ICICI Infotech Inc.

ICICI INFOTECH INC.

1ST ANNUAL REPORT AND ACCOUNTS 2000-2001

Directors	Auditors	Registered Office
V. Srinivasan, *Managing Director & CEO*	L. Shanti Kumar & Co.	1013, Centre Road
Manoj Kunkalienkar	Certified Public Accountants	City of Wilmington
	491, South Oyster Bay Road	County of New Castle
	Plain View, NY 11803	State of Delaware

directors' report

to the members

Your Directors have pleasure in presenting the First Annual Report of the Company, along with the Audited Financial Statements for the year ended March 31, 2001.

Overview

The year under review was full of opportunies and challenges. The Company pursued dynamic growth opportunities in the financial services, governmental and retail/fashion sector. The Company is focused on higher-margin, higher-growth opportunities and has a strong portfolio of customers as well as the skills necessary to support them.

In software consultancy and development, the Company plans to focus on unique and strong business segments that have tremendous opportunities for growth. These segments as mentioned above, primarily financial services/insurance, governmental and retail/fashions, can be significantly expanded within their existing markets and extended to new markets in the US with enormous growth potential. The Company will strive to leverage extensive business networks, market knowledge and logistical expertise to produce high-value services for increasing number of customers.

Acquisitions

In accordance with its strategy of organic as well as acquisitive growth, ICICI Infotech Inc. successfully completed three acquisitions during the course of the year.

In June 2000, the Company acquired Ivory International, Inc., a New Jersey based provider of software services, for a total fixed consideration of US $ 8,000,000 and an additional contingent consideration of US $ 2,000,000. This acquisition provided the launch for ICICI Infotech Inc.'s operations in the US.

In July 2000, the Company further enhanced its presence in the US by acquiring the customer and employee contracts of Object Xperts Inc., a New Jersey based provider of software solutions, for a total fixed consideration of US $ 3,000,000 and an additional contingent consideration of US $ 2,000,000. The acquisition will strengthen the Company's focus as a software solutions provider to the financial services sector.

In February 2001, the Company strengthened its ability to offer technology solutions to the financial services sector (including banking, insurance and brokerage) by agreeing to commence a tender offer to buy all outstanding shares of Command Systems Inc., a Connecticut based provider of a wide range of information technology services and solutions to large financial services and insurance organizations, middle market companies and public sector organizations. The tender offer closed on March 13, 2001 and the acquisition was successfully completed on March 21, 2001.

All the above acquisitions were funded through contributed capital and debt from the Company's parent, ICICI Infotech Services Limited, India. These two acquisitions were integrated into the Company which increased its customer and employee base.

Review of Operations

Although the Company made significant progress in its first year of operations, the slowdown in US economy and shrinking IT budgets of most companies impacted the overall performance. This adversely affected the performance of IT companies in general. However, this scenario provides us with a significant opportunity to provide strategic and cost effective solutions to customers by shifting a major part of the development and maintenance jobs offshore.

Review of financial performance

Compay's consolidated earnings before interest, amortization and taxes during 2000-01 amounted to US $ 105,497 on a revenue base of US $ 12,405,348. Gross Margin for the year was 33.8%. The net loss after interest, amortization and taxes during the year amounted to US $ 2,056,758.

Capital

In 2000-01, Company increased its authorized capital to US $ 50,000,000 and issued 42,575,000 shares of US $ 1 each to ICICI Infotech Services Limited. As a result of this, the share capital as at March 31, 2001 was US $ 42,575,000.

Directors

The Board comprises of two Directors, Mr. V. Srinivasan, Managing Director & CEO and Mr. Manoj Kunkalienkar, Director.

Outlook

Company's mission is to take a leading role in providing software consulting services and products that create value for the customer. The Company is focused towards the creation of an outstanding brand, provision of secure and reliable services and products and the achievement of perfection in execution. With its wide technical resource pool, strong market position and continuous building of competencies, Company is well poised to achieve its future goals.

Acknowledgement

The Company is grateful to its clients, bankers and all regulatory authorities for their continued support. The Directors would like to express their sincere thanks and appreciation to all employees for their teamwork, professionalism and contribution during the year.

On behalf of the Board

V. Srinivasan
Managing Director & CEO

Edison, NJ, April 17, 2001

independent accountants' report

to the board of directors and stockholder of ICICI Infotech Inc.

We have audited the accompanying consolidated balance sheet of ICICI Infotech Inc. and subsidiaries as at March 31, 2001 and the related consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We did not audit the consolidated balance sheet of Command Systems Inc., which became a wholly owned subsidiary on March 22, 2001and whose balance sheet reflects total assets of US $ 42,580,269. The consolidated balance sheet of Command Systems, Inc at March 31, 2001 was reviewed by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for Command Systems Inc. is solely based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICICI Infotech Inc. and subsidiaries as at March 31, 2001 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

L. Shanti Kumar & Co.
Certified Public Accountants
April 18, 2001

consolidated balance sheet

as of March 31, 2001

	US $ March 31, 2001
ASSETS	
Current Assets	
Cash	8,429,287
Marketable Securities	4,488,480
Accounts Receivable	6,731,493
Pre-paid Expenses	592,946
Other Current Assets	72,785
Total Current Assets	20,314,991
Property and Equipment	1,476,437
Goodwill	28,630,965
Customer and Employee contracts	2,458,246
Security Deposits	485,697
Other Non-Current Assets	175,298
TOTAL ASSETS	53,541,634
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts Payable	699,168
Notes Payable	1,625,616
Accrued Expenses & Other Current Liabilities	3,444,028
Total Current Liabilities	5,768,812
Long-Term Debt	
Notes Payable	7,254,580
Total Liabilities	13,023,392
Shareholders' Equity	
Common Stock 50,000,000 shares authorized 42,575,000 shares issued and outstanding	42,575,000
Additional paid in capital	
Retained Earnings	(2,056,758)
Total Shareholders' Equity	40,518,242
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	53,541,634

See accompanying notes and accountants' report

consolidated statement of income and retained earnings

for the year ended March 31, 2001

	US $ March 31, 2001
Revenues	
Sale of Services	12,405,348
Other Income	350,072
Total Revenues	12,755,420
Costs and Expenses	
Cost of Services Sold	8,218,166
Selling, General & Administrative Expenses	4,431,757
Total Costs and Expenses	12,649,923
Earnings before Interest, Income taxes and Amortization of Intangibles	105,497
Interest Charges	248,359
Imputed Interest Charges	272,944
Amortization of Intangibles	1,591,719
Earnings before Taxes	(2,007,525)
Provision for Income Taxes	49,233
Net Earnings	(2,056,758)
RETAINED EARNINGS, at beginning	—
RETAINED EARNINGS, at end	(2,056,758)

See accompanying notes and accountants' report

consolidated statement of cash flows

for the year ended March 31, 2001

CASH FLOW FROM OPERATING ACTIVITIES DOLLARS	**US $**
Net Income	(2,056,758)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	36,765
Goodwill Amortized	1,591,719
Pre-set-up Costs Amortized	2,260
(Increase) Decrease in:	
Marketable Securities	(4,488,480)
Accounts Receivable	(6,731,493)
Pre-paid Expenses	(592,946)
Other Current Assets	(72,785)
Security Deposits	(485,697)
Increase (Decrease) in:	
Accounts Payable	699,168
Notes Payable	1,625,616
Accrued Liabilities	3,444,028
Net Cash Provided (Used) by Operating Activities	(7,028,603)
Cash Flows from Investing Activities	
Purchase of Goodwill and other Intangibles	(32,680,930)
Purchase of Other Non-current Assets	(175,298)
Purchase of Fixed Assets	(1,513,202)
Net Cash Provided (Used) by Investing Activities	(34,369,430)
Cash Flows from Financing Activities	
Issue of Share Capital	42,450,000
Issuance of Notes Payable	7,254,580
Net Cash Provided (Used) by Financing Activities	49,704,580
Net Increase (Decrease) in Cash	8,306,547
Cash at Beginning of Period	122,740
Cash at End of Period	8,429,287
Supplemental Information	
Taxes Paid	253,943
Interest Paid	—

See accompanying notes and accountants' report

1. **Organization**

ICICI Infotech Inc. (the "Company"), a wholly-owned subsidiary of ICICI Infotech Services Limited, Mumbai, India, is an information technology company, which provides a wide range of computer consulting services to businesses throughout the United States of America. The Company was incorporated on January 7, 2000 and commenced operations in April 2000.

2. **Summary of Significant Accounting Policies**

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Warranty

The Company provides for estimated future warranty costs as revenues are recognized.

Revenue Recognition

Revenue on time-and-materials contracts is recognized as the services are performed. Revenue on fixed-price contracts is recognized using the percentage of completion method based on the project milestones achieved and costs incurred thereon. The Company bears the risk of cost overruns and inflation with respect to its fixed-price projects. If estimates indicate a probable ultimate loss on a fixed-price contract, provision is made at that date for the entire estimated loss.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expense. Advertising costs were US $ 22,824 for the year ended March 31, 2001.

Cash

Cash equivalents are included in cash. The Company considers interest bearing investments due on demand as cash equivalents. The Company deposits cash with high credit-quality financial institutions. At times such cash balances may be in excess of the FDIC insurance limit.

Marketable Securities

Marketable securities are classified as available-for-sale and are available to support current operations or to take advantage of other investment opportunities. Unrealized gains and losses, net of tax, are recorded as a separate component of accumulated other comprehensive loss. Realized gains are included in interest income; realized losses are included in interest expense. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short maturity of these items. The fair value of marketable securities is based on quoted market prices for those or similar investments.

Property and Equipment

Property and Equipment are reflected at cost. Additions are capitalized whereas expenditures for maintenance and repair are charged to expense. Depreciation is provided on a straight-line basis over the following estimated useful lives.

Furniture, fixtures and Equipment	3-5 years
Automobiles	5 years

Income Taxes

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequences of events recognized in the financial statements and tax returns.

Foreign Currency Translation

The balance sheet of the Company's foreign subsidiaries which have a functional currency other than the U.S. dollar reflect the translation of assets and liabilities into U.S. dollars at the current exchange rates. Identifiable net assets related to wholly-owned subsidiaries located in India amounted to US $1.2 million at March 31, 2001.

Goodwill and Other Acquired Intangibles

Goodwill and customer and employee contracts are being amortized using the straight-line method over a period of five years.

Derivative Financial Instruments

As a matter of policy the company does not engage in derivatives trading, derivatives market-making or other speculative activities.

3. **Acquisitions**

(i) On June 12, 2000, the Company acquired 100% of the issued and outstanding stock of Ivory International Inc. (Ivory), an Edison, New Jersey based company engaged in software consulting and staff augmentation business, for a fixed consideration of US $ 8,000,000 and an additional consideration of up to US $ 2,000,000 contingent upon achieving certain performance targets. The acquisition has been accounted for as a purchase; accordingly, the excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over five years. The results of operations of Ivory are included in the accompanying financial statements from June 1, 2000. (See also Note 8 on subsequent event).

Concurrent with the acquisition of Ivory, the Company entered into an employment agreement with the former shareholder of Ivory. The agreement, which is for a period of three years, provides for specific salary levels.

(ii) On July 20, 2000, the Company acquired the customer and employee contracts of Object Xperts, Inc. (Object), a software consulting company based in Monmouth, New Jersey for a fixed consideration of US $ 3,000,000. In addition a consideration of up to US $ 2,000,000 is payable contingent upon achieving certain performance targets. The acquisition has been accounted for as a purchase. The purchase consideration is being amortized on a straight-line basis over five years. The results of operations of this acquisition are included in the accompanying financial statements from July 1, 2000.

Concurrent with the acquisition of the customer and employee contracts of Object, the Company entered into employment agreement with the former shareholders of Object. The agreements, which are for a period of three years, provide for specific salary levels.

(iii) On March 22, 2001 the Company acquired all of the common shares of Command Systems, Inc. (Command), a company engaged in a similar line of business, for a total purchase consideration of US $ 38,298,325.

The acquisition, effective March 22, 2001, has been accounted for as a purchase. The Company has performed a preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed based upon information currently available. The allocation of the purchase price is subject to revision, which is not expected to be material, on the basis of final determination of fair values. Accordingly, the excess of the purchase price over the fair value of the net assets acquired, US $ 22,841,394, has been recorded as goodwill. The results of operations of Command are not included in the accompanying financial statements. Since the Company is a nonpublic enterprise, pro forma financial statements of Command have not been included in the accompanying financial statements in accordance with SFAS 79.

Concurrent with the acquisition of Command, the Company has entered into employment agreements with certain key employees of Command.

4. **Transactions with Parent**

The Company has borrowed US $ 5,000,000 from its parent, ICICI Infotech Services Ltd., at an interest rate of LIBOR (London Inter Bank Offered Rate) plus 200 basis points, repayable at the end of sixty months.

In the ordinary course of its business, the Company sub-contracts software development work to its parent, ICICI Infotech Services Limited those with on terms comparable to, any other supplier of such services. The value of such purchases during the current year amounted to US $ 137,448 and the amount owed as at March 31, 2001 was US $ 137,448.

5. Related Party Transactions

In the ordinary course of its business, the Company buys services from Lembaga Enterprises Inc., a corporation whose entire issued and outstanding stock is held by V. Shivakumar, a member of the Company's board of directors. The value of such purchases during the current year amounted to US $ 205,545 and the amount owed as at March 31, 2001 was US $ 40,460.

6. Notes Payable

Short-Term Borrowings at June March 31, 2001 consisted of the following:

	US$
Due to shareholders of Object Xperts Inc.:	
Payable on or before August 31, 2001	450,339
Due to former stockholder of Ivory International Inc.:	
Payable on or before August 31, 2001	1,061,592
Long-Term Borrowings at June March 31, 2001 consisted of the following:	
Due to shareholders of Object Xperts Inc.:	411,717
Due to Parent Company	5,000,000
Due to former stockholder of Ivory International Inc.	1,683,605

7. Issue of Common Stock

During the year the company issued 42,575,000 shares of US $ 1 each aggregating US $ 42,575,000 for cash consideration to its parent, ICICI Infotech Services Ltd.,

8. Subsequent Event

On April 5, 2001 the Company terminated its employment agreement with the former shareholder of Ivory International, Inc. and consequently the Company pre-paid the balance of the fixed consideration of US $ 3,000,000. The additional purchase consideration of US $ 2,000,000 contingent upon achieving certain performance targets is not payable. In accordance with APB 26, the cost of early extinguishment of this debt will be reflected in the next fiscal year.

9. Fixed Assets

	US$
Fixed assets consisted of the following:	
Furniture, Fixtures and Equipment	1,237,381
Leasehold Improvements	269,117
	1,506,498
Less Accumulated Depreciation	30,061
	1,476,437

10. Goodwill and Acquired Intangibles

Goodwill	
Original Cost	29,788,875
Less Accumulated Amortization	1,157,910
	28,630,965
Other Customer and Employee Contracts	
Original Cost	2,892,055
Less Accumulated Amortization	433,809
	2,458,246

11. Income Taxes

		US$
Components of the income tax provision (benefit) for income taxes follow:		
Current		49,233
Deferred		
Deferred tax Assets	2,108,768	
Deferred tax Liabilities	33,000	
Less Valuation Allowance	2,075,768	
Net deferred tax Asset		—
Total provision for Income Taxes		49,233

12. Commitments

The Company has long-term operating leases for various office facilities and equipment. Future minimum lease payments at March 31, 2001 for these leases net of minimum rentals to be received are as follows:

2002	US$ 747,388
2003	615,800
2004	532,066
2005	516,072
2006	258,036

13. Risks and Uncertainties of Doing Business

Many of the Company's engagements involve projects that are critical to the operations of its customers' businesses and provide benefits that may be difficult to quantify. Any failure in a customer's system could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from errors, mistakes or omissions in rendering its information technology services, there can be no assurance that the limitations of liability set forth in its services contracts will be enforceable in all instances or would otherwise protect the Company from liability for damages. Although the Company maintains general liability insurance coverage, including coverage for errors or omissions in the amount of US$5.0 million, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the Company that exceed available insurance coverage, or changes in the Company's insurance policies, including premium increases, or the imposition of large deductible or co-insurance requirements, could adversely affect the Company's business, financial condition and results of operations.