The Investors are requested to note that if not claimed, it will be due for transfer in August 2008 to the Investor Education and Protection Fund established by the Central Government.

Members who have not yet received / encashed Dividend Warrants for the financial year 31.3.2001 may approach the Registrar and Share Transfer Agent of the Company for revalidation / issue of duplicate dividend warrant quoting reference of their ledger folio numbers or DP ID and Client ID as the case may be and stating the reason for delay before the amount is transferred to the Investor Education and Protection Fund. No claim shall lie against the Company or the fund afterwards.

The Investors are requested to note that Unclaimed Share Application money, which remained unencashed and was due for transfer to the Investor Education and Protection Fund, has been transferred in March 2007.

The Investors are also requested to note that unpaid dividend for the financial year ended 31.3.2000 amounting to Rs.86,077/- has been transferred to the Investor Education and Protection Fund in May 2007.

Risk Management

A preliminary analysis of the Company's risk profile had been made and presented to the Audit Committee and the Board of Directors of the Company.

Declaration on Compliance with the Code of Conduct

It is hereby confirmed that all the Directors and Senior Management Personnel (i.e. one level below the executive directors, including all functional heads) of the Company have received, read and understood for compliance with the Code of Conduct framed by the Company and confirmations for the year ended 31.3.2007 have been obtained from the Directors and Senior Management Personnel of the Company.

Address of registered office, subsidiary offices and other Indian offices for correspondence:

Please refer to the inner first page of the Annual Report.

Outstanding GDRs / ADRs, etc.

The Company has not issued any GDRs or ADRs or any other convertible instruments.

COMPLIANCE WITH NON-MANDATORY REQUIREMENTS:

The Company has implemented the following non-mandatory requirements recommended under Clause 49 of the Listing Agreement:

1. **Chairman's Office**
   The Company is not maintaining any office for the Chairman at present.

2. **Tenure of Independent Directors**
   No specific tenure has been specified for the Independent Directors. Moreover, the Company has completed only seven years of being listed and the continuing Independent Directors appointed by the Company initially have completed only six years in office.

3. **Remuneration Committee**
   A remuneration Committee comprising three Non-Executive Independent Directors is already functional, for review and recommendation of remuneration packages of Executive Directors / relatives of the Directors of the Company. The Remuneration Committee also acts as the Selection Committee.

4. **Audit Qualifications**
The Company has initiated measures to move towards a regime of unqualified financial statements.

5. **Training of Board Members**
The Company has not laid down any Training mechanism for its Directors. However, the Directors on Board are senior professionals of high standing and experience in Corporate sector / industry in which the Company operates. They are being kept informed of the business model, growth factors and the risk profile of the Company.

6. **Mechanism for evaluating Non-Executive Board Members**
The Company has not laid down any mechanism for evaluation of contributions of Independent Non-executive Directors.

7. **Whistle Blower Policy**
The Company has not laid down a Whistle Blower Policy. However, employees can bring to the notice of the management their concerns on any issues. A "Suggestion Box" is also available in the Company in which employees can deposit in writing their concerns and suggestions even without disclosing their name.

S.M.Arora
Managing Director

Sattar Shaikh
Executive Director

Mumbai, July 6, 2007

Auditors' Certificate on compliance with the conditions of Corporate Governance under Clause 49 of the Listing Agreement

To the Members of
Melstar Information Technologies Limited

We have examined the compliance of conditions of Corporate Governance by Melstar Information Technologies Limited, for the year ended on March 31, 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

The Company has yet to finalise the comprehensive formal framework of risk assessment and minimization, however the preliminary analysis of the Company's risk profile had been prepared and presented to the audit committee and to the Board of Directors during the previous year.

Subject to the foregoing, in our opinion and the to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company, as certified by the Compliance officer of the Company, based on the records maintained by the Investor's Grievances Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Mumbai, dated: July 6, 2007

Auditors' Report

To the Members,
Melstar Information Technologies Limited

1. We have audited the attached Balance Sheet of Melstar Information Technologies Limited as at 31st March, 2007 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. 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.

2. We conducted our audit in accordance with auditing standards generally accepted in India. 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.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:

   a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b) In our opinion proper books of account as required by law have been kept by the company so far as appears from our examination of the books; and proper returns adequate for the purposes of our audit have been received from branches not visited by us. The Branch Auditors reports have been forwarded to us and have been appropriately dealt with;

   c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the above books of account and with the audited returns from the branches;

   d) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

   e) On the basis of the written representations received from the directors as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007, from being appointed as directors in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   f) Without qualifying our opinion, we draw attention to note no. 2(b) of Schedule 15 regarding loans/advances aggregating to Rs.3,275,071 to a wholly owned subsidiary company, which has incurred net loss during the year and whose net worth is substantially eroded, considered good of recovery by the management for the reasons stated in the said note.

   g) In our opinion and to the best of our information, and according to the explanations given to us, the said accounts read together with the Significant Accounting Policies and other notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      i) in case of the Balance sheet, of the state of affairs of the Company as at 31st March, 2007;

      ii) in case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Mumbai, dated: July 6, 2007

Annexure to the Auditors' Report

(Re: Melstar Information Technologies Limited, Referred to in Paragraph 3 of our report of even date)

i) The nature of the Company's business/activities during the year have been such that clauses (viii), (xiii), and (xiv) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company for the year.

ii) In respect of its fixed assets:

a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b. We are informed that the physical verification of fixed assets was carried out by the management during the year and no material discrepancies were noticed by the management on such verification as compared with the records of the fixed assets maintained by the Company. In our opinion, the frequency of verification is reasonable.

c. In our opinion and according to the information and explanations given to us, the Company has not disposed off a substantial part of the fixed assets during the year.

iii) In respect of its inventories:

a. As explained to us, inventories were physically verified during the year by the management at reasonable intervals.

b. In our opinion and according to the information and explanation given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.

c. In our opinion and according to the information and explanation given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.

iv) According to the information and explanations given to us, the Company has not granted or taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956 and accordingly the sub-clauses (a) to (g) of clause (iii) are not applicable to the Company.

v) In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and nature of its business for the purchase of fixed assets and sale of services. There were no transactions for purchase of inventory during the current year. During the course of our audit we have not observed any continuing failure to correct major weaknesses in the internal control system.

vi) According to the information and explanations given to us, there are no contracts or arrangements that need to be entered into the register maintained under Section 301 of the Companies Act, 1956 and hence clause (v) is not applicable to the Company.

vii) The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under, are not applicable to the Company.

viii) In our opinion, the internal audit functions carried out during the year, by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and nature of its business.

a) According to the information and explanations given to us and records of the Company examined by us, in our opinion, the Company has been generally regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Excise duty, Custom duty, Income-tax, Sales-tax, Wealth Tax, Service Tax, Cess and any other material statutory dues with appropriate authorities during the year *except for tax deducted at source (Pay As You Earn) in respect of UK Branch. The arrears of such statutory dues as at the last day of the financial year and outstanding for a period of more than six months from the date they became payable, are Rs.10,39,258/-(Previous year Rs.10,34,464/-).*

b) According to the information and explanations given to us, details of disputed statutory dues which have not been deposited on account of matters pending before the concerned authorities are as under:

Name of Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax	1,00,000/-	AY 1999-00	C.I.T. (Appeals)
Income Tax Act, 1961	Income Tax	4,74,985/-	AY 2004-05	C.I.T. (Appeals)

ix) The Company has no accumulated losses at the end of the financial year and has not incurred any cash losses during the current financial year and in the immediately preceding financial year.

x) Based on our audit procedures and on the basis of information and explanations given by the management, we are of the opinion that the Company has not defaulted in the repayment of dues to financial institutions and banks. The Company has not issued any debentures and hence there is no question of default in the repayment of dues to debenture holders.

xi) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and any other securities and hence the question of maintenance of adequate records for this purpose does not arise.

xii) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

xiii) To the best of our knowledge and belief, and according to the information and explanations given to us, in our opinion, term loans availed by the Company, were applied by the Company during the year for the purposes for which the loans were obtained.

xiv) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.

xv) The Company has not made preferential allotment of shares to parties and companies, covered in the Register maintained under Section 301 of the Companies Act, 1956,and hence the question of whether the price at which shares have been issued is prejudicial to the interest of the Company, does not arise.

xvi) The Company has not issued any debentures during the year and hence the question of creation of securities in respect of debentures issued, does not arise.

xvii) The Company has not raised funds by way of public issue during the year and hence the provisions of clause (xx) are not applicable to the Company.

xviii) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No. 15291

Mumbai, dated: July 6, 2007

Balance Sheet as at 31st March 2007

	Schedule No.	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1	142,851,390		142,831,390
Preference Share Suspense		-		20,000
(Refer note no.4 of schedule 15)				
Reserves and Surplus	2	18,520,020		17,390,371
			161,371,410	160,241,761
Loan Funds				
Secured Loans	3	19,250,995		35,751,848
Unsecured Loans	4	1,720,511		-
			20,971,506	35,751,848
TOTAL			182,342,916	195,993,609
APPLICATION OF FUNDS				
Fixed Assets	5			
Gross Block		273,510,976		273,624,799
Less : Accumulated Depreciation and amortisation		121,055,911		113,941,527
Net Block			152,455,065	159,683,272
Investments	6		1,250,000	6,358,625
Current assets, loans and advances				
Sundry Debtors	7	36,814,677		39,177,085
Cash and Bank Balances	8	14,246,605		15,233,280
Loans and Advances	9	20,772,760		20,723,488
		71,834,042		75,133,853
Less : Current liabilities and provisions				
Current Liabilities	10	39,975,078		38,921,947
Provisions	11	3,221,113		6,260,194
		43,196,191		45,182,141
Net current assets			28,637,851	29,951,712
TOTAL			182,342,916	195,993,609
Significant Accounting policies and notes to accounts	15			

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P. R. Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

Profit and Loss Account for the year ended 31st March 2007

INCOME	Schedule No.	Rupees	Rupees	Previous Year Rupees
Sales - Software			175,280,312	175,465,040
Income from Infrastructural Services			1,620,387	-
Other income	12		14,661,171	6,664,289
			191,561,870	182,129,329
EXPENDITURE				
Operating and other expenses	13	173,827,686		157,527,663
Interest (net)	14	2,712,035		3,777,502
Depreciation and amortisation		12,433,831		15,618,998
			188,973,552	176,924,163
Profit before tax			2,588,318	5,205,166
Provision for taxation				
Income Tax				
- Current tax			(350,000)	(350,000)
Fringe Benefit Tax			(784,223)	(687,959)
Wealth Tax			(26,623)	(23,838)
Profit after tax			1,427,472	4,143,369
Excess provision for income tax in respect of earlier years (net)			70,186	100,000
Surplus brought forward from previous year			15,927,533	23,850,011
Less: Adjustments in accordance with the Scheme of Arrangement			-	12,165,847
			17,425,191	15,927,533
APPROPRIATIONS				
Dividend on cumulative preference shares			417	-
Dividend tax			71	-
Balance carried to balance sheet			17,424,703	15,927,533
			17,425,191	15,927,533
Earnings per Share (Refer note no.9 of schedule 15)				
--Basic and Diluted			0.10	0.30
Significant Accounting policies and notes to accounts	15			

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P. R. Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

Cash Flow Statement for the Year Ended 31st March 2007

			2006-07		2005-06
		Rupees	**Rupees**	Rupees	**Rupees**
A	**Cash flow from operating activities**				
	Net Profit before tax		2,588,318		5,205,166
	Adjustments for :				
	Depreciation and amortisation	12,433,831		15,618,998	
	Profit on sale of Current Investments (Non trade) (Net)	(46,666)		(12,092)	
	Dividend Income from Current Investments (Non trade)	(146,254)		(96,533)	
	Foreign currency translation reserve	(367,521)		(456,802)	
	Profit on fixed assets sold (Net)	(34,192)		(147,871)	
	Interest expense	3,325,053		4,182,126	
	Exchange Difference (Net) [Refer note 2 below]	(13,579)		58,774	
			15,150,672		**19,146,600**
	Operating profit before working capital changes		**17,738,990**		**24,351,766**
	Adjustments for :				
	Trade and other receivables	4,192,915		3,771,156	
	Trade payables	(1,618,517)	**2,574,398**	3,611,260	**7,382,416**
	Cash generated from operations		**20,313,388**		**31,734,182**
	Direct Taxes paid		(4,226,707)		(2,059,573)
	Fringe Benefit Tax paid		(901,631)		(520,209)
	Net cash from operating activities		**15,185,050**		**29,154,400**
B	**Cash flow from investing activities**				
	Additions to fixed assets	(5,341,926)		(351,396)	
	Proceeds from sale of fixed assets	170,494		362,849	
	Dividend received	146,254		96,533	
	Purchase of investments	(7,146,254)		(9,346,533)	
	Sale of investments	12,301,545		3,000,000	
	Repayment of Loans/advances by subsidiaries (net)	2,038,012		2,646,203	
	Net cash from / (used in) investing activities		**2,168,125**		**(3,592,344)**
C	**Cash flow from financing activities**				
	Repayment of long term and other borrowings	(16,500,853)		(9,980,106)	
	Unclaimed dividend paid	-		(840)	
	Loans/advances from subsidiaries (net)	1,720,511		-	
	Interest paid	(3,335,487)		(4,171,692)	
	Share application refund money transferred (to Investor Education and Protection Fund)	(237,600)		-	
	Net cash used in financing activities		**(18,353,429)**		**(14,152,638)**
	Net (decrease)/ increase in cash and cash equivalents		**(1,000,254)**		**11,409,418**
	Opening balance of cash and cash equivalents		**15,255,672**		**3,839,808**
	Cash and Cash equivalents as at 1st April, 2005 of Melstar Fashions Private Limited transferred to the company in accordance with the scheme of arrangement (Refer note no.1 below)		**-**		**6,446**
	Closing balance of cash and cash equivalents		**14,255,418**		**15,255,672**

Notes :

1 The amalgamation of Melstar Fashions Private Limited with the Company, in the previous year, in accordance with the scheme of arrangement was a non-cash transaction.

2 Cash and cash equivalents include cash and bank balances in current accounts and deposit accounts (Refer schedule 8 of the Balance Sheet)

Cash and Cash equivalents include :

	31st March 2007 Rs	31st March 2006 Rs
Cash and Bank Balances	14,246,605	15,233,280
Unrealised loss on foreign currency cash and cash equivalents	8,813	22,392
Total cash and cash equivalents	**14,255,418**	**15,255,672**

3 Purchase of fixed assets are considered as a part of investing activities.

4 Repayment of borrowings reflect the decrease in secured loans and is net of proceeds.

5 Interest income on deposits, etc is classified as cash flow from operating activities.

6 The Cash flow statement has been prepared under the "Indirect Method " as set out in Accounting Standard (AS) 3 (Revised) on "Cash Flow Statement" issued by the Institute of Chartered Accountants of India .

7 Previous year figures have been regrouped wherever necessary to correspond with the figures of the current year.

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner

Mumbai, Dated : July 06,2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06,2007

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 1: SHARE CAPITAL			
Authorised:			
19,950,000 (20,000,000) equity shares of Rs.10 each		**199,500,000**	**200,000,000**
50,000 (Nil) preference shares of Rs.10 each		**500,000**	**-**
(Refer note no. 3 of schedule 15)			
		200,000,000	**200,000,000**
Issued,subscribed and paid up :			
Equity:			
14,283,139 (14,283,139) Equity Shares of Rs.10 each, fully paid up		**142,831,390**	**142,831,390**
Preference:			
2,000 (Nil) 5% Cumulative Redeemble Preference Shares of Rs.10 each, fully paid up		**20,000**	**-**

Notes:

Of the above:

(a) 6,310,850 (6,310,850) equity shares of Rs.10 each, fully paid had been 'issued as bonus shares by capitalisation of free reserves.

(b) 5,000 (5,000) equity shares of Rs.10 each, fully paid had been allotted to the shareholders of the erstwhile Melstar Industries Limited, consequent to a scheme of amalgamation.

(c) 1,675,449 (1,675,449) equity shares of Rs.10 each, fully paid had been allotted to the shareholders of Linkhand Limited without payment received in cash in accordance with the agreement for acquisition.

(d) 456,990 (456,990) equity shares of Rs.10 each, fully paid had been allotted to the erstwhile shareholders of Global Systems Development Inc. without payment received in cash in accordance with the share purchase agreement.

(e) 2000 (Nil) 5% Cumulative Redeemable Preference Shares had been allotted to the shareholders of erstwhile Melstar Fashions Private Limited, consequent to a Scheme of amalgamation, without payment received in cash. (Refer note no.4 of schedule 15)

(f) 2000 (Nil) 5% Cumulative Redeemable Preference Shares issued are redeemable at the end of 10 years from the date of allotment i.e. 31st October 2006, with a call option with the Company to redeem at any time after the end of 18 months from the date of allotment.

TOTAL		**142,851,390**	**142,831,390**

Schedules forming part of Balance Sheet as at 31st March 2007

SCHEDULE 2 : RESERVES AND SURPLUS

1. Capital Reserve			
Balance at the commencement of the year	**173,542**		171,218
Add:Credited during the previous year on amalgamation of a company	**-**		2,324
		173,542	173,542
2. Revaluation Reserve			
Balance at the commencement of the year	**-**		-
Add: Credited during the year (net)	**-**		61,350,406
Less: Adjustments in accordance with the Scheme of Arrangement	**-**		(61,350,406)
		-	-
3. Securities Premium Account :			
Balance at the commencement of the year	**-**		68,181,907
Less: Adjustments in accordance with the Scheme of Arrangement	**-**		(68,181,907)
		-	-
4. General Reserve			
Balance at the commencement of the year	**-**		168,988,739
Less: Adjustments in accordance with the Scheme of Arrangement	**-**		(168,988,739)
		-	-
5. Foreign Currency Translation Reserve			
Balance at the commencement of the year	**1,289,296**		1,769,271
Less: Debited during the year	**(367,521)**		(479,975)
		921,775	1,289,296
6. Surplus in profit and loss account		**17,424,703**	15,927,533
TOTAL		**18,520,020**	17,390,371

SCHEDULE 3 : SECURED LOANS

From Banks :	Notes		
a. Term Loan	**1**	**18,500,000**	35,000,000
b. Vehicle Loans	**2**	**750,995**	751,848
TOTAL		**19,250,995**	35,751,848

Notes :

1. Term loan is secured by equitable mortgage by deposit of title deeds of office premises situated at Andheri(Mumbai) and is further secured by personal guarantee of two directors of the Company.
2. Vehicle loans are secured by charge on the respective vehicles purchased. [Amount repayable within one year Rs.489,470 (Previous year Rs.465,915)]
3. During the previous year, the bank stated in note 1 above had sanctioned working capital demand loan facility secured by hypothecation of fixed assets and receivables and collateral security by way of equitable mortgage of office premises as stated above and further secured by personal guarantee of two directors of the Company. However, the Company did not utilise the said loan facility and after expiry of the period of sanction of the said facility, is taking necessary steps towards satisfaction of charges.

SCHEDULE 4 : UNSECURED LOANS

Other Loans and Advances		
- From a subsidiary	**1,720,511**	**-**
TOTAL	**1,720,511**	**-**

Schedules forming part of Balance Sheet as at 31st March 2007

SCHEDULE 5: FIXED ASSETS

(RUPEES)

	GROSS BLOCK				DEPRECIATION AND AMORTISATION				NET BLOCK	
Description	**As at 1/4/2006**	**Additions**	**Adjustments/ Deductions**	**As at 31/3/2007**	**Upto 1/4/2006**	**For the year**	**Adjustments/ Deductions**	**As at 31/3/2007**	**As at 31/3/2007**	**As at 31/3/2006**
LEASEHOLD LAND	304,995	-	-	304,995	28,151 *	3,973	-	32,124	272,871	276,844
BUILDINGS (INCLUDNG IMPROVEMENTS TO LEASEHOLD PREMISES) **	152,148,000	-	-	152,148,000	21,821,952	5,692,665	-	27,514,617	124,633,383	130,326,048
PLANT AND MACHINERY	53,278,498	2,058,016	(5,115,460)	50,221,054	43,949,412	3,017,032	(4,979,158)	41,987,286	8,233,768	9,329,086
FURNITURE AND FIXTURE	29,188,019	953,420	(340,289)	29,801,150	16,540,947	1,555,306	(340,289)	17,755,964	12,045,186	12,647,072
VEHICLES	6,732,942	1,273,646	-	8,006,588	2,356,536	736,757	-	3,093,293	4,913,295	4,376,406
INTANGIBLE ASSETS:										
-SOFTWARE UTILITIES	31,972,345	1,056,844	-	33,029,189	29,244,529	1,428,098	-	30,672,627	2,356,562	2,727,816
TOTAL	**273,624,799**	**5,341,926**	**(5,455,749)**	**273,510,976**	**113,941,527**	**12,433,831**	**(5,319,447)**	**121,055,911**	**152,455,065**	**159,683,272**
PREVIOUS YEAR	232,273,591	76,909,509	(35,558,301)	273,624,799	118,434,972	15,618,998	(20,112,443)	113,941,527	159,683,272	-

* Amount Written off in respect of Leasehold land for the period of lease which has expired.

** Building was revalued on 1st April, 2005 with reference to the fair market value; amount added on revaluation was Rs.76,558,113; the revalued amount substituted for historical cost on 1st April, 2005 was Rs. 126,130,511.

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 6: INVESTMENTS (FULLY PAID)			
Long term (At cost/ carrying amount unless otherwise stated)			
Trade Investments - Unquoted			
In shares of subsidiary companies			
i) 45,940 (45,940) shares (common stock) of US$ 25 each of Melstar Inc. (USA)	**64,648,453**		**64,648,453**
Less: Provision for diminution	**(64,648,453)**		**(64,648,453)**
	-		**-**
ii) 150,000 (150,000) shares of Sterling Pound 1 each of Melstar UK Limited (UK)	**9,790,695**		**9,790,695**
Less: Provision for diminution	**(9,790,695)**		**(9,790,695)**
	-		**-**
iii) 958,992 (958,992) shares of Sterling Pound 1 each of Melstar Limited (UK)	**94,245,891**		**94,245,891**
Less: Provision for diminution	**(94,245,891)**		**(94,245,891)**
	-		**-**
iv) 1,700,000 (1,700,000) shares of SGD 1 each of Melstar Singapore Pte Ltd	**45,989,728**		**45,989,728**
Less: Provision for diminution	**(45,989,728)**		**(45,989,728)**
	-	**-**	**-**
Non Trade - Unquoted			
125,000 (125,000) shares of Rs.10/- each of Janakalyan Sahakari Bank Ltd		**1,250,000**	**1,250,000**
		1,250,000	**1,250,000**
Current			
Unquoted and Trade (At cost or fair value whichever is lower)			
Investment in Mutual Funds (unit of the face value of Rs.10/- each, unless otherwise stated)			
i) Nil (152698.041)units of HDFC Liquid Fund (Dividend Re-investment plan)	**-**		**1,559,562**
ii) Nil (326073.149) units of LICMF Liquid Fund (Dividend Re-investment plan)	**-**		**3,549,063**
		-	**5,108,625**
TOTAL		**1,250,000**	**6,358,625**

Notes:

1. Aggregate of unquoted investments

		As at 31.03.2007	As at 31.03.2006
Cost/ carrying amount		**1,250,000**	**6,358,625**

2. Investments bought and sold during the year:

	Nos.	Face Value (Rupees)	Purchase Cost (Rupees)
HDFC Liquid Fund (Dividend Re-investment plan)	**684843.943**	**6,848,439**	**7,063,093**
LICMF Liquid Fund (Dividend Re-investment plan)	**7577.740**	**75,777**	**83,161**

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 7 : SUNDRY DEBTORS			
(Unsecured, considered good unless otherwise stated)			
Debts outstanding for a period exceeding six months			
Considered good	27,188		334,459
Considered doubtful (see note below)	43,490,725		43,630,623
		43,517,913	43,965,082
Other debts		36,787,489	38,842,626
		80,305,402	82,807,708
Less :- Provision		43,490,725	43,630,623
TOTAL		36,814,677	39,177,085

Note: Includes debts due from a subsidiary company Rs.16,303,514
(Previous year Rs.16,303,514)

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 8 : CASH AND BANK BALANCES			
1. Cash on hand		15,562	338,213
2. Bank balances			
a) with Scheduled Banks			
i) in current accounts *	4,995,526		8,468,779
ii) in deposit accounts (Including Margin Deposit Rs.350,000 (Previous year Rs.350,000) (Including interest accrued Rs.64,389(Previous year Rs.116,394))	8,417,135		5,466,394
		13,412,661	13,935,173
b) With others in current account			
i) PNC Bank (New Jersey) (Maximum balance during the year Rs.2,609,000 (Previous year Rs. Nil))	646,183		-
ii) Citibank N.A. (New Jersey) (Maximum balance during the year Rs.764,594 (Previous year Rs.3,069,120))	2,425		17,370
iii) National Westminister Bank (London) (UKPA/c - Maximum balance during the year Rs.127,800 (Previous year Rs.1,349,757)) (USD A/c - Maximum balance during the year Rs.436,288 (Previous year Rs.2,418,730))	-		564,088
iv) Barclays Bank (London) (Maximum balance during the year Rs.556,044 (Previous year Rs.5,277,818))	169,774		378,436
		818,382	959,894
TOTAL		14,246,605	15,233,280

* Current accounts includes Rs.277,972 in Exchange Earners Foreign Currency account (previous year Rs.523,775).

Schedules forming part of Balance Sheet as at 31st March 2007

		Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 9 : LOANS AND ADVANCES				
(Unsecured, considered good unless otherwise stated)				
1.	Loans and advances to subsidiaries			
	Considered good (Refer note no.2 (b) of schedule 15)	**3,275,071**		5,313,083
	Considered doubtful (Refer note no. 2 (a) of schedule 15)	**114,153,589**		114,153,589
			117,428,660	119,466,672
2.	Advances recoverable in cash or kind or for value to be received			
	Considered good	**4,812,623**		6,483,379
	Considered doubtful	**200,114**		502,000
			5,012,737	6,985,379
3.	Unbilled services (subsequently billed)		**1,249,449**	1,409,200
4.	Advance payment of Indian Income tax (Net of provision for taxation)		**11,435,617**	7,517,826
			135,126,463	135,379,077
	Less :- Provision		**114,353,703**	114,655,589
	TOTAL		**20,772,760**	20,723,488

SCHEDULE 10 : CURRENT LIABILITIES

		As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
Sundry Creditors -			
i)	Total outstanding dues to small scale industrial undertakings *	**-**	**-**
ii)	Total outstanding dues to creditors other than small scale industrial undertakings	**39,689,091**	**38,300,855**
Share Application refund money **		**-**	**324,671**
Unclaimed dividend **		**285,987**	**285,987**
Interest accrued but not due		**-**	**10,434**
	TOTAL	**39,975,078**	**38,921,947**

* The Company has not received intimation from suppliers regarding the status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given.

** These figures do not include any amounts due and outstanding to be credited to Investor Education and Protection Fund.

SCHEDULE 11 : PROVISIONS

	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
For Taxation (Including wealth tax) (Net of advance tax)	**26,623**	29,102
For Fringe Benefit Tax (Net of advance tax)	**50,342**	167,750
For Dividend	**417**	-
For Dividend Tax	**71**	-
For Gratuity	**2,158,245**	3,831,832
For Leave encashment	**985,415**	2,231,510
TOTAL	**3,221,113**	6,260,194

Schedules forming part of Profit and Loss Account for the year ended 31st March 2007

				Previous Year Rupees
			Rupees	
SCHEDULE 12: OTHER INCOME				
Rent			**8,280,000**	2,018,065
Exchange Difference (Net)			**119,381**	775,769
Profit on sale of Current Investments (Non trade) (Net)			**46,666**	12,092
Profit on fixed assets sold (Net)			**34,192**	147,871
Sundry credit balances written back			**1,872,826**	469,454
Provision for doubtful debts/ advances written back (Net)			**441,784**	177,425
Advances written off in earlier years now recovered			**-**	128,866
Excess provision of earlier years written back			**2,948,548**	2,118,772
Dividend Income from current investments (non trade)			**146,254**	96,533
Miscellaneous income			**771,520**	719,442
TOTAL			**14,661,171**	6,664,289

SCHEDULE 13: OPERATING AND OTHER EXPENSES

1.	Software Development expenses		**26,141,215**	24,580,940
2.	Utilities			
	a) Electricity	**1,886,788**		1,754,251
	b) Other utilities	**18,138**		60,080
			1,904,926	1,814,331
3.	Payments to and provisions for employees			
	a) Salaries, wages and bonus	**110,494,767**		95,823,382
	b) Contribution to provident and other funds	**4,455,295**		4,235,594
	c) Gratuity	**-**		504,787
	d) Leave Encashment	**-**		712,574
	e) Staff welfare	**553,472**		291,268
			115,503,534	101,567,605
4.	Other expenses			
	a) Rent	**1,537,395**		1,538,150
	b) Rates and Taxes (includes Value added tax Rs.Nil (previous year Rs. 416,029))	**957,301**		895,050
	c) Insurance	**433,370**		442,808
	d) Repairs and maintenance			
	Plant and Machinery	**977,102**		804,412
	Building	**146,509**		218,919
	e) Travelling and Conveyance (Net of recoveries)	**5,800,401**		10,660,215
	f) Communication expenses	**2,285,635**		2,170,508
	g) Advertising and Sales promotion expenses	**2,132,939**		1,858,792
	h) Legal and professional fees	**6,033,006**		3,527,667
	i) Miscellaneous expenses	**8,483,111**		6,900,476
			28,786,769	29,016,997
5.	Irrecoverable Debts/ Advances written off		**1,071,242**	17,790
6.	Directors Sitting Fees		**420,000**	530,000
	TOTAL		**173,827,686**	157,527,663

Note : Miscellaneous Expenses includes auditor's Remuneration, bank charges, vehicle expenses, recruitment expenses etc.

Schedules forming part of Profit and Loss Account for the year ended 31st March 2007

		Rupees	Previous Year Rupees
SCHEDULE 14 : INTEREST (NET)			
Interest Expenses			
On fixed loans	**3,160,081**		3,346,353
Others	**164,972**		835,773
		3,325,053	4,182,126
Less : Interest Income			
Interest on bank deposits, etc		**613,018**	404,624
(Tax deducted at source Rs.18,674 (Previous year Rs.17,270))			
TOTAL		**2,712,035**	3,777,502

Schedules forming part of Accounts for the year ended 31st March 2007

Schedule 15: Significant Accounting policies and Notes to Accounts

A. Significant Accounting Policies:

a) Basis of preparation of financial statements :
The accompanying financial statements have been prepared under the historical cost convention except for certain fixed assets which have been revalued, in accordance with generally accepted accounting principles and the provisions of the Companies Act, 1956 and the applicable accounting standards issued by Institute of Chartered Accountants of India.

b) Use of estimates :
The preparation of financial statements in conformity with the generally accepted accounting principles requires, estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Differences between the actual results and estimates are recognised in the period in which the results are known / materialised.

c) Fixed Assets :
Fixed assets are stated at cost of acquisition or construction or at revalued amounts less accumulated depreciation, amortization and impairment, if any.

d) Intangible Assets:
Intangible assets are recognised, only if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost of the assets can be measured reliably. The intangible assets are recorded at cost and are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

e) Investments:
Long Term Investments are stated at cost, which include cost of acquisition and related expenses. Provision is made to recognise a decline, other than temporary, in the value of investments. Current investments are stated at cost or fair value whichever is lower.

f) Depreciation and Amortisation:
Depreciation in respect of assets acquired upto March 31, 1996 is provided for on written down value method at the rates prescribed in Schedule XIV to the Companies Act, 1956. In respect of assets acquired after March 31, 1996 depreciation is provided for on Straight Line Method at the rates prescribed in schedule XIV to the Companies Act, 1956. Depreciation on fixed assets revalued is provided on Straight Line Method over the residual life of the asset and charged to the Profit and Loss account.

Leasehold land is written off over the lease period.

Intangible Assets Computer Software are amortised over a period of five years based on the technical evaluation of their useful economic life.

g) Inventories:
Software Finished Goods (Traded) :
Software Finished Goods (Traded) are valued at cost or net realisable value, whichever is lower.

h) Foreign Currency Transactions/Translation:
Transactions in foreign currency are recorded at the original rates of exchange in force at the time transactions are effected. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring imported fixed assets are adjusted in the carrying amount of the respective fixed asset. Exchange differences arising on settlement of other transactions are recognised in the profit and loss account.

The value of fixed assets imported through specific foreign currency loans is adjusted at the end of each financial year by any change in liability arising out of expressing the outstanding foreign currency loans at the closing rates of exchange prevailing at the date of Balance Sheet.

Monetary items (other than those related to acquisition of imported fixed assets) denominated in foreign currency are restated using the exchange rates prevailing at the date of balance sheet and the resulting net exchange difference is recognised in the profit and loss account.

Foreign Branches:
The translation of financial statements of Foreign Branches is done as under in accordance with Accounting Standard (AS) 11

Schedules forming part of Accounts for the year ended 31st March 2007

(Revised) on "The Effect of Changes in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India, considering its foreign branches as non-integral foreign operations:

i. All the items of income and expenses during the year are translated at an average rate.
ii. All the monetary and non-monetary assets and liabilities are translated at closing rate.
iii. The resulting exchange difference is accumulated in 'foreign currency translation reserve' until the disposal of the net investment in the said non-integral foreign operations.

i) Borrowing Costs:
Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue.

j) Retirement Benefits:
i. Contribution to Provident Fund and Family Pension Fund is charged to revenue.
ii. Provision for Gratuity and Leave Encashment is made as per the actuarial valuation at the year-end.

k) Revenue recognition:
Software revenue is recognised on the basis of chargeable time or achievement of prescribed milestones for billing as provided in the contracts. Sales outside India include value-added tax wherever applicable. Sales in India exclude service tax charged.

Dividend Income is recognised in the statement of Profit and Loss, when right to receive payment is established.
Revenue is recognised only when it is reasonably certain that the ultimate collection will be made.

Interest on Fixed Deposits is recognized on time proportion basis.

l) Income taxes:
Tax expense comprises of current tax, deferred tax and fringe benefit tax. Current tax and Deferred tax are accounted for in accordance with Accounting Standard 22 on "Accounting for Taxes on Income", (AS 22) issued by the Institute of Chartered Accountants of India. Current tax is measured at the amount expected to be paid to/recovered from the tax authorities, using the applicable tax rates. Deferred tax assets and liabilities are recognized for future tax consequences attributable to timing differences between taxable income and accounting income that are capable of reversal in one or more subsequent years and are measured using relevant enacted tax rates. The carrying amount of deferred tax assets at each Balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized (Refer Note No. 5 below). Fringe benefit tax is recognized in accordance with the relevant provisions of Income-tax Act, 1961 and the Guidance Note on Fringe Benefit Tax issued by the ICAI. Tax on distributed profits payable in accordance with the provisions of the Income-tax Act, 1961 is disclosed in accordance with the Guidance Note on Accounting for Corporate Dividend Tax issued by the ICAI.

m) Impairment of assets:
An asset is treated as impaired when the carrying cost of the asset exceeds its recoverable value. An impairment loss is charged to Profit and Loss account in the year in which an asset is identified as impaired. The impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

n) Provisions, Contingent Liabilities and Contingent Assets:
Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised but are disclosed in the Notes to Accounts. Contingent Assets are neither recognised nor disclosed in the financial statements.

B. <u>Notes to Accounts</u>

1. **Contingent Liabilities in respect of** :-	**As at 31.03.07 Rupees**	**As at 31.03.06 Rupees**
Income Tax/ESIC demands disputed in appeal and pending decision before higher authorities. The Company is hopeful of favourable decision.	1,632,587	135,627

2. (a) The Company, considering the erosion / substantial erosion in the net-worth of its wholly-owned subsidiaries (including the wholly-owned subsidiary located in UK, which had initiated Company Voluntary Arrangement (CVA) in an earlier year and which

Schedules forming part of Accounts for the year ended 31st March 2007

is in progress at present), had in the earlier years / previous year made provisions for diminution in the value of investments in the said subsidiaries aggregating to Rs.214,674,767 and for doubtful loans / advances and debts due from such subsidiaries aggregating to Rs.130,457,103, pending approval from the Reserve Bank of India (RBI). The Company would adjust the provisions as and when approval from RBI is received. This adjustment would have no impact on Profit and Loss Account.

(b) Loans and advances (Schedule No.9) include Rs.3,275,071 (out of which Rs.1,461,846 is given during the current year) due as at 31st March 2007 from a wholly-owned subsidiary located in U.S.(Melstar Inc.), which has improved turnover and cash flows during the year, though has suffered a net loss for the year mainly on account of provision made towards inter company receivable resulting into further erosion of net worth as at the year end. The said subsidiary has repaid Rs. 1,082,375 subsequent to the year-end, towards the loans/ advances given during the previous year. Considering the increase in it's turnover, the growth plans and full support of the holding company, the loans/advances outstanding as at the year end after partial repayment, are considered good of recovery by the management and no provision is considered necessary in this respect, at this stage.

3. The Company during the year in accordance with the resolution passed by the shareholders in the Extra Ordinary General Meeting held on July 27, 2006 has re-classified its authorised share capital from Rs.200,000,000 comprising of two crores equity shares of Rs.10/- each to Rs.200,000,000, comprising of 19,950,000 equity shares of Rs.10/- each and 50,000 preference shares of Rs.10/- each and has accordingly altered it's Memorandum and Articles of Association to this effect.

4. During the year, the Company allotted 2000 5% Cumulative Redeemable Preference Shares of the face value of Rs. 10/- each to the erstwhile shareholders of Melstar Fashions Pvt. Ltd., being the consideration for amalgamation during the previous year, which was disclosed as Preference Share Suspense Account in the previous year, pending allotment.

5. a) Breakup of the deferred tax assets / liabilities as accounted, as at year-end is as under:

Particulars	**As at 31.03.2007 Rupees**	As at 31.03.2006 Rupees
a) Deferred tax liability:		
Depreciation	(4,734,439)	(6,776,387)
b) Deferred tax asset:		
Provision for Gratuity	733,587	1,289,795
Provision for Doubtful Debts and Advances	4,000,852	5,486,592
Total	**Nil**	Nil

b) The deferred tax asset (net) as at the year end, would be accounted for in the subsequent year / years considering the requirements of the accounting standard (AS-22) regarding reasonable/virtual certainty and the accounting policy followed by the company in this respect.

c) Provision for Income tax of Rs.350,000 (Previous Year Rs. 350,000) has been computed on the basis of Minimum Alternate Tax (MAT) in accordance with Section 115JB of the Income Tax Act, 1961. Considering the uncertainties relating to future taxable profits, the Company has not recognized the 'MAT credit entitlement' as an asset in accordance with the Guidance Note on " Accounting for credit available in respect of Minimum Alternate Tax under the Income Tax Act, 1961" issued by ICAI.

6. Managerial Remuneration under Section 198 of the Companies Act, 1956:
(Minimum remuneration)

Particulars	**Current Year (Rupees)**	Previous Year (Rupees)
Salary and allowances	4,320,000	4,320,000
Contribution to Provident Fund	518,400	518,400
Perquisites in cash or in kind	923,731	918,423
Total	**5,762,131**	5,756,823

Notes:

1) Remuneration for the current year is the minimum managerial remuneration payable to the directors in accordance with Schedule XIII of the companies Act, 1956 and is in accordance with the terms of the shareholders resolution.

2) The provision for gratuity and leave encashment is made on the basis of the actuarial valuation, for all the employees of the company, including the managerial personnel. Proportionate amount of gratuity and leave encashment is not included in the

Schedules forming part of Accounts for the year ended 31st March 2007

above disclosure, since the exact amount is not ascertainable.

3) The above amount does not include remuneration paid by a foreign subsidiary company to one of the non executive director of the company Rs. 7,983,813 (previous year Rs.10,906,485).

4) In view of inadequacy of profits as computed under Section 349 of the Companies Act, 1956, no commission is payable to Directors as per Section 198 read with Section 309 of the Companies Act, 1956.

7. Payments to Auditors:

	Current Year * (Rupees)	Previous Year* (Rupees)
a. As Auditors	1,200,000	1,200,000
b. As Advisors or any other capacity in respect of :		
i. Taxation matters	200,000	275,000
ii. In any other manner, certification work, etc.	60,000	-
c. Reimbursement of expenses	7,689	2,104
d. To Branch Auditors	177,774	254,721
Total	**1,645,463**	**1,731,825**

*Excludes Service Tax

8. Additional information pursuant to the provisions of paragraphs 3 and 4D of part II of schedule VI to the Companies Act, 1956. (To the extent applicable.)

A. **DETAILS OF TURNOVER AND STOCKS**

	Opening Stock		Sales		Closing Stock	
Product	**Qty. (Nos)**	**Value (Rs.)**	**Qty. (Nos)**	**Value (Rs.)**	**Qty. (Nos)**	**Value (Rs.)**
1. Software						
a) Trading	12	--	--	--	--*	--
	(12)	(--)	(--)	(--)	(12)	(--)
b) Services (including development)	--	--	--	175,280,312	--	--
	(--)	(--)	(--)	(175,465,040)	(--)	(--)
Total	**12**	**--**	**--**	**175,280,312**	**--**	**--**
	(12)	**(--)**	**(--)**	**(175,465,040)**	**(12)**	**(--)**

Note: Previous year figures are given in brackets.

* The Company discarded the software licenses held for trading and has no stock thereof as at the year end.

Note:
The company is engaged in providing software services. The production procurement and sale of such software cannot be expressed in any generic unit. Hence it is not possible to give all the quantitative details as required under paragraphs 3 and 4D of Part II of Schedule VI of the Companies Act, 1956.

B. EXPENDITURE IN FOREIGN CURRENCY

	Current Year (Rupees)	Previous Year (Rupees)
Travelling (Net of Recoveries)	2,135,618	7,097,597
Software Development Charges	17,047,007	8,764,839
Payments to and provisions for employees	-	1,646,596
Other Expenses	2,770,288	2,287,808

Note: Expenses of Foreign branches Rs. 18,992,263 (Previous year Rs. 11,829,364) have been included in the appropriate heads above.

Schedules forming part of Accounts for the year ended 31st March 2007

C. **EARNINGS IN FOREIGN CURRENCY**

	Current Year (Rupees)	Previous Year (Rupees)
FOB Value of Exports	26,039,262	53,577,297

The above includes:

Software Exports Rs. 6,973,253 (previous year Rs. 40,548,693) and Sales by foreign Branches Rs. 19,066,009 (previous year Rs. 13,028,604)

9. Earnings per share is calculated as follows:

In Rupees

		For the year ended March 31, 2007	For the year ended March 31, 2006
a.	Net Profit after tax	1,427,472	4,143,369
	Excess provision for income tax in respect of earlier years (net)	70,186	100,000
	Preference Dividend and tax thereon	488	--
	Adjusted Net Profit available to equity shareholders	1,497,170	4,243,369
b.	Weighted average number of equity shares considered for calculation of Basic and Diluted Earnings Per Share (Nos.)	14,283,139	14,283,139
c.	Nominal value of equity share	10	10
d.	Basic and Diluted Earnings per share	0.10	0.30

10. Related parties disclosures

1) Names of related parties and description of relationship:

i. Subsidiaries	Melstar Inc. Melstar Limited Linkhand Support Limited Melstar UK Limited Melstar Singapore Pte. Limited
ii. Key Management Personnel	Mr. Surinder Mohan Arora (Managing Director) Mr. Sattar Shaikh (Executive Director) Mr. Bharat Ramani (Non-Executive Director) Mr. Suresh Bansal (Non-Executive Director) (Chairman upto October 28, 2005)
iii. Relatives of Key Management Personnel	Mr. Farooq Shaikh Mr. Radhe Shyam Bansal (upto May 6, 2005)
iv. Others (Entities in which the Directors have control and /or significant Influence)	Melstar Employees Welfare Trust

Schedules forming part of Accounts for the year ended 31st March 2007

2) Nature of transactions with related parties

In Rupees

		Subsidiary Companies	Key Management Personnel	Relatives of Key Management Personnel	Others	Total
a)	**Loans and advances**					
	Balance as at 1st April	119,466,672	Nil	Nil	Nil	119,466,672
		(122,112,875)	(Nil)	(Nil)	(569,633)	(122,682,508)
	Given / Adjustments during the year	1,516,676	Nil	Nil	Nil	1,516,676
		(2,889,260)	(Nil)	(Nil)	(Nil)	(2,889,260)
	Repaid / Adjustments during the year	3,554,688	Nil	Nil	Nil	3,554,688
		(5,535,463)	(Nil)	(Nil)	(569,633)	(6,105,096)
	Balance as at March 31 (Includes Rs.114,153,589 (Previous year Rs.114,153,589) provision made towards doubtful loans and advances)	117,428,660	Nil	Nil	Nil	117,428,660
		(119,466,672)	(Nil)	(Nil)	(Nil)	(119,466,672)
b)	**Investments**					
	Balance as at April 1 (includes Rs.214,674,767 (previous year Rs.214,674,767) provided towards diminution.	214,674,767	Nil	Nil	Nil	214,674,767
		(214,674,767)	(Nil)	(Nil)	(Nil)	(214,674,767)
	Repaid/Adjustments during the year (written off during the year)	Nil	Nil	Nil	Nil	Nil
		(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
	Balance as at March 31 (includes Rs.214,674,767(Previous year Rs. 214,674,767) provided towards diminution)	214,674,767	Nil	Nil	Nil	214,674,767
		(214,674,767)	(Nil)	(Nil)	(Nil)	(214,674,767)
c)	**Sundry Debtors**					
	Balance as at March 31 (includes Rs.16,303,514 (Previous year Rs.16,303,514) provided towards doubtful debts)	16,303,514	Nil	Nil	Nil	16,303,514
		(16,303,514)	(Nil)	(Nil)	(Nil)	(16,303,514)
d)	**Unsecured Loans**					
	Balance as at April1	Nil	Nil	Nil	Nil	Nil
		(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
	Received during the year	1,720,511	Nil	Nil	Nil	1,720,511
		(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
	Balance as at March 31	1,720,511	Nil	Nil	Nil	1,720,511
		(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
e)	**Expenditure**					
	Purchase of services and	Nil	5,762,131	612,426	Nil	6,374,557
	reimbursement of costs	(2,050,513)	(5,756,823)	(672,080)	(Nil)	(8,479,416)
f)	Consideration to Melstar Fashions Pvt.	Nil	Nil	Nil	Nil	Nil
	Ltd. on Amalgamation	(Nil)	(20,000)	(Nil)	(Nil)	(20,000)
g)	Preference Shares allotted against		20,000	Nil	Nil	20,000
	consideration as stated in (f) above		(Nil)	(Nil)	(Nil)	(Nil)
h)	Preference Dividend		417	Nil	Nil	417
			(Nil)	(Nil)	(Nil)	(Nil)

Schedules forming part of Accounts for the year ended 31st March 2007

Notes:

1. Related party relationship is as identified by the Company and relied upon by the auditors.
2. Previous year figures are given in brackets.

Out of the above items transactions in excess of 10% of the total related party transactions are as under:

Transactions			**For the year ended 31-03-2007**	For the year ended 31-03-2006
a)	**Loans given (net of repayment during the year)**			
	Subsidiaries:			
	Melstar Inc.	1,516,676		2,889,260
			1,516,676	**2,889,260**
b)	**Loans repaid**			
	Subsidiaries :			
	Melstar Ltd.	Nil		3,710,281
	Melstar Inc.	1,130,865		Nil
	Melstar UK Ltd.	2,423,823		1,825,182
			3,554,688	**5,535,463**
c)	**Expenditure**			
	Subsidiaries :			
	Melstar Inc.	Nil		2,050,513
			Nil	**2,050,513**
	Key Management Personnel (Remuneration)			
	- Mr. S.M.Arora	2,921,346		2,795,908
	- Mr. Sattar Shaikh	2,840,785		2,960,915
			5,762,131	**5,756,823**
	Relatives of Key Management Personnel (Remuneration)			
	- Mr. Farooq Shaikh		**612,426**	**541,809**
d)	**Consideration on Amalgamation of Melstar Fashions Pvt. Ltd.**			
	Key Management Personnel			
	- Mr. S.Bansal	Nil		8,000
	- Mr. S.M.Arora	Nil		4,000
	- Mr. Sattar Shaikh	Nil		4,000
	- Mr. Bharat Ramani	Nil		4,000
			Nil	**20,000**

Schedules forming part of Accounts for the year ended 31st March 2007

11. Details of loans and advances in the nature of loans as per the requirements of clause 32 of the Listing Agreement with Stock Exchanges:

Name of the company	Nature of relationship	Amount outstanding as at March 31, 2007	Amount outstanding as at March 31, 2006	Maximum amount outstanding during the year	Maximum amount outstanding during the previous year
Melstar Inc	Wholly owned subsidiary	46,542,519*#	46,542,519*#	46,542,519	46,542,519
Melstar Inc	Wholly owned subsidiary	1,813,225***	2,889,260***	2,944,091	2,889,260
Melstar Inc	Wholly owned subsidiary	1,461,846 *	Nil	1,461,846	Nil
Melstar Inc	Wholly owned subsidiary	4,340,000**#	4,340,000**#	4,340,000	4,340,000
Melstar Ltd.	Wholly owned subsidiary	54,510,067*#	54,510,067*#	54,510,067	58,470,916
Melstar Singapore Pte Ltd.	Wholly owned subsidiary	8,761,003*#	8,761,003*#	8,761,003	8,761,003
Melstar UK Ltd	Wholly owned subsidiary	Nil*	2,423,823*	2,833,072	6,264,313
Melstar Employees' Welfare Trust	Employees' Welfare Trust	Nil	Nil	Nil	569,633
Total		**117,428,660**	**119,466,672**		

* Repayable on demand and interest free.
** Interest bearing loan @7% p.a. upto March 31,2005, interest free thereafter and repayable by March 31, 2007 as per revised repayment schedule, as approved by the Board of Directors and intimated to Reserve Bank of India as per Foreign Exchange Management Act, 1999 (FEMA).
*** Interest free and repayable on demand after March 31, 2008.
# Amounts outstanding as at March 31, 2007 stand fully provided for towards doubtful recoveries.

Note:
There are no investments by the loanees in the shares of the parent company and / or subsidiary companies.

12. The company has presented the data relating to its segments based on its consolidated financial statements, which are presented in the same annual report. Accordingly in terms of provisions of Accounting Standard (AS) 17 on "Segment Reporting", no disclosures related to segments are presented in its stand-alone financial statements.

13. The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are as follows:

a. Amount receivable in foreign currency on account of the following

Particulars	Amount in Rupees	Amount in Foreign Currency	Foreign Currency
Export of goods*	30,419,215 (33,832,982)	389,963 (434,117)	GBP
	14,407,948 (21,177,145)	307,590 (458,415)	USD
TOTAL	**44,827,163** (55,010,127)		
Loans and Advances**	28,520,136 (28,520,136)	350,974 (350,974)	GBP
	34,735,442 (38,520,492)	800,403 (795,403)	USD
	8,761,003 (8,761,003)	334,262 (334,262)	SGD
TOTAL	**72,016,581** **(71,801,631)**		

Schedules forming part of Accounts for the year ended 31st March 2007

b. Amount payable in foreign currency on account of the following

Particulars	Amount in Rupees	Amount in Foreign Currency	Foreign Currency
Sundry Creditors	438,680 (111,460)	12,317 (3,217)	CHF
TOTAL	**438,680** **(111,460)**		

* Of these, Rs. 42,348,262 (previous year Rs. 42,348,262) has been provided towards doubtful recoveries.
** Of these Rs.71,801,631 (previous year Rs.71,801,631) has been provided towards doubtful recoveries.
Note: Figures in Brackets indicate previous year figures.

14. In view of the announcement of the Institute of Chartered Accountants of India, "Deferment of applicability of Accounting Standard (AS-15) Employee Benefits (Revised 2005)", the company has reversed the additional charge to the profit and loss account of Rs. 1,028,555 accounted in the earlier quarters ie upto 31st December, 2006 and has reversed Rs. 971,411 from the General Reserve which was earlier adjusted thereto as at 1st April, 2006 in accordance with the transitional provision of the said standard, since the said standard is not yet mandatory

15. Previous year's figures have been regrouped wherever necessary, to correspond with the figures of the current year. Amounts and other disclosures for the preceding year are included as integral part of the current year financial statements and are to be read in relation to the amounts and other disclosures relating to the current year. Figures have been rounded off to the nearest rupee.

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

P. R. Barpande
Partner

Mumbai, dated: July 06, 2007

For and on behalf of the
Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, dated: July 06, 2007

16 BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	11-40604	State Code	11
Balance Sheet Date	31 (Date) 03 (Month) 2007 (Year)		

II Capital raised during the year at Face Value (Amount in Rs.Thousands) (Refer Note No. 4 above)

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

III Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	225539	Total Assets	225539
Sources of Funds		**Application of Funds**	
Paid-up Capital	142851	Net Fixed Assets	152455
Secured Loans	19251	Investments	1250
Reserves & Surplus	18520	Net Current Assets	28638
Unsecured Loans	1721	Misc. Expenditure	NIL
		Accumulated Losses	NIL

IV Performance of Company (Amount in Rs. Thousands)

Turnover (including other income)	191562	Total Expenditure	188974
+ - Profit / Loss Before Tax	+ 2588	+ - Profit / Loss After Tax	+ 1427
Earnings per Share in Rs. (Refer note no. 9 above)	BASIC 0.10	Final Dividend rate %	00
	DILUTED 0.30		

V Generic Names of Three Principal Products/Services of company (as per monetary terms)

Item Code No. (ITC Code)	Product Description
8524.2301	COMPUTER SOFTWARE
NIL	NIL
NIL	NIL

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

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

Name of subsidiary company	Financial year ending of subsidiary	Date of becoming subsidiary	Currency	Paid up capital	Holding - %	For financial year of the subsidiary		For previous financial years since it became a subsidiary	
						Aggregate profits / (losses) not dealt with in the company's accounts	Aggregate profits/ losses dealt with in the company's accounts	Aggregate profits / (losses) not dealt with in the company's accounts	Aggregate profits/ losses dealt with in the company's accounts
Melstar Inc.	March 31	31.12.1992	US$	1,148,500	100%	(571,315)	Nil	108,895	Nil
			INR	49,724,308		(24,735,084)	Nil	4,857,942	Nil
Melstar Limited (under CVA)	March 31	02.1. 2001	GBP	958,992	100%	(69,532)	Nil	(733,430)	Nil
			INR	81,543,090		(5,912,331)	Nil	(57,019,599)	Nil
Melstar UK Ltd.	March 31	08.10.1999	GBP	150,000	100%	(70,214)	Nil	(7,780)	Nil
			INR	12,754,500		(5,970,296)	Nil	(604,846)	Nil
Linkhand Support Ltd.	March 31	02.1. 2001	GBP	100	100% subsidiary of Melstar Ltd.	(934,794)	Nil	(415,584)	Nil
			INR	8,503		(79,485,533)	Nil	(32,309,059)	Nil
Melstar Singapore Pte. Ltd.	March 31	16.3.2001	S$	1,700,000	100%	(123,114)	Nil	(77,205)	Nil
			INR	48,518,000		(3,513,663)	Nil	(2,129,024)	

Notes :

1. Indian Rupee equivalent figures have been arrived at by applying the year end inter-bank Exchange Rate : (a) 1 US$ = Rs. 43.295 (b) 1GBP = Rs. 85.030 and (c) 1 SG$ = Rs. 28.540.

2. Statements of Melstar Limited and Melstar Singapore Pte Limited are unaudited.

For & on behalf of the Board of Directors

S.M.Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated: 6th July, 2007

Auditors' Report

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF MELSTAR INFORMATION TECHNOLOGIES LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF MELSTAR INFORMATION TECHNOLOGIES LIMITED AND ITS SUBSIDIARIES

1. We have audited the attached Consolidated Balance Sheet of Melstar Information Technologies Limited ("the Company") and its subsidiaries (collectively "the Group") as at March 31, 2007, the Consolidated Profit and Loss Account and the Consolidated Cash Flow statement for the year then ended, annexed thereto, in which are incorporated the returns from the branches of the Parent Company, audited by other auditors.

2. 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 in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial of certain subsidiaries, whose financial statements reflect total assets of Rs.90,261,877/- as at March 31, 2007 and total revenues of Rs.178,853,566/- and net cash flows of Rs.4,704,189/-, for the year then ended. These financial statements have been audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors except in case of two subsidiaries, whose accounts are not audited. (Total assets Rs. 51,317,616/- as at the March 31, 2007, total revenues Rs.4,04,677/- and net cash outflows Rs.143,674/- for the year then ended).

4. We report that the Consolidated Financial Statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS-21), Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India.

5. *Attention is invited to Note no. 11 of Schedule 15 regarding preparation of accounts of three wholly owned subsidiary companies on going concern basis, though such companies have no operations / have substantially reduced operations. These factors raise a substantial doubt whether these subsidiary companies will be able to continue as going concerns. This was a matter of qualification in our previous year report as well.*

6. *Subject to our observation in para 5 above,* based on our audit and on the consideration of reports of other auditors on separate financial statements of the Company's aforesaid subsidiaries and on the other financial information of the components, we are of the opinion that the attached consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) in case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Group as at March 31, 2007;

   b) in the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of the Group for the year then ended; and

   c) in the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of the Group for the year then ended.

For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner
Membership No.15291

Mumbai, dated: July 6, 2007

Balance Sheet as at 31st March 2007

	Schedule No.	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	**1**	**142,851,390**		142,831,390
Preference Share Suspense		**-**		20,000
(Refer Note No.4 of schedule 15.)				
Reserves and Surplus	**2**	**81,150,129**		79,717,390
			224,001,519	222,568,780
Loan funds				
Secured Loans	**3**		**27,140,877**	62,400,778
Unsecured Loans	**4**		**9,678,023**	11,557,882
TOTAL			**260,820,419**	296,527,440
APPLICATION OF FUNDS				
Fixed Assets	**5**			
Gross Block			**467,147,709**	451,533,213
Less : Accumulated Depreciation and amortisation			**315,131,202**	221,462,678
Net Block			**152,016,507**	230,070,535
Investments	**6**		**1,250,000**	6,358,625
Deferred Tax Assets (Refer Note no. 5 of Schedule 15)			**9,409,086**	5,085,938
Current assets, Loans and advances				
Sundry Debtors	**7**	**60,837,396**		103,633,569
Cash and Bank Balances	**8**	**21,212,621**		17,512,787
Loans and Advances	**9**	**19,894,786**		16,399,227
		101,944,803		137,545,583
Less : Current liabilities and provisions				
Current Liabilities	**10**	**131,797,633**		135,045,201
Provisions	**11**	**3,281,726**		6,322,650
		135,079,359		141,367,851
Net current assets			**(33,134,556)**	(3,822,268)
Profit and Loss Account			**131,279,382**	58,834,610
TOTAL			**260,820,419**	296,527,440
Significant Accounting policies and notes to accounts	**15**			

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.R.Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

Profit and Loss Account for the year ended 31st March 2007

	Schedule No.	Current Year 31.03.2007 Rupees	Previous Year 31.03.2006 Rupees
INCOME			
Sales - Software		**352,647,692**	343,501,389
Income from infrastructural services		**1,620,387**	-
Other income	12	**16,552,034**	9,844,341
		370,820,113	353,345,730
EXPENDITURE			
Operating and other expenses	13	**353,377,249**	379,188,183
Interest (net)	14	**3,889,769**	7,496,136
Depreciation and amortisation		**48,983,125**	50,132,642
Impairment loss		**40,246,742**	-
		446,496,885	436,816,961
Loss before Tax		**(75,676,772)**	(83,471,231)
Provision for taxation			
Income Tax			
- Current tax		**(350,000)**	(350,000)
- Deferred tax		**4,323,148**	(838,918)
Fringe Benefit Tax		**(784,223)**	(687,959)
Wealth Tax		**(26,623)**	(23,838)
Loss after tax		**(72,514,470)**	(85,371,946)
Excess provision for income tax in respect of earlier years (net)		**70,186**	114,465
Deficit brought forward from previous year		**(218,017,716)**	(132,760,235)
		(290,462,000)	(218,017,716)
APPROPRIATIONS			
Dividend on cumulative preference shares		**417**	-
Dividend tax		**71**	-
Balance carried to balance sheet		**(290,462,488)**	(218,017,716)
		(290,462,000)	(218,017,716)
Earnings per Share (Refer note no. 7 of schedule 15)			
-Basic and diluted		**(5.07)**	(5.97)
Significant Accounting policies and notes to accounts	15		

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.R.Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

Consolidated Cash Flow Statement for the Year Ended 31st March 2007

			2006-07		2005-06
		Rupees	**Rupees**	Rupees	Rupees
A	**Cash flow from operating activities**				
	Net Loss before tax		**(75,676,772)**		(83,471,231)
	Adjustments for :				
	Depreciation and amortisation	48,983,125		50,132,642	
	Impairment loss	40,246,742		-	
	Profit on fixed assets sold (net)	(34,192)		(147,871)	
	Foreign Currency Translation reserve	(4,471,567)		(540,568)	
	Dividend Income from current investments (non trade)	(146,254)		(96,533)	
	Profit on sale of Current Investments (Non trade) (Net)	(46,666)		(1,096,122)	
	Exchange Difference (Net) [Refer note 2 below]	(73,973)		105,311	
	Interest expense	4,530,378	88,987,593	7,901,070	56,257,929
	Operating Profit /(Loss) before working capital changes		**13,310,821**		(27,213,302)
	Adjustments for :				
	Trade and other receivables	43,400,157		41,632,106	
	Trade and other payables	(5,919,217)	37,480,940	29,320,981	70,953,087
	Cash generated from operations		**50,791,761**		43,739,785
	Direct Taxes Paid		(4,410,302)		(2,059,573)
	Fringe Benefit Tax paid		(901,631)		(520,209)
	Net cash from operating activities		**45,479,828**		41,160,003
B	**Cash flow from investing activities**				
	Additions to fixed assets	(5,407,834)		(351,396)	
	Proceeds from sale of fixed assets	170,494		362,852	
	Dividend received	146,254		96,533	
	Purchase of investments	(7,146,254)		(9,346,533)	
	Sale of investments	12,301,545		19,934,535	
	Net cash from investing activities		**64,205**		10,695,991
C	**Cash flow from financing activities**				
	Repayment of long term and other borrowings	(37,139,760)		(30,934,477)	
	Unclaimed Dividend paid	-		(840)	
	Interest paid	(4,540,812)		(7,890,636)	
	Share application refund money transferred (to Investor Education and Protection Fund)	(237,600)		-	
	Net cash used in financing activities		**(41,918,172)**		(38,825,953)
	Net increase in cash & cash equivalents		**3,625,861**		13,030,041
	Opening balance of cash and cash equivalents		**17,573,937**		4,537,450
	Cash and Cash equivalents as at 1st April, 2005 of Melstar Fashions Private Limited transferred to the Parent Company in accordance with the scheme of arrangement (Refer note no.1 below)		**-**		6,446
	Closing balance of cash and cash equivalents		**21,199,798**		17,573,937

Notes :

1 The amalgamation of Melstar Fashions Private Limited with the Parent Company, in the previous year, in accordance with the Scheme of Arrangement, was a non-cash transaction.

2 Cash and cash equivalents include cash and bank balances in current account and deposit accounts (refer schedule 8 of the Balance Sheet)

Cash and Cash equivalents include :

	31st March 2007 Rs	**31st March 2006 Rs**
Cash and Bank Balances	21,212,621	17,512,787
Unrealised (gain)/ loss on foreign currency cash and cash equivalents	(12,823)	61,150
Total cash and cash equivalents	**21,199,798**	**17,573,937**

3 Purchase of fixed assets are considered as a part of investing activities.

4 Repayment of borrowings reflect the decrease in secured and unsecured loans and is net of proceeds.

5 Interest income on deposits, etc is classified as cash flow from operating activities.

6 The Cash flow statement has been prepared under the "Indirect Method " as set out in Accounting Standard (AS) 3 (Revised) on "Cash Flow Statement" issued by the Institute of Chartered Accountants of India .

7 Previous year figures have been regrouped wherever necessary to correspond with the figures of the current year.

As per our attached report of even date
For Deloitte Haskins & Sells
Chartered Accountants

P.R.Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated : July 06, 2007

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 1: SHARE CAPITAL			
Authorised:			
19,950,000 (20,000,000) Equity Shares of Rs.10 each		**199,500,000**	200,000,000
50,000 (Nil) Preference Shares of Rs.10 each		**500,000**	
(Refer note no. 3 of schedule 15)			
		200,000,000	200,000,000
Issued,subscribed and paid up :			
Equity:			
14,283,139(14,283,139) Equity Shares of Rs.10 each, fully paid up		**142,831,390**	142,831,390
Preference:			
2,000 (Nil) 5% Cumulative Redeemble Preference Shares of Rs.10 each, fully paid up		**20,000**	-
TOTAL		**142,851,390**	142,831,390

Notes:

Of the above:

(a) 6,310,850 (6,310,850) Equity Shares of Rs.10 each, fully paid had been issued as bonus shares by capitalisation of free reserves.

(b) 5,000 (5,000) Equity Shares of Rs.10 each, fully paid had been allotted to the shareholders of the erstwhile Melstar Industries Limited consequent to a scheme of amalgamation.

(c) 1,675,449(1,675,449) Equity Shares of Rs.10 each,fully paid had been allotted to the shareholders of Linkhand Limited without payment received in cash in accordance with the agreement of acquisition.

(d) 456,990 (456,990) Equity Shares of Rs.10 each, fully paid had been allotted to the erstwhile shareholders of Global Systems Development Inc. (GSD) without payment received in cash in accordance with the share purchase agreement.

(e) 2000 (Nil) 5% Cumulative Redeemable Preference Shares had been allotted to the shareholders of erstwhile Melstar Fashions Private Limited, consequent to a Scheme of amalgamation, without payment received in cash. (Refer note no.4 of schedule 15)

(f) 2000 (Nil) 5% Cumulative Redeemable Preference Shares issued are redeemable at the end of 10 years from the date of allotment i.e. 31st October 2006, with a call option with the Company to redeem at any time after the end of 18 months from the date of allotment.

Schedules forming part of Balance Sheet as at 31st March 2007

		Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 2 : RESERVES AND SURPLUS				
1.	Capital Reserve			
	Balance at the commencement of the year	**173,542**		171,218
	Add : Credited on amalgamation of a company	**-**		2,324
			173,542	173,542
2.	Revaluation Reserve			
	Balance at the commencement of the year	**-**		-
	Add : Credited during the year	**-**		61,350,406
	Less : Adjustments consequent to the Scheme of Arrangement of Parent Company	**-**		(61,350,406)
			-	-
3.	Securities Premium Account			
	Balance at the commencement of the year	**67,470,974**		68,181,907
	Less : Adjustments consequent to the Scheme of Arrangement of Parent Company	**-**		(710,933)
			67,470,974	67,470,974
4.	General Reserve			
	Balance at the commencement of the year	**159,183,106**		159,183,106
	Less: Debit balance in Profit and Loss account, deducted as per contra	**(159,183,106)**		(159,183,106)
			-	-
5.	Foreign Currency Translation Reserve			
	Balance at the commencement of the year	**12,072,874**		16,561,076
	Add/ (Less) : Credited/ (Debited) during the year	**1,432,739**		(4,488,202)
			13,505,613	12,072,874
	TOTAL		**81,150,129**	79,717,390

		Notes	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 3 : SECURED LOANS				
From Banks :				
a.	Term Loan	**1**	**18,500,000**	35,000,000
b.	Cash credit - subsidiary companies (repayable in foreign currency)	**2**	**7,889,882**	26,648,930
c.	Vehicle Loans	**3**	**750,995**	751,848
	TOTAL		**27,140,877**	62,400,778

Notes :

1. Term loan is secured by equitable mortgage by deposit of title deeds of office premises situated at Andheri(Mumbai) and is further secured by personal guarantee of two directors of the Parent Company.
2. The Cash Credit account of UK subsidiary company is secured by the debentures from Melstar Limited jointly with Linkhand Support Limited (subsidiary company), as and when issued.
3. Vehicle loans are secured by charge on the respective vehicles purchased.
   [Amount repayable within one year Rs.489,470 (Previous year Rs.465,915)]
4. During the previous year, the bank stated in note 1 above had sanctioned working capital demand loan facility secured by hypothecation of fixed assets and receivables and collateral security by way of equitable mortgage of office premises as stated above and further secured by personal guarantee of two directors of the Company. However, the Company did not utilise the said loan facility and after expiry of the period of sanction of the said facility, is taking necessary steps towards satisfaction of charges.

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 4 : UNSECURED LOANS			
Short term Loans and Advances			
-From Directors		**7,730,511**	8,976,184
-From Others		**1,947,512**	2,581,698
TOTAL		**9,678,023**	11,557,882

SCHEDULE 5 : FIXED ASSETS

GROUP CONSOLIDATED FIXED ASSETS AS AT 31ST MARCH, 2007

Description	GROSS BLOCK				DEPRECIATION AND AMORTISATION				IMPAIRMENT LOSS	NET BLOCK	
	As at 1/4/2006	Additions	Adjustments/ Deductions	As at 3/31/2007	Upto 1/4/2006	For the year	Adjustments/ Deductions	As at 3/31/2007	For the year and as at 3/31/2007	As at 3/31/2007	As at 31/3/2006
LEASEHOLD LAND	304,995	-	-	304,995	28,151 *	3,973	-	32,124	-	272,871	276,844
BUILDINGS (INCLUDING IMPROVEMENTS TO LEASEHOLD PREMISES) **	152,148,000	-	-	152,148,000	21,821,952	5,692,665	-	27,514,617	-	124,633,383	130,326,048
PLANT AND MACHINERY	53,358,385	2,058,016	(5,112,668)	50,303,733	44,002,433	3,044,842	(4,977,307)	42,069,968	-	8,233,765	9,355,952
FURNITURE AND FIXTURE	29,206,220	953,420	(339,653)	29,819,987	16,547,156	1,567,717	(340,071)	17,774,802	-	12,045,185	12,659,064
VEHICLES	6,732,942	1,273,646	-	8,006,588	2,356,538	736,757	-	3,093,295	-	4,913,293	4,376,404
INTANGIBLE ASSETS:											
-SOFTWARE UTILITIES	41,401,127	1,122,752	-	42,523,879	39,478,765	1,127,104	-	40,605,869	-	1,918,010	1,922,362
-SOFTWARE PRODUCTS	168,381,544	-	15,658,983	184,040,527	97,227,683	36,810,067	9,756,035	143,793,785	40,246,742 ***	-	71,153,861
TOTAL	**451,533,213**	**5,407,834**	**10,206,662**	**467,147,709**	**221,462,678**	**48,983,125**	**4,438,657**	**274,884,460**	**40,246,742**	**152,016,507**	**230,070,535**
PREVIOUS YEAR	**480,856,022**	**76,909,509**	**(106,232,318)**	**451,533,213**	**196,130,692**	**50,132,642**	**(24,800,656)**	**221,462,678**	**-**	**230,070,535**	

* Amount Written off in respect of Leasehold land for the period of lease which has expired.

** Building was revalued on 1st April, 2005 with reference to the fair market value; amount added on revaluation was Rs.76,558,113; the revalued amount substituted for historical cost on 1st April, 2005 was Rs. 126,130,511.

*** Refer note no. 2 below

Notes:

1 Exchange difference on account of translation of fixed assets into INR included under adjustments/deductions is as follows:

Particulars	**Gross Block**	**Depreciation**
Plant and Machinery	2,792	1,853
Furniture & Fixtures	636	217
Software Products	15,658,983	9,756,035
Total	**15,662,411**	**9,758,105**

2 Represents impairment loss in accordance with the requirements of Accounting Standard-28 "Impairment of Assets". [refer note no.9 of Schedule 15)

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 6: INVESTMENTS			
Long term (At cost, fully paid)			
Non Trade - Unquoted			
125,000 (125,000) Equity Shares of Rs.10/- each of Janakalyan sahakari Bank Ltd		**1,250,000**	1,250,000
Current (At cost or fair value whichever is lower)			
Unquoted and Trade			
Nil (152698.041) Units of HDFC Liquid Fund (Divident Re-investment plan)		**-**	1,559,562
Nil (326073.149) Units of LICMF Liquid Fund (Divident Re-investment plan)		**-**	3,549,063
TOTAL		**1,250,000**	6,358,625

Notes:

1. Aggregate of unquoted investments
   Cost/ carrying amount — **1,250,000** — 6,358,625

2. Investments bought and sold during the year:

	Nos.	Face Value (Rs.)	Purchase Cost (Rs.)
HDFC Liquid Fund (Dividend Re-investment plan)	**684843.943**	**6,848,439**	7,063,093
LICMF Liquid Fund (Dividend Re-investment plan)	**7577.740**	**75,777**	83,161

SCHEDULE 7 : SUNDRY DEBTORS
(Unsecured, considered good unless otherwise stated)

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
<u>Debts outstanding for a period exceeding six months</u>			
Considered Good *	**27,188**		29,450,003
Considered Doubtful	**27,915,680**		27,713,332
		27,942,868	57,163,335
<u>Other debts</u>			
Considered Good	**60,810,208**		74,183,566
Considered Doubtful	**-**		1,160,829
		60,810,208	75,344,395
Less :- Provision		**27,915,680**	28,874,161
TOTAL		**60,837,396**	103,633,569

* includes Rs.Nil (Previous year Rs.27,210,313) towards earn-out consideration receivable on sale of solutions business

Schedules forming part of Balance Sheet as at 31st March 2007

		Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 8 : CASH AND BANK BALANCES				
1.	Cash on hand		**15,849**	338,490
2.	Bank balances			
	a) with Scheduled Banks			
	i) in current accounts *	**4,995,526**		8,468,779
	ii) in deposit accounts (Including Margin Deposit Rs.350,000 (Previous year Rs.350,000)(and including interest accrued Rs.64.389 (Previous year Rs.116,394))	**8,417,135**	**13,412,661**	5,466,394 13,935,173
	b) With others in current account		**7,784,111**	3,239,124
	TOTAL		**21,212,621**	17,512,787

* Current accounts includes Rs.277,972 in Exchange Earners Foreign Currency account (previous year Rs.523,775)

		As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 9 : LOANS AND ADVANCES (Unsecured, considered good unless otherwise stated)			
1.	Advances recoverable in cash or kind or for value to be received		
	Considered good	**7,027,968**	7,257,673
	Considered doubtful	**200,114**	502,000
		7,228,082	7,759,673
2.	Unbilled services (subsequently billed)	**1,249,449**	1,623,728
3.	Advance payment of Income taxes (Net of provision for taxation)	**11,617,369**	7,517,826
		20,094,900	16,901,227
	Less : Provision	**200,114**	502,000
	TOTAL	**19,894,786**	16,399,227

		As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 10 : CURRENT LIABILITIES			
Sundry Creditors -			
i)	Total outstanding dues to small scale industrial undertakings*	**-**	-
ii)	Total outstanding dues to Creditors other than small scale industrial undertakings	**131,511,646**	134,424,109
	Share Application refund money **	**-**	324,671
	Unclaimed dividend **	**285,987**	285,987
	Interest accrued but not due	**-**	10,434
	TOTAL	**131,797,633**	135,045,201

* The Company has not received intimation from suppliers regarding the status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given.

** These figures do not include any amounts due and outstanding to be credited to Investor Education and Protection Fund.

Schedules forming part of Balance Sheet as at 31st March 2007

	Rupees	As at 31.03.2007 Rupees	As at 31.03.2006 Rupees
SCHEDULE 11 : PROVISIONS			
For Taxation (Including wealth tax) (Net of advance tax)		**87,236**	91,558
For Fringe Benefit Tax (Net of advance tax)		**50,342**	167,750
For Dividend		**417**	-
For Dividend Tax		**71**	-
For Gratuity		**2,158,245**	3,831,832
For Leave Encashment		**985,415**	2,231,510
TOTAL		**3,281,726**	6,322,650

Schedules forming part of Profit and Loss Account for the year ended 31st March 2007

	Current Year Rupees	Previous Year Rupees
SCHEDULE 12 : OTHER INCOME		
Rent	**8,280,000**	2,018,065
Exchange Difference (Net)	**56,532**	707,208
Profit on sale of Current Investments (Non trade) (Net)	**46,666**	1,096,122
Profit on Fixed Assets sold (Net)	**34,192**	147,871
Sundry credit balances written back	**1,872,826**	469,463
Provision for Doubtful debts/advances written back (Net)	**1,283,533**	-
Advances written off in earlier year now recovered	**-**	128,866
Excess provision of earlier years written back (including for gratuity and leave encashment)	**3,938,058**	4,022,457
Dividend Income from current investments (non trade)	**146,254**	96,533
Miscellaneous income	**893,973**	1,157,756
TOTAL	**16,552,034**	9,844,341

Schedules forming part of Profit and Loss Account for the year ended 31st March 2007

		Rupees	Current Year Rupees	Previous Year Rupees
SCHEDULE 13 : OPERATING AND OTHER EXPENSES				
1.	Software Development expenses		**164,281,003**	147,885,534
2.	Utilities			
	a) Electricity	**1,886,788**		1,754,251
	b) Other utilities	**18,138**		63,201
			1,904,926	1,817,452
3.	Payments to and provisions for employees			
	a) Salaries, wages and bonus	**131,841,706**		120,946,882
	b) Contribution to provident and other funds	**5,998,780**		5,193,074
	c) Gratuity	**-**		504,787
	d) Leave Encashment	**-**		728,789
	e) Staff welfare	**601,015**		564,175
			138,441,501	127,937,707
4.	Other expenses			
	a) Rent	**3,025,669**		4,094,959
	b) Rates and taxes (includes Value added tax Rs.2,421,435 (Previous year Rs.2,776,023))	**3,426,944**		3,567,687
	c) Insurance	**2,500,284**		2,325,256
	d) Repairs and maintenance			
	- Plant and machinery	**984,958**		804,412
	- Building	**146,509**		218,919
	e) Travelling and Conveyance	**6,973,916**		11,979,711
	f) Communication expenses	**2,638,727**		2,790,247
	g) Advertising and Sales promotion expenses	**2,438,413**		2,238,852
	h) Legal and professional Fees	**14,710,538**		6,267,333
	i) Miscellaneous expenses	**10,345,107**		8,520,301
			47,191,065	42,807,677
5.	Provision for doubtful debts and advances		**-**	948,677
6.	Irrecoverable Debts/Advances written off (Net)		**1,138,754**	57,261,136
7.	Directors Sitting Fees		**420,000**	530,000
	TOTAL		**353,377,249**	379,188,183

Note :
Miscellaneous expenses includes auditor's remuneration, bank charges, vehicle expenses, recruitment expenses etc.

	Rupees	Current Year Rupees	Previous Year Rupees
SCHEDULE 14 : INTEREST (NET)			
Interest Expenses			
On fixed loans	**3,365,676**		3,346,352
Others	**1,164,702**		4,554,718
		4,530,378	7,901,070
Less : Interest Income			
Interest on bank deposits etc. (Tax deducted at source Rs.18,674 (Previous year Rs.17,270))		**640,609**	404,934
TOTAL		**3,889,769**	7,496,136

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

Schedule 15

A. **SIGNIFICANT ACCOUNTING POLICIES**:

a) **Basis of preparation of Financial Statements**:

I) The financial statements of the subsidiaries used in the consolidation are drawn upto the same reporting date as that of the Parent company, namely March 31, 2007.

ii) The financial statements have been prepared under the historical cost convention (except for certain fixed assets of the Parent Company which have been revalued) and on the accrual basis of accounting. The accounts of the Parent Company and two foreign subsidiaries (unaudited, compiled by the management) have been prepared in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India, and those of the other foreign subsidiaries have been prepared under their local Generally Accepted Accounting Principles (GAAP) and audited by local auditors. No adjustment entries are required for conversion of the accounts of the foreign subsidiaries from the respective local GAAP to Indian GAAP as certified by the local auditors of the subsidiaries.

iii) The preparation of financial statements in conformity with the generally accepted accounting principles require, estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which the results are known / materialized.

b) **Principles of consolidation**:

i) The financial statements of the Parent Company and its subsidiaries have been consolidated on a line-to-line basis by adding together the book value of like items of assets, liabilities, income and expenses, after fully eliminating intra- group balances, intra group transactions and the unrealized profits.

ii) The financial statements of the Parent Company and its subsidiaries have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

iii) The excess of the cost to the Parent company of its investments in each of the subsidiaries over and above the share of equity in the respective subsidiary, on the acquisition date, is recognized in the financial statements as goodwill.

iv) Minority interests are presented separately from the liabilities or assets and the equity of the parent shareholders in the consolidated Balance Sheet. Minority interests in the income or loss of the group are separately presented.

V) The difference between the proceeds from sale/disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as on the date of sale /disposal is recognised in the consolidated statement of Profit and Loss account as the profit or Loss on disposal of Investment in subsidiary.

c) **Fixed Assets**:

Fixed assets are recorded at cost of acquisition or construction or revalued amounts less accumulated depreciation and accumulated impairment losses, if any.

d) **Intangible Assets:**

Intangible assets are recognised, only if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost of the assets can be measured reliably. The intangible assets are recorded at cost and are carried at cost less accumulated amortization and accumulated impairment losses, if any. (Refer note no. 9 below)

e) **Investments**:

Long Term Investments are stated at cost, which includes cost of acquisition and related expenses. Provision is made to recognise a decline, other than temporary, in the value of such investments. Current investments are stated at cost or fair value, whichever is lower.

f) **Depreciation and Amortisation** :

Depreciation in respect of assets acquired upto March 31, 1995 is provided for on written down value method at the rates prescribed in Schedule XIV to the Companies Act, 1956. In respect of assets acquired after 31st March 1995, depreciation is

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

provided for on Straight Line Method at the rates prescribed in schedule XIV to the Companies Act, 1956. Depreciation on fixed assets revalued is provided on Straight Line Method over the residual life of the asset and charged to the Profit and Loss account.

Leasehold land is written off over the lease period.

Intangible Assets Computer Software and internally developed software products are amortised over a period of three to five years based on the technical evaluation of their useful economic life.

g) **Inventories**:

Software Finished Goods (Traded) :
Software Finished Goods (Traded) are valued at cost or net realisable value, whichever is lower.

h) **Foreign Currency Transactions** :

Transactions in foreign currency are recorded at the original rates of exchange in force at the time transactions are effected. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring imported fixed assets are adjusted in the carrying amount of the respective fixed asset. Exchange differences arising on settlement of other transactions are recognised in the profit and loss account.

The value of imported fixed assets acquired through specific foreign currency loans are adjusted at the end of each financial year by any change in liability arising out of expressing the outstanding foreign currency loans at the closing rates of exchange prevailing at the date of Balance Sheet.

Monetary items (other than those related to acquisition of fixed assets as aforesaid) denominated in foreign currency are restated using the exchange rates prevailing at the date of balance sheet and the resulting net exchange difference is recognised in the profit and loss account.

i) **Translation of Financial Statements of Foreign Branches and Foreign Subsidiaries:**

The translation of financial statements of Foreign Branches and Foreign Subsidiaries is done as under in accordance with Accounting Standard (AS) 11 (Revised) on "The Effect of Changes in Foreign Exchange Rates" issued by the Institute of Chartered Accountants of India, considering the foreign branches and foreign subsidiaries as non-integral foreign operations:

i. All the items of income and expenses during the year are translated at an average rate.

ii. All the monetary and non-monetary assets and liabilities are translated at closing rate.

iii. The resulting exchange difference is accumulated in 'foreign currency translation reserve' until the disposal of the net investment in the said non integral foreign operations.

j) **Retirement Benefits** :

i. Contribution to Provident Fund and Family Pension Fund is charged to revenue.

ii. Provision for Gratuity and leave encashment is made as per the actuarial valuation at the year-end.

k) **Revenue recognition**:

Software revenue is recognised on the basis of chargeable time or achievement of prescribed milestones for billing as provided in the contracts or as and when the services are rendered. Revenue is recognised only when it is reasonably certain that the ultimate collection will be made. Sales outside India include value added tax wherever applicable.

Dividend Income is recognised in the statement of Profit and Loss, when right to receive payment is established.

Interest on Fixed Deposits is recognized on time proportion basis.

l) **Income taxes:**

Tax expense comprises of current tax, deferred tax and fringe benefit tax. Current tax and Deferred tax are accounted for in accordance with Accounting Standard 22 on "Accounting for Taxes on Income", (AS 22) issued by the Institute of Chartered

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

Accountants of India. Current tax is measured at the amount expected to be paid to/recovered from the tax authorities, using the applicable tax rates. Deferred tax assets and liabilities are recognized for future tax consequences attributable to timing differences between taxable income and accounting income that are capable of reversal in one or more subsequent years and are measured using relevant enacted tax rates. The carrying amount of deferred tax assets at each Balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized (Refer Note No. 5 below). Fringe benefit tax is recognized in accordance with the relevant provisions of Income-tax Act, 1961 and the Guidance Note on Fringe Benefit Tax issued by the ICAI. Tax on distributed profits payable in accordance with the provisions of the Income-tax Act, 1961 is disclosed in accordance with the Guidance Note on Accounting for Corporate Dividend Tax issued by the ICAI.

m) **Borrowing Costs**:

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are charged to revenue.

n) **Segmental reporting**:

The accounting policies adopted for segment reporting are in line with the accounting policies of the company with the following additional policies for segment reporting:

i) Inter-segment revenue has been accounted for based on the transaction price agreed to between segments, which is primarily market led.

ii) Revenue and expenses are identified to segments based on the location of the customer.

iii) Revenue and expenses, which relate to the group as a whole and are not allocable to the segments on a reasonable basis, have been included under " Unallocable income and Unallocable expenses" respectively.

o) **Impairment of assets:**

An asset is treated as impaired when the carrying cost of the asset exceeds its recoverable value. An impairment loss is charged to Profit and Loss account in the year in which an asset is identified as impaired. The impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

p) **Provisions, Contingent Liabilities and Contingent Assets**:

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognised but are disclosed in the Notes to Accounts. Contingent assets are neither recognised nor disclosed in the financial statements.

B. <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>

1. Subsidiaries to consolidation:

The consolidated financial statements present the consolidated accounts of Melstar Information Technologies Ltd. with the following subsidiaries:

Name of subsidiary	Country of incorporation	Proportion of Ownership Interest
Melstar Inc	U.S.A	100%
Melstar Ltd (including its subsidiary Linkhand Support Ltd)	U.K.	100%
Melstar U.K. Ltd	U.K.	100%
Melstar Singapore Pte Ltd	Singapore	100%

The consolidated accounts thus include the results of the aforesaid subsidiaries and there are no other body corporate/ entities, where the Company holds 50 % or more of the share capital or where the Company can control the composition of the Board of Directors / governing bodies of such companies/ entities, where the holding may be less than 50 %.

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

Significant Accounting Policies and Notes to consolidated financial statements are intended to serve as a means of informative disclosure and a guide to better understand the consolidated position of the Group. Recognising this purpose, the Company has disclosed only such policies and Notes from the individual financial statements, which fairly present the needed disclosures.

2. Contingent Liabilities in respect of :-	**As at 31.03.07 Rupees**	As at 31.03.06 Rupees
Income Tax/Sales Tax/ ESIC Demands disputed in appeal and pending decision before higher authorities. The Parent Company is hopeful of a favourable decision.	1,632,587	135,627

3. The Parent Company during the year in accordance with the resolution passed by the shareholders in the Extra Ordinary General Meeting held on July 27, 2006 has re-classified its authorised share capital from Rs.200,000,000 comprising of two crores equity shares of Rs.10/- each to Rs.200,000,000, comprising of 19,950,000 equity shares of Rs.10/- each and 50,000 preference shares of Rs.10/- each and has accordingly altered it's Memorandum and Articles of Association to this effect.

4. During the year, the Parent Company allotted 2000 5% Cumulative Redeemable Preference Shares of the face value of Rs. 10/- each to the erstwhile shareholders of Melstar Fashions Pvt. Ltd., being the consideration for amalgamation during the previous year, which was disclosed as Preference Share Suspense Account in the previous year, pending allotment.

5. The breakup of the deferred tax assets / liabilities as accounted, as at March 31, 2007 is as under :

A) Parent Company (India location)

Particulars	**As at 31.03.2007 Rupees**	As at 31.03.2006 Rupees
a) Deferred tax liability:		
Depreciation	(4,734,439)	(6,776,387)
b) Deferred tax asset:		
Provision for Gratuity	733,587	1,289,795
Provision for Doubtful Debts and Advances	4,000,852	5,486,592
Total	**Nil**	Nil

The deferred tax asset (net) as at the year end, would be accounted for in the subsequent year / years considering the requirements of the accounting standard (AS-22) regarding reasonable/virtual certainty and the accounting policy followed by the Parent Company in this respect.

Provision for Income tax of Rs.350,000 (Previous Year Rs. 350,000) has been computed on the basis of Minimum Alternate Tax (MAT) in accordance with Section 115JB of the Income Tax Act, 1961. Considering the uncertainties relating to future taxable profits, the Company has not recognized the 'MAT credit entitlement' as an asset in accordance with the Guidance Note on " Accounting for credit available in respect of Minimum Alternate Tax under the Income Tax Act, 1961" issued by ICAI.

B) US subsidiary

Particulars	**As at 31.03.2007 Rupees**	As at 31.03.2006 Rupees
Deferred tax asset:		
Carried forward Loss/unabsorbed depreciation	3,699,558	5,085,938
Provision for Doubtful Debts	5,709,528	-
Total	**9,409,086**	**5,085,938**

The deferred tax assets and liabilities and the provision for current tax pertaining to foreign branches/subsidiaries have been computed considering the tax laws and rates in their respective countries. Such amounts pertaining to the audited foreign branches/ subsidiaries are in accordance with the amounts disclosed in the Audited Accounts of the foreign branches/ subsidiary companies.

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

6. Segmental report for the consolidated financial statements is given hereunder:

Particulars	USA	Europe	Asia-Pacific	Elimination	Total
Segment revenues					
External Revenue	186,498,320	23,578,374	157,437,666	-	367,514,360
	(230,135,735)	(47,751,497)	(69,602,374)	-	(347,489,606)
Inter-Segment Revenue	-	-	-	-	-
	(2,050,513)	(-)	(-)	(-2,050,513)	(-)
Total Revenue	186,498,320	23,578,374	157,437,666	-	367,514,360
	(232,186,248)	(47,751,497)	(69,602,374)	(-2,050,513)	(347,489,606)
Segment Result before interest and tax	15,182,765	-85,097,287	20,318,764	-	-49,595,758
	(32,296,591)	(-80,683,617)	(-1,006,016)	(-)	(-49,393,042)
Un-allocable income	N.A.	N.A.	N.A.	N.A.	3,305,753
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(5,683,754)
Un-allocable expenses	N.A.	N.A.	N.A.	N.A.	-25,211,238
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-31,837,507)
Interest Expenses (Net) & Finance charges	N.A.	N.A.	N.A.	N.A.	-4,175,529
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-7,924,436)
Provision for tax - Current tax	N.A.	N.A.	N.A.	N.A.	-350,000
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-350,000)
- Deferred tax	N.A.	N.A.	N.A.	N.A.	4,323,148
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-838,918)
Fringe benefit tax	N.A.	N.A.	N.A.	N.A.	-784,223
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-687,959)
Wealth tax	N.A.	N.A.	N.A.	N.A.	-26,623
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-23,838)
(-)Short / Excess Provision for tax written back (Net)	N.A.	N.A.	N.A.	N.A.	70,186
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(114,465)
(-)Loss/ Profit after tax and prior period adjustments	N.A.	N.A.	N.A.	N.A.	-72,444,284
	(N.A.)	(N.A.)	(N.A.)	(N.A.)	(-85,257,481)
Other Information					
Segment Assets	33,384,630	6,324,679	104,112,389	-	143,821,698
	(68,201,935)	(108,550,150)	(16,711,349)	(-)	(193,463,434)
Unallocated assets					120,798,698
					(185,597,247)
Total Assets	33,384,630	6,324,679	104,112,389	-	264,620,396
	(68,201,935)	(108,550,150)	(16,711,349)	(-)	(379,060,681)
Segment Liabilities	35,093,529	81,055,735	946,025	-	117,095,289
	(58,857,334)	(85,839,060)	(2,005,672)	-	(146,702,066)
Unallocated liabilities					54,802,970
					(68,974,445)
Total Liabilities	35,093,529	81,055,735	946,025	-	171,898,259
	(58,857,334)	(85,839,060)	(2,005,672)	(-)	(215,676,511)
Capital Expenditure					
Segment capital expenditure	201,600	65,898	2,527,011	-	2,794,509
	(120,003)	(-)	(183,364)	(-)	(303,367)
Unallocated capital expenditure					2,613,325
					(76,606,142)
Total capital expenditure	201,600	65,898	2,527,011	-	5,407,834
	(120,003)	(-)	(183,364)	(-)	(76,909,509)

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

Particulars	USA	Europe	Asia-Pacific	Elimination	Total
Depreciation and amortization					
Segment depreciation and amortization	-	35,021,672	1,828,608	-	36,850,280
	(990,327)	(32,366,625)	(3,581,041)	(-)	(36,937,993)
Impairment Loss	-	40,246,742	-	-	40,246,742
	(-)	(-)	(-)	(-)	(-)
Unallocated depreciation and amortization					12,132,845
					-13,194,649
Total depreciation and amortization	-	75,268,414	1,828,608	-	89,229,867
	(990,327)	(32,366,625)	(3,581,041)	(-)	(50,132,642)
Significant Non-Cash Expenditure					
Segment significant non cash expenditure	67,512	1,032,591	206,281	-	1,306,384
	(1,323,768)	(57,813,795)	(512,824)	(-)	(59,650,387)
Unallocated non cash expenditure					377,532
					(7,667)
Total significant non cash expenditure	67,512	1,032,591	206,281	-	1,683,916
	(1,323,768)	(57,813,795)	(512,824)	(-)	(59,658,054)

Notes: 1. The company has identified geographical segment as a primary segment for disclosure as under.

2. Geographical segments are as follows:
   - U.S.A
   - Europe
   - Asia Pacific

   These geographical segments have been identified, considering:

   - Location of customers
   - Differing risks and returns
   - Organisational structure
   - Internal financial reporting systems

3. Unallocated assets represent Fixed and other assets, which are not identifiable to any of the reportable segments as the same are used interchangeably between segments.

4. Revenue comprises of:

	(Rs.)
Sales	354,268,079
	(343,501,389)
Other Income	13,246,281
	(3,988,217)
Total	**367,514,360**
	(347,489,606)

5. The Company is providing mainly software solutions and in the opinion of the management has only one reportable business segment, the results of which are disclosed in the financial statements.

6. Previous year figures are given in brackets.

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

7. Earnings per share is computed as under :

Rupees

	Current Year	Previous Year
a. Net Loss after tax	(72,514,470)	(85,371,946)
Excess provision for income tax in respect of earlier years (net)	70,186	114,465
Preference Dividend and tax thereon	(488)	-
Adjusted Net Loss attributable to equity shareholders	(72,444,772)	(85,257,481)
b. Weighted average number of equity shares considered for calculation of Basic and Diluted EPS (Nos.)	14,283,139	14,283,139
c. Nominal value of equity share	10	10
d. Basic and Diluted Earnings per share	(5.07)	(5.97)

8. Related party disclosures for the group are as under:

a) Names of related parties and description of relationship :

i. Key Management Personnel	Mr. Surinder Mohan Arora (Managing Director) Mr. Sattar Shaikh (Executive Director) Mr. Bharat Ramani (Executive Director of a subsidiary company) Mr. Suresh Bansal (Chairman upto October 28, 2005, Non-Executive Director) Mr. A. C. Gale (Director of a Subsidiary Company) Mr. Ajay Kashikar (Director of a Subsidiary Company)
ii. Relatives of Key Management Personnel	Mr. Radhe Shyam Bansal (Upto May 06, 2005) Mr. Farooq Shaikh
iii. Others Entities in which key management personnel have control and /or significant Influence	Melstar Employees' Welfare Trust

b) Nature of transactions with Related Parties

In Rupees

	Key Management Personnel	Relatives of Key Management Personnel	Others	Total
a) Unsecured Loans				
Balance as at 1st April	8,976,184	Nil	Nil	8,976,184
	(13,718,737)	(Nil)	(569,633)	(14,288,370)
Received during the year	Nil	Nil	Nil	Nil
	(2,913,601)	(Nil)	(Nil)	(2,913,601)
Repaid / Adjusted during the year	1,245,673	Nil	Nil	1,245,673
	(7,656,154)	(Nil)	(569,633)	(8,225,487)
Balance as at 31st March	7,730,511	Nil	Nil	7,730,511
	(8,976,184)	(Nil)	(Nil)	(8,976,184)
b) Income				
Interest provision written back	Nil	Nil	Nil	Nil
	(1,389,718)	(Nil)	(Nil)	(1,389,718)
c) Expenditure				
Purchase of services and reimbursement of costs	14,180,845	612,426	Nil	14,793,271
	(18,446,998)	(672,080)	(Nil)	(19,119,078)

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

		Key Management Personnel	Relatives of Key Management Personnel	Others	Total
d)	**Consideration to Melstar Fashions Pvt. Ltd. on Amalgamation**	Nil	Nil	Nil	Nil
		(20,000)	(Nil)	(Nil)	(20,000)
e)	**Preference Shares allotted against consideration as stated in (d) above**	20,000	Nil	Nil	20,000
		(Nil)	(Nil)	(Nil)	(Nil)
f)	**Preference Dividend**	417	Nil	Nil	417
		(Nil)	(Nil)	(Nil)	(Nil)
g)	**Sundry Creditors**				
	Salary payable	7,867,351	Nil	Nil	7,867,351
		(9,198,461)	(Nil)	(Nil)	(9,198,461)

Notes: 1. Related party relationship is as identified by the Company and relied upon by the auditors.
2. Previous year figures are given in brackets.

c) Out of the above items, transactions in excess of 10% of the total related party transactions are as under:

In Rupees

	Transactions		For the year ended 31-03-2007	For the year ended 31-03-2006
a)	**Unsecured Loans repaid (net of receipt)**			
	Mr. Suresh Bansal	1,565,019		1,936,786
	Mr. Bharat Ramani	NIL		2,606,547
			1,565,019	4,543,333
b)	**Expenditure**			
	Remuneration			
	Suresh Bansal	-		5,304,071
	Bharat Ramani	7,983,813		5,602,413
	S. M. Arora	2,921,346		2,795,908
	Sattar Shaikh	2,840,785		2,960,915
			13,745,944	16,663,307
c)	**Consideration to Melstar Fashions Pvt. Ltd. on Amalgamation**			
	Key Management Personnel			
	S Bansal	Nil		8,000
	S. M. Arora	Nil		4,000
	Sattar Shaikh	Nil		4,000
	Bharat Ramani	Nil		4,000
			Nil	**20,000**
d)	**Preference Shares allotted against consideration as stated in (d) above**			
	S Bansal	8,000		Nil
	S. M. Arora	4,000		Nil
	Sattar Shaikh	4,000		Nil
	Bharat Ramani	4,000		Nil
			20,000	**Nil**
e)	**Preference Dividend**			
	S Bansal	168		Nil
	S. M. Arora	83		Nil
	Sattar Shaikh	83		Nil
	Bharat Ramani	83		Nil
			417	Nil

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

9. At the year end, one of the wholly owned subsidiary located in the U.K., considering technological obsolescence, recognised an impairment loss of Rs.40,246,742 in accordance with Accounting Standard 28 on "Impairment of Assets", (AS 28) issued by the ICAI, towards impairment in the entire carrying value of a software product (intangible asset) internally developed by the subsidiary in earlier years.

10. The management is of the opinion that the amount provided in respect of statutory dues i.e. VAT, National Insurance etc., in the books of two U.K. subsidiaries, as at the year end aggregating to Rs. 45,312,646 is adequate and no further provision towards such dues or any penalties in respect thereof is considered necessary, at this stage.

11. a) In an earlier year, one of the wholly owned subsidiary located in the U.K., had initiated Company Voluntary Arrangement (CVA), under which, it was proposed to apply liquidation principles of claim calculation and distribution amongst the creditors, which was to be settled depending upon the earn-out compensation, in accordance with the terms of CVA. The said subsidiary has had no operations subsequent to the initiation of CVA. The earn-out compensation has been settled and received during the year and accordingly the Company expects that the CVA will be shortly completed. Pending this, the creditors/liabilities balances aggregating to Rs.59,402,770 are carried forward in the books of accounts and the necessary adjustments, shall be made in the year of completion of the CVA. The management is presently exploring various options in relation to the operations of the said subsidiary. Accordingly, the accounts of the said subsidiary company included in the consolidated financial statements, are prepared on a going concern basis, which is dependant upon settlement of CVA, availability of continued finance and increase in turnover and operations of that company.

    b) One of the wholly owned subsidiary located in the U.K. had no turnover in the past few years and the turnover of the wholly owned subsidiary located in Singapore has substantially reduced during the current year. Both the subsidiaries have incurred losses and their net worth at the year-end, has been eroded. The management is taking various steps including initiating sales promotional activities for improving their turnover/ operations, over a period of time. The management is hopeful of achieving break-even level of operations in the years in the near future and improved profitability thereafter. Accordingly, the accounts of the said subsidiaries included in the consolidated financial statements, have been prepared on going concern assumptions, which are dependent upon growth in operations, future profitability and availability of continued finance.

    c) In the opinion of the management, since the fixed assets, current assets loans and advances of the subsidiaries referred to in a) and b) above, are carried at nil values as at the year-end, in the consolidated financial statements, no adjustments relating to the recoverability and classification of the recorded asset amounts at the consolidated level are necessary. Further, all the liabilities of these subsidiaries are appropriately classified in the consolidated financial statements and hence no adjustments to their classification would be necessary, if these entities are unable to continue on going concern basis.

12. The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are as follows:

    a. Amount receivable in foreign currency on account of the following

Particulars	**Amount in Rupees**	**Amount in Foreign Currency**	**Foreign Currency**
Export of goods*	15,247,443 (18,661,210)	203,257 (247,411)	GBP
	13,276,206 (21,241,082)	281,513 (458,738)	USD
TOTAL	**28,523,649** (39,902,292)		

    b. Amount payable in foreign currency on account of the following

Particulars	**Amount in Rupees**	**Amount in Foreign Currency**	**Foreign Currency**
Sundry Creditors	438,680 (111,460)	12,317 (3,217)	CHF
TOTAL	**438,680** (111,460)		

* Of these, Rs.26,044,748 (Previous Year Rs. 26,044,748) has been provided for towards doubtful recoveries.
Note: Previous year figures are given in brackets.

Significant Accounting Policies and Notes forming part of Consolidated Financial Statement

13. The sales, income on account of infrastructural services and other income at the consolidated level improved during the year. However, consequent to one time impairment loss of Rs.40,246,742 on a software product (intangible asset), the Company at the consolidated level suffered a loss of Rs.72,514,470 during the year which resulted in further increase in the accumulated losses at the year end. The Company, considering that there would be no such one time charge on account of impairment in the next year and also there will be a substantial reduction in the depreciation charge consequent to the software product being fully amortised / impaired, expects improved financial results.

14. In view of the announcement of the Institute of Chartered Accountants of India, “Deferment of applicability of Accounting Standard (AS-15) Employee Benefits (Revised 2005)”, the Parent Company has reversed the additional charge to the profit and loss account of Rs. 1,028,555 accounted in the earlier quarters ie upto 31st December, 2006 and has reversed Rs. 971,411 from the General Reserve which was earlier adjusted thereto as at 1st April, 2006 in accordance with the transitional provision of the said standard, since the said standard is not yet mandatory.

15. Previous year figures have been regrouped wherever necessary to correspond with the figures of the current year. Figures have been rounded off to the nearest rupee. Amounts and other disclosures for the preceding year are included as integral part of the current year financial statements and are to be read in relation to the amounts and other disclosures relating to the current year. Figures have been rounded off to the nearest rupee.

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

P. R. Barpande
Partner

Mumbai, Dated : July 06, 2007

For and on behalf of the
Board of Directors

Surinder Mohan Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

Mumbai, Dated: July 06, 2007

SUMMARIZED FINANCIAL INFORMATION IN RESPECT OF SUBSIDIARIES OF THE COMPANY IN COMPLIANCE WITH THE TERMS OF APPROVAL OF THE MINISTRY OF COMPANY AFFAIRS UNDER SECTION 212(8) OF THE COMPANIES ACT, 1956

The Company has received the approval of Ministry of Company Affairs under Section 212(8) of the Companies Act, 1956 vide its letter No.47/174/2007-CL-III dated 9.4.2007 exempting the Company from attaching the Balance Sheet, Profit and Loss Account and other documents of the Subsidiary Companies to its Annual Accounts for the year ended 31.3.2007. Information as required in terms of the aforesaid letter of approval is furnished below:

	Name of subsidiary companies	Country of Incorporation	Financial Year ended on	Currency	Capital	Reserves	Total Assets	Total Liabilities	Details of Investment	Turnover	Profit/(Loss) before Taxation	Provision for Taxation	Profit/(Loss) after Taxation	Profit/(Loss) after Prior items
1	Melstar Inc	United States	31.3.2007	US$	1,148,500	(1,493,206)	1,736,848	2,081,553	-	3,669,221	(672,137)	(100,822)	(571,315)	(571,315)
				INR	49,724,308	(64,648,354)	75,196,791	90,120,837	-	158,858,923	(29,100,172)	(4,365,088)	(24,735,084)	(24,735,084)
2	Melstar UK Limited	United Kingdom	31.3.2007	GBP	150,000	(174,471)	121,117	145,588	-	167,252	(70,214)		(70,214)	(70,214)
				INR	12,754,500	(14,835,269)	10,298,579	12,379,348	-	14,221,438	(5,970,296)	-	(5,970,296)	(5,970,296)
3	Melstar Limited	United Kingdom	31.3.2007	GBP	958,992	(2,426,389)	25,695	1,493,192	100	-	(69,532)		(69,532)	(69,532)
				INR	81,543,090	(206,315,875)	2,184,848	126,966,137	8,503	-	(5,912,331)	-	(5,912,331)	(5,912,331)
4	Linkhand Support Limited	United Kingdom	31.3.2007	GBP	100	(1,751,117)	56,059	1,807,076	-	-	(934,794)		(934,794)	(934,794)
	(Subsidiary of Melstar Limited)			INR	8,503	(148,897,479)	4,766,697	153,655,673	-	-	(79,485,533)	-	(79,485,533)	(79,485,533)
5	Melstar Singapore Pte Limited	Singapore	31.3.2007	S$	1,700,000	(421,615)	1,645,794	367,409	-	2,142	(123,114)		(123,114)	(123,114)
				INR	48,518,000	(12,032,884)	46,970,974	10,485,858	-	61,133	(3,513,663)	-	(3,513,663)	(3,513,663)

Notes:

1. None of the above Subsidiaries has proposed any dividend.

2. The Company shall provide to any member on request the Annual Accounts of the subsidiaries and other related information at any point of time. Copies of the Annual Accounts of the Subsidiaries shall also be available for inspection by any member at the Registered Office of the Company and its subsidiaries on any working day.

3. Indian Rupee equivalent figures have been arrived at by applying the year end inter-bank Exchange Rate: (a) 1US$ = Rs. 43.295, (b) 1GBP = Rs. 85.030 and (c) 1S$ = Rs. 28.540.

4. Statements of Melstar Limited and Melstar Singapore Pte Limited are unaudited.

By Order of the Board of Directors

Mumbai, Dated: 6th July, 2007

S.M.Arora
Managing Director

Sattar Shaikh
Executive Director

Dinesh Kalani
Company Secretary

NOTES

Proxy No.:

MELSTAR INFORMATION TECHNOLOGIES LIMITED

Regd. Office: G-4, Melstar House, MIDC, Cross Road “A”, Andheri (E), Mumbai 400 093

PROXY FORM

Regd. Folio / Client ID												
DP ID												
No. of Shares												

I / we, ______________________ of ______________________ in the district of ________________ being a member / members of the above named Company, hereby appoint ____________________________________ of ______________________ in the district of ______________ or failing him/her ________________________of ______________________ in the district of ________________ as my/our proxy, to attend and vote for me/us and on my/our behalf at the Twentieth Annual General Meeting of the Company, to be held at AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri East, Mumbai - 400 093 on Wednesday, the 26th day of September, 2007 at 10.30 a.m. and at any adjournment thereof.

Affix Re. 1/- Revenue stamp

Dated this ______day of September, 2007

Signature(s) across the stamp

Notes: -

1) The Proxy, in order to be effective, must be duly completed, signed and deposited at the Registered office of the Company, not less than **48 hours** before the time for holding the meeting.
2) A proxy need not be a member.
3) All alterations made in the Proxy Form should be initialled.

MELSTAR INFORMATION TECHNOLOGIES LIMITED

Regd. Office: G-4, Melstar House, MIDC, Cross Road “A”, Andheri (E), Mumbai 400 093

ATTENDANCE SLIP

Regd. Folio / Client ID								No. of shares held						
DP ID														

I certify that I am a member / proxy for a member of the Company.

I hereby record my presence at the Twentieth Annual General Meeting of the Company being held on Wednesday, the 26th day of September, 2007 at AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri East, Mumbai - 400 093.

______________________________ ______________________________

Name of the member / proxy

Signature of the attending member / proxy

Note: Please fill up this slip and hand it over at the entrance of the meeting hall. Members are requested to bring their copies of Annual Report for reference at the meeting.