



**CHALLENGES**  
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**EMINENT**



## ***Board of Directors***

Mr. Venkat S Meenavalli	Chairman and Managing Director
Mr. K. Bhaskara Reddy	Executive Director
Mr. P. Srinivasu	Executive Director
Mr. P. Parthasarathi	Independent Director
Mr. T. Naresh Kumar	Independent Director
Mr. Y. Ramesh	Independent Director
Mr. Anil K. Singh	Chief Financial Officer
Mr. Y. Sreekanth Reddy	Company Secretary & Compliance Officer

### ***Registered office***

3rd Floor, Block 'B'  
Laxmi Cyber City  
Kondapur, Hi-tech City  
Madhapur,  
Hyderabad-500084, India  
Tel: +91-40-6653 4444  
Fax:+91-40-6653 4455  
URL: [www.northgatetech.com](http://www.northgatetech.com)

### ***Statutory Auditors***

M/s B S R and Company  
Chartered Accountants  
Reliance Humsafar, IV Floor,  
Road No.11, Banjara Hills,  
Hyderabad-500034  
Tel: +91-40-6630 5000  
Fax:+91-40-6630 5299

### ***Internal Auditors***

M/s Agarwal & Italia  
Chartered Accountants  
Suite 'H', 5th Floor  
Surya Towers, S.P. Road  
Secunderabad  
Tel: +91-40-2784 8700  
Fax:+91-40-2781 8165

### ***Bankers***

Axis Bank Limited  
HSBC Limited

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 18th Annual General Meeting of the Members of Northgate Technologies Limited will be held **on Thursday, the 30th day of September 2010 at 04.30 p.m. at Bhaskara Auditorium, BM Birla Museum, Adarsh Nagar, Hyderabad – 500 063** to transact the following business:

1. To receive, consider and adopt the audited Balance Sheet as at March 31, 2010 and the audited Profit and Loss Account for the year ended as on that date together with the Report of the Auditors and the Board of Directors thereon.
2. To appoint a Director in place of Mr. Y.Ramesh, Director who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. T. Naresh Kumar, Director who retires by rotation and being eligible, offers himself for re-appointment.
4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

“RESOLVED THAT M/s B S R and Company, Chartered Accountants, Hyderabad be and are, hereby appointed as Statutory Auditors of the Company for the period commencing from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting, on such remuneration as may be mutually agreed upon between the Board of Directors and Auditors.”

### SPECIAL BUSINESS

5. ***To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:***

“RESOLVED THAT pursuant to the provisions of Section 257 of the Companies Act, 1956, Mr. P.Srinivasu, who was appointed as an Additional Director during the year be and is hereby appointed as a Director liable to retire by rotation”.

6. ***To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:***

“RESOLVED THAT pursuant to the provisions of Sections 198,269,309,310,311 read with Schedule XIII to the Act, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification, amendment or re-enactment thereof) and subject to such approvals as may be necessary, the consent, permission, and approval of the members of the company be and is hereby accorded to the appointment of Mr.P.Srinivasu as an Executive Director of the company, for a period of three years with effect from January 29, 2010 to discharge the functions, duties, responsibilities delegated by the Board of Directors from time to time and such other acts as may be required as per applicable Laws, Acts, Regulations, at a remuneration as set out below:

- a) Salary: Rs. 24,00,000 per annum
- b) Statutory contributions, if any

“RESOLVED FURTHER THAT Mr. P.Srinivasu, is also be entitled for reimbursement of actual entertainment, traveling, boarding and lodging expenses incurred by him in connection with the Company’s business and such other benefits/ amenities and other privileges, as any from time to time, be available to other Executives of the Company.”

“RESOLVED FURTHER THAT the Board be and is hereby authorized to vary, alter or modify the different components of the above remuneration as may be agreed to by the Board of Directors and Mr. P.Srinivasu.”

“RESOLVED FURTHER THAT in case of absence or inadequacy of profits for any financial year, Mr. P.Srinivasu shall be paid remuneration as per Section II of Part II of Schedule XIII to the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) as may be applicable from time to time.”

**7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution.**

“RESOLVED THAT pursuant to, the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (the “Act”) (including any statutory modification(s) or re-enactment thereof, for the time being in force), the applicable rules, regulations and guidelines of the Securities and Exchange Board of India Guidelines, 2000 (“Guidelines”), the applicable provisions of Foreign Exchange Management Act, 1999 (“FEMA”), Foreign Exchange Management (Transfer or issue of Security by a Person Resident Outside India) Regulations, 2000, Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) scheme, 1993, the enabling provisions of the Memorandum and Articles of Association of the company and the Listing Agreements entered into by the company with the Stock Exchanges where the shares of the company are listed, and subject to requisite approvals, consents, permissions, and/or sanctions, if any, of Ministry of Finance (Department of Economic Affairs), Ministry of Industry (Foreign Investment Promotion Board/Secretariat for Industrial Assistance), SEBI, the Stock Exchanges, Reserve Bank of India (“RBI”), and all other authorities as may be required, whether in India or outside India, (hereinafter collectively referred to as “Requisite Approvals”), which may be agreed to by the Board of Directors of the company (hereinafter referred to as the ‘Board’ which term shall be deemed to include any committee thereof which the Board may have constituted or hereinafter constitute to exercise its powers including the powers conferred by this resolution), the consent, permission, authority and approval of the Members of the company be and is hereby accorded to the Board at their absolute discretion to create, offer, issue and allot, from time to time in one or more tranches, whether rupee denominated or denominated in foreign currency, in consultation with the Lead Manager(s) and/or Underwriter(s) and/or Advisor(s), wherever required, (a) Foreign Currency Convertible Bonds (FCCBs)/ Foreign Currency Exchangeable Bonds (FCEBs) and/or other securities convertible, at the option of the company and/or entitling holder thereof to apply and convert at his option into equity shares with or without voting/special rights and/or (b) other securities convertible into or exchangeable with or linked to equity shares, and/or (c) Non convertible securities with or without detachable warrants, and/or (d) Warrants with a right exercisable by the warrant holder to convert or subscribe to the equity shares and/or (e) any shares, instruments or securities of the company through Global Depository Receipts (GDRs), American Depository Receipts (ADRs) or equity shares through depository receipt mechanism, participatory notes or otherwise (all hereinafter collectively referred to as “Securities”) and/or any combination of securities, secured or unsecured, whether listed on any stock exchange in India or any international stock exchange outside India, to any person including Qualified Institutional Buyers, Foreign Institutional Investors, Foreign, non resident, domestic institutions, institutional investors, banks, mutual funds, companies, bodies corporate or other entities, individuals or other persons (collectively referred to as “Investors”), whether or not such investors are members of the company for an aggregate amount not exceeding Rs.50 Crores (Rupees Fifty Crores only) or equivalent thereof in one or more foreign currency, inclusive of such premium as may be fixed on such Securities by offering the securities in one or more countries through public offer and/or offer letter and/or placement document and/or circular and/or information memorandum and/or such other document writings, and/or private placement basis and/or combination thereof in such manner, on such terms and conditions and at such time(s) as may be determined by the Board in its absolute discretion, with power to settle details as to the form and terms of issue of the Securities and all other terms, conditions and matters connected therewith including to accept any modification thereto or therein as may be required by concerned authorities and/or persons involved with any such issue of securities subject, however, to all applicable laws and regulations.”

“RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot equity shares pursuant hereto and/or as may be required to be issued and allotted upon conversion of any of the securities referred to above or as may be necessary in accordance with the terms of offering thereof and all equity shares so issued and allotted shall be subject to the Memorandum and Articles of Association of the company and shall rank pari passu in all respects with the existing equity shares of the company.”

“RESOLVED FURTHER THAT for the purpose of giving effect to the above resolutions and any offer, issue and allotment of Securities, the Board be and is hereby authorized to take all such actions, give such directions and to do all such acts, deeds and things as may be necessary, desirable or incidental thereto and matters connected therewith including without limitation entering into of arrangements for underwriting, marketing, listing, trading, appointment of Lead Manager(s), Advisor(s), Registrar(s), paying and conversion agent(s) and to issue and sign all deeds, documents, instruments and writings and to pay any fees, commission, costs, charges and other outgoings in relation thereto and to settle all questions, and to give such direction that may be necessary or arise in regard to or in connection with any such offer, issue or allotment of securities and utilization of the issue proceeds, as it may, in its absolute discretion, deem fit and any such action, decision or direction of the Board shall be binding on all members.”

“RESOLVED FURTHER THAT the Board or a Committee thereof be and is hereby authorized to finalize and approve the preliminary as well as the final offer document for the proposed issue and to authorize any one or more Directors of the company to sign all documents, together with the authority to amend, vary, modify the same as such authorized persons may consider necessary, desirable, or expedient for the purpose aforesaid to give such declarations, affidavits, certificates, consents, authorities as may be required from time to time.”

“RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take such steps and do all such other acts, deeds and things as may be necessary or desirable to give effect to this resolution.”

By order of the Board

Place: Hyderabad  
Date: 01 September 2010

Y. Sreekanth Reddy  
Company Secretary

#### NOTES:

- 1. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy (whether member or not) to attend and vote instead of him or her. A proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the commencement of the meeting. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he or she so wishes.**
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the special business is annexed hereto.
3. Members / Proxies should bring the attendance slips filled in for attending the meeting.
4. The Register of Members and Share Transfer Books of the Company will be closed from September 28, 2010 to September 30, 2010, inclusive of both dates.
5. Members desiring any additional information about the company are requested to inform to the Company at least seven days before the date of the meeting to keep the information available at the meeting.
6. The certificate of the Auditors of the Company certifying the implementation of the Company's Stock Option Plans in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 and in accordance with the resolution passed by the members in the General Meetings, will be available at the venue of the Annual General Meeting for inspection by members.

**Additional Information in respect of Directors Recommended for Appointment / Seeking Re-election at the ensuing Annual General Meeting.**

**Mr. T. Naresh Kumar**

Mr. T.Naresh Kumar, aged 49 years, is an Engineering Graduate and has over 12 years of experience in various industries.

**Mr. Y. Ramesh**

Mr. Y. Ramesh, aged 49 years, is a Commerce Graduate and has over 11 years of entrepreneurial experience.

**Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 are as follows:**

**Item No.(s) 5 and 6:**

Mr.P.Srinivasu was appointed as Director (Operations) of the Company in the Board Meeting held on January 29, 2010.

Pursuant to Section 257 of the Companies Act, 1956, the Company has received notice from the member along with the requisite deposit signifying his intention to propose the appointment of Mr.P.Srinivasu as a Director of the Company, liable to retire by rotation.

The Board of Directors on January 29, 2010 has appointed Mr.P.Srinivasu as Director (Operations) of the company. The Remuneration committee has approved the remuneration of Mr.P.Srinivasu which is within the limits of Part II of Schedule XIII of the Companies Act, 1956. The Board in its meeting held on June 21, 2010 designated him as Executive Director. As per the provisions of the Companies Act, 1956 the appointment and remuneration requires the approval of members in General Meeting. The Profile of Mr.P.Srinivasu is given below:

Mr. P. Srinivasu, aged 44 is an Engineering Graduate and has over 17 years of experience in various fields. He has more than 10 years of experience in Online Advertising Industry. Before joining the Board, he worked as Vice President (Operations) of the company.

**I. General Information:**

- (1) Nature of industry: **IT and ITES**
- (2) Date or expected date of commencement of commercial production: **11.06.1991**
- (3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus. **Not Applicable**
- (4) Financial performance based on given indicators: **For the FY ended March 31, 2010 Company had Net Loss of Rs.9,876.96 Lakhs and as of March 31, 2010 Networth was Rs.216.02 Lakhs as per Standalone financial statements**
- (5) Export performance and net foreign exchange collaborations: **For the FY ended March 31, 2010 Rs.795.64 Lakhs**
- (6) Foreign investments or collaborators, if any. **As of March 31, 2010 Rs.4,478.36 Lakhs**

**II. Information about the appointee:**

- (1) Background details: **B.E. from Nagpur University, India; 17 years of experience in various fields including 10 years of experience in Online Advertising industry**
- (2) Past remuneration: **Rs.18 Lakhs per annum**
- (3) Recognition or awards: **NIL**
- (4) Job profile and his suitability: **Appointee holds a B.E. Degree from Nagpur University and has over 17 years of experience in various fields including 10 years of Experience in Online Advertising Industry**
- (5) Remuneration proposed: **Rs.24 Lakhs per annum**
- (6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin): **Mr. R. Srinivasan, Managing Director of Redington (India) Limited drawing a remuneration of Rs.43.08 lakhs per annum in the comparative industry**
- (7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any. **Not Applicable**



### III. Other information:

- (1) Reasons of loss or inadequate profits: **Significant scaling down of operations including closure of operation at different locations**
- (2) Steps taken or proposed to be taken for improvement: **Restructuring of operations to optimise cost, expenses and improve revenues was undertaken during the previous and current FY**
- (3) Expected increase in productivity and profits in measurable terms. **Expecting revenues to improve in the current FY and minimise losses**

### IV. Disclosures:

- (1) The shareholders of the company shall be informed of the remuneration package of the managerial person: **Given in the Annual Report 2009-10**
- (2) The following disclosures shall be mentioned in the Board of director's report under the heading "Corporate Governance", if any, attached to the annual report:-
  - (i) All elements of remuneration package such as salary, benefits, bonuses, stock options, pension etc. of all the directors; **Company provides all the required information in its Annual Reports**
  - (ii) Details of fixed component and performance linked incentives along with the performance criteria; **Only fixed component and no performance linked incentive proposed**
  - (iii) Service contracts, notice period, severance fees; **Company not entered service agreement with the appointee, One Month, Nil**

The Board of Directors recommends the resolutions setout at Item No. 5 & 6 for the approval of the members.

Except Mr.P.Srinivasu none of the Directors of the company is, in any way, concerned or interested in the proposed Resolution.

#### **Item No.7**

For the purpose of (i) Capital Expenditure (ii) New Product development (iii) Setting up of owned facilities (iv) Acquisition of businesses and (v) Working Capital and general corporate requirements, your Company is proposing to issue Equity Shares, GDRs, FCCBs, and such other securities convertible into equity shares or a combination thereof.

For the above purposes, your company plans to raise upto Rs.50 Crores (Rupees Fifty Crores only) through a combination of equity/quasi equity instruments and therefore proposes issue of Equity Shares/ADRs/ GDRs/FCCBs/ECBs/FCEBs and such other securities convertible into equity shares or a combination thereof. The actual composition of various instruments will be decided by the company in consultation with the Merchant Bankers/Investment Bankers and as per the requirements of the funds from time to time and such offer shall be made to any person including Domestic/Foreign Investors/Foreign Institutional Investors, Qualified Institutional Buyers, Trusts, Mutual Funds, Banks, Insurance Companies, Pension Funds, retail public, whether shareholders of the company or not, at a price which shall not be lower than the price as prescribed under applicable SEBI guidelines, if any.

Accordingly, the consent of the members is being sought, pursuant to the provisions of Section 81(1A) and other applicable provisions of the Companies Act, 1956, and SEBI (Disclosure and Investor Protection) Guidelines, 2000, and in terms of the provisions of the Listing Agreements, to issue and allot equity shares as stated in the Special Resolution.

The Board of Directors recommends the resolution for the approval of the members.

None of the Directors of the Company is, in any way, concerned or interested in the proposed Resolution.

By order of the Board

Place : Hyderabad  
Date : 01 September 2010

Y.Sreekanth Reddy  
Company Secretary

## DIRECTORS' REPORT

Dear Members,

The Board of Directors take pleasure in presenting their report for the financial year ended March 31, 2010.

### Financial Highlights

Particulars	<i>(Amount Rs. In lakhs)</i>			
	<u>Consolidated</u>		<u>Standalone</u>	
	<u>For the Year ended March 31</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues . . . . .	7,446.34	56,034.27	795.64	1,299.71
Less: Cost of Revenues . . . . .	8,410.85	35,681.56	394.12	517.33
Gross Profit . . . . .	(964.51)	20,352.71	401.52	782.38
Selling and Marketing Expenses. . . . .	2,205.49	9,184.16	8.98	6.66
General and Administrative Expenses. . . . .	1,090.82	1,163.21	263.46	271.85
Bad and doubtful debts written off . . . . .	1,873.42	15,734.02	-	-
Advances written off. . . . .	75.44	527.94	34.66	-
Impairment loss . . . . .	6,136.99	15,986.09	-	-
Fixed assets discarded, net. . . . .	81.93	471.78	-	-
Loss on abandonment of assets . . . . .	-	-	81.93	290.89
Provision for bad and doubtful debts . . . . .	151.85	2,056.07	-	-
Provision for doubtful deposits . . . . .	-	102.00	-	-
Provision for decline in the value of long term investments . . . . .	-	-	9,433.11	26,277.37
Operating Profit / (Loss) before interest, depreciation and amortization. . . . .	(12,580.45)	(24,872.56)	(9,420.62)	(26,064.39)
Financial Expenses. . . . .	24.38	99.41	87.89	4.15
Depreciation and Amortization . . . . .	2,940.83	7,157.57	112.12	161.20
Operating Profit / (Loss) before tax . . . . .	(15,545.66)	(32,129.54)	(9,620.63)	(26,229.74)
Other Income . . . . .	1,192.19	1,809.67	0.32	1,025.10
Net Profit / (Loss) before Taxation . . . . .	(14,353.47)	(30,319.87)	(9,620.31)	(25,204.64)
Provision for Taxation . . . . .	278.56	(772.20)	256.65	102.49
Net Profit / (Loss) after Tax before prior period expenses . . . . .	(14,632.03)	(29,547.67)	(9,876.96)	-
Prior period expenses . . . . .	66.41	-	-	-
Net Profit / (Loss) after prior period expenses. . . . .	(14,698.44)	(29,547.67)	(9,876.96)	(25,307.13)
Share of Minority Interest . . . . .	-	3.87	-	-
Net Profit / (Loss) for the year. . . . .	(14,698.44)	(29,543.80)	(9,876.96)	(25,307.13)
Transfer to General Reserve . . . . .	-	-	-	-
Earnings per share (Rs.) . . . . .				
- Basic - par value Rs. 10 per share . . . . .	(41.97)	(84.54)	(28.20)	(72.42)
- Diluted - par value Rs. 10 per share . . . . .	(41.97)	(84.54)	(28.20)	(72.42)
Dividend Rate (%) . . . . .	-	-	-	-
Paid up Equity Share Capital . . . . .	3,514.71	3,514.71	3,514.71	3,514.71

### Financial Overview

During the financial year (FY) under review, the company incurred Net loss of Rs.14,698.44 Lakhs as against net loss of Rs.29,547.67 Lakhs in the previous year on consolidated basis. The Company's consolidated EPS for the year was Rs.(41.97) as against Rs.(84.54) for the previous financial year. Management Discussion and Analysis forming part of this director's report includes detailed review of the financial performance of the Company.

The revenues of the Group derived from its Online Advertising segment has declined to Rs.3,305.94 lakhs during the FY, as compared to Rs.56,034.27 lakhs in the previous year. Further, the Group has incurred losses of Rs.14,673.92 lakhs during the FY and its net-worth as at 31st March, 2010 reduced to Rs.1,748.85 lakhs as compared to Rs.16,511.49 lakhs as at 31st March, 2009. During the FY, the Group initiated the sale of certain internet-based intellectual properties. There has been no closure of the transaction so far.

As part of its ongoing restructuring exercise which commenced during the previous financial year, the Group has scaled down its internet related business considerably. In March, 2010, the Group decided to liquidate its UK based subsidiary, Axill Europe Limited (AEL) the process for which is currently being implemented. Consequently, the Group recorded an impairment charge of Rs.6,420.75 Lakhs, relating to the write down of the carrying values of fixed assets held by AEL to its estimated recoverable values. The Group has estimated the recoverable values of the fixed assets based on initial discussions with potential buyers.

Notwithstanding the significant decline in net-worth which is on account of operating losses, write-down in fixed assets in Axill Europe Limited (as explained above) as well as provision/write-off of bad and doubtful debtors, recorded during the FY ended March, 2010. The Group believes that with the considerable scaling of its internet-related business, it has attained a sustainable scale of operations which will generate operating cash flows sufficient to meet its ongoing expenses. No further write-down of fixed assets is expected and current assets and liabilities are expected to be realized and settled in the normal course. Further, the Group also believes that the scaled down operations are capable of sustaining in the foreseeable future. On the basis of the above, the Group believes that the going concern assumption is valid and the online advertising segment is a continuing business segment.

### **Dividend**

No dividend for the FY 2009-10 was recommended by the Board of Directors.

### **Explanation to the Auditors Qualification**

The Group commenced Securities Trading on 10<sup>th</sup> December, 2009 through its subsidiary VAR Quant Tech Securities Private Limited (Var Quant). The main object of Var Quant is to be an Non-Banking Financial Company (NBFC). Under Section 45(IA) of the Reserve Bank of India (RBI) Act, a NBFC requires compulsory registration with the RBI and is not allowed to commence financial activities without obtaining a certificate from RBI. Var Quant has not obtained such prior registration and is therefore in contravention of the RBI guidelines. On realizing the default, VAR Quant has discontinued such trading activities and applied to the regulatory authorities. As on 01 September 2010 VAR Quant obtained Sub-Broker Licence from Securities Exchange Board of India (SEBI) to trade in The National Stock Exchange of India (NSE) and hence permitted to do securities trading activities.

In case of securities trading business carried out through Var Quant, the Group records the purchase and sale transactions (Rs.4,142.99 lakhs and Rs.4,140.40 lakhs respectively) of securities on a gross basis under “Cost of Revenues” and “Revenues” respectively. In the absence of a prescribed mandatory definite accounting treatment under Indian GAAP, the Company believes that a gross presentation fairly represents the underlying nature and substance of the intra-day securities trading activities undertaken during the year.

### **Directors**

During the year under review the Board co-opted Mr. P. Srinivasu and Mr. K. Sujith Kumar as additional directors of the Company, who shall hold office up to the date of ensuing Annual General Meeting. The Board in the best interest of the Company recommends the appointment of Mr. P. Srinivasu as Director, liable to retire by rotation. The requisite notice along with the prescribed fee has been received from the member under Section 257 of the Companies Act, 1956 proposing the candidature of Mr. P. Srinivasu as Director liable to retire by rotation. Mr. K. Sujit Kumar not opted himself for reappointment.

Mr. T. Naresh Kumar and Mr. Y. Ramesh, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

### **Human Resources**

As of March 31, 2010, the Company and its wholly owned subsidiaries employed 92 people out of whom 86 people were located in India. We take adequate steps to ensure that compensation and benefits packages, working environment, professional and personal development are of global standards and are in line with organizational objective.

## **Fixed Deposits**

The Company has not accepted any deposit within the meaning of Section 58A of the Companies Act, 1956 and the rules made there under.

## **Auditors**

The Statutory Auditors M/s B S R and Company retires at this Annual General Meeting. The Board of Directors recommends appointment of M/s. B S R and Company, as Statutory Auditors of the Company for the FY 2010-11.

## **Listing**

The Shares of the Company are listed on The National Stock Exchange of India Limited (NSE). The equity shares of the Company are permitted for trading with Bombay Stock Exchange Limited under INDONEXT model. The listing fee for the year 2010-11 has already been paid to the NSE.

## **Wholly Owned Subsidiaries (WOS)**

### ***Northgate Investments Pte Limited (NIPL)***

NIPL is a Singapore based group Investment holding Company and carries no other activities.

### ***Globe7 Pte Limited (GPL)***

GPL is a Singapore based group Intellectual Property Holding Company in which all the Group's intellectual property assets are held. GPL entered into worldwide, product by product licenses with other entities in the group that do business involving the intellectual property assets. GPL also carries online advertising business activities. GPL is a wholly owned subsidiary of NIPL. For the FY'10 GPL recorded revenues of Rs.279.36 lakhs and Net Loss of Rs.2,079.11 lakhs.

### ***Axill Europe Limited, UK (AEL)***

AEL is a London based wholly owned subsidiary of GPL. AEL owns group server farm located at Stratford, London. For the FY'10 AEL recorded revenues of Rs.303.04 lakhs and Net Loss of Rs.9,213.62 lakhs. AEL is under the process of voluntary liquidation. The creditors in the meeting held on 23.06.2010 approved the liquidation of the AEL.

### ***Globe7 HK Limited, Hongkong (GHL)***

GHL is a Hong Kong based wholly owned subsidiary of GPL. For the FY'10 GHL recorded revenues of Rs.1,180.40 lakhs and Net Loss of Rs.2,070.78 lakhs.

### ***Social Media India Limited (SMIL)***

SMIL is a India based wholly owned subsidiary of GPL. For the FY'10 SMIL recorded revenues of Rs. 2,025.59 lakhs and loss of Rs.994.16 lakhs.

### ***Globe 7Americas Inc., USA***

Globe 7 Americas Inc., is a wholly owned subsidiary of GHL. Globe 7 Americas Inc., is under the process of voluntary liquidation.

### ***VAR Quant Tech Securities Private Limited (VAR)***

For the FY'10 VAR recorded revenues of Rs.4140.40 lakhs and Net Loss of Rs.15.46 lakhs.

The main object of VAR is Securities and Derivatives trading. VAR commenced Securities Trading on 10<sup>th</sup> December, 2009. VAR obtained Sub-Broker license from SEBI to carry securities trading in the NSE as on 1<sup>st</sup> September, 2010.

### ***Globe 7 UK Limited (Globe 7 UK)***

Globe 7 UK was incorporated on 8th April, 2010. Globe 7 UK owns group server farm located at Connexions 4 London Ltd, London.

### **Particulars under Section 212 of the Companies Act, 1956**

The Ministry of Corporate Affairs has granted exemption from complying with the provisions of Section 212 of the Companies Act, 1956 as the audited consolidated financial statements is presented in the Annual Report. Accordingly, the Annual Report does not contain the financial statements of the subsidiaries. The audited financial statements and related information of subsidiaries, wherever applicable, will be provided to the members upon request. Also the documents as per Section 212 of the Companies Act, 1956 is available for inspection during business hours at the registered office at Hyderabad, India, for the members of the company.

### **Employee Particulars**

None of the employees are in receipt of the remuneration as set out under Section 217(2A) of the Companies Act, 1956 and as such the statement as required under Section 217(2A) of the Companies Act, 1956, is not applicable.

### **Employee Stock Option Plans**

Disclosures in accordance with Clause 12 of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 are provided in the Annexure 'A' forming part of this report.

### **Corporate Governance**

In accordance with Clause 49 of the Listing Agreement, a report on Corporate Governance along with the Practicing Company Secretary Certificate on compliance of conditions of Corporate Governance is annexed herewith and forms part of this report.

### **Director's Responsibility Statement**

We the Directors of Northgate Technologies Limited, confirm the following:

- (i) that in the preparation of the annual accounts, applicable accounting standards had been followed along with the proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- (iii) that 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;
- (iv) that the Directors had prepared the annual accounts on a going concern basis.

### **Conservation of energy, research and development, technology absorption and foreign exchange earnings and outgo**

The particulars as required under section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are provided in the Annexure 'B' forming part of this report.

### **Acknowledgements**

Your Directors thank all the members, investors, business associates, service providers, banks, customers and regulatory and Governmental authorities for their continued support. Your Directors place on record their appreciation of the contributions made by every employee of the Company.

For and on behalf of the Board

Place: Hyderabad  
Date: 01 September 2010

Venkat S Meenavalli  
Chairman and Managing Director

## ANNEXURE – A

Disclosures in compliance with Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as amended, are set below.

<u>Sl.No.</u>	<u>Particulars</u>	<u>ESOP-2006 and RSOP-2007</u>
a.	Options outstanding at the beginning of the year . . . . .	2,149,000
	Options granted during the year . . . . .	0
b.	Pricing formula . . . . .	The Exercise Price of the option shall be the closing market price of the equity share preceding the date of grant of options on the Stock Exchange on which the shares of the company are listed.
c.	Options vested till March 31, 2010 . . . . .	677,550
d.	Options exercised . . . . .	Nil
e.	Total number of equity shares arising as a result of exercise of options. . . . .	Nil
f.	Options lapsed / forfeited during the year . . . . .	450,500
g.	Variation in terms of options . . . . .	None
h.	Money realized on exercise of options (Rs. In lakhs) . . . . .	NA
i.	Total number of options in force . . . . .	1,694,500
j.	Employee wise options granted to:	
	• Senior Management . . . . .	Nil
	• any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year. . . . .	Nil
	• employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding warrants and conversions) of the company at the time of grant . . . . .	Nil
k.	Diluted earnings per share pursuant to issue of shares on exercise of option calculated in accordance with AS 20 'Earnings per Share. . . . .	Rs.(28.20)
l.	Description of method and significant assumptions used to estimate the fair value of options. . . . .	The fair value of the options granted has been estimated using the Black-Scholes option pricing Model. Each tranche of vesting have been considered as a separate grant for the purpose of valuation.

For and on behalf of the Board

Place: Hyderabad  
Date: 01 September 2010

Venkat S Meenavalli  
Chairman and Managing Director

## ANNEXURE – B

1. Conservation of Energy: The Company uses electric energy for its operations such as air conditioner, computer terminals, lighting and utilities in the work premises. All possible measures have been taken to conserve the energy.
2. Research and Development: Your Company has a modern R&D facility with a state-of-the-art Technology centre working on various R&D project.
3. Technology absorption, Adaptation and Innovation: Your Company continues to use state-of-art technology for improving the productivity and quality of its products and services. To create adequate infrastructure, the company continues to invest in the latest hardware and software.
4. Foreign Exchange Earnings and Outgo

*(Rs. in lakhs)*

	<b>For the Year ended March 31</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Foreign Exchange Earnings . . . . .	795.64	1,299.71
Foreign Exchange outgo . . . . .	20.39	51.28

For and on behalf of the Board

Place: Hyderabad  
Date: 01 September 2010

Venkat S Meenavalli  
Chairman and Managing Director

## REPORT ON CORPORATE GOVERNANCE

### 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Philosophy of Northgate Technologies Limited on corporate governance envisages the attainment of the highest level of transparency, accountability and equity, in all facets of its operations and in its interaction with its stakeholders including the members, shareholders, employees, the Government and other regulatory authorities. Northgate is committed to achieving the highest standards of corporate governance. Northgate believes that all its operations and actions must serve the underlying goal of enhancing the overall shareholders value, on a continuous basis.

### 2. BOARD OF DIRECTORS

The Board of directors of the company has an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors. The company has an Executive Chairman and 50% of the Board consisting of independent and Non-Executive Directors.

#### (a) Composition and Category of Board of Directors

<u>Category</u>	<u>No. of Director</u>	<u>% of Total Board</u>
Promoter, Executive and Non-Independent Director . . . . .	02	34%
Executive and Non-Independent Director . . . . .	01	16%
Non-Executive and Independent Directors . . . . .	03	50%
Total . . . . .	06	100%

#### (b) Attendance of each Director at the Board Meetings held during FY 2009-10 and at the Last Annual General Meeting

The Board of Directors met nine times during the FY 2009-10 on April 15, 2009; May 15, 2009; May 23, 2009; July 31, 2009; September 01, 2009; October 30, 2009; December 10, 2009; January 29, 2010; and February 15, 2010.

<u>Name and Designation of the Director</u>	<u>No. of Board Meetings Attended during the year</u>	<u>Attendance at last AGM the year (Yes\No)</u>
Mr. Venkat S Meenavalli, Chairman and Managing Director	09	Yes
Mr. K. Bhaskara Reddy Executive Director . . . . .	09	Yes
Mr. P. Parthasarathi Independent Director . . . . .	09	Yes
Mr. T. Naresh Kumar Independent Director . . . . .	09	Yes
Mr. Y. Ramesh Independent Director . . . . .	09	Yes
Mr. P. Srinivasu@ Executive Director . . . . .	02	N.A.
Mr. K. Sujit Kumar* Additional Director	Nil	N.A.

@ Appointed as Director with effect from January 29, 2010 as Director (Operations) and redesignated as Executive Director on June 21, 2010.

\* Appointed as Additional Director on January 29, 2010.



**(c) Number of other Boards or Board Committees in which Directors are Member or Chairperson**

<u>Name of the Director</u>	<u>Board<sup>@</sup></u>		<u>Committee</u>	
	<u>Chairman</u>	<u>Director</u>	<u>Chairman</u>	<u>Member</u>
Mr. Venkat S Meenavalli	Nil	03	Nil	Nil
Mr. K. Bhaskara Reddy	Nil	01	Nil	Nil
Mr. P. Parthasarathi	Nil	03	03	03
Mr. T. Naresh Kumar	01	03	03	03
Mr. Y.Ramesh	Nil	Nil	03	03
Mr. P.Srinivasu	Nil	01	Nil	Nil

*@Directorships in Foreign Companies are excluded*

**3. Audit Committee**

The Audit Committee was constituted in terms of Section 292A of the Companies Act, 1956 and as per the provisions of Clause 49 of the Listing Agreement. The Audit Committee consists of Independent Directors and provides assistance to the Board of Directors in fulfilling its overall responsibilities. The Company Secretary of the Company act as Secretary of the Committee.

**(a) Brief description of terms of reference;**

The terms of reference of the Audit Committee is in conformity with the provisions of Clause 49 of the Listing Agreement which inter alia, includes the following:

- Overseeing of the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible;
- Reviewing the adequacy of internal audit functions;
- Reviewing the quarterly and annual financial statements before submission to the Board;
- Reviewing the adequacy of internal control and their compliance thereof; and
- Reviewing the company's financial and risk management policies.

**(b) Composition, name of members and Chairperson**

The Composition of the Audit Committee is as follows:

Mr. P. Parthasarathi . . . . .	Chairman
Mr. T. Naresh Kumar . . . . .	Member
Mr. Y. Ramesh . . . . .	Member

**(c) Meetings and attendance during the year**

During the FY 2009-10, the Audit Committee met 5 times on April 15, 2009; May 15, 2009; July 31, 2009; October 30, 2009 and January 29, 2010. Mr. P. Parthasarathi, Chairman of the Committee attended the last Annual General Meeting and addressed the queries of shareholders.

<u>Name of the Director</u>	<u>No. of meetings attended</u>
Mr. P. Parthasarathi . . . . .	5
Mr. T. Naresh Kumar . . . . .	5
Mr. Y. Ramesh . . . . .	5

**4. Compensation / Remuneration Committee**

**(a) Brief description of terms of reference;**

The terms of reference of the Compensation Committee, inter alia include determination of compensation package of Executive Directors and Senior Management of the Company and to frame policies and procedures for Employee Stock Option plans approved by the members of the company.

**(b) Composition, name of members and Chairperson:**

The Composition of Remuneration Committee is as follows:

**Name of the Director**

Mr. P. Parthasarathi . . . . .	Chairman
Mr. Y. Ramesh . . . . .	Member
Mr. T. Naresh Kumar . . . . .	Member

**(c) Meetings and Attendance during the year**

During the FY 2009-10, the Compensation Committee met once on January 29, 2010.

<b><u>Name of the Director</u></b>	<b><u>Meetings attended</u></b>
Mr. Y. Ramesh . . . . .	01
Mr. P. Parthasarathi . . . . .	01
Mr. T. Naresh Kumar . . . . .	01

**(d) Remuneration policy**

The Company has a credible and transparent policy in determining and accounting for the remuneration of the Executive/ Non executive Directors. Their remuneration is determined in accordance with the experience and nature of responsibilities as well as industry standards. The same is subject to the approval of the Remuneration Committee of the Board of Directors and the members.

**(e) Details of Remuneration to Directors**

The Non-Executive Directors has not been paid any remuneration except sitting fees for attending the Board Meetings. The details of remuneration paid to the Whole time Directors including the Managing Director during the FY 2009-10 are as follows:

<b><u>Name of the Director</u></b>	<b><u>Relationship with other directors</u></b>	<b><u>Salary (Rs.)</u></b>
Mr. Venkat S Meenavalli, Chairman and Managing Director . . . . .	Nil	36,00,000
Mr. K. Bhaskara Reddy, Executive Director . . . . .	Nil	24,00,000
Mr. P. Srinivasu, Executive Director . . . . .	Nil	4,00,000
Total . . . . .		64,00,000

**5. Shareholders / Investor Grievance Committee:**

The Investors' Grievance Committee focuses on shareholders' grievances and strengthening of investor relations. The functions of the committee include the redressal of shareholders/investor complaints/grievances pertaining to transfers/transmissions of shares, dividend, and dematerialization of shares, replacement of lost/stolen/mutilated share certificates and other related issues. There are no complaints pending as on the date of this report. The Committee comprised of Mr. Venkat S. Meenavalli, Chairman and Mr. K. Bhaskara Reddy, Mr. Y.Ramesh as Members.

The details of investor's complaints received and resolved during the financial year 2009-10 is as under.

<b><u>No. of Investor's Complaints received during the FY 2009-10</u></b>	<b><u>No. of Investor's Complaints resolved during the FY 2009-10</u></b>	<b><u>Investor Complaints pending at the end of FY 2010</u></b>
14	14	None

## 6. General Body Meeting

### (a) Details of date, time and venue of the last three Annual General Meetings of the Company

<u>Financial year ended</u>	<u>Date</u>	<u>Venue</u>	<u>Time</u>	<u>No. of Special Resolutions</u>
March 31, 2009	30.09.2009	Hotel Taj Banjara, Road No.1, Banjara Hills, Hyderabad	11.00 A.M.	One
March 31, 2008	30.09.2008	Hotel Taj Krishna, Road No.1, Banjara Hills, Hyderabad	11.00 A.M	Six
March 31, 2007	01.08.2007	Hotel Taj Deccan, Road No.1, Banjara Hills, Hyderabad	11.00 A.M	Six

### (b) Details date, time and venue of the last Extra Ordinary General Meetings of the Company

<u>Sl. No.</u>	<u>Date</u>	<u>Venue</u>	<u>Time</u>	<u>No. of Resolutions</u>
1	11.05.2009	Hotel Taj Banjara, Road No.1, Banjara Hills, Hyderabad	11.30 A.M	One

### (c) Details of Special Resolutions passed at the last Annual General Meeting of the Company:

At the Annual General Meeting held on September 30, 2009, Special Resolution was passed for appointment of Mr.Y.Ramesh as Director.

- (d) No special resolution has been passed by the Company in the last year through postal ballot. As on date, there is no proposal to pass any special resolution by way of postal ballot.

## 7. Disclosures

- (a) The summary of the materially significant relating party transactions is given in the Notes to the Accounts appearing in this Annual Report. However, none of the related party transactions have potential conflict with the interests of the Company at large, as all the transactions were entered into on an arms-length basis.
- (b) The Company has complied with all the requirements of the Listing Agreement of the Stock exchanges as well as regulations and guidelines of SEBI. No penalties have been levied or strictures have been passed by SEBI, Stock Exchanges or any other Statutory Authority on matters relating to capital markets, in the last three years. There were no non-compliances by the company, penalties, strictures imposed on the company by Stock Exchanges or SEBI or any statutory authority, on any matter related to Capital Market during the last three financial years.
- (c) The Company has complied with the requirements relating to Corporate Governance as mandated by Listing Agreements with the Stock Exchanges and also with the non-mandatory requirements as Remuneration Committee, Disclosures, Communication and General Information to the shareholders.

## 8. Means of Communication

### Quarterly Results

All vital information relating to the Company including its financial performance are posted on the Company's website [www.northgatetech.com](http://www.northgatetech.com).

The quarterly un-audited/ audited financial results of the company are generally published in two financial news papers (Financial Express and Andhra Prabha) in English and a vernacular newspaper.

The Company has a dedicated help desk with email ID [investorcare@northgatetech.com](mailto:investorcare@northgatetech.com), in the Secretarial Department for providing necessary information to the investors.

## 9. General Shareholders Information

(a) Annual General Meeting

Date : 30<sup>th</sup> September, 2010  
 Time : 4.30 p.m.  
 Venue : Bhaskara Auditorium, BM Birla Museum,  
 Adarsh Nagar, Hyderabad – 500 063

(b) Financial Year : 1 April to 31 March

(c) Date of Book Closure : From September 28, 2010 to September 30, 2010 (inclusive of both days)

(d) Listing on Stock Exchange : The National Stock Exchange of India Limited  
 Exchange Plaza, Bandra Kurla Complex  
 Bandra (E), Mumbai-400 051

(e) Stock Code : NORTHGATE

(f) Market price date: High / Low during the each month in the financial year 2008-09 and performance in comparison to broad based indices, NIFTY and Sensex (BSE) etc.,

Month & Year	NSE				BSE			
	(in Rs. per share)		NIFTY		(in Rs. per share)		Sensex	
	Low	High	Low	High	Low	High	Low	High
April 2009 . . . . .	47.60	33.50	3517.25	2965.70	47.65	34.00	11492.10	9546.29
May 2009 . . . . .	58.50	33.20	4509.40	3478.70	57.90	33.50	14930.54	11621.30
June 2009 . . . . .	60.00	35.40	4693.20	4143.25	59.85	35.45	15600.30	14016.95
July 2009 . . . . .	42.00	28.50	4669.75	3974.10	42.25	28.75	15732.81	13219.99
August 2009 . . . . .	40.80	33.60	4743.75	4353.45	40.80	33.40	16002.46	14684.45
September 2009 . . . . .	52.45	39.80	5087.60	4576.60	52.40	39.60	17142.52	15356.72
October 2009 . . . . .	43.50	29.15	5181.95	4687.50	43.30	29.15	17493.17	15805.20
November 2009 . . . . .	32.40	26.00	5138.00	4538.50	32.25	26.25	17290.48	15330.56
December 2009 . . . . .	34.05	26.80	5221.85	4943.95	33.85	26.90	17530.94	16577.78
January 2010 . . . . .	33.40	22.00	5310.85	4766.00	33.40	22.20	17790.33	15982.08
February 2010 . . . . .	25.40	19.00	4992.00	4675.40	25.35	19.00	16669.25	15651.99
March 2010 . . . . .	21.85	16.80	5329.55	4935.35	21.95	16.80	17793.01	16438.45

(g) Registrar and Transfer Agent

M/s. CIL Securities Ltd  
 214, Raghava Ratna Towers, Chirag Ali Lane,  
 Hyderabad-500 001.  
 Phone: 91-40 2320 2465, 2320 3155 Fax: 91-40 2320 3028  
 Email: cilsec@hotmail.com

(h) Share Transfer System

Share transfers are registered and returned within a period of fifteen days from the date of receipt, if the documents are in order in all respects.

(i) Distribution of shareholding

<u>Category</u>	<u>Number of Members</u>	<u>(%) of Total Members</u>	<u>Number of Equity Shares</u>	<u>(%) of Total Shareholding</u>
0-5000. . . . .	19126	96.77	9921436	28.33
5001-10000 . . . . .	343	1.74	2568057	7.33
10001-20000 . . . . .	149	0.75	2165949	6.19
20001-30000 . . . . .	56	0.28	1396740	3.99
30001-40000 . . . . .	20	0.10	700817	2.00
40001-50000 . . . . .	17	0.08	791639	2.27
50001-100000. . . . .	29	0.15	2137877	6.10
100001-above. . . . .	25	0.13	15336075	43.79
<b>Total . . . . .</b>	<b>19765</b>	<b>100.0</b>	<b>35018590</b>	<b>100.00</b>

(j) Dematerialization of shares and Liquidity

As on 31st March 2010, 99.94% of the paid up equity capital of the Company is in dematerialized form. The trading of Equity shares in the Stock Exchanges is under compulsory dematerialization. The ISIN of the scrip is INE217G01019.

(k) As on March 31, 2010 7,21,000 Global Depository Receipts representing 3,60,500 equity shares of nominal value of Rs. 10/- each are outstanding. The Global Depository Receipts were listed on Luxembourg Stock Exchange.

Depository for GDRs : Citibank N.A. New York  
ISIN No: : US6664432050

(l) Address for correspondence

Y.Sreekanth Reddy  
Company Secretary and Compliance Officer  
Northgate Technologies Limited  
Laxmi Cyber City, Block B, 3rd Floor,  
Kondapur, Hyderabad 500 084.  
Phone: 91-40 6653 4444  
Fax: 91-40-6653 4455  
Email: investorcare@northgatetech.com  
Website: www.northgatetech.com

## 10. Code of Conduct

The Board has laid down a Code of Conduct for all Board members and Senior Management of the company. The code of conduct is available on the website of the Company. All Board Members and Senior Management Personnel have affirmed compliance with the Code of Conduct. The Chief Executive Officer (CEO) has signed a declaration to this effect, which is enclosed at the end of this report.

## 11. Management Discussion and Analysis

The Management Discussion and Analysis Report is enclosed to this report.

## **Declaration by Chairman and Managing Director of the Company on Code of Conduct**

I hereby declare that:

1. Code of conduct for the Board Members and senior management of the Company was approved by the Board of Directors in the Board Meeting held on November 30, 2005 and the same was adopted by the Company.
2. Code of conduct adopted by the Company was circulated to the members of the Board and senior management of the Company and also posted in the website of the Company.
3. All the members of the Board and senior management of the company have complied with all the provisions of the code of conduct.

for Northgate Technologies Limited

Place: Hyderabad  
Date: May 26, 2010

Venkat S Meenavalli  
Chairman and Managing Director

## **Certificate on Corporate Governance to the Members of Northgate Technologies Limited**

To  
The Members,  
Northgate Technologies Limited

I have examined the compliance condition of Corporate Governance by Northgate Technologies Limited for the year ended on 31<sup>st</sup> March 2010 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 a review of procedures and implementation thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said clause. It was neither an audit nor was it conducted to express an opinion on the Financial Statements of the Company.

In our opinion and to the best of our information and explanations given to us, the representation made by the Directors and Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

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.

Place: Hyderabad  
Date: 01 September 2010

S. Sarveswar Reddy  
Practicing Company Secretary  
C.P.No: 7478

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

Northgate Group is focused on two fast growing sectors of “Online Advertising” and “Securities and Derivatives Trading” powered with in house developed websites, tracking engine and trading technology.

We aggregate internet advertising traffic through own and third party websites. Our key own web properties include Globe7.com, Bharatstudent.com and Ziddu.com. In year 2010, Bharatstudent.com was ranked # 3 social networking website in India for the third consecutive year since its launch (Source: ComScore). Ziddu.com is ranked among worlds’ top 200 websites.

We generate revenues through internet advertising by positioning internet advertisement on our websites or on partnered websites. Our online advertising revenues are mostly from display advertising services on the internet.

We started securities trading segment in December 2009. However the activities were stopped in the absence of necessary regulatory approvals. As of September 1, 2010 the necessary approvals have been obtained and the company is permitted to resume the activities.

### Consolidated Financial Review:

<u>Particulars</u>	<i>(Amount Rs. In lakhs)</i>	
	<b>For the Year ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Revenue . . . . .	7,446.34	56,034.27
Less: Cost of revenues . . . . .	8,410.85	35,681.56
Gross Profit . . . . .	<b>(964.51)</b>	<b>20,352.71</b>
Selling and marketing expenses . . . . .	2,205.49	9,184.16
General and administrative expenses . . . . .	1,090.82	1,163.21
Bad and doubtful debts written off . . . . .	1,873.42	15,734.02
Advances written off. . . . .	75.44	527.94
Impairment loss . . . . .	5,717.16	15,986.09
Fixed assets discarded, net. . . . .	501.76	471.78
Provision for bad and doubtful debts . . . . .	151.85	2,056.07
Provision for doubtful deposits . . . . .	-	102.00
<b>Operating Profit / (Loss) before Interest, Depreciation and Amortisation . . . . .</b>	<b>(12,580.45)</b>	<b>(24,872.56)</b>
Financial expenses . . . . .	24.38	99.41
Depreciation and amortisation . . . . .	2,940.83	7,157.57
<b>Operating Profit / (Loss) before tax . . . . .</b>	<b>(15,545.66)</b>	<b>(32,129.54)</b>
Other income. . . . .	1,192.19	1,809.67
<b>Net Profit / (Loss) before tax . . . . .</b>	<b>(14,353.47)</b>	<b>(30,319.87)</b>
Provision for Taxation . . . . .	278.56	(772.20)
<b>Net Profit / (Loss) after tax before prior period expenses . . . . .</b>	<b>(14,632.03)</b>	<b>(29,547.67)</b>
Prior period expenses . . . . .	66.41	-
<b>Net Profit / (Loss) after prior period expenses . . . . .</b>	<b>(14,698.44)</b>	<b>(29,547.67)</b>
Share of Minority Interest . . . . .	-	3.87
Net Profit / (Loss) for the year . . . . .	<b>(14,698.44)</b>	<b>(29,543.80)</b>
Net Profit brought forward from previous year . . . . .	(15,405.44)	13,138.46
<b>Amount available for appropriation . . . . .</b>	<b>(30,103.88)</b>	<b>(16,405.34)</b>
<b>Appropriations:</b>		
Proposed dividend . . . . .	-	-
Tax on proposed dividend . . . . .	-	-
Transfer to General Reserve . . . . .	-	(99,990,058)
<b>Balance carried forward . . . . .</b>	<b>(30,104)</b>	<b>99,973,653</b>
<b>Earnings per share . . . . .</b>		
Basic - par value Rs. 10 per share . . . . .	(41.97)	(84.54)
Diluted - par value Rs. 10 per share . . . . .	(41.97)	(84.54)

### Revenues

The consolidated revenues decreased to Rs. 7,446 lakhs in FY’ 10 from Rs. 56,034 lakhs in FY’09 due to significant scaling down of operations.

### ***Cost of Revenues***

Cost of revenues for FY 10 was Rs.8,410 lakhs as compared to Rs.35,681 in FY'09, due to fall in revenues.

### ***Selling and Marketing Expenses***

Selling and Marketing Expenses decreased by 76% from Rs9,184 lakhs in FY'09 to Rs.2,205 lakhs in FY'10.

### ***Bad and doubtful debts written off***

An amount of Rs. 1,873 lakhs in FY'10 was expensed due to non receipt of receivables from customers as the end advertisers defaulted on payment to our customers.

### ***Impairment loss***

In FY'10 London based server farm have been impaired due to scaling down of server farm capacity. Accordingly an amount of Rs.5,717 lakhs representing the net carrying value of the fixed assets and software has been recorded as impairment loss.

### ***Fixed Assets discarded, net***

In FY'09 due to closure of London based server farms and certain fixed assets comprising primarily of servers were abandoned. Accordingly an amount of Rs.501 lakhs representing the net carrying value of the fixed assets were expensed in FY' 10.

### ***Advances written off***

Based on the review of the recoverability of long outstanding advances, an amount of Rs.75 lakhs was expensed in FY' 10.

### ***Provision for bad and doubtful debts***

Based on the review of the recoverability of long outstanding sundry debtors, an amount of Rs.151 lakhs was expensed in FY' 10.

### ***Depreciation and Amortisation***

Depreciation and Amortisation expenses was Rs.2,940 lakhs in FY' 10 compared to Rs. 7,157 lakhs in FY '09. The decrease in depreciation charges is due to the impairment of UK based Server farm.

### ***Financial Expenses***

Financial Expenses decreased to Rs.25 lakhs during FY'10 as compared with Rs.99 lakhs during FY'09.

### ***Provision for Taxation***

Income tax expense comprises current income tax, net change in deferred tax assets and liabilities in the respective years. Current tax expense was Rs. 6 lakhs in FY'10 compared to Rs. 121 lakhs in FY'09.

Deferred tax asset of Rs.49 lakhs was during FY'10 and also an amount of Rs.222 lakhs of minimum alternative tax credit was reversed during the FY' 10.

### ***Net Profit***

In FY'10 Net Loss of Rs.14,698 lakhs were recorded due to significant scaling down of operations.

### ***EPS***

During FY'10, Basic Earnings Per Share (EPS) was Rs.(41.97) compared to Rs. (84.54) in FY'09. The Diluted EPS was Rs.(41.97) in FY'10 compared to Rs. (84.54) in FY'09.

### ***Profit and Loss Account***

As of March 31, 2010 the P&L Account balance stood at Rs.(30,103) lakhs.



***Deferred Tax***

Deferred tax assets/liabilities represent timing differences in the financial and tax books arising from depreciation on assets, provision for sundry debtors and provision for retirement benefits. Your Company has reversed deferred tax asset of Rs. 49 lakhs during FY'10.

***Fixed Assets***

Your Company has made net additions of Rs.47 lakhs to the gross block and discarded assets worth Rs. 3,403 lakhs during the year.

***Sundry Debtors***

As on March, 31 2010, sundry debtors (considered good) stood at Rs.788 lakhs as against Rs. 3,855 lakhs as on March, 31 2009.

***Cash & Bank Balances***

As on March 31, 2010, your company has a cash balance of Rs.279 lakhs compared to Rs. 1,642 lakhs as on March 31, 2009.

***Loans and Advances***

Loans and Advances as on March 31, 2010 was Rs.949 lakhs compared to Rs. 3,049 lakhs as on March 31, 2009. Significant items of loans and advances includes advances recoverable in cash or in kind or for value to be received of Rs.155 lakhs, (previous year Rs. 1,293 lakhs) on account of expenses and security deposits of Rs 348 lakhs (previous year Rs. 1,192 lakhs).

***Current Liabilities***

Current liabilities decreased by 78% to Rs.782 lakhs during FY'10 from Rs. 2,584 lakhs during FY'09.

## **CMD and CFO Certificate**

We, Venkat S Meenavalli, Chairman and Managing Director and Anil K. Singh, Chief Financial Officer of Northgate Technologies Limited certify that:

1. We have reviewed the financial statements for the year and that to the best of our knowledge and belief:
  - (a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - (b) these statements present a true and fair view of the state of affairs of the Company and of the results of the operations and cash flows. The financial statements have been prepared in conformity, in all material respects, with the existing generally accepted accounting principles including accounting standards, applicable laws and regulations.
2. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of Company's code of conduct.
3. We accept overall responsibility for establishing and monitoring the Company's internal control system for financial reporting and evaluating its effectiveness. Internal Audit function monitors the internal control system for financial reporting, which encompasses the examination and evaluation of the adequacy and effectiveness. Internal Audit works with all levels of management and Statutory Auditors, and reports significant issues to the Audit Committee of the Board. The Auditors and Audit Committee are apprised of any corrective action taken with regard to significant deficiencies and material weakness.
4. We indicate to the Auditors and to the Audit Committee:
  - (a) Significant changes in internal controls over financial reporting during the year;
  - (b) Significant changes in the accounting policies during the year;
  - (c) No instances of significant fraud of which we have become aware of and which involve the management or other employees who have significant role in the Company's internal control system over financial reporting.

However, during the year there were no such changes and instances.

Place: Hyderabad  
Date: May 26, 2010

Venkat S Meenavalli  
Chairman and Managing Director

Anil K. Singh  
Chief Financial Officer

## **Auditors' Report to the Board of Directors of Northgate Technologies Limited on the Consolidated Financial Statements of Northgate Technologies Limited and its Subsidiaries**

1. We have audited the attached consolidated Balance Sheet of Northgate Technologies Limited (the Company) and its subsidiaries (collectively referred to as the 'Northgate Group') as at 31 March 2010, the consolidated Profit and Loss Account of the Northgate Group for the year ended on that date and the consolidated Cash Flow Statement of the Northgate Group 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 consolidated 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 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 consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that the consolidated financial statements have been prepared by the Company's management in accordance with the requirements of Accounting Standard (AS) 21 - Consolidated Financial Statements, prescribed by the Companies (Accounting Standards) Rules, 2006.
4. *As set out in Note 12(a) to Schedule 17 of the accompanying consolidated financial statements, the Northgate Group had inadvertently failed to obtain prior approval of the Reserve Bank of India (RBI) in relation to the securities trading activities of VAR Quant Tech Securities Private Limited, a fully owned subsidiary of the Company and such activities were carried out in contravention of the RBI guidelines (between 10 December 2009 till 29 January 2010). The Group has initiated the process of obtaining necessary approvals and has also applied to RBI for condonation of the non-compliance. Further, the securities trading activities have currently been suspended, till such time that all the regulatory formalities are complete. Pending the receipt of the regulatory approvals, there exists an uncertainty over the financial penalties that may fall due, which is currently not quantifiable.*
5. Without qualifying our opinion, we draw attention to Note (d) to Schedule 1 of the accompanying consolidated financial statements which sets out the basis on which management believes that the going concern assumption and the continuity of the Online advertisement segment is appropriate. Notwithstanding the significant operating losses, erosion of net-worth and impairment charges relating to fixed assets, which have been primarily on account of the ongoing restructuring of its internet-based advertisement segment, the management believes that the scaling-down of these operations have reached a sustainable level which would enable the Company to generate cash-flows sufficient to meet its liabilities as and when they fall due.
6. Without qualifying our opinion, we also draw attention to Note 12(b) to Schedule 17 of the accompanying consolidated financial statements which describes the accounting policy followed by the Company in relation to securities trading and its consequential impact on the Revenue and Cost of revenue for the year ended 31 March 2010.
7. In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements, *subject to our comments in Paragraph 4 above*, give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Northgate Group as at 31 March 2010;
  - (ii) in the case of the Consolidated Profit and Loss Account, of the results of operations of the Northgate Group for the year ended on that date; and
  - (iii) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Northgate Group for the year ended on that date.

**for B S R and Company**  
Chartered Accountants  
Firm Registration No: 128900W

Zubin Shekary  
Partner  
Membership No.: 48814

Place: Hyderabad  
Date: 26 May 2010

**Consolidated Balance Sheet as at 31 March 2010**  
(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Schedule</u>	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>SOURCES OF FUNDS:</b>			
<b>Shareholders' funds</b>			
Share capital . . . . .	2	351,471,008	351,471,008
Reserves and surplus. . . . .	3	2,833,802,468	2,840,222,744
		<u>3,185,273,476</u>	<u>3,191,693,752</u>
<b>Loan funds</b>			
Secured loans . . . . .	4	26,363,222	4,730,705
<b>Deferred tax liability, net.</b> . . . . .	17(3)	-	2,997,952
		<u><b>3,211,636,698</b></u>	<u><b>3,199,422,409</b></u>
<b>APPLICATION OF FUNDS:</b>			
<b>Fixed Assets</b> . . . . .			
Gross block . . . . .	5	1,477,263,539	1,929,500,203
<i>Less:</i> Accumulated depreciation . . . . .		(1,400,029,580)	(867,460,300)
Net block . . . . .		<u>77,233,959</u>	<u>1,062,039,903</u>
Capital work-in-progress . . . . .		-	954,050
		<u>77,233,959</u>	<u>1,062,993,953</u>
<b>Current Assets, Loans and Advances</b>			
Sundry Debtors . . . . .	6	78,824,883	385,471,396
Cash and Bank Balances. . . . .	7	27,978,865	164,163,077
Loans and Advances . . . . .	8	94,927,997	307,802,369
Interest accrued on bank deposits, but not due . . . . .		1,116,800	636,879
		<u>202,848,545</u>	<u>858,073,721</u>
<b>Current Liabilities and Provisions</b>			
Current Liabilities . . . . .	9	78,274,852	258,446,485
Provisions . . . . .	10	559,192	3,742,722
		<u>78,834,044</u>	<u>262,189,207</u>
<b>Net current assets.</b> . . . . .		124,014,501	595,884,514
<b>Profit and loss account</b> . . . . .		3,010,388,238	1,540,543,942
		<u><b>3,211,636,698</b></u>	<u><b>3,199,422,409</b></u>
<b>Significant Accounting Policies</b> . . . . .	1		
<b>Notes to Accounts</b> . . . . .	17		

The schedules referred to above form an integral part of the Consolidated Balance Sheet.

As per our report attached  
for B S R and Company  
Chartered Accountants  
Firm Registration No:128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2010

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Consolidated Profit and Loss Account for the year ended 31 March 2010

(all amounts in Indian rupees, except share data and otherwise stated)

	Schedule	Year Ended 31 March 2010	Year Ended 31 March 2009
Revenue . . . . .		744,634,310	5,603,427,361
Less: Cost of Revenues . . . . .	11	841,085,568	3,568,155,504
Gross Profit . . . . .		<b>(96,451,258)</b>	<b>2,035,271,857</b>
Selling and Marketing Expenses. . . . .	12	220,549,271	918,416,210
General and Administrative Expenses . . . . .	13	109,081,435	116,321,464
Bad and doubtful debts written off . . . . .	17(11)	187,341,712	1,573,401,841
Advances written off. . . . .	17(11)	7,543,763	52,793,758
Impairment loss . . . . .	17(11)	613,699,393	1,598,608,969
Fixed assets discarded, net. . . . .	17(11)	8,193,079	47,178,299
Provision for bad and doubtful debts . . . . .		15,184,755	205,607,030
Provision for doubtful deposits . . . . .		-	10,200,000
<b>Operating Profit before Interest, Depreciation and Amortisation . . . . .</b>		<b>(1,258,044,666)</b>	<b>(2,487,255,714)</b>
Financial Expenses. . . . .	14	2,438,202	9,940,963
Depreciation and Amortisation . . . . .		294,082,834	715,756,945
<b>Operating Profit before Tax . . . . .</b>		<b>(1,554,565,702)</b>	<b>(3,212,953,622)</b>
Other Income, net . . . . .	15	119,218,296	180,966,878
<b>Profit/(Loss) before tax . . . . .</b>		<b>(1,435,347,406)</b>	<b>(3,031,986,744)</b>
Provision for tax . . . . .	16	27,855,626	(77,219,974)
<b>Profit/(Loss) after tax before prior period expenses . . . . .</b>		<b>(1,463,203,032)</b>	<b>(2,954,766,770)</b>
Prior period expenses . . . . .		6,641,264	-
<b>Profit/(Loss) after prior period expenses . . . . .</b>		<b>(1,469,844,296)</b>	<b>(2,954,766,770)</b>
Share of Minority Interest . . . . .		-	386,612
Net Profit / (Loss) for the year . . . . .		<b>(1,469,844,296)</b>	<b>(2,954,380,158)</b>
Profit brought forward from previous year . . . . .		(1,540,543,942)	1,313,846,158
<b>Amount available for appropriation . . . . .</b>		<b>(3,010,388,238)</b>	<b>(1,640,534,000)</b>
<b>Appropriations:</b>			
Proposed Dividend. . . . .		-	-
Tax on Proposed Dividend. . . . .		-	-
Transfer to General Reserve . . . . .		-	(99,990,058)
<b>Balance carried forward . . . . .</b>		<b>(3,010,388,238)</b>	<b>(1,540,534,942)</b>
<b>Earnings per share . . . . .</b>	17(4)		
Basic - par value Rs. 10 per share . . . . .		(41.97)	(84.54)
Diluted - par value Rs. 10 per share . . . . .		(41.97)	(84.54)
<b>Significant accounting policies . . . . .</b>	1		
<b>Notes to accounts . . . . .</b>	18		

The Schedules referred to above form an integral part of the Consolidated Profit and Loss Account.

As per our report attached  
for B S R and Company  
Chartered Accountants  
Firm Registration No:128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2010

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Consolidated Cash Flow Statement for the year ended 31 March 2010

(All amounts in Indian rupees)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>Cash flows from Operating Activities</b>		
Profit/(loss) before tax . . . . .	(1,435,347,406)	(3,031,986,744)
Adjustments:		
Depreciation and Amortisation . . . . .	294,082,834	715,756,945
Bad and doubtful debts written off . . . . .	187,341,712	1,552,687,703
Advances written off . . . . .	7,543,763	45,293,758
Provision for doubtful deposits . . . . .	-	10,200,000
Provision for Bad and doubtful debts . . . . .	15,184,755	226,321,168
Interest expense . . . . .	2,438,202	9,940,963
Fixed assets discarded, net . . . . .	8,193,079	226,431,694
Impairment loss . . . . .	613,699,393	1,419,355,574
Interest income . . . . .	(1,815,421)	(2,420,655)
Prior period expenses . . . . .	(6,641,264)	-
Dividend income . . . . .	-	(2,466,520)
Loss on sale of current investments . . . . .	-	74,098,180
Provisions written Back . . . . .	-	(24,769,184)
Employee stock compensation expense . . . . .	-	(1,801,980)
Unrealised foreign exchange (gain)/loss . . . . .	8,247,445	(972,021)
Operating cash flow before working capital and other changes . . . . .	(307,072,908)	1,215,668,881
(Increase)/Decrease in sundry debtors . . . . .	168,744,866	(812,992,009)
(Increase)/Decrease in loans and advances . . . . .	189,448,377	270,745,273
Increase/(Decrease) in current liabilities and provisions . . . . .	(180,344,003)	100,927,202
Cash generated from operations . . . . .	(129,223,668)	774,349,347
Taxes paid . . . . .	(17,965,526)	5,970,849
<b>Net cash provided by/(used in) Operating Activities . . . . .</b>	<b><u>(147,189,194)</u></b>	<b><u>780,320,196</u></b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets . . . . .	(4,735,989)	(1,077,578,791)
Proceeds from sale of current investments . . . . .	-	172,126,165
Purchase of current investments . . . . .	-	(86,611,024)
Interest income on deposits and unsecured loan . . . . .	1,335,500	1,783,776
Dividend income . . . . .	-	2,466,520
Interest expenses . . . . .	(2,438,202)	(9,940,963)
<b>Net cash used in Investing Activities . . . . .</b>	<b><u>(5,838,691)</u></b>	<b><u>(997,754,317)</u></b>
<b>Cash flows from Financing Activities</b>		
Proceeds from issue of shares (net of share issue expenses) . . . . .	-	11,221,001
Proceeds from long term borrowings . . . . .	21,615,536	-
Repayment of share application money of minority interest . . . . .	-	(23,500,000)
Purchase of minority interests . . . . .	-	(9,955,563)
Repayment of long term borrowings . . . . .	-	(2,474,724)
Payment of Dividend (including tax on distributed profits) . . . . .	-	(81,482,655)
<b>Net cash provided by Financing Activities . . . . .</b>	<b><u>21,615,536</u></b>	<b><u>(106,191,941)</u></b>
Net increase in cash and cash equivalents . . . . .	(131,412,349)	(323,626,062)
Cash and cash equivalents at the beginning of the year . . . . .	164,163,077	570,718,760
Effect of exchange gain/(loss) on cash and cash equivalents . . . . .	(4,771,862)	(82,929,621)
Cash and cash equivalents at the end of the year (Schedule 7) . . . . .	<b><u>27,978,866</u></b>	<b><u>164,163,077</u></b>

As per our report attached  
for B S R and Company  
Chartered Accountants  
Firm Registration No: 128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2009

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>2. Share capital</b>		
<i>Authorised</i>		
50,000,000 (previous year: 50,000,000) equity shares of Rs. 10 each . . . . .	500,000,000	500,000,000
<i>Issued</i>		
36,095,190 (previous year: 36,095,190) equity shares of Rs.10 each paid-up (Note i) . . . . .	360,951,900	360,951,900
<i>Subscribed and paid-up</i>		
35,018,590 (previous year: 34,858,590) equity shares of Rs.10 each (Note ii) Add: Forfeited share capital (Note iii) . . . . .	350,185,900 1,285,108	350,185,900 1,285,108
	<u><b>351,471,008</b></u>	<u><b>351,471,008</b></u>

Notes:

- (i) Issued share capital includes 1,076,600 (previous year: 1,076,600) equity shares of Rs.10 each, which were forfeited and cancelled in earlier years.
- (ii) Subscribed and paid-up share capital includes:
  - (a) 16,514,295 Equity shares of Rs.10 each allotted in 2007-2008 as fully paid bonus shares in ratio of 1:1 by way of capitalization of Rs. 165,142,950 from Securites Premium account.
  - (b) 1,830,000 Equity shares of Rs. 10 each fully paid-up, allotted against 3,660,000 Global Depository Receipts in the year 2007-2008.
  - (c) 497,650 Equity shares of Rs. 10 each were allotted to the employees of the Company during the earlier years on exercise of the vested stock options in accordance with the terms of exercise under the Employees Stock Option 2004 and 2005 Plan.
- (iii) Represents amount paid up on 1,076,600 (previous year: 1,076,600) equity shares of Rs. 10 each, forfeited due to non payment of call money.

### 3. Reserves and surplus

<i>Capital reserve</i>		
Balance at the beginning and end of the year (Note 1) . . . . .	1,671,142	1,671,142
<i>Securities premium account</i>		
Balance at the beginning of the year . . . . .	2,597,858,468	2,587,278,967
Add: Received during the year on exercise of employee stock options (including transfer from employee stock options outstanding) . . . . .	-	10,579,501
Balance at the end of the year . . . . .	<u>2,597,858,468</u>	<u>2,597,858,468</u>
<i>Employee stock options outstanding</i>		
Balance at the beginning of the year . . . . .	-	2,760,480
Add: Options granted during the year . . . . .	-	-
Less: Options forfeited/cancelled during the year . . . . .	-	1,801,980
Less: Options exercised during the year . . . . .	-	958,500
Balance at the end of the year (A) . . . . .	<u>-</u>	<u>-</u>

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>3. Reserves and surplus (continued)</b>		
<i>General reserve</i>		
Balance at the beginning of the year . . . . .	-	99,990,062
Add: Transferred from profit and loss account . . . . .	-	-
Less: Debit balance of Profit and loss account (Note 2). . . . .	-	(99,990,062)
Balance at the end of the year . . . . .	<u>-</u>	<u>-</u>
<i>Foreign currency translation reserve</i>		
As at the commencement of the year . . . . .	240,693,134	(160,091,730)
Add: Translation of foreign subsidiaries with non-integral operations . . . . .	(6,420,276)	400,784,864
As at the end of the period . . . . .	<u>234,272,858</u>	<u>240,693,134</u>
Balance in profit and loss account . . . . .	-	-
	<u><b>2,833,802,468</b></u>	<u><b>2,840,222,744</b></u>

Notes:

1. Capital reserve represents the capital profit earned by the Company on reissue of 1,400,000 forfeited shares.
2. Debit balance of Rs.99,990,062 in the profit and loss account has been adjusted to the extent of balance in General Reserve (an uncommitted reserve) in the year 2008-2009.

### 4. Secured loans

*From Banks*

Vehicle loans . . . . .	2,038,149	4,730,705
(Secured by hypothecation of the vehicles) . . . . .		
Bank overdraft . . . . .	24,325,073	-
(Secured by book debts and corporate guarantee of ultimate holding company)		
	<u><b>26,363,222</b></u>	<u><b>4,730,705</b></u>



**Schedules to the Consolidated Accounts (continued)**  
(all amounts in Indian rupees, except share data and otherwise stated)

**5. Fixed Assets**

Particulars	GROSS BLOCK			ACCUMULATED DEPRECIATION			NET BLOCK				
	As at 1 April 2009	Additions during the year	As at 31 March 2010	Deletions during the year	Foreign exchange adjustments	Charge for the year	Foreign exchange adjustments	On Deletions	Impairment	As at 31 March 2010	As at 31 March 2009
<b>Tangible Assets</b>											
Plant and Machinery	63,997,274	-	63,220,274	777,000	-	21,823,692	-	16,078	-	61,061,783	2,158,491
Computers	265,824,155	3,177,721	122,963,944	130,918,303	(15,119,629)	15,906,081	(13,859,736)	130,918,303	38,993,632	108,826,038	14,137,906
Office Equipment	12,695,918	765,830	12,923,354	492,000	(46,394)	1,795,395	(5,729)	29,812	301,340	4,692,084	8,231,270
Furniture and Fixtures	17,714,225	544,720	6,849,622	10,658,236	(751,087)	410,760	(721,476)	10,658,236	221,507	2,426,008	4,540,772
Leasehold Improvements	33,838,715	-	25,103,896	8,310,737	(424,082)	8,860,874	(154,276)	1,340,768	2,466,917	20,296,725	4,807,171
Vehicles	13,725,710	228,175	13,817,410	-	(136,475)	1,310,760	(136,475)	-	-	4,617,182	9,200,228
<b>Total (A)</b>	<b>407,795,997</b>	<b>4,716,446</b>	<b>244,878,500</b>	<b>151,156,276</b>	<b>(16,477,667)</b>	<b>50,107,562</b>	<b>(14,877,692)</b>	<b>142,963,197</b>	<b>41,983,396</b>	<b>201,919,820</b>	<b>42,958,680</b>
<b>Intangible Assets</b>											
Goodwill	16,382,330	-	16,382,330	-	-	-	-	-	-	16,382,330	-
Software	1,505,321,875	19,543	1,216,002,709	189,162,951	(100,175,758)	243,975,273	(29,156,660)	188,215,400	571,715,997	1,181,727,430	34,275,279
<b>Total (B)</b>	<b>1,521,704,205</b>	<b>19,543</b>	<b>1,232,385,039</b>	<b>189,162,951</b>	<b>(100,175,758)</b>	<b>243,975,273</b>	<b>(29,156,660)</b>	<b>188,215,400</b>	<b>571,715,997</b>	<b>1,198,109,760</b>	<b>34,275,279</b>
<b>Total (A+B)</b>	<b>1,929,500,202</b>	<b>4,735,989</b>	<b>1,477,263,539</b>	<b>340,319,227</b>	<b>(116,653,425)</b>	<b>294,082,835</b>	<b>(44,034,352)</b>	<b>331,178,597</b>	<b>613,699,393</b>	<b>1,400,029,580</b>	<b>77,233,959</b>
Previous year	2,037,440,791	1,388,098,185	1,929,500,202	1,794,324,548	298,285,775	715,756,945	34,411,130	153,578,830	-	867,460,301	1,062,039,901

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>6. Sundry debtors</b>		
<i>(Unsecured)</i>		
Outstanding for more than six months		
Considered good. . . . .	14,720,822	-
Considered doubtful. . . . .	224,218,237	209,033,482
	<u>238,939,059</u>	<u>209,033,482</u>
Other debts. . . . .	64,104,061	385,471,396
	<u>303,043,120</u>	<u>594,504,878</u>
Less: Provision for bad and doubtful debts [Refer Schedule 17(11)] . . . . .	(224,218,237)	(209,033,482)
	<u><b>78,824,883</b></u>	<u><b>385,471,396</b></u>
 <b>7. Cash and bank balances</b>		
Cash on hand. . . . .	292,668	255,824
Cheques on hand. . . . .	-	1,622,500
Balances with scheduled banks: . . . . .		
- in deposit accounts. . . . .	17,265,000	83,520,000
- in current accounts. . . . .	1,160,015	11,313,079
- in export earners foreign currency accounts. . . . .	596,942	146,171
- in unclaimed dividend accounts. . . . .	480,824	497,805
Balances with non-scheduled banks outside India. . . . .		
- in current accounts. . . . .	8,183,416	65,928,320
- in deposit accounts. . . . .	-	879,378
	<u><b>27,978,865</b></u>	<u><b>164,163,077</b></u>
Balance at the end of the year and maximum amount outstanding at any time during the year with non-scheduled banks outside India		
<b><i>On current accounts:</i></b>		
HSBC, Singapore . . . . .	1,028,763	2,377,555
Barclays Bank Plc, United Kingdom . . . . .	1,470,270	3,500,496
HSBC, United Kingdom. . . . .	426,276	167,454
State Bank of India, Hong Kong. . . . .	-	50,779,922
HSBC, Hong Kong . . . . .	5,258,107	7,563,076
Commerce Bank - United States of America . . . . .	-	1,539,817
The Bank of East Asia Ltd., Singapore . . . . .	-	-
	<u><b>8,183,416</b></u>	<u><b>65,928,320</b></u>
<b><i>On deposit accounts:</i></b>		
United Bank of Switzerland., Singapore and Hong Kong. . . . .	-	520,861
Barclays Bank Plc, United Kingdom . . . . .	-	358,517
	<u>-</u>	<u><b>879,378</b></u>

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>8. Loans and Advances</b>		
<i>(Unsecured)</i>		
<i>Considered good</i>		
Advances recoverable in cash or in kind or for value to be received, considered good . . . . .	15,548,068	129,326,327
Security deposits . . . . .	34,852,642	119,255,536
Prepaid expenses, considered good . . . . .	16,307,977	14,820,764
MAT credit entitlement [net of provision for tax Rs.Nil (previous year: Rs.1,30,62,300)]. . . . .	9,100,000	32,137,700
Advance tax [net provision for tax Rs.584,404,524(previous year:Rs. Nil)] . . . . .	19,021,310	11,865,842
Staff loans and advances . . . . .	98,000	396,200
 <i>Considered doubtful</i>		
Security deposits . . . . .	10,200,000	10,200,000
	<u>105,127,997</u>	<u>318,002,369</u>
<i>Less:</i> Provision for doubtful deposits . . . . .	<u>(10,200,000)</u>	<u>(10,200,000)</u>
	<u><b>94,927,997</b></u>	<u><b>307,802,369</b></u>
 <b>9. Current liabilities</b>		
Sundry creditors		
- total outstanding dues of micro enterprises and small enterprises (Refer Note 10 to Schedule 17) . . . . .	-	-
- others . . . . .	60,091,340	232,188,942
Book overdraft . . . . .	-	8,999
Advance from customers . . . . .	-	8,185,825
Unclaimed dividend . . . . .	480,824	497,805
Other liabilities . . . . .	17,702,688	17,564,914
	<u><b>78,274,852</b></u>	<u><b>258,446,485</b></u>
 <b>10. Provisions</b>		
Compensated absences . . . . .	118,604	214,851
Gratuity . . . . .	409,930	503,034
Provision for tax [net of advance tax Rs.Nil (previous year: Rs. 59,756,763)]. . . . .	-	2,994,215
Wealth tax [net of advance tax Rs. Nil (previous year: Rs. Nil)] . . . . .	30,658	30,622
	<u><b>559,192</b></u>	<u><b>3,742,722</b></u>

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Year ended</u> <u>31 March 2010</u>	<u>Year ended</u> <u>31 March 2009</u>
<b>11. Cost of revenues</b>		
Traffic acquisition cost . . . . .	268,295,738	3,079,025,848
Subcontracting charges . . . . .	-	238,606,351
Cost of securities . . . . .	414,299,036	-
Content cost . . . . .	2,743,585	12,405,507
Salaries . . . . .	61,368,697	117,162,370
Contribution to provident and other funds . . . . .	1,108,792	1,531,338
Staff welfare expenses . . . . .	680,630	3,629,195
Employee stock compensation expense . . . . .	-	(1,025,670)
Communication expenses . . . . .	4,099,107	15,594,844
Bandwidth expenses . . . . .	7,753,939	17,128,531
Rent . . . . .	41,619,544	45,949,824
Travelling expenses . . . . .	2,706,704	1,375,121
Datacentre charges . . . . .	32,661,604	25,186,140
Computer maintenance expenses . . . . .	239,119	357,400
Repairs and maintenance		
- Buildings . . . . .	1,180,632	1,118,578
- Others . . . . .	577,577	297,341
Printing and stationary . . . . .	28,973	9,284
Subscriptions, books and periodicals . . . . .	-	50,227
Power and fuel . . . . .	1,083,224	1,736,220
Software development expenses . . . . .	350,431	7,617,962
Legal and professional charges . . . . .	-	200,000
Miscellaneous expenses . . . . .	288,236	199,093
	<u><b>841,085,568</b></u>	<u><b>3,568,155,504</b></u>
<b>12. Selling and Marketing expenses</b>		
Salaries . . . . .	22,447,285	82,648,727
Contribution to provident and other funds . . . . .	407,983	1,665,841
Staff welfare expenses . . . . .	3,088,383	7,948,031
Employee stock compensation expense . . . . .	-	(588,114)
Rent . . . . .	95,675	5,703,929
Travelling expenses . . . . .	1,245,729	10,313,116
Advertisement expenses . . . . .	193,264,216	810,724,680
	<u><b>220,549,271</b></u>	<u><b>918,416,210</b></u>

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<b>Year ended 31 March 2010</b>	<b>Year ended 31 March 2009</b>
<b>13. General and Administrative expenses</b>		
Salaries . . . . .	12,544,205	31,306,751
Contribution to provident and other funds. . . . .	231,076	103,535
Employee stock compensation expense . . . . .	-	(188,196)
Staff welfare expenses . . . . .	3,305,887	5,821,469
Rent . . . . .	10,527,589	11,483,561
Legal and Professional charges . . . . .	23,477,815	21,760,665
Power and Fuel . . . . .	2,050,789	2,448,601
Insurance . . . . .	1,251,697	2,137,595
Travelling expenses . . . . .	3,503,306	8,405,777
Rates and Taxes . . . . .	3,641,998	5,021,017
Repairs and Maintenance . . . . .		
- Buildings. . . . .	2,020,871	503,299
- Others . . . . .	324,141	2,528,237
Printing and Stationary . . . . .	1,299,679	512,294
Subscriptions, books and periodicals . . . . .	816,183	23,550
Communication expenses . . . . .	2,329,023	1,599,078
Auditors' remuneration . . . . .		
- Audit fee . . . . .	3,779,708	5,756,802
- Tax audit fee . . . . .	198,540	275,750
- Fee for other services . . . . .	191,371	202,248
- Reimbursement of out-of-pocket expenses . . . . .	213,661	8,680
Donations . . . . .	-	145,000
Bank charges. . . . .	1,631,325	4,550,764
Miscellaneous expenses . . . . .	5,202,080	11,914,987
Provision for loss on equity index options. . . . .	26,699	-
Foreign exchange gain/(loss), net . . . . .	30,513,792	-
	<b>109,081,435</b>	<b>116,321,464</b>
<b>14. Financial Expenses</b>		
Interest . . . . .	1,649,309	8,868,729
Finance charges . . . . .	788,893	1,072,234
	<b>2,438,202</b>	<b>9,940,963</b>
<b>15. Other Income, net</b>		
Foreign exchange gain/(loss), net . . . . .	120,997	224,323,450
Liabilities written back . . . . .	78,303,411	24,769,184
Dividend income. . . . .	-	2,466,520
Interest on deposits . . . . .	84,234	2,420,655
Interest on foreign tax credit. . . . .	-	648,510
Miscellaneous income . . . . .	4,992,956	436,739
Loss on sale of current investments . . . . .	-	(74,098,180)
Recovery from bad debts written off . . . . .	35,716,698	-
	<b>119,218,296</b>	<b>180,966,878</b>

## Schedules to the Consolidated Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Year ended</u> <u>31 March 2010</u>	<u>Year ended</u> <u>31 March 2009</u>
<b>16. Provision for tax</b>		
Current tax expense . . . . .	620,186	12,151,796
Deferred tax (benefit)/expense . . . . .	-	(80,740,016)
Fringe benefit tax . . . . .	-	1,274,659
Foreign tax credit . . . . .	-	(9,937,035)
Provision for wealth tax . . . . .	-	30,622
Deferred tax written-off . . . . .	4,976,086	-
Minimum alternate tax credit written-off . . . . .	22,259,354	-
	<u><b>27,855,626</b></u>	<u><b>(77,219,974)</b></u>

## Schedule 1 - Significant Accounting Policies

### Overview

Northgate Technologies Limited (“NGTL / the Company”) together with its subsidiaries (collectively referred to as “the Group” or “NGTL’s Group”) is an online advertising service provider. Through this service, the Group aggregates, positions and tracks internet advertisements for online advertising agencies and other advertisers on websites owned by third parties or by the Group (collectively, “publishers”) with the goal of increasing awareness and actions through the Internet in respect of the advertised products. The Company’s shares trade on the National Stock Exchange in India and the Global Depository Receipts (GDR’s) are traded on the Luxembourg Stock Exchange from October 2007.

### 1. Significant accounting policies

#### a) Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared and presented in accordance with the Indian Generally Accepted Accounting Principles (“GAAP”) under the historical cost convention on the accrual basis. GAAP comprises accounting standards (‘AS’) prescribed by the Companies (Accounting Standards) Rules, 2006 (‘the Rules’), other pronouncements of Institute of Chartered Accountants of India, the provisions of Companies Act, 1956 and guidelines issued by Securities and Exchange Board of India.

#### b) Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the consolidated financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

#### c) Principles of consolidation

The consolidated financial statements include the financial statements of Northgate Technologies Limited (“NGTL / the Company”), the parent company and all of its subsidiaries and step-down subsidiaries as given below (collectively referred to as “the Group” or “NGTL’s Group”), in which the Company has more than one-half of the voting power of an enterprise or where the Company controls the composition of the board of directors.

NGTL’s subsidiaries and step-down subsidiaries are listed below:

<u>Entity</u>	<u>Country of Incorporation</u>	<u>Percentage holding as at 31 March 2010</u>
<b><u>Subsidiaries</u></b>		
Northgate Investments Pte Limited	A Company organised under the laws of Singapore	100
<b><u>Step-down subsidiaries</u></b>		
Globe7 Pte Limited	A Company organised under the laws of Singapore	100
Axill Europe Limited	A Company organised under the laws of United Kingdom	100
Social Media India Limited	A Company organised under the laws of India	100
Globe7 HK Limited	A Company organised under the laws of Hong Kong	100
VAR Quant Tech Securities Pvt Ltd	A Company organised under the laws of India	100

The consolidated financial statements have been prepared on the following basis:

- The financial statements of the parent company and the subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting unrealised profits in full. Unrealised losses resulting from intra-group transactions have also been eliminated in full. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the subsidiaries.

## Schedule 1 - Significant Accounting Policies

- The excess / deficit of cost to the parent company of its investment in the subsidiaries, joint ventures and associates over its portion of equity at the respective dates on which investment in such entities were made is recognised in the financial statements as goodwill / capital reserve. The parent company's portion of equity in such entities is determined on the basis of the book values of assets and liabilities as per the financial statements of such entities as on the date of investment and if not available, the financial statements for the immediately preceding period adjusted for the effects of significant transactions, up to the date of investment. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.
- The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Change in NGTL's ownership interest in a subsidiary, without the loss / control is accounted for as an equity transaction (i.e. a transaction with owners in their capacity as owners) and the carrying amounts of the controlling and minority interests are adjusted to reflect the changes in the relative interests in the subsidiary. Any difference between (i) the amounts by which the non-controlling interests are adjusted and (ii) the consideration paid or received is recognised directly in equity and attributed to the owners of the Company. The associated cash flows are classified as financing activities.

### *d) Going concern*

As part of its ongoing restructuring exercise which commenced during the previous financial year, the Group has scaled down its internet related business considerably. A planned liquidation of its UK subsidiary, Axill Europe Limited (AEL) was initiated during the quarter ended 31 March 2010, and consequently the Group recorded an impairment charge of Rs 621,892,472, relating to the write down of the carrying values of fixed assets held by AEL to its estimated recoverable values. The Company has estimated the recoverable values of the fixed assets based on initial discussions with potential buyers as part of its restructuring process. The planned liquidation is a measure to bring the internet-related operations to a sustainable level in line with the Group's reduced scale of operations in this segment.

However, in order to ensure continuity of this segment, the Group has also set-up a new subsidiary in UK, Globe 7 (UK) Limited, and transfer of residual assets to this subsidiary is in process. The Company believes that the reduced level of operations and infrastructure would be sufficient to manage and support the current volumes of the internet-based business.

The revenues of the Group derived from its Online Advertising segment has declined to Rs 330,594,294 during the year, as compared to Rs 5,603,427,361 in the previous year. Further, the Group has incurred losses of Rs 1,469,844,296 during the year and its net-worth as at 31 March 2010 has reduced to Rs 174,885,238 as compared to Rs 1,651,149,810 as at 31 March 2009.

Notwithstanding the significant decline in net-worth which is on account of operating losses, write-down in fixed assets in AEL as well as provision/ write-off of bad and doubtful debtors, the Group believes that with the considerable scaling of its internet-related business, it has attained a sustainable scale of operations which will generate operating cash flows sufficient to meet its ongoing expenses. No further write-down of fixed assets is expected and current assets and liabilities are expected to be realized and settled in the normal course.

Further, the Group also believes that the scaled down operations are capable of sustenance in the foreseeable future, notwithstanding the outcome of its proposed sale of certain internet-based intellectual properties, which is contingent on market conditions, including identification of a suitable buyer at an appropriate valuation. On the basis of the above, the Group believes that the going concern assumption is valid, the online advertising segment is a continuing business segment, and hence, these financial statements have been prepared on a going concern basis and do not contain any adjustments relating to recoverability and classification of asset amounts or to amounts and classification of liabilities.



## Schedule 1 - Significant Accounting Policies

### e) *Fixed assets and depreciation*

Fixed assets are carried at the cost of acquisition or construction, less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Advances paid towards the acquisition of the fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

Depreciation on fixed assets is provided using the straight-line method at the rates specified in schedule XIV to the Companies' Act, 1956 or based on the useful lives of the assets as estimated by Management, whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing Rs. 5,000 or less are depreciated in full in the year of acquisition.

The Management's estimates of the useful lives for various categories of fixed assets are given below:

	<u>Years</u>
Plant and machinery . . . . .	15 to 21
Furniture, fixtures and office equipment (other than computer equipment) . . . . .	3 to 16
Computer equipment . . . . .	3 to 5
Office equipment . . . . .	4 to 5
Vehicles . . . . .	5

Leasehold improvements are amortised or depreciated over the primary period of the lease or estimated useful lives, whichever is lower.

### f) *Intangible assets and amortisation*

Goodwill arising on account of merger has been amortized over a period of 3 years, from the date of initial recognition.

Intangible assets are recorded either at the consideration paid for their acquisition or at the cost of developing them internally within the Company. Intangible assets are amortised over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Company for its use. The management estimates the useful lives for the following intangible assets as follows:

	<u>Years</u>
Acquired computer software . . . . .	1 to 5 years
Internally generated software . . . . .	4 years

### g) *Investments*

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments.

Long-term investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

Gain/loss, on investments in options and futures, both equity stock and index, being the difference between the contracted rate and the rate on the settlement or sale date, whichever is earlier is recognized in the Profit and Loss Account on settlement/sale. The open contracts as at the year end are marked-to-market and the resultant loss, if any, is charged to the Profit and Loss Account.

## Schedule 1 - Significant Accounting Policies

### ***h) Employee benefits***

Contributions payable to an approved gratuity fund (a defined benefit plan) are determined by independent actuaries at the balance sheet date are charged to the profit and loss account. Provision for compensated absences is made on the basis of actuarial valuation at the balance sheet date, carried out by an independent actuary.

Contributions payable to the recognised provident fund and employee state insurance scheme, which are defined contribution schemes, are charged to the profit and loss account.

All actuarial gains and losses arising during the year are recognized in the Profit and Loss Account of the year.

### ***i) Foreign currency transactions, balances and translation of financial statements of foreign subsidiaries***

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions or at an average monthly rate that approximates the actual rate at the date of transaction. Exchange difference arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at year-end rates. The resultant exchange differences are recognised in the profit and loss account. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

All the consolidated foreign subsidiaries have been identified as non integral operations in accordance with the requirements of AS –11(Revised 2003) “The Effect of Changes in Foreign Exchange rates” issued by ICAI which is effective for the accounting periods commencing on or after 1 April 2004. In accordance with AS –11 (Revised 2003), the financial statements of such non-integral foreign operations are translated into Indian rupees as follows:

- All assets and liabilities, both monetary and non-monetary, are translated using the closing rate.
- Revenue items are translated at the respective monthly average rates.
- The resulting net exchange difference is credited or debited to a foreign currency translation reserve.
- Contingent liabilities are translated at the closing rate.

### ***j) Revenue recognition***

#### *Online advertisement*

Online advertisement revenues are generated from several offerings including the display of graphical advertisements (“CPM”) and the display of text based links to an advertiser’s website, from which leads are secured by advertisers (i.e., when an internet user provides a name, address or other information for a sales follow-up by the advertiser) or a sale is secured by the advertiser for their products or services (i.e., when an internet user makes a purchase through the advertisement displayed or other defined actions on the part of an internet user) (“CPA”).

Group’s revenues are derived principally from display advertising services (“CPM”) on the Internet. Revenue from these services are recognized as “impressions” are delivered at the rate agreed with the advertiser. An “impression” is delivered when an advertisement appears in pages viewed by users.

Group recognizes revenues from CPA, based on the specified number of defined actions resulting from the advertisement, i.e., lead generation, sale or other specifically defined action, during a specified period of time, at the agreed rate with the advertiser.

In addition to delivering CPM advertising on the Group’s websites, Group also generates revenues from CPM and CPA on other publisher websites. The Group pays these publishers for the revenues generated from the display of these advertisements on their websites. These payments are called traffic acquisition costs (“TAC”). The revenues derived from these arrangements that involve traffic supplied by other publishers are reported gross of the payment to them. These revenues are reported gross due to the fact that Group is the primary obligor to the advertisers who are the customers of the Group.

## Schedule 1 - Significant Accounting Policies

Television advertisement enables advertisers, operators and programmers to buy, schedule, deliver and measure advertisements on the television. The Group recognizes, as revenue the fees charged from advertisers each time an advertisement is displayed on television in accordance with the terms of the related agreements.

Revenues realized through CPA advertisements and television advertisements were not material in any of the years presented.

The Group recognizes revenue on the above mentioned arrangements, in accordance with the terms of the contract and based on the completed service contract method. In all cases, revenue is recognized only when it is measurable and the collectability of the same is reasonably assured.

### *Securities and derivatives trading*

The Group's securities and derivatives trading activities undertaken during the year comprise intra-day purchases and sale of securities and derivatives trading carried out through VAR Quant Tech Securities Private Limited (VAR Quant), fully owned subsidiary of NGTL.

In case of the Securities trading business, the Group records the purchase and sale transactions of securities on a gross basis under "Cost of Revenues" and "Revenues" respectively. In case of derivatives trading, the Group records the purchase and sale transactions on a net basis.

### **k) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit.

#### *Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the entities in the Group.

#### *Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written-down or written-up to reflect the amount that is reasonably virtually certain (as the case may be) to be realised.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

#### *Minimum Alternate Tax (MAT) Credit entitlement*

MAT credit entitlement represents amounts paid in a year under Section 115 JA of the Income Tax Act 1961 ('IT Act'), in excess of the tax payable, computed on the basis of normal provisions of the IT Act.

Such excess amount can be carried forward for set off against future tax payments for five succeeding years in accordance with the relevant provisions of the IT Act. Since such credit represents a resource controlled by the Company as a result of past events and there is evidence as at the reporting date that the Company will pay normal income tax during the specified period, when such credit would be adjusted, the same has been disclosed as "MAT Credit entitlement", under "Loans and Advances" in balance sheet with a corresponding credit to the profit and loss account, as a separate line item.

Such assets are reviewed as at each balance sheet date and written down to reflect the amount that will not be available as a credit to be set off in future, based on the applicable taxation law then in force.

#### *Fringe benefit tax*

Before the same was abolished with effect from 1 April 2009, the Group used to provide for and disclose Fringe Benefit Tax ('FBT') in accordance with the provisions of Section 115 WC of the Income Tax Act, 1961 and guidance note on FBT issued by the Institute of Chartered Accountants of India (ICAI).

## Schedule 1 - Significant Accounting Policies

### ***l) Earnings per share***

The basic earnings per share (“EPS”) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

### ***m) Employee stock option schemes***

In accordance with the Securities and Exchange Board of India guidelines, the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee compensation and amortised over the vesting period.

### ***n) Impairment of assets***

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

### ***o) Provisions and contingent liabilities***

The Group creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

### ***p) Leases***

Lease payments (excluding cost for services and maintenance) on operating leases, are recognized as an expense in the statement of profit and loss on a straight line basis over the lease term. The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment and the exercise of such option at the inception of the lease is reasonably certain.

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### 1. Commitments and Contingent Liabilities

	<u>31 March 2010</u>	<u>31 March 2009</u>
(i) Guarantees issued by banks. . . . .	5,295,000	8,229,111
(ii) Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) . . . . .	-	-

#### 2. Employee Stock Option Scheme

The Company has instituted the following employee stock option plans for all eligible employees, in pursuance to the respective special resolution approved by the shareholders. All the plan options shall be administered by the compensation committee, which shall determine the employees eligible for receiving options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

<u>Plan</u>	<u>Shareholder's special resolution date</u>	<u>No. of options</u>	<u>Vesting period</u>	<u>Vesting pattern</u>
2006 ESOP Plan	25 October 2006	1,200,000	3 years	30% at the end of first year 30% at the end of second year 40% at the end of third year
2007 ASOP –RSU Plan	01 August 2007	1,000,000	2 years	50% at the end of first year 50% at the end of second year

The exercise price of the options granted under the ESOP plans is defined as the closing market price of the underlying equity share, preceding the date of grant of options on the stock exchange having the highest trading volume of such shares.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement approved by the compensation committee, which shall not be beyond the initial exercise period, failing which they would stand cancelled.

At the Annual General Meeting held on 1 August 2007, the members of the Company approved for issue of fully paid-up bonus shares in the ratio of 1:1 i.e. one additional equity share, fully paid-up for each existing equity share held by the members, by capitalising a part of the share premium account. The record date for such issue was 3 September 2007 and the shares were allotted on 5 September 2007. Based on the guidelines issued by Securities Exchange Board of India, the effect of this corporate action has been applied to all the outstanding options as at the date of the approval.

A summary of activity under the various option plans for the years ended 31 March 2010 and 31 March 2009 are given below:

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

	Year Ended 31 March 2010 (Number of options)	
	2005 ESOP Plan	2007 ASOP- RSU Plan
Outstanding at the beginning of the year . . . . .	1,149,000	1,000,000
Granted during the year . . . . .	-	-
Forfeited during the year . . . . .	300,500	154,000
Cancelled during the year . . . . .	-	-
Exercised during the year . . . . .	-	-
Expired during the year . . . . .	-	-
Outstanding at the end of the year . . . . .	848,500	846,000
Exercisable at the end of the year . . . . .	254,550	423,000

	Year Ended 31 March 2009 (Number of options)			
	2004 ESOP Plan	2005 ESOP Plan	2006 ESOP Plan	2007 ASOP- RSU Plan
Outstanding at the beginning of the year . . . . .	288,000	929,500	110,000	-
Granted during the year . . . . .	-	-	1,200,000	1,000,000
Forfeited during the year . . . . .	-	67,200	51,000	-
Cancelled during the year . . . . .	188,000	802,300	-	-
Exercised during the year . . . . .	100,000	60,000	-	-
Expired during the year . . . . .	-	-	-	-
Outstanding at the end of the year . . . . .	-	-	1,149,000	1,000,000
Exercisable at the end of the year . . . . .	-	-	-	-

### 3. Deferred Taxation

Net Deferred Tax Asset / (Liability) included in the balance sheet comprises the following:

	31 March 2010	31 March 2009
<b>Deferred tax assets</b>		
Excess of depreciation in accounts, over depreciation allowable under the Income-tax laws . . . . .	-	3,805,010
Carried forward losses . . . . .	-	3,881,703
Provision for expenses . . . . .	-	1,346,638
<b>Total . . . . .</b>	<b>-</b>	<b>9,033,351</b>
<b>Deferred tax liabilities</b>		
Excess of depreciation allowable under the Income tax laws, over the depreciation provided in accounts . . . . .	-	12,031,303
<b>Total . . . . .</b>	<b>-</b>	<b>12,031,303</b>
<b>Deferred tax asset / (liability), net . . . . .</b>	<b>-</b>	<b>(2,997,952)</b>

In line with the requirement of AS-22 on “Taxes on income”, the Company has not recognized deferred tax asset in absence of virtual certainty supported by convincing evidence that there will be future taxable income against which, such deferred tax can be set off.

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### 4. Earnings Per Share

The computation of EPS is set out below:

	<u>Year Ended</u> <u>31 March 2010</u>	<u>Year Ended</u> <u>31 March 2009</u>
<i>Earnings (Rs.)</i>		
Net Profit/(Loss) for the year . . . . .	(1,469,844,296)	(2,954,380,158)
<i>Shares</i>		
Number of shares at the beginning of the year . . . . .	35,018,590	34,858,590
Add: No. of equity shares issued on exercise of vested stock options . . . . .	-	160,000
Total number of equity shares outstanding at the end of the year. . . . .	35,018,590	35,018,590
Weighted average number of equity shares outstanding during the year – Basic . . . . .	35,018,590	34,945,385
Weighted average number of equity shares outstanding during the year – Diluted . . . . .	35,018,590	34,945,385
Basic Earnings per share - Par value of Rs.10 (Rs.) . . . . .	(41.97)	(84.54)

As the Company incurred a net loss for the year ended 31 March 2010; ordinary shares arising out of potential exercised of outstanding stock options were not included in the computation of dilutive loss per share, as their effect was anti-dilutive.

#### 5. Related Party Disclosures

##### A) Other Related Parties

<u>S. No.</u>	<u>Name of the party</u>	<u>Relationship</u>
1.	Stampede Holdings Private Limited, India	Enterprise in which Chairman and Managing Director is a Promoter Director
2.	Brilliant Securities Limited, India	Enterprise significantly influenced by key management personnel
3.	KBR Holdings Private Limited, India	Enterprise owned by key management personnel and their relatives
4.	PNM Commodities Private Limited	Enterprises significantly influenced by key management personnel
5.	RDF Power Projects Limited	Enterprises significantly influenced by key management personnel
6.	BIO Ethanol India Limited	Enterprises significantly influenced by key management personnel
7.	Green Fire Agri Commodities Private Limited	Enterprises in which Chairman and Managing Director is a Director

There were no transactions with or balances due/payable from/to these parties during the year ended and as at 31 March 2010 and 31 March 2009.

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### B) Key managerial personnel with whom transactions have taken place during the year

<u>S. No.</u>	<u>Name of the Personnel</u>	<u>Relationship</u>
1.	Venkat S. Meenavalli	Chairman and Managing Director
2.	K. Bhaskara Reddy	Executive Director
3.	B. Lokesh	Director in step - down subsidiary
4.	P. Dorababu	Director in step - down subsidiary
5.	K. Sujit Kumar	Employee in step down subsidiary
6.	D.V.S.S. Lakshminarayana	Director in step down subsidiary

Details of remuneration paid and recovery of excess remuneration paid, to the Directors are given in Note 7 of Schedule 17.

#### C) Non Executive Directors and Independent Directors on the board of the Company

<u>S. No.</u>	<u>Name of the Personnel</u>	<u>Relationship</u>
1.	P. Parthasarathi	Independent Director
2.	Y. Ramesh	Independent Director
3.	T. Naresh Kumar	Independent Director
4.	Thomas Clayton Haswell	Independent Director (upto 17 July 2009)

### 6. Segment Information

The Company is engaged in the business of providing advertising services, both on the world wide web and on television which constitutes as one business segment and trading of shares/derivatives is another business segment. Primary reportable segment information based on business segment for the year ended 31 March 2010 and Primary reportable segment information based on geographic segment for the year ended 31 March 2009 is given below.

*Segment revenues and expenses:* All segment revenues and expenses are directly attributable to the segments.

*Segment assets and liabilities:* Segment assets include all operating assets used by the segment and consist principally of operating cash, debtors, loans and advances and fixed assets, net of allowances and provisions which are reported as direct offsets in the balance sheet. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

*Inter-segment transfers:* Segment revenue, segment expenses and segment result include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in consolidation.



## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### A. Primary segment for the year ended 31 March 2010 – Business segment

(a) Information about business segments for the year ended 31 March 2010 as per AS-17

	<i>Online advertising</i>	<i>Derivatives and securities trading</i>	<i>Eliminations</i>	<i>Total</i>
<b>Revenue</b>				
External . . . . .	330,594,294	414,040,015	-	744,634,310
Intra-Segment . . . . .	127,808,703	-	(127,808,703)	-
<b>Total</b> . . . . .	<u>458,402,997</u>	<u>414,040,015</u>	<u>(127,808,703)</u>	<u>744,634,310</u>
<b>Result</b>				
<b>Operating Loss</b> . . . . .	<u>(1,552,289,303)</u>	<u>(2,276,401)</u>	-	<u>(1,554,565,704)</u>
Interest income . . . . .				84,234
Other income . . . . .				119,134,062
Loss Before Tax . . . . .				(1,435,347,389)
Less: Income tax expenses . . . . .				27,855,626
Less: Prior period expenses . . . . .				6,641,264
<b>Loss for the year</b> . . . . .				<b>1,469,844,296</b>
<b>Other information</b>				
Segment assets . . . . .	272,892,011	7,190,494	-	280,082,504
Unallocable assets . . . . .	-	-	-	-
Segment liabilities . . . . .	97,461,261	7,736,005	-	105,197,266
Unallocable liabilities . . . . .	-	-	-	-
Capital expenditure . . . . .	4,735,990	-	-	4,735,990
Depreciation (included in segment expense) . . . . .	294,082,834	-	-	294,082,834
Non cash expenses (other than depreciation included in segment expense) . . . . .	831,962,702	-	-	831,962,702

#### B. Primary segment for the year ended 31 March 2009 – Geographic segment

(b) Information about geographic segments for the year ended 31 March 2009 as per AS-17

	<u>31 March 2009</u>					<u>Eliminations</u>	<u>Total</u>
	<u>India</u>	<u>Europe</u>	<u>Singapore</u>	<u>Hong Kong</u>	<u>Others</u>		
a) Segment revenues:							
Revenues from external customers . . . . .	634,763,263	-	3,367,585,251	1,601,078,847	-	-	5,603,427,361
Inter segment revenues . . . . .	129,971,153	269,225,972	74,385,735	-	18,859,783	(492,442,643)	-
Total segment revenues . . . . .	764,734,416	269,225,972	3,441,970,986	1,601,078,847	18,859,783	(492,442,643)	5,603,427,361
b) Segment results:	43,006,350	29,286,476	(510,812,409)	(2,041,569,180)	19,048,120	(492,442,643)	(2,953,483,286)
Financial expenses . . . . .							9,940,963
Loss on sale of current investments . . . . .							(74,098,180)
Interest income . . . . .							3,069,165
Dividend income . . . . .							2,466,520
Profit/(Loss) before tax and minority interest . . . . .							(3,031,986,744)
Provision for tax . . . . .							(77,219,974)
Share of Minority interest . . . . .							386,612
Profit/(Loss) for the year . . . . .							(2,954,380,158)
c) Segment assets	371,542,563	963,367,254	228,549,920	256,285,897	1,539,817	-	1,821,285,451
Unallocated corporate assets . . . . .							103,518,886
Total assets . . . . .							1,924,804,337
d) Segment liabilities	14,535,557	48,585,591	122,694,928	73,348,298	-	-	259,164,374
Unallocated corporate liabilities . . . . .							14,490,153
Total liabilities . . . . .							273,654,527
e) Cost incurred during the year to acquire segment fixed assets including intangible assets . . . . .	23,449,030	520,946,568	5,142,301	838,560,286	-	-	1,388,098,185
f) Depreciation and Amortization . . . . .	60,991,685	297,202,917	97,206,309	257,330,608	3,025,426	-	715,756,945
g) Non cash expenses other than depreciation and amortization . . . . .	112,475,017	311,934	1,507,814,452	1,850,481,996	14,904,520	-	3,485,987,919

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

C) Revenues by geographical location of customers:

	<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
India . . . . .	602,875,060	668,014,695
Singapore . . . . .	1,090,164	163,118,559
United States of America . . . . .	70,323,012	1,234,493,145
Europe . . . . .	20,850,634	3,208,423,777
Hong Kong . . . . .	1,169,208	323,601,569
Others . . . . .	48,326,232	5,775,616
	<b><u>744,634,310</u></b>	<b><u>5,603,427,361</u></b>

### 7. Particulars of Managerial Remuneration

The remuneration paid to managerial personnel of the Group during the year:

Salaries and allowances . . . . .	13,902,525	20,640,243
Other perquisites . . . . .	-	-
	<b><u>13,902,525</u></b>	<b><u>20,640,243</u></b>

The Chairman and Managing Director and the Executive Director of the Company are entitled for remuneration (including commission), as per the terms of appointment approved by the members at the Annual General Meeting held on 30 September 2008, which states that in the event of loss or inadequacy of profits in any financial year, the Chairman and Managing Director and the Executive Director of Company would be eligible for minimum remuneration as prescribed in Schedule XIII of the Companies Act, 1956. Since, the Company has incurred a loss for the year ended 31 March 2010, the limits prescribed for managerial remuneration in Schedule XIII of the Companies Act, 1956 is applicable. The remuneration paid during the current year is within such limits.

In the previous year ended 31 March 2009, the Company had paid an amount of Rs. 1,622,500 to the Chairman and Managing Director in excess of the limits prescribed in Schedule XIII of the Companies Act, 1956, without obtaining the prior approval of the Central Government, as contemplated. However, the Company has recovered this amount by way of a cheque from the Chairman and Managing Director which has been disclosed as Cheque on hand as at 31 March 2009 and has been subsequently realized in April 2009.

### 8. Operating Lease

The Group leases offices, residential facilities and vehicles under operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental expense under those leases was Rs. 61,108,838 (previous year Rs. 28,326,706).

Future minimum lease payments (MLP) under non-cancellable operating leases is as follows:

	<b>Total MLP outstanding as on 31 March 2010</b>	<b>Total MLP outstanding as on 31 March 2009</b>
Due within one year . . . . .	39,210,883	12,079,360
Due later than one year and not later than five years . . . . .	77,866,992	38,753,228
Due after five years . . . . .	-	-
	<b><u>117,077,875</u></b>	<b><u>50,832,588</u></b>

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### 9. Gratuity

In accordance with applicable India laws, the Company provides gratuity, a defined benefit retirement plan (“Gratuity Plan”) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee’s last drawn salary and the years of employment with the company.

The following table summarizes the components of net benefit expense recognised in the profit and loss account and the funded status of the amounts recognised in the balance sheet for the gratuity plans of NGTL.

#### Expense recognized in the Profit and Loss Account

	<u>Year Ended</u> <u>31 March 2010</u>	<u>Year Ended</u> <u>31 March 2009</u>
Current service cost . . . . .	65,789	431,524
Interest on defined benefit obligation . . . . .	26,200	134,804
Expected return on plan assets . . . . .	-	-
Net actuarial (gain) / loss recognized in the year . . . . .	(165,520)	(2,148,412)
Past service cost . . . . .	-	-
<b>Net employee benefit expense . . . . .</b>	<b><u>(73,531)</u></b>	<b><u>(1,582,084)</u></b>

#### Amount recognized in Balance Sheet

Present value of funded obligations . . . . .	275,794	349,325
Fair value on plan assets . . . . .	-	-
<b>Net liability (shown under provision for gratuity) . . . . .</b>	<b><u>275,794</u></b>	<b><u>349,325</u></b>

#### Changes in the present value of the defined benefit obligation are as follows:

Opening defined benefit obligation . . . . .	349,325	1,931,409
Service cost . . . . .	26,200	431,524
Interest cost . . . . .	65,789	134,804
Actuarial (gain) / loss . . . . .	(165,520)	(2,148,412)
Benefits paid . . . . .	-	-
<b>Benefit obligation at the end of the year . . . . .</b>	<b><u>275,794</u></b>	<b><u>349,325</u></b>

#### Actuarial assumptions:

Discount rate (per annum) . . . . .	7.5%	7.5%
Salary escalation rate (per annum) . . . . .	4%	4%
Attrition rate (per annum) . . . . .	10%	10%

**Discount rate:** The discount rate is based on the gross redemption yield on medium to long term risk free investments.

**Salary escalation:** The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

**Attrition rate:** The attrition rate is the expected employee turnover for the future periods, adjusted to the current economic environment.

The following table summarizes the components of net benefit expense recognised in the profit and loss account and the funded status of the amounts recognised in the balance sheet for the gratuity plans of Social Media India Limited.

#### Expense recognized in the Profit and Loss Account

	<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
Current service cost . . . . .	70,755	707,900
Interest on defined benefit obligation . . . . .	11,520	189,691
Expected return on plan assets . . . . .	-	-
Net actuarial (gain) / loss recognized in the year . . . . .	(101,856)	(3,273,096)
Past service cost . . . . .	-	-
<b>Net employee benefit expense . . . . .</b>	<b>(19,573)</b>	<b>(2,375,505)</b>

#### Amount recognized in Balance Sheet

Present value of funded obligations . . . . .	134,136	153,709
Fair value on plan assets . . . . .	-	-
<b>Net liability (shown under provision for gratuity) . . . . .</b>	<b>134,136</b>	<b>153,709</b>

#### Changes in the present value of the defined benefit obligation are as follows:

Opening defined benefit obligation . . . . .	153,709	2,529,214
Service cost . . . . .	11,528	707,900
Interest cost . . . . .	70,755	189,691
Actuarial (gain) / loss . . . . .	(101,856)	(3,273,096)
Benefits paid . . . . .	-	-
<b>Benefit obligation at the end of the year . . . . .</b>	<b>134,136</b>	<b>153,709</b>

#### Actuarial assumptions:

Discount rate (per annum) . . . . .	7.5%	7.5%
Salary escalation rate (per annum) . . . . .	4%	4%
Attrition rate (per annum) . . . . .	10%	10%

**Discount rate:** The discount rate is based on the gross redemption yield on medium to long term risk free investments.

**Salary escalation:** The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

**Attrition rate:** The attrition rate is the expected employee turnover for the future periods.

## Schedules to the Consolidated Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 17. Notes to Accounts

#### 10. Amounts payable to micro, small and medium enterprises

The management has initiated the process of identifying enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Further, The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allotted after filing of the Memorandum. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2010 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the said Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.

	<u>Year Ended</u> <u>31 March 2010</u>	<u>Year Ended</u> <u>31 March 2009</u>
The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year . . . . .	Nil	Nil
The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year . . . . .	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act . . . . .	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the year . . . . .	Nil	Nil
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise . . . . .	Nil	Nil

#### 11. Assets discarded, bad and doubtful debts written off

##### *Bad and doubtful debts written off and provision for bad and doubtful debts*

The management based on a review of the long outstanding sundry debtors has recorded an amount of Rs.187,341,712 (previous year: Rs 1,573,401,841) as bad and doubtful debts written-off for the year ended 31 March 2010.

##### *Advances written off*

The management based on a review of the recoverability of long outstanding advances, has recorded an amount of Rs.7,543,763 (previous year: Rs 52,793,758), as an expense for the year ended 31 March 2010.

##### *Impairment/write down of intangibles*

During the year ended 31 March 2010, there have been significant adverse changes in the technical feasibility of certain intangible assets, and certain fixed assets have been impaired as their value in use is negligible and accordingly an amount of Rs.571,716,019 (previous year: Rs 1,598,608,969); primarily representing the net carrying value of the fixed assets and the web support software, has been recorded as impairment loss for the year ended 31 March 2010.

##### *Assets discarded*

As part the restructuring process, management has absolved its right of ownership on certain fixed assets comprising primarily of software, held at each of these locations and has abandoned the same. Accordingly, an amount of Rs.50,176,453 (previous year: Rs 47,178,299); representing the net carrying value of these fixed assets has been recorded for the year ended 31 March 2010.

## **Schedules to the Consolidated Accounts (continued)**

*(All amounts in Indian Rupees, except share data)*

### **17. Notes to Accounts**

#### **12. VAR Quant Tech Securities Private Limited**

- (a) The Group commenced Securities Trading on 10 December 2009 through its subsidiary VAR Quant Tech Securities Private Limited (Var Quant). The main object of VAR Quant is to engage in the trading of securities, which qualifies it to be an Non-Banking Financial Company (NBFC). Under Section 45(IA) of the Reserve Bank of India (RBI) Act, a NBFC requires compulsory registration with the RBI and it is not allowed to commence financial activities without obtaining a certificate from RBI. VAR Quant has not obtained such prior registration and is therefore in contravention of the RBI guidelines. On realizing the default, VAR Quant has discontinued such trading activities and is in the process of seeking the required regulatory approvals.
- (b) In case of the Securities trading business carried out through VAR Quant, the Group records the purchase and sale transactions of securities on a gross basis under “Cost of Revenues” and “Revenues” respectively. In the absence of a prescribed mandatory definite accounting treatment under Indian GAAP, the Company believes that a gross presentation fairly represents the underlying nature and substance of the intra-day securities trading activities undertaken during the year. Cost of revenue and Revenue for the current year is Rs 414,299,036 and Rs 414,040,015 respectively.

#### **13. Previous year figures**

Previous year figures have been regrouped / reclassified wherever necessary, to conform to current year classifications.

for Northgate Technologies Limited

Venkat S. Meenavalli  
*Chairman and Managing Director*

K.Bhaskara Reddy  
*Executive Director*

Anil K.Singh  
*Chief Financial Officer*

Shaik Gouse  
*Company Secretary*

Place : Hyderabad  
Date : 26 May 2010

## Statement Pursuant to Section 212 of the Companies Act, 1956 relating to Subsidiary Companies as of March 31, 2010

(Rs. in lakhs)

Sl.No.	Particulars	Name of the Subsidiary						
		Northgate Investment Pte Limited, Singapore	Globe7 Pte Limited, Singapore	Social Media India Limited, India	Globe7 HK Limited, HK	Axill Europe Limited, UK	Var Quant Tech Securities Pvt Ltd India	
1	Financial Period of subsidiary ended on . . . . .	March 31, 2010	March 31, 2010	March 31, 2010	March 31, 2010	March 31, 2010	March 31, 2010	
2	Northgate's Interest . . . . .	100%	100%	100%	100%	100%	100%	
3	Capital . . . . .	43,946.82	43,941.66	2,944.69	512.14	2,943.37	10.00	
4	Reserves and Surplus . . . . .	(22,619.29)	(12,520.17)	(992.76)	(713.54)	872.84	(15.46)	
5	Total Assets . . . . .	21,329.66	36,380.79	2,437.39	312.09	4,345.77	71.90	
6	Total Liabilities . . . . .	2.14	4,959.30	485.47	513.50	529.56	77.36	
7	Investments . . . . .	21,329.65	35,539.51	-	-	-	-	
8	Revenues . . . . .	-	279.36	2,025.59	1,180.40	303.04	414.04	
9	Net Aggregate Profit/(loss) before taxation . . . . .	(2.19)	(2,077.19)	(869.07)	(2,070.78)	(9,318.73)	(15.46)	
10	Provision for taxation . . . . .	-	1.92	125.09	-	(105.10)	0	
11	Profit after taxation . . . . .	(2.19)	(2,079.11)	(994.16)	(2,070.78)	(9,213.62)	(15.46)	
12	Proposed dividend . . . . .	Nil	Nil	Nil	Nil	Nil	Nil	
13	The Net aggregate amount of Profits/(losses) of the subsidiary for the above financial year so far as they concern the Members of Holding Company (Co.)							
	i. Dealt within the accounts of Holding Co. . . . .	(2.19)	(2,079.11)	(994.16)	(2,070.78)	(9,213.62)	(15.46)	
	ii. Not dealt within the accounts of Holding Co. . . . .	Nil	Nil	Nil	Nil	Nil	Nil	
14	The Net aggregate amount of Profits/(losses) of the subsidiary for the previous financial year so far as they concern the Members of Holding Company (Co.)							
	i. Dealt within the accounts of Holding Co. . . . .	(25,511.66)	(28,506.50)	(491.08)	(17,285.22)	111.05	Nil	
	ii. Not dealt within the accounts of Holding Co. . . . .	Nil	Nil	Nil	Nil	Nil	Nil	

For Northgate Technologies Limited

Venkat S. Meenavalli  
*Chairman and Managing Director*

K.Bhaskara Reddy  
*Executive Director*

Anil K.Singh  
*Chief Financial Officer*

Shaik Gouse  
*Company Secretary*

Place : Hyderabad  
Date : 26 May 2010

## **Auditors' Report to the Members of Northgate Technologies Limited**

1. We have audited the attached balance sheet of Northgate Technologies Limited (“the Company”) as at 31 March 2010 and the profit and loss account and the cash flow statement of the Company 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 (‘the Order’), as amended, issued by the Central Government of India 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:
  - (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 those 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 dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (v) on the basis of written representations received from the directors, as on 31 March 2010, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - (vi) without qualifying our opinion, we draw attention to Note (c) to Schedule 1 of the accompanying financial statements which sets out the basis on which management believes that the going concern assumption is appropriate. Notwithstanding the significant operating losses, erosion of net-worth and substantial write-down in the value of long-term investments, which have arisen on account of the ongoing restructuring of its internet-based advertisement segment, the management believes that the scaling down of these operations has reached a sustainable level which would enable the Company to generate cash-flows sufficient to meet its liabilities as and when they fall due; and
  - (vii) in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 31 March 2010; and
    - b. in the case of the profit and loss account, of the loss for the year ended on that date.
    - c. in the case of cash flow statement, of the cash flows of the Company for the year ended on that date.

**for B S R and Company**  
*Chartered Accountants*  
Firm Registration No:128900W

**Zubin Shekary**  
*Partner*  
Membership No: 48814

Place: Hyderabad  
Date: 26 May 2010



## Annexure to the Auditors' Report

The Annexure referred to in the auditors' report to the members of Northgate Technologies Limited ("the Company") for the year ended 31 March 2010. We report that:

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
2. The Company has a regular program of physical verification of its fixed assets by which all fixed assets are verified over a period of three years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this program, fixed assets were verified during the previous year and no material discrepancies were noted on such verification.
3. Fixed assets disposed of during the year were not substantial, and therefore, do not affect the going concern assumption.
4. The Company is a service company, primarily rendering Information Technology services. Accordingly, it does not hold any physical inventories. Thus, paragraph 4(ii) of the Order is not applicable.
5. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
6. The Company has taken a loan from a company covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount outstanding during the year as well as the year end balance of the loan was Rs. 124,149,586.
7. In our opinion, the rate of interest and other terms and conditions on which loan has been taken from the party listed in the register maintained under section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
8. We are informed that the principal and interest on the aforesaid loan is repayable / payable on demand and no demand has been raised on the Company till the balance sheet date, either for principal or for interest. Accordingly, paragraph 4(iii) (g) of the Order is not applicable.
9. In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of fixed assets are for the Company's specialized requirements and similarly certain services sold are for the specialized requirements of the buyers and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and with regard to the sale of services. The activities of the Company do not involve purchase of inventory and sale of goods. We have not observed any major weakness in the internal control system during the course of the audit.
10. In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
11. In our opinion, and according to the information and explanations given to us, the transaction made in pursuance of an arrangement referred to in (10) above and exceeding the value of Rs 5 lakhs during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
12. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
13. The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for any of the services rendered by the Company.
14. According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted / accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Wealth tax and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities though there have been slight delays in few cases. As explained to us, the provisions of service tax are not applicable to the Company. Further as explained to us, the Company did not have any dues on account of Sales tax, Excise duty, Customs duty, Service tax and Investor Education and Protection Fund.

Further, there were no dues on account of Cess under section 441A of the Companies Act, 1956 since the date from which the aforesaid section comes into force has not yet been notified by the Central Government of India.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Wealth tax and any other material statutory dues were in arrears as at 31 March 2010 for a period of more than six months from the date they became payable.

According to the information and explanations given to us, there are no dues of Income-tax, and Wealth tax which have not been deposited with the appropriate authorities on account of any dispute.

15. *The accumulated losses of the Company are more than fifty percent of its net worth as at 31 March 2010.* However, the Company has not incurred cash losses in the financial year and in the immediately preceding financial year.
16. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers. The Company did not have any outstanding debentures or dues to any financial institutions during the year.
17. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
18. In our opinion, and according to the information and explanations given to us, the Company is not a chit fund or a nidhi / mutual benefit fund / society.
19. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
20. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks are not prejudicial to the interest of the Company.
21. The Company did not have any term loans outstanding during the year.
22. According to information and explanations given to us, and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
23. The Company has not made any preferential allotment of shares to companies and parties covered in the register maintained under section 301 of the Companies Act, 1956.
24. The Company did not have any outstanding debentures during the year.
25. The Company did not raise any money by public issues.
26. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

**for B S R and Company**  
*Chartered Accountants*  
Firm Registration No:128900W

**Zubin Shekary**  
*Partner*  
Membership No: 48814

Place: Hyderabad  
Date: 26 May 2010

## Balance Sheet as at 31 March 2010

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Schedule</u>	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>SOURCES OF FUNDS:</b>			
<b>Shareholders' Funds</b>			
Share Capital . . . . .	2	351,471,008	351,471,008
Reserves and Surplus . . . . .	3	2,599,529,610	2,599,529,610
		<u>2,951,000,618</u>	<u>2,951,000,618</u>
<b>Loan Funds</b>			
Secured Loan . . . . .	4	1,534,368	3,675,173
Unsecured Loan . . . . .	5	124,149,586	-
		<u>3,076,684,572</u>	<u>2,954,675,791</u>
<b>APPLICATION OF FUNDS:</b>			
<b>Fixed assets . . . . .</b>			
Gross block . . . . .	6	86,426,664	95,747,226
Less: Accumulated Depreciation . . . . .		(66,649,197)	(56,823,324)
Net Block . . . . .		<u>19,777,467</u>	<u>38,923,902</u>
Capital Work-in-progress . . . . .		-	954,050
		<u>19,777,467</u>	<u>39,877,952</u>
<b>Deferred Tax Asset, net. . . . .</b>	18(3)	-	4,976,086
<b>Investments . . . . .</b>	7	447,836,973	1,286,124,027
<b>Current Assets, Loans and Advances</b>			
Sundry Debtors . . . . .	8	106,202,086	53,423,814
Cash and Bank Balances . . . . .	9	731,402	28,455,467
Loans and Advances . . . . .	10	37,586,536	60,028,198
Interest Accrued on Bank Deposits, but not due. . . . .		3,608	19,265
		<u>144,523,632</u>	<u>141,926,744</u>
<b>Current Liabilities and Provisions</b>			
Current Liabilities . . . . .	11	16,621,366	8,662,341
Provisions . . . . .	12	393,665	3,432,173
		<u>17,015,031</u>	<u>12,094,514</u>
<b>Net Current Assets . . . . .</b>		127,508,601	129,832,230
<b>Profit and Loss Account . . . . .</b>		<u>2,481,561,531</u>	<u>1,493,865,495</u>
		<u>3,076,684,572</u>	<u>2,954,675,791</u>
<b>Significant Accounting Policies . . . . .</b>	1		
<b>Notes to Accounts . . . . .</b>	18		

The Schedules referred to above form an integral part of the Balance Sheet.

As per our report attached  
for B S R and Company  
Chartered Accountants  
Firm Registration No: 128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2010

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Profit and Loss Account for the year ended 31 March 2010

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Schedule</u>	<u>Year Ended 31 March 2010</u>	<u>Year Ended 31 March 2009</u>
Revenues from Information Technology services . . . . .		79,564,094	129,971,153
Less: Cost of Revenues . . . . .	13	39,412,144	51,732,618
<b>Gross Profit . . . . .</b>		<b>40,151,950</b>	<b>78,238,535</b>
Selling and Marketing Expenses. . . . .	14	897,733	665,984
General and Administrative Expenses. . . . .	15	26,346,007	27,185,309
Provision for Decline in the Value of Long Term Investments . . . . .	1(c)	943,310,554	2,627,736,657
Advances Written-off . . . . .		3,466,481	-
Loss on Abandonment of Assets. . . . .		8,193,079	29,089,164
<b>Operating Loss before Interest, Depreciation and Amortisation . . . . .</b>		<b>(942,061,904)</b>	<b>(2,606,438,579)</b>
Interest Expense . . . . .		8,788,595	415,366
Depreciation and Amortisation . . . . .		11,212,531	16,120,259
<b>Operating Loss before Tax . . . . .</b>		<b>(962,063,030)</b>	<b>(2,622,974,204)</b>
Other Income . . . . .	16	32,057	102,510,349
<b>Loss before Tax . . . . .</b>		<b>(962,030,973)</b>	<b>(2,520,463,855)</b>
Income Tax Expense. . . . .	17	(25,634,405)	(10,218,366)
Provision for Wealth Tax. . . . .		(30,658)	(30,622)
<b>Loss after tax . . . . .</b>		<b>(987,696,036)</b>	<b>(2,530,712,843)</b>
Loss brought forward from previous year . . . . .		(1,493,865,495)	936,857,286
<b>Amount available for appropriation . . . . .</b>		<b>(2,481,561,531)</b>	<b>(1,593,855,557)</b>
<b>Appropriations:</b>			
Proposed Dividend. . . . .		-	-
Tax on Proposed Dividend. . . . .		-	-
Transfer from General Reserve . . . . .	3	-	99,990,062
<b>Balance carried forward . . . . .</b>		<b>(2,481,561,531)</b>	<b>(1,493,855,557)</b>
<b>Earnings Per Share . . . . .</b>	18(8)		
Basic and diluted - par value Rs. 10 per share. . . . .		(28.20)	(72.42)
<b>Significant Accounting Policies . . . . .</b>	1		
<b>Notes to Accounts . . . . .</b>	18		

The Schedules referred to above form an integral part of the Profit and Loss Account.

As per our report attached  
for B S R and Company  
Chartered Accountants

Firm Registration No: 128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2009

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Cash Flow Statement for the year ended 31 March 2010

(All amounts in Indian rupees)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>Cash flows from Operating Activities</b>		
Loss before tax . . . . .	(962,030,973)	(2,520,463,855)
Adjustments:		
Depreciation and Amortisation . . . . .	11,212,531	16,120,259
Provision for decline in the value of long term investments . . . . .	943,310,554	2,627,736,657
Interest expense . . . . .	8,788,595	415,366
Fixed assets abandoned, net . . . . .	8,193,079	29,089,164
Interest income . . . . .	(84,243)	(19,438,167)
Dividend income . . . . .	-	(337,986)
Profit on sale of current investments . . . . .	-	(39,870)
Employee stock compensation expense / (reversal) . . . . .	-	(1,801,980)
Capital work in progress charged off . . . . .	954,050	-
Advances written-off . . . . .	3,466,481	-
Loss on sale of mutual fund . . . . .	52,186	-
Unrealised foreign exchange (gain)/loss . . . . .	3,162,139	553,231
Operating cash flow before working capital and other changes . . . . .	17,024,399	131,832,819
Decrease / (Increase) in sundry debtors . . . . .	(55,940,048)	8,478,088
Decrease / (Increase) in loans and advances . . . . .	4,463,539	1,546,540,868
Increase / (Decrease) in current liabilities and provisions . . . . .	109,854	(11,250,663)
Cash generated from operations . . . . .	(34,342,256)	1,675,601,112
Net taxes paid . . . . .	(2,530,669)	(99,823)
<b>Net cash provided by/(used in) Operating Activities . . . . .</b>	<b>(36,872,925)</b>	<b>1,675,501,289</b>
<b>Cash flows from Investing Activities</b>		
Purchase of fixed assets . . . . .	(259,175)	(10,899,515)
Investment in subsidiaries . . . . .	(105,023,500)	(1,931,884,330)
Loan to subsidiary . . . . .	-	(100,000,000)
Repayment of loan by step-down subsidiary . . . . .	-	160,000,000
Proceeds from sale of long term investments . . . . .	-	250,000,000
Proceeds from sale of current investments . . . . .	-	75,539,870
Share application money paid . . . . .	(7,000,000)	-
Purchase of current investments . . . . .	-	(75,500,000)
Interest income on deposits and unsecured loan . . . . .	99,900	19,423,923
Dividend Income . . . . .	-	337,986
Interest expenses . . . . .	(676,785)	(415,366)
<b>Net cash used in Investing Activities . . . . .</b>	<b>(112,859,560)</b>	<b>(1,613,397,432)</b>
<b>Cash flows from Financing Activities</b>		
Proceeds from issue of shares (net of share issue expenses) . . . . .	-	11,221,001
Loan from step-down subsidiary . . . . .	124,149,586	-
Repayment of vehicle loan . . . . .	(2,140,805)	(1,962,253)
Payment of dividend (including tax on distributed profits) . . . . .	-	(81,565,615)
<b>Net cash provided by/(used in) Financing Activities . . . . .</b>	<b>122,008,781</b>	<b>(72,306,867)</b>
Net increase in cash and cash equivalents . . . . .	(27,723,703)	(10,203,010)
Cash and cash equivalents at the beginning of the year . . . . .	28,455,467	37,990,967
Effect of exchange gain/(loss) on cash and cash equivalents . . . . .	(362)	667,510
Cash and cash equivalents at the end of the year (Schedule 9) . . . . .	<b>731,402</b>	<b>28,455,467</b>

As per our report attached  
for B S R and Company  
Chartered Accountants  
Firm Registration No: 128900W

for Northgate Technologies Limited

Zubin Shekary  
Partner  
Membership No: 48814

Venkat S. Meenavalli  
Chairman and Managing Director

K. Bhaskara Reddy  
Executive Director

Place: Hyderabad  
Date: 26 May 2009

Anil K. Singh  
Chief Financial Officer

Shaik Gouse  
Company Secretary

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>2. Share Capital</b>		
<i>Authorised</i>		
50,000,000 (previous year: 50,000,000) equity shares of Rs. 10 each . . . . .	500,000,000	500,000,000
<i>Issued</i>		
36,095,190 (previous year: 36,095,190) equity shares of Rs.10 each paid-up (Note i) . . . . .	360,951,900	360,951,900
<i>Subscribed and paid-up</i>		
35,018,590 (previous year: 35,018,590) equity shares of Rs.10 each (Note ii) . . . . .	350,185,900	350,185,900
Add: Forfeited Share Capital (Note iii) . . . . .	1,285,108	1,285,108
	<u><b>351,471,008</b></u>	<u><b>351,471,008</b></u>

Notes:

- (i) Issued share capital includes 1,076,600 (previous year: 1,076,600) equity shares of Rs.10 each, which were forfeited and cancelled in earlier years.
- (ii) Subscribed and paid-up share capital includes:
- (a) 16,514,295 Equity shares of Rs.10 each allotted in 2007-2008 as fully paid bonus shares in ratio of 1:1 by way of capitalization of Rs. 165,142,950 from Securites Premium account.
- (b) 1,830,000 Equity shares of Rs. 10 each fully paid-up, allotted against 3,660,000 Global Depository Receipts in the year 2007-2008.
- (c) 497,650 Equity shares of Rs. 10 each allotted to the employees of the Company during the earlier years on exercise of the vested stock options in accordance with the terms of exercise under the Employees Stock Option 2004 and 2005 Plan.
- (iii) Represents amount paid up on 1,076,600 (previous year: 1,076,600) equity shares of Rs. 10 each, forfeited due to non payment of call money.

### 3. Reserves and surplus

<i>Capital reserve</i>		
Balance at the beginning and end of the year (Note 1) . . . . .	1,671,142	1,671,142
<i>Securities premium account</i>		
Balance at the beginning of the year. . . . .	2,597,858,468	2,587,278,967
Add: Received during the year on exercise of employee stock options (including transfers from employee stock options outstanding) . . . . .	-	10,579,501
Balance at the end of the year . . . . .	<u>2,597,858,468</u>	<u>2,597,858,468</u>
<i>Employee stock options outstanding</i>		
Balance at the beginning of the year. . . . .	-	2,760,480
Add: Options granted during the year . . . . .	-	-
Less: Options forfeited / cancelled during the year . . . . .	-	(1,801,980)
Less: Options exercised during the year . . . . .	-	(958,500)
Balance at the end of the year . . . . .	<u>-</u>	<u>-</u>

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>3. Reserves and surplus (continued)</b>		
<i>General reserve</i>		
Balance at the beginning of the year . . . . .	-	99,990,062
Add: Transferred from profit and loss account . . . . .	-	-
Less: Debit balance of profit and loss account (Note 2) . . . . .	-	(99,990,062)
Balance at the end of the year . . . . .	<u>-</u>	<u>-</u>
	<u><b>2,599,529,610</b></u>	<u><b>2,599,529,610</b></u>

Notes:

1. Capital reserve represents the capital profit earned by the Company on reissue of 1,400,000 forfeited shares.
2. Debit balance of Rs.99,990,062 in the profit and loss account has been adjusted to the extent of balance in General Reserve (an uncommitted reserve) in the year 2008-2009.

### 4. Secured loan

*From Bank*

Vehicle loan . . . . .	1,534,368	3,675,173
(Secured by hypothecation of vehicles)		
	<u><b>1,534,368</b></u>	<u><b>3,675,173</b></u>

\* Includes amounts due within one year of Rs. 1,534,368 (previous year Rs. 2,140,805)

### 5. Unsecured loan

Inter-corporate loan . . . . .	124,149,586	-
(from Social Media India Limited, a step-down subsidiary)		
	<u><b>124,149,586</b></u>	<u><b>-</b></u>

Note: The inter-corporate loan is repayable on demand.

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

### 6. Fixed Assets

Particulars	GROSS BLOCK			ACCUMULATED DEPRECIATION			NET BLOCK	
	As at 1 April 2009	Additions during the year	Deletions during the year	As at 31 March 2010	Charge for the year	On Deletions	As at 31 March 2010	As at 31 March 2009
<b>Tangible assets</b>								
Leasehold improvements . . . . .	16,674,737	-	8,310,737	8,364,000	3,465,029	1,340,768	1,732,716	12,167,714
Computers . . . . .	20,519,071	-	-	20,519,071	2,187,844	-	6,099,648	8,287,492
Air conditioners . . . . .	3,492,726	-	777,000	2,715,726	134,709	16,078	2,158,491	3,054,122
Furniture and fixtures . . . . .	1,214,613	-	-	1,214,613	60,120	-	762,868	822,988
Office equipments . . . . .	2,517,709	31,000	492,000	2,056,709	272,333	29,812	1,178,886	1,882,407
Vehicle . . . . .	11,655,424	228,175	-	11,883,599	1,127,553	-	7,661,582	8,560,960
<b>Total (A) . . . . .</b>	<b>56,074,280</b>	<b>259,175</b>	<b>9,579,737</b>	<b>46,753,718</b>	<b>7,247,588</b>	<b>1,386,658</b>	<b>19,594,191</b>	<b>34,775,683</b>
<b>Intangible assets</b>								
Goodwill . . . . .	16,382,330	-	-	16,382,330	-	-	16,382,330	-
Software . . . . .	23,290,616	-	-	23,290,616	3,964,943	-	183,276	4,148,219
<b>Total (B) . . . . .</b>	<b>39,672,946</b>	<b>-</b>	<b>-</b>	<b>39,672,946</b>	<b>3,964,943</b>	<b>-</b>	<b>183,276</b>	<b>4,148,219</b>
<b>Total (A+B) . . . . .</b>	<b>95,747,226</b>	<b>259,175</b>	<b>9,579,737</b>	<b>86,426,664</b>	<b>11,212,531</b>	<b>1,386,658</b>	<b>19,777,467</b>	<b>38,923,902</b>
<b>Previous year . . . . .</b>	<b>123,563,285</b>	<b>9,945,462</b>	<b>37,761,521</b>	<b>95,747,226</b>	<b>16,120,259</b>	<b>13,713,907</b>	<b>38,923,902</b>	<b>-</b>

#### Notes:

I. Software includes "computer software" and "web portals" owned by the Company.



## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>7. Investments</b>		
<b>Non-trade, long term investments (unquoted)</b>		
<i>Equity in Subsidiary Companies (fully paid up)</i>		
138,322,394 (previous year: 135,222,109) ordinary shares of SGD 1 each fully paid-up of Northgate Investments Pte Limited, at cost . . . . .	4,017,884,184	3,913,860,684
100,000 (previous year: Nil) ordinary shares of Rs 10 each fully paid-up of VAR Quant Tech Securities Private Limited, at cost . . . . .	1,000,000	-
Less: Provision for decline in value of long term investment [Refer Note 1(c)]. . . . .	(3,571,047,211)	(2,627,736,657)
	<u>447,836,973</u>	<u>1,286,124,027</u>
<b>8. Sundry debtors *</b>		
<i>(Unsecured, considered good)</i>		
Outstanding for more than six months. . . . .	71,061,467	53,423,814
Others . . . . .	35,140,619	-
	<u>106,202,086</u>	<u>53,423,814</u>
* Represents amounts due from Globe 7 Pte Limited, a step down subsidiary of the Company.		
<b>9. Cash and bank balances</b>		
Cash on hand. . . . .	87,847	143,628
Cheques on hand. . . . .	-	1,622,500
Balances with scheduled banks:		
- in deposit accounts. . . . .	-	22,500,000
- in current accounts. . . . .	158,533	3,545,363
- in export earners foreign currency accounts. . . . .	4,198	146,171
- in unclaimed dividend accounts . . . . .	480,824	497,805
Balances with non-scheduled banks. . . . .	-	-
	<u>731,402</u>	<u>28,455,467</u>
Maximum outstanding balances with non-schedules banks at any time during the year		
<b>On current accounts:</b>		
Commerce Bank - United States of America . . . . .	-	4,358,576
The Bank of East Asia Limited, Singapore . . . . .	-	1,988,462
<b>On deposit accounts:</b>		
United Bank of Switzerland., Singapore	-	12,065,674

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>10. Loans and advances</b>		
<i>(Unsecured and considered good)</i>		
Advances recoverable in cash or in kind or for value to be received . . . . .	-	3,500,351
Security deposits . . . . .	3,586,912	5,627,557
Prepaid expenses . . . . .	397,851	271,893
MAT credit entitlement [net of provision for tax Rs. Nil (previous year: Rs.13,062,300)] . . . . .	9,100,000	32,137,700
Advance tax [net provision for tax Rs.584,404,524 (previous year: Rs. Nil)] . . . . .	1,999,384	-
Advances to subsidiaries . . . . .	15,404,389	18,094,497
Share application money . . . . .	7,000,000	-
Staff loans and advances . . . . .	98,000	396,200
	<u><b>37,586,536</b></u>	<u><b>60,028,198</b></u>
<b>11. Current liabilities</b>		
Sundry creditors		
- total outstanding dues of micro enterprises and small enterprises (refer Note 14 to Schedule 18) . . . . .	-	-
- others . . . . .	7,593,049	7,411,868
Unclaimed dividend . . . . .	480,824	497,805
Other liabilities . . . . .	8,547,493	752,668
	<u><b>16,621,366</b></u>	<u><b>8,662,341</b></u>
<b>12. Provisions</b>		
Compensated absences . . . . .	87,213	172,182
Gratuity . . . . .	275,794	349,325
Provision for tax [net of advance tax Rs.Nil (previous year: Rs. 59,756,763)]. . . . .	-	2,880,044
Wealth tax . . . . .	30,658	30,622
	<u><b>393,665</b></u>	<u><b>3,432,173</b></u>

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<u>Year Ended</u> <u>31 March 2010</u>	<u>Year Ended</u> <u>31 March 2009</u>
<b>13. Cost of revenues</b>		
Salaries . . . . .	24,342,629	35,540,297
Rent . . . . .	4,976,578	8,075,712
Communication expenses . . . . .	3,075,242	3,479,220
Power and fuel . . . . .	1,083,224	1,736,220
Repairs and maintenance		
- Buildings. . . . .	1,180,632	1,118,578
- Others . . . . .	577,577	297,341
Travelling expenses . . . . .	2,227,442	1,076,009
Staff welfare expenses . . . . .	680,630	868,730
Legal and professional charges . . . . .	8,090	200,000
Contribution to provident and other funds. . . . .	600,552	87,355
Subscriptions, books and periodicals. . . . .	18,475	50,227
Software development expenses. . . . .	350,431	20,224
Printing and Stationary . . . . .	10,498	9,284
Employee stock compensation expense . . . . .	-	(1,025,670)
Miscellaneous expenses . . . . .	280,144	199,091
	<u><b>39,412,144</b></u>	<u><b>51,732,618</b></u>

## 14. Selling and marketing expenses

Advertisement expenses . . . . .	314,466	1,130,612
Salaries. . . . .	467,990	100,478
Rent . . . . .	95,675	21,476
Staff welfare expenses . . . . .	8,056	1,300
Contribution to provident and other funds. . . . .	11,546	232
Employee stock compensation expense . . . . .	-	(588,114)
	<u><b>897,733</b></u>	<u><b>665,984</b></u>

## Schedules to the Accounts (continued)

(all amounts in Indian rupees, except share data and otherwise stated)

	<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
<b>15. General and administrative expenses</b>		
Salaries . . . . .	7,727,850	9,989,458
Legal and professional charges . . . . .	1,142,988	7,723,676
Rates and taxes. . . . .	1,957,120	2,716,517
Auditors' remuneration		
- Audit fee . . . . .	2,040,550	882,400
- Tax audit fee . . . . .	165,450	275,750
- Fee for other services . . . . .	191,371	-
- Reimbursement of out-of-pocket expenses . . . . .	198,661	-
Rent . . . . .	1,549,207	1,590,562
Travelling expenses . . . . .	106,713	1,230,788
Staff welfare expenses . . . . .	314,805	1,011,333
Communication expenses . . . . .	157,654	553,392
Repairs and maintenance		
- Buildings. . . . .	140,276	503,299
- Others . . . . .	84,409	87,354
Printing and stationary. . . . .	91,226	289,463
Donations . . . . .	-	145,000
Power and fuel . . . . .	44,653	129,618
Insurance . . . . .	182,215	120,105
Bank charges. . . . .	11,504	84,035
Subscriptions, books and periodicals . . . . .	3,603	23,550
Contribution to provident and other funds. . . . .	186,952	17,205
Employee stock compensation expense . . . . .	-	(188,196)
Foreign exchange loss, net. . . . .	9,220,769	-
Miscellaneous expenses . . . . .	828,031	-
	<b>26,346,007</b>	<b>27,185,309</b>
<b>16. Other income</b>		
Foreign exchange gain, net . . . . .	-	81,951,122
Interest income on loan to subsidiary [Tax deducted at source Rs. Nil (previous year: Rs. 4,310,795)] . . . . .	-	19,023,804
Interest on foreign tax credit. . . . .	-	648,510
Interest on deposits (Gross) [Tax deducted at source Rs. 17,075 (previous year: Rs. 51,722)] . . . . .	84,243	414,363
Dividend income. . . . .	-	337,986
Miscellaneous income . . . . .	-	94,694
Profit/(loss) on sale of current investments . . . . .	(52,186)	39,870
	<b>32,057</b>	<b>102,510,349</b>
<b>17. Income tax expense</b>		
Current tax expense . . . . .	397,756	26,871,000
Deferred tax benefit . . . . .	-	(7,076,086)
Fringe benefit tax . . . . .	-	360,487
Foreign tax credit . . . . .	-	(9,937,035)
Deferred tax asset written-off . . . . .	4,976,086	-
MAT credit written-off. . . . .	20,260,563	-
	<b>25,634,405</b>	<b>10,218,366</b>

## Schedule 1: Significant Accounting Policies

### Overview

Northgate Technologies Limited (“NGTL” or “the Company”) was incorporated as Garden Style Private Limited on 11 June 1991. The name of the Company was subsequently changed to Northgate Technologies Limited on 28 September 2005. The Company is primarily engaged in providing web development, web maintenance and support services to its step down subsidiary, Globe7 Pte Limited, Singapore. The Company’s subsidiaries and step down subsidiaries are listed below:

<u>Entity</u>	<u>Country of Incorporation</u>
<b><u>Subsidiaries</u></b>	
Northgate Investments Pte Limited	A Company organised under the laws of Singapore
VAR Quant Tech Securities Private limited	A Company organised under the laws of India
<b><u>Step-down subsidiaries</u></b>	
Globe7 Pte Limited	A Company organised under the laws of Singapore
Axill Europe Limited	A Company organised under the laws of United Kingdom
Social Media India Limited	A Company organised under the laws of India
Globe7 HK Limited	A Company organised under the laws of Hong Kong
Globe7 Americas Inc	A Company organised under the laws of United States of America

During the current year, the Company closed the operations of Globe7 Americas, Inc. The certificate for dissolution was applied on 18 March 2010 with the State of Delaware, (Department of Treasury), of United States of America.

#### **(a) Basis of preparation of financial statements**

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the Accounting Standards (‘AS’) prescribed by the Companies (Accounting Standards) Rules, 2006 (‘the Rules’) and the provisions of the Companies Act, 1956, (‘the Act’) to the extent applicable. These financial statements have been prepared and presented in Indian rupees.

#### **(b) Use of estimates**

The preparation of the financial statements in conformity with Indian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

#### **(c) Going concern**

The Company has the year provided an amount of Rs. 943,310,554 towards the decline in the value of its long-term investment in its wholly owned subsidiary Northgate Investments Pte Limited (NIPL). This decline reflects the permanent diminution in the value of the underlying investment in Axill Europe Limited (AEL) held by NIPL through its subsidiary Globe 7 Pte Limited. The underlying investment in AEL has been written down to reflect the recoverable values of the fixed asset of AEL, consequent to the planned liquidation of the company. The planned liquidation is part of the Group’s ongoing restructuring exercise which has resulted in significant scaling down of its internet related operations.

Notwithstanding the write-down in investments in NIPL as fully explained above, the Company believes that it has attained a sustainable scale of operations in its internet-based operations, which will continue to generate positive cash flows after meeting its regular expenses. Hence, these financial statements have been prepared on a going concern basis and do not contain any adjustments relating to recoverability and classification of asset amounts or to amounts and classification of liabilities.

## **Schedule 1: Significant Accounting Policies**

### ***(d) Fixed assets and depreciation***

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.

Depreciation on fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the Companies Act, 1956, except for office equipments which are depreciated over a period of 7 years. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or otherwise disposed off. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of acquisition.

Leasehold improvements are amortised over the primary period of the lease or estimated useful life of the asset, whichever is lower.

### ***(e) Intangible assets and amortization***

Acquired intangible assets are recorded at the consideration paid for their acquisition. Internally developed intangible assets are capitalized at their cost of development, only if they meet the recognition criteria of AS 26 "Intangible Assets". Intangible assets are amortised over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Company for its use.

### ***(f) Investments***

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments.

Long-term investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

### ***(g) Revenue Recognition***

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from Information Technology services is billed on a 'cost plus mark up' basis, on services performed and is recognized based on the terms of the IT services agreement with, Globe 7 Pte Limited, Singapore.

Dividend income is recognised when the unconditional right to receive the income is established. Interest on bank deposits and loans to subsidiaries are recognised on the time proportion method using the underlying interest rates.

### ***(h) Foreign currency translation***

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions or at an average monthly rate that approximates the actual rate at the date of transaction. Exchange difference arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

Monetary Current Assets and Current Liabilities that are denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resultant exchange differences are recognised in the profit and loss account.

### ***(i) Employee Benefits***

Contributions payable to an approved gratuity fund (a defined benefit plan), determined by an independent actuary at the balance sheet date, are charged to the profit and loss account.

## Schedule 1: Significant Accounting Policies

Provision for leave encashment cost is made on the basis of actuarial valuation at the balance sheet date, carried out by an independent actuary.

Contributions payable to the recognised provident fund and employee state insurance scheme, which are defined contribution schemes, are charged to the profit and loss account.

All actuarial gains and losses arising during the year are recognized in the Profit and Loss Account of the year.

Short-term compensated absences are provided on an actual liability basis.

### (j) *Employee stock option schemes*

In accordance with the Securities and Exchange Board of India guidelines (“the Guidelines”), the excess of the market price of shares, at the date of grant of options under the Employee stock option schemes, over the exercise price is treated as employee stock compensation and amortised over the vesting period.

### (k) *Earnings Per Share*

The basic earnings per share (“EPS”) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax (including post tax effect of any extraordinary items) for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares, unless they are anti-dilutive. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares arising out of employee stock options are issued, have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

### (l) *Taxes on Income*

Income tax expense comprises current tax, deferred tax and fringe benefit tax.

#### *Current tax*

The current charge for the income taxes is calculated in accordance with the relevant tax laws applicable to the Company.

#### *Deferred tax*

Deferred tax charge or benefit reflects the tax effects of timing differences between accounting income and taxable income, which originate during the year but reverse after the tax holiday period. The deferred tax charge or benefit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain to be realized. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

#### *Minimum Alternate Tax (MAT) Credit entitlement*

MAT credit entitlement represents amounts paid in a year under Section 115 JA of the Income Tax Act 1961 (‘IT Act’), in excess of the tax payable, computed on the basis of normal provisions of the IT Act.

Such excess amount can be carried forward for set off against future tax payments for ten succeeding years in accordance with the relevant provisions of the IT Act. Since such credit represents a resource controlled by the Company as a result of past events and there is evidence as at the reporting date that the Company will pay normal income tax during the specified period, when such credit would be adjusted, the same has been disclosed as “MAT Credit entitlement”, under “Loans and Advances” in balance sheet with a corresponding credit to the profit and loss account, as a separate line item.

## **Schedule 1: Significant Accounting Policies**

Such assets are reviewed as at each balance sheet date and written down to reflect the amount that will not be available as a credit to be set off in future, based on the applicable taxation law then in force.

### *Fringe benefit tax*

Before the same was abolished with effect from 1 April 2009, the Company used to provide for and disclose Fringe Benefit Tax ('FBT') in accordance with the provisions of Section 115 WC of the Income Tax Act, 1961 and guidance note on FBT issued by the Institute of Chartered Accountants of India (ICAI).

### **(m) Provisions and Contingent Liabilities**

The Company recognizes a provision when there is a present obligation as a result of an obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

### **(n) Impairment of Assets**

The Company assesses at each balance sheet date whether there is any indication that any assets may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs to is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the reassessed recoverable amount subject to a maximum of depreciated historical cost.

### **(o) Leases**

Lease payments (excluding cost for services and maintenance) on operating leases, are recognized as an expense in the statement of profit and loss on a straight line basis over the lease term. The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment and the exercise of such option at the inception of the lease is reasonably certain.



## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### 1. Contingent Liabilities

The Company has issued a corporate guarantee amounting to Rs. 80,000,000 (previous year: Rs. 80,000,000) in favour of Bank of Baroda for the cash credit facility extended by the bank to Social Media India Limited, a step-down subsidiary.

#### 2. Employee Stock Option Scheme

The Company has instituted the following employee stock option plans for all eligible employees, in pursuance to the respective special resolution approved by the shareholders. All the plan options shall be administered by the compensation committee, which shall determine the employees eligible for receiving options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

<u>Plan</u>	<u>Shareholder's special resolution date</u>	<u>No. of options</u>	<u>Vesting period</u>	<u>Vesting pattern</u>
2004 ESOP Plan	28 September 2004	1,000,000	3 years	30% at the end of first year 30% at the end of second year 40% at the end of third year
2005 ESOP Plan	21 September 2005	1,200,000	3 years	30% at the end of first year 30% at the end of second year 40% at the end of third year
2006 ESOP Plan	25 October 2006	1,200,000	3 years	30% at the end of first year 30% at the end of second year 40% at the end of third year
2007 ASOP –RSU Plan	01 August 2007	1,000,000	2 years	50% at the end of first year 50% at the end of second year

The exercise price of the options granted under the 2004 ESOP Plan, is defined as the average of the weekly high and low of the closing price of the underlying equity shares, during the six months preceding the date of grant, on the stock exchange having the highest trading volume of such shares, or closing price on the same stock exchange on the date of grant whichever is lower.

The exercise price of the options granted under the other ESOP plans, is defined as the closing market price of the underlying equity share, preceding the date of grant of options on the stock exchange having the highest trading volume of such shares.

In the case of termination of employment, all non-vested options would stand cancelled. Options that have vested but have not been exercised can be exercised within the time prescribed under each option agreement approved by the compensation committee, which shall not be beyond the initial exercise period, failing which they would stand cancelled.

At the Annual General Meeting held on 1 August 2007, the members of the Company approved for issue of fully paid-up bonus shares in the ratio of 1:1 i.e. one additional equity share, fully paid-up for each existing equity share held by the members, by capitalizing a part of the share premium account. The record date for such issue was 3 September 2007 and the shares were allotted on 5 September 2007. Based on the guidelines issued by Securities Exchange Board of India, the effect of this corporate action has been applied to all the outstanding options as at the date of the approval.

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

A summary of activity under the various option plans for the years ended 31 March 2010 and 31 March 2009 are given below:

	<b>Year Ended 31 March 2010 (Number of options)</b>			
	<i>2004 ESOP Plan</i>	<i>2005 ESOP Plan</i>	<i>2006 ESOP Plan</i>	<i>2007 ASOP- RSU Plan</i>
Outstanding at the beginning of the year . . . . .	-	-	1,149,000	1,000,000
Granted during the year . . . . .	-	-	-	-
Forfeited during the year . . . . .	-	-	300,500	150,000
Cancelled during the year . . . . .	-	-	-	-
Exercised during the year . . . . .	-	-	-	-
Expired during the year . . . . .	-	-	-	-
Outstanding at the end of the year . . . . .	-	-	848,500	846,000
Exercisable at the end of the year . . . . .	-	-	254,550	423,000

	<b>Year Ended 31 March 2009 (Number of options)</b>			
	<i>2004 ESOP Plan</i>	<i>2005 ESOP Plan</i>	<i>2006 ESOP Plan</i>	<i>2007 ASOP- RSU Plan</i>
Outstanding at the beginning of the year . . . . .	288,000	929,500	110,000	-
Granted during the year . . . . .	-	-	1,200,000	1,000,000
Forfeited during the year . . . . .	-	67,200	51,000	-
Cancelled during the year . . . . .	188,000	802,300	-	-
Exercised during the year . . . . .	100,000	60,000	-	-
Expired during the year . . . . .	-	-	-	-
Outstanding at the end of the year . . . . .	-	-	11,49,000	1,000,000
Exercisable at the end of the year . . . . .	-	-	-	-

On 18 October 2008, the Compensation Committee of the Board of Directors decided to cancel all the unexercised stock options outstanding as on that date, under the 2004 ESOP Plan and the 2005 ESOP Plan, resulting out of the significant fall in the stock market price of the Company's shares, which was detrimental to the interest of option holders.

Accordingly 188,000 and 802,300 number of options under the 2004 ESOP Plan and the 2005 ESOP Plan, respectively have been cancelled which includes 188,000 number of vested options. The cancellation of vested options, the cost for which has been recognized in the previous periods, has been recorded as a credit to the previous year stock compensation expense amounting to Rs.1,801,980, in accordance with the guidelines issued by Securities Exchange Board of India.

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### 3. Deferred Taxation

Net deferred tax asset / (liability) included in the balance sheet comprises the following:

	<u>31 March 2010</u>	<u>31 March 2009</u>
<b>Deferred tax assets</b>		
Excess of depreciation in accounts, over depreciation allowable under the Income-tax laws . . . . .	-	3,696,177
Provision for expenses . . . . .	-	1,279,909
<b>Deferred tax liabilities</b>		
Excess of depreciation allowable under the Income tax laws, over the depreciation provided in accounts . . . . .	-	-
<b>Deferred tax asset / (liability), net.</b> . . . . .	<u>-</u>	<u>4,976,086</u>

No deferred tax asset has been recognised on carry forward business losses and unabsorbed depreciation as at 31 March 2010, in the absence of virtual certainty supported by convincing evidence that there will be future taxable income against which such losses can be set off.

#### 4. Leases

The Company leases office facilities under cancellable and non-cancellable operating lease agreements. The Company intends to renew such leases in the normal course of its business. Total rental expense under cancellable operating leases was Rs. 1,856,500 (previous year: Rs. 2,585,509) and under non-cancellable portion was Rs. 4,764,960 (previous year: Rs. 7,102,241), which has been disclosed as rent.

The total of future minimum lease payments (MLP) under non-cancellable operating leases is as follows:

	<u>Total MLP outstanding as on 31 March 2010</u>	<u>Total MLP outstanding as on 31 March 2009</u>
Due within one year	2,702,350	5,400,000
Due later than one year and not later than five years	-	3,150,000
Due after five years	-	-
	<u>2,702,350</u>	<u>8,550,000</u>

#### 5. Earnings in Foreign Exchange

	<u>Year Ended 31 March 2010</u>	<u>Year Ended 31 March 2009</u>
Revenues from Information Technology Services	79,564,094	129,971,153
	<u>79,564,094</u>	<u>129,971,153</u>

#### 6. Expenditure in Foreign Currency

Travelling . . . . .	596,424	192,386
Other expenses . . . . .	1,043,946	584,896
Expenses incurred at overseas branches . . . . .	399,116	4,351,188
	<u>2,039,486</u>	<u>5,128,470</u>

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### 7. Particulars of Managerial Remuneration:

	<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
Salary and allowances . . . . .	6,000,000	4,447,500
Perquisites . . . . .	-	-
	<b>6,000,000</b>	<b>4,447,500</b>

The managerial personnel are covered by the personal accident insurance policy and mediclaim insurance policy taken by the Company along with other employees of the Company. The proportionate premium paid towards insurance policies pertaining to the managerial personnel has not been included in the aforementioned disclosures as separate amounts are not available for Directors. Further the above figures do not include provision for gratuity and compensated absences payable to the Managing Director as the same are actuarially determined for the Company as a whole.

In the previous year ended 31 March 2009, the Company had paid an amount of Rs. 1,622,500 to the Chairman and Managing Director in excess of the limits prescribed in Schedule XIII of the Companies Act, 1956, without obtaining the prior approval of the Central Government, as contemplated. However, the Company has recovered this amount by way of a cheque from the Chairman and Managing Director which has been disclosed as Cheque on hand as at 31 March 2009 and has been subsequently realized in April 2009. However, in the current year, the remuneration paid is within the limits prescribed in Schedule XIII of the Companies Act, 1956.

#### 8. Earnings Per Share (EPS)

The computation of Earnings Per Share is set out below:

<i>Earnings (Rs.)</i>		
Net Profit/(Loss) for the year . . . . .	(987,696,036)	(2,530,712,843)
<i>Shares</i>		
Number of shares at the beginning of the year . . . . .	35,018,590	34,858,590
Add: No. of equity shares issued on exercise of vested stock options . . . . .	-	160,000
Total number of equity shares outstanding at the end of the year . . . . .	35,018,590	35,018,590
Weighted average number of equity shares outstanding during the year – Basic . . . . .	35,018,590	34,945,385
Weighted average number of equity shares outstanding during the year – Diluted . . . . .	35,018,590	34,945,385
Basic and Diluted Earnings per share – Par value of Rs.10 (Rs.) . . . . .	(28.20)	(72.42)

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### 9. Details of Investments Purchased and Sold

During the current year Company has acquired 100% stake in VAR Quant Tech Securities Private Limited, approval for which was granted by the board of directors on 10 December 2009.

The following table summarises the investments made by the company during the current year.

<u>Subsidiary</u>	<u>Amount (Rs)</u>
Northgate Investments Pte limited	
– Additional investment . . . . .	104,023,500
VAR Quant Tech Securities Private limited	
– Investment in equity during the year . . . . .	1,000,000
– Advance given but not yet allotted . . . . .	7,000,000

#### 10. Segment Information

The Company is in the business of providing Information Technology Services to its step down subsidiary. The Company does not make any distinction amongst the services rendered or the geographical areas to which services are rendered and accordingly, there is only one business and geographical segment.

Pursuant to the Accounting Standard Interpretation (ASI) 20 (Revised) – Disclosure of Segment Information issued by the ICAI, no segment disclosure has been made in these financial statements, as the Company has only one geographical and business segment.

#### 11. Related Parties

##### A) Parties where control exists

<u>S. No.</u>	<u>Name of the party</u>	<u>Relationship</u>
1.	Northgate Investments Pte Limited, Singapore	Subsidiary company
2.	VAR Quant Tech Securities Private Limited, India	Subsidiary company
3.	Globe 7 Pte Limited, Singapore	Step down subsidiary company
4.	Social Media India Limited, India	Step down subsidiary company
5.	Globe 7 HK Limited, Hong Kong	Step down subsidiary company
6.	Axill Europe Limited, United Kingdom	Step down subsidiary company

##### B) Other Related Parties

<u>S. No.</u>	<u>Name of the party</u>	<u>Relationship</u>
1.	Stampede Holdings Private Limited, India	Enterprises in which Chairman and Managing Director is a Director
2.	Brilliant Securities Limited, India	Enterprises significantly influenced by key management personnel
3.	KBR Holdings Private Limited, India	Enterprises owned by key management personnel and their relatives
4.	PNM Commodities Private Limited	Enterprises significantly influenced by key management personnel
5.	Bio Ethanol India Limited	Enterprises significantly influenced by key management personnel

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### C) Particulars of Related Party Transactions

i. Following is a summary of significant related party transactions:

	<u>Year Ended</u> <u>31 March 2010</u>	<u>Year Ended</u> <u>31 March 2009</u>
Revenues from Information Technology Services to step down subsidiary . . . . .	79,564,094	129,971,153
Interest income from step down subsidiary . . . . .	-	19,023,804
Additional investment in subsidiary . . . . .	105,023,500	2,694,742,330
Loan to step down subsidiary . . . . .	-	100,000,000
Loan from step down subsidiaries . . . . .	125,300,000	-
Interest paid to step down subsidiary . . . . .	8,551,780	-
Repayment of loan by step down subsidiary . . . . .	-	160,000,000
Purchase of investment in SMIL from promoters . . . . .	-	10,000,000
Sale of long term investments to step down subsidiary . . . . .	-	250,000,000
Share application money paid (allotment pending) . . . . .	7,000,000	-
Operating expense reimbursed to step down subsidiaries . . . . .	-	16,231,966
Corporate guarantee issued on behalf of step down subsidiary . . . . .	-	80,000,000

ii. The Company has the following amounts due to / from related parties:

Due from subsidiaries and step down subsidiaries (included in Sundry debtors) . . . . .	106,202,085	53,423,814
Due from subsidiaries and step down subsidiaries (included in Loans & advances) . . . . .	15,404,389	18,094,497
Payable to step down subsidiary (included in Loan Funds) . . . . .	124,149,586	-
Net investment in subsidiary (included in Investments) . . . . .	1,398,147,527	1,286,124,027
Additional investment in subsidiary for which shares not yet allotted (included in Loans & advances) . . . . .	7,000,000	-

#### D) Key managerial personnel with whom transactions have taken place during the year

<u>S. No.</u>	<u>Name of the Personnel</u>	<u>Relationship</u>
1.	Venkat S. Meenavalli	Chairman and Managing Director
2.	K. Bhaskara Reddy	Executive Director

Details of remuneration paid and recovery of excess remuneration paid, to the Directors are given in Note 7 of Schedule 18.

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### E) Non Executive Directors and Independent Directors on the board of the Company

<u>S. No.</u>	<u>Name of the Personnel</u>	<u>Relationship</u>
1.	P. Parthasarathi	Independent Director
2.	T. Naresh Kumar	Independent Director
3.	P. Srinivasu	Additional Director
4.	K. Sujith Kumar	Additional Director
5.	Y. Ramesh	Independent Director

### 12. Gratuity

In accordance with applicable India laws, the Company provides gratuity, a defined benefit, covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee's last drawn salary and the years of employment with the company.

The following table summarizes the components of net benefit expense recognised in the profit and loss account and the funded status of the amounts recognised in the balance sheet for the gratuity plans.

#### Expense recognized in the profit and loss account

<b>Particulars</b>	<b>Year Ended 31 March 2010</b>	<b>Year Ended 31 March 2009</b>
Current service cost . . . . .	65,789	431,524
Interest on defined benefit obligation . . . . .	26,200	134,804
Expected return on plan assets . . . . .	-	-
Net actuarial (gain) / loss recognized in the year . . . . .	(165,520)	(2,148,412)
Past service cost . . . . .	-	-
<b>Net employee benefit expense . . . . .</b>	<b>(73,531)</b>	<b>1,538,827</b>

#### Amount recognized in balance sheet

Present value of funded obligations . . . . .	275,794	349,325
Fair value on plan assets . . . . .	-	-
<b>Net liability (shown under provision for gratuity). . . . .</b>	<b>275,794</b>	<b>349,325</b>

#### Changes in the present value of the defined benefit obligation are as follows:

Opening defined benefit obligation . . . . .	349,325	1,931,409
Service cost . . . . .	65,789	431,524
Interest cost . . . . .	26,200	134,804
Actuarial (gain) / loss . . . . .	(165,520)	(2,148,412)
Benefits paid. . . . .	-	-
<b>Benefit obligation at the end of the year . . . . .</b>	<b>275,794</b>	<b>349,325</b>

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

#### Actuarial assumptions:

Particulars	31 March 2010	31 March 2009
Discount rate (per annum) . . . . .	7.5%	7.5%
Salary escalation rate (per annum) . . . . .	4%	4%
Attrition rate (per annum) . . . . .	10%	10%

**Discount rate:** The discount rate is based on the gross redemption yield on medium to long term risk free investments.

**Salary escalation:** The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

**Attrition rate:** The attrition rate is the expected employee turnover for the future periods, adjusted to the current economic environment.

### 13. Disclosure as per Clause 32 of the Listing Agreement

Loans and advances in the nature of loans given to subsidiary Companies and others

Name of the Company	Relationship	Amount outstanding as on March 31, 2010	Maximum balance outstanding during the year	Amount outstanding as on March 31, 2009	Maximum balance outstanding during the year
Social Media India Limited	Step down Subsidiary	-	-	-	177,552,876

### 14. Amounts payable to micro, small and medium enterprises

The management has initiated the process of identifying enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Further, The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allotted after filing of the Memorandum. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2010 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the said Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.



## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

	<u>Year Ended 31 March 2010</u>	<u>Year Ended 31 March 2009</u>
The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year . . . . .	Nil	Nil
The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year. . . . .	Nil	Nil
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act . . . . .	Nil	Nil
The amount of interest accrued and remaining unpaid at the end of the year. . . . .	Nil	Nil
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise.. . . .	Nil	Nil

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

### 15. Aggregate expenses

Particulars	Year Ended 31 March 2010	Year Ended 31 March 2009
Salaries . . . . .	32,538,470	45,630,233
Contribution to provident and other funds . . . . .	799,049	104,792
Rent . . . . .	6,621,460	9,687,750
Communication expenses . . . . .	3,232,897	4,032,612
Advertisement expenses . . . . .	314,466	1,130,612
Power and Fuel . . . . .	1,127,877	1,865,838
Repairs and Maintenance		
- Buildings . . . . .	1,320,908	1,621,877
- Others . . . . .	661,986	384,695
Travelling expenses . . . . .	2,334,155	2,306,797
Staff welfare expenses . . . . .	1,003,489	1,881,363
Legal and professional charges . . . . .	1,151,078	7,923,676
Miscellaneous expenses . . . . .	1,108,176	199,091
Subscriptions, books and periodicals . . . . .	22,078	73,777
Software development expenses . . . . .	350,431	20,224
Printing and Stationary . . . . .	101,724	298,747
Employee stock compensation expense . . . . .	-	(1,801,980)
Auditors' remuneration		
- Audit fee . . . . .	2,040,550	882,400
- Tax audit fee . . . . .	165,450	275,750
- Fee for other services . . . . .	191,371	-
- Reimbursement of out-of-pocket expenses . . . . .	198,661	-
Rates and Taxes . . . . .	1,957,120	2,716,517
Donations . . . . .	-	145,000
Insurance . . . . .	182,215	120,105
Bank Charges . . . . .	11,504	84,035
Foreign Exchange loss . . . . .	9,220,769	-
	<b>66,655,884</b>	<b>79,583,911</b>

### 16. Quantitative details

The Company is engaged in the business of providing "Information Technology Services". These activities are not capable of being expressed in any generic form. Consequently, the quantitative details of sales and the particulars required under paragraph 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 have not been disclosed.

## Schedules to the Accounts (continued)

(All amounts in Indian Rupees, except share data)

### 18. Notes to Accounts

17. The Company has the following un-hedged exposure in foreign currency at the year end:

	As at 31 March 2010	As at 31 March 2009	As at 31 March 2010 In INR	As at 31 March 2009 In INR
Sundry debtors . . . . .	2,365,566 USD	1,056,717 USD	106,202,084	53,423,814
Advance to subsidiaries:				
Globe 7 HK Ltd. . . . .	1,348,760HKD	1,343,853HKD	8,229,827	8,780,771
Axill Europe Ltd . . . . .	103,059GBP	104,980GBP	7,573,677	7,607,264
Globe 7 Pte . . . . .	(8,580)USD	13,579USD	(399,116)	687,647

### 18. Previous year figures

Previous year figures have been regrouped / reclassified wherever necessary, to conform to current year classification.

for Northgate Technologies Limited

Venkat S. Meenavalli  
*Chairman and Managing Director*

K.Bhaskara Reddy  
*Executive Director*

Anil K.Singh  
*Chief Financial Officer*

Shaik Gouse  
*Company Secretary*

Place : Hyderabad  
Date : 26 May 2010

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

### I Registration Details

Registration Number . . . . .	39113
State Code . . . . .	1
CIN number . . . . .	L70900AP2002PLC039113
Balance Sheet Date . . . . .	March 31, 2010

### II Capital Raised during the year (Amounts in Rs. Thousands)

Public Issue . . . . .	Nil
Rights Issue . . . . .	Nil
Bonus Issue . . . . .	Nil
Private Placement (including premium) . . . . .	Nil

### III Position of Mobilization and Deployment of funds (Amount in Rs.in Thousands)

Total Liabilities . . . . .	3,076,685
Total Assets . . . . .	3,076,685

#### Source of Funds

Paid-up Share Capital . . . . .	351,471
Reserves and Surplus . . . . .	2,599,530
Secured Loans . . . . .	1,534
Un-secured Loans . . . . .	124150

#### Application of Funds

Net Fixed Assets. . . . .	19,777
Investments . . . . .	447,837
Net Current Assets. . . . .	127,509
Miscellaneous Expenditure . . . . .	Nil

### IV Performance of the Company (Amount Rs. in Thousands)

Turnover . . . . .	79,564
Total Expenditure . . . . .	1,041,595
Profit/Loss Before Tax . . . . .	(962,031)
Profit/Loss After Tax . . . . .	(987,696)
Earnings Per Share in Rs.(Basic) . . . . .	(28.20)
Dividend Rate % . . . . .	Nil

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

As per monetary terms / Item Code No.(ITC code) . . . . .	85249113
Product Description . . . . .	IT Services

for Northgate Technologies Limited

Venkat S. Meenavalli  
*Chairman and Managing Director*

K.Bhaskara Reddy  
*Executive Director*

Anil K.Singh  
*Chief Financial Officer*

Shaik Gouse  
*Company Secretary*

Place : Hyderabad  
Date : 26 May 2010

# Northgate Technologies Limited

Regd. Office: Laxmi Cyber City, 3rd Floor, Block 'B', Kondapur, Hi-tech City, Madhapur, Hyderabad-500084, India

## PROXY FORM

Eighteenth Annual General Meeting – September 30, 2010

Folio No./ DP and Client ID

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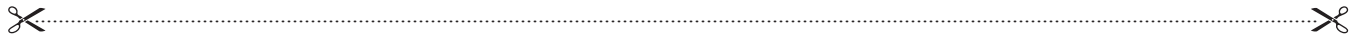
I/We.....of.....in the district of.....being a member(s) of the Company hereby appoint.....of.....in the district of.....or failing him / her.....of in the district of .....as my / our proxy to vote for me / us on my / our behalf at the Eighteenth Annual General Meeting of the Company to be held on Thursday, September 30, 2010 at 4.30.p.m. at Bhaskara Auditorium, BM Birla Museum, Adarsh Nagar, Hyderabad - 500 063 and at any adjournment(s) thereof.

Signed this.....day of.....2010.

Affix 15 ps  
Revenue  
Stamp

.....  
Signature of Member

Note: This form, in order to be effective, should be duly stamped, completed, signed and deposited at the Registered office of the Company, not less than 48 hours before the meeting.



# Northgate Technologies Limited

Regd. Office: Laxmi Cyber City, 3rd Floor, Block 'B', Kondapur, Hi-tech City, Madhapur, Hyderabad-500084, India

## ATTENDANCE SLIP

Eighteenth Annual General Meeting – September 30, 2010

Folio No./ DP and Client ID

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Number of Shares held

--	--	--	--

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

I hereby record my presence at the Eighteenth Annual General Meeting of the Company at Bhaskara Auditorium, BM Birla Museum, Adarsh Nagar, Hyderabad - 500 063 on Thursday, September 30, 2010 at 4.30.p.m.

.....  
Name of the Member / Proxy  
(in BLOCK letters)

.....  
Signature of Member / Proxy

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





# BOOK-POST



Regd. Office: Laxmi Cyber City, Block 'B', 3rd Floor, Kondapur, Hyderabad - 500 084.  
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Website: [www.northgatetech.com](http://www.northgatetech.com)