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INTELENET GLOBAL SERVICES LIMITED

3RD ANNUAL REPORT
YEAR ENDED MARCH 31, 2004

CERTIFIED TRUE COPY
For Intelenet Global Services Ltd.


Company Secretary



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COMPANIES HOUSE		10/05/05
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COMPANIES HOUSE		06/04/05


Auditor's report

To, the members of Intelenet Global Services Limited

1. We have audited the attached Balance sheet of Intelenet Global Services Limited, as at 31st March 2004 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 the 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 section 227 (4A) 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 above, we report that:
 - (i) 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;
 - (ii) 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;
 - (iii) the Balance sheet, Profit and Loss account and Cash-flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the Balance sheet, Profit and Loss account and Cash-flow statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (v) on the basis of the written representations received from the directors, as on 31st March 2004 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

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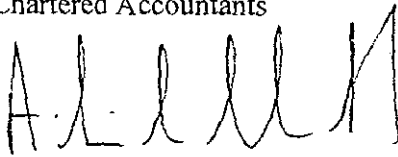
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For Intelenet Global Services Ltd.


Company Secretary

Deloitte Haskins & Sells

- (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read 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:
- (a) in the case of the Balance sheet, of the state of affairs of the Company as at 31st March 2004;
 - (b) in the case of the Profit and Loss account, of the profit for the year ended on that date; and
 - (c) 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



A. Siddharth
Partner
Membership no. 31467

Mumbai, dated, 4th May 2004

Annexure to the Auditor's report

Re: Intelenet Global Services Limited

(referred to in paragraph 3 of our report of even date)

- (i) The nature of the Company's activities during the year is such that the requirements of clauses (ii), (xiii) and (xiv) of paragraph 4 of the Order are not applicable.
- (ii) (a) The Company has maintained records showing full particulars, including quantitative details and situation of fixed assets though the same are in the process of being updated;
(b) fixed assets have not been physically verified by the management during the year. Consequently, the question of commenting on discrepancies, if any on verification does not arise;
(c) none of the fixed assets has been disposed off during the year.
- (iii) (a) The Company has not granted or taken loans to / from parties covered in the Register maintained under section 301 of the Companies Act, 1956. Consequently requirements of clauses (iii b), (iii c), and (iii d) of paragraph 4 of the Order are not applicable.
- (iv) In our opinion and according to the information and explanations given to us, *internal control procedures need to be strengthened to make it commensurate with the size of the Company and the nature of its business for the purchase of fixed assets*. The Company being a service company does not purchase inventory or sell goods.
- (v) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into a Register maintained in pursuance of section 301 of the Companies Act, 1956 and hence the question of commenting on reasonableness of prices in respect of transactions exceeding the value of rupees five lakhs does not arise.
- (vii) The Company has not accepted deposits from the public within the meaning of section 58A of the Companies Act, 1956 and the Rules framed thereunder. We are informed that no order has been passed by the Company Law Board.
- (viii) In our opinion, the Company has an internal audit system, commensurate with the size of the Company and the nature of its business.
- (ix) The Central Government has not prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for any of the products of the Company.

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Deloitte Haskins & Sells

- (x) (a) In our opinion and according to the information and explanations given to us, the Company has generally been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth-tax, customs duty, excise duty, cess and other statutory dues where applicable with the appropriate authorities. There are no arrears of outstanding statutory dues as at the last day of the financial year for a period of more than six months from the day they became payable;
(b) according to the information and explanations given to us, there are no cases of non-deposit with appropriate authorities of disputed dues of sales-tax, income-tax, customs duty, wealth-tax, excise duty and cess.
- (xi) The Company has been registered for a period less than five years and hence the question of commenting on accumulated losses at the end of the financial year and cash losses in the current and the preceding financial year does not arise.
- (xii) The Company has not defaulted in repayment of dues to banks and financial institutions. The Company has not issued debentures.
- (xiii) The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) 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.
- (xiv) Term loans borrowed during the year were applied for the purpose for which the loans were obtained except for part of the loans borrowed from promoters.
- (xv) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment. No long-term funds have been used to finance short term assets except permanent working capital.
- (xvi) The Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.
- (xvii) The Company has not issued any debentures and hence the question of creating securities in respect thereof does not arise.
- (xviii) During the year, the Company has not raised money by public issue(s).

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**Deloitte
Haskins
& Sells**

- (xix) 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 has been noticed or reported during the financial year.

For **Deloitte Haskins & Sells**
Chartered Accountants

A handwritten signature in black ink, appearing to read 'A. Siddharth', with a stylized, cursive script.

A. Siddharth
Partner
Membership no. 31467

Mumbai, dated, 4th May 2004

Intelenet Global Services Limited
Balance Sheet as at 31st March 2004

	Schedule	Rupees	Rupees	As at 31st March 2003 Rupees
SOURCES OF FUNDS				
Shareholders' Funds				
Share Capital	1		550,000,000	400,000,000
Reserves and Surplus	2		41,075,707	-
Loan Funds				
Secured Loans	3		700,831,068	559,690
Unsecured Loans	4		214,904,000	325,000,000
TOTAL			1,506,810,775	725,559,690
APPLICATION OF FUNDS				
Fixed Assets				
Gross Block	5	1,247,068,933		424,952,141
Less : Depreciation		167,300,446		49,259,677
Net Block		1,079,768,487		375,692,464
Capital Work- In- Progress		94,568,505		206,121,405
			1,174,336,992	581,813,869
Deferred Tax Assets [Net]			-	24,121,237
Current Assets, Loans and Advances				
Sundry Debtors	6	273,709,962		46,328,676
Cash and Bank Balances	7	5,513,271		28,029,656
Loans and Advances	8	229,876,929		31,371,256
		509,100,162		105,729,588
Less: Current Liabilities and Provisions				
Current Liabilities and Provisions	9	187,902,400		44,715,319
		187,902,400		44,715,319
Net Current Assets			321,197,762	61,014,269
Miscellaneous Expenditure [to the extent not written off or adjusted]	10		11,276,021	15,044,841
Profit and Loss Account			-	43,565,474
TOTAL			1,506,810,775	725,559,690

Significant Accounting Policies

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Notes forming part of the Accounts

18

Schedules referred to above and notes thereon form an integral part of the Balance Sheet and Profit and Loss Account

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants

A. L. L. M.

A Siddharth
Partner

For and on behalf of the Board

Keki M. Mistry
Keki M. Mistry
Director

N. Chandrasekaran
N. Chandrasekaran
Director

Susir Kumar
Susir Kumar
Director

Jayant Pendharkar
Jayant Pendharkar
Director

Sandeep Sarangi
Sandeep Sarangi
Chief Financial Officer

Riddhish Purohit
Riddhish Purohit
Company Secretary

Mumbai
Date: 4th May 2004

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For Intelenet Global Services Ltd.

Company Secretary

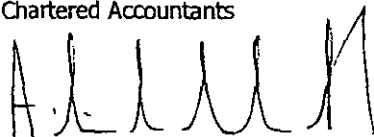
Intelenet Global Services Limited
Profit and Loss Account for the Year ended 31st March 2004

	Schedule	Rupees	Previous Year Rupees
INCOME			
Operating Income	11	1,140,185,113	209,167,949
Other Income	12	31,899,669	8,374,004
		<u>1,172,084,782</u>	<u>217,541,953</u>
EXPENDITURE AND CHARGES			
Staff Expenses	13	507,505,684	105,099,346
Establishment Expenses	14	266,634,764	53,706,177
Other Expenses	15	131,544,061	47,977,821
Interest and Other Charges	16	39,597,086	8,993,786
Depreciation		118,040,769	32,931,808
		<u>1,063,322,364</u>	<u>248,708,938</u>
Profit / (Loss) before tax		108,762,418	(31,166,985)
Provision for tax:			
Current tax (refer note 17 of schedule 18)		-	-
Deferred tax		<u>(24,121,237)</u>	<u>11,126,614</u>
Profit after tax		84,641,181	(20,040,371)
Balance brought forward from Previous Year / period		(43,565,474)	(36,519,726)
Accumulated Deferred Tax		<u>-</u>	<u>12,994,623</u>
		<u>(43,565,474)</u>	<u>(23,525,103)</u>
Balance carried to Balance Sheet		<u>41,075,707</u>	<u>(43,565,474)</u>
EARNINGS PER SHARE (Face Value Rs. 10) :			
- Basic		1.80	(0.72)
- Diluted		1.80	(0.70)

Significant Accounting Policies 17
Notes forming part of the Accounts 18
Schedules referred to above and notes thereon form an integral part of the Balance Sheet Profit and Loss Account

As per our report of even date attached

For Deloitte Haskins & Sells
Chartered Accountants



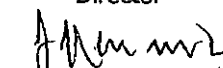
A Siddharth
Partner

For and on behalf of the Board


Keki M. Mistry
Director


N. Chandrasekaran
Director


Susir Kumar
Director


Jayant Pendharkar
Director


Sandeep Sarawgi
Chief Financial Officer


Riddhish Purohit
Company Secretary

Mumbai
Date: 4th May 2004

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For Intelenet Global Services Ltd.

Company Secretary

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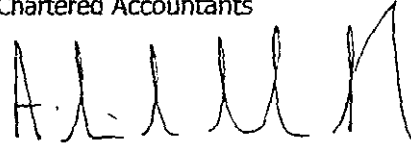
Intelenet Global Services Limited
Cash Flow Statement for the Year ended 31st March 2004

	Rupees
Cash Flow from Operating Activities	
Net Profit before tax	108,762,418
Adjustments for:	
Depreciation	118,040,769
Preliminary expenses and miscellaneous expenditure	3,768,820
Interest and Other Charges	39,597,086
Excess Provisions written back	1,924,684
Interest Income	(340,366)
Operating profit before working capital changes	271,753,411
(Increase) / Decrease in Sundry Debtors	(227,381,286)
(Increase) / Decrease in Loans and Advances	(198,363,245)
Increase / (Decrease) in Creditors / Other Liabilities	139,717,067
Cash used in Operations	(14,274,053)
Income Tax paid	(142,428)
Net Cash used in Operating Activities	(14,416,481)
Cash Flows from Investing Activities	
Purchase of Fixed Assets	(710,563,892)
Interest Received	409,043
Net Cash used in Investing Activities	(710,154,849)
Cash Flows from Financing Activities	
Proceeds from Equity Share Capital	150,000,000
Proceeds from Long Term Loan	775,830,080
Repayment of Long Term Loans	(400,558,702)
Proceeds/ (Repayment) of Short Term Loan (Net)	214,904,000
Interest paid	(38,051,756)
Net Cash from Financing Activities	702,123,622
Net Decrease in Cash and Cash Equivalents	(22,447,708)
Cash and Cash equivalents at the beginning of the year	27,786,891
Cash and Cash equivalents at the end of the year	5,339,183

Reconciliation of Cash and Cash Equivalents

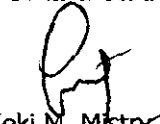
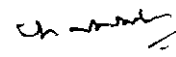

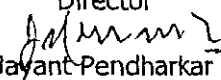
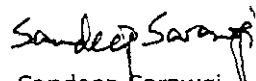

As per Balance Sheet - Schedule No. 7	5,513,271
Less: Interest Accrued on Bank Deposits	174,088
As per Cash Flow Statement	5,339,183

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


A Siddharth
Partner

Mumbai
Date: 4th May 2004

For and on behalf of the Board

 Keki M. Mistry Director	 N. Chandrasekaran Director
 Susir Kumar Director	 Jayant Pendharkar Director
 Sandeep Sarawgi Chief Financial Officer	 Riddhish Purohit Company Secretary

Intelenet Global Services Limited
Schedules forming part of the Balance Sheet

		As at 31st March 2003
	Rupees	Rupees
Schedule 1 - Share Capital		
<u>Authorised</u>		
55,000,000 [previous year 40,000,000]		
Equity shares of Rs. 10/- each	<u>550,000,000</u>	<u>400,000,000</u>
 <u>Issued, Subscribed and Paid up</u>		
55,000,000 [previous year 40,000,000]		
Equity shares of Rs. 10/- each	<u>550,000,000</u>	<u>400,000,000</u>
 Schedule 2 - Reserves and Surplus		
Surplus in profit and loss account	<u>41,075,707</u>	<u>-</u>
 Schedule 3 - Secured Loans		
Loans and Advances from Banks		
External Commercial Borrowing	546,500,000	-
[To be secured by a charge on movable assets]		
Dues under Hire Purchase arrangements [secured by	4,331,068	559,690
hypothecation on vehicles purchased under hire purchase		
arrangements]	<u>550,831,068</u>	<u>559,690</u>
Term Loans - From Others	150,000,000	-
[secured by negative lien on all assets]	<u>700,831,068</u>	<u>559,690</u>
 Schedule 4 - Unsecured Loans		
Short Term Loans and Advances:		
From a bank		
- Working Capital Loan	139,904,000	-
From Others		
- Inter-corporate Deposits	<u>75,000,000</u>	<u>-</u>
	<u>214,904,000</u>	<u>-</u>
Other Loan and Advances		
From Others	-	325,000,000
	<u>214,904,000</u>	<u>325,000,000</u>

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Intelnet Global Services Limited
Schedules forming part of the Balance Sheet

Schedule 5 - Fixed Assets

Particulars	Gross Block		Depreciation		Net Block	
	As at 1st April 2004	As at 31st March 2004	Upto 31st March 2004	For the Year	As at 31st March 2004	As at 31st March 2003
Owned Assets						
Building	57,331,018	57,331,018	346,284	934,496	56,050,238	56,984,734
Leasehold Improvements	32,562,919	127,903,567	8,488,270	4,960,007	114,455,290	24,074,649
Data/Voice Processing Equipment	276,455,635	733,611,966	36,154,393	98,056,552	599,401,021	240,301,242
Office Equipment	32,341,874	191,701,029	2,332,357	7,832,212	181,536,460	30,009,517
Furniture and Fixtures	20,843,056	100,884,666	1,382,915	4,842,819	94,658,932	19,460,141
Machinery	3,800,000	27,211,788	361,000	1,021,400	25,829,388	3,439,000
Motor Cars	442,544	2,372,001	84,084	208,899	2,521,562	358,460
Sub total	423,777,046	1,241,458,579	49,149,303	117,856,385	1,074,452,891	374,627,743
Assets taken on Lease						
Motor Cars (Refer Note 2)	1,175,095	5,610,354	110,374	184,384	5,315,596	1,064,721
Total	424,952,141	1,247,068,933	49,259,677	118,040,769	1,079,768,487	375,692,464
Previous Year	175,620,808	424,952,141	16,327,869	32,931,808	375,692,464	-
Capital Work- In Progress (including capital advances)					94,568,505	206,121,405

Notes:

- 1 Title deed in respect of Building is in the name of Maharashtra Industrial Development Corporation (MIDC).
- 2 Acquired on hire purchase basis over which vendors have a lien. Motor Car includes Rs. 963,328/- [previous year Rs. Nil] registered in the name of an individual on deputation to the Company.
- 3 Gross block as at 31st March 2004 includes Rs.122,718,445/- [previous year Rs. 48,236,901/-] being cost of assets over which a customer has a lien.
- 4 Gross block as at March 31, 2004 includes Rs. 3,219,634/- [previous year Rs. Nil] being cost of fixed assets, the title of which vest with customer.

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Intelnet Global Services Limited
Schedules forming part of the Balance Sheet

	Rupees	Rupees	As at 31st March 2003 Rupees
Schedule 6 - Sundry Debtors			
[Unsecured and considered good]			
Debts outstanding for a period exceeding six months	18,077,329		-
Other Debts	255,632,633		46,328,676
Total	<u>273,709,962</u>		<u>46,328,676</u>
Schedule 7 - Cash and Bank Balances			
Cash on Hand	149,949		336,614
Balances with Scheduled Banks			
in current accounts	574,919		23,680,516
in fixed deposit accounts [including interest accrued Rs. 174,088/-, previous year Rs. 242,765/-]	3,642,434		3,992,765
in EEFC accounts	83,222		-
Balance with Others			
in current account			
- with Citibank, New York [maximum balance outstanding during the year Rs. 28,524/-, previous year Rs. 24,250/-]	18,821		19,761
- with HSBC, London [maximum balance outstanding during the year Rs. 1,629,357/-, previous year Rs. Nil]	1,043,926		-
	<u>5,513,271</u>		<u>28,029,656</u>
Schedule 8 - Loans and Advances			
[Unsecured and considered good]			
Advances recoverable in cash or in kind or for value to be received	81,763,975		20,523,988
Deposits	147,540,842		10,417,584
Advance payment of Taxes, etc.	572,112		429,684
	<u>229,876,929</u>		<u>31,371,256</u>
Schedule 9 - Current Liabilities			
Acceptances	27,034,903		-
Sundry Creditors:			
Total outstanding dues to small scale industrial undertakings	-		-
Total outstanding dues due to creditors other than small scale industrial undertakings	127,784,446		39,001,099
	<u>127,784,446</u>		<u>39,001,099</u>
Advance received from a customer	10,055,600		-
Interest accrued but not due on loans	1,545,330		-
Other Liabilities	21,482,121		5,714,220
	<u>187,902,400</u>		<u>44,715,319</u>
Schedule 10 - Miscellaneous Expenditure			
[To the extent not written off or adjusted]			
Preliminary Expenditure	1,153,628		1,600,113
Deferred Revenue Expenses			
- Recruitment Expenses	3,446,293		4,595,058
- Training Expenses	5,632,348		7,509,797
- Share Issue Expenses	1,043,752		1,339,873
	<u>10,122,393</u>		<u>13,444,728</u>
	<u>11,276,021</u>		<u>15,044,841</u>

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Intelenet Global Services Limited
Schedules forming part of the Profit and Loss Account

	Rupees	Rupees	Previous Year Rupees
Schedule 11 - Operating Income			
Call Centre Charges		966,668,202	159,065,771
Data Processing Charges		150,791,308	50,102,178
Technical Support Charges		22,725,603	-
		<u>1,140,185,113</u>	<u>209,167,949</u>
Schedule 12 - Other Income			
Interest [Gross] on:			
Fixed Deposits with Banks	340,366		282,830
[Tax deducted at source Rs. 48,499 previous year Rs. 19,598]			
Loans to Staff	53,323		10,825
Set-up charges recovered	<u>4,276,189</u>		<u>1,705,965</u>
		4,669,878	1,999,620
Exchange Differences [net]		25,033,431	447,431
Excess provisions written back		1,924,684	-
Miscellaneous Income		271,676	5,926,953
		<u>31,899,669</u>	<u>8,374,004</u>

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Intelenet Global Services Limited
Schedules forming part of the Profit and Loss Account

	Rupees	Rupees	Previous Year Rupees
Schedule 13 - Staff Expenses			
Salaries and Incentives		367,658,200	80,892,326
Contribution to Provident and Other Funds		20,624,960	4,297,203
Staff Welfare Expenses		83,171,418	19,909,817
Recruitment Expenses		22,716,485	-
Training Expenses		13,334,621	-
		<u>507,505,684</u>	<u>105,099,346</u>
Schedule 14 - Establishment Expenses			
Connectivity Expenses		145,313,295	26,690,155
[net of recoveries Rs. Nil, previous year Rs. 14,035,981]			
Rent, Rates and Taxes		47,351,881	8,392,398
Repairs and Maintenance - Buildings		1,053,639	381,644
Insurance		14,197,567	4,915,049
Office Maintenance		31,500,593	6,403,278
Electricity		27,217,789	6,923,653
		<u>266,634,764</u>	<u>53,706,177</u>
Schedule 15 - Other Expenses			
Travelling and Conveyance		75,325,597	22,858,138
[net of recoveries Rs. 8,674,202, previous year Rs. 6,074,998]			
Printing and Stationery		8,446,722	2,451,077
Postage, Telephone and Fax		7,056,698	2,087,887
[net of recoveries Rs. 1,787,467, previous year Rs. 487,757]			
Repairs and Maintenance other than Buildings		7,459,170	2,996,628
Legal and Professional		16,225,547	6,922,253
Entertainment Expenses		2,729,740	1,930,887
[net of recoveries Rs. 843,061, previous year Rs. 161,510]			
Miscellaneous Expenses		10,531,767	5,117,464
[net of recoveries Rs. 2,931,196, previous year Rs. 446,236]			
Preliminary Expenses written off		446,485	446,546
Deferred Revenue Expenditure written off			
Recruitment Expenses	1,148,765		1,148,765
Training Expenses	1,877,449		1,877,449
Share Issue Expenses	296,121		140,727
		<u>3,322,335</u>	<u>3,166,941</u>
		<u>131,544,061</u>	<u>47,977,821</u>
Schedule 16 - Interest and Other Charges			
Interest on Advance against Equity		-	2,944,439
Interest on External Commercial Borrowing		1,545,330	-
Interest on Term Loans		26,326,468	-
Interest on Others		6,247,649	5,694,795
Bank Charges and Finance Charges		5,477,639	354,552
		<u>39,597,086</u>	<u>8,993,786</u>

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Intelenet Global Services Limited
Schedule 17 – Significant Accounting Policies

Significant Accounting Policies

a. Basis of preparation of Financial Statements

The financial statements are prepared under historical cost convention on the accrual basis of accounting and in accordance with generally accepted accounting principles.

b. Revenue Recognition

Revenue (income) is recognised when no significant uncertainty as to determination or realization exists.

c. Fixed Assets

Fixed Assets are stated at cost of acquisition or construction less accumulated depreciation.

d. Depreciation

Depreciation is provided on the Straight Line Method, at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except for assets that are to be used exclusively for customers and over which customers have a lien, which are being depreciated over the balance period of the contract (Refer note 15 on Schedule 18).

Cost of leasehold improvements is amortised over the period of lease.

Fixed assets costing Rs. 5,000/- or less are depreciated at 100% in the year of purchase.

e. Retirement Benefits

Gratuity is provided for on the basis of the annual premium payable as determined by the HDFC Standard Life Insurance Company Limited.

Leave salary is provided for on the basis of actuarial valuation.

Provident Fund liability is determined on the basis of contribution as required under the statute / rules.

f. Foreign Currency Transactions

Transactions in foreign currencies are recorded at the original rates of exchange in force at the time the transactions are effected. At the year-end, monetary items denominated in foreign currency are reported using the closing rate of exchange. Exchange differences arising on realisation / payments of foreign exchange are accounted in the year of actual realisation / payments.

g. Preliminary Expenditure

Expenditure incurred in connection with the incorporation of the Company is written off equally over a period of five years from the date of commencement of commercial operations.

h. Deferred Revenue Expenditure

Expenses incurred in connection with the recruitment, training of employees and issue of shares upto 31st March 2003, are treated as deferred revenue expenditure to be amortised over a period of 5 years.

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Intelenet Global Services Limited
Schedule 17 – Significant Accounting Policies

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. All other borrowing costs are charged to revenue.

j. Income Taxes

Tax expense comprise both current tax and deferred tax at the applicable enacted/ substantively enacted rates. Current tax represents the amount of income tax payable/ recoverable in respect of taxable income/ loss for the reporting period. Deferred tax represents the tax effect of timing differences between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods.

k. Contingent Liabilities

These, if any, are disclosed in the notes to accounts. Provision is made in the accounts in respect of those contingencies which are likely to materialise into liabilities after the year-end till the adoption of accounts by the Board of Directors and which have a material effect on the position stated in the Balance Sheet.

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Intelenet Global Services Limited**Schedule 18 - Notes forming part of the Accounts**

- 1 The Company has been granted permission for importing Capital Goods worth Rs. 955.00 million vide Letter No. STPI/MUM/VIII (A)(785)/2000(10)/4058 dated 12th September 2002 issued by the Director, Software Technology Parks Of India (STPI). In lieu of this permission, the Company is required to achieve an export turnover of Rs. 5,210.00 million within a period of 5 years. The Company has upto the date of Balance Sheet imported Capital Goods worth Rs. 422.29 million and has achieved export turnover of Rs. 1,350.02 million.

	<u>Rupees</u>	<u>Previous Year Rupees</u>
2 Contingent Liabilities in respect of:		
Margins in connection with business sourced		
– Under negotiation	14,635,578	-
Stamp duty in respect of lease for Malad site	amount not yet	
– Matter under adjudication	ascertained	
3 Capital Commitments		
Estimated amounts of contracts remaining to be executed on capital account not provided for	42,227,051	75, 854,635
4 Earnings in foreign exchange:		
a. Call Centre Charges	966,668,202	159,065,771
b. Data Processing Charges	150,791,308	50,102,178
c. Technical Support Charges	8,909,922	-
d. Interest on set up charges recovered	4,276,189	7,563,378
5 Value of imports on CIF basis:		
a. Capital Goods	368,904,805	53,381,570
6 Expenditure in foreign currency on account of:		
a. Connectivity expenses	65,080,116	16,942,869
b. Travelling	31,064,803	6,183,045
c. Professional Fees	2,789,611	2,117,156
d. Facility Management Fees	857,671	514,089
e. Others	19,256,884	9,387,277
7 Payment to Auditors		
a. As auditors	400,000	175,000
b. As advisors – for taxation matters	105,000	125,000
c. In any other manner – (for tax audit)	65,000	50,000
d. For Service Tax	37,200	8,750
	<u>607,200</u>	<u>358,750</u>
8 Hitherto, it was the policy of the Company to amortise recruitment and training expenses over a period of five years. During the current year, in accordance with the requirements of Accounting Standard 26 (AS 26) on Intangible Assets issued by the Institute of Chartered Accountants of India, the Company has changed this policy and charged the recruitment and training costs incurred during the year to the profit and loss account. This change in policy has the effect of increasing the charge of recruitment expenses and training expenses for the year by Rs. 18,173,188 and Rs. 10,667,697 respectively and reducing profit for the year by Rs. 28,840,885.		

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Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

9 Related Parties Transactions

Related parties where there are transactions during the year:

Sr. No.	Name of the related party	Nature of relationship
1	Tata Sons Limited (Tata Consultancy services, a division of Tata Sons Limited)	Associate
2	Housing Development Finance Corporation Limited	Associate

Particulars of transactions with related parties:

Nature of relationship	Particulars of transactions	Rupees
Associates	a. Service income	59,395,611
	b. Rent expenses	5,459,100
	c. Reimbursement of expenses by associates	1,306,072
	d. Reimbursement of expenses to associates	5,003,658
	e. Interest expenses	42,965,545
	f. Loans taken	540,000,000
	g. Loans repaid	640,000,000
	h. Issue of equity shares	150,000,000
	i. Deposits given	1,056,000
	Balance outstanding as at 31st March 2004	
	a. Amount receivable	62,710,750
	b. Amount payable	62,051
	c. Loans outstanding	225,000,000

Note:

There are no provisions for doubtful debts or amounts written-off or written back during the year for debts due from or to related parties.

10 Lease Transactions:

The Company has acquired cars on hire purchase basis. The same have been treated as assets acquired on lease as per Accounting Standard 19 (AS 19) on Leases. Minimum Lease rentals outstanding as at 31st March 2004 in respect of these assets are as under:

Due	Total minimum lease payments outstanding as at 31st March 2004	Interest not due	Rupees Present value of minimum lease payments
Not later than 1 year	1,771,265 <i>398,810</i>	334,439 <i>56,810</i>	1,436,826 <i>342,000</i>
Later than 1 year but not later than 5 years	3,240,532 <i>234,678</i>	346,290 <i>16,988</i>	2,894,242 <i>217,690</i>
Later than 5 years	-	-	-
Total	5,011,797 <i>633,488</i>	680,729 <i>73,798</i>	4,331,068 <i>559,690</i>

Note: Figures in italics are in respect of the previous year

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Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

The tenure of hire purchase agreements ranges from thirty-six to forty-eight months with an option of prepayment and foreclosure.

The Company has taken premises at Chennai on non-cancellable operating lease basis. Future lease rentals in respect of the premises are as follows:

	<u>Rupees</u>	<u>Previous Year Rupees</u>
Amount due within one year	5,829,867	-
Amount due later than 1 year but not later than 5 years	27,710,127	-
Amount due later than 5 years	-	-

11 Segment Results

The Company operates solely in the information technology enabled services business and significant portion of revenue is from export of services. Consequently, the question of disclosure of segment information does not arise.

12 Agreements are normally entered into with prospective customers prior to the Company rendering services. During the year, on account of exigencies of business, services were rendered to some clients pending formal agreement. Invoices for amounts aggregating to Rs. 13,902,928 have been raised as consideration for services rendered in consultation with the customers, against which payments have been received from some customers. The formal agreements are expected to be signed shortly.

13 The Company entered into a Memorandum of Understanding dated 31st March, 2003 with Hamlet Constructions (India) Private Limited (the lessor) for taking on lease the land and building at Malad in Mumbai having a total built-up area of 205,747 sq ft divided in three phases covering ground plus five floors of the building. The tenure of lease will be for a period of twenty years commencing from the date of handing over the occupation of first phase comprising of the ground, first and second floor of the said building. The occupation of the first phase of the property was handed over to the Company on 1st July 2003. Pending signing of lease deed for the said premises, the Company entered into a leave and license agreement dated 3rd November 2003 with the lessor for the ground, first, second and 50% of the fourth floor of the said premises. This agreement is valid for a period of eleven months from 1st July 2003 to 31st May 2004. During the year, improvements aggregating to Rs. 92,792,029 have been made on the floors occupied by the Company. The Company follows the policy of amortising the cost of leasehold improvements over the period of lease. The draft of the aforesaid lease deed for the entire premises comprising of ground plus the five floors is under adjudication for payment of stamp duty and is expected to be signed in the near future. Leasehold improvements have therefore been amortised over the proposed lease period of twenty years.

14 Balances of sundry debtors and loans and advances are subject to confirmation and consequent reconciliation and adjustments, if any.

15 Hitherto it was the policy of the Company to depreciate Data/ Voice Processing Equipment at the rates prescribed under Schedule XIV to the Companies Act, 1956. The Company has now decided to depreciate such assets where the customer has a lien over the life of the balance period of the contract with effect from the current financial year. This change has the effect of increasing the depreciation charge for the year by Rs. 9,837,472/- and consequently the profit is lower by Rs. 9,837,472/-.

As per the terms of contract with the customer, in the event of termination of the contract or upon its expiry, the customer has a right to acquire these assets at no cost except for any duties, taxes and charges incurred for transfer. In the event of premature termination, the written down value of the fixed assets will be charged off to the profit and loss account in the relevant year.

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Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

16 Earnings Per share

Earnings per share is calculated by dividing the profit/ (loss) attributable to the equity shareholders by the weighted average number of equity shares outstanding during the year as under:

		Previous Year
Profit/ (Loss) after tax attributable to Equity Shareholders (Rupees)		
- Basic	84,641,181	(20,040,371)
- Diluted	84,641,181	(20,040,371)
Weighted average number of equity shares outstanding during the year (Numbers)		
- Basic	46,967,213	28,000,000
- Diluted	46,967,213	28,500,000
Earnings Per Share (Rupees)		
- Basic	1.80	(0.72)
- Diluted	1.80	(0.70)
Nominal Value Per Share (Rupees)	10	10
Reconciliation between denominator used in calculating basic and diluted earnings per share (Numbers)		
Denominator used in calculating Basic earning per share	46,967,213	28,000,000
Add: Weighted average number of dilutive potential equity shares	-	500,000
Denominator used in calculating diluted earnings per share	46,967,213	28,500,000

17 Current Tax

The Company is registered with the Software Technology Park of India (STPI) and enjoys a tax exemption pursuant to the provisions of section 10A of the Income Tax Act, 1961. Income from undertaking includes service charges calculated on the basis of cost of assets purchased by the Company. The Company has been advised that the service charges qualify for exemption under provisions of the aforesaid section. Consequently, no provision for current tax has been accounted in respect of book profits for the current year.

18 Deferred Tax

The major components of deferred tax assets and liabilities are as under:

	Rupees	Previous year Rupees
Liabilities		
a) Depreciation	77,286,042	22,665,708
b) Deferred Revenue Expenditure	-	4,321,432
c) Preliminary Expenses	-	92,962
	<u>77,286,042</u>	<u>27,080,102</u>
Assets		
a) Provision for Gratuity and Leave encashment	-	294,270
b) Unabsorbed Business Loss	10,707,891	10,655,657
c) Unabsorbed Depreciation	89,166,159	40,251,412
	<u>99,874,050</u>	<u>51,201,339</u>
Recognised to the extent of	<u>77,286,042</u>	<u>51,201,339</u>
Net Deferred Tax (Liability) / Asset	<u>-</u>	<u>24,121,237</u>

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Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

- 19 The Company has not appointed a Managing Director pursuant to provisions of section 269 of the Companies Act, 1956.
- 20 Borrowing costs capitalised during the year are Rs. 12,243,752 (Previous year, Rs.4,521,370).
- 21 Exchanges differences included in the profit and loss account for the year are as under:

	<u>Rupees</u>	<u>Previous Year Rupees</u>
Exchange gain	32,582,285	1,470,388
Exchange loss	7,548,854	1,022,957

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Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

Additional Information pursuant to Part IV of Schedule VI to the Companies Act, 1956

22 Balance Sheet Abstract and Company's General Business Profile

I. Registration Details:

Registration No.	00129112
State Code	11
Balance Sheet Date	31.03.2004

II. Capital raised during the Year [Amount in Rs. Thousands]:

Public Issue	-
Rights Issue	150,000
Bonus Issue	-
Private Placement	-

III. Position of Mobilisation and Deployment of funds [Amount in Rs. Thousands]

Total Liabilities	1,694,713
Total Assets	1,694,713

Sources of funds

Paid-up capital	550,000
Reserves and surplus	41,076
Secured loans	700,831
Unsecured loans	214,904

Application of funds

Net Fixed Assets	1,174,337
Investments	-
Net Current Assets	321,198
Miscellaneous Expenditure	11,276
Deferred Tax Asset (net)	-
Accumulated Losses	-

IV. Performance of the Company [Amount in Rs. Thousands]

Turnover [including Other Income]	1,172,085
Total Expenditure	1,063,322
Profit before Tax	108,762
Profit after tax	84,641
Earnings per Share in Rs.	Refer note 16 of schedule 18
Dividend rate %	Nil

V. Generic Names of Three Principal Products/ Services of the Company

[as per monetary terms]:

Item code no. (ITC code) N. A.

Product Description Information Technology Enabled Services

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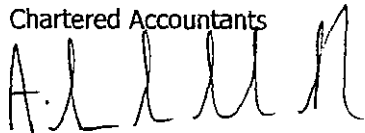
Intelenet Global Services Limited
Schedule 18 - Notes forming part of the Accounts

- 23 Previous year's figures have been regrouped wherever necessary to correspond with the figures of the current year.

Signatures to Schedules 1 to 18

As per our report of even date attached

For **Deloitte Haskins & Sells**
Chartered Accountants



A. Siddharth
Partner

For and behalf of the Board




Keki M. Mistry
Director



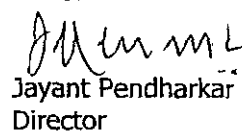
Susir Kumar
Director




Sandeep Sarawgi
Chief Financial Officer



N. Chandrasekaran
Director



Jayant Pendharkar
Director



Riddhish Purohit
Company Secretary

Mumbai

Date: 4th May 2004

01/05/04

DIRECTORS' REPORT

To the Members of Intelenet Global Services Limited

Your Directors have pleasure in presenting their Third Annual Report together with the audited accounts of the Company for the year ended March 31, 2004.

1. FINANCIAL RESULTS

	(Rs.in million)	
	Year ended 31/03/2004	Year ended 31/03/2003
Total Revenue	1172.08	217.54
Total Expenses	905.68	206.78
Profit before Interest, Depreciation and Tax (EBIDA)	266.40	
		10.76
Less : Interest	39.60	8.99
Less : Depreciation	118.04	32.93
Profit/(Loss) before Tax	108.76	(31.17)
Less : Provision for Tax - Current year	Nil	Nil
Deferred Tax	24.12	(11.13)
Profit/(Loss) After Tax	84.64	(20.04)

The Total Income during the current year stood at Rs. 1172.08 million as against Rs. 217.54 million, registering a growth of 439%.

2. OPERATIONS

During the year under review the company has been able to consolidate its position among the premier Business Process Outsourcing (BPO) services providers in the Country. This has been achieved in just two years of its effective operations. As on date the company has over 20 clients and has a good pipeline of prospects. The company has been focussing on banking, insurance, telecom, retail and cards verticals. The company has been providing inbound and outbound call center services, back office and transaction processing services and accounting services. Most of the service levels prescribed by the clients are being achieved. The company is currently undertaking a CIPC and BS7799 certification. The Company presently operates from three locations ie. two at Mumbai and one at Chennai.

3. DIVIDEND

The Company has registered its maiden profit this year. However, considering the growth for the next year and the need for capital both for funding capital expenditure as also for the working capital, the directors feels the need to plough back the profit and therefore do not recommend any dividend for the year ended March 31, 2004.

4. INTERNAL CONTROL & AUDIT

The Company has adequate internal control procedures to ensure the efficient use and protection of the resources and compliance with the procedures, policies and statutes. The Company has appointed M/s.RSM & Co., Chartered Accountants as the Internal Auditors of the Company for the current financial year. They have extensively conducted audit during the year. The prime objective of the Internal Auditors is to test the adequacy and effectiveness of all the internal controls laid by the management and to suggest improvements.

5. PUBLIC DEPOSITS

During the year under review, the Company has not accepted any deposits from the public.

6. PARTICULARS OF EMPLOYEES

Your Company had 2959 employees as of 31st March, 2004. Under the provisions, Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 read with the companies (Particulars of Employees) Rules, 1975 are set out in the annex to the Directors' Report.

7. PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND EXPENDITURE

Since the Company does not own any manufacturing facility, the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable. The particulars regarding foreign exchange earnings and expenditure appears as Item no.4C and 4D in the Notes to the Accounts.

8. DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. K M Mistry and Mr.Susir Kumar M. retire by rotation at the ensuing annual general meeting.

9. AUDITORS

Messrs. Deloitte Haskins & Sells, Chartered Accountants, the Statutory Auditors of the Company, retire at the forthcoming annual general meeting and are eligible for re-appointment.

10. DIRECTORS' RESPONSIBILITY STATEMENT

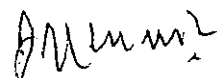
In accordance with the provisions of Section 217 (2AA) of the Companies Act, 1956, your directors state and confirm that

- (i) In the preparation of the accounts, the applicable accounting standards have been followed.
- (ii) Accounting policies selected were applied consistently. Reasonable and prudent judgments and estimates were made so as to give a true and fair view of the state of affairs of the company as at March 31, 2004 and of the profit of the company for the year ended on that date.
- (iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities.
- (iv) The annual accounts of the Company have been prepared on a going concern basis.

11. ACKNOWLEDGEMENTS

Your directors take this opportunity to thank all the employees for rendering high quality service to every constituent of the Company's clients. Your directors with to place on record their appreciation to all employees for their hard work, team spirited efforts, dedication and loyalty to the Company. Your directors also wish to thank its clients, bankers, vendors, Reserve Bank of India and others for their continued support. Finally the directors would like to convey their gratitude to the Promoters of the Company and look forward to their continued support.

For and on behalf of the Board of Directors



Jayant Pendharkar
Director

Place : Mumbai

Dated : May __, 2004

ANNEXURE TO THE DIRECTORS' REPORT

Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 forming part of the Directors' Report for the year ended March 31, 2004.

Name of the Employee	Age (Yrs.)	Designation	Qualification	Experience (No. of Yrs)	Remuneration (Rs.)	Date of commencement	Last Employment	
Mr. Kunal Seth	28	Business Leader - UK	B. Tech., MBA	5	38,59,076/-	1 st July, 2002	AXA Limited	BPO Consultant
Mr. Jehangir Panthaki	28	Business Development Leader	University of London - BA. Management, Finance & Information	8	39,86,847/-	20 th October, 2002	Sanchez Capital Services	

1. Remuneration of employees comprises basic salary, allowances and taxable value of perquisites.
2. None of the employees is related to any Director of the Company.

For and on behalf of the Board of Directors


Jayant Pendharkar
Director

Place: Mumbai

Date: